ANNUAL REPORT OF THE

AUDITOR GENERAL

2016

AUDITOR GENERAL'S DEPARTMENT

Our Vision

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

Our Mission

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

Our Objective

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

Our Values

- Excellence
- Innovation
- Leadership

Auditor General's Message

I am pleased to present my report for the year 2016 on the performance and discharge of the duties and functions devolved on the Auditor General in pursuance of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka for the direction of the independent examination on the effective and efficient maintenance of the Parliamentary control on the Public Finance devolved on Parliament in pursuance of provisions in Article 148 of the Constitution. The Annual Report is presented as the seventh installment of my report presented to the Parliament and arrangements have already been taken to table the other reports under the following seven installments.

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

This was a very busy year for the Auditor General's Department as its performance and the statutory role has widely been discussed in the public arena. According to the Nineteenth Amendment to the Constitution it was accepted by the Government that the

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

The long awaited National Audit Bill was drafted in consultation with the Attorney General, the Legal Draftsman and a number of other professionals in different fields. It proposes to further expand the limited Surcharge powers at present devolved on the Auditor General encompassing the entire public sector. Restructuring the Department to meet the challenges emerging in a constantly changing and more demanding environment, including the pressure arising from being a part of the accounting and auditing professions, is vital. The organization structure of the Department has already been prepared and the audit and supportive services will be organized under 60 Divisions to enable the expansion of the audit scope and to ensure close supervision and review.

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

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

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

H.M. Gamini Wijesinghe
Auditor General
October 2017

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Our History

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

Our Authority to Audit

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

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

" The Auditor General shall audit all Departments of Government, the Office of the Secretary to the President, the Office of the Secretary to the Prime Minister,, the Offices of the Cabinet of Ministers, the Judicial Service Commission, the Constitutional Council,

the Commissions referred to in the schedule to Article 41B, the Parliamentary Commissioner for Administration, the Secretary General of Parliament, Local Authorities, Public Corporations, business and other undertakings vested in the Government under any written law and Companies registered or deemed to be registered under the Companies Act, No, 7 of 2007 in which the Government or a public corporation or local authority holds fifty per centum or more of the shares of that company including the accounts thereof."

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

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

- 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.

Our Clients

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

Ministries	51
Departments	95
District Secretariats	25
Corporations	211
State Companies (Brought under the scope of the Auditor General under the Nineteenth Amendment to the Constitution)	128
Universities and Postgraduate Institutes, Research and other Training Institute	75
State Banks	08
Statutory and other Funds	69
Foreign Funded Projects	127
Other Independent Institutions	19
Provincial Councils	09
Local Authorities	335
Agrarian Service Centers	559
Sport Associations	59

Our Scope

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

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the corporation, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the conduct of the corporation has been in accordance with the laws, rules and regulations relevant to the corporation and whether there has been fairness in the administration of the corporation;

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

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

- Whether the accounts audited have been so designed as to present a true and fair view of the affairs of the corporation in respect of the period under consideration with due regard being given to principles of accountancy, financing and valuations; and

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

Our Independence

- The independence of the Auditor General is preserved to a great extent by the Constitution itself. This has further been expanded to match with the INTOSAI fundamental principles on independence of a Supreme Audit Institution (SAI) by the Nineteenth Amendment to the Constitution. The Article 153 states that; "***There shall be an Auditor General who shall be a qualified auditor and subject to the approval of the Constitutional Council, be appointed by the President and shall hold office during good behavior***"

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

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

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

Legal Reforms

The requirement for Legal Reforms

Though the functional independence of the Auditor General has been hitherto safeguarded by the Constitution, financial and administrative independence of the Auditor General is constrained by the Executive due to Constitutional and legislative provisions on the subject. It is also of the view that the dependence of the Auditor General on the Executive for his resources in terms of both manpower and finance would harm the truly independent nature of the audit performed on behalf of the Parliament as he must be completely free from all obligations to any individual or institution and must be free from arbitrary retaliation. Elaborate safeguards have to be provided by the Parliament through legislation to ensure the Auditor General's independence, including functional and financial. At present the Auditor General depends on the General Treasury for his budget, and the resource allocation for his department is not linked to fiduciary risks. Unlike in other advanced Commonwealth Countries, the budget of the Auditor General in Sri Lanka is not subject to scrutiny or approval by a legislative committee, nor are there any safeguards against executive control over his budget.

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

Further, as the Constitution does not include the Auditor General in the 'Public Officers' Exception List, all administrative regulations of the Government, as described in the Establishments Code, are applicable to the Auditor General himself and to his staff. This further constrains the administrative independence of the Auditor General. There have been many instances where this lack of administrative control over his officers had significantly hampered the audit work.

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

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

Principle 1

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

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

Principle 2

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

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

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

Principle 3

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

SAIs should be empowered to audit the

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

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

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

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

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

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

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

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

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

Principal 4

Unrestricted access to Information

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

Principle 5

The right and obligation to report on their work

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

Principle 6

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

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

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

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

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

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

Principle 7

The existence of effective follow-up mechanisms on SAI recommendations

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

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

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

Principle 8

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

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

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

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

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

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

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

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

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

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

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

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

Proposed National Audit Bill

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

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

- *The scope of an audit carried out by the Auditor General is proposed to be expanded by inclusion of examining the accounts, finances, financial position and financial control of public finance and properties of audited entities and their accountability relating to the same to enable him to carry out Value For Money (Performance) audits, technical audits, environmental audits and any other special audits of audited entities, programmes, projects and any other activities.*

- *The Auditor General will be given the discretion to inquire into any matter relating to an audited entity brought to his notice by any member of the public, and report thereon to Parliament.*

The Sri Lanka Auditing Standards determined by the Auditing Standards Committee established under the Sri Lanka Accounting and Auditing Standards Act, No.15 of 1995 will be made applicable to all audits undertaken by the National Audit Office.

- *It is provided in the Bill that failure to assist the Auditor General or his authorized officer be an offence.*

Powers of the Auditor General have been expanded to allow access to written or electronic records, books, documents or information irrespective of secrecy.

- *The Auditor General will be given the authority to charge a fee for auditing the accounts of any person or body for the purpose of recovery of the cost of Audit.*
- *Any person, who is aggrieved by a decision made to impose a surcharge, has the right to make an appeal against the surcharge to the Audit Service Commission and the final decision will be made by the Commission.*
- *Time frames will be fixed to submit audit reports to the Parliament.*
- *A National Audit Office will be established as the Supreme Audit Institution of the Country, and all the audit staff in the Auditor General's Department will be absorbed to the National Audit Office.*
- *The Commission will appoint an independent qualified auditor to audit the National Audit Office and the report will be tabled in Parliament.*
- *Responsibilities of the Chief Accounting Officers will be fixed by this Act.*
- *The existence of internal audits and their functions are defined in this Act.*
- *Submission of annual financial statements of the Republic is emphasized.*
- *Existence and effective functioning of the Audit and Management Committees are emphasized.*
- *Protection of persons giving information to the Auditor General is emphasized.*
- *Immunity from legal action is given to the Auditor General or any member of his staff for any act which is in good faith is done or is purported to be done by him in the performance of his duties or in the discharge of full lawful functions under the Constitution.*

Our Organization Structure

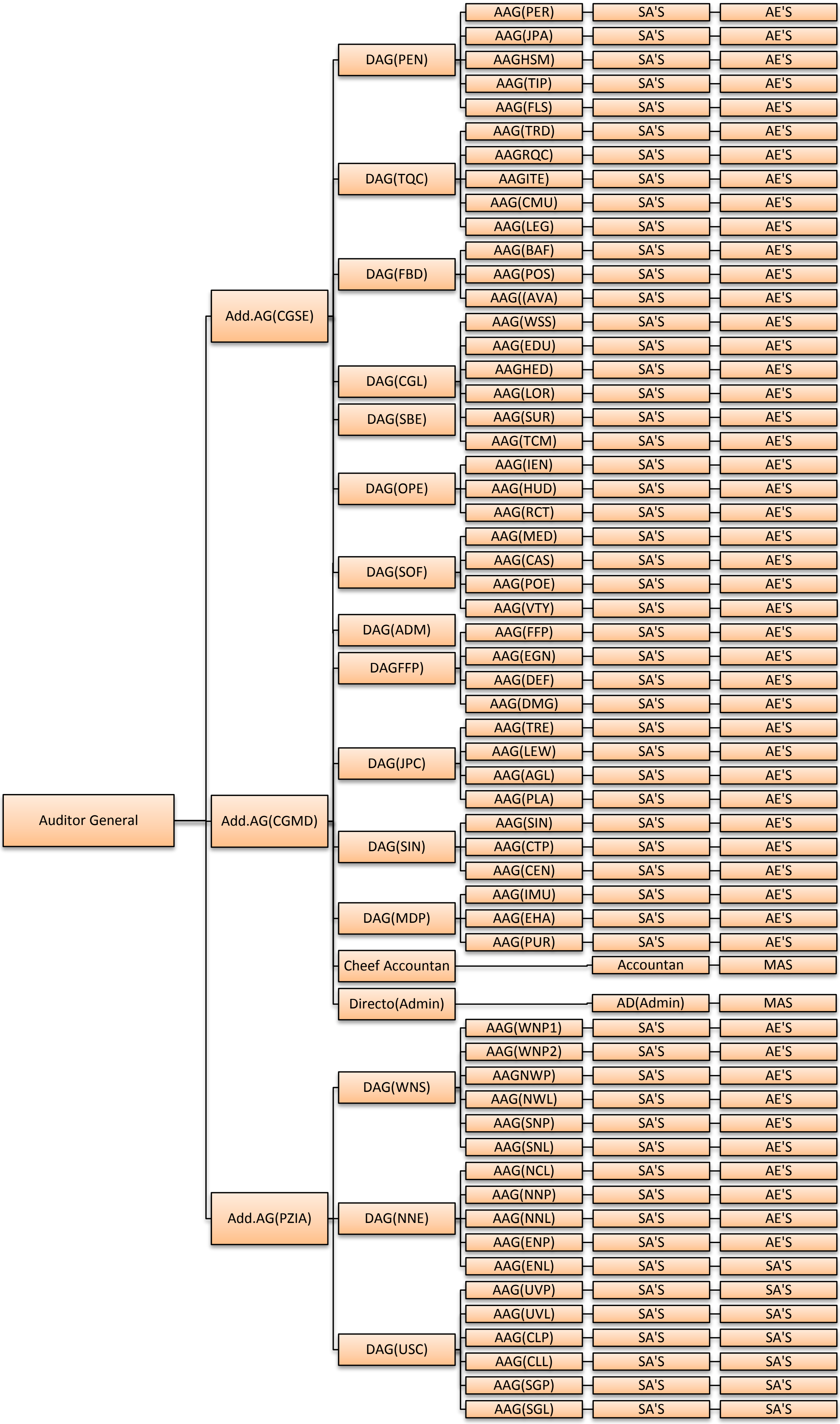
The Auditor General is the Head of the Department and for all administrative purposes he is on par with a Secretary to a Ministry, and for the purposes of Financial Regulation 124(2) he function as a Chief Accounting Officer. The present organizational structure of the Department comprises four levels in its hierarchy with specified numbers of officials in each level, in conformity with the cadre as approved by the Department of Management Services of the General Treasury.

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

The second level comprises fifty two main Divisions, each headed by a Deputy Auditor General or an Assistant Auditor General. These Divisional Heads are assigned with full responsibility to manage and supervise the functioning of a specified number of "Branches" assigned to them with a specified number of auditee institutions in a specified sector under the charge of a "Branch Head" who is a Superintendent of Audit or a senior officer of the Audit Examiners' Service and represent third level. They are charged with the responsibility for execution of the audits of Public Institutions assigned to them by deploying the supportive field officers of the Audit Examiners' Service assigned to them, efficiently and effectively.

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

Out of 60 Division referred to above, 18 Divisional Heads are in change of Regional Sub-office at Provincial level. The administrative function of the Department are under the Director (Administration) and the Financial functions are under the Chief Accountant.



Auditor General
Add.AG(CGSE)
Add.AG(CGMD)
Add.AG(PZIA)
DAG(PEN)
AAG(PER) SA'S AE'S
AAG(JPA) SA'S AE'S
AAGHSM) SA'S AE'S
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AAG(VTY) SA'S AE'S
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AAG(LEW) SA'S AE'S
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AAG(CTP) SA'S AE'S
AAG(CEN) SA'S AE'S
DAG(MDP)
AAG(IMU) SA'S AE'S
AAG(EHA) SA'S AE'S
AAG(PUR) SA'S AE'S
Cheef Accountan
Accountan MAS
Directo(Admin)
AD(Admin) MAS
DAG(WNS)
AAG(WNP1) SA'S AE'S
AAG(WNP2) SA'S AE'S
AAGNWP) SA'S AE'S
AAG(NWL) SA'S AE'S
AAG(SNP) SA'S AE'S
AAG(SNL) SA'S AE'S
DAG(NNE)
AAG(NCL) SA'S AE'S
AAG(NNP) SA'S AE'S
AAG(NNL) SA'S AE'S
AAG(ENP) SA'S AE'S
AAG(ENL) SA'S SA'S
DAG(USC)
AAG(UVP) SA'S SA'S
AAG(UVL) SA'S SA'S
AAG(CLP) SA'S SA'S
AAG(CLL) SA'S SA'S
AAG(SGP) SA'S SA'S
AAG(SGL) SA'S SA'S

According to the cadre approved on 14 November 2011 by the Department of Management of Services after an evaluation of the responsibilities and role of the Auditor General's Department, the total number of officers in the Sri Lanka Audit Service stood at 350 and the officers in the Audit Examiners' Service stood at 1200. Sri Lanka Audit Commission established in terms of the Nineteenth Amending to the Constitution of the Democratic Socialist Republic of Sri Lanka could not come into operation as the Draft National Audit Bill has not been passed by Parliament. As such it was not possible to obtain approval for this Draft Service Minute prepared for the Department staff and the filling of vacancies created as done by the Public Service Commission according to the old Minute.

The vacancies in the respective posts in the Department that existed as at the beginning of the year 2016, as at the end of year 2016 and as at 31 May 2017 under such circumstances are given the Table 01 below.

Post	As at 01 January 2016			As at 31 December 2016			As at 31 May 2017		
	Approved Cadre	Actual	Vacant	Approved Cadre	Actual	Vacant	Approved Cadre	Actual	Vacant
Audit Staff									
Additional Auditors General	03	02	01	03	02	01	03	01	02
Deputy Auditors General	15	09	06	15	04	11	15	03	12
Assistant Auditors General	44	32	12	44	29	15	44	28	16
Superintendents of Audit	288	160	128	288	227	61	288	229	59
Audit Examiners	1,200	1,022	178	1,200	922	278	1,200	1,082	118
Non-Audit Staff									
Director Administration	01	01	-	01	01	-	01	01	-
Chief Accountant	01	01	-	01	01	-	01	-	01
Other Staff Officers	05	02	03	06	03	03	05	03	02
Public Management Assistants' Service and allied Grades	184	153	31	185	149	36	186	155	31
Junior Employees	183	143	40	188	154	34	213	175	38
Total	**1,924**	**1,525**	**399**	**1,931**	**1,492**	**439**	**1,956**	**1,677**	**279**

Table 01 – Cader Position as at 01 January 2016, 31 December 2016 and 31 May 2017

As mentoned above, the existence of a large number of vacancies in the carder of every post of the Department was an impediment to discharge the statutory function of the Department. As such, the following courses of action have been taken at the department level for filling the existing vacancies.

- Recruitment of 25 drivers for newly Procured vehicles.
- Action had not been taken even up to 30 September 2017 to fill the vacancies of 10 posts in Office Assistants, 10 posts in Circuit Bungalows Keeper, o1 post in Plumber and 01 post in Electrician.
- It had been recruited 174 Audit Examiners during the year 2017.

Approval of the Service Minute

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

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

The establishment of "Sri Lanka State Audit Service" proposed to be set up by combining the Sri Lanka Audit Service and Audit Examiners' Service in accordance with the aforesaid Cabinet Decision had been accepted by the Government as a policy. Accordingly. A Service Minute for the new Service was formulated Even though the Audit Service Commission has been appointed, the approval for the formulated Service Minute could not be obtained as the National Audit Bill has not been approved by Parliament even by 20 September 2016 to enable this Audit Service Commission coming into operation. The approval of the new Service Minute will pave the way for the maintenance of a staff of more extensive professional level for the efficient performance of duties and functions assigned to the Auditor General. Moreover, the Audit Service Commission is the Appointing and Disciplinary Authority of the new service and as such the capability of discharging those functions without delay will be immensely helpful for the upliftment of the performance of the Department.

Staff Training

In order to discharge the statutory functions of the Auditor General efficiently and effectively, it is required to maintain the present institutional and social needs and ensure the implementation of audit in the fields of Performance, Environment, Information Technology and System, Procurement, Public Enterprises and Forensic in accordance with the guidance and requirements of the International Organisation of Supreme Audit Institutions (INTOSAI) and Asian Organization of Supreme Audit Institutions(ASOSAI). Also, with the enforcement of the Nineteenth Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka, auditing of more than 100 limited liability companies (Public and Private) with State shareholding of 50 percent or more established under the Companies Act No. 7 of 2007 have been newly included in the scope of the Auditor General. Accordingly, the statutory scope of the Auditor General has been further widened. For the discharge of the above functions, the Auditor General's Department is presently equipped with a staff comprising 1,552 Audit Officers and 185 other officers of the supporting services.

Even though the statutory scope of the Auditor General has widened, the effective discharge of the statutory functions have been a challenge, as the staff of the Auditor General's Department have not been provided with adequate local and foreign training opportunities required to develop their knowledge and skills to discharge the duties for the past ten (10) years.

Hence, with the objective of empowering the Audit Staff with adequate knowledge and skills to suit to present requirements, taking into consideration the significance of equipping them with theoretical, scientific/technical knowledge and skills and facing the challenges, the present administration of the Department has recognized the necessity of completion of a local or foreign training course of not less than 80 hours per annum by each

Audit Officer in the Department for ensuring his Continuous Professional Development (CPD).

Accordingly, the Training Division of the Department, has organized residential and non-residential training programmes in keeping with the requirements of the officers, to encourage them by way of providing necessary assistance. It is expected to obtain assistance from competent and qualified officers of the Department as well as outside Lecturers as resource persons and lectures, discussions, group targets and field visits will be used as training methods to achieve the following objectives

- Development of knowledge and technical skills of the officers
- Enhancement of efficiency and the performance of the officers
- Improvement of management skills of the officers
- Dissemination of knowledge, tools and technical knowhow required for the performance of duty
- To impart knowledge on service rules and finance
- Development of team spirit
- Conduct programmes for attitudinal changes of the officers

For the achievement of above objectives, the Training Division of the Department had conducted 39 training programmes for 2,269 officers under 13 topics in the year 2016, covering the Audit Officers in all ranks. In addition, training facilities had been provided for 31 officers of the non-audit staff of the Department in four (04) instances. Similarly, with the objective of strengthening good governance in relation to Public Finance, three (03) workshops had been conducted for 387 officers of external public institutions during the year under review covering three (03) provinces for improving awareness among the officers. Details are given in Table 02

Details of the Programme	Officers involved in the Programme						No.of days	No.of Man-days
	No.of Programmes	Divisional Heads	Superintendent of Audit	Audit Examiners	Non-Audit Officers	Total		
Local Trainings :								
1. Financial Audit	1	-	9	21		30	3	90
2. Training of New Officers	1			40		40	10	400
3. Procurement and Construction Audit	10	10	145	135	4	294	34	941
4. Project Audit	2		25	48		73	4	146
5. Surcharge Process and Local Government Audit	2	6	24	83		113	12	466
6. Trainings on Standards	5		29	51		80	30	366
7. Computer Training	1		2	32		34	2	68
8. Training of Trainers	1	4	16	20		40	3	120
9. Training on Administration and Supervision	3		2	1	3	6	6	18
10 Positive Thinking Development Programme	3	107	464	673	20	1264	3	1264
11 Inculcating awareness on the Good governance	9	6	36	182	387	611	6	611
12 Workshops for the Divisional Heads	2	83				83	4	168
13 Other Training Programmes.	4		9	6	4	19	5	28
Total	43					2,687	119	4,686
Foreign Trainings								
1. Performance Audit	2	4	17	60		81	20	820
2. Audit of Embassies	3	4				4	29	48
3. IT Training	1			1		1	12	12
4. E-governance	1		1			1	26	26
5. ASSOSAI/ SAI Training Programmes	3	1	2			3	13	13
6. State Audit Management	1		1			1	20	20
7. Public Accounting and Financial Management	1		1			1	21	21
8. Anticorruption Strategies	1		1			1	6	6
9. Financial and Economic Administration for the Developing Countries	1				1	1	30	30
10 Post Graduate	1		1			1	365	365
total	15					95	542	1,361

Table 02 – Staff Training

As per the decision taken, in parallel to the local training programmes, a foreign Training programme on Performance Audit was conducted at the National Audit Academy in Malaysia in November 2016, with the consent of the Secretary to the General Treasury and the Department was able to participate a batch of 80 officers including Assistant Auditor Generals, Superintendent of Audits and Audit Examiners. Another 95 officers participated for 15 overseas programmes covering ten (10) topics during the year under review. Details are given in Table 02

By using the knowledge, skills and the attitudinal development gained by the officers through the participation of relevant performance audit training programmes, the Department will be able to cover performance audit beyond financial audit in future, to effectively manage the state audit with the development of human resources.

Deployment of Qualified Auditors

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

Sums amounting to Rs. 61.24 million and Rs. 37.94 million are due to be paid for the years 2016 and 2015 respectively to the relevant Audit Firms for the audit services rendered on the approval of the Audit Fees Committee of the Department comprising representatives of the Ministry of Finance, Auditee Institution, line Ministry and the Audit Firm. In obtaining the service of qualified auditors, the factors such as the quality of the services rendered by them in the past, the number of partners engaged in the firm concerned, and the number of audit trainees working with them had been considered. In addition, international affiliation of the firm serving as a factor to consider the standard of the Firm and the quality of professional services rendered by them had been included in the selection criteria.

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

Eighty seven and 89 Audit Firms engaged in Public Practice assisted me in the audit of 180 Institutions and 139 Institutions in the years 2016 and 2015 respectively, which consisted of 3 major State Commercial Banks and selected branches thereof and Companies with State Shareholding of 50 per cent or more brought under the scope of the Auditor General through the Nineteenth Amendment to the Constitution.

Assistance to Parliament

As per Article 148 of the Constitution, the Parliament shall have full control over public finance. The Auditor General's Department makes a key contribution to the system of public accountability, serving as the external auditor of the Government with a duty to report directly to Parliament on the financial stewardship and the economy, efficiency and effectiveness of the operations of the public entities. Auditor General's reports tabled in Parliament are then taken up by two Parliament oversite committees setup under Standing Orders 125 and 126 named

Committee on Public Accounts (COPA) and Committee on Public Enterprises (COPE). The role of these two Committees is to assist the legislature in holding the Executive to account for its use of public funds and resources through the examination of public accounts. As such, the two Committees have a critical role in ensuring public sector accountability and effective governance. In simplistic terms, the COPA and COPE have some similarity to an audit committee in a corporate or pubic enterprise.

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

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

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

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

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

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

During the year 2016, the COPA has held 67 secessions to examine 67 institutions and the COPE held 60 secessions to examine 43 institutions. The Auditor General was asked by the COPE to submit a special report on the "Treasury Bonds issued by the Central Bank of Sri Lanka during the period from February 2015 to May 2016" and in response to that request a comprehensive audit report was submitted to COPE on 29th June 2016. Based on this report the COPE further examined by having 15 special secessions, getting evidences from officials and scrutinizing the documents and reports and submitted a special report to Parliament where the Auditor General and his officers were assisted. The COPE report was debated in Parliament and was referred to a Special Presidential Commission for further investigation.

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

Surcharges imposed by the Auditor General

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

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

In terms of the said power, 133 Surcharge Certificates valued at Rs.70.92 million had been issued during a period of 11 years from the year 2006 up to 2016 on 888 parties related to the Local Authorities. Out of that, a sum of Rs.3.47 million or 4.89 per cent had only been recovered by 31 July 2017. Due attention had not been paid to the recovery proces of surcharges by the authorities concerned.

Perforemance Audit of the Auditor General

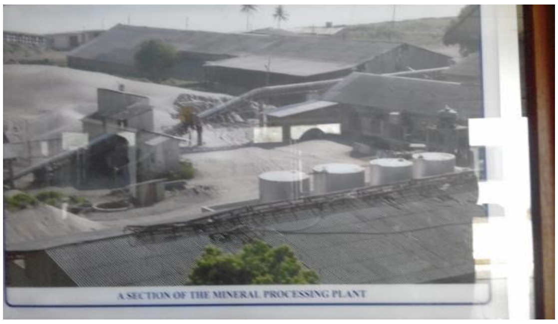
Performance Audit deals in the evaluation of the economy, efficiency, effectiveness and the environmental impact of the performance of the activities of selected areas of the Public Sector and issue report containing the recommendation on the improvements needed be the made based on the observation made by the Audit.

The performance audits are carried out on the basis of proposals made by the Audit Branches of different Public Sector Institutions and also the Special Sectors with Economic, Social and Environmental impacts selected by the Performance and Environmental Audit Division. In addition to the reports on the financial audit the reports on the performance and environmental audit are also tabled in Parliament. The training of Officers involved in this process is also undertaken.

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

Performance Audit on the utilization of Mineral sand Deposits of Sri Lanka by the Lanka Mineral Sands Ltd.

Sri Lanka is home to highly valuable deposits of mineral sands proven by research as better than those of other countries in the Mineral content and literally known as black gold used in the manufacture of many products needed by all inhabitants of this world.



Photograph No 01- A section of the Pulmuddai Plant

The ilmenite and rutile content of this mineral sand is used in the production of the titanium dioxide and the titanium metal whilst titanium dioxide is an essential raw material for the plastic and the paper manufacture. Titanium metal is used in the manufacture of aircraft and spacecraft and a raw material for manufacturing welding rods. Zircon in the mineral sands is used in the manufacture of ceramic and sanitary ware and in the casting and foundry industry.

Photograph No 02- Mineral Sands Depot in Sri Lanka

Since the discovery of the existence of the deposits of these mineral sands in Sri Lanka in 1950, the Mineral Sands Corporation was established in the year 1957 which was converted in the year 1992 to a Government Owned Company with the ownership of 100 per cent of the shares in the Government. This Government Company pays dividends from its profits annually to the Treasury and the dividends paid to the Treasury from the profits of the year 2011 to the year 2015 amounted to Rs. 2,415 million.

The Factory located in Pulmoddai had been in operation even during the 30 year war earning foreign exchange to the country, paying dividends to the Treasury and adding strength to the economy.

Mining of Mineral Sands

Even though the Company had obtained licences for mining of mineral sands in the areas of authority of the Divisional Secretariat, Kuchchaweli Kokilai and pulmoddai mining operation had not been carried out due to the obstructions for sand transport from to Pulmodddai caused by a dilapidated bridge and due to the construction of a Hotel Complex in the area of Thewikkallu.

Photograph No 03 -. Bridge blocking sand transport

Availability of high quality mineral sands in the Pulmoddai deposit had been decreasing due to the continuous mining done by the Company even before the natural filling of the mined areas. Mining had also been extended to the land area away from the coastal belt. Due to the need for mineral sands for the operation of the plant conliuously at maximum capacity, it was observed that sand with less than 40 per cent mineral content had also been mined.

Deficiencies in the mining methodologies and mining done in violation of the environmental laws and rules were also observed during the course of audit.

Photograph No 04-Transport of Mineral Sand

The availability of very rich mineral sand from northwards of kokilai Lagoon to kokkuduwail to Nuyaru and Chenmalai.

Photograph No 05 Kokilai Land acquired by the Company

Photograph No 06 - Mineral Sand of the best quality available in the Kokilai Coastal Belt'

In view of the plant of the Company being older than 50 years and the decrease in the production due to ceaseless mining in the Pulmoddai Deposit, plans had been made for the construction of a new plant in Kokilai.

The Company had purchased machinery valued at Rs.39.34 million even before the acquisition of land 17.6938 hectares in extent on 13 February 2013. Despite the difficulties in obtaining the licenses for the projects 120 labourers had been recruited from June 2015. The land with mineral sand deposits acquired had been idling even by the date of audit.

Value Addition to Mineral Sands

The grant of licences for the mining of Mineral Sands and the export thereof to the Company had been restricted with the objection of discouraging the export of minerals in the primary form and encouraging the local productivity of mineral based products. In view of the situation, the going concern of the company had become a questionable issue. Similarly finding mineral sands with higher content of minerals for launching into the value added products had also been problematic.

Even though the Geological Survey and Mines Bureau had not issued the annual licensees to the Government Company for not launching into the value addition process, an audit test check carried out in this connection revealed the mining licenses valid for 10 years had been issued to a Private Company. The value addition process to the Mineral Sands is an activity which could cause severe impacts to the environment and such it was observed that the other institutions of the Government should pay greater attention to this matter and provide necessary assistance for the uninterrupted maintenance of production activities.

Production Process

Five main plants are involved in the production process for the production of 3 main products, namely, Ilmenite, Rutile and zircon. The by-products of this process are the non-magnetic Heavy Mineral, Hiti Ilminite and Crude Monozite. The position of these products during the last decade had been as follows.

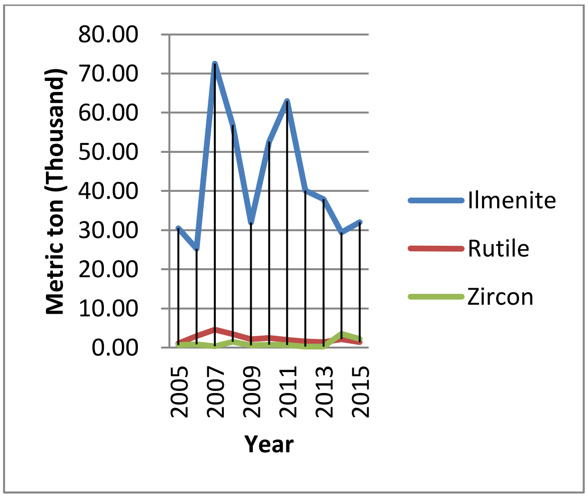


Figure No 01 - Main item of product

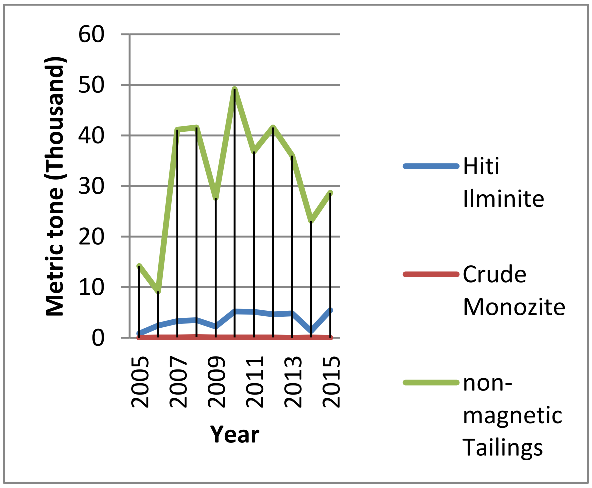


Figure No 02 - by-Products

Such gradual minimization of the creation of main products of the Company and the improvement in the creating of other by-products had an adverse impact on the going concern of the industry. It was observed in audit that the following had been the reasons thereto.

- The current production capacity of the plant more than 50 years old being an underutilization of 25 per cent to 75 per cent of the design capacity.

- Failure to take necessary courses of action for the minimization of the major defects in each plant.

- Existence of large variations in the comparison of the standard inputs and outputs and the actual inputs and outputs.

- Lack of quality in the products due to the existence of variances in the expected chemical parameters of each kind of inputs and outputs.

- Failure of the Company to identify the products with capacity for earning higher profit and increase the quantity of production of those products.

- Breakdown in the supply of electricity for 142 hours in 187 out of 181 days available in the first half year of the year 2015.

The plant had been in operating for 24 hours daily on 2 shift basis. A comparison of the time devoted for active production and the inactive periods of production in several preceding years revealed this about half of the time had been inactive due lack of uninterrupted supply of electricity, clean water and raw material.

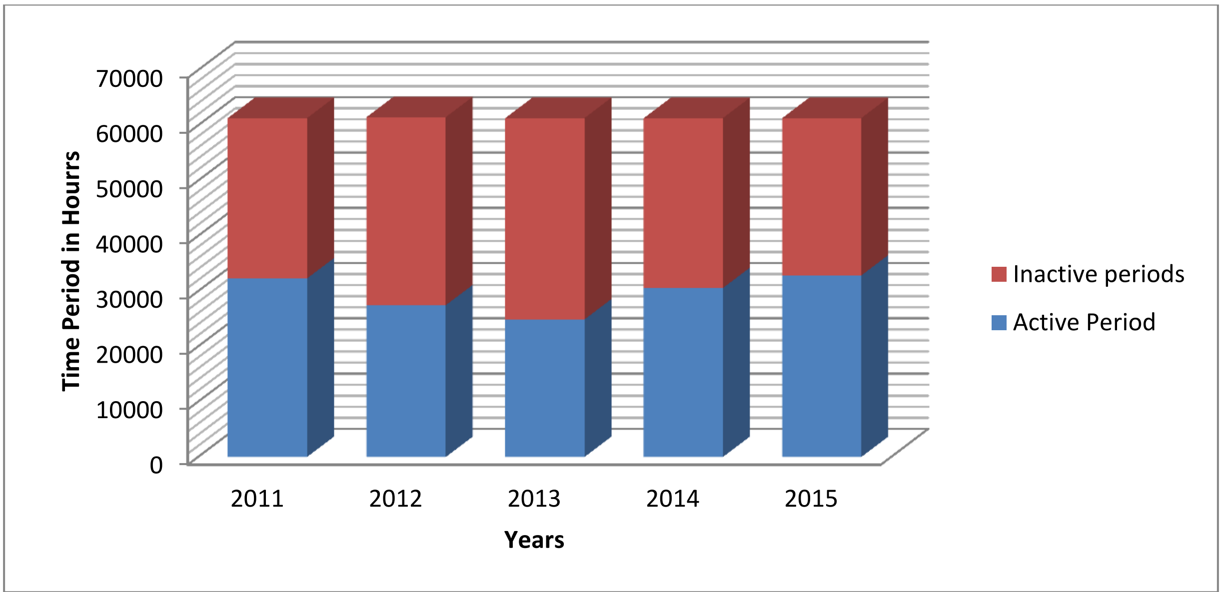


Figure No 03 - Inactive periods of production

Marketing of Mineral Sand Products

The Company had directly exported the Mineral Sand Products up to the year 2007 and the export through intermediaries had commenced thereafter. Nevertheless, in February 2016, the Secretary to the Ministry of Mahaweli Development and Environment had informed the need for reverting to the direct export system. But the Marketing Division had not taken effective action to find new buyers. A proper makerting plan had not been carried out by conducting a marketing research. A comparison of the actual sales with the budgeted sales revealed that there were substantial decreases in the sales of Ilmenite, Rutile and Zircon respectively 18 per cent and 56.7 per cent in the year 2015 as compared with the estimated quantities.

Even though the Company had registered in the "Industrial Minerals" Web Site and sales had been made to the intermediaries by checking the international prices displayed in that Web site there were variances between the prices of the international market and the sale prices. Even the sale of by-products, namely in Spiral Fine concentrate and crude Zircon had not been profitable to the Company. The standards of the Mineral Sands did not conform to the standards of the International Market. The Company had to incur additional transport expenses due to the shipping of mineral sands through the Port of Colombo resulting from the destruction of the Pulmoddai Jetty and the transfer of the Cod Bay premises to the Tokyo Cement Company. The assets of the Cod Bay premises had been valued at Rs.32.32 million in the year 2013 and these were deteriorating due to failure to sell them.

Construction of the Mattala International Airport as an Alternative International Airport of Sri Lanka

The International Aviation Services of Sri Lanka commenced operations from the Katunayake International Airport in the year 1967 and prior to that those Aviation Services were operated from the Ratmalana Airport whilst the Airports in the Neighboring Countries such as India and the Maldives had been used as in alternative Airports. The need for an alternative Airport had emerged a result of the terrorist activities in Sri Lanka and the aircraft accident at Kadirana in Negambo in the year 2000. As such the then Governments had identified areas such as Palali, Koggala, Hingurakgoda, Kuda Oya, Weerawila, etc. The preliminary studies of such areas had been carried out and the preparation of reports, surveys and foundation stone layings had also been done at a cost of Rs.52.44 million. The construction of Airport in such areas had been abandoned due to reasons such as objections raised by the public, changes of Governments etc. According to the above matters selecting a sutable site for the construction of the International Airport had been problematic.

The then Government had planned to construct an International Port and an International Airport in the year 1994 under the Hambanthota City Development Project by giving priority to the Southern Province due to the revolts against the Government erupted in the past due to the unemployment of the youth and the economic backwardness of the Southern Province. Even though Weerawila had been selected at the outset due to the possibility of easy acquisition of lauds for development along with the Port of Hambanthota, that site had been abandoned due to the objections raised by the public and the Mattala area had been selected for the construction of the International Airport. The Loan Agreement for US $209 million for the construction of the Mattala International Airport between the Democratic Socialist Republic of Sri Lanka and the people's Republic of China had been entered into on 23 December 2009. The Construction work on a land 2000 hectares in extent was commenced on 17 November 2009 and was completed at a cost of US $ 243.7 million.

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Photograph No 07 - Air Port Building

Picture No 08 - Runway of the Airport
Photograph No 10- Approach of the Airport

The environmental problems that had arisen due to the land adjoining a Sanctuary were the obstructions caused to the runway by wildlife and encroaching their natural habitats.

Photograph No 09 - Air Port

The Airport was opened for operations on 18 March 2013 and the operations are handled by the Airport and Aviation Services (Sri Lanka) Company Ltd.

Fourteen instances of diversion of international aircraft from Katunayake International Airport to the Mattala International Airport from year 2013 to November 2015 due to bad weather conditions, problems in refueling and mechanical defects had been reported.

Since the opening of the Airport, 3 local Aircraft and 3 foreign Aircraft had operated through the Airport and by the end of the year 2015 only one aircraft is operating from the Airport. The details of operations appear in Table 03

Item	2013	2014	Up to June 2015
Number of Local and Foreign Passengers travelling through Mattala Airport (Arrivals and Departures)	36,137	40,386	4,945
Income Earned (Rs. Millions)	48	136	49
Total Expenditure (Employees' Salaries/ Maintenance Electricity Water etc.)	2,153	2,865	1,323

Table : 03 Operations of Mattala Airport
Source : Airport and Maintenance Services (Sri Lanka) Co.Ltd.

Since the political changes in the year 2015, the operation of the local and foreign aircraft maintained at a loss had been ceased and only one aircraft is in operation at present, thus resulting in the decrease of income for the year 2015.

The Airport and Aviation Services (Sri Lanka) Co.Ltd had rented the Mattala Air Cargo Stores Complex on temporary basis at a monthly rental of Rs.835,132 per month for a period of 3 months from 01 September 2015 to the Paddy Marketing Board which had faced a severe Paddy storage crisis. It was observed that the stores had been rented out without removing certain valuable equipment.

The annual income earned had been much less than the target and inadequate to cover the operating expenditure. Further that commitment charge and the management charge payable on the loan obtained from the People's Republic of China repayable up to the year 2030 amounting to Rs.1,989.82 million had been paid by the General Treasury whilst the first installment of loan repayment due in the year 2015 amounting to US $ 8.4 million had been paid up utilizing the short term Dollar deposits of the Airport and Aviation Service (Sri Lanka) Co. Ltd.

Photograph No 11- Land on which facilities can be established Photograph No 12- Emply counters

As the well equipped high quality construction had been completed at high costs, making the Airport as an effective economic centre was observed as an urgent and essential matter.

Electronic Waste Management in Sri Lanka.

Even though the use of electronic and electrical equipment facilitate in making community life easy, in view of the gradual increase of the waste generation as a result of the increase use of such equipment creates hazardous situation to the community life and environmental due to lack of proper management.

The addition of the heavy metals in the chemical content of in electronic and electrical equipment to the environment are the agents causing the diseases such as skin diseases, lung cancer, nervous diseases, kidney diseases, eye diseases, etc. Further it has been identified that the failure to maintain proper management of the accessories added to the environment along with the electronic waste could cause various environmental problems to all living beings.

The developed Countries in the world have given their priority attention to this matter and have taken remedial action by formulation of policies and regulations for that purpose. One of the remedial measures introduced is the concept of the generator himselt should hold the responsibility for electronic waste. According to the system, an electronic equipment removed after use is sent to the Generator who manages it in accordance with the appropriate methodologies.

The electronic waste generated in Sri Lanka include mostly to CFL bulbs, mobile phones, television sets, batteries, computers, etc. In view of the minimal awareness of the damaging reactions of those electronic waste among the public and the Institution, eagerness for the proper management, is very low. It is evident from the methods such as the disposal of those with other waste to the environmental, burning and burying adopted for of the disposal of electronic waste is lack of awareness.

Section 23 of (a) and (b) of the National Environmental Act No.47 of 1980 deals with this matter and the details thereon appear the Order 15 of the National Environmental (Protection and Quality) Order No.1 of 2008.

According to such Orders, no person shall generate, collect, transport, store, recover, recycle dispose waste or establish any site or facility for the disposal of any waste establish any site or facing for the disposal of any waste specified in the schedule exempt under the authority of a license issued by the Authority and in accordance with such standard and other criteria as may be specified by the Authority.

Even though a large number of articles such as the computers, washing machines, electronic fans, air-conditioners, mobile phones, electric ovens, rice-cookers, photocopiers, cassette players, etc., discarded are under the category of electronic and electrical waste, it was observed that only the compact broken substandard florescent bulbs/lamp and discarded computers and accessories and discarded mobile phones only were included are the National Environmental Order.

There are 1,080 importers of mobile phones in Sri Lanka the number of mobile phones imported into Sri Lanka from the year 2012 to the year 2015 had been 16.2 million. The laws, rules of the Central Environmental Authority had been made applicable only in respect of the importation of used electronic equipment. No control whatsoever had been exercised in the importation of unused equipment. Nevertheless equipment of very low quality which become waste in a few months had been included in the unused equipment and that had directly contributed to the increase in the quantity of electronic waste in the country.

Twelve private institution which manage the electronic waste according to the appropriate methodologies were functioning under the supervision of Central Environmental Authority. In addition, an institution with a huge capacity for the recycling of CFL bulbs had been established in Homagama area. It was observed that due to the minimal awareness of that institutions among the public as well as the Government Institutions, the decisions of electronic waste for proper management is not happening scientifically, These institutions are establish only in the Western Province and problem relating to waste management had emerged in the other Provinces.

Due to lack of recycling facilities in the country, it was observed that there is an increasing trend among the licensed collectors for collecting the waste from which valuable metal can be separated. In view of this reasons there is room for waste of lesser value but hazardous being irregularly released to the environment.

As the showroom is the pivotal point of contact of the customer in the purchase of electronic and electric equipment the display of notices showing the importance of the proper disposal of the waste and the methodology of disposal should be made compulsory thereby Co-opting the consumer direct to the Waste Management Process.

Investigation Audit and the Audits on Public Representation

An investigation audit expects to examine the sources associated with the risks of obtaining advantages, or benefits by a person or a group in a manner which is unfair or contrary to the Law. In such an instance, special attention of the investigation audit is drawn on the discovery of frauds, thereby strengthening the System of Control in order to prevent such frauds.

The 19th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka has strengthened the State audit for the proper management of public finance. In addition to the examination on the documents relating to the performance of the auditees, it is expected from the investigation audit to ensure the efficient management of Public finance for the expansion of investigations through public representation, requests made by the commissions, representation of the Committee of Public Accounts, representation of the Heads of the institutions, and the information revealed in the media. In a manner contemporaneous therewith, action are being taken by the Department to improve the methodologies to enhance the knowledge and skills of the officers, provide the required training, and upgrade the physical resources, hotline numbers and Email facilities, etc.

The Special Investigations Unit drew its attention in the year under review on the representations on which, crucial and instant attention was needed. As such, the examination on expenditure amounting to Rs. 3.87 billion relating to 26 representations, revealed that the Government had sustained an estimated loss of Rs. 2.31 billion. The significant observations made with respect to the investigations carried out in the year 2016, are summarized below.

Misuse of Farah III Ship by Sri Lanka Army

An agreement had been entered into between the Sri Lanka Army and a person on 12 September 2013 to sell the shipwrecks of the Farah III vessel found off the coast in Vellamullivaikkal during the humanitarian operation launched to rescue the Northern area, for scrap at a value of Rs. 80.3 million. The following observations are made in this connection.

- Those receipts belonging to the Government should have been credited to the Consolidated Fund in terms of Article 149 of the Constitution of the Democratic Socialist Republic of Sri Lanka. Contrary to that, it had been stated in Paragraph 5.2 of the said Agreement that such monies should be paid through the cheques specified as being payable to Commander's Welfare Fund.

- Of a sum amounting to Rs. 47 million, sums of Rs. 32 million and Rs. 15 million had been credited to the Commander's Welfare Fund and Api Wenuwen Api Fund respectively in contradiction to Article 149 of the Constitution up to 18 February 2014.

- The sum of Rs. 32 million credited to the Commander's Welfare Fund, had been credited tothe Consolidted Fund on 17 November 2016, but the sum of Rs. 15 million credited to the Api Wenuwen Api Fund, had not been credited to the Consolidated Fund.

- The condition that a sum of Rs. 01 million should be paid for a quantity of 20 tonnes of metal being removed in accordance with the approval of the Commander, should have been included in the agreement. However, due to failure in doing so with respect to 225 tonnes of metal, a loss of Rs. 22.5 million had occured.

- Due to non-inclusion of an adequate number of conditions in the relevant agreement, the buyer had removed only the metal above the surface of the sea that could be easily removed, and this had paved the way for the buyer to abandon the process of removing the vessel halfway.

Sri Lanka Playing Host to the Commonwealth Games – 2018

In order to establish the C.W.G. Hambanthota-2018 Pvt Limited, the Minister in charge of sports had submitted a memorandum to the Cabinet on 16 December 2010, and the Cabinet approval had been granted thereon on 29 December 2010. Accordingly, it had been proposed in accordance with Section 06(ii) of the said Cabinet Memorandum to issue the shares of the C.W.G. Hambanthota-2018 Pvt Limited in a manner that 51 per cent of the shares be owned by the Government of Sri Lanka, whilst the remaining 49 per cent of the shares be owned by the institutions belonging to the Government. As such, the following institutions had given a sum of Rs. 128.00 million for the initial share capital thereof. Having been considered those shares as capital, the sum of Rs. 640,000 being the stamp fee of the Department of Inland Revenue, had been paid as well, and the approval thereon had been verified through the decisions taken by the Board of Directors of the relevant companies. The following observations are made in this connection.

- A sum totalling Rs. 128 million, including a sum of Rs. 100 million from the Ministry of Sports, a sum of Rs. 10 million from the National Sports Fund of the Ministry of Sports, a sum of Rs. 8 million from the Sri Lanka Export Development Board, and a sum of Rs. 10 million from Sri Lanka Telecom, had been invested as share capital. But, only the sum invested by the Sri Lanka

Export Development Board therefrom, had been included as investments in the annual accounts of the Sri Lanka Export Development Board.

- The share capital amounting to Rs. 128.00 million issued through the financial statements presented to the Registrar of the Company, had not been disclosed.

The share capital of 92 per cent (118,000,000/128,000,000*100) had entirely been invested from the public funds in order to establish the aforesaid C.W.G. Hambanthota-2018 Pvt Limited. Furthermore, funds obtained by State companies from the private institutions, should be spent with extreme frugality in accordance with laws and rules, and the Financial Regulations of the Government, whilst it is mandatory to act in compliance with the Government Procurement Guidelines when carrying out procurements, and obtaining consultancy services. Nevertheless, it had not been so done with respect to the expenditure of Rs. 696.70 million incurred by the aforesaid company.

Ceylon Fishery Harbours Corporation

The Ceylon Fishery Harbours Corporation had recruited 190 personnel in excess of the cadre approved as at 30 June 2016. Despite the availability of an officer at the Corporation qualified enough for the post of Deputy General Manager – Operations, a person who had not met the basic qualifications, was recruited without calling for applications, and approval of the Board of Directors and the Department of Management Services. Thus, a sum of Rs. 3.62 million had been paid without approval as 02 officers had been appointed to the said post.

An officer had been recruited to the post of Human Resource Manager of the Corporation without approval of the Board of Directors and the Department of Management Services. The said officer had been paid a sum of Rs. 474,907 as additional salary increments and allowances. Additional salary increments and allowances totalling Rs. 975,851 had been paid to an officer appointed to the post of Financial Manager of the Corporation.

An officer had been appointed to the post of Confidential Secretary to the Chairman, and salaries and allowances had been paid by placing him on a salary scale higher than that of the approved scale, thus causing a financial loss of Rs.1.16 million. As salaries and incentives had been paid by appointing an officer to the post of Audit Officer illegally, a financial loss of Rs. 437,836 had been caused.

Sri Lanka Navy

The Sri Lanka Navy had recruited 420 labourers as at 15 October 2015 without approval, and a sum totalling Rs. 95 million had approximately been paid to them per year as salaries and allowances. As the posts of Director of Civil Administration and Administrative Officer had remained vacant at the office of the Director of Civil Administration, and officers had not been named for the posts of Staff Assistant and Chief Clerk, the duties and functions of the relevant Division had not been performed under a proper supervision, thereby paving way for a controversial situation among the staff members.

Lanka Sathosa Ltd.

Lanka Sathosa Ltd. Purchasing Domestically Produced Big Onions

With the objectives of fulfilling the annual requirement of big onions through the proper management of local farm produce, providing higher prices for the farmers locally involved in the farming of big onions, and minimizing the fluctuations of market prices, it had been planned to purchase, sort and store big onions, sell the big onions through Lanka Sathosa daily when storage facilities are insufficient, utilize technical methodologies to preserve the stored onions for a period of 04 months, and follow the technology of the Paddy Marketing Board in that connection. The following observations were made during the inspection on the implementation of those plans.

- A methodology suitable for purchasing, and a Procurement Plan relating to the purchase of big onions, had not been prepared by Lanka Sathosa Ltd.
- The quality of the produce had not been taken into consideration when purchasing locally produced big onions for the Maha Season of 2014/15.
- The Performance Committee had fixed a certified price of Rs. 60 per kilogram without considering the cost for production per kilogram of big onions. However, as per instructions given by the Director General of the Department of Development Finance, purchases had to be made at Rs. 90 per kilogram. Hence, a sum of Rs. 135.67 million had been overpaid on 4,522,342 kilograms of big onions purchased by Lanka Sathosa during the period from 26 November 2014 to 13 December 2014.
- It had been planned to use technology for storing the purchased big onions over a period of 04 months. However, due to failure in adopting technological methodologies at the stores belonging to the Paddy Marketing Board that had been used thereon, and non-implementation of a proper methodology for marketing, 1,121,135 kilograms of big onions purchased had rotten, thus causing financial loss of Rs. 100.90 million.
- Approval had been granted by the Director General of the Department of Development Finance to sell big onions at Rs. 65 and Rs. 60 per kilogram. However, a loss of Rs. 44.31 million had been incurred by Lanka Sathosa as big onions had been sold at prices less than that.
- Lanka Sathosa Ltd had purchased 959,541 kilograms of imported big onions during the same period in which locally produced big onions had been purchased, and a sum of Rs. 63.22 million had been spent thereon.

Lanka Sathosa Ltd Importing Carrom Boards and Checkerboards on Behalf of the Ministry of Sports

A sum of Rs. 39.06 million receivable for importing 14,000 carrom boards, and 11,000 checkerboards duty-free during 20 November 2014 – 05 December 2014 by Lanka Sathosa on behalf of Ministry of Sports, had not been collected even up to May, 2016. The following observations are made in this connection.

- The secretary to the Ministry of Sports had made request in this connection to Lanka Sathosa Ltd. on 07 November 2014. Nevertheless, prior to that, invoices had been obtained for those sports equipment on 01 and 21 October 2014 and the Letters of Credit had been opened. Even though the Lanka Sathosa Ltd., which is a fully State owned company should comply with the provisions of the Government Procurement Guidelines for this purchase, action had not been taken accordingly and Letters of Credit had been opened to purchase the relevant goods from an Indian institution.
- Fourteen containers inclusive of ordered 14,000 Carrom Boards valued at Rs.26.80 million and 03 containers inclusive of 11,000 Checkers Boards valued at Rs.12.26 million had been received by the McCallum Stock Distribution Branch during the period from 17 November 2014 to 06 December 2014. Goods Receipt Notes (GRN) had not been issued in respect of the above receipts and those had not been included in the stock records. Similarly, without handing over this stock of sports goods to the Ministry of Sports, documents had been prepared to the effect that the said goods had been directly handed over to an officer in the Management Assistant Service of the Ministry of Sports.
- The Carrom Boards and Checkers Boards imported without customs duty for the Ministry of Sports had been sent to a warehouse at Mabima belonging to the Port Authority without obtaining proper approval instead of handing over them to the Ministry of Sports.

Sales on Credit and Recovery of Money by Lanka Sathosa Ltd.

In the year 2014, Lanka Sathosa Ltd. had sold the goods valued at Rs.501 million on credit basis. A sum of Rs.218 million was due from 337 debtors of 112 stalls by 31 December 2014. But, action had not been taken to recover that amount even by September 2016. That debtors' balance had included 11 debtors whose debt had ranged between 1 million to 5 million and 8 debtors whose debt had exceeded Rs.5 million. Further, it had been decided to consider the amount receivable relating to goods valued at Rs.11.37 million sold on credit basis from the year 2012 to the year 2014 by the McCallum, Tissamaharamaya, Kataragama, Walkshawl Street, Debarawewa and Kurunegala branches as the donations at several Board of Directors meetings.

Purchase of Botulinum Toxin by the State Pharmaceutical Corporation

The Government Medical Supply Division had place an order on 12 March 2014 to the State Pharmaceutical Corporation for the supply of 750 Vials of Botulinum Toxin 100 ml required for the Government Hospitals by September 2014. Since that order had not been properly implemented, a sum of Rs.4.76 million had been spent during the year 2015 for the supply of that medicine to 05 hospitals. If the said medicine had been supplied at the prices quoted in the year 2014, the amount that should have been spent was Rs.2.56 million at Rs.18,536.72 per one Vial of vaccine. As the procurement process had not been properly carried out, an overpayment of Rs.2.20 million had to be made relating to 05 hospitals.

Colombo Municipal Council

Registration of Eateries in Colombo

In terms of Section 32 of the Food Act, No.26 of 1980 and the Extraordinary Gazette Notification dated 26 January 2012, after the Divisional Medical Officer of Health examined and recommended that the samples of water, foods and the people involved in the utilization of foods within the jurisdiction of Colombo Municipal Council were in sound hygienic condition, a licence should have been issued. Nevertheless, without carrying out any examination relating to such 285 business premises within the jurisdiction of Colombo Municipal Council, the licence had been issued on the recommendation made by the Divisional Medical Officer of Health.

Expiry of Chemicals

Municipal Microbiological Lab had adequate number of modern machines and chemicals to carry out test on foods and water samples. The medical tests on the people involved in the utilization of foods had not been conducted from May 2015 to December 2016. Further, the tests on the samples of foods as well had not been conducted in the year 2016. Therefore, 21 items valued at Rs.4.89 million and 30 items, the value of which could not be identified and purchased for the tests had expired.

Department of Railway

Viceroy Special Train

In order to deploy the steam train called Viceroy Special Train with four compartments and a steam engine belonging to the Department of Railway for running, the Sri Lanka Railway Department had entered into agreements with a limited company. A sum of Rs.15.91 million comprising Rs. 9.79 as train charges and Rs.6.12 million as repair charges had remained receivable to the Sri Lanka Railway Department from that limited company by 01 May 2016. The company had defaulted that payment. Nevertheless, without taking action to recover that amount to the Sri Lanka Railway Department, an agreement had been entered into with that company again on 01 June 2016 for a period of 05 years from 02 May 2016 to 01 May 2021.

Leasing of Train Compartments to Private Companies

With a view to providing an outstanding service to the train commuters, the Sri Lanka Railway Department had taken action to introduce special luxury compartments. In this connection, the Sri Lanka Railway Department and the Ministry of Transport had jointly leased out train compartments to two private companies from the year 2011 in order to implement the said special luxury passenger transport service. The relevant two companies had neglected the accomplishment of services for a period about 6 months from the date of agreement. Therefore, 12 compartments the purchased price of which was Rs.34.87 million had remained idle during that period. Even though an income of Rs.22.08 million could have been earned by deploying these compartments for running according to the First Class ticket charge, the Department had been deprived of that income.

Leasing of T1 515 Rail Car of the Department

With a view to promoting tourism, the T1 515 Rail Car of the Department with a capacity of facilitating 32 passengers had been given on lease to a limited company in order to providing luxury services to foreign tourists. As the said company had not taken action in compliance with the agreement, the Department had spent a sum of Rs.2.32 million for the improvement and renovation of the Rail Car by the end of the year 2015. Nevertheless, that expenses had not been recovered from the company.

Providing space facilities for the Rail Tours office at the Port Railway Station

In order to maintain an office in the name of Rail Tours at the Port Railway Station for the dissemination of information relating to tourism, building space facilities of 565 square feet had been made available to a limited company from the year 1987. The lease rent that remained receivable as at 30 August 2011 had been Rs.1.32 million. Without taking action to recover the above lease rent in arrears, it had been leased out to the same company again under a new agreement for a period of 05 years from the year 01 September 2011 to 31 August 2016 on a monthly rental of Rs.40,000 determined at the discretion of the General Manager of Railways.

Financial Statement of Year 2016

Annual Financial Statements

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

Annual Appropriations

The total provision made for the Department for the year 2016 amounted to Rs.1,390 million as compared with the provision of Rs. 1,186 million for the preceding year.

A sum of Rs.169 million was credited to the Consolidated Fund in the year 2016 as audit fees from Public Corporations, Statutory Boards, Local Authorities, Universities and Statutory Funds. Though the estimated revenue form audit fees for the year amounted to Rs.120 million, collection of audit fees during the year under review increased the estimate by a sum of Rs.49 million.

Preparation of Financial Statements

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

Accounting Policies

1. Reporting Entity

There is no specific law with regard to the establishment of the Auditor General's Department. However, Article 153 of the constitution of the Democratic Socialist Republic of Sri Lanka states that there shall be an Auditor General. The main activity of Auditor General's Department is to provide audit services to Public Institutions specified in Article 154(1) and (3) of the constitution. These Financial Statements are for the year ended 31 December 2016.

2. Reporting Period

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

3. Basis for Preparation

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

4. Income

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

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

Even though the Revenue Accounting Officer for the Interest on Loans, Rent of Buildings, Circuit Bungalow Charges, Fines and Charges and Revenue from the disposal is the Head of another Department, as the Auditor General is the officer collecting such revenue relating to the Department and as the revenue collected represents a small percentage of the overall revenue, that revenue is stated in the financial statements. Even though the Treasury Grants for recurrent expenditure are brought to account on cash basis, the depreciation on fixed assets is brought to account as the Grants receivable for recurrent expenditure.

5. Expenditure

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

6. Foreign Currency Transactions

Foreign currency transactions are translated into Sri Lanka Rupees by using exchange rate prevailing on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the Statement of Financial Performance.

7. Cash and Cash Equivalents

Cash and Cash equivalents and highly liquid short – term deposits with Banks.

8. Debtors and Other Receivables

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

9. Property, Plant and Equipment

Property, Plant and Equipment consist of Lands, Buildings, Furniture and Fittings, Office Equipment including Computers, Motor Vehicles, Mini Press, Electric Lifts, etc. Property, Plant and Equipment are shown at cost, less accumulated depreciation. The Financial Statements have been prepared for the first time based on the carried forward balances of the year 2009 and all the Lands and Buildings that existed on 01^{st} January 2010 have been brought to account according to the plans of the Department of Surveyor General and the value assessed by the Department of Valuation. All Motor Vehicles have been brought to account on the basis of revaluation done by the Chief Valuer while the furniture and computers and other items have been brought to account on the basis of the valuation done by an independent team of assessors.

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

9.1 Disposals

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

9.2 Subsequent Cost

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

9.3 Depreciation

Depreciation is provided on the straight line basis on all Property, Plant and Equipment, at cost less estimated residual values of the Property, plant and equipment and at rates according to their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows.

Assets	Useful Life	Rate Depreciation
	Years	Percentage
Building	50	2.0
Mini Press	20	5.0
Electric passengers Lifts	20	5.0
Motor Vehicles	8	12.5
Furniture and Equipment	5	20.0
Computers and Hardware	4	25.0

10. Payables

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

11. Annual Estimates

The main estimate figures are those included in the Annual Budget Estimates approved by the Parliament under the Annual Appropriation Act. The figures shown are final figures after making adjustments for virement transfers under Financial Regulations 66 and 69 or Supplementary Estimates and Supplementary Provisions.

12. Judgments and Estimations

The presentation of these financial statements requires judgments, estimations and assumptions that affect the application of policies and reported amounts of Assets and

Liabilities, Revenue and Expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2016

Estimate 2016 *Rs.000*		Note	2016 *Rs.000*	2015 *Rs.000*
	Revenue			
120,000	Audit Fees	1	136,504	104,025
320	Rent		493	280
9,000	Interest		8,957	9,384
-	Fines and Forfeits		21	15
4,000	Other		8,152	3,053
-	Profit on Disposal Assets	2	20,808	3,255
133,320	**Total Operating Revenue**		**174,935**	**120,012**
1,107,210	Treasury Grant for Recurrent Expenditure	3	1,025,749	1,134,428
1,240,530	**Total Revenue**		**1,200,684**	**1,254,440**
	Expenditure			
1,046,800	Personal Emoluments	4	960,036	1,015,033
30,400	Staff Travelling	5	29,935	14,663
25,800	Supplies	6	28,154	18,133
12,850	Maintenance	7	12,081	16,510
87,000	Services	8	80,326	68,283
11,500	Transfers	9	11,384	10,379
26,180	Training and Capacity Building		26,022	1,889
-	Depreciation	10	56,050	85,715
-	Recurrent Expenditure - Capacity Building Project	11	24,904	24,904
1,240,530	Total Expenditure		1,228,892	1,255,509
0	**Deficit of Revenue Over Expenditure**		(28,208)	(1,069)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	31 December 2016		31 December 2015	
		Rs.000	*Rs.000*	*Rs.000*	*Rs.000*
Non-Current Assets					
Property, Plant and Equipment	10		1,080,367		1,123,327
Development of Audit Methodologies	11		126,476		151,380
Current Assets					
Cash Balance		-		-	
Inventory	12	6,007		5,225	
Advance to Public Officers	13	214,319		218,238	
Audit Fees Receivable	14	184,299		214,429	
Total Current Assets			**404,625**		**437,892**
Total Assets			**1,611,468**		**1,712,599**
Current Liabilities					
Expenses Payable	15	1,092		2,232	
Deposits Payable		19,473		24,990	
Total Current Liabilities			**20,565**		**27,222**
Accumulated Fund					
Balance as at 01st January		**217,422**		218,491	
(Deficit) for the Year		(28,208)		(1,069)	
Balance as at 31^{t} December			**189,214**		**217,422**
Contribution					
Treasury	16	629,448		639,118	
Public Sector Capacity Building Project	17	772,241	1,401,689	828,837	1,467,955
Total Tax Payers' Equity			**1,611,468**		1,712,599

H.M.Gamini Wijesinghe
Auditor General

S.S.K.Liyanage
Chief Accountant

27 October 2017

NOTES TO ACCOUNTS

Note 01 - Audit Fee

Estimate 2016	Description	2016	2015
Rs.000		**Rs.000**	*Rs.000*
120,000	**Receipts**		
	Public Corporation, Boards and Other Public Institutions	63,256	32,787
	Local Authorities	20,985	26,307
	Agrarian Service Centre	1,160	1,225
120,000	**Total**	**85,401**	**60,319**
	Receivables		
	Public Corporation, Boards and Other Public Institutions	34,661	20,850
	Local Authorities	15,334	19,986
	Agrarian Service Centre	1,108	2,870
-	**Total**	**51,103**	**43,706**
120,000	Grand Total	**136,504**	**104,025**

Note 02 Disposal of Assets

Estimate 2016	Description	2016	2015
Rs.000		*Rs.000*	*Rs.000*
	Disposal of Vehicles		
-	Sales value of vehicles	-	6,349
-	Net book value	-	(3,212)
-	**Profit / (Loss) on disposal of Vehicles**	**-**	**3,137**
	Disposal of Furniture and Office Equipment		
-	Sale Value of Furniture and Office Equipment	18,558	133
-	Net book value	0	(46)
-	**Profit on disposal of Furniture and Office Quipment**	**18,558**	**87**
	Disposal of Computer and Hardware		
-	Sales value of computer and hardware	2,250	31
	Net book value	0	-
-	**Profit / (Loss) on disposal of Computer and Hardware**	**2,250**	**31**
-	**Profit / (Loss) on disposal of Assets**	**20,808**	**3,255**

Note 03	Treasury Grant for Recurrent Expenditure		
Estimate 2016		2016	2015
Rs.000		Rs.000	Rs.000
1,240,530	Imprest received from treasury- for recurrent Expenditure	940,762	1,023,809
-	Imprest receivable for depreciation	56,050	85,715
-	Cost of the development of audit methodology	24,904	24,904
1,240,530	**Treasury Contribution for Recurrent Expenditure**	**1,021,716**	**1,134,428**

Note 04	Personal Emoluments		
Estimate 2016	Description	2016	2015
Rs.000		*Rs.000*	*Rs.000*
451,800	Salaries and wages	447,334	384,461
5,000	Overtime and holiday payments	4,619	3,196
590,000	Other allowances	508,083	627,376
1,046,800	**Total**	**960,036**	**1,015,033**

Note 05	Travelling Expenses		
Estimate 2016	Description	2016	2015
Rs.000		Rs.000	Rs.000
10,500	Domestic	10,488	10,945
19,900	Foreign	19,447	3,718
30,400	**Total**	**29,935**	14,663

Note 06	Supplies		
Estimate 2016	Description	2016	2015
Rs.000		*Rs.000*	*Rs.000*
14,500	Stationary and office requisites	16,989	9,080
10,800	Fuel	10,665	8,599
500	Diets and Uniforms	500	454
25,800	**Total**	**28,154**	**18,133**

Note 07	Maintenance		
Estimate 2016	Description	2016	2015
Rs.000		Rs.000	Rs.000
6,500	Motor vehicles	5,970	7,727
5,350	Plant, machinery and equipment	5,114	4,714
1,000	Building and structures	997	4,069
12,850	**Total**	**12,081**	**16,510**

Note 08	Services		
Estimate 2016	Description	2016	2015
Rs.000		*Rs.000*	*Rs.000*
23,350	Transport	18,707	9,491
17,000	Postal and communication	16,806	16,144
15,000	Electricity and water	13,410	12,201
650	Rent and local taxes	608	339
31,000	Other	30,795	30,108
87,000	**Total**	80,326	**68,283**

Note 09	Transfers		
Estimate 2016 Rs.000	Description	2016 Rs.000	2015 Rs.000
650	Subscription and contribution fees	650	270
10,850	Interest on loans to public officers	10,734	10,109
11,500	**Total**	11,384	**10,379**

Note 10 Property Plant and Equipment

	Land	Buildings	Motor Vehicles	Computer and Hardware	Furniture and Equipment	Mini Press	Passenger Lift and Generator	Total
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Cost								
Balance as at 1 January 2016	256,147	**775,685**	**119,513**	**133,597**	**98,845**	26,023	**15,830**	1,425,640
Additions	-	5,518	406	204	13,691	-		19,819
Disposals	**-**	**-**	-	(15)	**(58)**	**-**	**-**	**(**73)
Balance as at 31 December 2016	**256,147**	**781,203**	**119,919**	**133,786**	**112,478**	**26,023**	**15,830**	**1,445,386**
Depreciations								
Balance as at 1 January 2016	**-**	55,375	53,531	125,497	67,412	5,205	2,022	309,042
Depreciations on disposal of assets	**-**	**-**	-	(15)	(58)	-	-	(73)
Additions	**-**	15,624	14,990	**1,198**	**2**2,496	1,301	**441**	**56,050**
Balance as at 31 December 2016	**-**	**70,999**	**68,521**	**126,680**	**89,850**	**6,506**	**2,463**	**365,019**
Net value as at 31 December 2016	**256,147**	**710,204**	**51,398**	**7,106**	**22,628**	**19,517**	**13,367**	**1,080,367**

Note 11 Cost of the Development of Audit Methodologies

Description	**2016**	**2015**
	Rs.000	**Rs.000**
Balance as at 1 January 2016	151,380	176,284
Amortization cost for the year 2015 (10% of the total cost)	(24,904)	(24,904)
Balance as at 31 December 2016	**126,476**	151,380

Note 12 Inventory

Description	2016	2015
	Rs.000	Rs.000
Building maintenance materials	-	273
Toner	3,397	-
Stationary and requisites	1,560	4,396
Tyre and tubes	856	556
Cleening Service Goods	194	-
Total	**6,007**	**5,225**

Note 13 Advances to Public Officers

Description	2016	2015
	Rs.000	Rs.000
Total amount due from officers serving in the department	211,655	210,890
Total amount due from officers transferred out of the department	330	3,284
From retired and deceased officers	1,339	3,069
From officers who vacated their posts	662	456
From service terminated officers	333	539
Total	**214,319**	**218,238**

Note 14 Audit fees Receivables

Description	2016	2015
	Rs.000	Rs.000
Development Councils	30	30
Municipal Councils	20,229	25,044
Urban Councils	34,087	46,054
Pradeshiya Saba	17,454	23,105
Public Corporations, Boards and Public Institutions	101,583	108,056
Agrarian Service Centers	10,852	12,140
Economic Centers	64	-
Total	**184,299**	**214,429**

Note 15 Payables	2016	2015
Description	**Rs.000**	**Rs.000**
Railway warrant – Leave	301	351
Railway warrant – Travelling Expenses	2	3
Other Expenses	270	138
Postal Charges	23	15
Telephone Bills	**330**	500
Electricity Bills	2	1,026
Water Bills	110	76
Vehicle maintenance	3	46
Stationery and Office Requisites	-	3
Plant and machinery maintenance	-	74
Training and Capacity Building	51	-
Total	**1,092**	**2,232**

Note 16 Treasury Contribution for Capital Expenditure and General Deposit Account

Description	2016	2015
	Rs.000	**Rs.000**
For advance to public officers	214,319	218,238
For deposit account	(19,473)	(24,990)
For fixed assets	434,602	445,870
Total	**629,448**	**639,118**

Notes 17 Public Sector Capacity Building Project Contribution

Description	2016	2015
	Rs.000	**Rs.000**
For fixed assets	645,765	677,457
For audit methodology	126,476	151,380
Total	**772,241**	**836,086**

SPECIAL AUDIT REPORTS PUBLISHED IN 2016

Special Audit Report on the Treasury Bonds issued by the Public Debt Department of the Central Bank of Sri Lanka during the Period from February 2015 to May 2016

The above report had been presented to the Hon'ble Speaker of Parliament on 29 June 2016. Main observations included in the above Report are as follows.

The CBSL issues treasury bonds as a Treasury security which has over one year maturity periods. The CBSL had followed two methodologies up to 27 February 2015 for the issuance of Treasury bonds, which were the auction method and the direct placement method. It was observed that during the 15 month period from January 2014 to April 2015, in which the Governor's decision to temporarily suspend the direct placement was effective, there were months in which only the direct placement or only the auction method or both methods were applied. Nevertheless, it was further observed that out of the overall bond issues during a period of 15 months, over 80 per cent had been issued under direct placement method.

Treasury bonds issued on 27 February 2015

- The Government overall cash requirement for the March 2015 was Rs.261.683 billion. It should be supplied by issuing Treasury bills and bonds. A sum Rs.89.683 billion from the issue of Treasury bills and a sum of Rs.172 billion from the issue of Treasury bonds should be supplied to fulfill the cash requirement. Out of the above monthly cash requirement only the Cash requirement for 2nd March 2015 was Rs. 13.550 billion.

- The Domestic Debt Management Committee (DDMC) which met at 1300 hours on 27 February 2015 had recommended that Rs.1 billion out of the said Rs.172 billion by auction, balance from direct placement and Rs. 1 billion out of the cash requirement only for 2nd March 2015 amounted to Rs. 13.550 billion by auction, balance from direct placement should be supplied. The approval of the Governor of the Central Bank for this decision had been obtained on 2 March 2015. The most important matter is the recommendation of the Domestic Debt Management Committee for the cash requirements for March 2015 including the cash requirement of Rs.13.550 billion for 02 March 2015 and the approval of Governor of the Central Bank had been obtained after the close of the auction and obtaining the approval of the tender committee even by the time of conducting the auction from 0830 to 1100 hours at 27 February 2015.

- Accordingly bids had been invited from the 16 dealers for the issue of Treasury bonds for Rs. 1 billion maturing in 30 years at a coupon rate of 12.5 per cent by the notice published in the Internet and the newspaper on 25 and 26 February 2015 respectively for the cash requirement of 2nd March 2015.

- The examination of the records on bids received in this connection revealed that 16 primary dealers and the Employee Provident Fund had submitted bids totaling Rs. 20.708 billion. Further it was observed that one primary dealer had submitted bids for Rs. 15.531 billion representing 75 per cent of that amount by him and through Bank of Ceylon, an another primary dealer.

- The Public Debt Department had prepared the report to submit to the Treasury bond tender committee. That report stated the recommendation that it is appropriate to obtain Rs.2.608 billion through auction. The Superintendent of Public Debt Department had made a hand written note in the above Report that "Governor instructed to raise funds up to Rs.10 billion, taking into consideration additional fund requirement of the Government". Accordingly, amended recommendation had been submitted to the Treasury bond tender committee.

- The Treasury bond tender committee which held meeting No. 2/2015 on 27 February 2015 between 1230 hours and 1310 hours had after the auction, decided to accept bids exceeding tenfold from offered amount to Rs.10.058 billion. The most important matter observed in this connection is that the above decision was taken after holding the auction. This is a complete deviation from the decision of the Domestic Debt Management Committee for the fulfillment of Rs.12.550 billion through direct placement. Tender Committee decision had been taken in accordance with the instructions given by the Governor of the Central Bank to the Public Debt Department. Even though weighted average yield rate of the accepted bids was 11.7270, the average secondary market yield rate of the week ended two days before the date of auction that is 25 February 2015 was only 10.03.

- The Monetary Board of the Central Bank of Sri Lanka had not approved the temporary suspension of the direct placement method. According to the Monetary Board Paper No. MB/ER/5/3/2015 dated 06 March 2015, only the notification on the temporary suspension of the direct placement used in the issue of Treasury bonds had been made by the Governor of the Central Bank.

- The Governor of Central Bank of Sri Lanka had given the approval on 2 March 2015 to the recommendation of the DDMC by making a note to make enquiries from the Employee Provident Fund, The National Saving Bank Fund Management Company and Sri Lanka Insurance Corporation for stabilizing the rates and for the issuance of bonds to raise Rs.40 billion through the issue of bonds of 20, 30 and 50 years of Rs. 10 billion each. That approval did not indicate any information on the suspensions of the direct placement method.

- If the auction of bonds had been limited to the offered amount of Rs.1 billion, it could have been possible to fulfil the sum of Rs. 1 billion from dealers at a weighted yield rate less than 10.4652 by the classification of the bids received from the auction from the lowest weighted yield rate to the highest weighted yield rate. If so limited, the yield rate would not have increased to 11.7270.

- If the auction had been limited to Rs. 1 billion, the aforesaid primary dealer who had made bids for 75 per cent from all bids made amounted Rs.20.708 would not have been able to purchase bonds. Due to the decision taken to increase the expected issue of Rs.1 billion from auction on that date to Rs.10.058 billion, the opportunity open to the above primary dealer to purchase 50 per cent of the value of the bonds issued on that day, that is, Rs.5 billion, is a noticeable point. That primary dealer had taken action to obtain Rs.2 billion out of that Rs.5 billion directly and the balance Rs.3 billion indirectly through another dealer, that is, Bank of Ceylon.

- Another important matter that had occurred during the issue of Treasury bonds is that the Employees' Provident Fund subject to the supervision of the Central Bank of Sri Lanka, had as an institution capable of purchasing bonds from the auction had obtained a lesser number bonds of high yield rate, while purchases with low yield rate had been made in secondary market from private dealers, thus foregoing the financial gain.

- If the bonds issuance of 27 February 2015 had been limited to Rs. 1 billion as expected, according to the bids received to cover that value, and the bonds were issued up to a value of a bond Rs.104.5073 a sum of Rs.1, 403 million could have been earned. The Government had incurred an estimated loss of Rs. 889,358,050 due to the failure to limit the issuance of bonds up to that value.

- In view of certain oral submissions of the respective officers given at the investigation of the bond issue carried out by the Sub-Committee of the Committee on Public Enterprises of Parliament revealed that the action of the Governor of the Central Bank (enquiries such as why the total amount of bids received amounting to Rs.20 billion is not obtained and why don't you go for 10 billion) had severely impacted the decision to accept bids up to Rs.10.058 billion as against the bond value of Rs. 1 billion expected to be obtained from this auction.

Treasury bonds issued on 29 March 2016

- The two auctions conducted on 10 and 24 March 2016 for the sale of bonds had been rejected as the bonds had been applied for by giving rates exceeding the expected rates made for obtaining the funds. Nevertheless, evidence of any attempts made on those occasions for obtaining funds from the direct placement was not revealed.

- Subsequently invitations for bids had been made on 29 March 2016 for 04 bonds of Rs.10 billion each totaling Rs.40 billion of different maturity periods.

- Important point observed in this connection is the invitation of bids for a limit of Rs.40 billion and the issue of bonds up to Rs.77.732 billion (face value) including additional bonds of Rs. 37.732 billion (face value) issued at the same bid. Out of these bonds issued exceeding the expected limit, 60 per cent had been obtained by the primary dealer referred to the above. During an analysis of the 04 types of bonds acquired by that institution at different interest rates revealed that above institution which had acquired 0.5 per cent of the first bond of the lowest yield rate, had acquired 35 per cent to 44 per cent of the other bonds issued at higher yield rates. That is a larger amount of bonds had been obtained when the discount increased.

- Even though the increase in the yield rate which formed the base for the rejection of both auctions held prior to this issuance date, existed in the same manner even in this auction, these bonds had been issued at the higher yield rates, that is, 14.0742 per cent.

- Even though it was decided for the issuance of the above 04 bonds to obtain face value of Rs.77.73 billion only a sum of Rs.59.325 billion had been received due to the issuance of bonds at discount rates.

- The very important matter revealed in this connection is that the Employees' Provident Fund permitted to function as a primary dealer had obtained bonds relating to the above bond valued at Rs.9.736 billion from the secondary market within yield rates ranging from 12.20 per cent to 12.45

per cent. The Employees' Provident Fund had submitted bids for this bond to the primary market on 29 March 2016 only for a small number of bonds and all those bids had been successful. But the purchase of bonds from the secondary market instead of purchase directly from the Primary Market is a questionable issue. Further, the failure of the Central Bank to pay attention to such actions of the Employees' Provident Fund which is under the trusteeship of the Monetary Board of the Central Bank is also a questionable issue.

- Instead of the nominal value of Rs.40 billion expected from the issuance of this bond up to Rs.77.732 billion had been accepted. If the bond issuance was limited to the face value of Rs.40 billion without so doing, the estimated loss of Rs.784,898,755 could have been prevented.

- It was observed that since the change of the methodology after 27 February 2015, a trend has been created among the primary dealers to submit bids at rates higher than as compared with the rates prevailing in the Secondary Market. Even though it was observed that the above trend had been created due to the effect of different factors, it is not questionable to surmise that the policy decision on the issuance of bonds taken on 27 February 2015 also had an influence.

I have arrived following Conclusions

- It is concluded that the authorities concerned should be responsible for the avoidable losses totaling Rs.1,674,256,805 incurred in the two auctions of issuance of Treasury bonds on 27 February 2015 and 29 March 2016.

- It was established that the Governor of the Central Bank had not acted with Professional Due Care in the performance of his functions, expected of a Governor of a Central Bank.

PROCUREMENT OF COAL MADE BY THE LANKA COAL COMPANY (PVT) LIMITED FOR THE LAKVIJAYA POWER PLANT AT NOROCHCHOLE DURING THE PERIOD FROM THE YEAR 2009 TO JUNE 2016

The special Report of the Auditor General on the Procurement of Coal made by the Lanka Coal Company (Pvt) Limited for the Lakvijaya Power Plant at Norochchole during the period from the year 2009 to June 2016 has been tabled in Parliament in the year under review and the audit observations included therein have been summarized and given below.

This Report is forwarded in accordance with the request made to the Auditor General by the Sectoral Oversight Committee on Energy of the Parliament, at the discussion held on 20 July 2016, to forward a Report on the Coal Procurements made by the Lanka Coal Company (Pvt) Limited during the period from the year 2009 to June 2016 for the Lakvijaya Power Plant at Norochchole of the Ceylon Electricity Board. Accordingly, six Term Contracts, five Spot Contracts and the Coal purchased/ obtained from the Ceylon Shipping Corporation were examined. The Government Procurement Guidelines and the amendments on that issued up to date was used as the base document for the compliance examination of those transactions.

Documents such as Cabinet Memorandums and Decisions, Bidding Documents, Technical Evaluation Committee Reports and Standing Cabinet Appointed Procurement Committee Reports, Bid and Performance Bonds, Agreements, Judgements, Procurement Appeal Board Reports, Special Committee Reports, other sundry documents relating to 6 bids under the Term Contracts and 5 bids under the Spot Contracts were examined.

The information relating to the above process received in different forms were subjected to an analytical review. The audit team had several discussions with relevant parties and a spot examination was carried out at the Lakvijaya Power Plant – Norochchole.

The Lanka Coal Company had been established on 23 January 2008 in accordance with the approval of the Cabinet of Ministers on 05 April 2006 for the procurement of coal required for coal power plants.

The power generation of the First Stage of the Coal Power Plant at Norochchole had been commenced in February 2011 and the

Second and the Third Stages thereof had been commenced in April and September 2013 respectively. The total annual coal requirement had been 2,250,000 metric tons. Unloading coal from April to September is usually difficult due to rough sea in the Norochchole area and as such, the annual coal requirement of the power plant are stocked from October to March of the ensuing year.

According to the information provided by the Ceylon Electricity Board, the total Electricity Units generated by the Lakvijaya Power Plant from its inception up to 31 October 2016 had been 15,744 Giga Watt Hours. The expenditure on one Thermal Fuel Kilowatt Hour generated at present amounts to Rs.21.44 and the direct cost of one Kilowatt Hour generated by the Lakvijaya Power Plant is Rs.5.23. The overall income earned by the Power Plant amounts to US$ 1,823 million and the expenditure incurred on the construction of the Power Plant amounted to Rs. US$ 1,346 million. As such, the income exceeding the total expenditure incurred at present amounts to US$ 477 million.

The activities relating to the purchase of coal under the Term Contract Procurement was commenced by the Lanka Coal Company in the year 2008 in accordance with the decision of the Cabinet of Ministers dated 27 March 2008. Accordingly, out of 06 Term Contract Procurements commenced during the period up to June 2016, the contracts on two procurements had been awarded to the Noble Resources (pvt) Company and the Swiss Singapore Overseas (pvt) Company. Three procurements had been cancelled due to various reasons and the fourth Procurement commenced had been cancelled without inviting bids.

Six procurement processes under Spot Contracts had been commenced to meet emergency requirements. Out of that, the Third Procurement had been cancelled and the balance 05 procurements had been awarded as expected to Liberty Commodities Company and the Adani Global (pvt) Company.

Purchases of coal had been made on three occasions from the Ceylon Shipping Corporation considering as a supplier, without following the procurement process and on another occasion, coal had been purchased and supplied to the Ceylon Electricity Board in accordance with a decision of the Board of Directors of the Lanka Coal Company without following the procurement process.

The Lanka Coal Company had purchased 6,775, 199 metric tons of thermal coal valued at US$ 484.53 million during the period under review and the procurement made from one supplier during 52 months of the period under review amounted to 4,298,692 metric tons valued at US$ 338.36 million. The total cost of coal procured during the period under review amounted to US$ 145.14 million.

The major deficiencies observed in audit included shortcomings in the bidding documents, frequent extensions of bidding period, weaknesses in communicating such changes to bidders, non-compliance with Cabinet Decisions, failure to follow the Procurement Guidelines, long delays in the deliberations of the TEC and SCAPC, lack of communication among the related institutions, failure to obtain legal options when required, changes in terms and conditions after acceptance of bids, inadequacy of attention on environmental damage, failure to take meaningful action on idle assets costing Rs.1,130 million.

Recommendation for overcoming weaknesses and rectification of the deficiencies are given in the detailed audit report.

The overall situation is that Ministry Power and Renewable Energy, the Lanka Coal Company (pvt) Limited, the Ceylon Electricity Board, Ceylon Shipping Corporation, the Technical Evaluation Committee and the Standing Cabinet Appointed Procurement Committee had not exercised professional due care in the performance of their duties, that is, failed to follow laws, rules, regulations and best practices in the procurement process thus resulting in an estimated loss/ additional cost/loss of income amounting to Rs.4,145.43 million. Further, continuation of the Lanka Coal Company (pvt) Limited is a questionable issue while the illegal and criminal aspect of the transaction, if any, need to be handled by the relevant institutions.

The Special Audit Report on the Rice Import Process of the Lanka Sathosa Ltd. during the years 2014 and 2015

The aforesaid special report of the Auditor General has been tabled in Parliament in the year under review and a summary of audit observations included therein is given below.

According to the information made available to Audit, 257,559 metric tons of rice costing Rs.15,996 million had been imported in the years 2014 and 2015 from India and Bangladesh through opening Letters of Credit and under the Documents Against Payment System. In addition to that, 18,134 metric tons of imported rice valued at Rs.1,199 million had also been purchased from the local market. The details appear in the Table 04

Documents Against Payment System or Letter of Credit No.	Date of Opening of Letter of Credit	Letter of Credit Value (US$)	Variety of Rice	Supplier	Quantity Received (Metric Tons)	CIF Value Rs.	CIF Value Per kilogramme (Rs.)	Supply of Funds
1. Local Purchase								
Local purchase of imported rice				14 suppliers	18,134	1,199,495,609		Lanka Sathosa
2. Direct Import of Rice by the Lanka Sathosa								
Documents Against Payment (DP)			Nadu and Samba Rice	07 suppliers	29,262	1,851,055,933		Lanka Sathosa
42002140026193	22.09.2014	455,000	Nadu Rice	Omvishkar Exporters	1,040	62,634,808	60.23	People's Bank
3. Import of Rice from the Foreign Market under the Approval of the Cabinet of Ministers								
42002140024186	01.09.2014	21,500,000	White Rice	United Foods(pvt) Ltd.	50,002	2,843,606,997	56.87	People's Bank
BTD-M 064568	10.12.2014	11,250,000	Nadu Rice	Government of Bangladesh	25,000	1,504,335,376	60.17	Bank of Ceylon
4. Import of Rice from the Foreign Market on Concurrence of the General Treasury								
BTD-M 63519	29.10.2014	1,994,018	Nadu Rice	ACP Industries Ltd	4,887	268,319,420	54.90	Bank of Ceylon
BTD-M 63519 (Extension)	17.02.2015	18,056,000	Ponni Samba Rice	ACP Industries Ltd	37,704	2,500,017,885	66.31	Bank of Ceylon
BTD-M 63537	30.10.2014	2,403,837	Ponni Samba Rice	ACP Industries Ltd	4,926	323,514,220	65.68	Bank of Ceylon
BTD-M 63537 (Extension)	13.02.2015	21,996,163	Ponni Samba Rice	ACP Industries Ltd	43,384	2,861,893,578	65.97	Bank of Ceylon
42002140033283	03.12.2014	12,150,000	White Rice	United Foods(pvt) Ltd.	30,000	1,630,038,846	54.33	People's Bank
42002140033274	03.12.2014	15,300,000	Ponni Samba Rice	Trident Chemphar Ltd	31,354	2,151,117,709	68.61	People's Bank
Total					**275,693**	**17,196,030,381**		

Table 04 - Import of Rice in the years 2014 and 2015
Source: Lanka Sathosa Ltd.

A summary of audit observations made on each purchase of rice shown in the Table is given below.

- In view of the unavailability of an approved proper Procurement Procedure of the Lanka Sathosa Ltd., it should have followed the Guidelines in the Government Procurement Guidelines. However, Guidelines in the Government Procurement Guidelines had not been followed in the process of purchase of above mentioned rice.

- In terms of Guideline 8.9.1(a) of the Government Procurement Guidelines, a formal contract should be signed for procurements exceeding Rs.500,000. Nevertheless, contracts had not been entered into with suppliers in the above purchase of rice.

- Despite having carried out the process of import of rice in the year 2014 and without paying attention in that connection, the Lanka Sathosa had purchased 18,134 metric tons of imported rice valued at Rs.1,199 million at different prices from local suppliers selected deviating from the Procurement Procedure.

- The approval of the Cabinet of Ministers had been received for the import of 50,000 metric tons of rice at a rate of 5,000 metric tons for the maintenance of rice as a buffer stock by using the stores system belonging to the Department of Food Commissioner for the food security and establishing the price of rice in the market. Nevertheless, 50,000 metric tons of White Rice had been purchased and imported in one lot from a supplier, nominated by the Line Ministry deviating from the Procurement Procedure. Moreover, it had become necessary for using a store of the private sector incurring a high cost in addition to the stores of the Department of Food Commissioner due to the import of the stock of rice in one lot.

- Out of the 257,559 metric tons of rice, only 75,002 metric tons had been imported with the approval of the Cabinet of Ministers and 152,255 metric tons of rice valued at Rs.9,735 million had been imported on the concurrence of the General Treasury without the approval of the Cabinet of Ministers. Moreover, the approval of the Board of Directors had not been obtained for the stocks of 30,302 metric tons of rice valued at Rs.1,914 million imported directly by the Lanka Sathosa and purchases had been made on the instructions of the Chairman.

- The Deputy Secretary to the Treasury had informed the Chairman of the Lanka Sathosa based on a letter sent by the then Minister of Economic Development that an Indian Company had agreed to supply 100,000 metric tons of rice, to take immediate steps for the purchase of rice from the relevant company. Nevertheless, the approval of the Cabinet of Ministers had not been obtained therefor. Two days after notifying, the Deputy Secretary to the Treasury himself, had placed an order for the purchase of 50,000 metric tons of Ponni Samba Rice and 50,000 metric tons of Nadu Rice contrary to the Procurement Procedure.

- Even though the Indian Company had been informed that the stock of 100,000 metric tons of rice ordered should be supplied before 31 December 2014, only 9, 813 metric tons of rice had been received even by February 2015, the date on which the two opened Letters of Credit expired. Moreover, the Minister had given instructions on 12 February 2015 to extend the period of the Letters of Credit and to import the Ponni Samba Rice for the balance value of the Letters of Credit and inform the General Treasury accordingly.

- Even though the Minister had instructed that the General Treasury should be informed on the revision of the Letters of Credit, contrary to that and without the Authority, on the subsequent day itself, that is, 13 February 2015, the Bank had been informed under the hand of the Director of the Lanka Sathosa who was the then Additional Secretary to the Ministry and the Deputy General Manager (Finance) to extend the period of Letters of Credit up to 20 April 2015 and action had been taken to import 81,088 metric tons of rice costing Rs.5,362 million.

- Even though the Treasury had informed to desist from any further extension of the expired Letters of Credit as the paddy crop of the Maha Season of 2014/15 is being received by the market, action had been taken even by then to extend the period of Letters of Credit.

- Instead of the notice issued by the Deputy Secretary to the Treasury to open an Irrecoverable Letter of Credit, according to the Pro-forma invoice, the Lanka Sathosa had opened the Letters of Credit as Irrecoverable Transferable, thus allowing the occasion for the Company to act as an intermediary and supply rice through other companies instead of supplying rice from their cultivated lands as agreed initially by the supplier.

- No attention whatsoever had been paid to the quantity of rice already ordered as well as the storage space available in the existing stores when the extension was sought for the Letter of Credit. As such, out of the stock of 90,901 metric tons of rice received by the Port, a stock of 42,992 metric tons or 47.3 per cent approximately had taken a long time for release from the Port. As such, the demurrage as well as other expenditure paid and to be paid to Ports Authority therefor totalled Rs.694 million.

- The rice had been kept in the Port premises in the containers as well as in the private containers yards after the release of the containers of rice from the Port under unfavourable environmental conditions for a long period, resulting in unsuitable human consumption and deterioration of these stocks of rice. Moreover, a sum of Rs.15.64 million had to be paid as the ground rent for the container yards by 16 November 2016, the date of audit.

- According to the request made by the Minister, 30,000 metric tons of White Rice valued at Rs.1,630 million and 31,354 metric tons of Ponni Samba Rice valued at Rs.2,151 million had been imported without the approval of the Cabinet of Ministers and deviating from the Procurement Procedure for discouraging the trend in the unusual increase of the price of rice during the election period. However, before purchasing those stocks of rice, attention had not been paid on the stocks of 193,460 metric tons of rice already ordered by the Lanka Sathosa even by then.

- In addition to the value of Rs.15,997 million of 257,559 metric tons of imported rice, various expenditure thereon such as customs duty, interests on bank loans, clearance charges, port charges and rent of stores that had to be incurred, totalled Rs.11,015 million. Out of that, a sum of Rs.1,503 million had been paid as advances to a Clearing Agency and out of the sum of money so given, a sum of Rs.303 million had not been settled even by 18 October 2016.

- Loans totalling Rs.14,087 million had been obtained from the Bank of Ceylon and the People's Bank for opening the Letters of Credit for importation of rice and the loan interest therefor paid and payable by December 2016 amounted to Rs.1,939 million. Out of the loan amount, a sum of Rs.7,786 million had to be further paid by then.

- Out of the stock of 257,559 metric tons of imported rice, 176,208 metric tons of rice had been sold by the Sathosa outlets at a cost of Rs.9,666 million and 57,600 metric tons of rice representing 22.36 per cent out of the imported rice, had been sold as animal feed as well at a cost of Rs.2,189 million.

- The cost which had to be incurred on the process of importation of rice amounted to Rs.27,012 million and the income from the sale of rice had been Rs.11,855 million, thus indicating a loss of Rs.15,157 million.

SECTOR REPORTS

CONSOLIDATED FUND

In pursuance of provisions in the Articles 148 of Chapter XVII of Constitution of the Democratic Socialist Republic of Sri Lanka, Parliament has the full control over the public finance. According to Article 149 of the Constitution, the revenue collected by the Government should be credited to the Consolidated Fund and the manner of payments made from the Consolidated Fund is provided for in Articles 150 and 152 of the Constitution.

According to the Appropriation Act, No. 16 of 2015 as amended by the Appropriation (Amendment) Act, No. 23 of 2016, provisions for the year 2016 totalling Rs.2,479 billion, comprising Rs.1,156 billion for Recurrent Expenditure and Rs.1,323 billion for Capital Expenditure, had been made. Provisions under special law service totalling Rs.1,192 billion, comprising Rs.648 billion for Recurrent Expenditure and Rs.544 billion for Capital Expenditure and in addition thereto provision of Rs.228 billion as approved by the existing laws to be charged to the Consolidated Fund had been made. Accordingly, the total annual provision for the expenditure of the year amounted to Rs.3,899 billion. Details appear in Table 05

Service	Provision		
	Recurrent Rs.Billions	Capital Rs.Billions	Total Rs.Billions
Government Supplies and Services	1,156	1,323	2,479
Special Law Services	648	544	1,192
Special Law Services (Additional)	167	61	228
Total	**1,971**	**1,928**	**3,899**

Table 05 - Annual Provision for the year 2016
Source : Financial Statements of the Republic

According to the Revised Annual Budget Estimates for the year under review, provisions amounting to Rs.3,899 billion had been made whilst that for the preceding year amounted to Rs.3,475 billion. Accordingly, the provisions for the year under review, as compared with the preceding year had been increased by Rs.424 billion or 12.20 per cent. A sum of Rs.3,106 billion only out of the total provision made for the year under review had been utilized whilst Rs.793 billion or 20.34 per cent of the provision made had been saved. As compared with the savings of Rs.271 billion in the preceding year, an increase of Rs.522 billion in the savings was observed. The entire net provisions of Rs.521 billion made under 416 Objects had been saved without making any utilization whatsoever. Similarly, savings exceeding 25 per cent were observed under the net provisions made for 2,261 Objects and the cumulative total of those savings amounted to Rs.711 billion and that represented 18.24 per cent of the total net provision. Details of savings appear in Table 06

Savings as a range of percentage of Net Provision	Net Provision Rs. Billions	Utilisation Rs. Billions	Savings Rs. Billions
Less than 25 per cent	3,003	2,921	82
26 per cent to 50 per cent	207	132	75
51 per cent to 75 per cent	123	47	76
76 per cent to 99 per cent	45	6	39
100 per cent	521	--	521
Total	**3,889**	**3,106**	**793**

Table 06 - Savings as a percentage of the net provision
Source : Treasury Computer Printed Table 33

It was stated in the Appropriation Accounts certified by the Chief Accounting Officers that savings had resulted as it was not possible to make full utilization of the provisions made due to the non-release of adequate imprests by the Department of Treasury Operations during the year under review to enable the utilizations of the provisions made for certain Ministries and Departments. Such non-release of imprests had resulted in the inability to utilize provisions totalling Rs.52 billion as at the end of the year comprising Recurrent Provision of Rs.14 billion and Capital Provision of Rs.38 billion. That saving represented 6.68 per cent of the total savings of provision.

According to the Annual Estimates for the year 2016 provision of Rs.121 billion had been made under the Object 126-2-4-1-1407 Cost of Maintenance of the Public Investments (Lands and Buildings) of the Ministry of Education. This recurrent provision had been only a nominal value and the provision had not been requested by the Ministry. Accordingly, no expenditure whatsoever had been incurred from that provision in the year 2016 and that represented 88 per cent of the total savings of provisions of the Ministry of Education.

Similarly a recurrent provision of Rs.17.8 billion had been made under the Object 111-01-05-0-1407-11 Cost of Maintenance of the Public Investments (Lands and Buildings) of the Ministry of Health, Nutrition and Indigenous Medicine. That recurrent provision had been only a nominal value and it was revealed that the Ministry had not made requests for such provision in the preparation of the Estimates. The Treasury had informed the relevant Ministry to desist from incurring any expenditure whatsoever from that provision. That amounted to 42 per cent of the total savings of the Ministry of Health, Nutrition and Indigenous Medicine.

The Capital provision for the year under review, except the loan repayments amounted to Rs.1,185 billion and Rs.594 billion or 50.13 per cent of the provision made had been utilized. That, as compared with the utilization of the Capital Provision of Rs.684 billion in the preceding year, indicated a decrease of Rs.90 billion. That is, the Capital Provision of 29 per cent of the total expenditure of the preceding year, had decreased to 25 per cent of the total expenditure in the year under review. Similarly, the provision for Recurrent Expenditure of the year under review amounted to Rs.1,971 billion and Rs.1,771 billion or 89.85 per cent of the provision made had been utilized. That, as compared with the utilization of the Recurrent provision of Rs.1,673 billion in the preceding year, had increased by Rs.98 billion. Accordingly, the total expenditure of Rs.2,357 billion in the preceding year, had increased by Rs.8 billion to Rs.2,365 billion in the year under review. The total expenditure of the year under review, except the loan repayments, represented 19.97 per cent of the Estimated Gross Domestic Product. The overall expenditure, that is the recurrent and the capital expenditure, had continuously increased from the year 2010 whilst the capital expenditure had decreased in the year under review. Details appear in Figure 04

Similarly, in considering the overall expenditure as a percentage of the Estimated Gross Domestic Product, indicated a decrease as against the 2 preceding years. Details appear in Figure 05

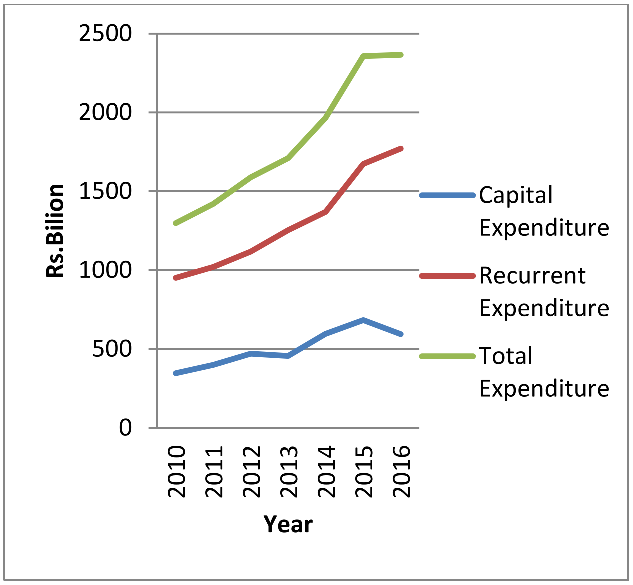


Figure 04 : Overall expenditure
Source : Financial Statements of the Republic

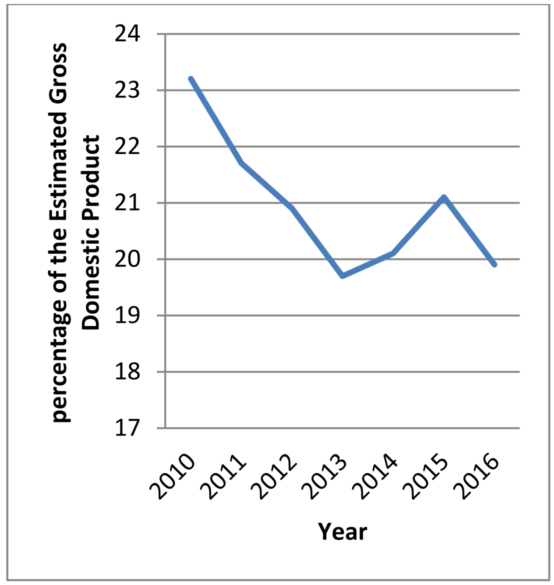


Diagram 05: Overall expenditure as a percentage of Gross Domestic Product
Source : Financial Statements of the Republic and the Annual Report of the Central Bank of Sri Lanka

A sum of Rs.611 billion or 34.5 per cent of the total recurrent expenditure had been spent in the year under review for the payment of interest on the Domestic and Foreign Loans and that as compared with the preceding year, indicated an increase of Rs.84 billion or 15.94 per cent. In addition to that, sums of Rs.453 billion for personal emoluments, Rs.557 billion for Grants and Subsidies and Rs.149 billion on other goods and services had been spent. The aforesaid expenditure had made a large contribution to the total recurrent expenditure, whilst the revenue collected during the year had not been adequate to settle the total recurrent expenditure. Similarly, a sum of Rs.594 billion had been spent in the year under review for the capital expenditure. Domestic borrowings and Foreign Loans and Grants had to be obtained for the payment of a part of the recurrent expenditure and Public Investment and the payment of loan installments. As such, a large sum of money had to be spent for the payment of annual loan installments and interest and it was observed as an annually increasing cost.

The total of the recurrent and capital expenditure and the loan repayments of the year 2016 amounted to Rs.3,106 billion whilst 23.86 per cent and 19.67 per cent of the overall expenditure had been spent on the repayment of loans and the payment of interest respectively. The manner of the total expenditure for the year 2016 made among 16 identified sectors appear in Figure 06

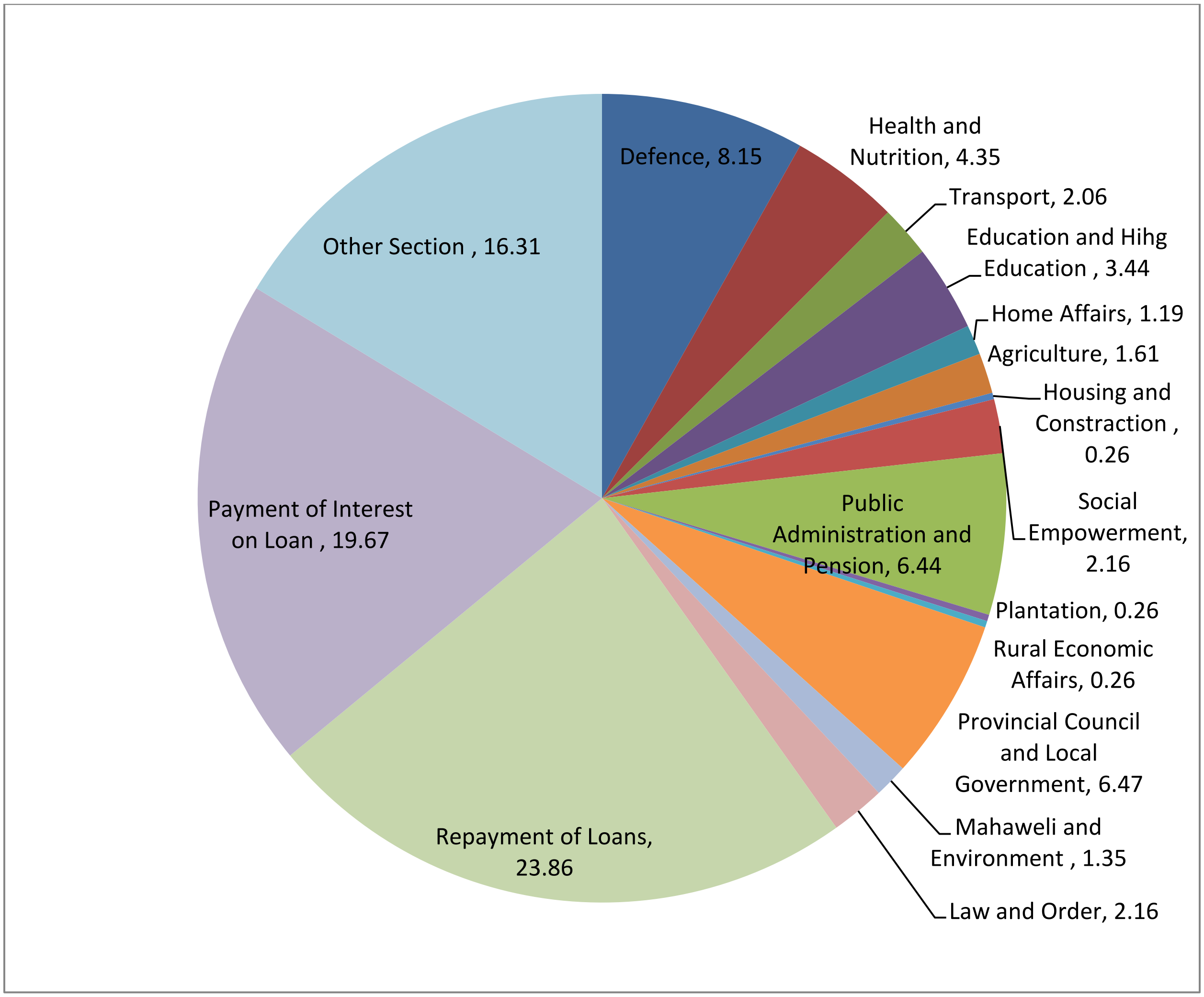


Figure 06 : Contribution of 16 Sectors wherein overall expenditure is identified
Source : Financial Statements of the Republic 2016

Government Revenue

According to the Annual Budget Estimates for the year 2016 approved by the Parliament of the Democratic Socialist Republic of Sri Lanka, the Public Revenue estimated for the year under review, except the Domestic and Foreign Borrowings, amounted to Rs.1,668 billion. That, as compared with the estimated revenue for the preceding year amounting to Rs.1,441 billion, indicated an increase of Rs.227 billion or 15.75 per cent. Revenue amounting to Rs.1,699 billion, which exceeded the estimated revenue for the year 2016 by Rs.31 billion, had been collected in the year. The revenue collected in the year 2016, as compared with the preceding year, had achieved an improvement of Rs.305 billion or 21.88 per cent. In considering the Government Revenue as a percentage of the Gross Domestic Product, despite representing 12.47 per cent in the preceding year, it was possible in the year 2016 to exceed that percentage and achieve 14.35 per cent. Details appear in Figure 07

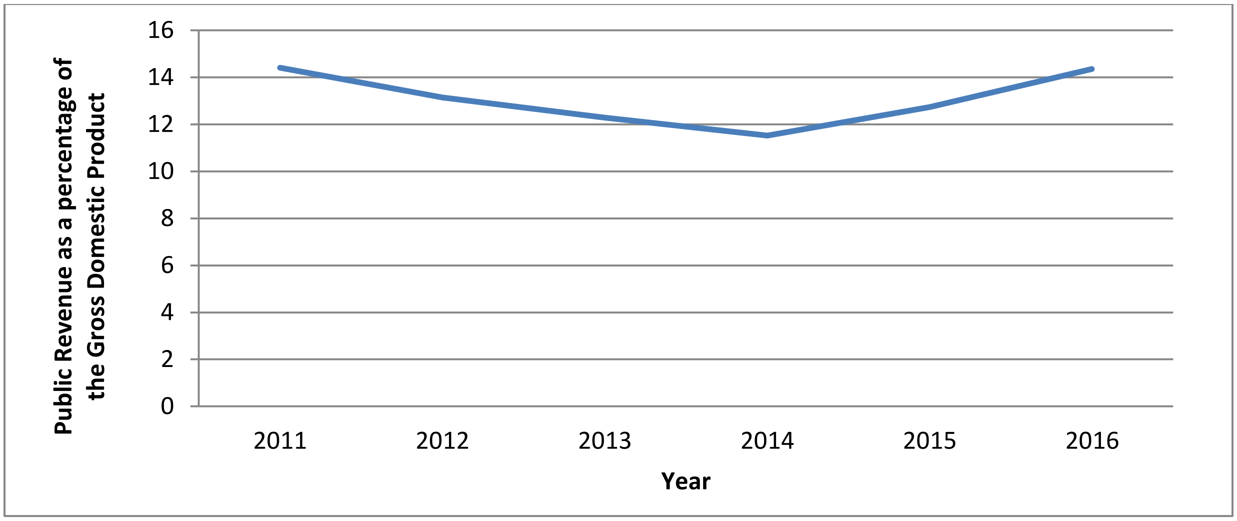


Figure 07 : Government Revenue as a percentage of the Gross Domestic Product
Source : Financial Statements of the Republic

Classification of Government Revenue

The Government Revenue had been classified under two main categories of "Tax Revenue and Non-Tax Revenue" whilst the Tax Revenue had been further classified and shown in the Financial Statements of the Democratic Socialist Republic of Sri Lanka as "Income Tax, Taxes on Domestic Goods and Services and Taxes on International Trade". Even though the collection of Rs.261 billion as the Income Tax had been expected for the year under review, Rs.259 billion out of that only had been collected. Even though it had been expected to collect Rs.846 billion from the Taxes charged on the Domestic Goods and Services, Rs.841 billion out of that only had been collected. Even though it had been expected to collect Rs.367 billion from the Taxes charged on the International Trade, Rs.364 billion out of that only had been collected by the end of the year under review. Accordingly, out of Rs.1,474 billion expected for collection from the Tax Revenue, 99.32 per cent out of that or Rs.1,464 billion had been collected. Even though the collection of Rs.194 billion from the other Non-tax Revenue had been estimated for the year under review, Revenue amounting to Rs.235 billion which exceeded the estimated target by Rs.41 billion had been collected. The particulars of the Revenue Estimates for the year under review and the Revenue collected appear in Figure 08

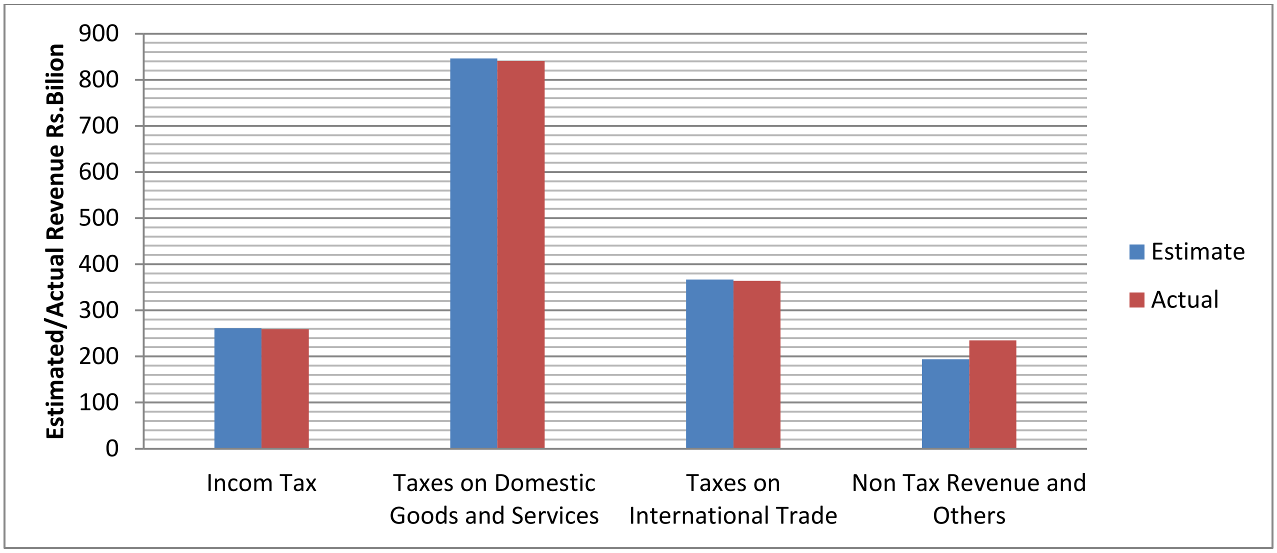


Figure 08 : Estimated and Actual Revenue
Source : Financial Statements of the Republic 2016

Tax Revenue

Revenue from Income Tax amounting to Rs.259 billion had been collected in the Public Revenue. The Revenue collected in the preceding year had been Rs.263 billion. Accordingly, the Revenue from Income Tax for the year under review, as compared with the preceding year had decreased by Rs.4 billion.

Even though Tax Revenue amounting to Rs.1,464 billion had been collected in the year 2016, the Indirect Tax Sources, which can be considered as excluded from the consumers, collected amounted to Rs.1,205 billion or represented 82.31 per cent of total Tax Revenue. The ratio of the previous year was 79.49 per cent. As such it had not been possible even during the year under review to minimize the exclusion of the Tax Revenue from the consumer.

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

In addition, the detailed information on the impact on the Public Revenue caused from the waiver, relaxation and exemption from duty made by the Foreign Trade Agreements and other Laws had not been taken into consideration for the measurement of the Departments concerned.

Budget Deficit

According to the Financial Statements of the Republic for the year under review, the estimated budget deficit amounted to Rs.1,488 billion and that, as compared with the budget deficit of the preceding year, indicated an increase of Rs.317 billion or 27 per cent. According to the Financial Statements for the year 2016, the actual budget deficit amounted to Rs.666 billion and that as compared with the estimated budget deficit, indicated a decrease of Rs.822 billion or 55.24 per cent. According to Section 3(a) of the Fiscal Management (Responsibility) Act, No. 3 of 2003 as amended by the Fiscal Management (Responsibility) (Amendment) Act, No. 15 of 2013, the budget deficit should be limited to 5 per cent of the Estimated Gross Domestic Product. Nevertheless, the Estimated Budget Deficit of the year under review had been 12.57 per cent of the Estimated Gross Domestic Product. That percentage of 9.78 per cent in the year 2010 had decreased to 7.6 per cent by the year 2013. Nevertheless, that percentage had increased from the year 2014 to 12.57 per cent in the year 2016. Details appear in Figure 09 Similarly, despite the actual Budget Deficit being Rs.473 billion in the year 2010, that had increased to Rs.963 billion by the year 2015. That had decreased to Rs.666 billion in the year 2016. Details appear in Figure 10

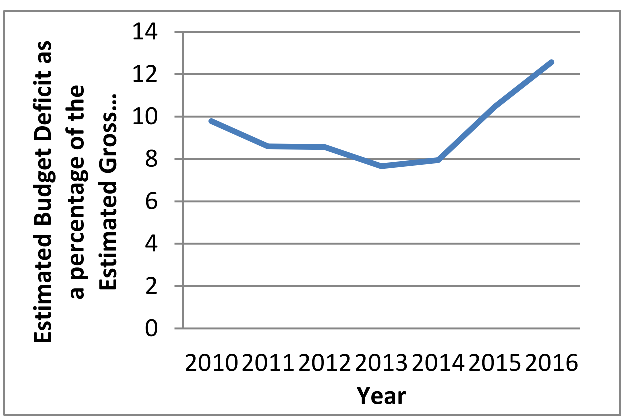


Figure 09 : Actual Budget Deficit
Source : Financial Statements of the Republic

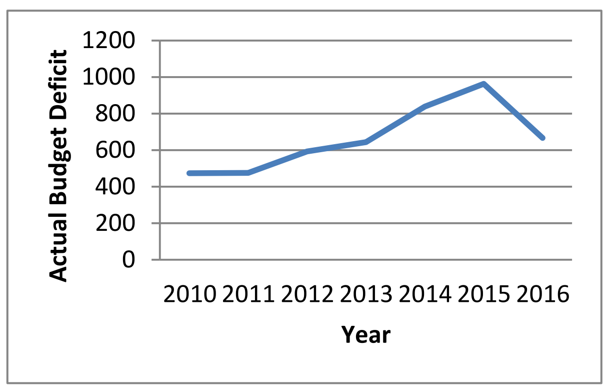


Figure 10 : Estimated Budget Deficit as a percentage of the Estimated Gross Domestic Product.
Source : Financial Statements of the Republic

In addition, despite the decrease of the Budget Deficit for the year under review by Rs.297 billion or 30.84 per cent as compared with the preceding year, the net foreign borrowings had increased from Rs.369 billion by Rs.60 billion to Rs.429 billion or 16.2 per cent. Similarly, the net domestic borrowings amounting to Rs.528 billion in the preceding year had decreased by the Rs.83 billion or 15.7 per cent to Rs.445 billion in the year under review. As such, the foreign borrowings had been increased for the settlement of the Budget Deficit.

Inadequacy of the Revenue for Settlement of Recurrent Expenditure

According to the Financial Statements of the Republic, the recurrent expenditure of the Government for the year 2016 amounted to Rs.1,771 billion and the capital expenditure of the Government amounted to Rs.594 billion. Nevertheless, the overall revenue earned by the Government amounted to Rs.1,699 billion and as such that revenue was not adequate even for the settlement of the recurrent expenditure of the year 2016. Accordingly, recurrent expenditure of Rs.72 billion exceeding the overall Public Revenue had been made. The inadequacy of the Public Revenue to settle the recurrent expenditure from the year 2010 is depicted in Figure 11

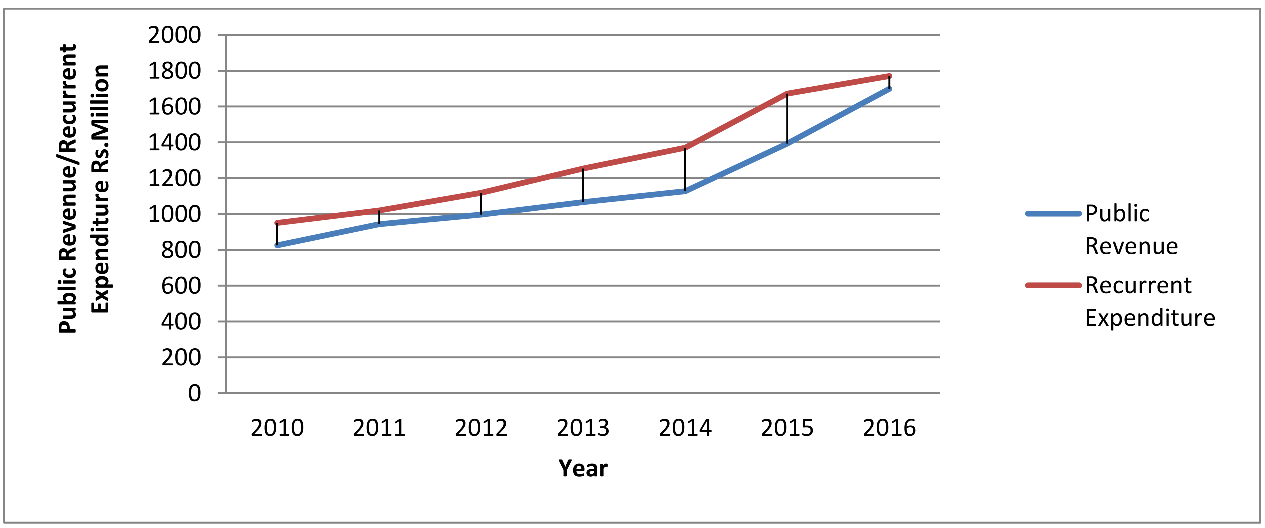


Figure 11: Inadequacy of Public Revenue to settle recurrent expenditure
Source : Financial Statements of the Republic

Public Debt

In terms of Article 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka, the full control over public finance including the Public Debt is vested in Parliament and the approval of Parliament should be obtained for all borrowings of the Republic. In terms of Section 2.1 (b) of the Appropriation Act, No. 16 of 2015 as amended by the Appropriation (Amendment) Act, No. 23 of 2016, Parliamentary approval has been granted to raise loans in or outside Sri Lanka for and on behalf of the Government.

According to the Financial Statements of the Republic, loans amounting to Rs.3,091 billion comprising foreign loans amounting to Rs.574 billion and domestic non-banking loans amounting to Rs.2,517 billion had been obtained during the year under review. That, as compared with the loans amounting to Rs.3,350 billion obtained in the preceding year, indicated a decrease of Rs.259 billion or 7.73 per cent. Even though the Government had shown a greater attention to the domestic borrowings, the domestic borrowings amounting to Rs.2,517 billion obtained in the year under review, as compared with the domestic borrowings amounting to Rs.2,794 billion obtained in the preceding year, indicated a decrease of Rs.277 billion or 9.91 per cent.

Particulars	2011 Rs. Billions	2012 Rs. Billions	2013 Rs. Billions	2014 Rs. Billions	2015 Rs. Billions	2016 Rs. Billions
Foreign Borrowings	287	366	183	423	556	574
Domestic Borrowings						
Treasury Bills	1,116	1,553	1,135	1,066	1,533	1,635
Treasury Bonds	538	639	802	858	926	668
Foreign Currency	5	3	3	1	-	17
Bank Units						
Development Bonds	60	60	238	95	335	197
Total Domestic Borrowings	1,719	2,255	2,178	2,020	2,794	2,517
Total Borrowings for the year	**2,006**	**2,621**	**2,361**	**2,443**	**3,350**	**3,091**

Table 07 – Public Debt

Source : Financial Statements of the Republic

According to the Financial Statements of the Republic, the loan balance payable by the Government as at 31 December 2016 amounted to Rs.8,794 billion and that as compared with the loan balance of Rs.7,684 billion as at 31 December 2015 indicated an increase of Rs.1,110 billion or 14.45 per cent. The particulars of the Public Debt obtained in the preceding year and the year under review appear in Table No 08

Item	Balance as at 31 December	
	2015 Rs. Billions	2016 Rs. Billions
Treasury Bills	633	792
Treasury Bonds	3,187	3,567
Rupee Loans	24	24
Sri Lanka Development Bonds	613	572
Domestic Loans in Foreign Currency	22	42
Ceylon Petroleum Corporation – Treasury Bonds	-	105
Lease Creditors	5	16
Total Domestic Loans	4,484	5,118
Total Foreign Loans	3,200	3,676
Total Public Debt Balance	7,684	8,794
Estimated Gross Domestic Product	11,183	11,839
Unsettled Public Debt as a percentage of Estimated Gross Domestic product	68.71	74.28

Table 08 : Loan balances payable by the Government of Si Lanka as at the end of the years 2015 and 2016
Source : Financial Statements of the Republic

Even though the unsettled Public Debt balance of the year 2016 according to the Financial Statements of the Republic, had been Rs.8,794 billion, the loan balance as at 31 December 2016 relating to 07 foreign loan agreements wherein the Government of Sri Lanka had obtained by entering into agreements and transferred to 3 institutions and brought to account outside the balance sheet amounting to Rs.332 billion and the balance of the Treasury Bonds amounting to Rs.487 billion had been understated. Accordingly, the total unsettled Public Debt as at 31 December 2016 amounted to Rs.9,613 billion.

The total value of liabilities as at the end of the year under review inclusive of the total unsettled loan balance of the Government amounted to Rs.9,864 billion and that represented 83.32 per cent of the Estimated Gross Domestic Product of the year 2016 amounting to Rs.11,839 billion. That, as compared with the percentage of 79.68 per cent of the preceding year indicated an increase of 3.64 per cent. According to Section 2(b) of the Fiscal Management (Responsibility) Act, No. 3 of 2003 as amended by the Fiscal Management (Responsibility) (Amendment) Act, No. 15 of 2013, the value of total liabilities of the Government beginning from the year commencing on 01 January 2013, should not exceed 80 per cent of the Estimated Gross National Product of each financial year. Nevertheless, the limit of liabilities prescribed in the Fiscal Management (Responsibility) Act had been exceeded in the year under review, Details appear in Table No 09.

Liability	Value of Liabilities as at 31 December	
	2015 Rs. Billions	2016 Rs.Billions
Bank Overdraft	198	168
Advances from the Central Bank	151	83
Public Debt	7,685	8,794
Liabilities not brought to account in the Financial Statements		
- **Foreign Loans brought to account outside Balance Sheet**	338	332
- **Understatement of Treasury Bonds**	509	487
- **Understatements of Treasury Bills**	30	-
Total Liability	8,911	9,864
Gross Domestic Product (GDP)	11,183	11,839
Total Liability as a percentage of the Estimated Gross Domestic Product	79.68	83.32
*** The value of Guarantees amounting to Rs.563,337 million issued to the Banks for the loans obtained by Public Enterprise on the Guarantees of the General Treasury had not been included in the above liabilities.**		

Table 09 : Liabilities of the Republic of the years 2015 and 2016
Source : Financial Statements of the Republic 2016

The total Public Debt as at 31 December 2016 as compared with the midyear population indicated a per capita debt of Rs.417,865 and that, as compared with the per capita debt of Rs.373,642 for the preceding year indicated an increase of Rs.44,403.

Even though the Public Revenue of the year under review, as compared with the preceding year had increased by Rs.305 billion or 21.9 per cent, the total Public Revenue was adequate only for the settlement of 60.1 per cent of the total loan installments and the interest. Accordingly the domestic and foreign loans obtained in the year under review had to be utilized for the settlement of Rs.1,129 billion or 39.9 per cent. The payment of loan installments and interest of the year represented 166.4 per cent of the Public Revenue and that, in the preceding year represented 213.7 per cent of the Public Revenue. Details appear in Table No 10.

Particulars	2011 Rs. Billions	2012 Rs. Billions	2013 Rs. Billions	2014 Rs. Billions	2015 Rs. Billions	2016 Rs. Billions
Public Revenue	943	997	1,066	1,128	1,394	1,699
Total of Loan Installments and Interest Payments	1,917	2,542	2,255	2,136	2,979	2,828
Total of Loan Installments and Interest payments as a percentage of the Public Revenue	203.29	254.96	211.54	189.36	213.70	166.45

Table 10: Inadequacy of Public Revenue for payment of installments of Public Debt and Interest
Source : Financial Statements of the Republic

Tax Concessions and Tax Waivers

The audit test checks revealed that the Government of Sri Lanka had provided Tax concessions totalling Rs.81,317 million in the year 2016 comprising Rs.44,639 million on the goods imported by the public and private institutions, Rs.6,619 million for the importation of motor vehicles by various parties on Concessionary Duty Permits, Rs.6,975 million on 4 Foreign Trade Agreements and Rs.23,084 million for Foreign Diplomatic Missions based in Sri Lanka.

Sri Lanka Customs

A summary of the audit observations revealed during the course of audit test checks of the collection of revenue by the Sri Lanka Customs is given below.

- The arrears of Tax Revenue receivable as at 31 December 2016 by the Sri Lanka Customs had been reported as Rs.21,316 million and 85 per cent of the arrears of that Tax Revenue had been the arrears of Tax Revenue relating to the year 2015 or the years preceding thereto. A sum of Rs.15,644 million or 73 per cent of the arrears of Tax Revenue had been receivable from 9 Government Institutions functioning on Government provisions. Action had not been taken as specified to obtain provision and settle the arrears of Tax Revenue. A sum of Rs.945 million remained receivable as at 31 December 2016 out of the penalties imposed on different Customs Offences committed. Such arrears of penalty revenue included arrears of revenue older than 5 years.

- Even though there are numerous occasions of irregular importation of goods in commercial scale through the Passenger Terminal of the Katunayake

International Airport action had not been taken for the collection of Tax Revenue due to the Government through a proper methodology. An audit test check revealed that in the year 2016 that 60 persons alone had imported goods of commercial nature in 1,533 instances. Instances of the failure to produce valid invoices for goods such as sarees, salwars and other categories of garments and for smaller goods of high value were revealed. A formal methodology had not been followed for the assessment of the value of those goods. It was also observed that the baggages examined by the officers had not been subjected to any other internal control.

- The authorities concerned had not introduced a methodology for the regulation of the prices of the goods sold by the Duty Free Shops established in the Airport. As such, it was observed that the owners of the shops had determined the prices at their discretion. Even though the Government incurs a huge tax loss due to the exemption of Customs Duty on the goods sold at those shops, there was no methodology to ensure that such concession had been passed down to air travel passengers.

- Sri Lanka Customs should have obtained the assistance of the relevant institutions to ensure whether the goods imported to Sri Lanka conform to the prescribed standards. Even though such goods are released to the premises of the importers based on private bonds until the receipt of the certificates of those institutions, those should not be issued to the market. Nevertheless, the supervision of the Sri Lanka Customs on such goods released on personal guarantees had not been at a satisfactorily level. It was observed that in 1,200 instances of such release of goods, that the Sri Lanka Customs had not carried out any supervision of 937 instances. Instances of release of goods on personal guarantees despite the non-settlement of previous personal guarantees were observed.

- Instances in which the parties responsible had not carried out adequate supervision of the activities of the Duty Free Foreign Liquor Shops established at the Port of Colombo, Katunayaka International Airport and the State Trading General Corporation were observed. Even though the Duty Free Foreign Liquor reaching the market and the resultant impact on the Excise Duty Revenue receivable to the Government on the local liquor were pointed out by the Audit, it was not established in audit that formal steps had been taken for the rectification of the situation.

- It was pointed out in the previous Audit Reports that the containers with goods imported to Sri Lanka are not subjected formal examination. In view of the lack of an in-depth examination of the containers with imported goods, commitment of several Customs offences such as shown below had been revealed through the investigations conducted by the Customs Officers as well.

- Importation of illegal drugs such as narcotics.
- Duty frauds committed by importation of goods other than those declared.
- Customs Duty frauds committed by importation of quantities goods more than the quantity declared.
- Duty irregularities committed by importation of goods under erroneous classification numbers.
- Importation of goods other than those declared.
- Importation of goods not conforming to the standards.
- Importation of goods with accessories less than or more than the required number.

Therefore it is pertinent to point out that the prevailing examination methodology needs to be well regulated.

An adequate staff had not been attached for the examination of cargo and only 101 officers had been attached in the year 2016 for the examination of 203,712 containers with imported goods.

Department of Inland Revenue

A summary of audit observations revealed during the course of audit test checks of collection of revenue by the Department of Inland Revenue is given below.

- In view of the failure to follow a well developed methodology for the timely settlement of the arrears of tax due from the tax payers, the arrears of Tax Revenue recoverable as at 31 December 2016 amounted to Rs.295,296 million. According to the information made available to audit, despite the possibility available for the prompt settlement of a sum of Rs.85,708 million out of that which is not subject to Tax Appeals or Courts action, that had not been settled.

- The methodology implemented by the Department up to 31 March 2012 in respect of the tax payers who had not paid the tax on the Tax Return on the Value Added Tax and the Building Tax furnished by the tax payers is the issue of automatic Tax Returns through the Computer system and report as arrears of tax and computation of penalty had been ceased with effect from 01 April 2012. In view of that reason, the taxes had not been paid for the tax Returns on the Value Added Tax and the Nation Building Tax totalling Rs.15,283 million furnished by the tax payers during the period 01 April 2012 to 31 December 2015. The Tax Assessments relating thereto had not been issued. Accordingly, that tax and the penalty computed thereon amounting to Rs.9,238 million both totalling Rs.24,521 million had not been recovered by the Department even by 31 December 2016. The Department had not taken action even for reporting that amount as arrears of tax.

- Even though the officers of the Department had been assigned the targets of additional tax collection to be fulfilled annually, the relevant reports revealed that certain officers had not fulfilled those targets. These targets had been made the main basis for the Incentive Allowance Scheme of the Department. A test audit check carried out in respect of the years 2014, 2015 and 2016 revealed that the value of the unfulfilled targets or the amount not added to the Public Revenue as additional tax amounted to Rs.4,652 million. Nevertheless, in obtaining the Incentive Allowance, the officers had obtained the allowance by reporting that the targets were fulfilled.

- According to the provisions in the Inland Revenue Act, the defaulted tax can be recovered in installments only on a decision of a Magistrate. Nevertheless, 35 Divisions of the Department of Inland Revenue and Regional Offices had taken action contrary to that provision and by May 2016 allowed 918 taxpayers for the payment of arrears of tax amounting to Rs.8,914 million in installments. Such failure to collect Public Revenue on timely basis had an impact on the Public Revenue Management.

- Even though the trend in the dishonoring of cheques handed over to the Department by the taxpayers had been increasing annually adequate steps had not been taken for its rectification. There were instances of sluggishness in the recovery of money for the dishonored cheques. The number of dishonored cheques by 31 December 2016 had been 5,936 and the Value amounted to Rs.1,976 million.

- Even though there is a Legal Division established separately in the Department, that Division had not taken adequate action to co-ordinate the Court cases on Arrears of Tax of the Head Office and the Regional Offices. In view of this situation, the Legal Division did not have adequate evidence to ascertain whether certain cases had been filed by following a formal methodology. Further, the Legal Division did not have adequate evidence to ascertain whether certain cases reported as filed by the Regional Offices, had been the cases actually filed. The Legal Division had not taken any follow-up action in the cases decided by the Courts to ascertain whether the relevant parties pay the arrears of tax in accordance with the decisions delivered on such cases. According to the information that could be obtained, the arrears of tax that remained recoverable on 413 such cases filed amounted to Rs.1,771 millions.

- It was observed that the Tax Revenue receivable by the Government is not received in a timely manner due to the failure to deal with the Tax Appeals received by the Department expeditiously. The audit test check of the 6 Divisions of the large scale Tax payers of the Department revealed that out of 594 Tax Appeals received in respect of 3 years of assessment 2012/13 to 2014/15 only 9 appeals had been finalised. According to the information that could be obtained the value of Tax Appeals received amounted to Rs.53,804 million and the value of the appeals finalised amounted to Rs.67 million.

- There were instances in which the taxes receivable on time by the Government had been either delayed or deprived of due to the failure to take necessary steps to implement the provisions in the Laws enacted by Parliament. In the circumstances, Tax Revenue of Rs.3,490 million receivable from the Casino Business in terms of the Finance Act, No. 10 of 2015 had not been received whilst the law relating to the Mansions Tax had not been formulated.

- The intervention of the Department in the Annual Budget Proposals on the Management of the Public Revenue had not been at an adequate level. Even though there were 18 Budget Proposals in the year 2016 relating to the Department of Inland Revenue on the development of the Public Revenue, there were only 04 proposals in the implementation level.

Department of Excise

A summary of the audit observations revealed during the course of audit test checks of the collection of revenue by the Department of Excise is given below.

- Even though the Government had imposed higher rates of taxes on liquor for discouraging the consumption of hard liquor in Sri Lanka, according to the information obtained, it was observed that the manufacture and consumption of hard liquor is increasing ceaselessly. Accordingly, 43.9 million litres of hard liquor manufactured in the year 2014 had increased to 51.8 million litres in the year 2015 and to 55.5 million litres in the year 2016. Similarly, the Excise Duty Revenue of the year 2015 amounting to Rs.105,263 million had increased to Rs.120,238 million in the year 2016. Nevertheless, the Department had not conducted an adequate investigation of the reasons for the increase of the consumption of liquor despite the very rapid increase of the tax rates on hard liquor during the period from the year 2011 to the year 2016.

- According to the Returns of Arrears of Revenue as at 31 December 2016 furnished by the Department of Excise, the total arrears of revenue inclusive of the penalties amounted to Rs.2,545 million. Out of that arrears of revenue, 57 per cent represented arrears existing over periods exceeding 5 years.

- The Department had not implemented a suitable computer network that would facilitate the easy and accurate collection and accounting of the Excise Duty Revenue.

- The grant of the Export Duty Rebates in the export of liquor by the Department are based only on the Customs Documents produced by the exporter. The Department had not formulated a methodology even by the end of the year under review in order to ascertain the actual quantities exported.

- According to Section 2 of the Tobacco Tax Act, No. 8 of 1999, a duly at the rates as made by the Minister and published in the Gazette should be charged on each cigarette, cigar, beedi and one kilogramme of pipe tobacco and recovered. Nevertheless, the Department charges the duty only for cigarettes. As such, it was observed in audit that the Department had not taken action in accordance with the provisions in the Tobacco Tax Act.

- The Department had not formulated a methodology even by the end of the year under review for establishing the correctness of the type of beedi leaves imported for the manufacture of beedies.

- The Department issues licences for the export of cigarettes. But the Department had not formulated a methodology, even by the end of the year under review, to ensure that the quantity stated as exported had actually been exported.

- The revenue collection process executed by the officers attached to the Companies manufacturing liquor had not been subjected to a continuous test check by the officers of the Department.

Department of Motor Traffic

A summary of the audit observations revealed during the course of audit test checks of the collection of revenue by the Department of Motor Traffic is given below.

- Since the conduct of a study of the current computer system of the Department by a Private Company, the preliminary proposal of the E motoring Project had been submitted. Provisions totalling Rs.741 million had been made from the year 2009 to the year 2016 for the implementation of the Project. The Cabinet of Ministers as well had, by the decision dated 18 October 2012, granted approval for the selection of a suitable Company for the purpose through the Open Competitive Bidding Process.

  Even though the use of modern technology in order to eliminate the weaknesses in the computer system for the purpose preventing / revealing the high incidence of errors, frauds and irregularities is essential and compulsory, the Department had failed to achieve any adequate and acceptable performance in this connections even by 31 December 2016. As such it was observed that various irregularities such as erroneous alteration of information in the existing computer system, and erroneous registrations done by alteration of Customs Entries are either occurring or committed.

- The printing of the Driving Licences of the Department of Motor Traffic had been awarded to a private contractor for 7 years with effect from 27 March 2009 on the Build, Operate and Transfer (BOT) basis. According to the terms of the contract agreement the activities thereof should have been taken over on 26 March 2016 and operated by the Department. But, instead of so doing, the period from 26 March 2016 had been extended in twice up to 26 March 2017 and up to 26 March 2018. In view of this situation it was observed that the benefit of the cost accruing from the technical development is not passed on to the Driving Licence holders whilst the revenue receivable by the Public Revenue is being utilized by a private party. A sum of Rs.968 million had been paid to the contractor under this agreement only for the printing of Driving Licences in the year 2016.

- The contract relating to the printing of the number plates of the motor vehicles registered in the Department had been awarded to a private contractor Company for the period 01 May 2010 to 30 April 2015. Even though quotations should have been invited and a contractor for the period after 30 April 2015 should have been selected, the contract period had been extended at the old price from time to time from 01 May 2015 to 31 October 2017. In view of that situation, the benefit accruing to the owners of motor vehicles from printing number plates at a lesser cost resulting from the development of technology had been deprived of to them. Quotations for the printing of a number plate cheeper by Rs.300 than the price of the contractor had been received.

Defence

The Ministry of Defence with five Departments and eight Statutory Bodies under the purview of the Ministry should have executed the following functions for maintaining the territorial integrity of Sri Lanka and ensure the defence of air, sea and land zones of the Island.

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

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

Renewal of Firearm Licences

No revision whatsoever had been done after the year 2000 on the firearm licence charges recovered under the Firearms Act amended by the Firearms (Amendment) Act, 22 of 1996. The total income in arrears including total arrears of licne charges of Rs.1.26 million was Rs.2.58 million as at 31 December 2016. In order to communicate the facts relating to 22 activities being implemented by the Ministry of Defence in accordance with the provisions in the Acts relating to the firearms and explosives to the officers in charge of the subjects through the internal procedural rules and the circulars, a proper method had not been implemented within the relevant Divisions.

For the implementation of a new project in respect of 03 activities executed for the development of infrastructure facilities of the institutions functioning under the Ministry for the national security and against the various anti-social activities, provisions amounting to Rs.450 million had been made by transfer of provision in terms of Financial Regulations 66 and 69 during the year under review. Out of that, Rs.244 million had been spent by the end of the year. Further, out of the provision made for the Maritime Project under the foreign grants and reimbursable foreign grants, a sum of Rs.8.50 million had been transferred to another project called Maritime Security Capacity Improvement Project by Financial Regulation 66. Nevertheless, any expenditure had not been incurred under that project during the year under review. Accordingly, it was observed that provision of a budgeted project had been transferred to another project without any requirement and a proper plan.

Making Overprovisions for Sri Lanka Navy

Out of the net provision made to Sri Lanka Navy under 37 Objects, provision ranging from 10 per cent to 100 per cent had been saved. In order to purchase two modern maritime security vessels valued at U.S.$ 133.10 million on an Indian import and export bank loan in the year 2013, the Sri Lanka Navy had entered into an agreement with an Indian Company. Although the Sri Lanka Navy had requested a provision of Rs.7,040 million for the payments to be made to the vessels manufacturing company, provision amounting to Rs. 8,145 million had been made under that Object by the Annual Budget Estimate,2016. Accordingly, out of the total provision made, provision of Rs.2,335 million had been saved.

Benefits for the Investments made by the Sri Lanka Air Force

The Heli tours Company which is maintained as a private institution of the Air force with the use of physical and human resources as well as the funds of the Sri Lanka Air Force had earned a profit of Rs.43.7 million within the period of 7 years from the year 2010 to the year 2016. Nevertheless, no dividend whatsoever had been received by the Sri Lanka Air force as the benefits to the investments made by the Sri Lanka Air Force.

Income Generated by the Internal Funds

According to the Paragraph No.5 of the Order of the Air Marshall and the Air Force No.852 of 30 November 2011, 97 Internal Funds had been established in various camps and units of the Sri Lanka Air Force Head Quarters. For the operating activities of these Funds and for the profit generating projects executed by the funds, the physical and human resources of the Sri Lanka Air Force had been utilized. According to the Article 149 (a) of the Constitution of the Democratic Socialist Republic of Sri Lanka, all the funds received by the Republic and not allocated under any written law to specific purposes should be credited to the Consolidated Fund. Nevertheless, the income generated by those Funds had not been credited to the Government Revenue.

General Sir John Kotalawala Defence University

Provision amounting to Rs. 4,554.31 million had been granted by the General Treasury from the year 2014 to 2016 for the payment of interest of the loan obtained from the National Savings Bank in order to construct a Teaching Hospital for the General Sir John Kotalawala Defence University. Out of that, a sum of Rs.4,486.39 million had been spent thereon. A sum of Rs.67.92 million out of the provision granted had been spent for other activities of the University without obtaining approval of the Treasury.

Construction of Defence Service Headquarters at Akuregoda

The Defence Service Headquarters with 8 buildings of ten storeyed of 4,700,000 square feet comprising an Auditorium, Communication Building, Defence Building and the Quarters of the members of the Three Forces was being constructed at Akuregoda and it had been planned to provide office accommodation for 10,250 officer of the Forces and residential facilities to 6,850. The construction was being done with the labour contribution from the Three Forces. The estimate of Rs.25 billion relating to this construction commenced in the year 2012 had been increased up to Rs.53.29 billion due to subsequent revisions in the scope. The Cabinet approval for the new estimate had been granted on 04 October 2016. The audit observations made at the audit test check carried out in this connection are summarized below.

- Out of the net provision of Rs.5,546 million made for the year under review, a sum of Rs.2,987 million or 53 per cent only had been used. However, the Project Management Unit had reported that there were brought forward liabilities of Rs.1,869 million as at 31 December 2016.

- Due to the delay in the preparation of bid documents for the procurement activities of the project, the of the technical evaluation activities and awarding of contracts, 21 procurement activities had been delayed over a period ranging from 244 days to 1081 days. Further, the period of warranty had to be extended and as a result, 05 supply contractors had made requests for additional sum of Rs.222.88 million for the requests for extending the period and the price fluctuations.

Building for Secretariat of Personal Identification

The contract for the construction of the building for the Secretariat of Personal

Identification with 20 floors had been awarded on the basis of completion of the same within a period of 03 years from July 2012. For this purpose, a loan amounting to Rs.7,550 million had been obtained from 02 state banks and 2 private banks in 2012 on a basis of 15 years payback period from 15 August. This construction had been completed by 31 July 2015. The audit observations made at the audit test check conducted in this connection are summarized below.

- A loan amounting to Rs.337.71 million had been further obtained even after the commencement of the settlement of the loan on 01 August 2015 and therefore, the half yearly loan installment and the interest rate due to be paid had increased from Rs.267.61 million to Rs.278.87 and 8 per cent to 13.12 per cent respectively.

- The Committee appointed on the matters relating to transfer the ownership of the building and recover the rents had decided to recover a rental of Rs.37.65 per square feet exclusively based on the estimated maintenance expenditure of the building of Rs.11,597.31. Even though 16 floors of the buildings had been obtained on rent by 05 institutions during the year under review, action had not been taken either to enter into agreements with any institution or recover the rental by 31 December 2016.

Establishment of the Strategic Defence Communication Network

With the objective of the supply of an unbroken continuous alternative communications network similar to the modern communications system operating among the Three Forces, the Ministry of Defence had made arrangements for the establishment of Strategic Defence Communication Network. The audit observations made in this connection are summarized below.

- Although the total estimated cost was Rs.1,192.00 million it had been revised up to Rs.1.297.25 million, approval had not been obtained from the relevant parties for that purpose. Out of the total net provision of Rs.590 million made for the year under review, a sum of Rs.20.32 million only had been used for the project activities.
- Although the planned activities of the project were expected to be completed within a middle term expenditure framework from the year 2014 up to the year 2016, due to the delays experienced in obtaining the approval of the Urban Development Authority for the erection of communication towers and the delays in carrying out land inspections, the

procurement activities relating to the construction of communication towers had been delayed. As a result, the procurement activities relating to the purchase of micro wave radio transmission system had also been delayed. Further, out of 22 generators purchased for this purpose12 generators had not been installed in the prescribed places even by the end of the year under review.

Damage caused by the explosion of Armoury in the Salawa Camp

According to the investigation conducted on the damages caused by the explosion of the Armoury of the Salawa Camp of the Sri Lanka Army under the Financial Regulation 104 (3), the estimated gross loss was revealed as Rs.12,735.45 million as per the preliminary report. As the investigations conducted by the Court of Inquiry appointed by the Ministry of Defence to investigate and report this incident were in progress even by 30 April 2017, loss had not been specifically declared.

Sale of Vessel Farah III as Scrap Metal

In connection with the Farah III vessel that remained ramshackle condition and found at the Wellimulliweikkal costal belt during the humanitarian operation of liberating the North from the grasp of the terrorists, the Sri Lanka Army had taken action to sale it as scrap metal. The relevant tender had been awarded to a local bidder who had submitted bids as Rs. 80.30 million. Subsequently, a sum of Rs.47 million had been paid by the contractor for the metal that had been cut and removed and it had been abandoned halfway. Out of the proceeds gained from the sale of vessel, Rs.15 million had been credited to the *Api Venuwen Api Fund* and the remaining sum of Rs.32 million had been credited to the Army Welfare Fund. The amount credited to the Army Welfare Fund had been credited to the Government income on 17 November 2016 after to it was pointed out by the Audit.

As relevant conditions had not been included in the agreement by taking into consideration the high cost technical methods needed for cutting the parts remained under water than the parts stood above the water of the sunk ship, it had been paved the way for the buyer to remove the parts that could be easily cut and abandon the cutting of parts that found difficult. Subsequently, it had been stated that leaving the remaining parts of the ship unchanged would create an environment to breed fish resource therein thus resulting economic benefits and as such the remaining parts of the ship had been kept unchanged in the same position. Although it had been stated that the necessary environmental report would be obtained from the relevant institutions, those had not been obtained even by 30 June 2017.

Vesting and Disposal of Assets

Hundred and one Machine Guns valued at Rs. 239.97 million and an Anti- Aircraft Gun valued at Rs.47.97 million purchased by the Sri Lanka Navy during the period from 1995 to 1997 and that had become unusable had not been disposed of by obtaining recommendation of the Board of Inquiry and those had been stored idle in the stores. Further, a vessel purchased at a cost of Sterling Pound 2.03 million in 1999 had remained condemned condition at North Western Naval Command. Nevertheless, necessary action had not been taken to dispose of the same. The Sri Lanka Navy had used 5,821 acres of lands, 219 buildings and 55 motor vehicles for various activities without properly vesting them in the Sri Lanka Navy.

Maintenance, Modernizing and Repair of Motor Vehicle

The 2MTR & W Unit of the Vaunia Airforce Base reconstruct motor vehicles by carrying out their maintenance, modernization and repairs. Although over a period of 2 years had elapsed from the establishment of this unit, 55 motor vehicles had been received for the repairs by 02 December 2016 of which only 19 vehicles had been handed over on completion of the repairs. Further, out of the staff required for the maintenance of its activities regular and efficient manner, there were 33 vacancies and as a result, repairs of 10 motor vehicle engines had been handed over to a private institute at a cost of Rs.4.74 million on 05 June 2016.

PUBLIC ENTERPRICES

A public enterprise means is an entity with the power to contract in its own name, has been assigned the financial and operational authority to carry on a business, sells goods and services in the normal course of its business to other entities at a profit or full cost recovery and is controlled by a public sector entity. The commercial enterprises and financial institutions which providing utility services are also include in the public enterprises. The public enterprises generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either or charge or a significantly reduced charged. Regulatory, promotional and educational public enterprises do not typically have this commercial potential and are considered as non-profit oriented organizations and their performance needs to be examined using differing criteria other than profitability. The Public Enterprises in Sri Lanka can be broadly categorized under the following headings.

- Specified Business Enterprises
- Statutory and Non statutory funds
- Government Owned Limited Liability Companies
- Regulatory and Monitoring Institutions
- Universities, Research and Other Training Institutions
- Other Development and Non-profit Oriented Institutions.

Strategically vital areas of the economy are operated by public enterprises such as electricity, water, petroleum products, telecommunications, and airlines, etc. The corporate governance of all public enterprises is of great importance to the overall equity and competitiveness of the economy. The composition of the total assets of each category of 344 Public Enterprises other than Government owned Companies incorporated under the Companies Act as at 31 December 2016 as compared with that as at the end of the preceding year is depicted in the following Figure 12.

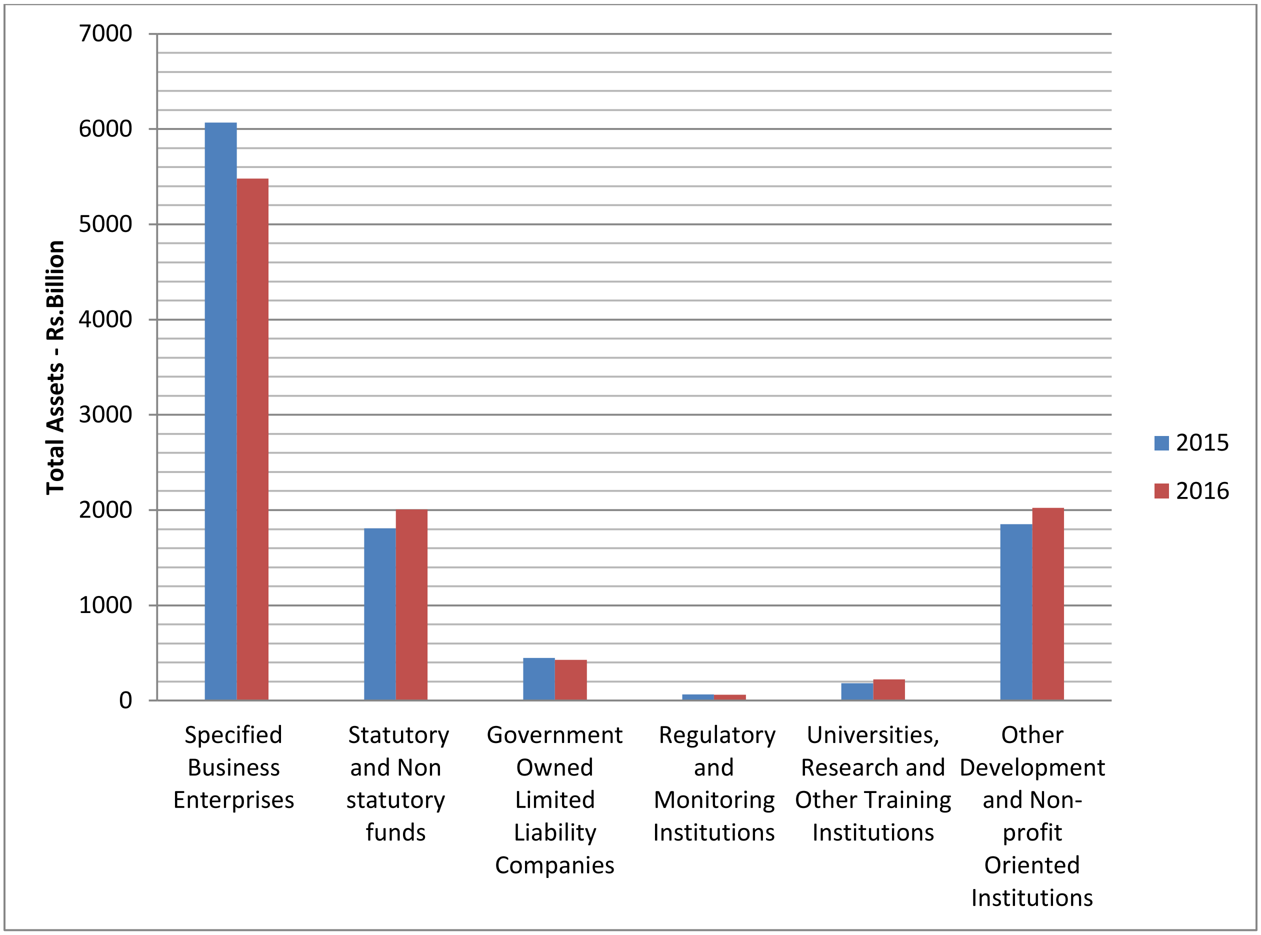


Figure 12..- Total Assets of public Enterprises in the year 2016 as compared with year 2015

Government grants and subsidies for recurrent expenditure to the Public Enterprises accounted for Rs.55.4 billion in the year 2016 and represented 3.13 per cent of total Government Recurrent Expenditure as compared with the corresponding figure of Rs.64.3 billion and 3.63 per cent respectively. In addition to that, capital grant accounted for Rs.230.2 billion in the year under review and representing 17.24 per cent of total Government Capital Expenditure as compared with the corresponding figure of Rs.212.6 billion and 13.90 per cent respectively.

Performance Evaluation

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

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

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

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

- Value for money audit
- Management audit
- Operation audit
- 3Es audit

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

An important place has been given for the performance audit in the audit reports issued during the year 2016 as compared with the previous year. Further, by selecting several controversial incidents which created serious social and economic impacts and fallen to public consideration, several performance audit reports have been issued with regard to the adverse effects to the general public and environment thereof.

External Audit performed by the Auditor General is an instrument of accountability. But an equally important purpose of Public Enterprises audit is to help the Government and the enterprise managements to improve their efficiency and effectiveness. This is achieved by bringing out the financial and operational deficiencies, inadequacies or ineffectiveness of systems, shortfalls in performances, non-compliances with laws, rules, regulations, etc. and by analysing causes of non-attainement of acceptable standards of performance. Financial performance is linked with physical performance and issues of efficient and economic operations and management of resources are highlighted in the audit report. During regular meetings with the managements of the entities my officers discuss the needed systems and operational improvements. It is also important to ensure follow-up by the Boards and the managements of the Public Enterprises to adverse findings of the Auditor General. Repetition from year to year of adverse findings on the same matter and a high incidence of qualified audit opinions.

Financial Performance

According to the information made available, the particulars relating to 338 public enterprises are shown in the table No 13

Name of the Institution	Number of Institutions	Number of loss making Institutions	Number of profit making Institutions	Number Institutions not provided the information
Other Development and Non-profitable Oriented Organizations	**65**	**17**	**27**	**21**
Statutory and Non-statutory Organizations	**53**	**-**	**23**	**30**
Regulatory and Monitoring Organizations	**25**	**1**	**18**	**6**
Specified Business Enterprises	**54**	**6**	**33**	**15**
Universities, Research and other Training Institutions	**62**	**17**	**23**	**22**
Government Owned Limited Liability Companies	**79**	**13**	**42**	**24**
Total	**338**	**54**	**166**	**118**

Table No 13 – Information of 338 Institutes of Public Enterprises

According to the above information, 54 public enterprises were shown the deficit of Rs.17,576 million in their financial results. The Palmyrah Development Board, Sri Lanka Rupavahini Corporation, Sri Jayawardanapura Hospital and 17 Universities were with considerable financial deficits. As compared with the financial results of the previous year, the institutions such as National Institute of Fundamental Studies, Ranaviru Seva Authority and Sri Lanka Foundation were able to reduce their financial deficits during the year under review.

In addition to that, 166 institutions had recorded the financial surplus of Rs. 383,821 during the year under review. The financial surplus of the Land Reform Commission and Tourism Promotion Bureau as compared with the previous year had shown an improvement. In the Meantime, the financial results of the Road Development Authority, National Gem and Jewelry Authority and Laksman Kadirkamar Institute had deteriorated as compared with the previous year.

Auditor General's Opinion on the Financial Statements

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

Four types of audit opinion are expressed. These are expressed in instances of material misstatements or noncompliance, management disagreements or limitations of work.

Unqualified Opinion

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

Qualified Opinion (Subject to Opinion)

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

Disclaimer of opinion

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

Adverse audit opinion

The pervasiveness of the disagreement would lead to express an adverse audit opinion

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

The audit opinions expressed on 337 Public Enterprises on which the Audit Reports have been issued for the year 2016 as compared with the preceding year are as following Table 13

Audit Opinion	2016	2015
Unqualified	70	83
Qualified	108	184
Disclaimer	06	11
Adverse	09	13
Total	144	46

Table 13 - Auditor General's Opinion on the Financial Statements

Maintaining records on Fixed Assets

Maintenance of proper records such as Registers of Fixed Assets (RFA), schedules and other records on Non-current Assets is generally poor and in certain cases very poor. Non-current Asset, also known as property, plant, and equipment (PP&E), is a term used in accountancy for assets and property which cannot easily be converted into cash. Fixed assets normally include items such as land and buildings, motor vehicles, furniture, office equipment, computers, fixtures and fittings, and plant and machinery. In a large corporation, the task of identifying and locating a specific fixed asset could be difficult unless numbering is scientific, systematic, and up-to-date. A common problem in most enterprises is the improper maintenance of the Registers of Fixed Assets. As a result it was observed that physical verification of fixed assets becomes a futile exercise. The managements of the enterprises have the responsibility to maintain proper records and the safeguard of the assets owned by the institution. It was observed that in most of the cases Annual Boards of Survey in terms of provisions in Financial Regulation 756 and Public Finance Circular No. 05/2016 of 31 March 2016 had not been conducted and as a result the existence and the condition of assets had not been confirmed.

The unserviceable assets had been kept idling in most of the organizations and as a result of not dispose the disposable goods and assets as per the provisions in Public Finance Circular No. 438 of 13 November 2009, the government is losing the income obtainable from sales of these items. It was further observed that the additional cost had been incurred for stores and safeguard of these assets.

The Institutions such as Cause Corporation, National Hunger Campaign Board, Open University of Sri Lanka, Central Environmental Authority and Marine Environmental Conservation Authority are the example for this situation.

It was also observed that there were considerable delays in capitalization of fixed assets from Work- in- progress due to delays in issuing completion certificates by the responsible officers. This situation was observed mainly in water projects of the National Water Supply and Drainage Board and electrification projects completed by the Ceylon Electricity Board. This situation was also observed with regard to the National Expressways and other major road projects completed by the Road Development Authority (RDA) and was later rectified and the cost of these roads had been capitalized and reflected in the financial statements of the RDA after being shown by Audit the importance of capitalizing such assets.

It is emphasized that RFA must be maintained in the updated manner by all

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

It was also observed that records of lands belonging to Sri Lanka State Plantations Corporation, Janatha Estates Development Board and the Land Reform Commission were incomplete and were not even in a position to produce a detailed schedule with the location and extent to audit to confirm the existence and ownership. However it was also observed that considerable numbers of entities have now moved to identify and get their assets valued through the Chief Government Valuer with the adoption of the new Sri Lanka Accounting Standards which made compulsory to bring their assets to fair value basis.

PAYE Tax paid by the Institutions.

It was observed that several organizations had born the Pay As You Earn (PAYE) Tax on behalf of their employees without being deducted from the salaries of the respective employees. This tax should be recovered from the salaries of the employees in accordance to the instructions given by the Department of Inland Revenue and in terms of Public Finance Circular No. 3/2016 of 29 April 2016 and in addition to the Circulars issued in time to time in this regard. It was further observed that 155 Public Enterprises had paid Pay As You Earn (PAYE) Tax out of their own funds on behalf of their officers against the rationale behind the Income Tax Law. Therefore it is emphasized that the General Treasury should take a firm decision regarding the settlement of Payee Tax which does not vary from institution to institution. The total amount so paid for the year 2016 amounted to Rs.3,421.9 million as compared with Rs.3,347 million in the year 2015. As such the purpose of the PAYE Tax would not be fulfilled and on the other hand fair treatment to all public officers has been violated.

Preparation and submission of Annual Financial Statements

The financial statements of 290 Public Enterprises for the year 2016 had been presented to the Auditor General for audit by 30 September 2017. However it was observed that 54 Institutions had not submitted their financial statements for the year ended 31 December 2016 even after the elapse of 9 months after the end of the financial year.

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

Lack of Autonomy to recruit and to retain Professional Staff

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

Government owned Limited Liability Companies

There is a further set of public-type enterprises in the country. They are companies with a majority shareholding by the Government (General Treasury). These companies are incorporated under the Companies Act and therefore not coming under the Auditor General's examination. These companies are sometimes fully owned by the Government or in certain percentage of the share capital which are in operation as public private joint ventures. Typically private sector involvement brings into play a set of control mechanisms that help to avoid many of the problems which beset purely Government-Owned Enterprises. There are also Government Owned Companies formed by Public Enterprises and registered under the Companies Act by capital infusion by the respective Public Enterprises and the Universities without the involvement of the General Treasury as Subsidiary or Associate Companies.

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

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

Other Non-Profit oriented Public Enterprises

These enterprises consist of regulatory and monitoring institutions, Universities, research and other training institutions and other development and non-profit oriented institutions. The main features of these institutions are that the main source of revenue is the annual Government grant or a levy imposed by the Government on certain goods or services. According to the financial statements of these entities 152 institutions had earned surpluses over expenditure aggregating Rs.43.8 billion after taking into consideration the recurrent grants provided to these institutions by the General Treasury in the year 2016 amounting to Rs.40.8 billion. However 35 institutions had incurred net deficits aggregating Rs.2.8 billion even after taking into consideration the recurrent grants from the General Treasury.

LOCAL AUTHORITIES

There are 335 Local Authorities comprising 23 Municipal Councils, 41 Urban Councils and 271 Pradeshiya Sabhas established in terms of the Provisions in the Municipal Councils Ordinance (Cap.252), the Urban Councils Ordinance (Cap.255) and the Pradeshiya Sabhas Act, No. 15 of 1987 respectively in Sri Lanka. A summary of the information on the presentation of the accounts for the year 2016 by these Local Authorities to Audit and the audit opinions expressed on those accounts is given in table No 15 below.

Category of Local Authority	Number of Accounts	Number of Accounts furnished by 30 September 2017	Number of Audit Reports issued	Audit Opinions expressed on the Reports issued up to 30 September 2017			
				Qualified	Clear	Disclaimer	Adverse
Municipal Councils	23	23	14	14	-	-	-
Urban Councils	41	41	35	34	-	-	01
Pradeshiya Sabhas	271	271	231	229	01	-	01
Total	**335**	**335**	**280**	**277**	**01**	**-**	**02**

Table 15 – Presentation of Financial Statements and Audit Opinion of Local Authorities

A summary of several significant observations made in the Audit Reports on the financial statements of Local Authorities is given below.

- The Galenbindunuwewa Pradeshiya Sabha had spent a sum of Rs.1.95 million in the year 2014 for the construction of a bridge over the canal which flows near the Hurulunikawewa Batathuna. However, the expenditure incurred for that project had become fruitless due to unavailability of an exit from the bridge after accessing to the bridge.

- The water project for providing drinking water for the villages of Ashwayabendiwewa and Ihalagama had been completed by the Divisional Secretariat and handed over to the Galenbindunuwewa Pradeshiya Sabha in the year 2009. However, the Sabha had failed to complete the deficiencies existed therein through the Divisional Secretary. As such, the sum of

Rs.18.13 million spent for that water project and water pumps and equipment thereof valued at Rs.3.45 million had become fruitless.

- The roller of 8-10 Tons valued at Rs.7.97 million provided to the Nochchiyagama Pradeshiya Sabha in the year 2015 by the Ministry of Local Government had remained idle due to lack of a suitable motor vehicle for the transport in the field and only 321 machine hours had been made use of as at 22 May 2017.

- The Sabha had not taken proper steps for the recovery of Rs.3.43 million recoverable over a period of 04 years from 09 stalls of the Clinic Centre Building of the Nikaweratiya Pradeshiya Sabha.

- A sum of Rs.5.83 million had been spent for repair of 03 Road Projects by laying gravels in the area of authority of the Anuradhapura Municipal Council and in the physical verification of those Projects, it was observed that a sum of Rs.3.66 million had been paid for 08 items of work which were not executed.

- According to the decisions of the District Prices Committee, issued for the first and second halves of the year 2016 by the Puttalam District Secretary, the price of an approved cube of gravels was Rs.1,000. However, the Naththandiya Pradeshiya Sabha had purchased 964 cubes of gravels costing Rs.3.16 million under 04 quotations at a rate from Rs.2,300 to 3,600 per cube, thus indicating an overpayment of Rs.2.19 million.

- Revenue amounting to Rs.2.66 million and Rs.1.21 million had been deprived of to the Pelmadulla Pradeshiya Sabha and Nivithigala Pradeshiya Sabha respectively from Telecommunication Towers erected in the areas of the authority of the Sabha due to failure in making charges properly in the construction of telephone transmission towers, in terms of Schedule V of the Amendments made to the Planning and Building Regulations of the Urban Development Authority 1986 published in the Gazette Extraordinary No.1597/8 dated 17 April 2009 of the Democratic Socialist Republic of Sri Lanka.

- The city park which was constructed near the Kalu Ganga by spending Rs.2.82 million in 04 instances from the year 2007 to the year 2010 by the Ratnapura Municipal Council on the provisions of the Ministry of Provincial Road Development, Rural Infrastructure Facilities and Tourism, Sabaragamuwa, had overgrown with weeds. The Secretary to the Ministry of Provincial Road Development, Infrastructure Facilities and Tourism had informed the Mayor of the Ratnapura Municipal Council on 21

September 2010 that the said park should be maintained properly and used for the wellbeing of the people of the area. However, taking necessary action in respect of the use of the said city park in the effective manner had been evaded by the responsible authorities even by 02 March 2017.

- Even though a tax equivalent to 01 per cent from the proceeds of the sale of lands by public auction should be credited to the revenue of the Sabha in terms of the Pradeshiya Sabhas Act, No. 15 of 1987, a sum of Rs.764,444 had been deprived of to the Fund of the Kuruwita Pradeshiya Sabha due to collection of the said tax less than the due amount from to 03 auctions.

- Five stalls of the new supermarket complex belonging to the Kuruwita Pradeshiya Sabha had been sealed on 30 July 2014 and vested with the Sabha due to default of payment of lease rents from 2009 the year, in which they had been leased out. However, agreements had not been entered into with lessees. As such, it had been forwarded to the Chief Minister of Sabaragamuwa Province for seeking the approval for write off the arrears of rental by stating that there was no possibility of taking legal action in respect of recovery of arrears of rentals and fines totalling Rs.4.44 million receivable to the Sabha.

- A sum of Rs.1.58 million from the Fund of the Sabha had been spent in 02 instances of the year 2014 for the construction of the well of the water project of the Kuruwita The Finance New Colonies belonging to the Kuruwita Pradeshiya Sabha. However, water in the well was not suitable for drinking due to high rust formed condition of the well, expose of iron bars in the concrete layer of the inner walls of the well to outside and causing them to cover with rust and flowing water from the tank towards the well. As such, the amount spent had become fruitless.

- A fine amounting to Rs.1.52 million had been imposed on the Sabha on 08 August 2016 by the Assistant Commissioner of Excise, Ratnapura due to availability of 163,110 milliliters of foreign liquor with the Balangoda Restaurant belonging to the Balangoda Municipal Council on Vesak Full Moon Poya Day, 21 May 2016, contrary to Conditions of licenses. According to the agreement entered into for the payment of that fine in 09 installments, a sum of Rs.793,571 had been paid in 04 installments by 19 June 2017. A case had been filed in the Balangoda District Court by the Sabha for the recovery of these fines from the Officers concerned.

- A cab motor vehicle received by the Dambulla Pradeshiya Sabha from the Ministry of Provincial Councils and Local Government had met with an accident on 13 April 2015. According to the recommendations of the inquiry conducted in terms of the Financial Regulation 104(4) in this connection, it had been decided to recover a sum of Rs.7.19 million from the Chairman of the Sabha and a sum of Rs.798,761 from the Driver of the vehicle, out of the loss of Rs.7.99 million occurred to the vehicle. Nevertheless, those moneys had not been recovered even by 31 December 2016.

- The Dambulla Pradeshiya Sabha had entered into an agreement for a one year contract period in the year 1995 for a contract value of Rs.11.27 million for the construction of a stock fair in the Dambulla City. However, the contract had been completed in the year 1999. The Sabha had not made payments for the final bill valued at Rs.1.44 million, submitted in the year 2001 by the contractor. As such, the contractor had filed a case and according to the judgement dated 18 August 2016, a sum of Rs.5.51 million had been paid to that bill, thus sustaining a loss of Rs.4.09 million by the Sabha.

- Test reports of the Public Health Inspector, Deraniyagala ascertained that the water, supplied from water schemes which were implemented by the Deraniyagala Pradeshiya Sabha, contained harmful bacteria due to distribution of water without being purified.

- Commissions amounting to Rs.1.37 million had been paid to 11 officers of the Matara Municipal Council for the collection of revenue from stamp fees by erroneous interpreting of Section 8.1 of the Circular No.1984/19 of 20 November 1984 of the Commissioner of the Local Government.

- The Motor Greater Machine valued at Rs.24.93 million received by the Akuressa Pardeshiya Sabha on 07 February 2015 had been parked on the premises of the cemetery without using for any development activity whatsoever even by the end of the year under review.

- A sum of Rs.23.16 million (Excluding tax) had been paid by the Sri Jayewardenepura Kotte Municipal Council from the year 2015 to December 2016 to an institution selected on the Tender Process on 03 September 2014 for obtaining the Architecture and consultancy services for the construction of the Municipal Council Building on the land belonging to the Council, located near the Welikada Police Station and bills had been submitted for the payment of Rs.16.93 million (Excluding tax).

However, it had been decided at the General Meeting held on 07 May 2015, to construct the Council Building on the land itself where the Council Building is located at present instead of on the land where the Council Building is proposed to be constructed, located near the Welikada Police Station. According to the Time Frame of the contract agreement of consulting services, Tenders should be invited for and contractors, selected and contract for the construction should be awarded to them by 20 April 2015. Nevertheless, action had not been taken to invite for Tenders and to commence the construction work of the said building even by 31 July 2017.

- The contract of the construction of the work site, motor vehicles maintenance unit and the stores complex building of the Council had been awarded to a private contractor on 21 August 2014 for Rs.46.97 million, to construct on a state land which had remained as a marshy land of 02 acres 01 rood 34 perches in extent, but not legally belonging to the Sri Jayewardenepura Kotte Municipal Council and agreements had been entered into for completing the contract on 27 May 2015. An advance of Rs.9.39 million and a sum of Rs.8.26 million as first part payment had been paid in January 2014 and in February 2015 respectively. However, the value of the work done of the contract as at that date amounted to Rs.11.94 million, thus indicating an overpayment of Rs.5.72 million to the contractor. Iron bars had been erected by 12 July 2017 for 42 concrete pillars on a foundation which could not be seen from the surface of the earth and premises of the building was being overgrown with weeds. The erected iron bars were eroded and covered with rust and the contractor has abandoned the worksite by now.

- The Seruwila Pradeshiya Sabha had constructed a crematorium in the year 2014 at a cost of Rs.16 million under the Puraneguma Project (NELSIP) without carrying out a proper feasibility study on the necessity of a crematorium. However, only 5 dead bodies had been cremated by 31 May 2017.

The following observations revealed that the waste management is not properly implemented in several Local Authorities.

- The Kekirawa Pradeshiya Sabha collects a stock of about 8 tons of waste daily. However, a waste recycling project was not implemented and as such, there was a possible risk of arising environmental and social problems through improper disposal of waste in 03 places without categorizing waste so collected.

- Provisions amounting to Rs.1.78 million had been received in the year 2016 for the commencement of a solid waste management project in the area of the authority of the Nawagaththegama Pradeshiya Sabha. However, the Pradeshiya Sabha had failed to acquire a suitable land for the Project and as such, those provisions had been taken over. As such, waste so collected is disposed of to a temporary land at present and under such circumstances, this caused an environmental destruction and there was a tendency in the spread of various diseases.

- The project relating to the compost plant constructed at a cost of Rs.2.95 million by the Wanathawilluwa Pradeshiya Sabha had become inoperative due to failure in deploying the adequate number of employees required for daily production activities of fertilizer.

- A solid waste management centre had been constructed by the Imbulpe Pradeshiya Sabha by spending a sum of Rs.8.86 million from funds of the "Pilisaru" National Soild Waste Management Project of the Central Environmental Authority and works thereof had been completed in February 2016. However, a methodology had not been formulated even by June 2017 to use approximately 720 tons of decayable waste, out of the waste collected annually to that centre, for the production of organic fertilizer. As such, the objective of the Project had not been achieved.

- The Idalpola Solid Waste Management Centre had been commenced in the year 2014 by the Ruwanwella Pradeshiya Sabha by spending a sum of Rs.18.09 million under the Pilisaru Project of the Central Environmental Authority. This was a centre where only decayable waste was prepared. However, the centre had been closed down due to objections of the people, as dumping non-decayable waste near that area had spread various diseases through flies. Moreover, it could not be operated even by the end of the year under review.

- The unprotected pit which was used for a long period, had been close to spilling due to disposal of sewage carried out by gully bowsers to the waste management centre of the Mawanella Pradeshiya Sabha. Further, there was a possible risk of that pit being spilt even in a slight rain and flowing to the Maoya, located near the waste management centre. Moreover, the activities of the waste management centre had been weakened due to flowing of sewage and exposure of sewage to the environment caused a threat to the health of the employees.

- The Matara Municipal Council had incurred an expenditure of Rs.103.92 million in the year 2016 for the collection of waste. The building in which the organic fertilizer centre was constructed at a cost of Rs.13.60 million on the provisions made by the Central Environmental Authority from the year 2009 to the year 2011, had been provided in the year 2011 for the construction of a biogas production centre. Even though a sum of Rs.64.36 million had been spent therefor, the project had been abandoned on halfway. The organic fertilizer centre had been used for the said matter and as such, 12,600 tons of waste collected annually had been disposed of improperly.

- The Hakmana Pradeshiya Sabha had purchased a land of 3 roods 37.8 perches in extent costing Rs.1.00 million in December 2012 for the construction of an organic fertilizer production yard. The proposed activity had not been commenced on that land even by 20 June 2017. Sums of Rs.7.39 million in the year under review and Rs.25.25 million in 05 preceding years had been spent for the collection of waste. Nevertheless, the Sabha had failed to earn any revenue whatsoever therefrom.

- Even though the Kamburupitiya Pradeshiya Sabha had spent a sum of Rs.6.17 million for the collection of waste during the year under review, the amount of Rs.1.00 million granted in the year 2015 under the provincial specific provisions for the development of the solid waste management centre had been made use of for the repair of the roof of the old office building of the Sabha without using for the relevant purpose.

FOREIGN FUNDED PROJECTS

According to the Annual Report of the Ministry of Finance for 2016, borrowings amounted to Rs.947 billion had been made from domestic sources whilest borrowings amounted to Rs.574 billion had been made from foreign sources, during the year under review, under the public borrowings programme. Out of the borrowings from the foreign sources, Rs.218 billion had been made by the issuance of Sovereign Bonds and Rs.102 billion had been borrowed under the foreign financing syndicated term loan. Further, a sum of Rs 254 billion had been obtained as foreign aid and programme borrowings.

The Government had entered 56 new Loan Agreements with the foreign development partners and Lending Agencies during the year under review and through those US$ 3,078.80 million expected to be received in the ensuing years. In addition to that, a sum of US$ 240.50 million expected to be received through 29 Grant Aid Agreements during the ensuing years. Out of these borrowings and grants, 33 per cent of proceeds will be used for the developments of water supply and sanitation sector whilst, 26 per cent of proceeds will be invested for economic and financial cooperation. Further, 16 per cent of proceeds will be invested in development of highways and bridges.

There were 146 foreign funded Project remained in operation during the year under review and out of that the financial statements of 111 foreign funded projects were submitted for annual audit purposes. Accordingly, US$ 1,586.60 million of borrowings and US$ 53.80 million of proceeds of grants received during the year under review through the Development Partners and Donor Agencies had been utilized. However, the financial statements of the Projects implemented through the proceeds of borrowings under Indian Loan Scheme, Chinese Loan Scheme and other bilateral loans schemes had not been furnished for audit, as the necessary provisions for the audit that should be carried out by the Auditor General were not included in the respective Loan Agreements. The details of the foreign funded project implemented through the financial provisions made by the Development Partners and Donor Agencies and the rendering for the financial statements for audit purposes are shown in the table No 16 and as follows.

Development Partners/Lending Agencies	No. of Foreign Funded Projects implemented	No. of Projects which financial statements presented
Asian Development Bank	35	30
World Bank	21	19
Japan	17	14
China	14	11
United Nations Development Programme	11	04
International Fund for Agriculture Development	04	04
Kuwait	04	03
Korea	04	03
Others	36	23
Total	**146**	**111**

Table 16 - Rendering for the financial statements for audit purposes

The observations made on the performance of the major projects implemented during the year under review is summarized and shown below.

- Rehabilitation works of 3,313 kilometres of provincial roads and 742 kilometres of rural roads were expected to be carried out under the Integrated Road Investment Programme which was implemented under a loan provided by the Asian Development Bank. Eventhogh the activities commenced on 01 June 2014 and expected to be continued upto 30 March 2024 over 10 years period, the action plans for the Programme had not been prepared.

  As a result, out of the contracts for the rehabilitation of provincial and rural roads expected to awarded under 42 packages as at 31 December 2016, only the contracts under 15 packages had been awarded, due to subsequent changes made in the scope of works. The rehabilitation works of 84.74 kilometres of 25 provincial and rural roads had been completed as at 31 July 2017.

- The Skills Sector Development Project had been implemented since 2014 through 09 entities under the purview of Ministry of Vocational Trainings by utilizing the proceeds of a loan provided jointly by the Asian Development Bank and International Development Association with the aim of improvement of the quality of the vocational training sector of Sri Lanka and enhance the international reputation thereon. However, the activities of the Project had not been implemented as expected, due to lack of proper coordination among the Implementing Agencies. There is an objective of the Project to review of existing vocational training courses conducted by the state owned entities to improve the quality of the vocational training sector of Sri Lanka and enhance the international reputation. However, only 242 vocational training courses had been reviewed as at 31 December 2016, out of 2,484 training courses in operation at that time.

- The Ministry of Megapoils and Western Province Development had implemented the Strategic Cities Development Project for the development purposes of Kandy, Galle and Jaffna Cities, out of the borrowings of US$ 147 million equivalent to Rs. 19,257 million made from the International Development Association. However, the physical progress of the activities of the Project had remained slow, as a comprehensive Action Plan had not been prepared even after lapse of 2 ½ years from the date of the commencement of the activities of the Project. Further, the members of the Project Steering Committee which comprised with the representatives of Road Development Authority, Urban Development Authority, Department of Irrigation and National Water Supply and Drainage Board etc had not been appointed on permanent basis and it coursed the slow down the activities of the Project.

- The Ministry of Irrigation and Water Resources had implemented the Climate Resilience Improvement Project through borrowing of US$ 110 million equivalent to Rs. 14,382 million made from the International Development Association in order to develop Sri Lanka as a country with the economy of climate resilience. However, the physical progress of the activities of the Project was remained slow, due to shortage of experts with adequate technical knowledge on mitigating activities on floods and other disasters in Sri Lanka.

- The physical progress of the contracts awarded by the Local Government Enhancement Project implemented out of the proceeds of the loan of US$ 59 million obtained from the Asian Development Bank had remained slow due to delays in awarding construction contracts by the Project. Further, the administrative and other multi- purpose buildings constructed out of the proceeds of the loan by Pradeshiya Sabhas of Divulapitiya, Rattota, Wilgamuwa, Galgamuwa, Thirappane and Ipalogama had remained idle over 2 ½ years from the date of completion of construction works, without allowing for the use of general public. The activities of the Project had been commenced in July 2012 and expected to be completed in June 2017.

In addition to the above mentioned observations, common deficiencies observed in 2016 in audit of performance of the foreign funded projects is described as follows.

- It was observed in audit that the utilization of funds borrowed from the Lending Agencies had remained lower. As a result, the commitment charges had to be paid additionally. Further, it was observed that other adverse effects such as the risks on extension of the period of the Project, inability to complete the activities of the Project at an initially estimated costs etc had been arisen. The information relating to the several Projects which reported lower utilization of funds is given Table 17.

Name of the Project	Donor Agency	Amount agreed to be financed	As at 31 December 2016	
			Amount utilized	**Period spent**
		US$ million	**US$ million**	**Years**
Strategic Cities Development Project	IDA	212.00	11.00	2 1/2
Climate Resilience Improvement Project	IDA	110.00	29.00	02
Dam Safety and Water Resources Planning Project	IDA	83.00	39.90	02
Second Health Sector Development Project	IDA	190	9.36	3 1/2
Education Sector Development Project	IDA	200	72.33	03
Mahaweli Water Security Investment Programme	ADB	150	9.10	1 1/2
Southern Road Connectivity Project	ADB	70	11.79	2 1/2
Dry Zone Urban Water and Sanitation Project	ADB	125	72.81	07
National Agri Business Development Programme	IFAD	25.00	12.30	03

Table 17- Utilization of foreign borrowings

- It was observed in audit that the financial statement of several foreign funded projects had been prepared and presented by the respective Project Monitoring Units based on the going concern basis eventhough the operational periods of such projects were remained closed. This situation was arisen due to lack of proper instructions issued by the Ministry of Finance on procedures to follow in preparation of the financial statements for the last year of the operations of the Projects. Further, there was no proper mechanism to ensure the utilization of the assets such as property, plant and equipment etc procured through the funds provided by the foreign funded projects for intended purposes by the respective Implementing Agencies of which such assets taken over.

- There were several Project which reported slow progress on physical and financial terms due to several reasons such as weaknesses in project planning stages, public protests, lack of knowledgeable and experienced construction contractors, weakness in adopting procurement procedures, lack of proper supervision and impossibility of recruiting qualified persons for Project Monitoring Units etc,. Therefore, it is emphasis that the need of expansion of the functions and responsibilities of the Department of Project Management Supervision under the Ministry of Development Assignments, in order to supervise the performance of the Foreign Funded Projects.

BANKING SECTOR

Banking Sector consists with Licensed Commercial Banks (LCBs) and Licensed Specialized Banks (LSBs). By the end of 2016, the banking sector consisted of 25 LCBs and 7 LSBs. There were 12 foreign banks within the total number of LCBs. The banking sector continued to contribute to economic activity and development throughout the year by enhancing banking services and expanding its networks and accessibility throughout the country. Accordingly, 65 new branches were opened and 366 new ATMs were installed during the year 2016.

Distribution of Banks and Branches by the end of 2016

Category		Banks	Branches	Student Saving Units	ATMs
LCBs	Domestic banks	13	2763	2870	3523
	Foreign banks	12	221		
LSBs	National Level Regional Development Banks	1	255	175	320
	National Level Saving Banks	1	228		
	Housing Finance Institutions	2	57		
	Private Savings and Development Banks	3	90		

Table No 18 - Distribution of Banks and Branches
Source – Central Bank of Sri Lanka (Revised or provisional Data)

Assets

The asset portfolio of the banking sector further expanded during the year, reaching Rs. 9 trillion by end 2016. The asset portfolio mainly consisted of loans and advances, which accounted for 60 per cent of the banking assets. Assets of the main two state banks, Bank of Ceylon and People’s Bank were Rs.1669.3 bn and Rs.1302 bn respectively which accounted for 33 per cent from the total assets of the banking sector.

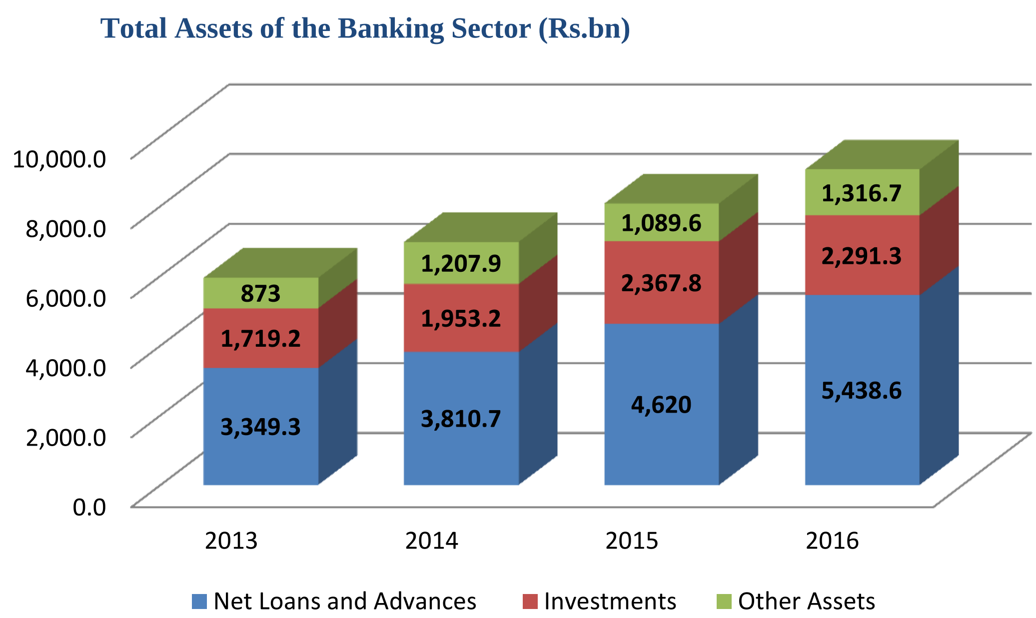


Figure 13 - Total Assets of the Banking Sector
Table Source – Central Bank of Sri Lanka (Revised or provisional Data)

Non - Performing Advances

The overall NPL ratio of the banking sector declined further to 2.6 per cent in 2016 from 3.2 per cent in 2015 due to a decline in NPLs by an absolute amount of Rs. 6.9 billion. NPLs of the main two state banks, Bank of Ceylon and People's Bank were Rs.29.8 billion and Rs.17.3 billion respectively by end of 2016 and accordingly NPL ratio reported as 2.9 per cent and 1.95 respectively.

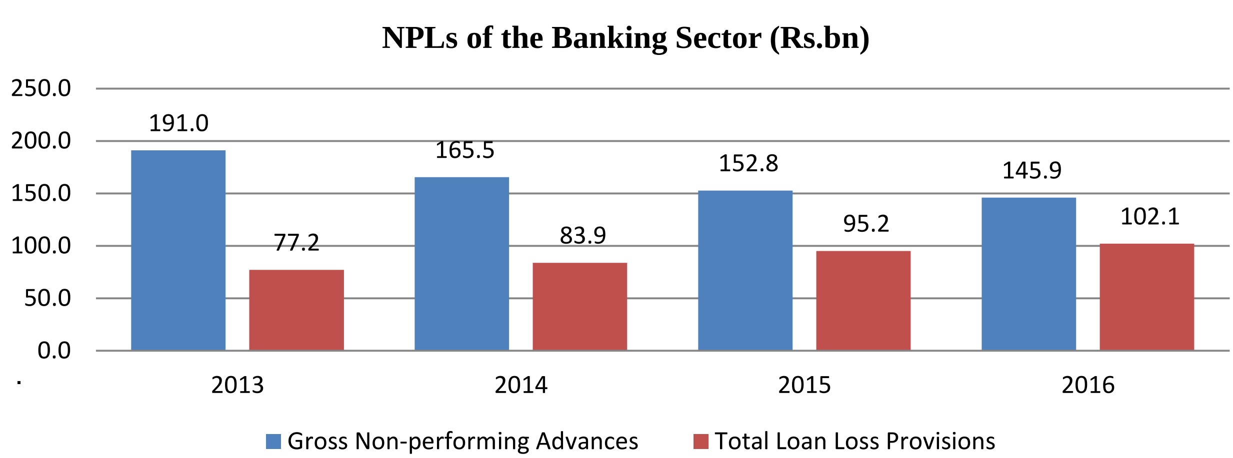


Figure No 13 - NPLs of the Banking Sector

Gross NPL Ratio of the Banking Sector

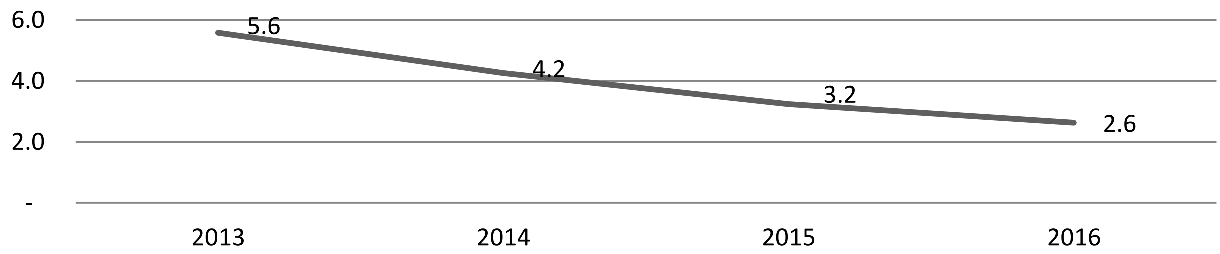


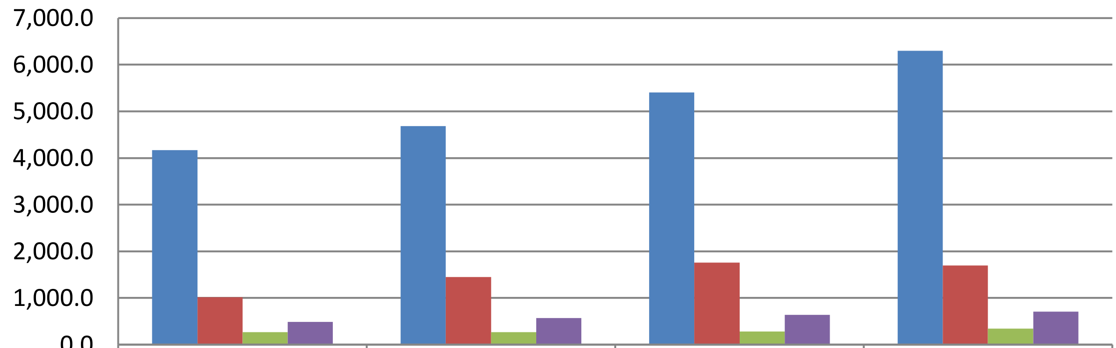
Figure No 15 - Gross NPL Ratio of the Banking Sector
Source – Central Bank of Sri Lanka (Revised or provisional Data)

Liabilities and Capital

The customer deposits continued to be the major source of liabilities which accounted for 69.6 per cent of the total liabilities and Capital of the banking sector. Deposit of the main two state banks, Bank of Ceylon and People's Bank were Rs.1,257 billion and Rs.1077.8 billion respectively as at the end of the year 2016 which accounted for 37 per cent from the total deposits of the banking sector.

Total borrowings of the banking sector displayed a negative growth of 3.5 per cent by end of 2016 due to foreign borrowings declined by Rs. 47.8 billion and rupee borrowings declined by Rs. 14.2 billion. Nevertheless, foreign currency borrowings accounted for major share of total borrowings representing 60.7 per cent. Borrowing of the main two state banks were Rs.429.2 billion. It represented foreign currency borrowings of Rs.297.4 billion and rupee borrowing of Rs.131.8 billion by end of 2016.

Liabilites and Capital of the Banking Sector (Rs.bn)



	2013	2014	2015	2016
Deposits	4,169.5	4,686.3	5,403.1	6,295.6
Borrowings	1,015.4	1,448.2	1,758.4	1,696.4
Other Liabilities	267	268.8	279.2	347.3
Capital & Reserves	489.6	568.5	636.7	707.3

Figure 16 - Liabilites and Capital of the Banking Sector
Source – Central Bank of Sri Lanka (Revised or provisional Data)

Deposit

The deposit base of the banking sector increased during the year mainly due to the increase in time deposits denominated in Sri Lankan rupees. Time deposits reported an increase of 23.8 per cent in 2016 compared to an increase of 13.9 per cent in the previous year. As a consequence, the share of time deposits as a percentage of total deposits increased to 60.6 per cent in 2016 from 57.0 per cent in 2015.

Time Deposits of the main two state banks were Rs.1300.3 billion by the end of 2016.

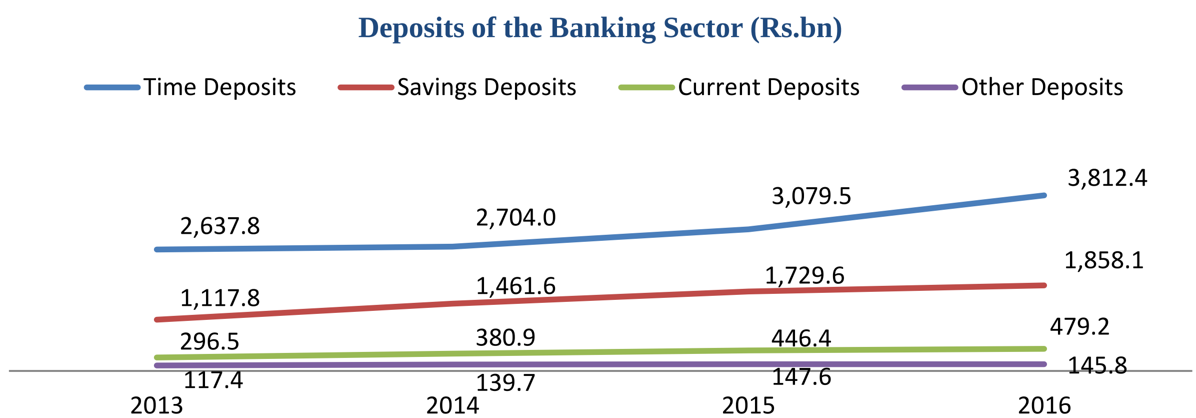


Figure 17 - Deposits of the Banking Sector
Source – Central Bank of Sri Lanka (Revised or provisional Data)

Central Bank of Sri Lanka

The Central Bank of Sri Lanka (CBSL) has been established to ensure economic and price stability and financial system stability of the country.

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

Policy rates such as Standing Deposit Rate, Standing Lending Rate and Statutory Reserve Ratio had been increased to 7%, 8.5% and 7.5% from 6%, 7.5% and 6% respectively during the year 2016. Reserve money increased noticeably by Rs. 182.7 billion to Rs. 856.1 billion by end of the year 2016. Commercial banks’ deposits included in the Reserve Money increased significantly by Rs. 121.6 billion to Rs. 303.3 billion by end of the year 2016 since Statutory Reserve Ratio had been raised. As well as currency in circulation included in the Reserve Money increased by Rs. 61.1 billion to Rs. 552.8 billion by end of the year 2016. Viewed from the assets side of the Central Bank balance sheet, the expansion in reserve money was entirely due to the increase of Rs. 207.3 billion in net domestic assets (NDA) of the Central Bank, while net foreign assets (NFA) declined in the year 2016 by Rs.7.7 billion. Within NDA, the Central Bank purchased government securities under open market operation increased by Rs. 248.6 billion to Rs. 351.4 billion by end of the year 2016 in comparison to Rs. 102.8 billion at end of the year 2015.

In order to maintain the international stability of the Sri Lanka rupee and to assure the greatest possible freedom of its current international transactions, 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 payment. Net Foreign Assets of the Central Bank declined in the year 2016 by Rs. 7.7 billion to Rs. 544.2 billion compared to the decline of Rs.125.3 billion in the year 2015, as a result of the decline in foreign financial assets in terms of cash and bank balances abroad during the year 2016.

The external value of the Sri Lankan rupee continued to depreciate in 2016. the rupee depreciated by 3.8 per cent against the US dollar from Rs. 144.1 as at the end of 2015, to Rs. 149.80 as at the end of 2016. Depreciation of rupee against US dollar was 9.1 per cent from Rs.131 to Rs.144.1 during the year 2015. The Central Bank decision on 03 September 2015 to limit its intervention in the domestic foreign exchange market and allowed the exchange rate to be largely determined by the demand and supply conditions of the market was mainly resulted for the depreciation of Sri Lanka rupee against the US dollar.

State Banks

Bank of Ceylon

Bank of Ceylon is a state owned licensed commercial bank in Sri Lanka having overseas branches in Male, Chennai, Seychelles and the subsidiary in UK. Local bank activities are carrying with 580 branches including two branches added in 2016. Total number of employees of the bank was 7569 in 2016 and 63 percent of the workforce was young employees under 35 years old.

Bank has achieved net interest income of 53.95 billion in the year 2016 and this was 16 percent decline compared with previous year. However, the bank recorded a profit before tax of Rs. 31.2 billion in the year 2016, a growth of 23 percent. With the assets based of Rs.1.67 trillion the bank has granted Rs.1 trillion of loans and advances to customer which was a 60 percent of the total asset and 21 percent increase compared with previous year. Further, Non Performing Advance ratio of the bank had been declined from 4.3 percent in 2015 to 2.9 percent in 2016. In addition, the bank's deposit base has been increased from LKR 1.08 trillion to LKR 1.3 trillion during the year 2016.

Liquid asset ratio of the bank has declined from 28.2 percent to 21.6 percent in the year 2016 and reached to the minimum requirement of 20 percent. Capital Adequacy ratio (Tier II) has been declined from 13.1 percent to 12.3 percent in the year 2016 and stood above the minimum requirement of 10 percent.
The bank of Ceylon was able to pay Rs17.3 billion to the government of Sri Lanka as dividends by maintaining dividend payout ratio of 70 percent in 2016. It was 57 percent increase when compared with 11 billion of previous year.

People's Bank

The Bank's asset composition was relatively unchanged compared with the previous year with credit assets dominating the asset base with a share of 68.4 percent by end of December 2016. Meanwhile, the group's asset growth was also strong, expanding by 11.6 percent during the year to reach Rs.1, 444.4bn. The Group also passed the Rs.1 trillion milestone in customer loans & advances during the year 2016.

The Bank maintains a healthy and well diversified funding profile, reaching a deposit base of Rs. 1.0 trillion by end of December 2016.

Bank achieved a profit growth of 19.0 percent to Rs.14.9 billion in 2016 and ROE has recorded at 27.5 percent in 2016.

Regulatory requirements on licensed banks necessitate the maintenance of a Tire I (core) capital adequacy ratio (CAR) of not less than 5 percent and an overall CAR of not less than 10 percent. As at the end of December 2016, the Bank's Tier I and an overall CAR declined to 9.8 percent and 12.1 percent respectively, compared to 9.9 percent and 12.6 percent in the year 2015 reflective of strong portfolio growth during the year.

Implementation of the Basel III minimum capital requirements and leverage ratio frameworks came into effect on the 1st July 2017. The Bank is geared to embrace these proposed changes in contributing towards a more resilient banking industry.

National Savings Bank

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

National Savings Bank had established several new branches in the year 2016 and accordingly total branches stood at 250 at the end of the year 2016. In addition, there were 2,858 School bank units which had reported an increase of 571 during the year 2016 with a view to mobilize Savings. Total deposit base of the bank expanded by Rs.61.5 billion or 10 percent during the year reaching to Rs.657.3 billion by the end of the year 2016.

Total asset base of the bank expanded by Rs.63.6 billion or 7.5 percent surpassing Rs.911 billion by end of December 2016. The increase in assets was mainly attributed to increase in loans and receivables to banks and other customers of Rs.52 billion which was primarily funded by a growth of deposit of 10 percent during the year. The asset Quality of the bank improved during year recording the Non-performing loan ratio of 1.7 percent compared to 3.5 percent reported in 2015.

Bank reported the profit before tax of Rs.13 billion which was 2.1 percent increase against the year 2015. However Net interest income of the bank declined by 1.5 billion or 5.6 percent compared with the year 2015.

The capital adequacy ratios of the bank demonstrated a declining trend, but continued to be a level higher than the minimum regulatory requirements. The core capital adequacy (CAR) ratio and total CAR stood as 12.53 percent (minimum 5%) and 14.68 percent (minimum 10%) respectively. Further, Bank had issued Rs.6 billion worth of rated, unsecured, subordinated and redeemable debentures of Rs.100 each at the rate of 13 percent per annum in December 2016 as a private placement in order to maintain the capital adequacy ratio. According to the direction No 01 of 2016 dated 29 December 2016 issued by Central Bank of Sri Lanka National Savings Bank shall maintain capital adequacy ratios of 6.25, 7.75 and 11.75 commencing from 01 July 2017.

State Mortgage and Investment Bank

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

Total deposits of the bank at the end of the year 2016 surpassed Rs.28 billion and it was an increase of 3.6 percent compared with the year 2015.

Total assets of the bank expanded by Rs.1 billion or 3 percent surpassing Rs.35 billion by the end of year 2016. The increase in assets was mainly attributed to increase in loans and receivables to customers of Rs.1.6 billion.

The Bank reported the profit before tax of Rs.706 million which was 3.68 percent increase against the previous year. However net interest income of the bank declined by 6 million or 0.34 percent compared to year 2015.

Housing Development Finance Corporation Bank

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

Housing Development Finance Corporation Bank had not established new branches in the year 2016 and accordingly total branches stood at 39 at the end of the year 2016. Loans granted were expanded to Rs.30.259bn in 2016, compared to Rs.26.684bn in 2015 which was a 13.39 percent increase. Hence during the year interest income escalated by 17 percent, reaching Rs. 5.4bn, from Rs. 4.7bn in the previous financial year. The bank successfully expanded its deposit base from Rs. 28.59bn to Rs. 32.12bn during the year and it was a 12.3 percent increase.

Total asset base of the bank expanded by Rs.3.69 billion or 8.8 percent surpassing Rs.45.6 billion by end of December 2016. The increase in assets was mainly attributed to increase in loans and Advances and receivables, which was 13 percent growth. The asset quality of the bank improved during year recording the Non-performing loan ratio of 17.58 percent compared to 18.38 percent reported in 2015.

Bank reported a profit before tax of Rs.660 million in 2016 which was 17.8 percent decrease against the previous year. However Net interest income of the bank declined by 157 million or 7.4 percent compared to year 2015.

Capital adequacy, minimum capital requirement and value creation for shareholders were top priority and shareholder funds increased by 10.4 percent in 2016. Asset value per share grew from Rs. 51.98 to Rs.57.68 in 2016, which marks a 10 percent increase. However earning per share declined from Rs. 7.87 to Rs. 6.10 during the year 2016 due to weakened earnings. Core Capital Ratio (Tier 1) and total Capital Ratio (Tier 2) remains above the minimum requirement at 13.11 percent and 11.76 percent respectively, as against the regulatory requirements of 5 percent and 10 percent. However, as per the Central

Bank (CBSL) direction No. 02/17/402/0073/002, issued in conjunction with the Master Plan on Consolidation of the Financial Sector, dated 17th January 2014, the bank should maintain Rs.5,000 mn as its core capital balance as on 1st January 2016.

Regional Development Bank

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

Net interest income of the bank during the year 2016 had been increased by Rs.1, 025 million or 15 per cent as compared with the previous year. Profit for the year had been increased up to Rs.641 million during the year 2016 representing a 21 per cent increase compared with the year 2015. Further, decrease of non-performing advances ratio to 2.85 per cent as at end of the year 2016 had been observed. Loans and advances and customer deposits had been increased by 21 per cent and 22 per cent respectively as at the end of the year 2016. However, instance of not maintaining the minimum capital adequacy ratio of 10 per cent in relation to total risk weighted assets during the year 2016 had been observed.

Lankaputhra Development Bank

Net interest income of the bank during the year 2016 had been increased by Rs.85 million or 15 per cent as compared with the previous year. Profit for the year had been increased up to Rs.258.7 million during the year 2016 representing a 34 per cent increase compared with the year 2015. Loans and advances had been increased by Rs. 271 million or 10 per cent as compared with the previous year end. However, non performing advances ratio had been further increased to 39.2 per cent as at the year end. Customer deposits had been decreased by 19 per cent as at the end of the year 2016.

Major Audit Findings

Central Bank of Sri Lanka

Renting out the building by CBSL

According to section 117 of Monetary Law Act, “ the Central Bank of Sri Lanka (CBSL) should not engaged in trade or otherwise have a direct interest in any commercial, industrial or other undertaking except such interest as it may in any way acquire in the course of the satisfaction of any of it's claims". In contrary to this provision buildings owned to the CBSL had been rented out for outside parties without being utilized for the intended purposes and the CBSL had been earned rent income amounted to Rs. 426.6 million during the year 2016.

Consultancy Services Cost to the Advisory Council

The President of the Democratic Socialist Republic of Sri Lanka has appointed an Advisory Council to advice the Presidential Commission to investigate into complaints regarding missing persons resident in the Northern and Eastern Provinces on 28 June 2014.

Expenditures such as consultancy fees, accommodation and other charges of the advisory council and their staff amounted to Rs.145 million and Rs.111.5 million for the year 2015 and for the year 2014 have been incurred by CBSL using CBSL funds without any reimbursement basis. Consultancy fees for Advisory Council amounted to Rs. 21 million had been paid during the year 2016. Even though the above expenditure had been incurred by the CBSL without any reimbursement basis, there were no any contracts between CBSL and the above mentioned consultants. It was further observed that the duties of above consultants were not directly related to the objectives of the CBSL.

Unsound Practices and Financial irregularities

The CBSL had invested its funds in tradable reverse repo investments with a primary dealer. The Lanka Secure System had shown a nil balance regarding these investments since the primary dealer had withdrawn the underlying securities without reassigning any security with respect to the withdrawn securities. Then, the Monetary Board of CBSL had decided to rollover the above investments without collaterals as per the Board decision taken on 04 December 2015. The uncollateralized Repo investments made through CBSL funds with the said primary dealer as at 31 December 2015 was Rs.1.9 billion.

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

Bank of Ceylon

- Loan and advances balance of the bank was Rs.1,047,190 million as at 31 December 2016. Out of the above total loan exposure, a sum Rs.319,952 million or 31 percent consist of receivable from government authorities and state owned enterprises and remaining Rs.727,237 million or 69 percent consist of receivable from non governmental entities. A balance of Rs.30,998 million of Government exposure consists receivables from government institutions which was reasonably identified as significant loans and have objective evidence of incurred losses but not taken under individual impairment. Above balances contains sums of Rs.12,635 million, Rs.7,742 million , Rs.9,772 million and Rs.496 million and Rs.352 million receivable from Urban Development Authority, Lanka Sathosa LTD, Paddy Marketing Board, Agarapathana Plantation Ltd and Sri Lanka Handicraft Board respectively. Except Rs.3,802 million receivable from Paddy Marketing Board, all above loans had not covered by treasury guarantees or other securities as at 31 December 2016.

- The bank granted identified significant loans amounting to Rs.235,458 million to non governmental corporate bodies as at 31st December 2016. One of the significant amounts had been granted to South Asian Institute of Technology and Medicine (Pvt.) Ltd - (SAITM) by the Bank of Ceylon Malambe Branch. As per the gazette notification dated 30th August 2011, bank need to be granted a loan amounting to Rs. 600 million for the purpose of construction of teaching hospital. However, as at 05th June 2017, the bank had granted a sum of Rs.1,820 million for purposes of construction of Teaching hospital, Post graduate institution and Engineering Faculty. In addition, a sum of Rs.925.5 million had been granted for working capital requirement of both university and hospital.

- As per the Office Instruction Circular No. 28/2015, maximum granted amount should be restricted to 60 percent of the cost of the total undertaking of the commercial property. However, the bank had granted 87.4 percent of the forced sale value of Hospital Property and 94.81 percent of the forced sale value of the University property.
  Amount of Rs.1625 million of the above facilities had been granted under the mortgage over Hospital Property. This property includes a leasehold land with the extent of 5 Ares, 28 Perches taken from the Urban Development Authority for a period of 30 years from

13 March 2012. Even though the Leased value paid to the UDA was Rs.130 million, the bank had considered the forced sale value of Rs.414 million of the above land when granting loans.

On the ground that SAITM was unable to pay loan installment since March 2017 and preventing the situation of categorizing these loans as nonperforming, the bank granted several facilities to the SAITM under the board approvals dated 02 May 2017. Such as approving grace period of 7 months from March to September 2017 for the existing term loans, approving a term loan of Rs.103 million to meet the interest portion of the existing loans at a concessionary rate of 4 percent per annum and approving a term loan of Rs.300 million to meet the working capital requirement of hospital and university at a concessionary rate of 12.5 percent per annum. Above two loans had been granted for the above grace period and against personal guarantee of the Directors of SAITM. Further, on request of the SAITM, the bank has taken actions to refund the loan installment amounting to Rs.27 million recovered in February 2017. These loan facilities represent 45.5 per cent of the total performing outstanding of the Malambe Branch and this kind of situation may increase the risk of recovery.

- The 6 storied building owned to the Bank of Ceylon situated at York Street has total extent of 261,610 sq ft. Out of the above total extent, 163,890sq.ft had been used by the Metropolitan Branch and Western Province North Office up to the year 2013 and remaining 97,720sq.ft are still being used by the Hotels Colombo (1963) Ltd (Grand Oriental Hotel). As per the Valuation report dated 17th October 2016, the value of the land and building was Rs.3,413 million. However, a considerable area or more than 60 percent of the building was being vacant since 2013.

  According to the report issued by the Department of Civil Engineering of the Faculty of Engineering in University of Moratuwa regarding Structural Assessment of this building in the year 2010, there were severe deteriorations of most of load carrying structural elements have proposed 15 recommendations regarding the building. However without renovating the Building, Bank of Ceylon had incurred an additional cost of Rs.359 million as a rent for the above two offices since the year 2013.

  In our inspection on 27 April 2017, it was observed that three companies are currently occupying three apartments of the first floor without entering in to any rent agreement with the bank and paying any rental. However management had not taken proper actions to solve the above problem.

Peoples' Bank

- It was noted that the bank had abandoned budgetary allocated three construction projects of Puttalam RHO, Udupussallawa Branch and Ewariwatta S.C due to various reasons after incurring miscellaneous expenses of Rs.3,601,897 which had been subsequently charged to Profit and Loss Account.

- It was observed that the bank had already decided and budgeted to construct Trincomalee Branch, Trincomalee RHO,Beruwala Branch ansd Matale Branch with the service of Engineering Service Department of the bank and subsequently it had been decided to give the People's Leasing Property Development Ltd (PLPDL) after incurring following miscellaneous expenses. Due to this transfer the bank had duplicated certain project expenses and consequently had incurred a loss of Rs.10,725,573. It was further observed that those miscellaneous expenses pertaining to Trincomalee Branch of Rs.2,536,340, Trincomalee RHO of Rs.6,378,155 and Beruwala branch of Rs.202,356 had been subsequently charged to Profit and Loss Account while the miscellaneous expenses pertaining to Matale branch of Rs.1,608,722 had been remained in suspense account.

- It was observed that the bank had already decided and budgeted to construct Wanduramba , Baduraliya and Boralanda branch premises and subsequently it had been decided to temporally hold after incurring miscellaneous expenses and subsequently transferred to Profit and Loss Account.

- According to People's Bank Act, No. 29 of 1961, authorized share Capital of the Bank was limited to 20,000,000 ordinary shares. Although the Bank had issued only 999,960 shares, the capital pending allotment amounting to Rs. 7,152 million was equal to 143,040,000 shares which exceeds the authorized share capital as mentioned in the Act. However, a sum of Rs. 7,152 million was held in a capital pending allotment account as authorized share capital which is yet to be increased by amending People's Bank Act.

- Bank has not capitalized the premises located in Beruwala, Hatharaliyadda, Hakmana, Kodikamam, Matugama and Naula where construction has already been completed amounted to Rs.634,655,694. These values are still in the Capital Work In Progress.

National Saving Bank

- SWAP cost of Rs. 403.232 million and 842.667 million which had been paid by the bank in the year 2016 were shown as receivable from Kothalawala Defense University and the General Treasury. There is no documentary evidence or any condition in the loan agreement in respect of SWAP cost and therefore the recoverability of this amount appears to be uncertain as at 31 December 2016.

- Fraudulent withdrawals amounting to Rs.95.5 million were outstanding as at 31 December 2016 and it indicates Rs.1.2 million or 1.27 percent increase compared with the previous year. Out of this an amount of Rs.95 million had remained outstanding for more than one year and a sum of Rs. 8.8 million had remained outstanding for over five years. Further, out of the outstanding balance, Rs.0.19 million and Rs.0.05 million in respect of the Kegalle and Negambo branches had remained outstanding for twenty one years and fourteen years respectively.
- According to the Section 47(4) of the National Savings Bank Act No.30 of 1971, Payments made to customers out of deposits transferred to unclaimed deoposit reserve shall be paid as soon as possible by the Secretary to the Treasury out of the Cosolidated Fund to the bank. Although the bank had paid Rs. 1,115.432 million during the period from 2000-2016 ,Secretary to the Treasury had not reimbursed such money even up to July 2017.
- Though total deposit base of the Banking Sector had improved by 143 Per cent from year 2010 to 2016, NSB achieved a growth of only 85 percent during the said period resulted in declining the Market share of the NSB from 13.7 per cent to 10.4 per cent during the seven year period. Further, Market share of the bank in terms of total assets in the banking sector, was above 11 percent in year 2014 but below 11 percent thereafter showing a declining trend. However, bank had maintained above 75 percent market share in the licensed specialized Banking sector in years 2015 and 2016.

International Bond issue of USD 250 Million

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

- Bank had granted loan facilities amounting to Rs. 280,718 Million and out of that Rs.4,774 Million or 1.70 Per cent shown as non-performing loan balances as at 31 December 2016. Further, Out of total pawning loan, Rs 2,348 Million or 12.37 was reported as non performing as at 31 December 2016.

- A sum of Rs.35.23 million had been spent since 2008 to build 18 storied building for the Head office of the Bank. This had been shown in the work in progress as at 31 December 2016 without any construction carried out during the previous years since this area is vested under high security zone.

State Mortgage and Investment Bank

- An amount of Rs 8,614,361 was shown as an un-reconciled control account in the Financial Statements as at 01 January 2016. Though a sum of Rs.58,137,838 and Rs.42,526,685 had been debited and credited to this account respectively during the year, much of these debit and credit entries are related to the previous years for which adequate information was not made available. Accordingly a debit balance of Rs.24,225,514 was shown under other assets in the Financial Statement. The recoverability for this amount was uncertain due to not having adequate information.

- There was an abnormal debit balance of Rs.13, 199,560 in the VAT & NBT payable accounts as at 31 December 2016. This balances had not been confirmed by the Department of Inland Revenue and accordingly recoverability of this balance was uncertain as at that date.

- There was an abnormal debit balance of Rs. 12,407,870 in Cheques on Realization Account as at 31 December 2016 and thus, the other debtors shown in the financial statements had been overstated by that amount.

- Unappropriated balance to respective loan accounts in the Financial Statement was Rs. 168,317,332. However, it was Rs. 148,743,268 as per the total balance in the age analysis. Thus other liabilities had been overstated by Rs. 19,574,064 as at 31 December 2016.

- It was observed a difference of Rs 1,856,831 between the inter branch accounts which had not been reconciled as at 31 December 2016.

- An amount of Rs.799,884 had been presented in other debtors as suspense nature. There is no evidence provided to audit in this regard.

- Three account balances amounting to Rs.30,891,485 appearing in the Financial Statements could not be verified in audit due to lack of adequate evidence submitted to audit.

- Liquidity of the bank was below than the licensed specialized banking sector both in year 2015 and 2016.

	2016		2015	
Liquidity ratio	**SMIB**	**LSBs sector**	**SMIB**	**LSBs sector**
Liquid assets/deposits	22.82	61	23.64	67.2

Accordingly liquidity ratio of the Bank during the year was below the industry average and it had decreased by 5.5 percent in year 2016 compared to year 2015.

- Market share of the bank based on licensed specialized banking sector had decreased by 10 basis points from year 2011 to 2016. However it had decreased by 16 basis points as compared with year 2015.

- Total outstanding loans as at 31 December 2016 was Rs.28,528 million and out of that a sum of Rs.7,815 million was identified as non-performing loans. It represented 27 per cent of the total outstanding loans.

- The approved carder of the internal audit division had been limited to five employees. When it was considered the net assets position of the bank of 4,918 mn and complexity of the operations performed, staff of the internal audit division may not be sufficient to cover the important areas of the internal control. Further, the Chief Internal Auditor position of the Bank had been remained vacant since 1 January 2016.

Housing Development Finance Corporation Bank

- Contrary to the section 9.2. (b) and (d) of the Public Enterprise Department Circular number PED 12 dated 02 June 2003, bank had not available an organization chart with an approved cadre and also it had not been registered with General Treasury.
- Though as per the section 9.3.1 of Public Enterprise Department Circular number PED 12 dated 02 June 2003, every public enterprise should have schemes of recruitment and promotion for each post and it should be approved by the Board and the appropriate Ministry with the concurrence of the General Treasury, the bank had not been complied with said requirements.
- Bank had sold vested properties which carrying outstanding loan balance of Rs.14,418,413 without recovering the total loan outstanding balance and therefore the bank had incurred a loss of Rs. 9,358,213.
- According to the Section 16(2) Part IV of Housing Development Finance

Corporation Act, No 7 of 1997, issued capital of the bank should be Rs. 1,000 million. However, stated capital of the bank as at 31 December 2016 was Rs.962,092,936.

- As per the section 4(1) (iv) in Direction 6.1 of the Banking Act Direction No.02 of 2012, tender procedures to be followed for the procurement of outsourced services. Further it was mentioned in the Outsource Policy – 2014 of the Bank, as to invite outsource service providers through calling sealed quotations. However it was not complied with, at the time of selection of a particular company to expedite the recovery process of the Bank.

- No return had been received from the investment in Cey Bank Unit Trust amounting to Rs.25,000,000 since year 2015.

- Master Procurement Plan, Detailed Procurement Plan and Procurement Time Schedule for the year 2016 had not been prepared by the Bank.

Regional Development Bank

Achievement of objectives as per the Pradeshiya Sanwardhana bank Act

Bank had targeted to grant loans amounting to Rs.38, 014 million or 52 per cent from the total target of Rs.73, 735 million for the achievement of objectives as specified in the Act. Bank had granted Rs.21,428 million loans for the sectors of agriculture, industry, trade and commerce, livestock and fisheries and Rs.9,342 million for small and medium enterprises and micro finance institutions respectively. Further, Rs.27,166 million has been disbursed as at 31 December 2016 as consumption loans, housing loans, loans against deposits and staff loans and Rs.13,471 million as pawning. Total loans disbursed by the bank amounts to Rs. 71,407 million as at 31 December 2016.

Liya Isura Loan Scheme

15,199 number of loans at zero per cent interest rate amounting to Rs.2, 443.93 million had been granted under the Liya Isura Loan scheme as a budget proposal as at 31 December 2015. However, the cost of funds had not been reimbursed by the Government. Further, Rs.62.92 million has been reported as total nonperforming loans as at 31 December 2016 and out of those Rs.23.12 million loans had been recorded in the loss category.

PAYE Tax expense of employees

Though the bank needs to deduct and remit Pay As You Earn (PAYE) tax from the emoluments of employees as per the Section 114 of the Inland Revenue Act No. 10 of 2006, without deducting the bank had incurred the PAYE Tax expense of employees amounting to Rs.20.4 million for the year 2016.

Lankaputhra Development Bank

- Interest income on loans and advances reflects only 48 per cent or 339 million from the total interest income of Rs.707 million for the year 2016 reflecting the less focus on core banking activities. Interest income from investments reported as Rs.368 million or 52 per cent during the year 2016. Therefore, the bank may have sustained an operational loss if the bank had not been able to earn interest income from investment activities.

- Deposit base of the bank had been decreased up to Rs.420.8 million as at 31 December 2016 reflecting a 19 per cent decline as compared with the previous year end. Market share of the bank reported less than 1 per cent over 5 years period and market share of the loans and deposits have been decreased by 5.5 per cent and 27 per cent respectively as compared with previous year.

- Non-performing loans and advances of the bank reported at Rs.1, 467 million or 39.2 percent from total loans and advances. Out of that, Rs. 919 million or 63 per cent was categorized under loss category.

AGRICULTURE

The expected result of this Sector is increasing the production of food for ensuring the food security. The following functions should have been performed for achieving that objective.

- Formulation and implementation of Agricultural Policies, Programmes and Projects.
- Agricultural Diversification and production Improvement.
- Promotion of use of Carbonic Fertilizer.
- Administration of Soil Conservation Act, Felling of Trees (Control) Act, Seed Act, Plant Protection Act, Regulation of the Fertilizer Act and Pesticide Act.
- Agricultural Education, Research and Extension.
- Development of Fallow Paddy Fields.
- Development of activities related to Agricultural Enterprises, Post-harvest Technology and High-Tech Agriculture.

These functions should have been performed by the Ministry of Agriculture and two Departments, Statutory Boards and 12 institutions functioning under the purview of the Ministry. The audit observations revealed at audit test checks carried out on those institutions are summarized and given below.

Implementation of the "GAMDORA" Programme

The Department of Agrarian Development had implemented a special programme called **"GAMDORA"** so as to cover the whole Island for improving the knowledge on practical and technology of the officers who implement the agriculture projects. The approval of the Cabinet of Ministers had not been obtained for this programme. Provisions from the Annual Budget Estimate as well had not been made therefor and it had not been included in the Annual Action Plan as well. The approval of the Treasury as well had not been received for the implementation of this programme and this programme had been implemented by making provisions amounting to Rs.62 million, in terms of the Financial Regulation 66, from provisions made for the fertilizer subsidy from the Annual Budget of the Ministry of Agriculture.

"GOVISATHIYA" Programme

The "GOVISATHIYA" Programme had been implemented by the Ministry of Agriculture and four institutions under the purview of the Ministry. The Department of Agrarian Development had spent a sum of Rs.1.97 million for offering an almsgiving for 252 Kiri Ammawaru, a sum of Rs.8.9 million for the Women Farmer Conference and a sum of Rs.14.4 million for the programmes at the District level. In addition, the Ministry of Agriculture had spent a sum of Rs.16.78 million for the media coverage of the “GOVISATHIYA” Programme.

Reconstruction of Tanks, Anicuts, Canals, Water Drainage Systems and Agri Roads

Provisions of Rs.2,000 million had been made in the year under review with the objective of reconstructing of abandoned tanks, anicuts for supplying water continuously for farmers and development of water drainage systems and canals. Out of that, a sum of Rs.1,971 million had been spent. The following observations are made at the audit test checks carried out on those expenses.

- A sum of Rs.2.05 million had been spent for erecting an anicut in the Minuwangoda Divisional Secretariat Division in the Gampaha Distict. However, that project had not been successfully completed.

- Reconstruction of the Agri Road from Ilupankadawala to Indigaspothana in the Anuradhapura District, at a cost of Rs.1.53 million had not been carried out as planned.

- Even though the Agri Road from Ihala Indigaspothana to Pahalathalawa had been constructed by spending a sum of Rs.1.03 million, sidewalls of the culvert had not been constructed as planned. As such, there was a possible risk of damaging the culvert.

- Agri Roads in 4 Districts had not been constructed according to the estimate and the canals were overgrown with weeds due to improper maintenance of them.

Payment of Fertilizer Subsidies

Provisions of Rs.35 billion had been made from the Annual Budget Estimate for the payment of fertilizer subsidy in the year 2016. Sums of Rs.6.47 billion and Rs.6.85 billion had been spent for the Yala and Maha Seasons respectively in the year 2016. In making payments of subsidies by the banks, the Bank of Ceylon had credited a sum of Rs.2.41 million on behalf of 454 paddy farmers to the accounts of other persons who are not farmers. A sum of Rs.2.81 million had been mistakenly credited instead of the sum of Rs.10,000 payable to a woman farmer in the area of authority of the Agrarian Service Centre of the left bank, Rajanganaya. Moreover, subsidies of Rs.1,045.25 million had been paid for uncultivated lands of 740,110 Hectares in extent in 12 Districts in the Yala Season 2016. However, a sum of Rs.3,554.39 million had been paid after 30 June 2016 for the Yala Season 2016 after the end of the Yala Season 2016. Even though the fertilizer subsidies should be issued before the end of the Yala Season, payments for subsidies had been made thereafter and as such, the main objectives of the programme had not been achieved.

Cultivation of Fallow Paddy Lands

Provisions of Rs.1,320 million had been made for the cultivation of fallow paddy lands of 30,000 acres in extent in 25 Districts for the year 2016. Even though fallow paddy lands of 30,000 acres in extent and 902 minor irrigations should be developed, only fallow paddy lands of 5,950 acres in extent representing 20 per cent and 587 irrigations representing 65 per cent had been developed. No fallow paddy lands whatsoever in 16 Districts had been cultivated.

Obtaining Extra Office Space Requirements

According to the Decision No.15/130/702/007 of 27 September 2015 of the Cabinet of Ministers, it had been decided to use the building of Govijana Mandiraya established in the Ministry of Agriculture for reformation of Parliament Committee System and obtaining the extra office space requirement. Accordingly, a 9 storeyed building which was located in Rajagiriya had been obtained therefor on lease basis from an external person. Two floors of this building had been constructed without the approval of the Urban Development Authority and a total sum of Rs.872.64 million comprising a sum of Rs.315.00 million as rentals from April 2016 to July 2017, a sum of Rs.53.64 million for the Value Added Tax thereon and the Nation Building Tax for third and fourth quarters and advances of Rs.504.00 million for the rental to be paid for third and fourth years had been paid even by 31 July 2017. A further sum of Rs.148.00 million had been spent by July 2017 for preparation of this building so as to suit for an office environment. This building had not been used for a period of 15 months and a sum of Rs.6.18 million had been paid as service charges therefor.

The Institute of Post-Harvest Technology

The following observations are made.

- Thirty seven technical machines had been manufactured under the Mechanical Engineering Division during 16 years from the year 2000 on which the Institute of Post-Harvest Technology had been established up to the year under review. Only 03 out of those machines had been received the Patent and as such, an identity had not been received by the Institute for machines of 92 per cent of those manufactures. Out of 37 types of those machines, 24 types had not been used in the field even by 31 December 2016.

- In purchasing equipment at a cost of Rs.61.6 million for the modernization of the laboratory of the Institute in the year 2015, a loss exceeding a sum of Rs.16.6 million had been sustained by the Institute due to failure in carrying out proper technical evaluation and implementing the procurement process properly. Adequate steps had not been taken in that connection and the Gas Chromatograph Mass Spectrometer valued at Rs.15.22 million purchased for keeping the laboratory fully air conditioned, had remained idle even by 30 June 2017 without using for any purpose of the Institute.

Agricultural and Agrarian Insurance Scheme

This Scheme which was commenced in the year 1973 by introducing the Paddy Cultivation Insurance to the farmer, has been expanded with the objectives of providing relief for the farmer through the third party insurance scheme covering the agricultural horticultural crops and medicinal plants, livestock, fisheries and forestry, agricultural equipment and storage at present. The insurance for fisheries and forest production had not been commenced in the year under review and out of 275 targeted stores, only one store had been insured. Moreover, achieving the physical and financial targets of livestock, stocks, agricultural-equipment and suwasetha insurance schemes was at a low level less than 50 per cent. Even though the targeted income from the third party insurance scheme amounted to Rs.27.95 million, the actual income had been Rs.8.47 million. However, the net income received by deducting the expenditure on operations from the actual income, had been Rs.1.96 million.

Farmers’ Pension and Social Security Benefit Scheme

The number of contributors as at 31 December 2016 under this Fund which was established by the Farmers' Pension and Social Security Benefit Scheme Act, No.12 of 1987, stood at 959,254 and the number of monthly pensions holders stood at 141,260. Moreover, members had not been enrolled to the Scheme from the year 2012 to the year 2016.

Even though the new proposals indicated in the Notification published by the Gazette Extraordinary No.1853/49 of 14 March 2014 should have been implemented, payment of pensions had been made according to the new scheme and collection of contributions had been carried out according to the old scheme. As such, pensions totalling Rs.5,047.72 million had been paid from January to December 2014 and only a sum of Rs.63.06 million had been collected therefor as contributions.

The Board had to obtain money from the Treasury for the payment of pensions monthly due to the financial crisis in the Fund and a sum of Rs.2,450 million had been obtained from the Treasury in the year 2016.

Fishermen's Pensions and Social Security Benefit Scheme

The number of contributors by December 2016 under this Scheme which was commenced and implemented in the year 1991 stood at 68,915 and the number of monthly pension holders stood at 3,724. There was a trend in the decrease of the enrolment of new members to the Fund from the year 2012 to the year 2016 and it represented 85 per cent decrease as compared with the year 2012. In the comparison of receipts to the Fund and payments from the Fund in the year 2016, payments had been made exceeding the receipts of Rs.51.17 million. Even though it had been identified that the Fund depreciated after the year 2014 and may become zero by the year 2020 due to increase in the number of pension holders, the Board had not taken action even by the end of the year under review to revise the Fund.

Farmer's Trust Fund

The objectives of the Fund which was widened by a Cabinet Memorandum in the year 2002, are agriculture development and welfare of the farmer community, provisions of agricultural loan facilities and marketing loan facilities to small farmers, provisions of agricultural input, implementation of education programmes and special programmes for agriculture development and providing other kind of patronage in respect of crops and animal production and processing. The following observations are made in respect of the operation of the Fund.

- Out of the main objectives of the Fund, matters such as provisions of agricultural input to small farmers and providing other kind of patronage in respect of animal production and processing had not been achieved.

- A sum of Rs.142.36 million had been estimated for 41 projects under this Fund in the year under review and a sum of Rs.44.62 million had been released to 27 projects. A performance report including the physical and financial progress of the projects at the end of the year had not been prepared and 14 planned development programmes had not been commenced.

- Even though the main source of income is a percentage of 10 per cent from proceeds of sale of Govisetha Lottery, action had not been taken to obtain that money from the General Treasury since the year 2009 and the income not so used amounted to Rs.2,353.06 million.

- There were 07 loan balances totalling Rs.21.22 million over a period of 10 years under the short term loans, a loan balance of Rs.9.11 million over a period of Rs.15 years under the long term loans, 03 loan balances totalling Rs.4.12 million remaining unsettled within a period ranging from 03 years to 11 years under advances and 04 loan balances of Rs.98.48 million older than 10 years included in other loan interests receivable.

PLANTATION INDUSTRY

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

- Providing support and other facilities needs for increasing the productivity of plantation crops.
- Enhancing the international competitiveness for the productivity of the Plantation Industry.
- Taking necessary steps for uplifting the Industry for enhancing the value addition of the plantation crops.
- Issue of licences relating to Tea and Rubber.
- Issue of permits for the export of Tea.
- Issue of licences for fragmentation of Tea and Rubber, and Coconut Estates and control.
- Optimum level use of plantation lands through multi-crop cultivation and collective farms and achieving thereby increased production and employment.
- Development of Tea, Rubber and Coconut Industries and research activities relating thereto.
- Introduction of enterprise and structural changes to the institutions affiliated to the Ministry.

A summary of the audit observations revealed on the performance of the above functions by the Ministry and the Institutions under the Ministry is given below.

Decrease of the Production of three Major Plantation Crops

The production of Tea, Rubber and Coconuts relating to the Plantation Sector of Sri Lanka for the year 2016, as compared with that of the preceding year had decreased by 11.01 per cent, 10.72 per cent and 1.47 per cent respectively. Details appear in Table No 19

Crop	Production		Decrease as Compared with the year 2015	Percentage Decrease as Compared with the year 2015
	2015	2016		
Tea : Kilogramme Millions	328.8	292.6	36.2	11.01
Rubber: Kilogrammes Millions	88.6	79.1	9.5	10.72
Coconuts : Nuts Millions	3,056	3,011	45.0	1.47

Table No 19 : Decrease in the production of major Plantation Crops
Source : Annual Report of the Central Bank of Sri Lanka 2016

Similarly, the contribution of Tea and Coconuts to the Gross Domestic Product of the year 2016 as compared with the preceding year, had decreased. Details appear in Table : 20

Crop Product	Contribution to the Gross Domestic Product (Percentage)	
	2015	2016
Tea	0.8	0.7
Rubber	0.3	0.3
Coconuts	0.8	0.7

Table : 20 Contribution of Plantation Crop Products to Gross Domestic Product
Source : Annual Report of the Central Bank of Sri Lanka 2016

Transfer of Lands on Lease Rent Basis

According to the Revenue Account presented to Audit by the Ministry of Plantation Industry, lease rent revenue totalling Rs.450.96 million remained receivable from the lands given on lease rent basis over periods ranging from 1 year to 25 years and the Ministry had failed to recover such outstanding revenue even by the end of the year under review. The lease rent due from 45 Estates of 3 Companies, namely, Agarapathana, Udupussellawa and Elkaduwa had been outstanding from the year 1992.

Even though revenue amounting to Rs.900 million should have been collected according to the revised Revenue Estimate for the year under review, Rs.767 million inclusive of the arrears of revenue collected, had been collected by the end of the year. The actual revenue for the year under review as compared with the actual revenue for the preceding year had increased by Rs.121 million.

Out of the 571 Estates belonging to the Plantation Companies, parcels of lands had been given for common purposes such as infrastructure facilities. The evidence in confirmation of the determination of the boundaries of these lands had not been furnished to Audit for the correct identification of the extent of such lands.

In the grant of leases of Estates for a period of 53 years, certain Estates had not been included in the revised lease agreements. As such the lease rent receivable from those Estates had been deprived of.

According to the decision of the Cabinet of Ministers dated 11 November 2009 prior to the grant of sub-leases, the approval of the owner of the Golden Shares should be obtained prior to granting sub-leases. Even though 18 parcels of lands belonging to 08 Regional Plantation Companies had been sub-leased to 14 Companies in the years 2014 and 2015 the approval of the Secretary to the Treasury, the owner of the Golden shares had not been obtained.

Foreign Aid Projects

According to the Annual Budget Estimates of the year 2016, provisions amounting to Rs.885.9 million had been made for two projects financed from foreign aid. Loan Aid of Rs.306.5 million only for one project had been received. Even though the agreement for the other project had been entered into on 26 April 2014, the provision made amounting to Rs.441.4 million had not been utilized.

Fragmentation of Tea, Rubber and Coconut Estates

Action had not been taken in terms of the Tea, Rubber and Coconut Estates (Control of Fragmentation) Board to amend the Act to achieve the timely requirement for the protection of cultivations. The Board of Directors had not taken follow-up action to ensure whether after the conditional approval granted by the Tea, Rubber and Coconut Estates (Control of Fragmentation) Board, action is taken in accordance with the specified conditions. Checks had not been carried out to ensure whether the Local Authorities had obtained the approval of the Board for the approval granted by the Local Authorities for the fragmentation of lands. Action in terms of Sections 12(8) and 24 of the Tea, Rubber and Coconut Estates (Control of Fragmentation Act, No. 2 of 1958 as amended by the Tea and Rubber Estates (Control of Fragmentation) (Amendment) Act, No. 20 of 2005 had not been taken by the Tea, Rubber and Coconut Estates (Control of Fragmentation) Board to obtain the approval of Parliament for the regulations on the performance of its functions and publish a Notification thereof in the Gazette. Even though the Cabinet of Ministers had decided on 10 June 2009 that it was not necessary to establish the Tea, Rubber and Coconut Estates (Control of Fragmentation) Board as a separate institution, a Chairman for the Board had been appointed and sums totalling Rs.1.09 million had been spent as salary and fuel allowance in that connection in the year 2016.

Survey of Plantation Lands

Lands 31,435.12 hectares in extent of lands in 7 Districts had been given for carrying out surveys under the functions of the Ministry of Plantation Industry and out of that the surveys of 16.6 per cent of lands had been completed. Out of the provision of Rs.9.09 million made for that purpose 22.7 per cent had been spent on that work. Even though surveys of lands is the function of the Department of Surveyor General, the extent of lands not surveyed in the 12 expected districts ranged from 52.9 per cent to 91.0 per cent.

Building Procured on Rent

A building for the Plantation Management Supervision Division for the period from 16 August 2016 to 16 February 2017 had been procured for the rent of Rs.3,000,000 at the rate of Rs.500,000 per month on the payment of an advance on 16 August 2016. The Plantation Industry Division had not utilized that building even by 5 January 2017 and the rent of Rs.2.25 million paid up to that date had become fruitless.

Export of Value Added Rubber Products

The export of 16,305 metric tons of rubber in the year 2014 had decreased by 36 per cent to 10,374 metric tons in the year 2015. The export of rubber in the year 2016 as compared with the year 2015 had increased by 56 per cent to 16,167 metric tons. Nevertheless, the rubber export revenue of Rs.5,915 million in the year 2014 had decreased by 16 per cent in the year 2016 to Rs.4,758 million. Details appear in Figure 18

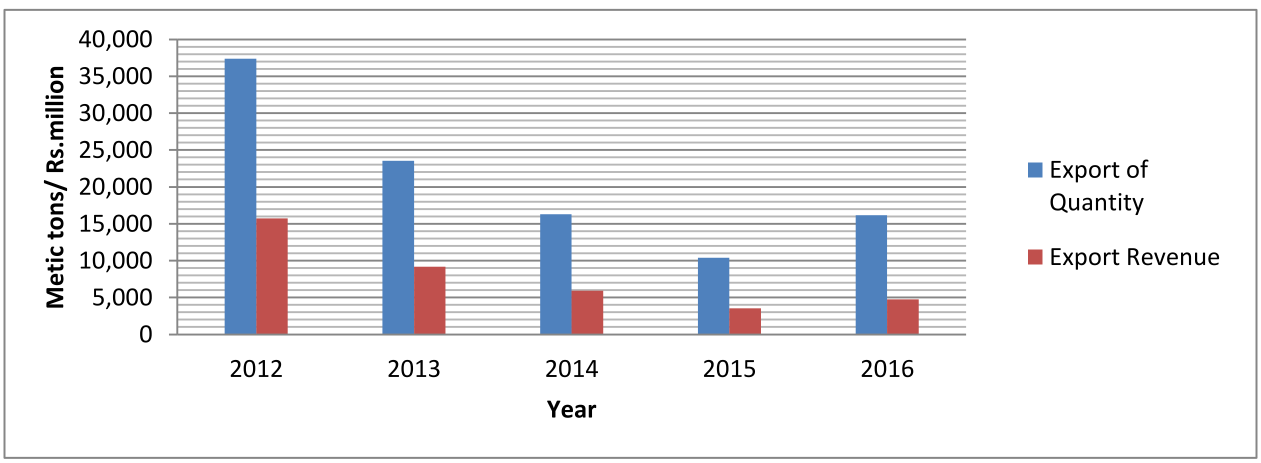


Figure 18: Rubber production and Export revenue
Source: Information of Statistical Division of Department of Rubber Development

Increase of Rubber Imports

The importation of natural and artificial rubber to Sri Lanka had been increasing continuously and the import of 68,685 metric tons in the year 2014 had increased by 107 per cent to 142,476 metric tons in the year 2016. The import cost of Rs.17,809 million in the year 2014 had increased by 74 per cent to Rs.30,971 million in the year 2016.

Decrease in the Rubber Production

The Department of Rubber Development had implemented Subsidy Programmes continuously for raising the extent of rubber lands and the productivity of the cultivated lands. The entire revenue from rubber had been decreasing continuously from the year 2014 and the rubber production of 98,573 metric tons in the year 2014 had decreased by 20 per cent to 79,100 metric tons in the year 2016.

Even though estimates had been prepared for the replanting and new planting of rubber in 7,000 hectares of lands, rubber planting had been limited to 1,183 hectares or 17 per cent of the estimated extent due to the decrease in the price of rubber.

Even though the transport of 500,000 rubber seedlings had been estimated with the expectation of planting rubber seedlings in the Monaragala and Ampara Districts 88,170 seedlings had been transported. As such planting of 82 per cent of the expected rubber seedlings had not been achieved.

Rubber lands 816 acres 1 rood 13 perches in extent in the Monaragala District belonging to 659 farmers for which Rubber Planting Permits had been issued had been identified as failed rubber lands. Subsidy amounting to Rs.5.01 million had been paid for those lands.

Cultivation of Subsidiary Crops in Rubber Cultivated Areas

Even though estimates had been prepared for the cultivation of subsidiary crops in 830 hectares in the rubber cultivated areas 17 per cent of the target only had been achieved.

Payment of Guaranteed Price for Rubber

A guaranteed price for rubber had been paid in the years 2014 and 2015 for the rubber smallholders. An audit test check carried out in this connection revealed that even though a guarantee price of Rs.7.44 million had been paid to three companies for 77,458.9 kilogrammes of rubber. The evidence in support of the purchase of rubber from the rubber smallholders had not been produced. Even though a Rubber Trading Agent had been paid Rs.16.38 million as guaranteed price, a sum of Rs.2.01 million out of that had been paid on erroneous information.

Conduct of Research on Rubber Cultivation

There were 111 researches on rubber cultivation in progress during the year under review. Out of those researches 63 researches had been completed from the year 2011 to the year 2015. Certain Researches had taken 18 to 20 years for completion. Alternative methodologies had not been identified for minimizing the time spent on researches and there were 48 uncompleted researches. Out of those, the researches with duration ranging from 5 years to 28 years were scheduled for completion. Even though it was stated that a research conduct over a period of 20 years had resulted in the increase of the annual rubber production, the actual annual yield of the Dartonfield Estate of an expected yield of 3,004 kilogrammes had been between 800 kilogrammes to 900 kilogrammes.

Human Resources Management

The following observations are made in connection with the Human Resources Management of the Rubber Research Board.

- An Estate Superintendent recruited on contract basis had been granted a Motor Vehicle Permit contrary to the provisions in the Trade, Tariff and Investment Policy Circular No. 1/2010 of 10 December 2010. The Customs Duty and other taxes amounting to Rs.8.09 million had been provided on the motor vehicle imported.

- Medical bills amounting to Rs.23.30 million had been reimbursed to the staff during the year under review, and the Treasury approval for the methodology of payment had not been obtained. Further, a sum of Rs.5.05 million had been deposited in a separate Bank Account on a decision of the Board of Directors for the payment of medical assistance.

- Surcharges of Rs.1.75 million had been paid for the failure to pay the contributions to the Employees' Provident Fund and the Employees' Trust Fund and the Gratuities as specified during the years 2006 to 2016.

Thurusaviya Fund

The following observations are made in connection with the Thurusaviya Fund.

- The district-wise dormant Thurusaviya Societies as at 31 December 2016 had been 365 and according to Section 4 of the Thurusaviya Fund Act, No. 33 of 2000, the registration of a registered Thurusaviya Society should be cancelled and a Notification thereof should be published in the Gazette. But it had not been so done in connection with the dormant Societies.

- A Forward Plan of Work Proposals had been introduced through the Board of

Management Paper No. 90 : 15795 dated of June 2015 and according to that decision it had been expected to increase the membership to 100,000 to enable to credit a sum of Rs.1,000,000 to the Fund at the rate of Rs.10 per member. But that had not been achieved.

- An income per month of Rs.200,000 was expected from the production activities of 09 Thurusaviya Group Processing Centres. The Fund had not taken action for the collection of the expected income. Even though a monthly income of Rs.1 million had been expected income. Even though a monthly income of Rs.1 million had been expected by the commencement of Rubber Purchasing Centres and Scrap Crepe Production Centres in 7 districts, the Centres had not been commenced even by 31 December 2016.

- Even though there were 707 registered Thurusaviya Societies, in the payment of subsidy on roller pairs in the years 2014, 2015 and 2016, such subsidy had been provided only to 80 Societies which could afford 50 per cent of the subsidy.

Coconut Development Authority

The observations revealed during the course of audit test checks of the performance of functions are given below.

- The levy of 20 cents per kilogramme of desiccated products charged by the Authority had been determined over 40 years ago and action had not been taken for the revision of that amount on a timely basis.

- A sum of Rs.9.34 million had been paid to the Sri Lanka Rupavahini Corporation for the programme on popularizing the Coconut Milk, Coconut Milk Powder and Coconut Cream among the consumer community. The cost of the programmes telecast had been Rs.2.28 million. Nevertheless, action had not been taken either for the recovery of the overpayment of Rs.7.06 million or for the telecast of other programmes in lieu.

- Despite the non-payment of the interest and loan installments in respect of the loan of Rs.26.72 million granted to a private company in the year 1985, further loans amounting to Rs.31.60 million comprising Rs.25 million in the year 2002 and Rs.6.60 million in the year 2004 had also had granted. A sum of Rs.31.55 million out of that had not been received by the Authority even by the end of the year under review.

- Out of 32 cameras in the CCTV Camera System installed by the Authority in October 2014 at a cost of Rs.1.07 million, 19 cameras were not in working condition.

- The Authority had paid a surcharge of Rs.2.66 million as surcharge for the years 2006 to 2012 in connection with the Private Employees' Provident Fund maintained under the supervision of the Commissioner General of Labour for which 91 employees are contributing whilst a surcharge of Rs.3.25 million had been paid to the Employees' Provident Fund maintained by the Central Bank of Sri Lanka for which 116 employees are contributing. Further, during the above period the cost of living allowance had not been taken into account in the payment of contributions to the Employees Provident Fund. The 10 per cent contribution payable by the employees during that period amounting to Rs.1.18 million had been paid by the Authority.

Coconut Research

A Research Project scheduled by the Coconut Research Board in the year under review and completion in the year 2018 had not been commenced even by the end of the year under review. The physical progress as at the end of the year under review in respect of 24 ongoing projects ranged between zero per cent to 50 per cent.

Coconut Leaf Wilt and Rot Disease

The number of coconut palms uprooted under the Weligama Coconut Leaf Wilt and Rot Disease Eradication Programme during the years 2008 to 2016 due to the spread of the disease to the Galle, Matara and Hambanthota Districts had been 288,683 and compensation of Rs.305.41 million had been paid in that connection. The other expenditure amounted to Rs.75.36 million. Nevertheless, the Board had failed to introduce a variety of coconut which could endure the disease or for the eradication of the disease.

Kapruk Fund

According to the decision taken at the first meeting of the Board of Directors of the Kapruk Fund held on 01 August 2016, the unspent money from the money given to the Zonal Societies should be recovered and given to the Primary Societies. Nevertheless, action had not been taken even by the end of the year under review to recover the unspent money of the Zonal Societies amounting to Rs.18.80 million and give that money to Primary Societies.

Ceasing of the Oil Palm Project

According to the Project Plan of the Oil Palm Project commenced by the Coconut Research Board in the year 2012 as an alternative method to meet the local requirements of the vegetable oil, plans had been made for the implementation of 8 Research Projects at an estimated cost of Rs.31.17 million. The Project Periods thereof had ranged from the year 2013 to the year 2024. That Project had been ceased halfway in July of the year under review and a sum of Rs.3.88 million had been spent thereon up to that date.

Introduction of New Varieties of Coconut

The Genetics and Plant Breeding Division of the Coconut Research Board had been conducting Researches continuously on the introduction of new varieties of coconut. New coconut varieties had not been introduced after the year 2012. Out of the 06 new coconut varieties introduced, the coconut varieties of Kapruwana, Kapsetha and Kapsuwaya had not spread among the public.

Production of Coconut Shell Charcoal

Bandirippuwa Research Centre of the Coconut Research Board had established a Heat Preservation Unit in the year 2008 at a cost of Rs.1.72 million with the objective of preserving the heat released in the production of coconut shell charcoal and using that heat for drying of copra. That remained idle since the year 2012 without producing coconut shell charcoal.

Payments made exceeding the Price determined at Coconut Auctions

The Coconut Cultivation Board had overpaid a sum of Rs.55.74 million in the year 2016 by the payment of Rs.9 and Rs.6 exceeding the prices determined at the coconut auctions for 3,910,110 seed coconuts (PP) and 3,424,931 selected seed coconuts (PP2) of high quality palms respectively. The Treasury approval for that had not been obtained.

Purchase of Fertilizer for Coconut Estates and Nurseries

Bids had been invited for the purchase of fertilizer for the Coconut Estates and Nurseries for the year 2016 and the contract had been awarded to a Company. The Coconut Cultivation Board had entered into an agreement with the Company concerned on 01 November 2016 for the purchase of 708.175 metric tons of fertilizer for Rs.26,393,369. Even though the stock of fertilizer should have been supplied within 30 days as specified in the Bid Invitation Documents 323.15 metric tons only had been supplied within that period. The terms and conditions on the courses of action to be taken in connection with the failure to supply the balance stock of fertilizer on the due date had not been included in the agreement.

Payment of Fertilizer Subsidy

The Ministry of Plantation Industry had made provision of Rs.654 million for the year under review for the payment of fertilizer subsidy for popularization of the use of fertilizer among the smallholder coconut cultivators. Even though targets had been set for the supply of fertilizer for 11,678,571 coconut palms in the year 2016, the Coconut Cultivation Board had paid Rs.495 million in the year 2016 to

72,384 applicants for 8,839,272 coconut palms.

Decrease in the Production and Export of Tea

Sri Lanka Tea Board had implemented a number of financial assistance schemes for the achievement of the major objective of development and regulating the Tea Industry in Sri Lanka and the promotion of Sri Lanka Tea globally. Nevertheless, the overall Tea production had been decreasing from the year 2014 and the tea production in the year 2016 as compared with the year 2015 had recorded a decrease of 11 per cent. Sri Lanka Tea, as a strong competitor in the World Percentage Share of Tea Exports of the year 2001 had achieved an export contribution of 20.6 per cent. That had decreased to 16.9 per cent in the year 2015, and the tea exports in the year 2016 as compared with the year 2015 had decreased by 3.41 per cent. Details appear in Figure 20.

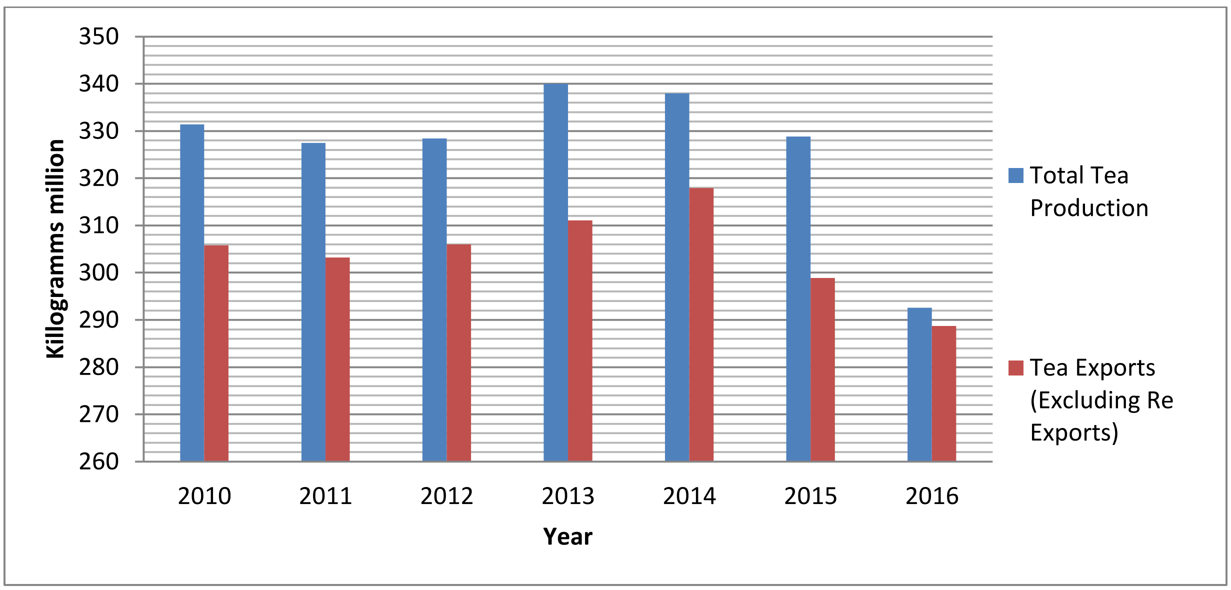


Figure 20 : Decrease in total Tea production and Tea export
Source : Annual Reports of Sri Lanka Tea Board and Information of Statistical Division

Promotion of Sri Lanka Tea Production

The quality marks ensuring 100 per cent pure Tea of Sri Lanka such as the Global Marketing Project for the international expansion of the “Ceylon Tea” Brand, “Lion Label”, “Environmental – Ozone Friendly Label” , Geographical Indicators – Seven Zone Label, etc., had been introduced during the year under review. A sum of Rs.8 Billion had been spent during the years 2014 – 2016 with the objective of promotion of tea production. Nevertheless, the expected Global Promotion and Marketing Programme had not reached the expected level even by the end of the year 2016.

Payment of Soil Conservation Subsidy

The increase of the current production of green leaf by 10 million kilogrammes and the increase of the foreign exchange earnings by Rs.9,010 million had been expected by the grant of the Soil Conservation Subsidy to Tea Smallholders of ¼ acre and less than one acre in 8 Regional Zones of the Tea Smallholdings Development Authority. Even though the Soil Conservation Subsidy had been paid in the years 2014 and 2015 to all Tea Smallholders the expected target had not been achieved.

Testing of Pest Control Residue in Tea

The equipment costing Rs.44.41 million purchased and installed by the Sri Lanka Tea Board for testing of the pest control residue in tea had been idling over a period exceeding 5 years.

Decrease in the Contribution from Tea Smallholders

The contribution of the Tea Smallholders for the total tea production of Sri Lanka in the year under review had been 74.5 per cent and the contribution of the preceding year had been 72.91 per cent. The production of the Tea Smallholders as compared with the preceding year had decreased by 21.79 kilogrammes or 9 per cent. The average productivity of the Tea Smallholdings Sector in the years 2014, 2015 and 2016 had decreased as 2,123 , 2,059 and 1,872 kilogrammes respectively per hectare. The productivity for the year under review as compared with the preceding year had decreased by 9 per cent. Even though 2 per cent of the existing extent of Tea Smallholdings should be replanted annually for its stable existence along with maximum productivity, that extent for the year under review had been only 0.61 per cent.

Decrease in the Payment of Subsidies to Tea Smallholders

The subsidy granted by the Tea Smallholdings Development Authority for the new planting of tea in the area without alternative crops or income sources, in the year 2016 as compared with the year 2015, had been reduced by Rs.81.39 million or 64 per cent. Even though the provision made for the improvement of the fertilizer efficiency through the improvement of soil fertility under the Soil and Water Conservation Productivity Special Programme amounted to Rs.32.08 million, the Tea Smallholdings Development Authority had not utilized that provision for the intended purpose.

Implementation of Projects for the Tea Industry

Thirty eight Projects commenced by the Tea Research Institute with the primary objective of upgrading the productivity and the quality of made tea had been ceased halfway due to different limitation factors.

Even though a sum of Rs.44.85 million had been spent up to the end of the year under review on the Mechanisation Project commenced in the year 2013 by the Tea Research Institute as a solution to the severe labour shortage faced by the Tea Industry, those machines could not be effectively used due to the damage caused to the harvest resulting from the inability to use them on sloping lands.

Tea Shakthi Fund

In view of the severe financial crisis faced by the Fund due to the losses sustained by 14 Factories, the Fertiliizer and the Local Tea Sales Divisions the approval of the Cabinet of Ministers had been granted for the restructure of the institution. There were 94,425 shareholder with shares valued at Rs.206.01 million as at 31 December 2015 and since the year 2007, the Fund had not been operated even up to the end of the year under review in a manner to enable payment of dividends.

Training of Officers of the Tea Industry

Even though the National Institute of Plantation Management had commenced Training Programmes in the year under review for the training of Tea Factory Officers and the Field Tea Officers, the student participation of those programmes by the end of the year had been only 66 per cent and 64 per cent respectively of the number of students registered. Out of 25 income generation programmes schedules only 17 had been conducted.

Sugar Cane Products

Even though 33 years had elapsed since the establishment of the Sugar Cane Research Institute, the local production of sugar had been at 9 per cent of the total sugar requirement due to the slowness of introducing suitable varieties of sugar cane, decease control, sugar cane cultivation methodologies and introduction of methodologies for increasing the percentage of sugar extraction.

The Treasury approval for Welfare Programme implemented for the reimbursement of medical bills of employees of the Sugar Cane Research Institute had not been obtained whilst the approval of the Department of Public Enterprises had not been obtained for the Manual of Procedure used by the Institute. A sum of Rs.11.35 million had been spent on the reimbursement of medical bills of the year 2016.

Out of 19 Research Projects of which the Sugar Cane Research Institute expected 100 per cent progress by the end of the year under review, the physical progress of 17 Projects ranged from 5 per cent to 75 per cent.

The Sugar Cane Research Institute had spent a sum of Rs.20.35 million for the establishment of Sugar Cane Nurseries and conduct researches on lands not vested in the Institute comprising 5.4 hectares of the Ensalwatta in Deniyaya, 200 hectares in Kantale and 12 hectares in Kilinochchi.

Even though a cess should be collected on the quantity of sugar manufactured by the local sugar produces in terms of Section 18 of the Sugar Cane Research Act, No. 75 of 1981 a sum of Rs.1.08 million remained receivable from the Gal Oya Sugar Factory.

Land

The optimum use of the resource of lands for sustainable development is the result expected from the Ministry. The following functions are performed for that result.

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

The above mentioned functions are performed by 4 Departments and a Statutory Body under the purview of the Ministry. The deficiencies revealed in the audit test checks carried out relating to those functions are summarized and given below.

Establishment of the Land Bank

Provisions of Rs.500 million had been made under the Ministry of Lands to establish the Land Bank and the Treasury had released imprests of Rs.195 million for the utilization of those provisions. Out of the imprests so released, only provisions of 55.5 per cent had been utilized by the end of the year under review. Even though the function of scanning and computerization of extracts of 22 Land Registries under this Project should be performed, its progress had been 41 per cent.

Acquisition of Lands for Government Requirements

The Land Acquisition Division of the Ministry had been following the legal procedure related to acquisition of private lands for different development projects, releasing provisions for the payment of compensation for the lands acquired and regulating the Acquisition Officers in the implementation of the acquisition process. Even though the Ministry had planned to acquire 244 lands through the Land Acquisition Division in the year under review, only 134 lands or 55 per cent of the extent of lands planned had been acquired even by the end of the year under review.

In the case of progress of land acquisitions, the number of action acquisition files relating to the years 2012 to 2016 had been 18,841 and out of them 401 inactive files had been discarded. Moreover, the Interim Provision Order of Section 38 (A) of the Land Acquisition Act had been issued for lands mentioned in 1168 files during that period and out of them, 236 files had been closed after the payment of compensation.

Compensation for acquisition of lands amounting to Rs.697.59 million and interest thereon amounting to Rs.160 million had been paid during the year 2016. Out of the interest so paid, a sum of Rs.49 million during the period from 1976 to 1995, a sum of Rs.71 million during the period from 1996 to 2005 and the remaining sum of Rs.40 million during the period from 2006 to 2014 had been for the lands acquired.

Bimsaviya Programme

The Bimsaviya Programme is implemented with the objective of clearing the title to the land resources of Sri Lanka for the protection of the future generations. According to the Action Plan of the year 2016, the number of Title Certificates targeted to be issued during the year stood at 100,000. However, according to the revisions made by the Department of Survey from time to time, the revised target had been changed as 45,000 after a lapse of a period of 06 months. Nevertheless, the number of blocks of land registered in the year under review stood at 35,031 and achieving of that revised target had failed as well. Moreover, out of the number of registered Title Certificates which stood at 35,031, the number of Title Certificates obtained by persons stood at 21,872. As such, out of the number of registered certificates, only 62 per cent had been obtained by persons.

Land Information Management System

Action had been taken for the creation of the State Lands Information Management System for the easy and efficient performance of the State Lands management functions. The State Land Information Management System had been implemented in 332 Divisional Secretariat Divisions by the end of the year 2016. Data of 689,120 land parcels had been computerized under the e-slims project by the end of the year 2016. Even though entering information on 100,000 land parcels had been expected according to the Action Plan for the year 2016, only 498,622 land parcels or 50 per cent of the expected number of land parcels had been achieved.

The setting up of a computer laboratory for training officers for entering state lands to the Information System had been commenced in the year 2015. It had taken over a period of 9 months in the year 2016 to set up that laboratory so as to enable training. Training of officers had not been commenced even by 30 June 2017. However, a total of Rs.6.57 million comprising sums of Rs.1.56 million for purchase of printing machines, Rs.3.56 million for computers, Rs.0.78 million for computer tables and Rs.0.67 million for computer chairs had been spent in the years 2015 and 2016 for that computer laboratory. Nevertheless, the said equipment and the building had remained idle as the activities of the laboratory had not been commenced.

Revenue from State Lands Leased

State revenue is collected by leasing out state lands to state and private institutions and to individuals for resident, agricultural and commercial purposes in strengthening the state lease revenue structure through the optimum management of the resource of state lands. Even though the Department of Land Commissioner General had planned to recover 75 per cent of the arrears of revenue by the beginning of the year under review, only 17 per cent of the arrears of revenue by 01 January 2016 could be recovered in the year under review.

Registration of Title of Lands

Various problems arise in the process of registration of titles. As such, the files relating to land parcels surveyed during various stages of the process, are kept aside temporarily. Files relevant to 22,485 land parcels had been kept aside from January to September in the year 2016 and the Department of Land Settlement had made settlements for only 8331 files including the files kept aside in prior years and afterwards had been added to the Programme of Registration of Titles.

Execution of Survey Requisitions

The total number of survey requisitions to be completed by the Survey Department in the year under review stood at 32,924 and out of those, 18,413 survey requisitions or 49 per cent had been completed. Even though a sum of Rs.245 million had been paid as incentive for the Bimsaviya Programme from the year 2012 to the year 2016, its entire progress had been 10 per cent. At present, the Department uses highly advanced technical equipment and techniques for the purposes of survey. However, the monthly Norms of a Surveyor during the period of nearly 35 preceding years stood at 20 and it had not been timely reviewed.

Construction of Buildings

The Survey Department had constructed buildings belonging to them by spending a sum of Rs.62.34 million in the areas of Trincomalee, Vavuniya, Kekirawa, Kuchchaveli, Diyathalawa and Katumana. Those constructions had been carried out contrary to the provisions mentioned in the Government Procurement Guidelines and the provisions of the Institute of Construction Training and Development (ICTAD) as well. An overpayment of Rs.3.47 million had to be paid by the Government due to non-selection of contractors of low price. A sum of Rs.3.49 million had been paid exceeding the amount requested by the contractor. In the construction of buildings in the areas of Vavuniya and Kuchchaveli, a sum of Rs.2.70 million had been overpaid and a sum of Rs.1.05 million had not been recovered as liquidated damages in the construction of the Trincomalee District Surveyor Office.

Purchase of Equipment

Twenty five Total Stations, 165 Laptop and Desktop computers and 189 Hand Held GPS had been purchased at the total cost of Rs.76.85 million in the year under review for improving the performance of the Department of Survey and 06 CORS control systems as well had been established. In obtaining these supplies and services, deviation from the Guidelines of the Government Procurement Guidelines and deviation from independence as well had been observed. A sum of Rs.3.47 million had been spent for various purchases of offices of outside areas and action had not been taken in terms of the Government Procurement Guidelines even in those purchases.

Land Reform Commission

Providing the legal bindings of the landlords, as well as the payment of compensation, use of the lands taken over for productive investments and the collection of income receivable by the Commission had been the key functions of the Commission. The following observations were revealed in the performance of those functions by the Commission.

- The documented evidence indicating the extent of lands belonging to the Commission had not been updated even by 31 December 2016. The records necessary for the collection of arrears of income had not been maintained and action had not been taken to recover those arrears of income as well.

- The number of persons who had not been given statutory judgements exceeding 40 years relating to lands for which statements had been submitted during the period from 1972 to 1974, had been 235. Out of those, statutory judgements could not be so given for 25 per cent on non-submission of plans and 53 per cent on non-presentation of declarants. Even though the statutory judgements were delayed, the opportunity of making productive use of these lands that had been vested in the Council and generating income from them had been limited in the availability of the enjoyment of the lands with the declarant.

- In terms of Section 29 of the Land Reform Act, No.1 of 1972, hundred and four files published in the Gazette Notification relating to payment of compensation for which titles had not been confirmed, had existed at the beginning of the year and out of them, compensation could be paid only for 3 files in the year 2016.

- Action had not been taken to vest the projects proscribed by a Cabinet Decision, once again in the Commission or action for reinforcement by other Cabinet Decisions had not been taken on plausible reasons, if any. As such, those lands had been made use of by the beneficiaries of those projects without recovery of any income whatsoever. As a result, the Commission had been deprived of large amounts of income.

EDUCATION

The objective of this Sector is the creation of human resources imbued with intellect, benevolence, personality and good conduct through an education of quality. Four Departments and 9 Statuary Boards/ Institutions had been established under the purview of the Ministry in order to achieve that objective. Those institutions should have performed the following functions for the achievement of that objective.

- Creation of a National Educational Methodology which enables to access to the global competition with self-confidence and thereby to reach success with self- assurance.
- Formulation, implementation and designing of policies, programmes and projects to enable the achievement of National Objectives.
- Taking necessary steps to provide physical and human resources required for National Schools.
- Providing free text books, uniforms, shoes and lunch.
- Proper maintenance of the quality of education and discipline among the schools.
- Promoting Buddhism and Pali Education and upgrading Piriven Education.
- Taking necessary action to preserve historical, archeological and cultural heritages.
- Proper management and preservation of Government documents.

A summary of audit observations revealed in connection with the performance of the above functions by the Institutions concerned is given below

Utilization of the Annual Budget Provision

The total provision of Rs. 543.51 million made under 15 Objects of the Ministry of Education had been saved without making any utilization whatsoever. Provision amounting to Rs. 121,352 million as the cost of maintaining Public Investments, Lands and Buildings, which had not been included in the preparation of Annual Estimates by the Ministry, had been provided under the Object 126-2-4-1-1407 appearing in the Annual Estimates 2016. No utilization whatsoever had been made from this provision shown as a nominal amount. The letter dated 23 December 2016 of the Director General of State Accounts informed that it need not be brought to account as expenditure as provision will not be released.

Results of Education

Out of 211,865 schools candidates who sat the General Certificate of Education (Advanced Level) Examination in the year 2016, the number of students who had failed in all subjects had been 17,702 or 8.36 per cent. The number of students who scored “A” passes in all subjects had been 6,468 or 3.05 per cent, whilst 69.64 per cent in the Commerce Subject Stream, 53.26 per cent in the Physics Subject Stream and 53.35 per cent in the Biology Subject Stream had qualified for Universities. In the year under review, which was the second year of sitting the Advanced Level Examination in the Technology Subject Stream 60.16 per cent from the Bio-system Technology Subject Stream and 55.58 per cent from the Engineering Technology Subject Stream had qualified for Universities.

Admission of Students to National Schools

The Ministry had stipulated that the maximum number of students for parallel classes in the Primary Grades as 40, the maximum number of students for the parallel classes in the Secondary Grades as 45 and the maximum number of students selected per class in the admission to Grade One as 40, whilst 116 National Schools had admitted 9,639 students beyond that limit. Among those, 32 National Schools considered as popular schools had admitted 5,373 students beyond that limit.

Appointments and Vacancies

According to the Establishments Code, an acting officer can be appointed as a temporary remedial measure until a permanent appointment is made. Nevertheless, in 228 out of 352 National Schools, officers had been deployed for covering up duties to the vacant posts of Principals. Even though, there should be 3 Vice Principals per National School, 99 Vice Principals beyond limit and had been appointed to 55 National Schools. Similarly, 61 Assistant Principals had been appointed to 28 National Schools exceeding the specified number of Assistant Principals per National School. There were 327 Island- wide vacancies of Teachers for the Technology Project Stream by the end of the year under review. The Ministry had not taken action to minimize the 2,361 Teacher vacancies in 183 National Schools and 1,527 Teacher excess in 163 National Schools as at 31 December 2016.

Disciplinary Inquiries

The number of disciplinary problems relating to irregularities and actions of indiscipline remaining in the school system without being settled during the period from the year 2008 to 30 April 2017 had been 343. That comprised problems relating to 69 Principals and 274 members of the academic and non-academic staff. Taking required policy measure for proper maintenance of the quality of the education, discipline and ethics of the students is one of the roles of the Ministry. Action had not been taken for the conduct of speedy disciplinary inquiries on the abuse of children occurring in schools and mete out punishment.

Leave

Even though 198 academic and non-academic staff of 35 National Schools had, during the year 2016, not reported for duty on 5,072 days without formal approval, the Ministry had not taken action in connection with those officers in accordance with the provision in the Establishments Code.

Even though, 712 members of the academic and non-academic staff of 143 National Schools had availed of 15,973 days of no-pay leave in the year 2016, action had not been taken for the recovery of money for such days of leave from their salaries.

Transfers

Even though the Circular No.2007/20 dated 13 December 2007 of the Ministry of Education had been issued in order to ensure the functioning of the Education Process more effectively and the expectation of this formulation and implementation of a Teacher Transfer Policy for the schools to maximize the welfare of the Teachers and students, the provision thereon had not been properly implemented. Accordingly, 5,905 teachers of 193 National schools had served in the same school continually over a periods ranging from 8 years to 27 years without being transferred.

Attachment for Teaching Subjects and Assignment of Periods

Eight hundred and seventy three Teachers of 152 National Schools had been attached for teaching subjects extraneous to the subjects for which they were appointed. Specially, 137 Teachers of 36 National Schools who had not undergone Primary Teacher Training had been attached to the Primary Classes.

Even though the Deputy Principals of a National School should be assigned at least a minimum of 10 periods of teaching work per week, 225 Deputy Principals of 101 National Schools had not been assigned even a single period of teaching activities. The number of periods of teaching to 6 Deputy Principals of 5 National Schools had been in the ranges of 2 to 6.
Even though the Assistant Principals should be assigned at least a minimum of 12 periods of teaching work per week, 69 Assistant Principals of 33 National Schools had not been assigned even a single period of teaching activities. The number of periods of teaching assignment to 6 Assistant Principals of 6 National Schools had been in the ranges of 2 to 6.

Teachers engaged in the teaching of Subjects should be deployed in a minimum of 35 periods of teaching of 40 minutes duration per week. Nevertheless, 769 Teachers of 136 National Schools had not been assigned even single period of teaching. Less than 16 periods of teaching had been assigned to 1,075 Teachers of 144 National Schools.

The Teachers engaged in the supervision activity in the National Schools should be assigned at least 16 periods of teaching of 40 minutes duration per week. Nevertheless, no periods whatsoever had been assigned to 59 Teachers of 14 National Schools. Less than 16 per cent of teaching periods had been assigned to 66 Teachers of 12 National Schools.

Vacancies of Special Studies Teachers in the 9 Provinces of the Island had been 411 whilst 355 Teachers who had undergone Special Studies Teacher Training had been deployed in service in other schools or classrooms.

Failure to Return Library Books

Two hundred and forty three Teachers of 35 National Schools had not returned 605 library books valued at Rs. 522,181 at the time of transfer, proceeding abroad, retirement and leaving services. Those Teachers had been released from service without recovering the books or value thereof.

Supervision of Private Schools

In terms of provisions in Section 25 of the Assisted Schools and Training Colleges (Special Provision) Act, No. 8 of 1961, no person open private schools for the education of children between the age of 5 years and 14 years. But 214 International and Private Schools had been opened contrary to that provision. International and Private Schools in addition to that as well had been established. The supervision of International Schools in compliance with the National Education Policy is one of the Major roles of the Ministry.

The Ministry had not formulated formal policies and standards for the assessment of the quality of the human and physical resources of the private schools and the supervision and regulation of the implementation of the syllabus in accordance with the National Education Policy.

Sisu Aruna Education Fund

The Ministry of Education had established the Sisu Aruna Educational Fund in the year 2001 with the objective of providing a monthly subsidy to the children who are talented in learning but of low income group having economic hardships and children who do not receive fifth standard scholarship bursary during the year 2001 to 2014. Even though the Fund had a balance of Rs. 3.58 million by the end of the year 2016, that is 15 years after the establishment of the Fund, the grant of scholarships in accordance with the objectives had not been commenced even by 30 June 2017.

Activities of National Colleges of Education

The vacancies in the Nilwala National College of Education comprised 45 vacancies in 13 posts of the Sri Lanka Teacher Educationists' Service, and 30 vacancies in 16 posts in the non-academic staff. The excess staff in 5 posts in the non-academic staff had been 6 whilst 9 Lecturers in the College of Education are serving in this College itself over periods ranging from 14 years to 22 years without being transferred.

The approved staff of the Peradeniya National College of Education was 151 and the actual staff was 61 and represented about 40 per cent of the approved staff. As there were no permanent Lecturers whatsoever in the Tamil Medium, that subjects were covered by two Visiting Lecturers.

The Scheme of Promotions of the Sri Lanka Teacher Educationists' Service had not been implemented properly and without delay. Adequate Training Programmes for Professional Capacity Development had not been provided for the staff. The staff had been inconvenienced due to lack of adequate computers and Internet facilities and the failure of the Ministry up to the end of the year under review to grant the Telephone Allowances.

Progress of Piriven Education

The Ministry had not performed the following functions in accordance with the following Orders in a Notification published in the Gazette Extraordinary No. 108/6 dated 01 October 1980 of the Democratic Socialist Republic of Sri Lanka.

- There were 754 Pirivens registered as at 31 December 2016 and 66,003 lay and clergy students were attached to these entities. The number of approved Lay and Cleric Teachers had been 6,503 whilst the number of unapproved Teachers had been 306. According to the Section 16.3 of the Orders appearing in the Notification published in the Gazette Extraordinary No. 108/6 of 01 October 1980, in the adjustment of the annual student average, the excess of Teachers that existed as at that date should also be considered. Nevertheless, irrespective of this excess of 1,700 Teachers approximately existed as at that date, appointments to 199 Teachers comprising 122 Cleric Teachers and 77 Lay Teachers, had been granted on 14 February 2017.

- According to the information of the Accounts Branch, the annual grant of Rs. 18.24 million approved for payment to 60 Pirivens in respect of the year 2015 had not been paid by the Ministry even by the date of Audit.

- Even though, certain Piriven Colleges had more than 500 students, there was no planning and supervision relating to the qualitative, quantitative and structural development of Piriven.

- A process for providing training programmes for the Teachers of Pirivens had not been implemented.

- Except for a Primary Pirivena in the Mullaitivu District and a Pirivena College in the Vavuniya District, no other Pirivens had been opened in the Northern Province.

Management Weaknesses

The number of Internet Facilities connectivity provided to the Schools Computer Network from the year 2005 by two Private Telephone Companies had been 1,724. The Ministry had decided to suspend those internet facilities in the year 2016, whilst 123 connections of one Telephone Company and 910 Telecom connections had been disconnected in the year 2016. None of the schools had been provided with new internet facilities even by the end of the June 2017. According to the information made available to Audit, one private Company had commenced the activities relating to converting the connections given to 192 schools to new connection under a monthly charge of Rs. 1,500.

According to the Circular No. 2006/27 dated 20 June 2006, of the Ministry of Education, the respective Principals should ensure that the vouchers for the payment of bursaries to the Grade 5 scholarship holders are handed over to the Zonal Education Office before the seventh of each month, the respective Accountants should have ensured that the bursary cheque for the vouchers handed over are sent to the respective Zonal Education Office before the twenty fifth date of such month. Bursaries of 09 National Schools in respect of the year 2015 amounting to Rs. 211,000 and the bursaries of 28 National Schools in respect of the year 2016 had not been paid even by the end of the year under review.

Uniforms and Vouchers

The school children had been provided textiles for the uniforms from the year 1993 to the year 2015. Instead of the uniforms, a voucher system had been introduced in the year 2016. The Ministry had spent a sum of Rs. 2,298.06 million in that connection in the year under review, and with that money, vouchers had been issued to 4,342,381 beneficiary students. Accordingly, the cost per student amounted to Rs. 529.22 and that as compared with the preceding year indicated an increase of Rs. 74.98. The following deficiencies were observed in this connection.

- According to the information made available, the amount spent for the supply of uniform materials in the year 2014 as compared with the year 2013 had increased by 38.77 per cent. That in the year 2015 as compared with the year 2014 had decreased by 14.46 per cent. Nevertheless, the amount spent in the year 2016 for the distribution of vouchers as compared with the amount spent on the supply of uniform materials, had increased by 11.91 per cent.

- Out of the vouchers valued at Rs. 2,616.57 million procured for the year 2016, vouchers valued at Rs. 2,414.08 million had been issued through the Zonal Offices to the schools. The amount paid by the Banks for the vouchers presented amounted to Rs. 2,267.61 million. As such, vouchers valued at Rs. 146.47 million had been retained by the Zonal Offices or Teachers or Students. In the overall, vouchers valued at Rs. 348.96 million out of the vouchers printed in the year 2016 had been saved.

Education Management Information System

An Education Management Information system had been established with co-operation of the University of Moratuwa with the objectives such as preparing a Data Base of Information of Teachers and the Management of the Teachers' Services affiliated thereto, the supply of the services required for the office system, etc. A sum of Rs. 64.06 million out of the Education for a Knowledgeable Society Project had been spent on the system from March 2011 to 31 December 2014.

A sum of Rs. 900,000 (excluding tax) on 27 February 2012 under the first step for the creation of the Data Base for the Teachers and a sum of Rs. 13,877,100 (excluding tax) on 27 June 2013 under the second stage for the creation of Modules based on the data in the first step had been paid to the University of Moratuwa. Nevertheless, the project older than four years was not in the proper operating condition even by 30 June 2017.

Printing and Distribution of School Text Books

The Department of Educational Publications had spent a sum of Rs. 3,888 million in the year 2017 for the printing of Text Books. Out of that, a sum of Rs. 2,985 million or 77 per cent of total of printing cost had been paid to 22 private printing presses for the printing of 30,033,000 copies of 315 kinds of books.

An excess expenditure of Rs. 129 million had been incurred on the year 7 Geography Book which was printed for the first time on artificial paper in the year 2016. Even though the books for every year had been printed on normal paper in 8 times for each of the 8 years, the cost thereof had been Rs. 206.43 million. It had been expected that the printing of the books in artificial paper in two turns would cost Rs. 309.49 million.

Procurement

The contract for the construction of a 4 storeyed building for the Vishaka Vidyalaya, Colombo had been awarded to a contractor who had submitted a bid of Rs. 97 million. The Principal concerned had informed the Ministry that the fixed deposits of Rs. 137 million of the School Development Society will be used to meet the entire cost of construction of the building. Even though it was possible to save a sum of Rs. 40 million after construction of the building from the money of the School Development Society, a sum of Rs. 63.5 million out of the provision made under the Ministry for the year 2017 had been allocated for this purpose without considering the above situation.

The contract for the construction of an Auditorium Building of the Anula Vidyalaya, Nugegoda had been awarded on 19 November 2010 for Rs. 14.01 million (Excluding Value Added Tax) to the bidder who had submitted the third lower bid. According to the contract agreement, the construction work should have been commenced on 17 November 2010 and completed on 01 June 2011. The dates had been extended on several occasions and the work had not been completed even by those dates. The value of work done by 31 December 2016 amounted to Rs. 8.10 million. The Vidyalaya concerned had deposited a sum of Rs. 25.60 million for this purpose with the Ministry and a sum of Rs. 17.36 million out of that had been credited to the public revenue. The construction work had not been completed despite the elapse of more than 6 years and it was observed in audit that the officers concerned will be liable to the losses arising from the price variances and damage caused to construction work due to the delay.

The contract for the construction of a Swimming Pool for Isipathana Vidyalaya, Colombo had been awarded to a bid for Rs. 43.40 million submitted and an agreement had been entered into with the contractor. Even though the work should have been commenced on 29 July 2014 and completed in 280 days, the period thereof had been extended up to 11 October 2016. Action had been taken for the payment of the value of work done amounting in to Rs. 33.04 million to the contractor. Information on the liquidated damages recovered for the delay in this construction had not been furnished to Audit.

A sum of Rs. 6.00 million collected by the Mahanama Boys National School, Colombo for the establishment of a Fund for the construction of a Swimming Pool had been invested in a fixed deposit on 19 December 2007. The value of that investment as at 31 December 2016 amounted to Rs. 22.53 million. The construction work of the Swimming Pool had not been commenced even by 21 July 2017.

Utilization of Motor Vehicles

There were 147 motor vehicles of all kinds belonging to the Ministry of Education and 17 of those motor vehicles were in the unusable condition. Even though 71 of those motor vehicles were owned by the

Ministry of Education, those were not available with the Ministry. The Ministry had been using 25 motor vehicles not belonging to the Ministry.

Appointments, Promotions, Transfers and Payment of Salaries

The number of officers absorbed by 31 December 2016 according to the Minute of the Sri Lanka Principals' Service declared by the Notification published in the Gazette Extraordinary No.1885/31 dated 22 October 2014, had been 12,160. Even though the number of approved officers had been 16,512 the actual number in service had been 13,517 and as such further 1,357 officers in service should have been absorbed.

Contrary to the provision in Annex III of the Public Administration Circular No.06/2006 dated 25 April 2006 issued for the restructure of the salaries of the Public Service and Paragraph 04 of the Circular No.06/2006 (II) dated 10 November 2006, the Laboratory Employees and Library Employees recruited to the National Schools, Colleges of Education and Training Colleges after 01 January 2006 who should have been placed in Grade III of the relevant posts and placed on the initial step of the salary scale, had been placed in Grade II and paid salaries of step 12. Salary step 12 instead of the initial salary step had been given to the watchers and attendants as well.

Appointments to 324 posts of casual employees had been made from 01 July 2008 to 01 November 2009. The overpayment of Salaries (excluding salary increments) made up to the end of the year 2016 amounted to Rs. 46.61 million.

Even though the letter No. NSCC/1/84/TU-2 dated 10 November 2010 and the letters dated 04 December 2008, 06 January 2009 and 31 May 2009 of the Secretary to the National Salaries and Cadre Commission indicated that the instructions of the Commission had been furnished to the Ministry and indicated that making new appointments without complying with the instructions was evidenced by the letter of appointment No. ED/5/67/11/20 dated 30 June 2009. Recommendations had been made for the immediate rectification of that position, placing the employees recruited from 01 January 2006 in the correct salary steps and surcharge the overpayment of salaries resulting from the erroneous orders issued against the officers who issued such orders. It was further informed that the steps taken in connection with those recommendations should be brought to the notice of the Commission and Auditor General. Nevertheless, the steps taken in that connection had not been brought to the notice of the Auditor General as instructed.

According to Rule 193 of Chapter XVIII of the Procedural Rules of the Public Service Commission published in the Gazette Extraordinary No.1589/30 dated 20 February 2009, every Public Officer is subject to transfer. Nevertheless, contrary to such provision and the provision in Chapter III of the Establishments Code, the transfer of 203 officers in the Academic and Non-academic Services of the Ministry of Education had not been implemented.

Assets of the Ministry in the Possession of Outside Parties

Eighty land parcels in extent ranging from 4 perches to 224 perches belonging to the National Schools, Training Colleges and National Colleges of Educations situated in the urban areas are being used by external parties without obtaining approval or permission. The Ministry did not have the information on the extent and the current values of certain lands with high assessable value.

Progress of Conservation of Archeological Sites

According to the decision of the Cabinet of Ministers taken on the Cabinet Memorandum dated 18 January 2011, out of the income earned by the Central Cultural Fund 25 per cent should be given to the Archeological Heritages Management Trust for the maintenance and management of the Archeological sites. Action had not been taken even up to the end of the year under review for the establishment of the Archeological Heritages Trust Fund. The income received by the Central Cultural Fund in the year 2016 amounted to Rs. 3,446 million and the amount receivable from that by the Department of Archeology amounted to Rs. 861.5 million. According to that income, a sum of Rs. 115 million had been received from the Central Cultural Fund in the year 2016 for 75 Projects. That represented 13 per cent of the income receivable. Out of that money a sum of Rs. 19 million had been spent in the year under review and that represented 16.5 per cent of the money received from the Fund. No expenditure whatsoever had been spent up to 31 December 2016 on 29 Projects estimated at Rs. 37 million. Even though Rs. 7 million had been spent on 39 Projects, the Physical progress thereof ranged from 0 per cent to 50 per cent. The financial progress of 51 Projects on which Rs. 10 million had been spent, ranged from 0 per cent to 50 per cent.

Non-Gazetting of Archeological Sites, Unauthorized Acquisition and Damage to Archeological Sites

According to the information received from the Regional Archeology Offices, there were 66 Archeological Sites not Gazetted, 86 Archeological Sites subjected to unauthorized acquisitions, damage caused to 86 Archeological Sites in 8 District which had heavy impacts to Archeology.

The detailed information appears in Table 21 below. The statistics of Polonnaruwa, Mullaitivu and Vavuniya had not been furnished to Audit.

District	Not Gazetted	Unauthorized Acquisition	Damage Caused
Jaffna	15	03	01
Kilinochchi	15	-	-
Ampara	-	23	22
Anuradhapura	03	04	25
Galle	-	21	03
Monaragala	16	20	11
Kurunegala	-	13	15
Trincomalee	17	02	08
Total	**66**	**86**	**85**

Table 21: Non-Gazetting of Archeological Sites, Unauthorized Acquisitions and Damage.

The number of unauthorized constructions on the Ramparts around the Ancient Kingdom of Kotte which should be demolished had been 110.

Non-inclusion of Archeological Sites in the Web Page

Section 40(b) of the Antiquities Ordinance specifies that a Register of Archeological Heritage of Sri Lanka should be maintained. The monuments published in the Gazette of 30 December 2012 had not been updated in the Web Page maintained by the Department of Archeology. Accordingly about 802 Archeological Reservations had not been included in the Web Page.

A Register of Archeological Reservations published in the Gazette in terms of Section 33 of the Antiquities Ordinance had not been included in the Web Page.

LABOUR AND TRADE UNION RELATIONS

The functions expected of the Labour and Trade Union Relations Sector are the formulation of policies, programmes and projects related to the subjects of Labour and Trade Union Relations, the administration of the Employees' Provident Fund, the Private Provident Fund and the Private Retirement Schemes, the formulation and implementation of policies related to the International Labour Standards, the Labour Administration and Welfare, the maintenance of Inter Co-operation with the International Labour Organisation and the International Social Security Organisation, the registration of Trade Union and the introduction and implementation of practical steps for the activities of all Trade Unions in the State and Private Sectors for the development of the Country, implementation of the National Manpower and Employment Policies, implementation of Vocational and Job Guidance Programme, Industrial Relations and Settlement of Industrial Disputes, the formulation of Laws and Rules related to the Labour Relations and the Regulatory Functions and the Implementation of the Vocational Guidance Programmes.

Certain major Features of the Labour Force of Sri Lanka are given in Table 22 below.

	2015	2016
Household Population		
Labour Force Persons	15,282,000	15,449,000
Employed	7,831,000	7,948,000
Unemployed	383,000	363,000
Labour Force Participation Ratios	53.8	53.8
Male	74.7	75.1
Female	35.9	35.9

Table No 22 :- Major Features of the Labour Force
Source :- Report of the Central Bank of Sri Lanka – 2016

Computerisation of Labour Inspections, Complaints and Cases

The Department of Labour had not achieved a sustainable progress of the Labour Inspection System Application (computerization of Labour Inspections, Complaints and Cases) Programme introduced under the E-State Policy in the year 2010 even by the end of the year 2016. Even though 314 computers valued at purchased for Rs.30.16 million under this programme had been issued to the Labour Officers, those remained underutilized without being used for the purposes of the computer system. As the Labour Officers do not enter the information and data to these computers the Department of Labour had to purchase 138 computers and 245 other accessories for a further cost of Rs.18.47 million in order to operate that process through the Labour Offices. Out of that, 22 accessories valued at Rs.51,800 remained without being distributed to the officers even by the end of the year 2016. There were a large number of non-reconciliations between the information on the progress on complaints and cases of Labour Offices as at 31 December 2016 forwarded by the Labour Offices and the information of the Labour Inspections System Application System.

Settlement of Cases of labour offices

The Department of Labour had filed 73,329 cases regarding the breach of employments and labour laws during the period of 18 years from the year 1999 to the year 2016. Out of that 14,750 cases were pending by the end of the year 2016 and 3,680 cases valued at Rs.1,803.51 million had been inactive by the end of the year 2016, whilst 2,461 cases valued at Rs.812.20 million remained as open Warrants. Those cases remained in the Labour officer without being divided as at the end of the year 2016 due to reasons such as the unavailability of any legal methodology to be followed in connected with such inactive and open warrant cases, lack of assignment of responsibilities to the Labour Officers to reactivate the cases and the inefficiency of the Labour Officers in the performance of their duties.

Construction of Ampara Circuit Bungalow

The Ministry of Labour and Trade Union Relations and Sabaragamuwa Development had commenced the construction of a Circuit Bungalow in the year 2015 on a land belonging to Ampara Sanctuary or the Gal Oya Valley North East Sanctuary declared in the Notification published in the Gazette Extraordinary No. 10640 dated 12 February 1954.

The written approval of the Director General of the Department of Wildlife Conservation for that in terms of provisions in the Fauna and Flora Protection Ordinance (Cap. 469) had not been obtained. Further, According to 2.3(i)a Procurement Guideline the Initial Environmental Examination, the Environmental Assessment, Social Impact Assessment that should have been carried out prior to the commencement of procurement activities had not been carried out by the Ministry. The Building Plan for the construction had not been approved by the Urban Development Authority even by 31 July 2017. Even though the Ministry and the Department of Wildlife Conservation had entered into a Memorandum of Understanding with regard to the ownership of the land on 23 March 2017, according to the Memorandum of Understanding the ownership of the land is with the Department of Wildlife Conservation. The Ministry had spent a sum of Rs.16.3 million by the end of May 2017 on the construction work carried out on a land situated in a Sanctuary for which the Ministry did not have the legal ownership.

Payment of Workmen's Compensation

The Office of the Commissioner of Workmen's Compensation had been established with the vision of creation of employees satisfaction through speedy recovery of compensation from the employers in the case of distress or death caused to an employee.

Non-Payment of Compensation in the Deposit Accounts of Minors

Even though, the balance of the Deposits Accounts of the Ministry who have already reached adulthood by the end of the year 2016 totalling Rs.8.1 million had remained over periods ranging from 01 year to 30 years, action had not been taken for the settlement of those balances.

Accidents Reported and Payment of Compensation

Out of the complaints made for claims of compensation for the fatal or non-fatal accidents, 763 complaints had been in the process of investigation by the Office of the Commissioner of Workmen's Compensation in the year 2016. Out of that, 533 complaints had been the cases filed prior to the year 2016. Those cases had been pending over periods ranging from 08 months to 20 years. The benefits accruing from such compensation could not been obtained due to the very long periods taken for the finalization of cases filed for obtaining compensation.

Non-payment of Compensation deposited by Employers

The employers had provided a sum of Rs.3.13 million to the Office of the Commissioner of Workmen's

Compensation for payment to the employees in distress. The Office of the Commissioner of Workmen's Compensation had retained the money in the Deposit Account over periods ranging from 02 years to 06 years without paying the compensation to the parties concerned.

Project for Zero Child Labour

A provision of Rs.8.00 million had been made in the Annual Budget Estimate for the "Sunisi Mehewara" Programme and a sum of Rs.2.00 million out of that had been given to the Department of Labour and Trade Union Relations for the implementation of the Project for Zero Child Labour in Sri Lanka. Even though plans had been made to display notices under this Project in 08 Railway Carriages, the Project had been abandoned based on a subsequent decision that implementation of the Project would be uneconomical due to the failure to carry out a proper feasibility study in the planning stage of the Project and the failure to prepare the plans without a cost benefit evaluation systems.

Employees' Provident Fund

According to the Annual Report of the Central Bank of Sri Lanka the total employment in the Private Sector and the Sami Government Sector by the end of the year 2016 had been reported as 3,682,695. Out of that, 2,400,000 0r 65 per cent are active contributions to Employees' Provident Fund whilst about 11 per cent are the members of the other approved Provident Funds. The balance 24 per cent had not been contributing to any other Fund whatsoever. Attention had not been taken to induce the others to become members of the Provident Fund.

According to the Report of the Central Bank of Sri Lanka, the member of active members of the Employees' Trust Fund Board and the number of Employees paying contributions had been 2,500,000 and 77,842 respectively. Those members in respect of the Employees Provident Fund had been 2,400,000 and 73,973 respectively and that had been less than that of the Employees' Trust Fund Board. Accordingly Employees' Provident Fund had failed to register 100,000 members and 3,869 Employers.

The contributions received for the fund had been retained in a Deposit Account until the settlement by the Department of Labour. A sum of Rs.356.42 million for futher remained for settlement as at 31 December 2016.

According to Section 23 of the Employees' Provident Fund Act No. 15 of 1958 the total amount in a members private category receipt part should be paid to the member as early as possible Despite the elapse of periods ranging from one year to 15 years as at 30 June 2017 since making claims for the benefits, there were 186 claims made for normal benefits and 39 claims made for death benefits on which payments had not been made.

ENVIRONMENT

The expected objective of this Sector is ensuring a sustainable environment. The Ministry of Mahaweli Development and Environment and two Departments and 8 Statutory Bodies / institutions functioning under the purview of the Ministry should have performed the following functions for achieving that objective.

- Formulation of policies and programmes for the environmental sector and Mahaweli development and protection of the environment for the present and future generations.
- Formulation and implementation of programmes for the eradication of environmental pollution.
- Marine pollution eradication and the urban solid waste management.
- Protection and conservation of forests, fauna and flora.
- Promotion of commercial foresting to fulfill the timber requirements of the country.
- Promotion and regulation of the gem and jewellery industry and trade.
- Coast conservation and protection.

The audit observations revealed in performing above functions by those institutions are summarized and given below.

Uma Oya Multi-Purpose Development Project

A Memorandum of Understanding had been signed on 27 November 2007 between the Government of Sri Lanka and the Government of Iran with the objective of diverting 145 millions of cubic meters of water from the Uma Oya basin to the Kirindi Oya basin of the Southern Zone, affected by lack of water in a manner of not affecting the environmental and other water requirements of the Uma Oya basin. The estimated amount therefor comprises the foreign loans of US$ 450 million received through the Export Development Bank of Iran (EDBI), US$ 79 million and Rs.15,474 million granted by the Government of Sri Lanka.

The total expenditure of the Uma Oya Multi-Purpose Development Project by the end of the year under review amounted to Rs.49,736 million and a sum of Rs.901 million had been paid from the Domestic Fund for the people affected by various difficulties due to activities of the project and a sudden leakage of water. The people in those areas had to face many difficulties in respect of their houses, lands, other properties and drinking water due to this project.

Promotion of Conservation of Biodiversity of Environmental Sensitive Areas and the Project of Maintenance of Ecosystem Services

Environmentally sensitive areas had been declared as a mechanism of management of development activities carried out in the environmentally significant areas in a manner of conservation of biodiversity and ecosystem services. Accordingly, this Project had been commenced for a period of 05 years from 01 October 2015 with the objective of identifying the Kalawewa Environmentally Sensitive Area and the Wilpattu Environmentally Sensitive Area as two pilot areas.

The value of this Project is US$ 19.28 million and sums of US$ 6.50 million, US$ 2.63 million and US$ 10.15 million had been estimated by the United Nations Development Programme, Global Environmental Facility (GEF) and by the Government Co-Finance respectively.

Activities such as revising planned policies, strategies of management of wild elephants and the Action Plan of the year under review, capacity building for planning and implementation, demarcation of boundaries in forests of which boundaries were not demarcated, developing communication strategies, preparation of Kahalla Pallekele Management Plan and making field trips relating to each activity.

Project on "Strengthening Capacity to Control the Introduction and Spread of Invasive Alien Species"

This Project was commenced in the year 2011 with financial provisions made by the United Nations Development Programme and the Global Environmental Facility (GEF), considering the threat of introduction and spread of invasive alien species and the total value of this Project amounted to US$ 5.24 million. Further, provisions of Rs.80.00 million had been made from the Annual Budget Estimate 2016 and out of that, a sum of Rs.61.53 million had been utilized by the end of the year under review.

Project of addressing Climate Change Impacts on marginalized Agricultural Communities living in the Mahaweli River Basin of Sri Lanka

An agreement had been entered into on 11 August 2014 for a period of 03 years between the Ministry of Mahaweli Development and Environment and the World Food Programme with the objective of addressing climate change impacts on marginalized agricultural communities living in Medirigiriya, Lankapura and Walapane associated with the Mahaweli River Basin of Sri Lanka. This Project was commenced under a foreign grant of US$ 7.99 million. Out of the provisions made for each year, only a financial performance less than even 20 per cent had been achieved from the inception of the Project even up to the end of the year under review. Even though 02 years out of the expected period of the Project had elapsed, a considerable level of physical progress could not be achieved.

Construction of Solid Waste Disposal Facility Project

The total estimated cost of the Project on Construction of Solid Waste Disposal Facility on Korean loan aid of the Economic Development Cooperation Fund, amounted to US$ 41.89 million. Out of that, loans amounting to US$ 33.54 million had been obtained under the Korean loan aid, scheduled to be paid within 40 years including a concessionary period of 10 years with an annual interest of 0.15 per cent thereon. Provisions from domestic funds for this Project amounted to US$ 8.35 million. That loan agreement had been signed on 23 July 2013 and in terms of the agreement, it had been planned to construct 04 sanitary landfills within 04 years in places such as Keerikkulama in Anuradhapura, Hikkaduwa, Monroviawatta, Malamulla in Panadura and Gonadhikawatta in Udunuwara for facilitating the final disposal of garbage generated in the area of authority of Local Authorities under the Cluster system.

The Central Environmental Authority had not taken action even at the inception of the Project to select places for sanitary landfills by carrying out a proper feasibility study. Further, about 1 ½ years had lapsed after commencing the Project for construction of landfills in places such as Keerimale in Jaffana and Yudhaganawa in Medirigiriya instead of Malamulla in Panadura and Gonadhikawatta in Udunuwara. Figures …. and….. As such, expected objectives could not be timely and effectively achieved by the Project. Even though about 37 months had lapsed from the date of inception of the project up to the end of the year under review, the activities of the Project relating to the construction of landfills are still at the planning stage.

Photograph No 13 Proposed Landfill in Keerimale, Jaffna

Photograph No 14 Proposed Landfill in Monroviawatta

Pilisaru Project

The Pilisaru Project which was implemented by the Central Environmental Authority, had expected to ensure the proper conservation of resources and management of solid waste, development of education and skills of stakeholders on solid waste management and implementation of solid waste management projects, supervision of programmes, providing facilities, making necessary basic provisions, establishment of a banking system for recycling of solid waste and taking legal action in respect of Local Authorities by which the solid waste management is not properly carried out. According to the plan for funds for 06 years, the total project cost amounted to Rs.5.6 billion. Out of that, it had been expected to obtain sums of Rs.2.68 billion from the Treasury and Rs.2.92 billion from the "Green Tax" introduced by the Annual Budget 2008.

Hundred and thirty two compost plants had been constructed from the inception of this project up to the end of the year under review and out of them, construction of 20 compost plants had been stopped halfway. Eighteen compost plants and 03 biogas plants had been constructed in the year 2016 and 09 plants had been further developed. In addition, 12 training programmes had been conducted for the staff of Local Authorities.

FOREIGN AFFAIRS

The achievement of objectives of promotion, display and protection of the national ambition internationally and advising the Government on the management of foreign relations in accordance with the national ambitions in accordance with the foreign policy of Sri Lanka is expected from this Sector. The following functions should be performed for the achievement of those objectives.

- Implementation of the political plans and programmes relating to the foreign affairs.
- Representation of Sri Lanka in Foreign Countries.
- Enter in to International Agreements and Conventions.
- Representation of the Governments of Foreign Countries and International Organisations in Sri Lanka.
- Publicity Work carried out in Foreign Countries.
- Diplomatic Immunities, Privileges and Counselor Affairs.

The Ministry of Foreign Affairs comprises 15 Divisions for the management of affairs locally whilst a Global Network of 37 Embassy Offices, 13 Offices of Deputy High Commissioners, 12 Offices of Consulate Generals, 2 Permanent Representatives for the United Nations and one Agency Office were maintained as at the end of the year 2016 for the performance of those functions abroad. A summary of the significant audit observations made at the audit test checks of this Sector is given below.

Non-settlement of the Imprest Account Balance

Out of the balance as at 31 December 2016 of 2 Imprest Accounts relating to the years 2013 and 2016 totalling Rs.860.34 million, balances amounting to Rs.423.88 million had not been settled by the Ministry even by 31 May 2017. That unsettled balance included a balance of Rs.226.07 million existing from the year 2013

The balances of advances not settled by the Offices of Mission Abroad as at 31 December 2016 amounted to Rs.310.80 million. Those balances included a sum of Rs.136.87 million old between 01 year to 04 years, a sum of Rs.81.33 million old between 04 years to 06 years and a sum of Rs.92.60 million older than 06 years and those advance balances had not been settled even by the end of the year under review.

Lapsed Deposits

Action in terms of the Financial Regulation 571(2) had not been taken on deposits amounting to Rs.99.61 million remaining for more than 2 years as at 31 December 2016 in the General Deposit Accounts of the Ministry.

The taxes paid on the purchases of the Missions Abroad and the private purchases of the officers of the Mission Abroad amounting to Rs.8.29 million had been received by the Missions concerned. Even though such taxes received had existed over a period of 4 years, action had not been taken for the settlement of those taxes.

Idle and Underutilised Assets

Two buildings valued at Australian $ 2,589,000 owned by the Office of the High Commissioner for Sri Lanka in Canberra, Australia had been eliminated from use since the years 2007 and 2012. Action had not been taken for the effective utilization of the two buildings or take any other suitable course of action.

A land 1.681 acres in extent had been purchased in the year 2007 for U.S.$ 1.2 million for the construction of the Office of the High Commissioner of Sri Lanka in Malaysia. No construction work had been done on that land up to date.

Losses and Damage

An officer who had functioned in the post of Minister at the Embassy Office, Oslo from May 2013 to July 2016 had occupied 3 houses in three occasions and damage amounting to Rs.6.16 million had been caused to those three houses. Instead of taking action to identifying the parties responsible for the damage and recovering the loss, that had been settled from Government funds as rent.

The rented house of the First Secretary of the Embassy Office in New York had been vacated before the expiring of the agreed period. As the vacation of the house had not been notified in accordance with the agreement, it had not been possible to recover the rent and the security deposit amounting to Rs.693,500 and Rs.440,040 respectively.

FOREIGN EMPLOYMENT

The expected result of this Sector is the formulation of policies necessary for enhancing foreign employment opportunities and increasing the contribution to the national economy through foreign remittances. The Ministry of Foreign Employment, Sri Lanka Bureau of Foreign Employment and Foreign Employment Agency (Pvt) Company have been established for achieving these expectations. The following functions should be performed by these institutions.

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

Audit observations revealed at audit test checks carried out in respect of performing of the above mentioned functions, are summarized and given below.

Creation of the Family Profile of Migrant Labourers

The Ministry of Foreign Employment had taken action to distribute a set of computer each for 300 Divisional Secretariats with a view to creating the family profile of migrant labourers, computerizing and implementation of concepts. As such, provisions of Rs.30 million had been made from the Annual Budget Estimate of 2016 for granting to the Bureau of Foreign Employment for the purchase of 300 sets of computers. Only 242 computers had been purchased by utilizing those provisions. Even though the computers and accessories purchased had been provided to Divisional Secretariats, necessary activities on networking had not been carried out. As such, even though 08 months had elapsed even by 14 August 2017, the date of audit, those computers could not be used for achieving the relevant objectives.

Establishment of Information Data Bank

The function of the establishment of an information data bank in respect of Sri Lankans employed outside Sri Lanka and who return on completion of such employment, had been assigned to the Sri Lanka Bureau of Foreign Employment. Accordingly, the Bureau had spent a sum of Rs.8.27 million for publicity of the "Shrama Surekuma" Programme implemented for collecting information for the data bank during the period from 08 to 14 January 2016. Even though 563,768 labourers had departed abroad in the years 2014 and 2015, out of them, a number less than 25 per cent had registered in the data bank during that period. As such, the expenditure incurred therefor had become fruitless.

Providing Labourers for Foreign Job Orders

Promotion and development of employment opportunities outside Sri Lanka, for Sri Lankans is one of the objectives of the Sri Lanka Bureau of Foreign Employment. However, the Bureau had failed to encourage foreign employment agencies for providing labourers ranging from 16 per cent to 88 per cent out of the job orders received by the Bureau for the approval since the year 2008. Details appear in Table 21

Further, the number of job orders of 1,014,610 received by Sri Lanka in the year 2008 had rapidly decreased to 275,634 by the year 2016 as indicated in Figure 23 below.

Year	Number of Foreign Job Orders	Number of labourers departed abroad	Number of migrant labourers as a percentage of the order
2008	1,014,610	160,973	16
2009	797,168	156,567	20
2010	753,382	160,498	21
2011	660,844	146,293	22
2012	501,040	175,169	35
2013	607,336	180,463	30
2014	419,625	176,829	42
2015	356,115	116,866	33
2016	275,634	242,930	88

Table 21. Number of Foreign Job Orders and the Number sent abroad.
Source: Draft Annual Report of the Sri Lanka Bureau of Foreign Employment

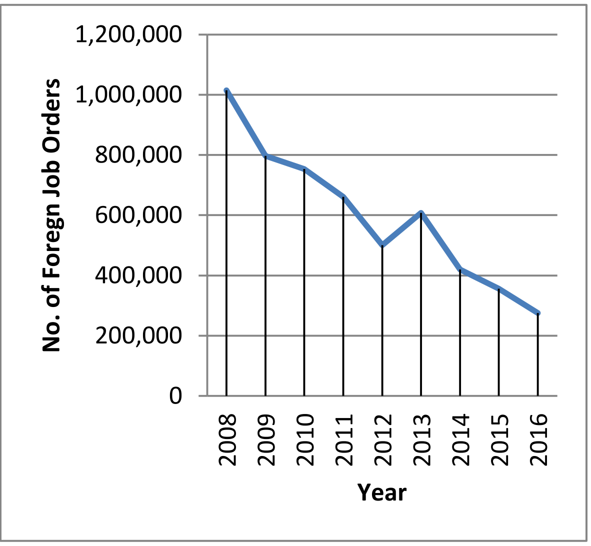


Figure 23. – Decline of the Nimber of Job Orders
Source -

Administrative Expenditure on Medical Tests of Korean Employees

The Sri Lanka Bureau of Foreign Employment had entered into agreements with two hospitals for carrying out medical tests of Korean employees. According to those agreements, 25 per cent of the income from medical charges of the relevant month had been agreed to pay for providing necessary administrative services to its subsidiary, Sri Lanka Foreign Employment Agency (Pvt) Company. As such, the Company had obtained a sum of Rs.9.51 million of the income from medical charges in the year

2016. However, all administrative activities thereof had been carried out by the Recruitment Division of the Bureau.

Inspiring trained Labourers to the Overseas Job Market

A pilot project had been commenced by focusing the Districts of Rathnapura and Galle for making the rural youth aware of inspiring more trained labourers to the overseas job market. Ten Coordinating Officers comprising 06 and 04 from the above Districts respectively had been recruited therefor on contract basis. A total sum of Rs.2.34 million had been paid as a monthly allowance at a rate of Rs.30,000 per person up to 31 December 2016. The following deficiencies were revealed in that connection.

- The said officers had been recruited on the decision of the Board of Directors on contract basis, contrary to paragraph 7 of the Public Administration Circular No. 25/2014 of 12 November 2014 without the prior approval of the Department of Management Services.
- Those officers had been assigned by the Ministry of Foreign Employments to discharge a part of the duties, carried out by the Development Officers who were attached to Divisional Secretariats. Even though the period of that pilot project had completed, follow up action on the progress of the relevant project had not been carried out.

Performance of the Sri Lanka Foreign Employment Agency (Pvt.) Company

The Sri Lanka Foreign Employment Agency (Pvt) Company had been established in the year 1996 as a subsidiary of the Sri Lanka Bureau of Foreign Employment with the objectives of offering or providing employment in Sri Lanka and other countries to professionals, administrators, technical and mechanical skilled, semi-skilled and unskilled workers and all other categories, providing trainings for them and maintaining in conformity with Statutory Laws. Details on the contribution given by the Company as a Government institution in considering the departure for foreign employment during four preceding years, appear in Table 22

Year	Number of Persons departed through Employment Agencies	Number of Persons departed through the Company	Total Number of Depature	Number of Countries attracted by Labourers	Departures through the Company as a percentage of the total departure
2013	180,463	460	130,923	15	0.25
2014	176,829	529	177,358	12	0.30
2015	116,749	374	117,123	10	0.32
2016	88,164	820	89,984	06	0.91

Table: 22… Foreign Employment Agency (Pvt) Company
Source: Information made available to Audit by the Foreign Employment Agency (Pvt) Company

The following observations are made according to the above analysis.

- Even though the main objective of the Company is providing labourers to the overseas job market, the Company had secured a low percentage less than 01 per cent of the total market share.

- Even though a regular improvement in the number of labourers departed abroad by the Company was indicated from the year 2013 to the year 2016, the number of countries for which employments were attracted, had gradually decreased from 15 to 06.

- Even though 820 migrants had been sent abroad by the Company in the year 2016, out of that, 787 labourers representing 96 per cent had been sent only for 03 countries. The Company had not paid adequate attention on the improvement of demand and opportunities for employment from other countries.

- In the attraction of labourers for foreign employments, it had been limited to several fields/types of employments in the job market and types of foreign employments had been limited to 78, 39 and 13 in the years 2014, 2015 and 2016 respectively.

- Out of 22 job orders received in the year 2016 by the Company, 3,138 job opportunities had been received. However, only 820 migrants could have been sent abroad for various employments. As such, the Agency had failed to send labourers for 2,318 job opportunities, representing 74 per cent.

- An analysis of number of labourers departed abroad according to the types of jobs in the year 2016 revealed that the Agency had paid more attention on non-student sectors such as domestic labourers, labourers and Agricultural labourers. The Agency had not implemented an adequate promotion strategy to seek the persons with vocational qualifications from the local job market.

DEVELOPMENT OF FISHERIES AND AQUATIC RESOURCES

The objectives of this sector included : to improve nutritional status of the people, to increase the employment opportunities in fisheries, to increase foreign exchange earnings, to improve the socio-economic status of the fisher community, and to improve the social infrastructure. In order to fulfil the said objectives, the following functions should be discharged by a Department under the purview of the Ministry of Fisheries and Aquatic Resources Development along with 05 Statutory Boards/Institutions.

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

The audit observations revealed with respect to the discharge of the said functions by those Institutions, are summarized below.

Import and Export of the Fish and Fish Products

Even though the coastline around the Island is 1,585 kilometers, Sri Lanka contributing 75 per cent to the fish imports in the South Asian Region, has become the major importer of fish in the South Asian Region. As the expenditure on imports had increased by a sum of Rs. 4,443 million equivalent to 14.45 per cent as compared with the preceding year, the net earnings of foreign exchange had become a minus value of Rs. 8,370 million.

Post Tsunami Programme

It had been planned to commence the Post Tsunami Programme in the year 2009 and complete by 31 December 2013 on the assistance from the International Fund for Agricultural Development. Provisions amounting to US $ 31.3 and US $ 4.79 had been granted to this Project by the International Fund for Agricultural Development, and local funds respectively. The Project of which the financial progress had been Rs. 3,919 million by 31 December 2014, had been completed on 31 December 2013. The following deficiencies were observed during the examination thereon.

- The Bank of Ceylon, People's Bank, and Rural Development Bank, being the financial institutions implementing the project, had provided loan facilities for the microentrepreneurs. In addition to the said loan, a methodology had been followed to deduct sums of Rs. 4,000 and Rs. 1,000 from the financial assistance in respect of Co-operative Societies, and the shares of the Visma Plus Company respectively thereby granting the remaining balance to the members. However, funds had been collected with a view to making all the members of the 07 Co-operative Societies (2250) share holders of the Visma Plus Company, but the ownership of the Company had been restricted only to 07 members. According to the progress report presented on 31 July 2013, the number of shareholders of the Visma Plus Company had been 1,276, and the value of the total investments had amounted to Rs. 1.28 million, but share capital had not been issued to those members whilst the benefits of the Company had been restricted to 07 members.

- With the involvement of the Visma Plus Company and the Co-operative Societies established under the Microenterprise Development Programme, 09 stalls were given to 09 members in a manner that included 03 members from each of the Small Scale Entrepreneurs' Cooperatives Associations Ltd in the districts of Trincomalee, Balapitiya, and Matara. As those stalls had not been supervised by the Cooperative Societies, the stalls had been made use of by the lessees, to earn income according to their own requirements, instead of being made use of for the business activities in line with the objectives of the Cooperative Society. The Ministry had not been involved in solving such issues at the shops given to the Small Scale Entrepreneurs' Cooperatives Associations Ltd.

- The Post Tsunami Rehabilitation Programme had spent a sum of Rs. 374.82 million on the development of microscale enterprises. After completion of the Project, the Ministry should have obtained information such as, the amount of funds released to the financial institutions participating in the project, particulars relating to the loans granted to members by each of the banks by utilizing the said project funds, financial aids given on credit, information on the funds and the number given, whether the provisions granted to the bank had been given to the members of the societies in full, what is the saving if any, and the information relating to the recovery of loan. Nevertheless, the Ministry had not done so.

- Of the financial assistance granted by the bank based on the loans obtained by the members of the Cooperative Societies established in 07 districts, sums of Rs. 4,000 and Rs.1000 had been deducted from each member for purchasing the shares of the Societies and Visma Plus Company respectively. However, information required for the verification that benefits were granted to the members who had obtained membership of the Cooperative Societies, and purchased the shares of the Company, was not documented.

Coastal Rehabilitation and Resource Management Programme

Provisions amounting to Rs. 50 million had been granted to the Ministry of Fisheries and Aquatic Resources Development in the year under review under this Programme for the buildings and constructions works. Of those provisions, a sum of Rs. 26 million had been granted to the Department of Fisheries and Aquatic Resources, and of that, a sum of Rs. 16.10 million had been paid to the National Aquaculture Development Authority for the construction of fish breeding centre in Pambala. Although the Authority had spent a sum of Rs. 15.97 million, the contract value relating thereto, had amounted to Rs. 15.00 million, and information relating to the payments made in excess of the contract value by a sum of Rs. 969,060, had not been made available to audit. In terms of

Guideline 5.4.4(i) of the Government Procurement Guidelines, a maximum mobilization advance of 20 per cent could have been paid on an advance surety, but advances of Rs. 7.37 million equivalent to 43 per cent of the contract value had been paid. However, a certificate on completion of work had not been presented by the Project Engineer even up to 31 July 2017. Of the provisions granted to the Department of Fisheries for the Lagoon Development Project, a sum of Rs. 2.96 million had been spent on other activities irrelevant to the Project. In order to carry out the activities of the Project, provisions amounting to Rs. 1.70 million had been granted to the District Secretary, Hambanthota by the Ministry of Fisheries and Aquatic Resources Development, but according to the computer printouts of the Treasury, the said provision had been exceeded by Rs. 3.30 million, thus spending a sum of Rs. 5.00 million.

Releasing Fishlings into Freshwater Reservoirs for Free

In order to promote the freshwater fish production, provisions amounting to Rs. 140 million had been allocated during 2012-2016 for releasing fishlings into freshwater reservoirs for free, and a sum of Rs. 123.3 million had been utilized therefrom. No follow-up action had been taken to ensure that the expected targets had been achieved. Hence, the fish production of the year 2016 had decreased by 1820 Metric Tons as opposed to the year 2014.

Programme for the Empowerment of Fishing Communities

Provisions totalling Rs. 91.85 million had been granted to District Secretariats under the Programme for the Empowerment Fishing Communities, and by the end of the year under review, a sum of Rs. 74.32 million had been spent therefrom. Although provisions amounting to Rs. 5.43 million had been granted to the District Secretary, Hambanthota under the said Programme, information relating to the utilization thereof, had not been made available to audit. Furthermore, of the provisions amounting to Rs. 4.39 million granted to the Department of Fisheries and Aquatic Resources in order to empower the fishing communities in the district of Hambanthota, a sum of Rs. 1.92 million had been utilized. Although freshwater fishing gear had been purchased in the year 2016 by spending a sum of Rs. 44.95 million, evidence to the effect that such gear had been distributed among the fishermen, was not made available to audit. Provisions amounting to Rs. 2.27 million had been allocated for purchasing 990 fishing nets in order to be distributed among the fishermen in Tangalle, but evidence sufficient to verify that the said gear had been distributed among them, was not made available.

The Online Information System

An agreement had been entered into with an institution for a value of Rs. 5.65 million by deviating from the Government Procurement Guidelines in order to computerize all the activities of the Ministry of Fisheries and establish an online Information System enabling the supervision and evaluation of the performance of each officer. For the implementation of the said strategic plan, a sum totalling Rs. 11.65 million, inclusive of a sum of Rs. 3.65 million in the year 2012, and a sum of Rs. 8.00 million in the year 2014, had been spent; nevertheless, such an Information System had not been implemented even by the year 2017.

"Wewak Samaga Gamak" (A Village with a Lake) Programme

A community hall for fishermen had been constructed by incurring a sum of Rs. 1.49 million in the Bandiwewa division under the said Programme. Despite the objective of the project being the livelihood improvement of the fishermen, it was revealed that fishermen families had not resided in the relevant area. Furthermore, a sum of Rs. 147,960 had been paid to the Farmers' Association in order to apply concrete on the floor thereof, but cracks had developed on the floor, thus the floor had not been constructed in compliance with a proper standard.

Constructions under Three Road Development Projects

The construction works of 03 road development projects had not been completed properly by the Divisional Secretariats of Tangalle and Ambalanthota under the provisions of the Ministry of Fisheries. It was revealed during the physical inspections carried out thereon that a sum totalling Rs. 2.1 million had been paid in excess for the activities not executed.

Project for Construction and Development of Fisheries Harbours and Anchorages

It had been agreed in accordance with the agreement to commence the construction of the Fisheries Harbour in Kalametiya on 09 July 2014 and complete by 08 July 2016. Although a sum of Rs. 660.25 million had been spent by 31 December 2016, the physical progress thereof had been 70 per cent.

The construction of the anchorage in Kaikawa had been commenced in September 2014 and a sum of Rs. 83.4 million had been spent, but the construction had been halted by 23 October 2014.

Aquaculture and Aquaculture Operations Securing the Biodiversity.

In terms of Section 11 of the National Aquaculture Development Authority of Sri Lanka Act, No. 53 of 1998 as amended by the National Aquaculture Development Authority of Sri Lanka Act, No. 23 of 2006 (Amendment), it was a main duty of the National Aquaculture Development Authority of Sri Lanka to conduct operations for aquaculture ensuring the security of biodiversity. The activities for the preparation and implementation of the plans and environmentally-friendly aquaculture programmes relating to the management, conservation and improvement of aquatic resources utilized therein and the fishing activities relating to the permanent and temporary reservoirs, had not been executed by the Authority in the year under review.

Releasing the Fingerlings into the Freshwater Reservoirs

The release of fingerlings in to the freshwater reservoirs had been increased by the National Aquaculture Development Authority of Sri Lanka by 12. 6 million in the year 2016 as compared with the year 2015. The Authority had not conducted surveys or researches in order to evaluate and improve the progress (post harvest) achieved through the release of fingerlings. Neither Instructions nor the researches had been conducted for the increase of fish production through the National Aquatic Resources Research and Development Agency, being the only Government institution in that connection for research and development.

Production of Fingerlings

The production of fingerlings in the year 2014 had been 40.98 million whilst the production through freshwater fisheries and aquaculture had been 70,600 metric tons. As compared with the year 2014, the production of fingerlings had increased by 25.49 million in the year under review though, the production of fish had decreased to 67,480 metric tons. As compared with the year 2014, the production through freshwater aquaculture in the years 2015, and 2016 had decreased by 10,390 and 3,120 metric tons respectively. The targets relating to the increase in the fish production through the release of fingerlings into the freshwater reservoirs, had not been calculated. The objectives of promoting the production and consumption of freshwater fish, and generation and promotion of employment opportunities of the fisherfolk , had not been achieved by the National Aquaculture Development Authority of Sri Lanka in line with the requirements.

Improving the Production and Consumption of Fish

With the objective of improving the production and consumption of fish within the county, a main objective of the National Aquaculture Development Authority of Sri Lanka, freshwater, brackish water, coastal, and marine aquaculture should have been improved thereby promoting and generating employment opportunities. In order to achieve the said objective, a sum of Rs. 229.04 million had been granted to 6450 beneficiaries under the Divineguma loan scheme during the years 2011, 2012, 2013, and 2014. However, that programme had become unsuccessful owing to reasons such as, failure to draw attention on the scarcity of water in the respective areas when beneficiaries had been selected, problems faced by the beneficiaries in obtaining fingerlings, failure to properly train the beneficiaries, and non-functioning of an association of the project owners at rural or district level.

The National Movement for 1 Million Domestic Economic Units

In order to maintain Divineguma as a circular fund, the National Aquaculture Development Authority of Sri Lanka had entered in to an agreement with the beneficiaries to recover 50 per cent of the loan within a period of 02 years through 10 installments after a grace period of 6 months since the launch of the project. Although methodologies had been introduced for the recovery, the Divineguma Circular Fund had failed to successfully implement the National Movement for 1 Million Domestic Economic Units by improving the nutrition and economy of the family due to reasons such as, failure to follow the general guidelines introduced by the National Aquaculture Development Authority of Sri Lanka, failure to properly implement the methodologies for the recovery of installments, failure of the Authority to possess the data relating to the surveys on the increase in the production of fish, and failure to take follow-up action on the project.

Improving the Technology for the Breeding of Milkfish

The National Aquaculture Development Authority of Sri Lanka had launched a project in partnership with a private company on 28 September 2005 for improving the technology relating to the breeding of Milkfish by investing a sum of Rs. 3.87 million received from the Asian Development Bank. In accordance with the agreement entered into between the Authority and the private company, the entire amount should be paid to the Authority by the company within a period of 5 years after a lapse of 2 years since the commencement of the operations thereof. Nevertheless, by 31 December 2016, the National Aquaculture Development Authority of Sri Lanka had failed to recover Rs. 3.18

million from the sum granted in the year 2015 in respect of the project of which the operations had begun with effect from 24 December 2008.

Conducting Researches on the Harvest of Fish from the Freshwater Reservoirs.

According to the National Aquatic Resources Research and Development Agency Act, No. 54 of 1981, the objectives of the Agency included: promoting the research activities and coordinating the institutions involved in such activities, and providing training. However, the Agency had not carried out the activities relating to the main objective such as, the enhancement of fish harvest from the freshwater reservoirs, and issuing instructions by conducting surveys and researches on the improvement of post-harvest. Furthermore, the attention of the Agency remained low on the achievement of the objectives of coordinating , and providing expert opinions and instructions with respect to the activities such as development, management, evaluation, and identification of aquatic resources.

Identification of Biological Factors Affecting the Existence of Fish

According to the Performance Report of the National Aquatic Resources Research and Development Agency for the year 2015, provision amounting to Rs. 1 million had been made for the project of identification and evaluation of biological factors affecting the fish in the areas of Mannar and Nilaveli, and a sum of Rs. 884,292 had been spent therefrom. Nevertheless, the main activities of the said project - mapping the ecosystem and submitting proposals on the issues relating to the biodiversity, had not been executed. Although provision amounting to Rs. 600,000 had been made on the project for the identification of specialties relating to the sea turtle hatcheries and proliferation in Kalpitiya. However, a sum of Rs. 250,131 had been spent therefrom, and only the collection of data had been executed.

Research Activities in the Coastal Area

The vessel named “Tharani” built in the year 2012 by incurring a sum of Rs. 15.69 million to be deployed for the research activities in the coastal area, had not been made use of for the intended purpose even by the end of the year under review. Despite being directed at the COPE meeting held on 12 November 2014 that action be taken to sell the said vessel, the vessel remained unsold even by 04 August 2016. Moreover, a sum of Rs. 8.07 million had been spent on the salaries and overtime payments of the officers of the vessel, and the security thereof from the date that the vessel had been built, up to the end of the year under review.

Operating Losses of the Fishery Harbours

Fifteen, out of the 21 fishery harbours that functioned under the Ceylon Fishery Harbours Corporation, sustained operating losses amounting to Rs. 170.74 million in the year under review. All of the said harbours had sustained losses in the preceding year as well. The operating losses of the fishery harbours in Puranawella, Kudawella, Chilaw, Tangalle, and Nilwella, had increased by 104 per cent, 328 per cent, 35, per cent, 18 per cent, and 10 per cent respectively in the year under review as opposed to that of the preceding year. Attention of the management had not been drawn to identify and take necessary action either to make the harbours sustaining losses, profitable by examining the reasons attributable to the losses, or minimize the losses and maximize the profits of the harbours whereof the profits had been on the decline.

HEALTH AND NUTRITION

The objective expected of this Sector is ensuring a quality health service through the formulation of policies, strategies and development activities for the creation of a healthy community contributing to the rapid economic development of the country. The following functions should have been performed for the achievement of that objective.

- Policy Formulation, Implementation of Programmes and Projects for the Health Sector.
- Setting up Standards and Guideline for Healthcare Delivery
- Human Resources Development.
- Management, Planning and Systems Development.
- Resource Allocation, Monitoring and Evaluation of Programmes and Projects.
- Administration of Main Hospitals
- Regulation and Supervision of Private Health Institutions.
- Matters relating to National Health Insurance Programmes.
- Formulation and Implementation of Programmes to Improve Public Health and Nutrition
- Expand Research Opportunities in Health Sector

The Ministry of Health, Nutrition and Indigenous Medicine, one Department and 07 Statutory Boards/Institution thereunder should have performed the above functions.

A summary of the audit observations revealed in relation to the transactions carried out by those institutions in the performances of such functions is given below.

Underutilization of Provisions

Provisions amounting to Rs. 177,059 million had been made to the Ministry of Health, Nutrition and Indigenous Medicine for the year under review from Annual Budget Estimates and the Supplementary Estimates Allocations. Out of that Provision, a sum of Rs. 134,780 million had been utilized by 31 December 2016. Accordingly, a sum of Rs. 42,279 million or 24 per cent of the net provision had been saved.

Out of the total net provision made for the year under review provision amounting to Rs.17,878 million had been made under a Recurrent Objective of Capital Carrying Cost of Government Lands and Buildings which does not constitutes an expenditure relevant to the Ministry of Health, Nutrition and Indigenous Medicine and no expenditure whatsoever out of that provision had been made.

Appointments, Transfers and Interdictions made surpassing the Powers

The Cabinet of Ministers had decided on 21 June 2001 to restructure the Health Sector by amalgamating the Ministry of Health, Nutrition and Indigenous Medicine and the Department of Health Services and in the delegation of powers of the Public Service Commission in pursuance of provision in Article 57 of the Constitution the powers relating to the appointment, promotion, transfer and disciplinary actions of public officers had been delegated to the Head of Department. The Public Service Commission had determined on 24 October 2013 that the Head of Department is the Secretary to the Ministry of Health, Nutrition and Indigenous Medicine. The Director General of Health Services and several other officers had surpassing the above powers, and made appointments, transfers, promotions, disciplinary orders and reinstatement in services in 09 instances.

Vacancies in the Staff

Fifteen Primary Care Units and 04 Regional Hospitals of 10 Districts had been closed down due to the vacancies in the posts of Medical Officers.

Overpayment of Communication Allowance

Overpayment of Communication allowances amounting to Rs. 411 million had been made in the year under review and preceding year to the Doctors in the Grade II and the Primary Grade of the Medical Service contrary to the Public Finance Circulars No.03/2014 of 30 December 2014 and No.03/2014(1) of 10 March 2015 on the subject of Supply of Communication Allowance Facilities to Public Officers and the instructions in the letter dated No. NPC/9/1/30-17 dated 10 September 2015 of the Secretary to the National pay Commission.

Non-recovery of Money due to the Government form Breach of Agreements

A sum of Rs. 62.71 million remained recoverable from the Doctors who had proceeded abroad on leave with pay for postgraduate studies or on leave without pay for employment up to 31 December 2016 and did not report for duty or did not serve the Government during the period of compulsory service after the completion of the postgraduate studies. Out of that a sums of Rs.22.57 million and Rs.4.35 million could not be recovered due to the difficulty in finding the present addresses and under computation of the recoverables respectively.

Uneconomic Foreign Travel Expenses

Even though Section 11:1 of Chapter XV of the Establishments Code specifies that in foreign travel all officers should travel in the Economy Class, an additional cost of Rs. 1.58 million had been incurred due to two officers travelling in the Business Class in 06 instances.

Purchase of Medical Supplies

Even though the Cabinet of Ministers had decided that any drugs whatsoever should not be purchased without the recommendation of the Drug Formulary Revision Committee, out of 16,638 medical supplies in use,4,619 items or 27.8 per cent had been purchased without the approval of that Committee.

Lack of Formal Timetable for Ordering of Drugs

The policy of the Medical Supplies Division on the purchase of the estimated items is to place orders on the State Pharmaceuticals Corporation of Sri Lanka, allowing a supply period of 11 months. But the State Pharmaceuticals Corporation of Sri Lanka had failed to supply the items ordered without delay. The total number of items of supplies ordered in the year 2016 had been 8,384 and out of that the State Pharmaceuticals Corporation had not supplied 5,178 items or 62 per cent within the specified period. The delay had resulted in the purchase of medical supplies at high costs form the local market in every year.

The cost of the medical supplies purchased only from the local market during the year under review itself amounted to Rs. 8,292 million and that as compared with the preceding year had been an increase of 192 per cent. An additional expenditure incurred on the purchase of medical supplies from the local market from the year 2007 to the year 2016 amounted to Rs.5,166 million.

Failure to Submit Drugs for Quality Testing

A methodology of submitting a sample of the drugs purchased through the State Pharmaceuticals Corporation of Sri Lanka or the local market for quality testing was not in operation. Those had submitted for testing only in instances of detecting any uncertainties subsequently.

Lack of Adequate Facilities for Quality Testing

Action had not been taken for the establishment of adequate laboratory facilities and the recruitment of adequate staff for the National Drug Quality Assurance Laboratory established for the testing of quality of the medical supplies. An audit test check of 23 items of testing done in the year under review confirmed that 07 of medical items cost of Rs.5.16 million had been expired due to the delay in the completion of tests and issue of reports.

Quality failed Medical Supplies

The total cost of 30 categories of medical supplies which had been withdrawn in the year under review after the failure of quality tests amounted Rs. 602 million and that as compared with the preceding year indicated as increase of 258 per cent.

Delays in informing Quality Failures

The issuance of suspension orders on the medical supplies which had failed quality tests had been done only through the issue of Circulars instead of utilising of the computer system. Such issuance of suspension orders on 16 instances out of 57 instances of failure of quality tests had been delayed in the ranges of 20 days to 140 days in informing the respective Hospitals and institutions.

Issue of Quality failed Medical Supplies to Patients

By the time of issue of withdrawal orders for quality failed drugs used for urgent surgical operations, diabetes, drugs given to pregnant mothers, antibiotics, blood bags and bandages costing Rs. 602 million in the year under review, 30 instances of medical supplies valued at Rs. 525 million had already been issued to the patients. That represented 87 per cent of the value of quality failed drugs and out of that 93 per cent to 100 per cent of 19 items valued at Rs. 377 million had been issued to the patients.

Non-recovery of the Cost of Quality failed Drugs from Suppliers

The Cabinet of Ministers had decided that the cost of quality failed drugs and administration charges amounting to 25 per cent should be recovered from the suppliers. Nevertheless, out of the total cost of quality failed drugs as at 31 December 2016 amounting to Rs. 3,374 million a sum of Rs. 893.6 million had been recovered from the State Pharmaceuticals Corporation of Sri Lanka by the Medical Supplies Division, whilst only a sum of Rs. 380.3 million only had been recovered from the suppliers. As the suppliers had alleged that the drug stores and the vehicles used for the transporting drugs do not conform to the specific standards resulting in quality failure of drugs after the drugs are brought to the Island and so the several amount could not be recovered from them.

Printing of State Emblem on Outer Carton of Medical Supplies

The need for printing of the State Emblem on the outer carton of the medical supplies, supplied by the State Pharmaceuticals Corporation of Sri Lanka is a condition of the orders placed as well as an internal control strategy introduced. Nevertheless, an audit test check revealed that 04 items of medical supplies costing

Rs.97.6 million without the State Emblem printed on the outer carton remained in the stores by 31 December 2016.

Lack of an Efficient Stock Control

Even though the Medical Supplies Division should maintain a buffer stock of 03 months, there were 7,223 categories of medical supplies which did not fulfil that requirement. An audit test check revealed that the stock of 1,607 items of essential medical supplies had been zero.

Lack of Suitable Storage of Medical Supplies

The Medical Supplies Division, the Regional Medical Supplies Divisions and the Drug Stores of the Hospitals do not maintain the specified temperature and due to the inadequacy of storage facilities, drugs had been stored in the corridors of the Medical Supplies Division over periods ranging from 8 days to 53 days. It was revealed that drugs used for sensitive organs such as eyes, and the drugs required for kidney diseases and caesarean operations had also included among the drugs which were not in specified temperature.

Non-use of Medical Supplies and Equipment

Drugs and equipment of which the value could not be computed received as aid in times of disasters such as floods on which the Ministry of Disaster Management had spent a large sum of money as the clearance and transport charges had not been kept in proper storage. Those drugs were deteriorated due to the failure to issue those drugs to the respective parties. A large quantity of drugs the value of which could not be computed received for free by the Medical Supplies Division after Courts action had become out-dated by 31 December 2016. Even though several years had elapsed after being out-dated, action for disposal had not been taken.

Drugs for Breast Cancer Patients Subject to Dispute

The drugs for breast cancer of generic name Trastuzumab and the brand name of Herticad had been purchased for Rs.567.7 million in the year under review without considering the objections of the oncologists concerning the quality, safety and efficacy of the drug. The drug Hereticad had not been discussed at three meetings of the Drug Evaluation Committee of the National Drugs Regulatory Authority whilst the recommendation for the registration of the drug had been given at a meeting of the Committee in which the oncologist had not participated. The drug had been registered on 5 days before the recommendation was made that the evaluation of the drug is in progress and if it is successful the registration can be granted at the end of February 2016.

Second Health Sector Development Project

The Second Health Sector Development Project, which is a five year Project financed by the International Development Fund, commenced in the year 2013 and schedule to be completed in the year 2018. Even though provision amounting to Rs. 5,584 million had been made for 04 years from the year 2013 up to the end of the year under review, the actual expenditure by the end of the year under review amounted to Rs.2,818,million.

Even though the main target of the Project had been the new construction of Emergency Treatment Units of 14 Government Hospitals and carrying out improvement to the existing Emergency Treatment Units of 14 other Government Hospitals, the award of contracts for 04 new constructions of Emergency Treatment Units and the improvements to 09 existing Emergency Treatment Centres only had been completed even by the end of the year under review.

Another target of the Project was the evaluation of the trend in the persons above the age of 40 years visiting the Suvadivi Centres for the identification of non-communicable diseases and the number of persons who visited the Suvadivi Units in the year under review as compared with the preceding year, had recorded a decrease of 251,368. Accordingly, adequate awareness programmes for the attraction of the people to the Suvadivi Centres had not been conducted.

Even though it had been expected to identify 13,577 new tuberculises patients in the year under review, only 9,293 patients had been identified due to the inadequacy of courses of action taken to conduct awareness programmes and carrying out improvements to facilities for treatment.

Construction of Epilepsy Unit

The estimate value of the Project on the construction of the 8 storey Epilepsy Unit of the Sri Lanka National Hospital and the Island wide implementation of the Epilepsy Management Programme amounted to Saudi Riyals 281.25 million. The total loan granted by the Saudi Development Fund for this Project commenced in the year 2008 amounted to Saudi Riyals 120 million and the Project was scheduled for completion by the end of the year 2016. Nevertheless, the construction work had not been completed even by 31 August 2017, whilst the Island-wide Epilepsy Management Programme had not even been commenced. Even though loan instalments totalling Saudi Riyals 13.13 million and interest amounting to Saudi Riyals 2.83 million had been paid by 31 December 2016,the benefits could not be achieved due to the project delays. A sum of Rs. 337.26 million had been spent on the procurement of medical equipment for the Neurology Unit of the National Hospital which did not relate to the objectives of the project.

Purchase of Linear Accelerators for Cancer Patients

The approval of the Cabinet of Ministers had been granted in the year 2012 for a Project valued at US $ 53.38 million for the introduction of the Linear Accelerator Treatment System for the cancer patients in place of the obsolete Cobalt Treatment System. A foreign Bank had forwarded an unsolicited proposal for financing the project planned for implementation in 10 Hospitals under 2 stages. Nevertheless, the General Treasury had refused to give concurrence to the terms of credit forwarded. Nevertheless, the provisions for the project had been made from the World Bank Credit and domestic funds and 04 Linear Accelerators included in the proposals rejected by the General Treasury had been purchased at the same price from the same supplier deviating from the Procurement Guidelines for US$ 8.8 million representing 80 per cent of the cost thereof. The balance 20 per cent was due for payment after the installation of the machines.

The contract for the construction of the bunkers required for the installation of these machines at 5 Hospitals on the design and build basis for Rs.1,103 million had been awarded on 11 June 2014 deviating from the provisions in the Government Procurement Guidelines to the Central Engineering Consultancy Bureau. The construction work scheduled for completion by April 2015 had not been completed even by 01 August 2017, thus delaying the work over a period exceeding 2 years. Three out of the 04 machines had been lying idle for more than one year due to the delay in the construction of the bunkers.

MASS MEDIA

The Ministry of Parliamentary Reforms and Mass Media, two Departments and 12 Statutory Bodies under the purview of the Ministry should have performed the following functions for the achievement of the expected results from this Sector, namely, the creation of a people friendly, development oriented, free and responsible Sri Lankan Mass Media.

- Formulation , taking follow up action and evaluation of policies , programmes and projects relating to the subjects of Parliamentary Reforms and Mass Media
- Formulation of Strategies for the Mass Media as a proactive agent in economic, social, cultural and political fields towards better public attitudes
- Implementation of programmes to enhance the knowledge , attitudes and appreciation in public
- Adoption of necessary measures to ensure people's right to correct information
- Implementation of programmes to create a high level of Media ethic
- Release of official communiqués and news to Media
- Release of information about Sri Lanka to Local and Foreign Media Institutions
- Provision of information and publicity material for Sri Lanka Missions abroad
- Implementation of International agreements relating to publications
- Sale, storage and dispatch of Government publications other than departmental publications
- Take appropriate measures for Production and exhibition of news, films and documentaries
- Broadcasting, including commercial television, radio broadcasting and overseas transmission

The observations made in the audit examinations carried out regarding the functions performed are summarized below.

Utilization of Estimated Provisions

Provisions amounting to Rs.1,698 million and Rs.101.6 million had been made by the Annual Budget Estimate 2016 of the Ministry of Parliamentary Reforms and Mass Media for the Project for Introduction of Digital Technology for the Ground Television Transmissions and for the Project for Improvement of the Quality of Television Programmes respectively. Nevertheless, the entire provision had been saved due to the non-utilization of provisions for the said projects.

Idle and Underutilized Assets

The equipment purchased for the Colour Laboratory in the year 2003 at a cost of

Rs.102.2 million equivalents to £ 9,150,000 (Euro 1,442,601) under loan facilities received from the French Government in accordance with the Agreement entered into by the supplier and the Department of Information on 10 December 1999 on an interest rate of 2.1 per cent without carrying out a proper feasibility study, had remained idle without proper maintenance even by May 2016. A three member committee had been appointed in this connection in the year 2010 and according to its recommendation, a Cabinet memorandum should be submitted to obtain the approval for the sale of those machines through open bidding. Nevertheless, action had not been taken by the Department accordingly even by 31 May 2016.

Automation of Broadcasting Services

The automation of Broadcasting Services in the Sri Lanka Broadcasting Corporation had been commenced in the year 2008 and since then a sum of Rs.3.40 million had been spent therefor up to 14 May 2012. Even though the number of Broadcasting Services automated should have been 06, only 03 Broadcasting Services had been automated even by 31 December 2016.

Dubbing the Programmes obtained from Japan into Sinhala and Tamil Languages

It had been planned to dub 449 programmes obtained from Japan in to Sinhala and Tamil Languages at a cost of Rs.589 million with a view to improving the programmes of Sri Lanka Rupavahini Corporation. Nevertheless, entering in to Agreements thereon only had been done in the year under review.

Upgrade the Field Production Facilities

The Sri Lanka Rupavahini Corporation had planned to purchase cameras, batteries and technical equipment in medium level at a cost of Rs.16.20 million to upgrade the Field Production Facilities. Nevertheless, the preparation of relevant specifications and the submission it for the approval of the Board of Directors of the Corporation had only been done.

Functions planned to be performed

The following functions planned to be performed by the Sri Lanka Rupavahini Corporation during the year under review had not been performed even by the end of the year under review.

- Introduction of a Evaluation Scheme based on the performance of employees, winning the 5 S Award by creating a pleasant office environment for employees and introduction of 05 Circuit Bungalows
- Establishment of a Media City under a Project of Board of Investments and designing and maintaining a new web site
- Introduction of new extra income generating sources in addition to the existing income generating sources

- Review and making amendments to the existing Rupavahini Act and formulating of new laws and regulations required by the Corporation

Independent Television Network Limited

According to the financial statements of the Independent Television Network Limited, after tax loss for the year ended 31 December 2016 amounted to Rs.107.19 million as compared with the corresponding after tax loss of Rs.433.02 million for the preceding year, thus indicating a deterioration of Rs. 540.21 million or 125 per cent in the financial result of the year under review as compared with the preceding year. The income from sale of air time of the year under review had decreased by Rs.656.66 or 27 per cent and even though other expenditure should be decreased relatively, all expenditure on programmes, administration and marketing had increased by 9 per cent, 2 per cent and 34 per cent respectively.

Associated Newspapers of Ceylon Limited

The key function of the Company with the vision of "Sri Lanka's most trusted and innovative media services provider", was the printing and publication of newspapers and periodicals. The Company had published 06 types of newspapers and 09 types of periodicals in the year under review while 11 periodicals published in the year 2015 had not been printed in the year 2016. The sales income received from all newspapers and 07 periodicals had decreased by Rs.67.9 million as compared with the preceding year. The printing of 06 newspapers and 07 periodicals had decreased by 7 per cent as compared with the preceding year. As the printing of school text books and telephone directories had been abandoned, the income earned from commercial printing had decreased from Rs.312.7 million to Rs.50.7 million representing 84 per cent.

The Lake House Connect (pvt) Limited and The Observer Jobs (pvt) Limited which are the subsidiaries fully owned by the Company had remained bankrupt and losses totalling Rs.19.4 million and Rs.11.6 million respectively had been shown in the financial statements as at the end of the year under review.

Sri Lanka Press Council

Even though ensuring on the part of newspapers and journalists the maintenance of high standards of journalistic ethics was a key function according to the Sri Lanka Press Council Law, No.5 of 1973, out of 105 complaints made by the general public and various institutions against the newspapers in the year under review, 53 complaints had not been solved even by the end of the year under review.

LAW ,ORDER AND PALIAMETARY AFFAIRS

The expected result of this Sector was to maintain law and order for a law abiding society. The Ministry of Law and Order and Southern Development, a Department and two statutory bodies are functioning in order to achieve this objective. Formulation of policies, programmes and projects relating to the scope of the Department and statutory bodies for Law and Order and Southern Development, taking follow up action and evaluation, maintaining law and order, development of strategies including wide reforms ensuring social discipline and vehicular traffic control were the key functions of this Sector.

Solving Complaints on Crimes

A key index in reflecting the progress of safeguarding the law and order in the country is the absolute number of crimes reported in the country and the relative number of solving crimes reported. Out of the complaints on minor offences against persons, complaints on crimes against children and complaints on offences relating to liquor, the number of complaints solved had decreased in the year under review as compared with the preceding year. The details are given in the following Table 23

Type of Crime	2015			2016		
	Reported	**Solved**	**Percentage of solutions**	**Reported**	**Solved**	**Percentage of solutions**
Grave Crimes	40,188	23,575	58.66	36,937	26,869	72.74
Minor Offences against Persons	43,870	30,292	69.05	45,579	30,481	66.88
Minor Offences against property	30,685	14,407	46.95	33,349	15,969	47.88
Minor Complaints	1,014,812	1,014,291	99.95	1,039,350	1,038,942	99.96
Crimes against hildren	5,911	5,102	86.31	5,709	3,294	57.70
Crimes against women	8,288	4,579	55.25	9,042	4,986	55.14
Liquor related Offences	113,944	109,256	95.89	120,105	111,028	92.44
Offences of narcotic drugs	89,996	87,846	97.61	88,352	86,330	97.71
Corruptions	1,796	1,788	99.55	1,255	1,217	96.97
Statutory Offences	46,290	43,869	94.77	46,171	44,177	95.68

Table 23: Complaints on crimes received and solved

Source-Annual Performance Report – 2016- Ministry of Law and Order and Southern Development

Prevention of Vehicular Accidents

Taking necessary steps in order to streamline the vehicular traffic so as to secure the lives and property of the people is a key function of the Ministry. Rapid growth in the number of vehicles throughout the country and the relative increase in the number of vehicular accidents being 6 accidents for 1,000 vehicles were evident during the period 2014-2016. Information on vehicular accidents reported during that period is shown in the Table 24

Accidents	2014	2015	2016
Fatal Accidents	2,260	2,600	2,824
Serious Accidents	7,071	8,186	8,148
Minor Accidents	12,781	13,595	14,604
Accidents with Damage	13,854	13,726	13,380
Total Accidents	35,966	38,107	38,956
Number of Deaths	2,440	2,816	3,017

Table 24 Accidents occurred during the period 2014-2016
Source: Report of the Computer and Statistics Division Traffic Police Headquarters

Control of Narcotic Drugs

According to the Annual Reports of the Police Narcotics Bureau , the quantity of drugs Heroine, Hashish and Cocaine arrested in the year under review had increased as compared with those of the preceding year. Details are shown in the Table 25

Institution	Heroine Kg		Opium Kg		Hashish Kg		Cocaine Kg	
	2015	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Police Narcotics Bureau	22.6	147.7	196.3	108.3	-	4.6	-	1,486.3
Police Stations	16.6	48.7	5,481.1	3,531.8	1.2	35.6	0.1	1.5
Special Task Force	-	-	676.1	409.8	-	-	-	-
Other Institutions	6.3	10.4	215.9	124.4	2.9	-	5.5	82.9
Total	**45.5**	**206.8**	**6,569.4**	**4,174.3**	**4.1**	**40.2**	**5.6**	**1,570.7**

Table 25- Arrest of Narcotic Drugs
Source- Annual Report- Police Narcotics Bureau-2016

The value of Heroine and Cocaine stocks arrested in the year 2016 had been Rs.1,034 million and Rs.23,560.5 million respectively according to the average stock price.

Utilization of Capital Provision

The audit observations on the utilization of capital provisions made by the Annual Budget Estimate 2016 were as follows.

- Provisions amounting to Rs.985 million had been made in the year under review for the completion of 572 prefabricated buildings. A sum of Rs.285 million out of the provision of Rs.485 million made in respect of the Department of Police and a sum of Rs.340 million out of the provision of Rs.485 million made in respect of the Special Task Force had been saved. Construction work of 75 prefabricated buildings belonging to the Department of Police and 13 prefabricated buildings of the Special Task Force had not been commenced.

- A provision of Rs.800 million had been made to carry out 80 per cent of the development activities of the Police Training Academy. Out of that provision, Rs.600 million had been transferred for other constructions. A sum of Rs.44 million had been spent only for 02 Projects out of 16 Projects of Police Training Colleges in Katana and Kaluthara.

- A provision of Rs.500 million had been made for the completion of 75 per cent of work of the Emergency Communication building belonging to the Police Information and Communication Network and 75 per cent work of networking. The entire provision had been saved without carrying out that work even by the end of the year under review.

Southern Development

Approval of the Cabinet of Ministers had been received in April 2016 to appoint an Interim Board consist of a Chairman and nine members until the Draft Bill of Southern Development Board is passed. Out of the provision of Rs.864.69 million granted for the Southern Province Road Development under the Southern Development Project, only Rs.483.04 million had been spent.

Parliamentary Affairs

An Action Plan had not been prepared by Sri Lanka Parliament for the year under review and a summary of observations revealed on the operation of Parliament according to the Annual Budget Estimate 2016 and Performance Reports, given below.

It had been planned to conduct 101 Parliamentary Sessions in the 8th

Parliament from 01 January 2016 to 31 December 2016 and 97 Sessions out of it had been conducted. The participation of the Honourable Members of Parliament for those 07 Sessions had been as Table 26.

Number of Members of Parliament participated	Number of Sessions
51- 75	**01**
76- 100	**01**
101- 125	**13**
126- 150	**21**
151-175	**45**
176- 200	**11**
201- 225	**05**
Total	97

Table 26 - Members of Parliament participated

According to the information mentioned above, only 61 Sessions had been conducted in the year under review with the participation of more than 150 Honourable Members of Parliament out of the 225 Honourable Members of Parliament and less than 150 Honourable Members of Parliament had been participated for 36 Sessions out of the total 97 Sessions of Parliament conducted. The number of Sessions of which more than 200 Honourable Members of Parliament participated had been 5.

The details on the total expenditure which had been incurred as salaries, allowances, staff expenditure, transport, fuel, stationery, travelling expenses, food and beverages, office maintenance expenditure, postal and communications, electricity and other incurred for a period of 05 years from the year 2012 to the year 2016 for an Honourable Minister and for an Honourable Member of Parliament under the Head of the Parliament and under the Head of the Ministry of Parliamentary Affairs and Mass Media are given Table 27.

Year	Average of the total annual expenditure incurred for an Honourable Minister Rs.	Average of the total annual expenditure incuured for an Honourable Member of Parliament Rs.
2012	30,566,054	7,359,408
2013	32,996,514	7,233,803
2014	34,506,004	7,489,911
2015	32,703,193	7,738,108
2016	37,277,857	8,575,404

Table 27 - Average of the total annual expenditure incurred for an Honourable Minister and Honourable Member of Paliament

PORTS AND SHIPPING

The formulation of the most appropriate policies and an efficient mechanism helpful in providing quality Ports and Nautical Services capable of facing competitiveness in the fulfillment of the domestic and international requirements in the Marine Transport Sector for the development of the National Economy is the objective expected of this Sector. The Ministry of Ports and Shipping and the Sri Lanka Ports Authority, the Merchant Shipping Secretariat, the Ceylon Shipping Corporation Ltd., and the Shipping Aviation Information and Research (Private) Corporation Limited thereunder should have performed the following functions.

- Formulation of Policies, Programmes and Projects relating to the subjects of Ports and Shipping.
- Development and administration of ports, oil installations and equipment, lighthouses and beacons other than those belonging to the Admiralty.
- Arbitration of disputes between shipping services providers and users.
- Establishment of rules of competition for Shipping Services Providers and users.
- Assist in establishing Consultative Co-ordination between shipping service providers and users.
- Receiving wrecks and ocean salvages
- Administration of Shipping Development Fund.
- Administration of freight and Shipping Services
- Coastwise passenger traffic
- Supervision of Institutions under the Ministry.

A summary of the audit observations on the performance of the function by the above institutions revealed at the audit test checks is given below

International Place in the Container Handling Operations and the Market Share of the Ports Authority.

According to the Alphaliner Report on the World Ports for the year 2016 issued by the Alphaliner Organisation, Sri Lanka Ports Authority remained in placement No.23 by handing 5,734,923 Twenty Equivalent Units and as compared with the year 2015 those activities had achieved an improvement of 10.6 per cent. Nevertheless, that market share of the Sri Lanka Ports Authority for the year 2016 as compared with the year 2015, had decreased by 6.75 per cent.

Cargo Operations Handling

The particulars of the Containers Units, and the Conventional Cargo handled by the major Ports of Colombo, Galle, Hambantota and Trincomalee during the 5 preceding years appear in Table 28 below.

Particulars	2012	2013	2014	2015	2016
Number of Ship Arrivals	4,178	4,024	4,298	4,760	5,023
Number of Twenty Equivalent Units of Containers handled (Units 000)	4,187	4,306	4,908	5,185	5,735
Conventional Cargo handled (Metric Tons 000)	6,508	5,664	6,339	7,156	7,811

Table 28. Container Units and Conventional Cargo handled by Major Ports
Source : Performance Review Report of the Sri Lanka Ports Authority

The total number of ship arrivals in Sri Lanka in the year 2016 had been 5,023 and that as compared with the preceding year indicated an increase of 5.5 per cent. The number of Twenty Equivalent Units of Containers handled in the year 2016 had been 5,734,923 and that as compared with the preceding year indicated an increase of 10.6 per cent. The Conventional Cargo handling during the year 2016 had been 7,811,000 metric tons and that as compared with preceding year indicated on increase of 9.1 per cent.

Operations of the Port of Colombo

Arrival of Vessels

The particulars of arrival of ships at the Port of Colombo from the year 2012 to the year 2016 appear in the Table 29 below.

Category of Vessels	Number of Ship Arrivals				
	2012	**2013**	**2014**	**2015**	**2016**
Container	3,092	3,142	3,239	3,643	3,804
Conventional	52	38	28	45	40
Others	726	487	475	509	561
Total	***3,870***	***3,667***	***3,742***	***4,197***	***4,405***

Table 29 : Arrival of Ships in the Port of Colombo
Sources : Performance Review Report of the Sri Lanka Ports Authority

An improvement of 161 container vessel arrivals or 4 per cent in the Port of Colombo as compared with the preceding year was indicated. Even though an improvement of the arrival of container vessels to the Port of Colombo in the year 2015 as compared with the year 2014, the Authority had failed to divert those vessels to the Terminals operated by the Sri Lanka Ports Authority. The particulars appear in Table ……. above.

Analysis of Container Vessels

The particulars of the container vessel arrivals in the Port of Colombo from the year 2012 for the year 2016 appear in Table 30 below.

Terminal Services Supplier	Number of Ship Arrival				
	2012	**2013**	**2014**	**2015**	**2016**
Sri Lanka Ports Authority	1,972	2,084	1,926	1,616	1,460
South Asia Gateway Terminal	1,120	1,011	855	1,026	1,087
Colombo International Container Terminal	-	47	458	1,001	1,257
Total	**3,092**	**3,142**	**3,239**	**3,643**	**3,804**

Table 30 : Analysis of Container Nautical Vessels
Source : Performance Review Report of the Sri Lanka Ports Authority

The number of ships arrived at the Terminals of the Authority in the year 2015 had decreased by 156 in the year 2016. Ship arrivals at the Terminals of the Ports Authority had decreased due to reasons such as inadequate depth of the terminals, delays in anchorage and inadequacy of the width of the Granty Cranes.

Decrease of the Terminal Operation of Sri Lanka Ports Authority

The container operation capacity of the Sri Lanka Ports Authority during the 16 years period from the year 2001 to the end of the year 2016 had rapidly decreased from 81 per cent of the total container handling to 37 per cent.

Nevertheless, out of the two competitive Companies operating in the Port of Colombo the Company which commenced operations in the year 2013 had achieved a rapid improvement from 1 per cent to 35 per cent whilst the 19 per cent market share of the other company for the year 2001 had improved to 28 per cent in the year 2016. The particulars of container handing in 16 years appear in Figure 24 below.

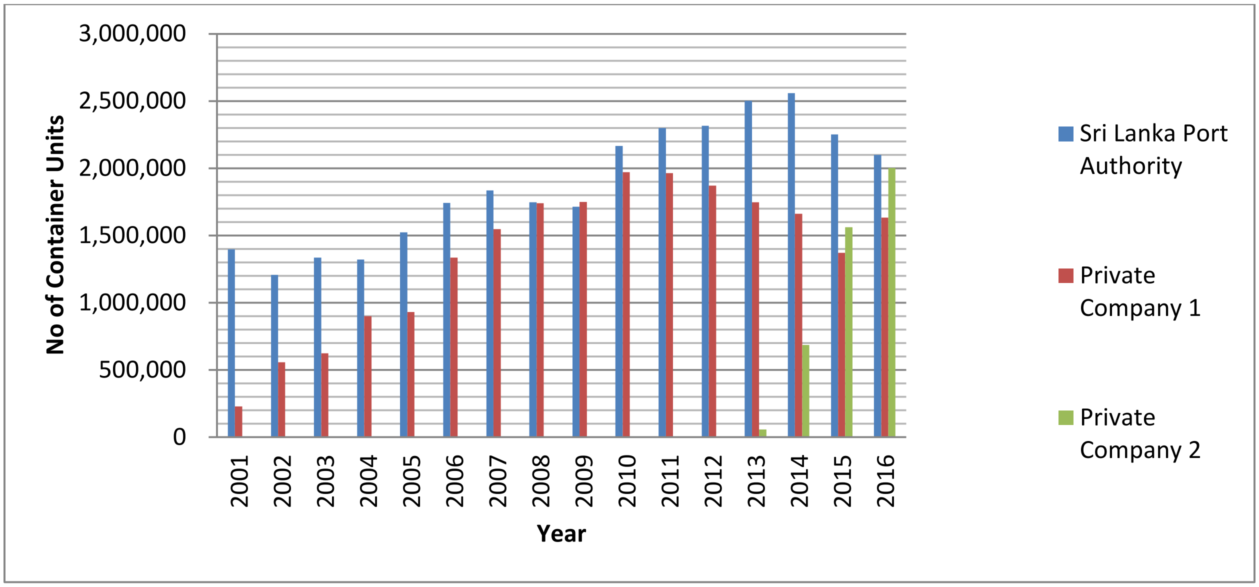


Table 24 : Terminal Operations of Sri Lanka Ports Authority
Source : Performance Review Report of the Sri Lanka Ports Authority

According to the above data the market share of container handling of the Sri Lanka Ports Authority had been gradually taken possession by the Private Sector. The Terminal Occupancy Ratio of the Container Operations of the Sri Lanka Ports Authority for the years 2014,2015 and 2016 had been 78 per cent, 68 per cent and 63 per cent respectively. Accordingly the Terminal Utilization Ratio of the Authority had gradually decreased.

Non-commencement of Operation of the East Container Terminal

The work on the construction of the East Container Terminal 450 meters in length, water depth of 18 meters and capacity of 800,000 Twenty Equivalent Units, had been completed in April 2016 by the Authority under the first stage of the Port of Colombo Expansion Project at a cost of Rs.11,168.47 million. Action had not been taken even by the end of the year under review for the purchase of equipment necessary and commence the operations.

Net Operating Profits and Losses

The information on the net profits/losses of the Major Ports belonging to the Sri Lanka Ports Authority during the 5 preceding years appears in the Figure 25 below.

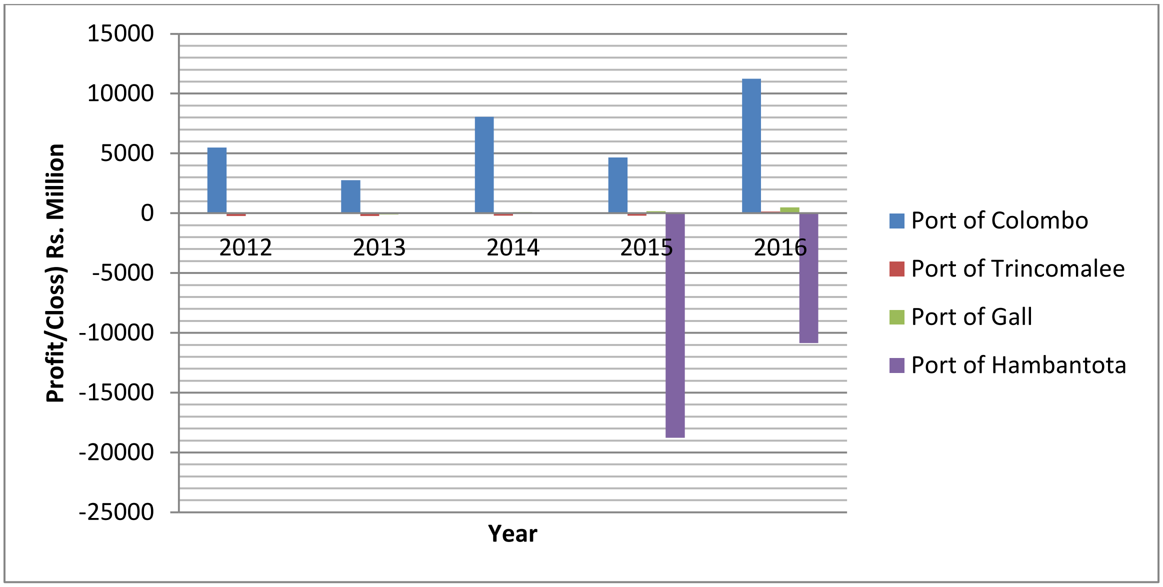


Figure 25 - Net Operating Profit/losses
Source : Financial Statements of Sri Lanka Ports Authority

The Port of Tricomalee had been incurring losses continuously during the 4 preceding years and the cumulative loss amounted to Rs.4,129 million. A sum of Rs.144,170.41 million comprising Rs.73,833.64 million for the first stage and Rs,70,336.77 million for the second stage had been spent by 31 December 2016 on the construction and development work of the Port of Hambantota. Foreign loans amounting to Rs.129,848.19 million had been obtained for the purpose. The Port of Hambanthota had been incurring losses continuously since opening for operations and the assets had been underutilized. A loss of Rs.10,860 million had been incurred in the year under review and the cumulative losses incurred including the foreign exchange conversion loss had amounted to Rs.46,699 million upto the year 2016.

Non-utilisaion of the Port of Oluvil

The construction of the Port of Oluvil by utilizing a sum of EURO 42.2 million obtained from the Government of Denmark and a sum of Rs.531 million from the Sri Lanka Ports Authority had been completed on 01 September 2013. Nevertheless the ship arrivals and the operations had not materialized even by the end of the year under review. As this Port is a port with low water depth of 9 metres, no ships whatsoever had arrived at the port since its opening. As sand had accumulated inside the port, three breakwaters, each 100 metres in length had been constructed at a cost of EURO 1.8 million. But the expected objectives had not materialised even by the end of the year under review.

Construction and Development of Port of Hambanthota

Two Quay Side Gantry Cranes valued at Rs.2,652 million had been installed in the premises of the Port of Magampura Hambanthota since 30 July 2014. Those 2 Gantry Cranes required for container handling operations had been idling as the main operations of the Port of Magampura are only handling (RO-RO operating) of motor vehicles. The Rubber Tyre Transfer Crane valued at Rs.270 million used in connection with two Gantry Cranes had been idling as it is not used for operations.

The operations of the oil installation complex in the premises of the Port of Hambantota, operated by the Subsidiary Company together with the Ports Authority are not functioning as expected. Accordingly, the assets valued at Rs.6,987.64 million of the Oil Installation Complex funded by the Sri Lanka Ports Authority had been underutilized. Since the commencement of the sale of bunkering oil up to 31 December 2016, an overall operating loss of Rs.2,738.9 million had resulted from operations relating to the sale of bunkering oil.

Non-implementation of Port of Galle Development Project

A loan agreement had been entered into in the year 2006 for the Gall Port Development Project which had been identified as an accelerated project of the Government in the year 2016. The approval for that had been received later from the UNESCO Organisation. Even though a request had been made for the extension of the credit period, it had not been extended and as such construction work had not been commenced even by 30 April 2017.

Ceylon Shipping Corporation Ltd.

Two vessels, Ceylon Breeze and Ceylon Princess purchased by the Company had been used on commercial transport activities in March 2016 and July 2016 respectively. The Company was engaged in operations utilizing the two vessels and the vessels obtained charter basis on cargo handling activities including the transport of coal for the Lakvijaya Thermal Power Plant, Non-vessel Operations Common Carriers, Cargo clearance, maritime training and the supply of Agency Services. The following observations are made in connection with the activities of the Company.

- The Company had earned a profit of Rs.74.31 million in the accounting year 2015/2016 as compared with the profit of Rs.124.94 million earned in the year 2014/2015. The profit for the accounting year 2015/2016 as compared that of the preceding year, had decreased by 40.5 per cent. The increase of the direct operating expenditure of the Company by 93 per cent had been the main reason for the deterioration.

- The Cabinet of Ministers had made a policy decision in the year 2014 to handover only to the Company the transport of coal and crude oil requirements of the country at cost based freight rotes shipping charges with the objective of improving the earning of the Company and the savings of foreign exchange. Nevertheless, in view of the failure to reach a consensus with institutions concerned with regard to the transport of crude oil, the transport of crude oil had stalled after January 2015.

- Even though the Company had made plans in the year 2016 for maintaining Clearance Warehouses for unaccompanied Personal Baggages, it could not be implemented due to the inability to find a land suitable for the purpose.

- Even though the Company had made plans in the year 2016 together with a third party for the purchase of two self propelled barges, it could not be implemented due to the inability to reach a consensus with the parties concerned.

- Even though the Company had made plans for maintaining a Floating Bunker Storage Facility in the year under review together with a third party it could not be implemented due to the delays in obtaining the licence.

- Even though plans had been made for maintaining the Passenger Ferry/Cruise Operations in the South Indian Zone, it could not be implemented due to the limitation of facilities and the availability of destination without tourist attractions.

- Even though the Company had made plans for maintaining maritime coastal Shipping nautical services in the year under review, the feasibility study had been delayed due to the lack of data required.

Administration of the Shipping Development Fund

A sum of Rs.422.64 million is receivable from 3 State Institutions by this Fund remaining dormant since the year 2012. Adequate action had not been taken on those outstanding balances not confirmed by those institution and Liquidate the Fund.

Enactment of Domestic Laws in accordance with Conventions of the International Maritime Organization

Even though Bill for the enactment domestic laws in accordance with the Conventions of the International Maritime Organisation was scheduled to be placed before the Parliament by 30 June 2016, it had not been 50 placed even by the end of the year under review. Even though the approval of the Bill for the enactment of laws, rules and guidelines in accordance with the Conventions of the International Maritime Organisation and the Publication thereof in the Gazette had been planned, that had been in the discussion level even by the end of the year under review.

Shipping & Aviation Information and Research (Pvt.) Limited.

The Company had sustained continuous losses from the year 2012 and except the interest income received on the investments made in fixed deposits, other operating income had not been earned during the period. The share capital of the company amounted to Rs.30 million. The investments of capital had been realised in parts and utilized to meet the establishment and administrative Fixed Deposits. The cumulative loss of the Company by the end of the year under review amounted to Rs.6.2 million and with the adjustment of that to the stated capital of Rs.30 million, the capital had been eroded to R.23.8 million.

HIGHWAYS

With the objectives of improving the quality of life of those who use roads by improving road safety and convenience, and minimizing the travel time and cost by establishing a road network of high-mobility. The following duties should have been performed by the Ministry of Higher Education and Highways together with a statutory institution.

- Preparation of policies, programmes, and projects within the scope of highways.
- Implementation of those projects.
- Coordination of development activities in collaboration with the Provincial Councils and Local Authorities based on national level policies.

The audit observations made in the audit carried out in respect of the execution of the said duties, are summarized below.

Recruitments of Staff Without Approval

Action had been taken to deploy 73 consultants recruited without approval of the Department of Management Services in 12 foreign-funded projects implemented under the Ministry in the year 2016 at a monthly salary of Rs. 65,000. The Government had to incurred an expenditure of Rs. 4.74 million per month thereon.

Renovation and Widening of Roads using the Local Bank Funds

The Road Development Audit had obtained a loan amounting to Rs. 143.51 billion from local banks in order to renovate 64 roads stretching over 1434 kilometers, and the approval of the Cabinet had been granted for the execution of the contracts through local contractors. The provisions of the Government Procurement Guidelines had not been followed when selecting the contractors for the renovation of roads. The final contract price of the financial proposals submitted by the contractors for each of the roads, had been decided by the Standing Cabinet Appointed Procurement Committee (SCAPC). Of the loan obtained by the Authority amounting to Rs. 55,392.2 million approved by the National Savings Bank for constructing 28 roads, a sum of Rs. 28,000 million had been spent on the Ministry and the Project Management Unit of the Authority in deviation of the renovation of roads. Having obtained a sum of Rs. 28,000 million from the Treasury under the approval of the Cabinet, bills relating to the construction activities totalling Rs.

11,650 million had been settled including sums of Rs. 5,400 million and Rs. 6,250 million in the years 2015, and 2016 respectively. Due to delays in receiving the funds spent on additional works, the construction works had been proceeded by reducing the width and length of the proposed roads, and minimizing the activities such as concrete drainage systems, culverts, side walls, and the constructions on the surface of the roads.

Performance Relating to the Widening and Renovation of Roads

Projects not Commenced

Despite being planned to commence in the year 2016, works of 114 projects whereof the estimated cost had amounted to Rs. 7,778.44 million as at 31 December 2016, had not been commenced in the year under review. Thirty nine of the said 114 projects had been related to the roads not pertaining to the Road Development Authority, and the contract value thereof amounted to Rs. 3,206.28 million.

Projects Completed under 50 Per Cent

There were 87 projects whereof the physical progress was less than 50 per cent with a contract cost of Rs. 4,292.90 million, and 49 of those projects were related to non RDA roads. The contract value thereof amounted to Rs. 1,649.95 million whilst the cost incurred thereon amounted to Rs. 302.47 million. Thirty eight projects whereof the physical progress was less than 50 per cent belonged to the Road Development Authority, and the contract cost thereof amounted to Rs. 2,642.95 million whilst a sum of Rs. 300.21 million was spent.

Projects not Completed within the Year

Works relating to 342 contracts whereof the contract cost amounted to Rs. 16,771.37 million, and proposed to have been completed by the end of the year 2016, were not completed. The reasons attributable to the said delays of the projects were not mentioned in the annual progress report.

Construction of the Trincomalee Outer Circular Road

Eight bridges had been constructed in the years 2009 and 2010 by incurring a sum of Rs.3,495 million under the UK Steel Bridge Project for the outer circular road constructed by converging the Batticaloa-Thirikkodaiaru-Trincomalle road (A-15) and Ambepussa-Kurunegala-Trincomalee road (A-6) outside the town of Trincomalee. However, despite a lapse of 06 years by 31 December 2016, the construction of the roads connecting the said bridges, had not been completed by the Road Development Authority.

Widening, Renovation, and Maintenance of Roads

Provisions amounting to Rs. 8,065.0 million had been required for the activities relating to the widening and renovation of roads pertaining to the Road Development Authority in the year 2016, and of that, provision amounting to Rs. 4,637.6 million had been received. As such, the value of the bills in respect of the works carried out in the year 2016, amounted to Rs. 3,523.45 million as at 31 December 2016 due to non-receipt of adequate provision.

Deviation from the Procurement Procedure

Contrary to the provisions of the Government Procurement Guidelines, 2773 contracts with a total value of Rs. 56,771.69 million relating to widening and renovation of roads from the year 2008 up to 2016 had been awarded by the Road Development Authority to a private company. The values of those contracts had been decided with a 28 per cent profit margin inclusive of overhead costs on the basic rates in the Highway Schedule Rates (HSR). Although it was not possible to award sub-contracts in respect of the said contracts in accordance with the Road Development Authority Circular, dated 15 August 2008, the said company had not directly involved in the constructions; instead, sub-contracts had been awarded to external contractors without calling for any bids.

Emulsion, worth Rs. 5,079.53 million had been purchased by the Road Development Authority from a company during 2004- March 2017 for maintenance activities of the roads. Having decided the purchasing price based on the cost mentioned in the Highway Schedule of Rates (HSR), action had been taken to purchase Emulsion by deviating from the Procurement Procedure.

Debt Collections and Settlement of Advances

The debtor balances totalling Rs. 1,264.96 million continued to exist from the year 1987 up to 2015, had not been recovered by the Road Development Authority even by 31 December 2016. Advances totalling Rs. 5,174.78 given by the Authority to contractors, and Government Ministries and Boards for miscellaneous purchases relating to the construction activities, had continued to exist without being settled for a period of 1-5 years; nevertheless, no action had been taken by the Authority even by the end of the year under review either to settle or recover such advances.

Delays of the Contractors

According to the agreements entered into between the contractors and the Road Development Authority, liquidated damages should have been recovered from the contractors due to their failure in completing the constructions by the specified dates. The value of the liquidated damages relating to 344 contracts prior to the year 2010, and the years 2011-2014, amounted to Rs. 116.02 million. The Road Development Authority had not taken any follow-up action thereon, thus failing to recover the liquidated damages from the relevant contractors even by the end of the year under review.

Collection of Lease Rent

Action was not taken by the Road Development Authority even up to 31 December 2016 to recover a lease rent of Rs. 699,463 that remained unrecovered for 04 years relating to 02 stalls at the underpass in Kandy, and another lease rent of Rs. 1.47 million that remained unrecovered for 09 years in respect of a stall at the underpass in Borella.

Settlement of Customer Deposits

Action had not been taken after follow-up action either to credit into the income or to settle the customer deposits totalling Rs. 205.94 million relating to 148 works awarded by customers older than 05 years or 03-05 years relating to the constructions carried out by the Road Development Authority on behalf of external parties.

Unutilized Spare Parts and Stocks

Action had not been taken by the Road Development Authority to dispose of the slow-moving stock of spare parts valued at Rs. 32.14 million that had remained at the stores without being utilized since the year 2012, the stock of obsolete uniforms, shoes and sandals, tyres ,etc. that had remained at the stores since the year 2008, and asphalt plant.

Release of Local Taxes

Action had not been taken by the Road Development Authority to release the local taxes in respect of the payments made to the consultants and contractors of the Landslide Disaster Protection Project of the National Road Network, and the Southern Road Connectivity Project. Hence, Value Added Tax, and Income Tax totalling Rs. 23.39 million had been paid by the said projects.

Unrecovered Mobilization Advances

Mobilization advances amounting to Rs. 78.88 million paid to the consultants of the Landslide Disaster Protection Project of the National Road Network, should have been recovered in full by 08 June 2016 in accordance with the consultancy services agreement; nevertheless, a sum of Rs. 9.78 therefrom had not been recovered by the Road Development Authority even up to 31 December 2016.

Lack of Approval for Variation Orders

As the investor of the Government of China had stepped down from the construction of the Central Expressway project, it had been decided to proceed with the constructions through local contractors. An additional sum of Rs. 161.09 million had remained payable to the foreign consultancy service institute as the feasibility study report on the construction of road had to be prepared afresh. A Committee had been appointed by the Secretary to the Ministry of Higher Education and Highways in order to evaluate the additional value incurred on the revision of the already prepared feasibility study report, but no approval had been granted by the said Committee even by 30 September 2017. However, approval had been granted by the Secretary to the Ministry for the sum of Rs. 30 million paid on the value increased additionally.

Uneconomic Expenditures

A road stretching for 806.7 meters had been constructed with interlocking pavement blocks by the Ministry of Higher Education and Highways incurring a sum of Rs. 1.5 million under the Maganeguma Project within the jurisdiction of the Ruwanwella Pradeshiya Sabha, and a motor grader had been used for the total removal of those pavement blocks, thus the expenditure incurred thereon, had become uneconomic.

Fees Levied on the Volume of Petroleum being sold

In accordance with the Cabinet Decision, dated 26 October 2005, fifty cents for every liter of diesel and Rs. 1 for every liter of petrol being sold by the Ceylon Petroleum Corporation should have been paid to the Ministry of Higher Education and Highways with effect from 01 January 2006. By the end of the year under review, action had not been taken by the Ministry to recover a sum of Rs. 4,486 million in respect of the years 2015, and 2016.

Overpayment of Mobilization Advances

The contractors of the Integrated Road Investment Project (i-Road) had been paid mobilization advances amounting to Rs. 5,097 million by the Ministry of Higher Education and Highways. As the total contract value had been separately computed without deducting the provisional sum when the said advance had been computed, a sum of Rs. 974 million had been paid in excess. The measures taken formally by the Ministry in order to recover the overpayment, had not been made available to audit.

The Report of Assets on the Acquired Lands

An extensive amount of lands had been acquired by the Ministry of Higher Education and Highways from the year 2010 up to the end of the year under review by paying huge compensation. However, the Ministry had not maintained an accurate asset report (ledger) in respect of the lands mentioned above. For instance, action had been taken in terms of Section 44 of the Land Acquisition Act, to vest only 614 lots out of 1,205 lots acquired by paying compensation under Phase II of the Outer Circular Highway project. Moreover, the Ministry had not possessed a report on the details of the lands acquired only by the projects sans the involvement of the Ministry. Information relating to the lands acquired through the bonds, had not been made available to audit.

Construction of a Building for the Highway Secretariat

The contract valued at Rs. 599.30 million for the construction of 3 storeys, being the first phase of the construction of an eight-storeyed building for the Highway Secretariat, had been awarded to a private party on 17 August 2010, and it was expected to be completed by 04 November 2011. However, by the completion of 90 per cent of the construction of 3 storeys, the contract for the construction of the other 5 storeys had been considered as a variation of the first contract, and the same contractor had been awarded with that contract at an additional cost of Rs. 568.14 million. Furthermore, the Project Steering Committee had decided in June 2012 to extend the building with 2 more storeys at an estimated cost of Rs. 795.72 million, thus the total expected cost of the ten-storeyed building had reached Rs. 2,506.54 million. Approval of the Cabinet had been obtained in respect of all of the said phases to incur the additional cost through the contribution of the Government of Sri Lanka. The observations made in the course of audit conducted in that connection, are summarized below.

- It was observed that the construction of the building by procuring several accessories such as, electric generator, underground fuel tank, information system, service system, electric elevators, and the air-condition system, from the contractor at a cost of Rs. 495.39 million, had been considered as a variation of the main contract, and such items had not been included in the initial Bill of Quantity, thus paving way for the contractor to claim additional charges up to 35 per cent on overhead costs, charges on fittings, and profit margin. In addition to that, space for parking of vehicles had not been taken into consideration, and additional locations had to be provided in that connection.

- The equipment and fittings of the building such as, the data network system, service system, Intercom system, electric fittings, air-condition system, and electric elevators, had been procured at a cost of Rs. 259.42 million. The weaknesses existed had been pointed out at the site inspections, but action had not been taken to rectify the weaknesses. The equipment and fittings had remained idle at the construction site over an extensive period of time, and the warranty period thereof had expired by 31 December 2015.

Acquisition of the Completed Stretches of the Roads

In terms of Condition 8.7 of the Contract Agreement, action had not been taken to hand over the completed stretches of the Moratuwa-Piliyandala Road, and Ratmalana-Mirihana Road completed under the National Highway Sector Project, to the Road Development Authority. Hence, of the sum amounting to Rs. 66.11 million recoverable from the contractor, only a sum of Rs. 38.51 million had been recovered.

SKILLS DEVELOPMENT AND VOCATIONAL TRAINING

The result intended from this field is to formulate policies and rules to increase the economic growth by creating a skilled labour force in strengthening youth by way of education, vocational and technological training. In order to ascertain such result, the following functions are to be performed through the Ministry of Skills Development and Vocational Training Department and 10 Statutory Boards/ Institutions.

- Compilation of policies, programs and projects, and, follow up and evaluation of skills development and vocational training Programs.
- Formulation of policies and providing facilities to strengthen Vocational Education requirement to students, those who do not qualify for University Education.
- Innovation of technical and technological education to create pertinent labour force for the labour market.
- Promotion of apprentice training opportunities.
- Provision and execution of strategies to uplift the tendency towards vocational education.

Accordingly, 397 centres Island wide affiliated to 7 institutions under the Ministry with the intention of developing human resource, globally required through qualitative vocational training. Audit Observations revealed at the audit examination carried out in respect of performance of those institutions are summarised below.

Provision of facilities for vocational training opportunities

New training institutions have been introduced during the year to promote technical and vocational training approach, by the Ministry of Skills Development and Vocational Training. Nevertheless, the technical and vocational training opportunities have not been enhanced sufficiently at an anticipated level. By 2015 there were about 210,695 students who had lost higher education due to failure in the GCE (O/L) and GCE (A/L) and 97,925 had been enrolled for vocational training for the year 2016, according to the information furnished to audit by 8 institutions including University Colleges.

Accordingly, vocational training opportunities had not been provided as compared with the students who had deprived of higher education opportunities. Therefore, the attention of the Ministry should be paid to increase students quantitatively enrolled by the Higher Technological Institutions, Technical Colleges and Vocational Training Centres for courses conducted by them.

Enhancement of the quality of training programs

According to the Tertiary and Vocational Education Act No.20 of 1990, training courses should be accredited to conduct courses with National Vocational Qualification (NVQ). However, out of 2,148 courses conducted by the institutions operated under the Ministry of Skills Development and Vocational Training, action had not been taken in respect of 526 courses, in accordance with the provisions in the Act. Furthermore, inadequate laboratory facilities and infrastructure facilities had not been developed, enabling to utilise laboratories, had effected to lower the quality of training course. Accordingly, the intention of the Ministry is to create labour force employable being globally strengthened by conducting qualitative courses at an appropriate standard with locally and foreign recognition. However, it had not been achieved as anticipated.

Participation of students in the Training Courses

Students participation for training courses had not improved quantitatively. According to the information relating to the year under review made available to audit, the number of courses, less than 70 per cent of students enrolled by 9 institutions, including University Colleges belonged to the Ministry amounted to 306. Similarly, the participation of students who had been enrolled for 375 courses by 5 institutions under the Ministry with facilities required for Vocational Training and National Vocational Qualification (NVQ) had been at a minimum level. Accordingly, 204 courses for which 5 to 10 students had been enrolled and 40 courses for which less than 5 students had been enrolled had existed and no any students whatsoever for 131 courses had been enrolled during the year under review. As such, the resources available in the Training institutions had not been efficiency and effectively utilised. Nevertheless, Lack of a formal methodology to enhance the attraction of Young Community towards technical and vocational education and Training field had mainly attributed thereto. Even though action had to be taken to conduct community awareness programs on the courses in each institution, directing for courses by continuous awareness of students dropped out from schools through Vocational Guideline programs, the contribution in this regard of the Ministry had been at a minimum level and as such it could not be reached to the result, expected from those courses.

Centralised Location of Training Institutions

Training centres which conduct similar courses in various institutions under the Ministry are centralised and as such the students are find it difficult to select courses and causing in decreasing number of students for training courses as well. Even though, there is a necessity to establish training centres at divisional level in order to give opportunities to students those who face economic and social problems, attention of the Ministry in this regard had not been paid.

Attention of the Ministry has to be paid in respect of the formulation of a formal methodology in order to improve students' attraction on courses, accreditation of courses introduction of new courses, course coordination between institutions, creation of courses relating to regionally inherent industries, establishment of Regional Training Centres, Development of Laboratory and infrastructure facilities to minimise the above issues.

Establishment of Vocational Training Centre in Colombo and Upgrading the Gampha Technical Collage Project

According to the project loan agreement of the improvement of Technical College, Gampaha and the construction of Vocational Training Centre, Colombo, it was scheduled to execute the project on 19 November 2013 and to complete it within 36 months. A project activities could not be fulfilled, as 9 months had elapsed to award the consultancy service contract and nearly 15 months had elapsed from the date of calling for bids for the construction contract and to evaluate and award the contract. As a result, the project period had to be extended up to 12 June 2018 from the scheduled date of completion that is 19 November 2016.

Functions of the University Colleges

It was planned to establish 20 University Colleges with the objective of reproducing middle level Technicians by conducting courses with NVQ 5 and 6 levels under the Skills Sector Development Program for students who studied Technology subject but forfeited University permission. By the year 2016, only six University Colleges in Ratmalana, Kuliyapitiya, Jaffna, Matara, Anuradhapura and Batangala had been instituted. Directors of University Colleges had resigned from service and they had been transferred between colleges temporary from time to time. As a result, a continuous service in one college could not be provided and as such the administration of those colleges and the maintenance of discipline of the students, academic non-academic staff had been effected. Furthermore, a proper guidance or supervision for carrying out administrative functions and financial management activities in the University Colleges in compliance with government administrative provisions, circulars and financial procedures had not been carried out at the Vocational Technology University level or Ministry level. Action had not been taken to introduce a code of ethics to preserve professionalism and these practises of the academic staff of the college even by the end of the year under review. Hence, there were instances where the Colleges could not maintain discipline in their institutions. Even though, the Diploma Courses conducted by University Colleges should be registered with the Tertiary Education Commission and accredited, except 8 courses conducted by the Kuliyapitiya University College Course conducted by other Colleges had not been accredited. Similarly, a formal methodology in respect of the curriculum relating to the courses conducted by Colleges, recommended academic period, students record books, lecture notes, lecture performance reports and the continuous evaluation to ensure the quality of courses had not been introduced even up to the end of the year under review. A continuous internal audit had also not been in operation in the Colleges.

The entire student capacity for 49 courses in the University Colleges was about 1470. However, 1380 students had been enrolled in the year under review out of which 245 students had dropped out Courses. Fifty one lecturers, 22 demonstrators and 01 instructor had fallen vacant in the academic staff and it was revealed in audit that there were Lack of Laboratory facilities for the use of training equipment and non-availability of infrastructure facilities. Due to such reasons it was observed that functions of the University Colleges had not been properly operated.

Obtaining Accreditation Certificates for Courses

The Principal objective of the University of Vocational Technology is to find higher education opportunities to those who had obtained Diploma qualifications in the Technology and Vocational Education field. Similarly, contribution for the curriculum Development of Technology and Vocational Education, Provision of Education Courses for the middle level technical officers who had qualified for University admission, presentation to courses required for the Skills Development of Persons with National Vocational Qualification and to present extension courses for continuous Professional Development being the objectives as well. In order to achieve those objectives it was decided to obtain accreditation for Engineering Degree Courses conducted by the University from the Institute of Engineers Sri Lanka and for other courses, from the Universities of Moratuwa, Peradeniya and Colombo and in addition to take accreditation from foreign recognised Universities. Nevertheless, the University had failed to get the degree courses accredited at expected level though 7 years had elapsed since the establishment of the University.

Conducting Degree Courses

The University of Vocational Technology had commenced enrollement of students in the year 2010. Seven full time courses and 08 full time courses in the year 2012 had been conducted. New courses for the full time courses had not been introduced since the year 2012. Further, students only for 5 courses thereof had been enrolled for other courses.

In addition, to the full time courses students had been enrolled for week end courses since 2013 and it was observed that the priority had been given for the enrollement of week end courses rather than full time courses.

Although, a principal objective of the University of Vocational Technology Act is to supply of study courses to improve the proficiency of the persons with National Vocational Qualifications, to achieve that objective courses had not been conducted at a maximum capacity in the year under review. In considering the enrollement of students in the year under review for 6 courses conducted in the Faculties of the University, separately, the underutilisation had ranged from 23 per cent to 100 per cent.

A tendency of leaving the courses from a considerable percentage of students enrolled to the University in the year under review was observed. Accordingly, out of 342 students enrolled to 11 courses, 98 had dropped out from courses during the year under review. In considering courses separately, drop out percentage from courses ranged from 12 per cent to 67 per cent. The management had not remedied, having being enquired reasons therefor.

Conducting Diploma Courses

According to the University of Vocational Technology Act, the provision of academic courses for middle level technical officers who have acceptable qualifications for University admission is an objective of the University. Nevertheless, except for the National Diploma in Technical Teacher Education Course, conducted by the Skills Sector Development Project, students had not been enrolled for any other Diploma Courses in the year 2015. Moreover, students for any course whatsoever had not been enrolled for the year 2016.

As action had not been taken to obtain National Vocational Qualification (NVQ) for two level of five Diploma Courses held by the University in the year 2013, even by the end of the year under review the University had failed to offer higher courses with quality for students who had followed such courses.

In the examination it was observed that passing the Diploma courses, except for 3 courses had been at a minimum level and it ranged from 07 to 47 per cent.

Ratmalana University College

According to the Vocational Technology Colleges Ordinance No.01 of 2014, conducting National Vocational Qualification levels 5, 6 and 7 courses and other technological courses of similar levels were stated as objectives of the University College. Nevertheless, courses had not been developed to achieve such objectives even by the end of the year under review, though 2 years had elapsed after the commencement of courses. According to the Tertiary and Vocational Education Act, No.20 of 1990, courses with National Vocational Qualification (NVQ) in respect of 9 courses commenced and conducted since the year 2015 should had been accredited but the management had not taken action to improve the Laboratory facilities to get the courses accredited. As a result, the College was usable to offer courses, internationally recognised as intended even by the end of the year under review.

Although, facilities were available to enrol at least 30 students for each course in the College, the number of students admitted to 6 courses ranged from 16 to 26. Accordingly, the resources of the College had not been utilised of at maximum level.

Out of 219 students enrolled to 8 courses out of 9 courses conducted by the College, 30 students had left the courses during the year. In considering each course separately, out of students enrolled, 7 per cent to 33 per cent had abandoned the courses. The management had not taken action to find reasons therefor.

The time schedule for the release of examination results of each group of students had not been included in the academic time table prepared by the College. The delay in releasing the examination results of 3 semesters ranged from 06 to 12 months.

Skills Sector Development Programme

The Skills Sector Development Programme on a seven- year plan, representing overall Vocational Training field for the quantitative and qualitative development of Vocational Training field had been in operation under the supervision of the Ministry of Skills Development and Vocational Training since the year 2014. The total cost of the programme amounted to Rs.125,891 million. (US$ 961 million) Under the budget assistance system, it was agreed to provide US$ 100 by the International Development Association (IDA) and the Asian Development Bank (ADB), US$ 15.4 million by the Government of Germany for 2 projects belonging to the programme and US$ 26 million by the Korean Import and Export Bank. There was a financial deficit of US$ 200 million for the programme and the Asian Development Bank had agreed to provide a loan of another US$ 100 million in the year 2016 or subsequent years on the basis of performance of the programme to fill the deficit. Of the aggregate financial requirement, 54 per cent or US$ 519.8 million had to be spent by the Government of Sri Lanka.

The programme is being implemented, based on 9 disbursement link indicators relating to the specially identified field and a sum of Rs.36,819 million including foreign loans of Rs.15,372 million had been spent thereon by the end of the year under review. However, according to the awarding letter of the programme a total sum of Rs.20,016 million had to be reimbursed from the Asian Development Bank and the International Development Association by the end of the year 2016. Observations revealed at audit test check carried out in respect of this programme are summarised below.

Non-preparation of a Corporate Plan

According to the programme implementation document, it was stated that the total cost of it amounted to Rs.125,891 million. However, a Corporate Plan, indicating the utilisation of this money had not been prepared for the programme.

Non-implementation of the programmes as planned

Of the 42 programmes planned to be implemented by incurring an expenditure of Rs.3,020 million from the provisions of the Asian Development Bank and the International Development Association included in the annual action plan 2016, 12 programmes planned to be implemented by spending the expenditure of Rs.1,279.6 million in the year under review, could not be implemented.

A provision of Rs.11,100 had been made in the annual budget in respect of programmes proposed to be implemented within the Vocational Training Field including these programmes, only Rs.7,939 million or 72 per cent thereof had been utilised.

Although 5 University Colleges had to be commenced by the end of the year 2015 by the Ministry with the Public and Private Partnership with the objective of developing the vocational training sector, only 3 colleges had been commenced thereof.

The principal aim in the implementation of the programme is to improve the quality and recognise of the Technological and Vocational Education and Training field. Nevertheless, 442 training courses conducted in the Training Institutions existed under the Ministry in the year 2016 had not been accredited.

Performance of University Colleges

It was planned to institute 20 University Colleges Island wide under the Sector Skills Development Programme for students who could not admit to the National Universities, being studies Technology stream at the General Certificate of Education (Advance Level) examination. Similarly, training courses had to be commenced in 14 colleges thereof by the end of the year 2015. Nevertheless, courses had been started only in 6 University Colleges even by the end of June 2017.

The Ministry had decided that the course fees would not be charged from students admitted to these University Colleges since 2016 and as such the number of students applied for those courses had considerably improved as compared with that of the previous year and 1,380 students out of 1,470 students that could be enrolled had been enrolled. However, 245 students who admitted to courses in the year had abandoned the courses.

Of the approved academic staff posts of 168, seventy four or 44 per cent had fallen vacant, representing an increase of 2 per cent as compared with that of the preceding year.

Training equipment purchased in the year 2015 for Batangala and Ratmalana University Colleges valued at Rs.2.83 million and Rs.98.69 million had been idle as the specified courses had not been started. Training equipment valued at Rs.7.31 million purchased for the Ratmalana Training Centre had also been idle as non-availability of electricity water and insufficient laboratory facilities.

Vocational Training Authority of Sri Lanka

The Vocational Training Authority of Sri Lanka had been established under the Vocational Training Authority of Sri Lanka Act No.12 of 1995. Being the most dynamic and innovative training provider in Sri Lanka, catering to the global employment market is the vision of the Vocational Training Authority of Sri Lanka. Moreover, facilitating to fulfil trained global labour demand in developing modern systems and Technologies in the Vocational Training and education field is a key function of the Authority. Audit observations made in the audit examination carried out in respect of the Authority are given below.

Planning and giving Vocational Training

In the year 2016, 31,537 apprentices for 1952 programs under 133 training courses belonged to 18 field had been enrolled and it indicated 10 per cent increase as compared with that of the previous year. Re-opening of courses in the year 2016 which were closed down due to non-availability of an instructor in the previous years and increase the number of targeted programs by 13 had been the reason therefor. The enrollement target in the year 2016 as compared with the year 2015 and the actual enrollement had increased from 35,175 to 35,460 or 0.81 per cent and 28,745 to 31,537 or 9.7 per cent respectively.

Job Placement

Under the job placement program, 6052 apprentices had been employment in the Vocational Training Authority of Sri Lanka in the year under review as foreign, Local and self employments according to the details in the year 2016. Of them, 84 per cent had been locally employed and the foreign employment had been as low level as 3 per cent. As such, the tendency of apprentices under go on Vocational Training towards foreign employment had been at a low level.

Electrical, Electronic and Telecommunication fields had taken the highest priority sequence in terms of employment field and the aggregate amount employed in that field stood at 978. However it is only 29 per cent of the recruitments made in that field. Further, recruitments to that field had taken the 5th place in terms of apprentices recruitment priority order in the year 2016.

Idle Assets

Training equipment valued at Rs.19,087,138 purchased during the years 2015 and 2016 for the Hotel Schools at Ahangama, Kuchchaweli and Karainagar being constructed under the Skills Sector Development Project Funds had been idle even by 31 July 2017 as the construction works had not been completed.

Constructions

Construction works of the Hotel school at Kuchchaweli at an estimated value of Rs.279.52 million and the model hotel constructed at Ahangama under the Skills Sector Development Project Fund was scheduled to be completed in the year 2015. However, such works had not been completed even by 31 March 2017.

Model hotels constructed at Ahangama and Potuvil by utilising project funds had been planed with the objective of attracting local and foreign tourist. Although modle hotels are operated by the Vocational Training Authority as model hotels at present, it was observed that the Authority does not have the expertise knowledge required thereon, Human Resources and business expertise,to manage tourist based hotels.

National Apprentice and Industrial Training Authority

Enrollement of Apprentices

It was targeted to enrol 27,625 apprentices for all training activities in the year 2016 as centre based and National Institutional Industrial based. According to the performance report of the Authority, 31,947 apprentices had been enrolled in the year under review representing 40 per cent increase as compared to the previous year. Nevertheless, that figure had included 9,250 apprentices for a buildings and construction special training program and as such the normal enrollment had been only 22,697 apprentices.

Even though, the targeted number of apprentices enrolled to the National Institutions in the year under review amounted to 1,535, only 1,373 apprentices had been enrolled. Out of them, 139 apprentices or 10 per cent had dropped out the courses. Action had not been taken to enrol apprentices for Fitters (Special) and Book Binders (NVQ) courses in the Industrial Engineering Training Institute, Moratuwa in the year 2016. Further, the enrollment percentage in the Kilinochchi Training Centre for 11 courses averaged at 57.

Informal Enrollement

In the enrollment of apprentices to the Katunayaka Engineering National Diploma Courses for the 2016 batch, 29 apprentices who had not obtained the minimum cut-off marks at the written test had been improperly enrolled by the Board of Control.

Construction and Rehabilitation Functions

Although a sum of Rs.2 million had been allocated for the construction of a complete auditorium in the Colombo District Office from the Skills Sector Development Project Fund, it had not been constructed even by 31 December 2016.

Although, a sum of Rs.9.5 million had been allocated in the action plan for the purchase of training equipment to develop 3 training centres as 3 evaluation centres during the year under review such equipment had not been purchased.

DISASTER MANAGEMENT

The objectives expected from this sector is to create a protected environment appropriate for living by taking effective measures to minimize and prevent natural and manmade disasters. The following functions should have been performed by the Ministry of Disaster Management, a Department and 04 Statutory Boards/Institutions under its purview.

- Formulation of policies, programmes and projects in regard to the subject of Disaster Management.
- Coordination and management of activities in relation to mitigation, response, recovery and relief in natural and manmade disaster.
- Formulation of the National Disaster Management Plan and the National Emergency Operation Plan based on national policies.
- Initiation and coordination of foreign aided projects for disaster mitigation, response and recovery.
- Promotion of housing construction with technological standards to withstand environmental hazards.
- Encouraging research and development into appropriate technology for housing and construction sectors.
- Carrying out Meteorological surveys and researches.
- Forecasting of natural disasters and sensitizing relevant sectors regarding them.
- Implementation of measures for rescue operations during natural and manmade disasters.
- Coordination of international humanitarian relief service programmes.

A summary of audit observations made in performing the functions by the above mentioned institutions is given below.

Increase in the number of Disasters

The number of disasters in the year under review totalling 686 comprised with 602 natural disasters and 84 non-natural disasters. As compared with the preceding year, the number of disasters had totalled 641 comprising 571 and 70 natural and non-natural disasters respectively. Accordingly, the number of natural and non-natural disasters had increased in the year under review as compared with the preceding year. Out of the natural disasters occurred, the maximum number of natural disasters after the year 2014, had occurred during the year under review as compared with 4 preceding years. Moreover, a tendency in the gradual increase of the number of non-natural disasters was observed. That situation is shown in Figure 26

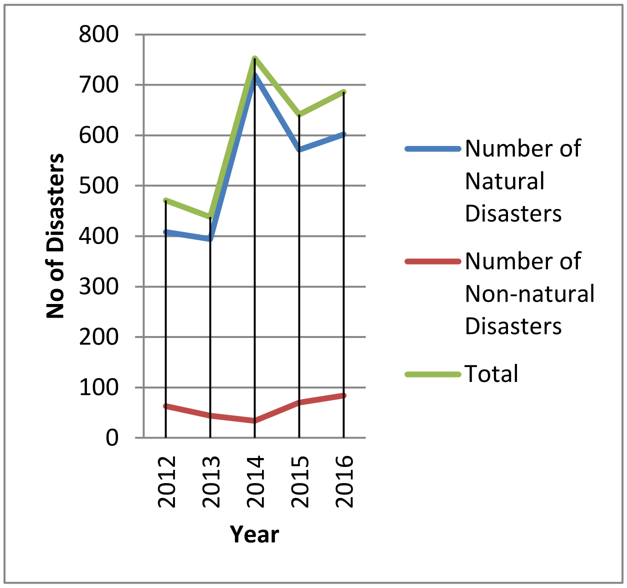


Figure 26. Number of disasters occurred
Source:- Disaster Management Centre

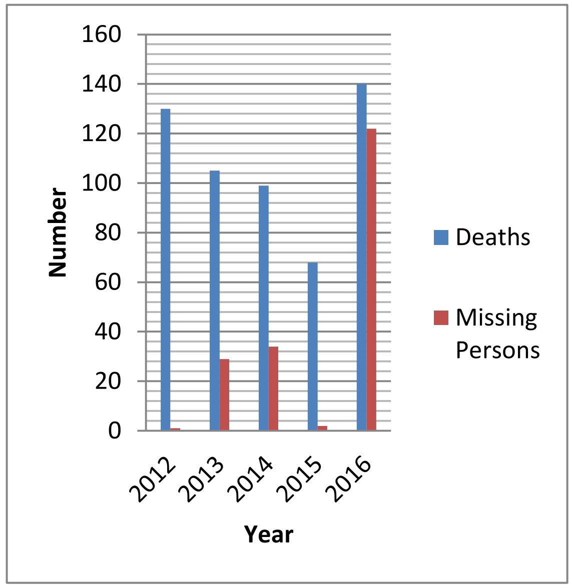


Figure 27 Number of Deaths and Missing Persons by Disasters
Source:- Disaster Management Centre

The number of deaths and missing persons had increased annually due to the disasters occurred during the 5 preceding years. Details are shown in Figure 27 Even though the number of disasters, deaths and missing persons had increased during the 5 preceding years, a decrease in the number of fully damaged houses and partially damaged houses were observed. Details are shown in Figure 28.

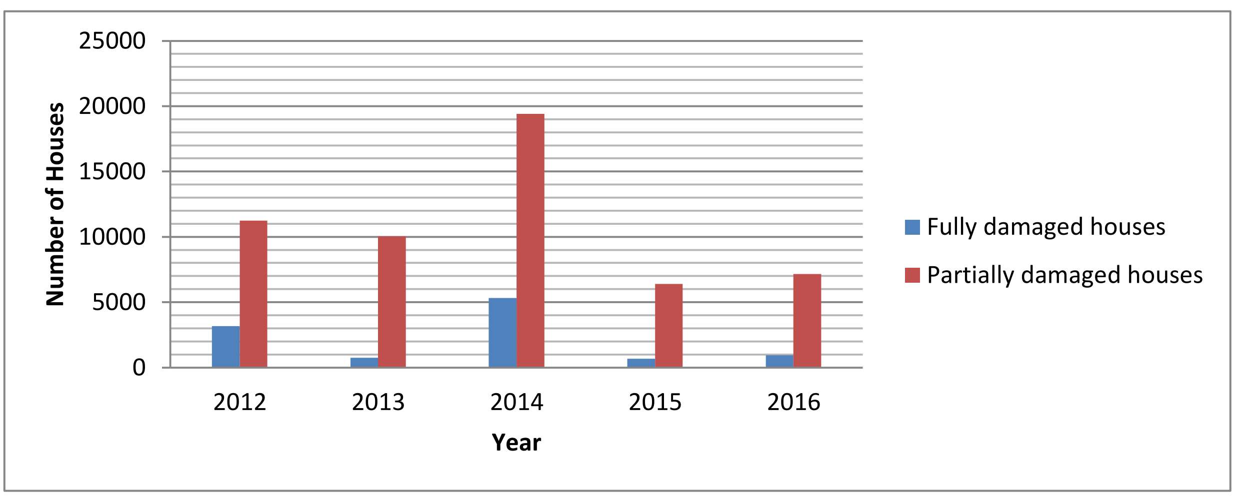


Figure 28 - Houses damaged due to disasters during the 5 preceding years

Payment of Subsidies for the People affected by Disasters

A programme for payments of compensation for post disaster through the National Insurance Trust Fund had been implemented from April 2016 and accordingly, the payment of subsidies to the people affected by natural disasters had been assigned to the National Insurance Trust Fund.

The Legal Frame on Disaster Management in Sri Lanka

The legal provisions in respect of disaster management activities in Sri Lanka had been made by the Disaster Management Act, No.13 of 2005. Even though necessities for expanding of the legal requirement cited in the Disaster Management Act to overcome future challenges in respect of disaster management had arisen, amendments proposed in the year 2013 for the Disaster Management Act had not been submitted for approval of the Parliament even by the end of the year under review.

The National Building Research Organization is an institute established without statutory provisions and as such, there had been no legal acceptance in respect of assessment reports on the risks of landslides, issued to the public by the Research Organization. As a result, the Research Organization was unable to take legal action against the parties carrying out constructions without considering the warnings.

Identifying the probable Disasters in Sri Lanka

Even though 21 disasters probable in Sri Lanka had been identified under the Disaster Management Act, No.13 of 2005, disasters that can be occurred by nuclear and other explosions, disasters occurred due to public protest, rebellions etc. had not been identified as disasters. Moreover, activities to high gate disaster risk during the year under review by the Disaster Management Centre had been limited to a few disasters such as floods, landslides and drought.

Plans in minimizing Disasters

The plans on minimizing disasters had not been prepared by the Disaster Management Centre on a logical basis. According to the Action Plan of the Disaster Management Centre for the 3 preceding years, details on the number of projects on minimizing disasters expected to be implemented in districts, provisions made and the disasters occurred in those years are shown in Table 31 below.

District	2014			2015			2016		
	Number of Projects	**Provisions made**	**Number of Disasters occurred**	**Number of Projects**	**Provisions made**	**Number of Disasters occurred**	**Number of Projects**	**Provisions made**	**Number of Disasters occurred**
		Rs. Million			Rs. Million			Rs. Million	
Jaffna	-	-	08	01	30.00	20	01	19.94	13
Vavuniya	02	10.20	10	04	10.00	16	02	21.20	06
Kilinochchi	01	23.79	04	06	4.30	07	01	7.89	01
Mullaitivu	01	3.06	09	03	28.90	16	03	23.50	08
Mannar	01	26.50	04	-	-	03	-	-	01
Anuradhapura	02	1.40	07	03	12.45	03	05	27.80	04
Polonnaruwa	05	7.11	02	01	18.83	03		33.37	06
Trincomalee	02	34.00	08	04	7.00	05	02	5.27	07
Batticaloa	01	4.00	03	01	4.41	09	02	5.63	01
Ampara	02	5.00	02	02	6.68	06	-	-	01
Hambanthota	51	163.45	08	40	150.34	19	-	-	05
Matara	01	6.17	10	01	685.00	18	-	-	14
Galle	01	1.00	07	04	6.127	26	01	9.50	20
Kalutara	02	7.15	06	01	10.00	10	01	24.00	04
Colombo	02	10.30	16	-	-	39	01	8.00	12
Gampaha	02	10.50	08	-	-	04	01	483.20	11
Puttlam	06	13.55	08	04	23.08	10	04	32.27	08
Kurunegala	01	59.58	13	02	76.80	16	49	153.23	04
Matale	01	1.33	07	02	23.76	04	01	5.20	03
Kandy	03	11.52	22	02	50.00	16	03	7.36	06
Nuwara Eliya	05	4.38	56	04	7.82	53	04	12.77	22
Kegalle	02	7.43	36	04	14.38	75	01	16.32	44
Ratnapura	05	4.77	09	07	9.22	07	49	63.79	16
Badulla	03	10.91	10	01	925.96	03	03	10.14	01
Monaragala	05	6.04	13	02	4.40	12	02	7.00	03

Table 31. Projects on Minimization of Disasters and provisions made therefor
Source – Disaster data

According to the aforesaid note, priority had been given to the Hambanthota District in the years 2014 and 2015 for activities on minimization of disasters whiles of giving priority to the Districts of Kurunegala and Ratnapura in the year 2016. The Disaster Management Centre had not planned to implement an adequate number of projects in the Districts of Nuwara Eliya, Kegalle and Galle in which a majority of natural disasters had occurred.

Equipment used in identifying Disaster Risks

It was observed in audit that the system of equipment used for identifying the disaster risk and forecast of weather in Sri Lanka is not effectively used. The relevant mechanism could not be efficiently utilized by the equipment provided by various foreign agencies due to different climatic conditions of Sri Lanka, equipment had been obtained without preparation of proper plans and old and outdated equipment had been used for forecasting. A summary of audit observations made in this connection is given below.

- A Doppler Radar System valued at Rs.320 million had been procured from the World Meteorological Organization using provisions of Rs.400 million made in to budget estimates for the year 2006 and installed in Deniyaya area in 2011. It had not been operated even by 31 December 2016 due to various technical defects. It was observed during the course of audit carried out in this connection that the first test of operating the Radar System in the United States of America in the year 2010 by the manufacturing institution had been unsuccessful and even though successful operation was confirmed at the second test, the officers of the Department of Meteorology of Sri Lanka had not participated in that test. The Radar System had been lying idle for a long period since importation and as such, resulted that the system could not be operated successfully. It was reported that accessories valued at Rs.8.14 million belonging to the Radar System had been stolen on 29 January 2016 by external parties. It was further observed that the System had been detached on 21 April 2017 and returned to the manufacturing institution of the United States of America for repairs.
- The usage of Mercury Instruments for obtaining meteorological information purpose is on the elimination from the world and on adoption to the criteria of the World Meteorological Organization thereon, the Department of Meteorology had taken steps during the period from 2008 to 2009 to install an automatic Meteorological weather for casting System. Automatic meteorological equipment had been installed in 37 Meteorological Centres using the grants amounting to Rs.570 million received from the Japan International Cooperation Agency according to the information received this system was planned to be carried out through satellites and data loggers. However, as the relevant satellite was out of the earth's orbit by the year 2016, information could not be obtained as planned. Moreover, the information receivable through the data loggers had not been received in the year under review from centres located in the areas of Batticaloa, Pottuvil, Malimbada, Thawalama, Colombo and

Sirikandura. This system had continuously been subjected to inactivated various instances and a sum of Rs.73.12 million had been spent during the period from 2011 to 2016 for the maintenance of this system.

- Seventy seven Tsunami Warning Towers had been erected around the island and they are controlled by the Disaster Management Centre. The signals emitted from these towers are communicated with the help of communication satellite technology and electrical waves. According to the audit carried out in March 2017 in this connection, due to various technical problems, information had not been received in January 2017 from these towers through the satellite and information had been received from only 30 towers in March 2017 through that technology. Moreover, information had not been received through electrical waves from over 30 towers by 31 March 2017.

Human Resources Management

The dearth of experts for institutions under the Ministry of Disaster Management had been a major obstacle in achieving the objectives of those institutions. Even though 104 posts of Scientist had been approved for the National Building Research Organization, the approved cadre therein stood at only 77. Thirty five other Scientists had been deployed in service on assignment basis. However, their responsibility towards duty had been problematic. Even though the approved number of posts for the Disaster Management Centre was 344, out of them, 114 posts had been vacant by 31 December 2016.

SPORTS

The objective expected through sports included the formulation, implementation, and monitoring of policies for national and international sports with a view to building an active nation and enhancing the National Image Internationally. In order to accomplish the said objective, the following functions were required to be discharged by the Ministry of Sports and a Department thereunder, 04 statutory institutions, a Fund and 61 sports associations.

- Formulation of policies, programmes and projects, monitoring and evaluation in regard to the subject of sports.
- Encouragement of sports activities and development of infrastructure facilities to enhance sport activities.
- Promotion of sports education.
- Formulation of new strategies and implementation of programmes to harness the potential of sports in building the image of Sri Lanka internationally.
- Promotion of facilities to provide physical fitness for the general public and co-ordination of activities.
- Monitoring the institutes.

The observations made in the course of audit conducted on the discharge of the said functions by the Ministry of Sports and the institutions functioning thereunder, are summarized below.

Development of Infrastructure for Sports

Provision amounting to Rs. 1,348 million had been made for the construction of 11 stadia, and 10 Sports Complexes under the development of infrastructure. Seventy four projects had been implemented by utilizing the said provision including, sports complexes, rural playgrounds, 54 projects for improving the schoolyards, a district training centre, a national sports museum, and 18 provincial and district sports complexes. A sum of Rs. 1,136.39 had been incurred thereon in the year 2016, and 54 of the said projects had been completed, whilst the other 20 projects had not been completed.

Construction of 50 Rural Playgrounds

With the expectation of facilitating the rural sportsmen by constructing 50 rural playgrounds covering 09 provinces, a sum of Rs. 320 million had been provisioned through the annual budget estimate for the year 2016. An additional provision of Rs. 59.2 million had been made in the year 2016, and construction of 263 rural playgrounds had been commenced thereunder by incurring a sum of Rs. 363.09 million. A number of 242 playgrounds had been completed, whilst the construction of other 21 playgrounds had not been completed.

Kreeda Shakthi Programme

The main objective of the Kreeda Shakthi Programme was to select the sportsmen with skills and guide them in order to improve the sporting skills of the rural sportsmen. Identification of sportsmen annually should be done as well. Provision amounting to Rs. 60 million had been made in the year 2016 for implementing the Kreeda Shakthi Programme, and only a sum of Rs. 25.7 million therefrom had been utilized. Accordingly, provision amounting to Rs. 34.3 million had been saved, and the saved provision had been utilized on another project. A sum totalling Rs. 11 million in terms of nutrition allowance payable to the children for the year 2016, and the allowance for the coaches, had been spent from the provision for the year 2017. As the children selected in the preceding year had not continued their participation in the Programme, the Programme could not be held during March - September, 2016.

Training the Schoolchildren to Win the International Sporting Events

Following a Cabinet Decision, a project for ensuring the entry to sporting skills had been implemented by selecting 75,000 students studying at Grade 7 in all the schools in the year 2016 thereby scientifically identifying their sporting skills so as to win the Olympic games and international sporting events to be held in the years 2024 and 2028. A sum of Rs. 400 million had been approved annually for the said project. Provision amounting to Rs. 174 million had been made in the year 2016, and only a sum of Rs. 119.9 million had been spent therefrom. Selecting students for training had not been completed even by the end of the year 2016.

As the sporting goods and instruments required for the implementation of the project in the year 2016, had been purchased contrary to the Government Procurement Guidelines, an unfavorable payment of Rs. 14.49 million had been made in 2 instances where 2 categories of sporting goods had been purchased. Furthermore, reports relating to the payment of Value Added Tax had not properly been furnished to the Commissioner General of Inland Revenue contrary to the Government Procurement Guidelines. Hence, a sum of Rs. 1.45 million had erroneously been paid to one bidder as Value Added Tax when sporting goods had been purchased for the project.

A provision amounting to Rs. 250 million had been made through the annual budget estimate for the national and international sports festival. In addition to that, an additional provision of Rs. 15 million had been made in the year 2016 as well. In the year 2016, sportsmen and sportswomen had participated in one national sports festival, and 28 international sports festivals. In those events, ..., 827, and 371 gold silver and bronze medals had respectively been won at national and international level. A sum of Rs. 263.25 million had been spent thereon.

Sugathadasa National Sports Complex Authority

Sugathadasa National Sports Complex comprising all the facilities for athletic sporting events to be held nationally and internationally, had been established under the purview of the Ministry of Sports in the name of Sugathadasa National Sports Complex Authority with effect from 1999.09.01. The total expenditure of the Authority for the year 2016, amounted to Rs. 333.57 million whereas the income earned amounted to Rs. 99.62 million.

The running track of this sports complex had been constructed in the year 2012 by incurring a sum of Rs. 126 million, but due to substandard construction, the track could not be made use of. Bids had been called for in the years 2016, and 2017 in 2 instances by spending a sum totalling Rs. 350,159, but in consequence of an appeal submitted against the award of the those bids, the contract for the construction of the running track could not be awarded. Hence, the running track could not be made use of for a period of 05 years. As the possibility of holding international sports events therein had been deprived of, the sporting field had faced a drawback.

An agreement had been entered into with a contractor for the installation of 2 LED digital display screens for the Sugathadasa National Sports Complex Authority by incurring a sum of Rs. 9.107 million. But only one display screen had been installed and the balance amount had been spent on a project for constructing other buildings.

A consultancy service firm had prepared an estimate valued at Rs. 63 million for renovating the sports hotel in the sports complex. As the estimate had been phased by the Director (Engineering Services) of the Department of Sports Development to renovate the hotel under 03 phases sans the approval of the Consultancy Firm, renovating activities related to each other could not be carried out, thus the sports hotel had not been renovated as expected.

Sri Lanka Anti –Doping Agency

In accordance with Section 33 of the Convention against Doping in Sport Act, No.33 of 2013, the rules against doping should be formulated, published in the Gazette under the approval of the Minister and enforced. Despite the lapse of 2 years since the establishment of the Agency, action for the formulation of rules for taking action against doping had not been taken.

With no Laws or Rules enforced and in the wake of 8 month sports ban imposed on a sportswoman in the year 2014 contradictory to the global rules on doping, the World Anti-Doping Agency had filed a case at the International Court of Arbitration, and the Court had ordered to pay an arbitration fee of 5305 French Francs, equivalent to Rs. 795,750.

National Sports Fund

The overall income of the National Sports Fund amounted to Rs. 58.4 million in the year 2016, whilst the overall expenditure amounted to Rs. 119.3 million. Of that, a sum of Rs. 95.8 million had been spent for felicitating the sportsmen who secured victory in the South Asian Games. In order to provide funds therefor, a sum of Rs. 63.3 million had been obtained from the fixed deposits of the Fund. As monies had been withdrawn prior to maturity, the Fund had sustained a financial loss of Rs. 440,228.

Regulation of Sports Associations

Regulation of Sports Associations is a main activity being performed under the purview of the Director General of Sports. Of the 61 Sports Associations registered as at 31 December 2016, it had taken about 2 years for 19, 18, and 29 Sports Associations to furnish financial statements relating to the years 2013, 2014, and 2015 respectively. Furthermore, a sum of Rs. 226.97 million had been granted by the Department to 47 Sports Associations in the year 2016. The manual on the proper preparation of the accounts, had not been updated when regulating the Sports Associations.

Sri Lanka Cricket Institute

The Sri Lanka Cricket Institute had paid a sum of Rs. 10.24 million to establish a limited by guaranteed company by appointing 09 Executive Committee members including the Chairman and the Chief Executive Officer appointed to the Executive Committee of the Sri Lanka Cricket Institute for a period of 2 years, to the said company as lifelong directors. Action had not been taken even by the end of the year 2016 to settle that sum. Only the Sri Lanka Cricket Institute had the authority to earn income under the emblem of them, but the said company had been allowed to earn income by utilizing the emblem.

The sum of Rs. 5.59 million receivable from the Galle Municipal Council, had so remained even by the year 2016. That sum receivable, had been set off when paying the recreational tax on the tickets for cricket tournaments.

Professional charges amounting to Rs. 2.40 million had been paid for obtaining recommendations from 2 institutions to verify the possibility of eliminating the liabilities amounting to Rs. 2,187.28 million payable to the Sri Lanka Ports Authority in respect of the construction of Suriyawewa Mahinda Rajapaksa Cricket Stadium owned by the Sri Lanka Cricket Institute, and the assets relating thereto, from the financial statements. Nevertheless, that expenditure had become fruitless as making payments in such a manner had not been possible.

Sri Lanka Football Federation

According to the financial statements of the Sri Lanka Football Federation for the year 2016, the total income of the year amounted to Rs. 168.32 million whilst the total expenditure amounted to Rs. 164.32 million, thus indicating a surplus of Rs. 3.99 million. That was a deterioration of 8.5 per cent as compared with the preceding year.

Due to accounting deficiencies observed in the financial statements of the Federation for the preceding year, the opinion in the audit report had been disclaimed. As the necessary information had not been made available for audit even in the year under review, and due to contradictions between the balances of the accounts, the opinion in the report had been disclaimed.

Sri Lanka Rugby Football Federation

According to the financial statements of the Sri Lanka Rugby Football Federation for the year 2016, the total receipts of the year amounted to Rs. 157.61 million whilst the total expenditure amounted to Rs. 151.91 million thus indicating a surplus of Rs. 5.69 million, and that represented an improvement of 11 per cent as against the deficit of the preceding year.

A sum of Rs. 1.93 million had been spent in the years 2015, and 2016 for taking legal action by an officer of the Rugby Football Federation in respect of the elimination of a condition included in the directives of the sports associations relating to the application for the election of office bearers.

Securing Victories at International Level

Under the implementation of programmes and formulation of new strategies so as to build up the image of the country in the international arena though sports, Sri Lanka took part in 28 international sporting events in the year 2016, and won a total of 371 medals comprising 85 gold, 122 silver, and 164 bronze medals. However, particulars relating to the sportsmen and sportswomen who took part therein, were not documented by the Department.

WOMEN AND CHILD AFFAIRS

The expectant result of this field is to bring about a society which is free from violence against women and child abuse. In order to achieve above expectation, the following functions have to be discharged.

- Formulation of policies, programmes and projects, monitoring and evaluation in regard to the subjects of women and child affairs.
- Formulation and implementation of strategies for the enhancement of women's participation and their representation in the sphere of decision making in public affairs and politics.
- Adoption of measures for empowerment of women with special focus on women-headed households groups affected by conflict and poverty, and to ensure gender equality and equity.
- Implementation and strengthening of laws and policies for the prevention of women and child abuse.
- Accomplishment of Millennium Development Goals relating to women and children's affairs.
- Implementation of Women's and Children's Charter.
- Formulation of policies and programmes on early childhood care and development aimed at bringing up a physically and mentally healthy child.
- Formulation and implementation of plans, programmes and projects to promote rights of vulnerable children in line with national policies and international standards, thereby ensuring equal opportunities for them.
- Implementation of Sevana Sarana Foster Parents Scheme.

The Ministry of Women and Child Affair and a Department functioning under that Ministry and 03 statutory boards/institutions discharge the functions specified above. The audit observations revealed at the audit test checks carried out on the discharge of the above functions are summarized below.

Implementation of laws and policies made by the Ministry

Formulating, executing and regulating provisions and policies aligned to practices of good governance to ensure the rights of children and women were the Mission of the Ministry. Nevertheless, the rules and policies made by the Ministry in that respect had not been enforced for their implementation.

Implementation of Welfare Programmes

Provisions totalling Rs.7,628 million comprising Rs.7,500 million for the Programme of Distribution of Nutrition Package to the Expectant Mothers and Rs.128 million for the Glass of Milk Programme had been made to the Ministry. The following deficiencies were observed in regard to the utilization of those provisions.

- **The Programme for Providing a Nutrition Package to the Expectant Mothers**

  Provisions amounting to Rs.7,500 million had been made for the Programme for providing a nutrition allowance to the Expectant Mothers and out of that, Rs.5,746 million had been spent by the end of the year under review. The distribution of nutrition package had been carried out by the Divisional Secretariats and the Divisional Secretariats had confirmed that the total amount spent thereon was Rs.4,354 million. A difference of Rs.1,392 million between the expenditure recorded by the Ministry and the expenditure confirmed by the Divisional Secretariats was revealed. But, action had not been taken to identify that difference and make the relevant corrections.

- **Glass of Milk Programme**

  With the objective of upgrading nutrition level of the children from 2 to 5 years of age, programmes for providing a glass of milk for the preschool children had been implemented at Divisional Secretariats level. As it is required to give priority to the nutritional foods of the adults and as the water content included in 100 milliliter of milk is 87.5 milliliter, the Director of Maternity and Child Health had pointed out that the improvement in the nutrition level expected under this programme was not taking place. Nevertheless, irrespective of that remarks, a sum of Rs.106.43 million out of Rs.127.9 million made by the supplementary estimate allocations had been spent for the implementation of the Glass of Milk Programme.

Revolving Loan Programme

Sri Lanka Women's Bureau had implemented this Revolving Programme in 304 Divisional Secretary's Divisions from the year 1990 to the year 2013 by granting Rs.93 million. Only the information of 274 Divisional Secretary's Divisions had been furnished to audit relating to the year under review. In view of such information, out of sums totalling Rs.85.46 million granted to the said Divisional Secretary's Divisions, a balance of Rs.51 million had been retained in bank accounts as at 31 December 2016. Accordingly, this programme had not been implemented as a Revolving Loan Programme.

Women's Care Centres

According to the United Nations Report, 2015 on the domestic violence against the women, 60 per cent of Sri Lankan women had been victimized to the domestic violence. In order to prevent that situation, having legalized the Prevention of Domestic Violence Act , Women's Care Centres had been established to provide protection for the women and child who become victimize to trafficking after being identified such victims. However, according to the newspaper reports, 1,251 cases of violence against women and child abuse had been committed during the year 2016 and first 03 months of the year 2017. Fifteen victims had been provided with protection at the Rathmalana Care Centre and any victim had not sought protection at the Mirigama Care Centre.

The Care Centre built at a cost of Rs.10.57 million in Ratnapura district in the year 2015 had not been utilized for the intended purpose even by 31 July 2017. In order to build the Wonen's Care Centre in Kandy, a sum of Rs. 10 million had been sent to the Divisional Secretary on 17 July 2015. Nevertheless, no evidence whatsoever had been made available to audit in support of the construction of that Centre. The committee appointed for reviewing the lapses and the progress of these Centres had not met on any occasion and the Ministry had not taken follow-up action in that respect.

Project for the Prevention of Child Abuse and Violence Against Women

Provisions of Rs.66 million had been made for this project in the year 2016 and out of that, a sum of Rs.37 million had been spent for the conduct of programmes on the prevention of child abuse and violence against women. Having conducted three researches on child mothers, cyber-crimes and violence against women and the violence against estate women through two private institutions, a sum of Rs.3.65, million had been spent thereon. Even though those reports had been received in May 2016, information on the implementation of the recommendations contained in those reports had not been furnished to audit.

Increase Female Participation in Politics

Having conducted 5 courses of six month duration relating to the promotion of female representation in politics by spending Rs.6 million in preceding years and Rs.0.67 million in the year under review, 141 students had been awarded certificates. No follow-up action had been taken on those who were involved in politics from among the aforesaid students.

Department of Children and Child Care Services

The key function of the Department of Children and Child Care Services is to ensure equal opportunities while safeguarding the rights of children who are turned destitute, abandoned and helpless and other children confronted with legal issues as per national policies and international standards. The observations on the functions discharged by the Department during the year under review are specified below.

Monitoring Children's Rights and Children's Homes

The Department of Children and Child Care Services had not performed the function of formulating national policies and laws in a manner protect the children's rights during the year under review.

The Department had made provisions amounting to Rs.5 million for monitoring 200 children's home and 165 children's homes had been monitored with the use of those provisions. Nevertheless, as the monitoring reports and observation reports had not been obtained and future steps had not been taken, the objectives anticipated from the monitoring process had not been achieved.

The number of complaints received by the Department on child abuse was 11,054 of which complete solutions had been given for 7,031 complaints while short term solutions had been given for 2,419 complaints. No solutions had been given in respect of 53 complaints. A number of 1,551 complaints had been referred to another institutions during the year under review and no follow-up actions had been taken on receiving solutions to those complaints.

Child Development Fund

The main objective of the establishment of Child Development Fund is to grant financial assistance to the Sri Lankan children who had lost their parents or guardians due to war situation and the natural disasters and those who are unable to proceed with their education and develop their talents and other skills due to economic difficulties. According to the Cabinet Decision dated 24 January 2014, it had been stated that action should be taken to implement the Programmes included in the Cabinet Memorandum more effective manner with the use of money collected from the sale of flags. Nevertheless, not even a single child had been granted financial assistance out of Rs.4.74 million received by the end of the year comprising sums totalling Rs.1.99 million received by the sale of flags and the interest of fixed deposit investments.

Legalization of National Child Protection Policy

Even though 19 years had elapsed from the establishment of National Child Protection Authority, it had been failed to legalize the National Child Protection Policy even in the year under review.

Save the Children Project

The Ministry of Women and Child Affairs had made provisions of Rs.23 million for Save the Children Project for the year 2016. Although Rs.10 million out of the above provisions had been granted to the Child Protection Authority on 24 August 2016, the Authority had used only Rs.8 million therefor.

Solutions for Complaints

The Child Protection Authority had received 9,540 complaints in the year 2016. Out of that, only 2,845 complaints had been resolved by the end of the year under review. Accordingly, 70 per cent of the complaints received by the Authority had not been resolved. Fifty one per cent of 48,417 complaints received during the period 2011-2015 had not been resolved even by 31 December 2016. Due to the reasons such as inefficiency of the divisional and district officers to collect and report information relating to the complaints received annually, failure to take follow-up actions on calling for information and investigations and failure to carry out proper supervision, the number of unresolved complaints had rapidly increased.

Raising Awareness on Child Protection

In order to prepare 09 advertisements on the theme of making the children aware on the child protection in both Tamil and Sinhala Languages to telecast within 15 second duration per each, the Child Protection Authority had paid a sum of Rs.4 million to a private institution. Nevertheless, those advertisements had not carried an adequate message on the child protection. But, a sum of Rs.17.62 million had been spent to broadcast the above advertisements on television and radio media.

Providing Counselling Service

Even though a sum of Rs.2.43 million had been paid for 04 persons to obtain counselling service during the year under review, the National Child Protection Authority had not taken action to obtain those counselling reports and implement the recommendations included therein.

Early Childhood Development Project

With the objective of implementing qualitative early childhood development process in Sri Lanka, this project had been commenced under the World Bank loan assistance of USD 50 million. Even though provisions amounting to Rs.473 million had been made during the year under review, only Rs.115 million out of that had been utilized. Herein, provisions amounting to Rs.6 million had been made for the construction of 4 Early Childhood Development Centres. But, the relevant constructions had not been carried out. Under the Plantation Human Development Trust, provisions amounting to Rs.112 million had been made for the construction of 28 Early Childhood Development Centres in the plantation sector. Nevertheless, the constructions thereof had not been completed even by the end of the year under review. Further, contracts had been awarded for the repairs of 35 Early Childhood Development Centres and repairs and construction of 77 play areas and of which works of 23 centres and 46 activities had not been completed respectively.

Project for the Prevention of Gender Based Violence

Out of Rs.78 million granted under the United Nations Development Programme (UNDP) for the prevention of gender based violence, five years plan (2016-2020) had been prepared by amalgamating the Child Affairs, Disaster Management, Economic Development, Education, Foreign, Health, Judicial, Media, Empowerment and Prevention sectors by spending Rs.38.36 million. Nevertheless, its operability had not been reported even by July 2017.

Tourism Affairs

Earning a higher foreign exchange through creating direct and indirect job opportunities to the Youth community of Sri Lanka by formulating of the required policies for making Sri Lanka a tourist destination had been the main objective of Tourism Industry Sector. The following functions should have to be performed by the Ministry of Tourism Development and Christian Religious Affairs, a Department and 4 Statutory Bodies for the achievement of that objective.

- Formulation, follow up and evaluation of the policies, programs and projects related to the subjects on the Tourism Development activities.
- Development of the tourism industry and formulation of standards.
- Registration and regulation of tourist agencies.
- Promotion of activities relating to provision of recreation facilities for holidaying.

The audit observations revealed in audit examinations with regarding the implementation of above affairs has been summarized and shown below.

Arrival of Tourists and Foreign Exchange Earning

2,050,832 tourists had arrived to Sri Lanka by endowing Rs.512,293 million in the year under review through attractive beaches, wealthy nature with cordial and friendly people, attract global tourist paradise with the inclusion of culture and originality improving the own name as Asian Tourist Symbol

The expectation of Sri Lanka from the Tourism Industry is earning higher foreign exchange and US$ 3,518.5 million had been earned from this industry in the year 2016 and that represented an increase of 18.1 per cent over the preceding year

The Tourism Industry had shown a good performance in the year 2016 and tourist arrivals had been 2 million. The increase of tourist arrivals had been due to reasons such as the considerable increase in the investments in the Tourism Industry, development of infrastructure facilities and the promotion programmes with the latest attractions launched by the State and the Private Sector. Nevertheless, it had not been possible to reach the expected target of 2 million tourist arrivals in the year 2016, the improvement rate of tourist arrivals had been decreased by 3.72 as compared with the previous year.

Tourist arrivals from most of zones had increased in the year under review as in the preceding year. It was observed that considerable increase including 17.2 per cent from East Asia, 6.5 per cent from western the Middle East, 16.5 from Western Europe and 11.8 per cent from South Asia. The largest number of tourist arrivals in the year under review had been from India as in the preceding year and that amounted to 356,729. Tourist arrivals from the People's Republic of China had increased attractively to 271,577 representing an increase of 26.4 per cent over the preceding year. Details were shown in the figure 29

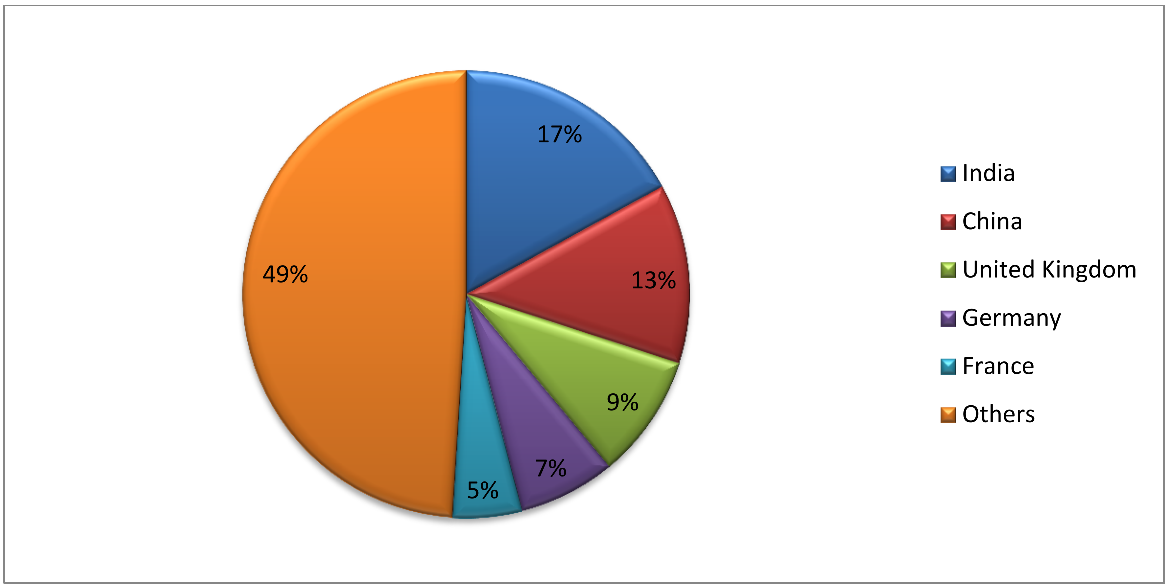


Figure 29. Arrivals of Tourists
Source :- Annual Statistics Report 2016 of Sri Lanka Tourism Authority

In addition to the increase in the number of tourist arrivals, the increase in the daily expenditure of a tourist and the increase in the number of days spent in Sri Lanka also had an impact on the improvement. Similarly the daily average expenses of a tourist in the year had been US$ 168.2 as against US$ 164.1 for the year 2015. As such those also had an impact on the increase of the rate of tourist earning. The number of days spent in Sri Lanka had also been 10.2 days in the year 2016 and it was 10.1 days in the previous year. Nevertheless, it had not been able to achieve the target of 13.2 average days of stay recorded in the year 1987 even by the end of the year under review. Harper Basar Magazine (United States) had listed Sri Lanka in No. 03 of the hot tours list of unavoidable tourist destinations in the year 2016. Sri Lanka had spent a sum of US$ 3,637 million in the year 2016 to achieve such status and bring Sri Lanka to the highest position. Such expenditure had been financed by 04 institutions such as the Sri Lanka Tourism Development Authority, the Sri Lanka Tourism Promotion Bureau, the Sri Lanka Institute of Tourism and Hotel Management and the Sri Lanka Tourism Conventions Bureau by 14 per cent, 70 per cent, 12 per cent and 4 per cent respectively. Out of the duties and functions assigned to these institutions by the Tourism Act, No. 38 of 2005, action had not been taken in connection with the functions such as the formulation of rules to make such persons who are engaged in the tours or tourism services without being registered in the Sri Lanka Tourism Development Authority as offenders, improvement of the local and internationally recognized standards related to the Tourism Industry or any other industry associated with that, enforcement and issue licenses to the tourism entrepreneurs and the establishment of institutions and businesses to assist the Tourism Industry.

Sri Lanka Tourism Promotion Bureau

Revealed Audit observations were summarized and shown below.

- A sum of Rs. 1.56 million had been paid as salaries by recruiting an unqualified officer to Tourism Promotion Bureau for the post of Managing Director on 08 February 2016 contrary to the Public Service Commission Administrative Rules 69,70,72,73,74 and the paragraph 40 (7) of Tourism Act.

- A sum of Rs. 1.69 million had been paid as salaries and allowances from the month of December 2014 to the month of May 2016 by recruiting an unqualified officer for the post of Director Event without the approval of Ministry and the Director General of Management Services

- A sum of Rs. 37.44 million had been paid to an Airline Company for conducting Annual Congress of the National Union of travel agent of France for the year 2016 in Sri Lanka, without getting the approval of the Director Board and contrary to 7(iv) of the Cabinet decision dated on 12 October 2016, without calling for quotations, and contrary to the

Financial Regulations 136, 137, 138 and 139

- A sum of Rs. 26.28 million had been paid as sponsorships allowances and donations without the approval of the Minister and contrary to the Public Enterprises Circular No. 57 of 11 February 2011.

Sri Lanka Convention Bureau

Revealed Audit observations were summarized and shown below.

- A sum of Rs. 483,372 had been paid as salaries and allowances from 01 December 2016 to 20 February 2017 by recruiting a General Manager who had not fulfilled basic qualifications as per the recruitment procedure.

- As per the annual performance report, though 155 projects had been planned to complete in the year 2016, only 97 projects had been completed. Though a provision of Rs. 212.85 million had been provided for 14 main activities, a sum of Rs. 104.14 million or 49 percent out of the allocated provisions had been spent in the year under review.

- Annual Congress of the National union of Traval Agents France had been conducted in Sri Lanka. Two hundred eighty six foreigners had been participated in this session and almost 325 altogether with local guest had been participated. A sum of Rs. 83.5 million had been spent in this regard.

Bids had not been called from five stars hotels when providing hotel facilities for the participants of this session. Payments had been made by accepting the bid taken from the Chairman of Hotel Association. However, though the bids had been presented with the base of the prices in the gazette published by Tourism Development Authority, an amount of Rs. 740,306 had been over paid to hotels due to non-deduction of 10 per cent mention in that gazette notification.

As per the annexure to the Cabinet Memorandum of 15 September 2016, though the tax inclusive amount agreed to pay for single room was US$ 169 and double room was US$ 180, when examine the payment vouchers a sum of Rs. 329,592 had been over paid due to the payment made to said hotel with the amount differ from the agreed amount.

It was observed in comparison made with other information that, 325 were participated with additional guests for the conference for which 286 foreigners were participated. A sum of Rs. 2,947,500 had been paid for 450 persons in Rs. 6,550 per head to conduct the inauguration at Bandaranayake Memorial Conference Hall on 31 October 2016. Therefore a sum of Rs. 818,750 had been paid for 125 persons whose evidence of attendance for the conference had not been confirmed.

Though a sum of Rs.4,029,000 had been deducted from the recoverable amount from National union of travel agents France Tourism Agents by mentioning that, Air Ticket fees for conducting the Conference, sufficient evidence to verify in this regard had not been presented to audit.

Improvement in Tourism Affairs

Tourist Arrivals, nights spent, generated income from tourists, per capita tourist receipts, total jobs received had been increased in the year under review as compared with the previous year. Details are shown in figure 30

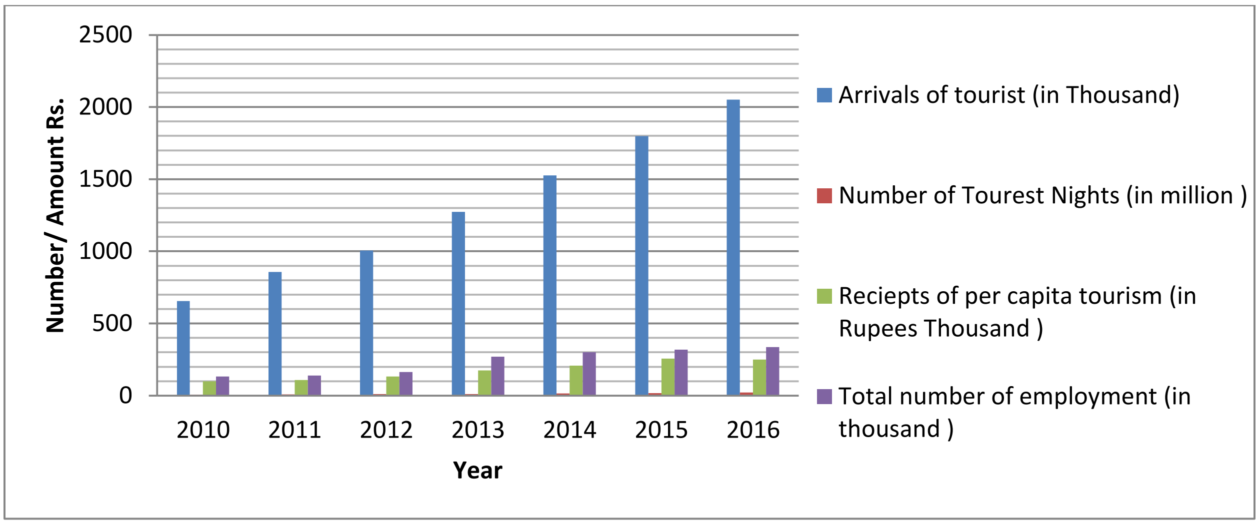


Figure 30 – Improvement of Tourism Industry
Source - Annual Report 2016 of Sri Lanka Tourism Development Authority

URBAN DEVELOPMENT

This Sector is expected to perform functions related to the creation of an urban structure enhancing economic opportunities and the global competition for each and every town, finding solutions for the settlement of problems related to garbage, housing problems for shanty dwellers and the construction of new towns in the Western Zone and the Suburban areas of the Country. The Ministry of Megapolis and Western Development and a Department and 2 Statutory Bodies under the purview of the Ministry should have performed the following functions for the achievement of these expectations.

- Formulation follow-up and evaluation of policies, programmes and projects on subjects related to Statutory Bodies of the Megapolis and Western Development .
- Town Development Project for Kottawa, Kaduwela and Kadawatha and activities associated therewith.
- Combined and formal promotion and regulation of the economic, social and physical development of urban areas.
- Urban Solid Waste Management.
- Activities related to reclamation and development of low lying lands
- Providing guidance for the development of services in the urban areas, areas with lesser facilities and marshy lands according to a common plan.
- Formulation of national physical plans and regional physical plans
- Direction and regulation of all construction work based on the national physical plans to ensure a combined urban development
- All other activities related to the subjects assigned to the Institutions under the scope of the Ministry.

The audit observations revealed at the audit test checks carried out in respect of execution of the activities by the above Institutions are summarized below.

Housing Project

Plans had been made for the construction of 68,000 housing units for granting houses for the residents who are with low facilities and resident in unauthorized lands in Colombo City by the Urban Development Authority. However, only 5,203 housing units had been completed by the end of the year under review.

Identification of the Zones where the Urban Development Needed.

According to Section 3 of the Urban Development Authority Act, No.41 of 1978, identification of the zones where the urban development needed in the

Island and preparation of Development Plans for that zones should have been carried out by the Urban Development Authority. Even though, 243 urban development zones had been identified by the end of the year under review, Development Plans had been prepared only for 42 zones.

Implementation of Projects

Even though plans had been made to implement 22 Projects estimated at a cost of Rs.3,252.09 million comprising 11 Projects in the Western Province,09 Projects in the Southern Province and ,one Project each in the North and Central Provinces in the year 2016 by the Urban Development Authority, out of them no Project had been implemented.

Control of Unauthorized Land Reclamation

The Land Reclamation and Development Corporation Act vested the responsibility for the identification of low lying marshy lands and unfertile or muddy lands in the Island on the Provincial level and publish them in Notifications in the Gazette for control and supervision of unauthorized land reclamation. The number published in Notifications in the Gazette at the end of the year 2016 had been limited to only 04 Provinces. Similarly, out of the lands of 307 acres in extent vested to the Corporation in the year 1995 , the number developed at the end of the year was at a low level of 97 acres in extent. According to a Cabinet decision of the year 1996 , low lands of 378 hectares in extent had been vested to the Sri Lanka Land Reclamation and Development Corporation to protect as water retention areas as well as control for the activities of control the floods in Greater Colombo Area and environmental improvement. The Corporation had failed to fulfill the expected function by the Ministry from the Corporation due to out of the lands of 400 acres in extent had been encroached by un authorized residents by the end of the year 2016 and divested by the Corporation.

Greater Colombo Flood Control and Environment Improvement

Provisions amounting to Rs.2,360 million had been provided from the Treasury to the Land Reclamation and Development Corporation in the year 2016 for the Projects implemented under the Line Ministry and Greater Colombo Flood Control and Environment Improvement Project .However, out of that only a sum of Rs.1,010.75 million or 43 per cent had been utilized. Similarly, the Corporation had planned to implement 13 Projects of Rs.361.87 million in the year 2016 . However, a sum of Rs.626.13 million had been spent for the implementation of 14 Projects not included in the Action Plan without being implemented that Projects.

Strategic Cities Development Project

Provisions amounting to Rs.12,810 million had been made in the year under review to the Ministry of Megapolis and Western Province Development for the Strategic Cities Development Project and the Metro Colombo Urban Development Project .Out of that, a sum of Rs.3,054 million only had been utilized in the year 2016. Accordingly, 77 per cent of the provisions provided had been saved. Provisions had been saved due to failure to complete the relevant Projects within the targeted time period.

Metro Colombo Urban Development Project

Construction of the Biodiversity Park at Beddagana under this Project had been handed over to a Government Affiliated Construction Institution and that Institution had completed the construction work of the Park after 07 months delay of the targeted date. Similarly, in the examination of the physical progress of the Project, works valued at Rs.92.07 million had not been completed and over payments had been made to the contractor for the activities which had not been completed in accordance with the standard. Even though, construction of Beach Park at Crow Island had been handed over to a contractor in September 2014 to complete within 10 months , the construction work of the Park had not been completed by the end of the year due to the unusual delay of the construction activities.

Completion of contracts had been delayed due to awarding of contracts during the same period to the same contractor without considering the working ability, financial and labour abilities to carry out several works in the same time of the contractors.

The main component of this Project is to control floods in the Metro Colombo area and, planning and construction of new drainage systems, and repairing of old drainage systems were being completed for the achievement of that objective by identifying the areas inundated with floods and rainwaters largely collected . However, the objective of the Project had not been achieved as the condition of roads inundated with floods instantly in the Metro Colombo area, further existed in case of a minor rainfall.

Metro Colombo Solid Waste Management Project

A sum of Rs.65.92 million had been paid at the end of the year under review to the National Consultancy Agencies for the assistance obtained from that Agencies for the Environmental Impact Assessment of the solid waste management and the preparation of an Action Plan for the solid waste management under the Metro Colombo Solid Waste Management Project and action had been taken to obtain additional consultancy reports from that Agencies further more. However, it had been failure to implement the matters and recommendations pointed out by the consultancy reports obtained from the Foreign Agencies or make a co-ordination in that connection. Even though, provisions amounting to Rs.4,000 million had been made for the Ministry during the two preceding years for waste management and out of the aforesaid provisions , 99.9 per cent had not been utilized. Accordingly, the Ministry had not taken action to carry on the waste management programme and a formal appointment of the post of Project Director had not been made for the aforesaid Project even by the end of the year under review. The activities of the Project had been carried out very slowly by appointing the Officers in the Ministry on acting basis for that post. Even though, a sum of Rs.546,778 had been spent for the Officers who proceeded abroad for the studies on solid waste management at the end of the year under review , no any report in respect of the aforesaid studies had been presented even by the end of the year under review.

Western Region Megapolis Master Plan Project

The Ministry of Megapolis and Western Province Development had spent Rs.133 million in the year under review for the Western Region Megapolis Master Plan Project and the total expenditure incurred as at the end of the year under review for the Project by the Treasury and other statutory institutions had been Rs.279 million.

The main objectives of this Project had been preparation of a draft of the establishment of the Western Region Megapolis Authority , revision of the Acts and Orders of the Local Authorities affected thereto and identification of the impacts between the Local Authorities by the establishment of the Authority and make solutions and to decide which is the structure of the Western Region Megapolis Authority .Contrary to that ,it had been carried out the activities such as preparation of the regulations of the building plans which should be done after establishment of the Authority , preparation of Science and Technological City Plans, preparation of urban plans at Horana, Meerigama . However, action had not been taken to achieve the main objectives even by the end of the year under review.

The initial activities of this Project had been done by spending Rs.79.85 million by the Sri Lanka Investment Board from the year 2003 to the year 2005. The sum of Rs.79.85 million spent had been become a fruitless expenditure as a result of the Project completely abandoned due to the aforesaid plans had not complied with the current plans of the Project.

The Project is being continuously carried on without a time frame for the preparation of the Western Region Megapolis Master Plan and the same duties and functions done by the National Physical Planning Department is carried out by the Project .Actions had been taken even without being prepared the Action Plans relating to the duties and functions of the Project.

The staff had been recruited for the Project without a proper approval and a scheme of recruitment and a high salary had been paid by appointing for the posts of consultants during the period of one year without considering the experiences of the aforesaid staff. Payments amounting to Rs.18.52 million had been made for 25 consultants only in the year under review .

A sum of Rs.9.30 million had been spent from the Project for the foreign tours of the Officers in the preceding year and the year under review. Nevertheless, the reports indicating the experiences, advantages macquirable to the country from the officers obtained by the aforesaid foreign tours had not been presented.

A sum more than Rs.8 million had been spent for the launching ceremony of the Megapolis Plan and certain expenditure of that ceremony had been carried out without following the Procurement Guidelines.

Project for the Township Development Component for the Cities of Kadawatha, Kaduwela, Kottawa

Development of the Cities of Kadawatha,Kaduwela, Kottawa Project under the Township Development Component of Greater Colombo Urban Transport Development Project was being implemented and new carpeting of several roads of the aforesaid cities and construction of multiple transport centre at Makumbura instead of development of township had been the main objective of this Project. However, action had not been taken to complete the terminal constructions and to combine trains and buses even by the end of the year under review.

This Project had been implemented under a loan granted by the Japan International Co-operation Agency (JICA) and the aforesaid loan had been completely utilized. Therefore, this Project is being implemented completely on the Treasury Provisions since the year 2016 and the provision provided by the Treasury in the year under review totaled Rs.714.1 million.

Greater Colombo Flood Control and Environment Improvement Project

Plans had been made to clean ,make and maintain the small canals of 4 kilometers in length and large canals of 2 kilometers in length and construction of tank of 94 acres in extent under this Project. Even though provisions amounting to Rs.1,000 million had been provided for that in the year under review, out of that only Rs.218.3 million had been utilized. Accordingly, out of the provisions provided, provisions of 78.16 per cent had not been utilized and any report in respect of the progress of the relevant activities had not been obtained by the Ministry.

Cleaning of Canals and Drainages for the Prevention of Dengue.

Provisions amounting to Rs.11.11 million had been made by the provisions for the supplementary estimates for the cleaning of canals and drainages for the prevention of Dengue. However, cleaning of canals and drainages or actions in that connection had not been taken in the year under review and the total provisions provided had been saved.

INDUSTRIES AND COMMERCE

Establishment of Industrial Estates

The Development Division of the Ministry of Industry and Commerce had spent Rs.556.37 million for the activities of 55 Industrial Estates by 31 December 2016. According to the Action Plan of the year under review, constructions of 07 Industrial Estates should have been completed. A sum of Rs. 153.88 million had been spent thereon during the year under review. Nevertheless, a physical progress in commensurate with that expenses had not been achieved. Further, a sum of Rs.0.32 had been spent for a project, whereas the relevant activities had not been commenced even by the end of the year under review. Although activities pertaining to 02 Industrial Estates expected to be established with the intention of increasing investment opportunities and enhancement of socio economic structure of the area should have been commenced by identifying the relevant lands by 31 December 2016, those activities had not been commenced.

Maintenance of Rice Buffer Stocks

According to the Corporate Plan Prepared by the Food Commissioners Department for the period from 2013 to 2016, it had been planned to maintain 50,000 metric tons of buffer stock of rice with the Department. As per the Action Plan prepared in accordance with the above Corporate Plan, it had been established that a buffer stock of 50,000 metric tons of rice should be maintained in the year 2016. Accordingly, for the conversion of stores No. 09 and 10 at Veyangoda Stores premises the Department as scientific stores, a sum of Rs.43.72 million had been spent. Nevertheless, any buffer stock of rice could not be found in the stores of the Food Commissioners Department during the period from 01 January 2016 to 30 June 2017. Even though a sum of Rs.214.00 million had been approved under the Cabinet Paper dated 27 April 2016 for the development of 05 stores of the Veyangoda stores premises as scientific stores, only a sum of Rs.38.22 had been spent by 31 December 2016.

Establishment of Co-operative Societies at National Level

Although the Department of Co-operative Development had planned to establish 16 Co-Operative Societies at national level, only 03 Societies had been established by the end of the year under review.

Minimization of Irregularities in the Co-operative Societies

For the purpose of minimizing irregularities being committed in the Co-operative Societies, the Department of Co-operative Development had planned to conduct relevant investigations. Nevertheless, no step whatsoever had been taken by the Department in that connection. Further, it had been planned to settle the disputes existed at the Co-operative Societies and conclude 750 court empowerments during the year under review. Out of that, judgments had been delivered only for 129 cases.

Recovery of Contributions of the Co-operative Societies

A sum of Rs. 44.77 million should have been recovered as the contributions from the Co-operative Societies at the beginning of the year 2016. Out of that, only a sum of Rs.4.87 million had been recovered by the end of the year under review. Similarly, a sum of Rs.616.18 million out of the credits grated to the Co-operative Societies by the Co-operative Surplus and Co-operative Development Fund should have been recovered at the beginning of the year under review. Nevertheless, only a sum of Rs.3.00 million had been recovered by the end of the year.

Establishment of 1977 Project

In order for the customers to make complaints to the Authority promptly and the customers and the farmers to be aware of the wholesale and retail prices of the market, the "1977 Project "had been established by spending Rs.9.19 million in the years 2013 and 2014. As an officer had not been deployed to receive the complaints made through this project, the receipt of the complaints had not been properly carried out. The Consumer Affairs Authority had not updated the information of the market prices and therefore, the objective of this project had not been achieved.

Registration of Trade Marks

The number of trade marks registered by the National Intellectual Property Office of Sri Lanka was Rs.3312 during the year under review and a period from 01 year to 39 years had been taken to complete the above registration. The number of applications received for the registration was 55,506 as at 31 December 2016. Thirty four industrial plans had been registered in the year 2016 and it had included the applications received from the year 2009 to the year 2016. Accordingly, a period from 01 to 07 years had been taken for the registration of applications for the industrial plans. The number of applications which had not been finalized as at 31 December 2016 was 825.

Registration of Patents

The number of patents registered by the National Intellectual Property Office of Sri Lanka was Rs.124 during the year under review. A period ranging from 09 months to 16 had been spent for the registration of those patents. As a long period had been taken for the registration of patents, there was a tendency of declining the interests of the innovators to obtain patents.

Further, 11 external parties had filed 11 court cases against the Intellectual Property Office of Sri Lanka in connection with the award of patents and industrial design licences. Moreover, the Intellectual Property Office of Sri Lanka had appear as a witness for the court cases filed by external parties with regard to 131 trademarks registered by the Office.

International Registration of Trademarks

The Line Ministry had granted provisions Rs.38.00 million for the " Madrid Protocol Access Project " implemented for the registration of trademarks internationally and the National Intellectual Property Office of Sri Lanka had utilized Rs.37.96 million by the end of the year under review. Those provisions had been utilized for the development of physical resources. Although a building had been obtained on monthly rental of Rs.175,000 from 15 May 2016 to 14 May 2018 and paid a sum totalling Rs.2.43 million up to May 2017, it had not been used even by the end of the year under review. Further, office equipment and furniture had been purchased at a cost of Rs.3.88 million, whereas those items had not been used even by the end of the year under review. Although a sum of Rs.32.50 million had been paid to the Information and Communication Technology Agency in order to purchase a Server, bids had not been called for even by 28 June 2017.

Conduct of Degree and Postgraduate Degree Programmes on the Textile and Apparel Fields

The Sri Lanka Institute of Textile and Apparel which had been established in the year 2009 had exceeded a period of 06 years by the end of the year 2015. Arrangements for the conduct of Degree and Postgraduate Degrees in the textile and apparel field in terms of the provisions in the Sri Lanka Textile and Garments Act, No. 12 of 2009 had not been made even by 31 December 2016.

Issue of Certificates of Conformity

Even though it had been an objective of the Sri Lanka Institute of Textile and Apparel to issue certificates of conformity to those engaged in the Textile and Apparel Industry on international,

national and company compliance system standards, action had not been taken to obtain the National Vocational Qualification Level (NVQ) for the courses conducted by the Institute.

Approval of the Scheme of Recruitment

The Lanka Sathosa Ltd. had not obtained approval for the scheme of recruitment and the recruitments and promotions had not been properly carried out. Further, in respect of 04 management experts who had been recruited without examining qualifications and adopting a proper methodology, a sum of Rs.1.86 million had been paid during the year under review. Even though the approved cadre of the company was 3075, the actual cadre was 3641 in the year 2016. Accordingly, the access cadre had been 566.

Transport Facilities for the Staff

Contrary to the Public Enterprises Circular No. PED/1/2015 dated 25 May 2015, the Sri Lanka State Trading (General) Corporation Ltd. had spent a sum of Rs.13.63 million for providing transport facilities to 22 officers who were not entitled to such facilities. The Corporation had paid Rs.1.05 million as transport allowances to two officers who had been provided with assigned vehicles.

Non-compliance with the Government Procurement Process

Without being complied with the provisions of the Government Procurement Guidelines, the Sri Lanka State Trading (General) Corporation Ltd. had made purchases amounting to Rs.108.36 million. It had included unsalable 35 mobile stores valued at Rs.75.17 million out of 50 mobile stores valued at Rs.107.39 million purchased without conducting environmental and market study. For a short term loan amounting to Rs.81.64 million obtained for the purchase of those stores, an expenditure of Rs.0.70 million had been incurred as interest.

TRANSPORT

Sri Lanka Transport Board, the Department of Sri Lanka Railways, the Department of Motor Traffic, the National Transport Commission, the National Transport Medical Institute, the Airport and Aviation Services (Sri Lanka) Ltd. and the Civil Aviation Authority of Sri Lanka had been established under the Ministry of Transport and Civil Aviation for the achievement of 18 Key Functions for the fulfillment of the objective of the implementation, development and sustainable maintenance of excellent transport infrastructure facilities using the modern technological methodologies for uplifting the living standards of the public under its vision of making Sri Lanka as the Country in the Region with the foremost public centered system.

A summary of the significant observations on the performance of the function by the Ministry and the institutions during the year 2016 revealed during the course of audit test checks is given below.

New Railway Line from Matara to Katharagama

The Ministry had implemented the Project on the construction of the New Railway Line from Matara to Katharagama during the year under review under the Foreign Loan Financing. According to the Loan Agreement and the Construction Agreement of the Project, the estimated total cost amounted to Rs.36,166 million. The estimate prepared for the year under review amounted to Rs.18,915 million and a sum of Rs.6,461 million out of that had been utilised, thus resulting in the saving of 66 per cent of the provision. Even though the completion of the project had been planned for 31 July 2016, the physical progress as at that date had been only 72 per cent. As such the period of construction thereof had been extended to 30 September 2017.

An overall payment of Rs.327 million had been paid to the contractor for the Consultancy Contract for the Project on the Railway line from Matara to Katharagama. As the programmes for the implementation of the Consultancy Contact had not been prepared a sum of Rs.28.57 million had been saved by 31 July 2016, the date planned for the completion of the project.

Railway Live Project

Seven Railway live projects had been identified as New Railway Line Projects and provision in that had been made annually over a period of 6 years.

Provision of Rs.41 million had been made for 6 projects in the Annual Budget Estimate for the year 2016. Out of that, a sum of Rs.39.9 million had been saved by the end of the year under review.

Railway Transport

The Department of Sri Lanka Railways operates nearly 326 passenger trains per day under the control of an Island Wide Network of 378 Railway Stations and provide transport facility to 370,000 passenger approximately.

Operating Loss of Sri Lanka Railways

The operating loss of the Sri Lanka Railways for the year 2016 amounted to Rs.6,773 million. That as compared with the operating loss of Rs.3,796 million for the year 2012 indicated a deterioration of 78.42 per cent. The operating revenue for the year 2016 as compared with the year 2012 indicated an improvement of Rs.1,771 million or 36.50 per cent. The operating expenses by the year 2016, as compared with the year 2012, had increased by Rs.4,748 million or 54.90 per cent. Details appear in Table 32

Revenue, Expenditure and Operating Loss	2012	2013	2014	2015	2016
	Rs.millions	Rs.millions	Rs.millions	Rs.millions	Rs.millions
Operating Revenue	4,852	5,425	5,910	6,335	6,623
Operating Expenditure	8,648	10,558	16,943	14,048	13,396
Operating Loss	3,796	5,161	10,033	7,713	6,773
Operating loss as a percentage of Operating Revenue	78.24	95.13	186.68	121.75	102.76

Table 32 : Operating Revenue, Expenditure and Loss of the Department of Sri Lanka Railways.

Source : Performance Report of the Department of Sri Lanka Railways 2016.

The operating loss of the year 2012 as a percentage of 78 per cent of the operating revenue had gradually concerned to 102 per cent by the year 2016. Even though that had been 187 per cent in the year 2014 not had gradually decreased to 102 per cent by the year 2016. Details appear in Figure 31

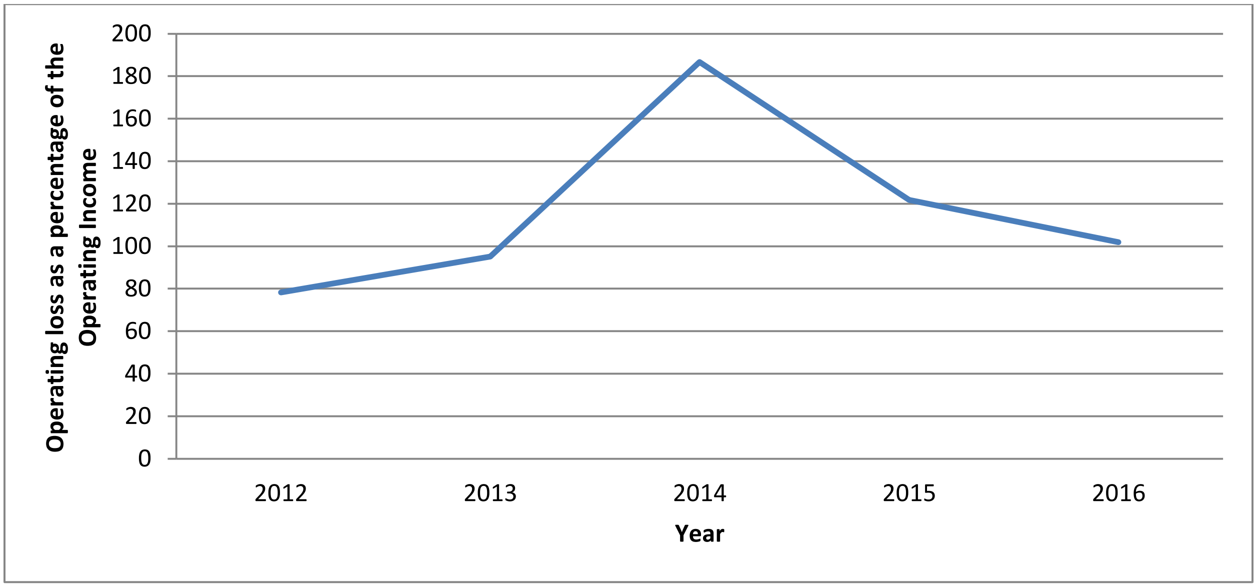


Figure 31: Operating loss of the Department of Sri Lanka Railways as a percentage of the Operating Revenue.
Source: Performance Report of the Department of Sri Lanka Railways 2016.

Running of Trains as planned

Out of the number of passenger trains planned for the year 2015, 97.35 per cent had run and that had been 97.81 per cent in the year 2016. Nevertheless, the Train turns planned in the year 2015 as compared with the year 2014 had decreased by 8.4 per cent and the decrease in the year 2016 as compared with the year 2015 had been 3.9 per cent.

Train Departures on Schedule

Even though the departure of passenger train should commence on schedule as planned, departure of 39.49 per cent of the train departures planned for the year 2015 and 47.47 per cent in the year 2016 had been on Schedule. Departures after delays ranging from 6 minutes to 59 minutes from the schedule trains in the year 2015 had been reported as 52.21 per cent of scheduled runs and that in respect of the year had been 45.20 per cent. Even though the delays of over one hour in the departure in the year 2015 had been 5.6 per cent and that had been reduced to 5.14 per cent in the year 2016. The cancellation of scheduled runs in the year 2015 had been 2.65 per cent and that had been reduced to 2.19 per cent. in the year 2016.

Increase of Railway Passengers

The number of passengers transported in the year 2015 had been 135.29 million and net limit had been exceeded by 2.76 million passengers in the year 2016. Even though the transport of passengers in the year 2015 as compared with year 2014 had improved by 2.93 per cent, that in respect of the year 2016 as compared with the year 2015 had been 2.07 per cent. Thus there was a decrease of the improvement in the year 2016.

Revenue Efficiency of Railway Passenger Transport

According to the Action Plan for the year 2016 an improvement of revenue by 10 per cent as compared with the year 2015 had been planned. In the preparation of estimates, the total revenue for the year 2015 and the year 2016 had been estimated as Rs.6,000 million and Rs,6,300 million respectively. That was an increase of 5 per cent over the year 2015. As such the estimates had not been prepared in accordance with the targets in the Action Plan.

According to an audit test check carried out in the year 2016, number of passengers traveling without a valid ticket had been 13,267, and that is about 1,106 passengers per month. Those figures for the year 2015 had been 12,826 and 1,069 respectively. Thus it indicated that there is an increase in the number of passengers traveling without valid tickets. As a large number of passengers travel without valid tickets due to the weakness in the internal control a loss of revenue for the Department was observed. The attention of the Department had not been paid for the introduction of a new methodology using information technology for the control of this situation.

Revenue Efficiency of Goods Transport

The goods transport in the year under review as compared with in the year 2015 had improved by 8.10 per cent metric tons whilst the goods running kilometers and the goods transport revenue had improved by 7.6 per cent kilometers and 5.3 per cent respectively. Further the cost of transport of one metric ton of goods by railway per kilometer had been Rs.58.10. The revenue that can earned from the transport of one metric ton of goods per kilometer amounted Rs.1,024.20 and as compared with the cost thereof, it was possible for the

Department to earn a revenue surplus of Rs.966.10.

Projects Financed from Domestic Funds

Ten Projects costing Rs.4,664 million planned under Project No.4 of the Department of Sri Lanka Railways had not been implemented in the year under review. The financial performance of 9 Projects of estimated value amounting to Rs.992 million accounting to the Action Plan for the 2016 ranged between 1 per cent to 49.99 per cent whilst the performance of the overall expenditure had been 17.49 per cent. Provision amounting to Rs.14,931.38 million had been made for the Railway infrastructure facilities for the 2016 and Rs.10.961.44 million out of that had been spent.

Lease Rent Revenue

The arrears of revenue from the lease of the lands belonging to the Debarment of Sri Lanka Railways to external parties as at the end of the year 2016 amounted to Rs.1,887.9 million.

Non-payment of Death Gratuities

An examination of the payment of the minors' shares of the death gratuities of the employees of the Department of Sri Lanka Railways who had died while in service revealed that the claims of 1,482 minors totalling Rs.1.55 million in respect of the period from the year 1927 to the year 1996 and the claims of the minors of 646 officers who had died from the year 1996 to the year 2007 while in service had not been settled even by the end of the year under review.

Stores Advance Account

The Customs Duty and Other Taxes amounting to Rs.166.16 million paid on 223 categories of stocks imported during the period from the year 1993 to the year 2016 had not been settled even by 31 December 2017. The receipt of those goods by the Department had not been confirmed to Audit.

Even though advances had been paid to the suppliers for the purchase of goods during the period of 35 years from the year 1980 to the year 2015, advances amounting to Rs.12.06 million had not been settled. The Department had not implemented a proper course of action for obtaining the advances totalling Rs.22.95 million including advances relating to the year under review amounting to Rs.10.89 million.

Demurrage of Rs.2.44 million had been paid to the Sri Lanka Ports Authority for the delays of 02 days to 994 days in the clearance of goods on 159 invoices in 28 instances in the year 2016.

The value of goods under delivered, non-receipt as required by the Department and damage of goods during the period of 36 years from the year 1980 to the year 2016 totalled Rs.78.72 million.

Even though letter of Credit amounting to Rs.5.09 million had been opened and orders had been placed for the supply of 1,000 electronic controllers in the year 2011, those goods had been received by the stores. The Company concerned had been informed that the goods did not conform to the specifications. Even though the officers of the Company had visited the Department and requested and opportunity to rectify the matter such opportunity had not been given even up to June 2017, to attend to the matter. Accordingly, the goods valued at Rs.5.09 million had been retained idling during a period of 06 years.

Purchase of Railway Locomotives

Five M 9 modal railway locomotives purchased in the year 2001 at cost of Rs.810 million had not been used for running from the year 2004. The Railway locomotives

M 9 873 could be run only for 2 years since purchase.

National Council for Road Safety

The National Council for Road Safety had been established in accordance with a Notification published in the Gazette of the Democratic Socialist Republic of Sri Lanka in terms of Section 213(a) of the Motor Traffic Act No.14 of 1951 as amended by the Motor Traffic (Amendment) Act, No.5 of 1998. Any person having an Insurance Policy or a guarantee relating to the third party risk should pay one per cent of the premium to the Fund annually for the road safety objectives. The following observations are made in this connection.

- According to the reports, the motor vehicle accidents from the year 2012 to the year 2016 had resulted in 13,050 deaths, 12,181 fatal accidents, 37,801 cases of serious injuries, 68,134 cases of minor injures and 73,979 case of losses. That did not confirm the number of accidents caused by unidentified motor vehicles. It was observed that the deaths caused by road accidents in the year under review had increased by 7 per cent over the preceding year. The Council had received 88 claims for compensation in the year under review and Rs.7.7 million had been paid as compensation.

- Even though the Council had submitted a Cabinet Memorandum in August 2010 on 04 matters including the presentation of a new Act on the composition, structure and functions in place of the National Council for Road Safety and obtained in approval of the Cabinet of Ministers. Even though nearly 6 years had elapsed since that date the action necessary for establishing as a Statutory Institution had not been taken.

- The Inter-Governmental Action Group for Sustainable Development had proposed in the year 2014, seventeen Sustainable Development Objectives for achievement by the year 2030 and 169 proposals related thereto. Even though 03 Sustainable Development targets were related to the minimization of the death and injuries caused by Motor Vehicle accidents, the Sustainable Development targets and the plans and the performance indicators relating thereto had not been indicated in the Action Plan prepared for the year under review.

- Even though 11 main functions relating to the establishment of the Council had been specifically introduced, attention had been paid only to two of those functions despite the elapse of nearly 10 years after the establishment of the Council. Plans had not been made for the inclusion of other functions in the Long Term Plan or for implementation by including with Annual Action Plan.

Sri Lanka Transport Board

The Sri Lanka Transport Board functioned with 108 Main Depots and 18 Sub Depots by 31 December 2016 and the Board comprised the Head Office, 13 Regional Offices, 11 Regional Workshops, 21 Driver Training Schools 5 Circuit Bungalows and 1 Rest. A summary of the audit observations on the passenger transport services provided by the Sri Lanka Transport Board is given below.

- **Bus Operations**

  Even though the buses operated out of the timetable requirements of the Board in the year 2012 had been 56 per cent that had improved gradually to 72 per cent in the year 2016. Similarly out of the number of Kilometers scheduled for running in the year 2012, the actual running had been 56 per cent, and that had gradually improved to 72 per cent by the year 2016. It was not possible to run 28 per cent of the expected kilometres. Even though 2,200 buses had been received up to the year 2015, the number of buses operating daily had not increased. The progress of bus operation of the Board during 5 preceding year is given in Table. 33

Particulars	2016	2015	2014	2013	2012
Daily Bus Fleet	7,768	7,779	7,669	7,143	7,756
Daily timetable Requirement	7,257	7,235	7,204	7,168	7,172
Number of Buses daily operated	5,314	5,270	4,596	4,806	4,694
Buses operated as a percentage of Daily Timetable Requirements	73	73	64	67	61
Number of Kilometre Million expected for Running – for the year	629.61	643.18	616.35	603.09	609.65
Number of Kilometres run for the year	451.52	440.42	371.24	343.70	337.83
Number of Kilomtres Run as percentage of the number of Kilometres expected for running for the year	72	68	60	57	55.5

Table 33 :Progress of Buses Operation of the Board
Source : Bus Fleet Position Report, Run 5 Reports, Income Statements

Non-Settlement of Advances

The spare parts relating to the advances granted to the Suppliers by the Head Office of the Board up to 31 December 2014 had been direct to the Depots without being taken over by the Head Office and as such an unsettled balance of advances amounting to Rs.1,831.86 million existed as at 31 December 2014 in the Head Office Purchase Advance Account. According to the financial statements for the year 2015 presented to audit, the balance of the purchase Advance Account had increased to Rs.1,907.29 million. Adequate information in support that relevant suppliers had supplied the spare parts to the Depots had not been furnished to audit.

Inability to Pay Arrears of Contributions to the Employees' Provident Fund as planned

The Sri Lanka Transport Board had purchased 2,200 buses of 42 seat capacity and 52 seat capacity on lease purchase basis from the Indian Company named Ashok Leyland for US $72.62 million or Rs.10,331.78 million approximately. Even though Cabinet of Ministers had granted the approval for the purchase on 17 October 2013, that included a condition that the buses of the Board not economical repairing and remaining without being repaired should be sold and the proceeds of sale should be utilized for the payment of arrears of contributions to the Employees' Provident Fund and the Employees' Trust Fund. Nevertheless, a sum of Rs.182 million only had been received from 1,239 buses sold during the year 2014. As such the Board had failed to achieve an objective expected by the Cabinet of Ministers.

Increase in the Bank Overdraft

Even though the overdraft facility of the People's Bank amounted to Rs.721.62 million, the Bank overdraft had increased to Rs.745.22 million by 31 December 2014. The Fixed Deposit Account of Rs.325.00 million is maintained as Security for the Bank Overdraft. An average monthly interest of Rs.10.3 million at 17 per cent had been paid for the Bank Overdraft. A comparison of the interest received on the fixed deposits kept as security and the interest paid on the Bank Overdraft revealed that the Board incurs monthly net interest of Rs.7 million approximately.

Excess Staff

Even after the retirement of 3,227 employees by the year 2016 on the payment of compensation amounting to Rs.6,555 million under the Voluntary Retirement Scheme, the total staff the Board had been 30,524 and as compared with the staff of 24,886 approved by the Department of Management Services, there was further excess of 5,638 in the permanent staff.

Driver Training Schools

The Board runs 19 Driving Training Schools and in the year 2014 the Driver Training Schools had earned an income of Rs.32.28 million. The total expenditure thereon amounted to Rs.37.84 million. Accordingly a net loss of Rs.5.56 million had been incurred. The increase of overhead cost of 19 Driver Training Schools had been the reasons for the loss. The management had not paid due attention for increasing the Training Instructors and other resources and running the schools in a profitable manner.

Rehabilitation of Buses

The Board had sent 143 buses to the VESCO institution in the year 2002 for rehabilitation at a cost of Rs.97.46 million. Even though the VESCO is not in operation by 31 December 2016, the Board had not received the buses.

Smoke Emission Test Certificates for Buses

The buses of Sri Lanka Transport Board had been operated daily without obtaining the Smoke Emission Test Certificates. According to the information made available to Audit, out of the total of 6,729 buses of 10 Regions for the year 2014, Smoke Emission Test Certificates had not been obtained for 5,356 buses. Further, according to the information of

4 Regions received in respect of the year 2016, out of the total of 2,810 buses, such certificate had not been obtained for 2,010 buses. As such the damage caused to the environment could not be assessed.

Payment of Surcharges to Employees' Provident Fund and Employees' Trust Fund

According to the information as at 31 December 2016 made available by the Board, a sum of Rs.13,412 million comprising the contributions of Rs.9,200 million and surcharges thereon amounting Rs.4,212 million remained payable to the Employees' Provident Fund. The Board had stated that a sum of Rs.7,405 million out of that had been paid and the sum further payable amounted to Rs.6,006 million. The contribution and the surcharges payable to the Employees' Trust Fund had been Rs.52 million and Rs.11 million respectively.

National Transport Commission

According to the information made available by the Commission to the Audit on 28 May 2017, the Commission had issued licences by charging fees under 3 main categories as shown in Table 34.

Particulars	Number of Licences
Number of Licensees Paying only the Annual Renewal Fee of Rs.3,000 (Non-Tender)	2,284
Number of Licensees paying only the Annual Renewal Fee of the 15,000 (Non-Tender)	717
Number of Licensees Paying both the Annual Renewal Fee of Rs.3,000 and the Tender Value	276
Total	**3,277**

Table 34- Fees Charged by the National Transport Commission
Source : Information received by Audit on 28 May 2017

Imbalance of Fees Charged for Route Licences

A severe imbalance of the fees charged for the licences issued due to the existence of bus owners who had obtained Route Licences for the same route on the payment of annual renewal fees of Rs.3,000 and Rs.15,000 whilst another party has obtained Route Licences for the same Route by paying the tender value and the annual renewal fee of Rs.3,000. Further 70 per cent of in total of 3,277 licences issued up to 28 May 2017 had been issued for an annual renewal fee of Rs.3,000. Out of the total licences 22 per cent had been issued for an annual licence renewal fee of Rs.15,000. Accordingly, 92 per cent of the licences issued by the Commission had been issued by charging a low annual licence renewal fees.

Passenger Service Permits

According to Section 25(b) of the National Transport Commission Act No.37 of 1991, the Passenger Service Permit valid for periods not less than one year and not more than 3 years can be issued. Nevertheless, temporary permits for the Highway had issued for 65 luxury buses and 02 Ordinary buses at the rate of Rs.2,500 per day. In view of the failure to issue Route Permits by tenders based on the minimum Technical value, the National Transport Commission had been deprived of a large sum as permit issue.

Formulation of the National Policy on Passenger Transport by Bus

The main objective of the National Transport Commission established under the National Transport Commission Act, No.37 of 1991 is advising the Government on the National Policy on the Transport of Passengers and the implementation of that Policy. Nevertheless, the Commission had forwarded a Report of Information on the Transport Sector on the Subject of the National Transport Policy in the year 2009 and a Report on the National Transport Statistics in the year 2016 by 31 December 2016. A National Policy on Transport of Passengers by Buses had not been formulated and presented.

Gami Seriya Bus Services

Even though plans had been made for the operation of 40 Gemi Seriya Bus Services by the end of the year under review, only 3 services had been in operation by 31 December 2016. Out of the Provisions amounting to Rs.23.5 million made for the purpose, provision amounting to Rs.19.78 million only had been utilised.

Preparation of Inter-Provincial Route Timetables

Plans had been made for the preparation of Timetables for 514 Inter-Provincial Routes. Timetables for 234 Inter-Provincial Routes only had been prepared. Even though the entire provision of Rs.2 million made for the purpose had been utilised, it had failed to prepare 280 timetables planned.

Build-up of GPS System

The Commission had purchased computers and printers for Rs.17.57 million in the year 2016 and used for the build-up of the GPS System. Even though the targeted GPS Units for the year under review had been 2,100, the Data Transmission SIM cards necessary for the achievement of that target in the year 2016 had not been used. Even though 438 GPRS Unit could have been brought to operating level by using 438 Data Transmission SIM Cards issued in the preceding years, out of the total expected target for the year 2016, it had failed to achieve 79 per cent of the targets.

Construction of Bus Terminals

The Treasury had made provision of Rs.75 million in the year 2016 for the implementation of 3 Projects, namely, uplifting of the Private Bus Industry, the upgrading of the Quality of Bus Services and the Development of Infrastructure Facilities. Instead of the Construction of the Hingurakgoda Bus Terminal and the modernization of Bastian Mawatha Bus Terminals in terms of the Action Plan for the year 2016, the Commission had invested Rs.43 million in REPOS and returned Rs.26.11 million to the Treasury.

Non-Vesting of Bus Terminals Lands

In terms of Sections 12 and 13 of the National Transport Commission in terms Act No.37 of 1991, lands and Government properties can be acquired. Even though the Commission had spent a sum of Rs.68.47 million in the year 2016 for the construction of Bus Terminals action had not been taken for the acquisitions of those constructions and the lands thereof for the Commission whilst the money spent had not been brought to account as capital expenditure.

National Transport Medical Institute

A Corporate Plan which included the functions set out in Section 3 of the National Transport Medical Institute Act, No.25 of 1997 had been prepared for the years 2016 to 2018. Out of the 9 objectives therein, only the objective relating to the functions of the issue of Medical Certificates had been included in the Action Plan for the year 2016. The targets and plans for the performance of all the other functions had not been prepared.

Youth Affairs

The National Youth Services Council functions with 14 main objectives relating to the development of youth under the goals of building up a well-disciplined young generation endowed with skills and well-groomed personality, respecting the indigenousness, and enjoying experiences at global arena. In respect of this national-level mission, a sum totalling Rs. 1,526 million inclusive of Rs. 1,136 million through the annual budget for the year 2016, Rs. 15 million from foreign organizations, and grants of Rs. 375 million from the Ministry and other State institutions, had been received. Furthermore, with the inclusion of course fees, income from the farms, and other internal earnings amounting to Rs. 193 million, the total revenue amounted to Rs. 1,719 million. As compared with therewith, the total expenditure for the year amounted to Rs. 1,798 million. With the objectives mentioned above, various programmes relating to the development of youth, were implemented in the year 2016, and the following weaknesses were observed during the audit conducted in that connection.

The Youth Parliament Programme

A sum totalling Rs. 224 million had been spent by the year 2016 on the said Programme launched in the year 2010 with a view to adapting the younger generation to the democratic framework of the society. A sum of Rs. 24 million equivalent to 50 per cent of the expenditure for the year under review had been incurred on conducting the Youth Parliament election, but only 112,367 voters or 33 per cent of the registered voters of 334,026, had cast their votes.

A participation of 2,925 Members of Parliament had been expected in 13 meetings conducted within 5 Parliamentary sessions for the years 2015, and 2016, but only 1,716 Members of Parliament had participated therein. Furthermore, the percentage of participation of the Members of Parliament in the first session had been 98 per cent though, that had decreased to 44 per cent with respect to 4th and 5th sessions.

In terms of Standing Order 5.1 of the Sri Lanka Youth Parliament for the year 2015/2016, the quorum thereof should have been 75, but the 4th and 5th sessions had been held with the participation of 60 and 70 Members of Parliament respectively.

The Programme – Youth Got Talent

A sum of Rs. 112.50 million had been incurred on the implementation of 1,500 regional development projects in 06 fields at the level of island wide youth clubs under the programme "Youth Got Talent" launched in parallel with the Youth Parliament Programme. According to the plan of the programme, projects could have been chosen under 06 fields; however, of the 1,500 projects implemented, 1,375 projects had been based on general requirements, and no area-specific project whatsoever had been implemented. The other fields had been chosen targeting economic development and generation of new employment opportunities, but the implementation of those projects had not been encouraged.

According to the information received from 12 districts in which the project had been implemented, a sum of Rs. 33 million had been released by the Council in respect of 493 projects that should have been completed by 12 November 2016. Nevertheless, 162 projects with an estimated cost of Rs. 76 million had not been completed even up to 31 December 2016.

According to the physical audit inspection carried out on 26 projects implemented in the district of Trincomalee, the value of the works certified by the Technical Officer in respect of 06 projects amounted to Rs. 1.29 million, but the value of the works that had actually been completed, amounted to Rs. 678,366 only. Due to lack of funds, 05 projects with an estimated cost of Rs. 814,252 had been abandoned, whilst the construction works of another 17 projects with an estimated cost of Rs. 5.37 million had not been completed even up to February 2017, and there had been 4 projects that had not complied with the expected standard, costing Rs. 831,234. The Council had granted a sum of Rs. 225,000 on 03 projects costing Rs. 831,234 that had not been made use of despite being completed. Bills or other acceptable evidence required for the verification of expenses incurred on 08 projects costing Rs. 1.91 million, had not been included in the files. As such, the final objective of completing 1500 projects worth Rs. 337.50 million by incurring a sum of Rs. 112.50 million through the active involvement of youth clubs, could not be achieved.

Maintaining the Higher Standards of the Training Programmes.

A number of 471 training programmes had been conducted at 49 training centres of the Council during the year under review with a student population of 15,691. That comprised 201 full time courses with 6,793 students, and 270 part time courses with 8,898 students inclusive of 77 language training courses. Of 471 courses attended by 2,293 students, 80 courses had not complied with National Vocational Qualifications or NVQ.

Further Delays in the Construction of the Training Centre in Beruwala

In order to establish a Youth Centre, a land in extent of 01 acre located in Beruwala had been obtained from the Urban Development Authority for a lease period of 50 years from 07 July 2000 by incurring a sum of Rs. 3.33 million, and a sum of Rs. 467,184 had further been spent on the development of the said land. However, a period of 16 years had elapsed by the year 2016 since the land had been obtained, but the Centre had not been constructed.

Irregular Transactions

The National Youth Council had purchased 60 finger print machines by incurring a sum of Rs. 2.79 million in 2 instances in order to record the arrival and departure of the officers at the provincial offices, district offices, and training centres of the Council. Nine machines thereof had not been supplied to the Council by the relevant supplier even up to 31 May 2007, the date of audit, and of the 51 machines supplied, only 03 machines had been made use of for the intended purpose. Software had not been installed on 29 machines fixed, and the number of machines which the reports on arrival and departure could not be obtained from, although software had been installed, had been 16. The said payment had been made without obtaining a performance bond, and verifying that the machines had been supplied in specified quantity with expected quality.

The Council, had purchased 327 Tabs by incurring a sum of Rs. 15.86 million in order to distribute among the Members of Parliament under the Youth Parliament Programme. Twenty three of those Tabs had remained non-functional even at the time of being handed over to the stores by the supplier; however, it had been certified by the Technical Evaluation Committee that those Tabs had been functional and of good quality. Furthermore, the audit had been informed by the Members of the Youth Parliament that the Tabs supplied had many faults. Given the number of amount purchased, trade discounts could have been obtained, but the Tabs had been purchased at prices higher than the existing market prices without doing so.

A number of 75 computers had been purchased by incurring a sum of Rs. 7.93 million for the Training Centre in Chilaw under the Skills Sector Development Programme. The following observations are made in that connection.

- The Shopping Method had been followed instead of National Competitive Procurement method.
- Although 05 institutions had submitted bids, 03 of them had been turned down without giving any explanations.
- Due to various technical faults, 07 of the 75 computers procured had remained non-functional from the date of procurement itself.
- A formal agreement had not been signed in terms of Guideline 8.9.1 of the Government Procurement Guidelines.
- In terms of Guideline 5.4.10 of the Government Procurement Guidelines, a performance bond had not been obtained, nor had 05 per cent of the contract value been retained in respect of the damages likely to occur within the period of warranty.

Releasing the Employees of the Council to Other Institutions

Nineteen and 2 employees of the Council had been released in full-time and part-time basis respectively without a proper approval to the Sri Lanka National Youth Services Co-operative Society established under the Co-operative Societies Act, No. 5 of 1972 and functioning under the purview of the Commissioner of Co-operative Development. Five of those employees had been so employed there over a period of more than 05 years. Remuneration totalling Rs. 8.47 million had been paid by the Council for the employees working on full-time basis in respect of the year 2016 alone.

Four employees of the Council had been released on full-time basis without a legal ground to the Youth Club Federation registered as a social service organization under the Voluntary Social Service Organizations (Registration And Supervision) Act, No. 37 of 1980, and a sum totalling Rs. 1.39 million had been paid by the Council as their salaries for the year 2016.

Projects Implemented under the Skills Sector Development Programme

A sum of Rs. 1,353 million had been estimated for the programmes to be implemented under DLI 6 in accordance with the Disbursement Link Indicators of the programme prepared for the National Youth Council by the Management Unit of the Skills Sector Development Programme, and only a sum of Rs. 435 million had been spent therefrom by the end of the year 2016. Furthermore, a sum of Rs. 230 million had been allocated in respect of 06 main programmes proposed to be implemented in the year 2016, whereas a sum of Rs. 218 million had been spent on the implementation of those programmes according to the progress reports. As at 31 December 2016, the performance of the expected targets, had been as follows.

- A sum of Rs. 385 million had been estimated for the modification of 10 training centres by the end of the year 2016. A sum of Rs. 339 million had been spent by the Council by the end of the year 2016 and 6 training centres were undergoing modification. Furthermore, the purchase of training equipment for those centres should have been commenced in the year 2014 and proceeded up to the year 2020, thus purchasing equipment worth Rs. 16 million by the end of the year 2016. Nevertheless, equipment worth Rs. 78 million had been purchased by the end of the year 2016. As action had been taken irrespective of the initial plan, the training equipment purchased before the completion of the modification of training centres at a value of Rs. 8 million, had remained idle. Moreover, targets relating to the commencement of courses, and enrollment of students, could not be achieved as well.
- Courses had been commenced at 04 training centres modified under the programme, and the percentage of dropout of the courses ranged between 35-50 per cent.
- According to the detailed Action Plan of the programme, 10 business plans should have been developed and implemented with respect to 10 training centres by the end of the year 2015 by incurring a sum of Rs. 1.5 million. Nevertheless, those plans had not been prepared even by the end of the year 2016.
- A sum of Rs. 7.5 million had been allocated for the installation of Quality Management Systems by reviewing the Management Information Systems of the training centres of the Council thereby providing training thereon by the end of the year 2015, and during 03 preceding years, a sum totalling Rs. 7.18 million had been spent on the said activity. However, even by the end of the year 2016, the installation of Quality Management Systems and Management Information Systems at the training centres, had not been completed.

Youth Services Company Pvt Ltd

The Youth Services Company Pvt Ltd had been established in the year 1981 under the objective of running business activities with ownership of 98 per cent of the shares of the National Youth Services Council. The following observations were made during the audit carried out on the financial statements for the year 2015/2016 made available to audit, and the performance thereof.

Non-compliances

Every Director of the Company should purchase at least 100 shares in accordance with the Articles of Association , but the Directors of the Company at present, had not purchased shares.

Provisions for gratuity had not been allocated annually for the total number of employees of 767 of the Company employed as at 31 March 2016.

The Company, being a service provider, had not been registered for the payment of relevant taxes in terms of the provisions stated in the Acts relating to Value Added Tax, and Nation Building Tax.

About 11 per cent of the employees employed at the Company for the period of 06 months from October 2015 to March 2016, had not been paid the contributions to the Employees' Provident Fund, and Employees' Trust Fund.

When computing the contribution to the Employees' Provident Fund and Employees' Trust Fund, the other earnings should be taken into consideration except for interim allowance and special allowance. However, by disregarding the basic salary of the employees, the Company had computed the contributions based on the minimum monthly salary decided by the Wages Board for the Security Services Trade.

In accordance with the Companies Act, No. 07 of 2007, an annual general meeting should be held by the Board of Directors of the Company once per calendar year. Nevertheless, no annual general meetings had been held for the years 2015 and 2016.

Management Inefficiencies

It had been verified based on the following matters that the management had failed to draw its attention to maintain the business activities after preparing long term and short term plans by specifically identifying the targets of the Company.

- According to the Articles of Association of the Company, the Youth Services Company Pvt Ltd, had the opportunity to conduct the business by expanding its services under 56 miscellaneous areas. But, even after 35 years of its inception, the Company had limited its business activities only to 4 areas : the press, cafeteria, janitorial and security services.
- The Company did not have a credit policy, nor had a proper methodology and an agreed-upon bond when providing services on credit basis. Of the loan balances totalling Rs. 98 million receivable to the Company as at 31 March 2016, a

balance of Rs. 36 million had been older than one year. As the Company did not have a proper methodology to recover the said loan, the working capital requirements had been met with bank overdrafts under higher interest rates.

- When new recruitments are made, or vacancies are filled, the officers should be placed on the salary scales mentioned in the approved Scheme of Recruitment. However, officers recruited to the same post had been placed on different salary scales, thus paying salaries in accordance therewith.

SOCIAL EMPOWERMENT AND WELFARE

The result expected from this field is the empowerment of the rural community and the vulnerable groups and leading them to prosperity through uplift their living condition. The following functions should be fulfilled for the achievement of that result.

- Formulation of policies, programmes and projects related to Social Empowerment and Welfare.
- Care and protection for elders.
- Identification of the infirmities of persons needing special needs and rehabilitation.
- Development of rural and regional economy by implementing the Divineguma Programme.
- Review and reorganization of the public assistance scheme and introducing appropriate new reconstruction.
- Providing assistance to the patients suffering from diseases such as tuberculosis, kidney diseases, leprosy, cancer and thalassemia and their dependents.
- Implementation of Counselling Services.
- Introduce strategies vocational training and job placement for persons with disabilities.
- Implementation of social insurance methods.

The Ministry of Social Empowerment and Welfare should have been fulfilled the above functions by two Departments and five Statutory Boards and Institutes .

Granting an Allowance for the Citizens Over 70 Years with Low Income

Provision amounting to Rs.9,262.37 million had been made to the Ministry in the year under review for the granting of an allowance of Rs.2,000 for the citizens over 70 years with low income. Out of that, Rs.9,059.59 million had been spent. Accordingly, a sum of Rs.202.78 million out of the provision provided had been saved. The approval of the Cabinet of Ministers had been granted on 30 August 2016 for the returning of Rs.100 from this allowance to the National Secretariat for Elders by the Divisional Secretariats. However, a sum of Rs.427.70 million received in the year under review was remained idle even by 31 July 2017.

Providing Assistance to the Patients Suffering from Kidney Diseases

Provision amounting to Rs.667.22 million had been made for providing assistance to the patients suffering from kidney diseases. Out of that, a sum of Rs.486.80 million had been utilized in the year under review and the provision amounting to Rs.180.42 million had been saved by the end of the year. Out of 19,645 patients identified in the year 2016, assistance had been paid only for 15,453 patients. Even though , there were 4,192 patients expected assistance in the waiting list, the attention of the Ministry had not been paid thereon.

Distribution of Duty Free Goods

The Ministry had given a certificate for relief from the duty free for 24,610 units of 08 types of computable equipment valued at Rs.1.5 million received to Sri Lanka as a social hospitality by Non - Governmental Organizations in the year under review. However, the donations had not been distributed among the persons with disabilities under the supervision of the Ministry. Therefore, the information on the persons among whom these donations were distributed had not been furnished to audit by the Ministry.

Payment of Housing Assistance for the Persons with Disabilities.

Payment of housing assistance for the persons with disabilities who received low income had been commenced from the year 2007. Even though, a sum of Rs.3.58 million should have been granted for 329 houses being constructed in 22 Districts from the year 2007 to the year 2015, a sum of Rs.21.58 million had been granted for that purpose. Accordingly, the methodology in granting housing assistance had not occurred in a planned manner.

Un –identified Deposits

A proper methodology of identifying the contributor in recording of instalments collected by Banks under social security method had not been available. Therefore, unidentified deposits amounting to Rs.9.57 million had existed by 31 December 2016.

Failure to Vest the Lands where the Vocational Training Centres are Situated.

The total lands belonging to 08 Vocational Training Centres of the Department of Social Services were 24.45 hectares in extent and action had not been taken to vest those lands properly even by the end of the year under review.

Lands Belonging to the National Secretariat for Elders

Action had not been taken to assess and properly vest the Elderly Home at Kataragama belonging to the National Secretariat for Elders , Tourist Inn at Kataragama ,Elderly Home at Maligatenna and the lands and buildings belonging to the Centres for persons with disabilities , Nilwala Sevana at Nivitigala.

Control of Fixed Assets

The accuracy of the fixed assets amounting to Rs.2,340.25 million included in the Liquidation Accounts in the Institutions amalgamated due to the Registers of Fixed Assets had not been maintained by the Institutions amalgamated to the Department of

Divineguma Development and the Department had not completed the activities of registration of fixed assets and the fixed assets amounting to Rs.29.04 million purchased after the establishment of the Department could not be confirmed.

Recovery of the Receivable Loan Balances

Action had not been taken even by 31 December 2016 to recover the loan balances aggregating Rs.316.25 million as loan balances recoverable in the financial statements as at 31 December 2013, amounting to Rs.289.03 million,Rs.26.58 million and Rs.0.64 million respectively in the 03 Authorities the Sri Lanka Samurdhi Authority,Sri Lanka Southern Development Authority and the Udarata Development Authority of Sri Lanka combined with the Department of Divineguma Development.

Execution of Duties outside the Scope of the Department.

A sum of Rs.46.83 million had been granted to the Central Provincial Councils in the year under review for the duties such as implementation of Pahatha Hewaheta Water Project, development of the Bus stand at Rikillagaskada and purchasing headdresses for the school children in the Divisional Secretariat Division Hewaheta as the duties contrary to the scope of the Department of Divineguma Development. Out of that, a sum of Rs.32.5 million granted for the implementation of the Pahatha Hewaheta Water Project had been remained in the Provincial Councils Account without being fulfilled the relevant task.

Deviation from the Government Procurement Guidelines

Procurements such as conducting a workshop relating to the new path of the Samundhi Programme ,revision of the theme song of the Department and purchasing 25 computer tabs by spending Rs.7.17 million contrary to the Guides of the Government Procurement Guidelines. A sum of Rs.97.58 had been paid to the University of Sri Jayewardenapura without entering into a proper written Agreement for the conducting of the competitive examination for filling 3771 vacancies of Samurdhi Development officers.

Non-recovery of Financial Irregularities

The Department of Divineguma Development had not taken action to the recovery of the misappropriation of funds of Rs.23.41 million occurred in the District Divineguma Office at Kandy during the period from January 2014 to January 2016 and a misappropriation of funds of Rs.1.02 occurred in the Divisional Secretariat Bandaragama in the year 2015. The Department of Divineguma Development had not taken action to the recovery of the losses after completion of the investigations in respect of the misappropriation of funds totalling Rs.120.93 million occurred during many years in 81 Divineguma Community

Based Banks and Bank Societies. The value of misappropriation of funds occurred in another 25 Banks and Bank Societies had not been Computed.

Payment of Surcharges for Gratuities

The surcharge calculated at the rate of 30 per cent in terms of the Gratuity Act,No.12 of 1983 amounted to Rs.998.30 million due to delay of Treasury provisions for the payment of the gratuity amounted to Rs.3,327.66 million calculated for 14,403 officers in the three Authorities combined to the Department of Divineguma Development . Out of that, surcharges totalling Rs.292.04 million had been paid in the year under review relevant to 3,307 officers.

Lands and Buildings where Divineguma Community Based Banks and Bank Societies are Maintained

Action had not been taken by the Department of Divineguma Development to vest the ownership of the lands where 1,115 Banks are maintained out of 1,405 Divineguma Community Based Banks and Bank Societies.

Divineguma Social Development Foundation

Action had not been taken to legalize and plan the functions of the Divineguma Social Development Foundation which is maintained in the Divineguma Community Based Banks with a view to assist the problems of the low income community by the funds collected from flag sale programme conducted to mark the International Day of Antagonistic of Cigarettes and Drugs .The balance of the Fund by the end of the year under review amounted to Rs.218.28 million. Further, the accuracy of the income of Rs.229.63 million collected in the year under review could not be established due to flags had been sold without a definite sale price.

SCIENCE, TECHNOLOGY AND RESEARCH

The result expected of this field is development of Sri Lanka as a highly scientific and technological country by engaging in scientific research and by promoting science and technology. Thirteen Statutory Boards/ Institutions had been established to achieve that result under the Ministry of Science, Technology and Research and under its purview. The following functions had to be executed by those Institutions.

- Compiling policies, programmes and projects monitoring and evaluation relating to the subjects of Science, Technology and Research.
- Facilitating for the local research and inventions in compliance with the new inventions done in the fields of Science and Technology.
- Taking necessary action for broadening scientific, technical, social and economic research and development activities.
- Planning and monitoring research through facilitating research and research institutions.
- Enacting standards and control.
- Distribution of results of new research to the relevant parties.
- Providing technical assistance for research implemented by the research institutions under the scope of other Ministries.
- Taking necessary action for focusing and motivating the community for new inventions.
- Implementing research for the promotion and development of the construction industry.

The audit observations revealed in the execution of the above functions by the Ministry and the Institutions under its purview are summarized and given below.

Supervision in Vidatha Centres

Provisions amounting to Rs.30 million had been made available for the year 2016 for the activities of the Vidatha Centres established for taking necessary steps for broadening scientific, technical, social and economic research development and only a sum of Rs.23.8 million of it had been utilized. The following deficiencies were observed in the audit test check carried out in terms of the Vidatha Centres under the purview of the Ministry.

- The centres could not be maintained properly on not providing sufficient officers and resources.
- The attendance and departure registers had not been properly updated and the supervision on the stagnation of the

officers in the relevant centres remained at a weak level.

- Information which confirm that the supervision of the Ministry on the functions executed by the Vidatha Centres had been carried out and, the correlation between those centres and the Ministry remained at a weak level.
- Some machines and equipment supplied by the Ministry remained either under- utilized or without being used.
- Giving approval of the Ministry to certain projects prepared and providing necessary money for them had been delayed.

Accreditation of Laboratories and Calibration Institutions

Even though the number of Laboratories and Calibration Institutions that should be subjected to identified accreditations were 184, only 72 institutions out of it had been accredited by 31 December 2016. Eleven institutions out of 72 institutions which had obtained the Accreditation Certificate from Sri Lanka Accreditation Board on Compliance Estimates had been withdrawn from obtaining accreditation certificates.

Accreditation of Medical Laboratories

Even though 311 medical laboratories that should be subjected to identified accreditations remained, only 22 institutions had been accredited by Sri Lanka Accreditation Board on Compliance Estimates. Five institutions out of 22 institutions which had obtained the Accreditation Certificate had been withdrawn from obtaining accreditation certificates.

Uneconomic Transactions

A sum of Rs.2.53 million had been paid to a private institution for the year 2011 to the year 2016 as service charges of the online computer system introduced by Sri Lanka Accreditation Board on Compliance Estimates for making the application of accreditations efficient. It had been inquired from the Information and Communication Technology Agency (ICTA) on 31 March 2016 on the performance of this software and it had been stated by the Institution that, the software does not comply with the present requirements. As such, the expenditure incurred had been uneconomic.

Examining the quality of Margarine

Even though the sample test had been carried out by the Sri Lanka Standards Institution for 732,703 kilogrammes of margarine valued at US$501,472 imported in 32 instances by a private company in the year under review, the test on heavy metals that should be carried out in terms of Section 5.6 of Sri Lanka Standards 1427:2011 for margarine had not been carried out by the Sri Lanka Standards Institution.

Providing Financial, Technical and Commercial Assistance for New Inventors

Two programmes had been conducted by the Sri Lanka Inventors Commission for selecting new inventors for providing financial, technical and commercial aids for new inventors. Only one inventor had been selected by evaluating 14 inventors out of them under the "Invent- 2015" programme and, the Evaluation Committee had recommended that 07 new inventors had been qualified to provide technical and commercial assistance. However, action had not been taken by the Commission to provide that assistance. Even though the Evaluation Committee had recommended to provide financial, technical and commercial assistance to 16 new inventors in the *"Nawa Nipayum Diriya- 2016"* programme, it had not been implemented even by the end of the year under review.

Establishing New Inventions Circles and Conducting Seminars

A sum of Rs.1.12 million had been spent by the Sri Lanka Inventors Commission for establishing new inventions circles in schools, universities, technical colleges, in the field of commerce and in research institutions and for conducting programmes to raise awareness on new inventions. However, any creative circle had not been established in those sections in the year under review. Further, 136 out of 163 new inventions circles established before the year 2016 had been circles established in schools. However, even though the creative capacity and the capacity of commercialization of new inventions remained at a high level in technical college students and university students as compared with the school section, only one circle had been established in those sections.

Commercializing new inventions in Sri Lanka and in foreign countries

Even though assisting for the commercialization of new inventions of the new inventors in Sri Lanka and in foreign countries had been a function of the Sri Lanka Inventors Commission, that assistance had been given for only 04 new inventions for commercialization in the year under review.

Sahasak Nipayum Exhibition 2016

The number of inventions participated from open, university, school and commercial sections for the *"Sahasak Nimawum Exhibition 2016"* implemented by the Sri Lanka Inventors Commission had been increased by 41 per cent in the year 2015 as compared with the year 2014. However, it had been decreased by 4 per cent in the year 2016 as compared with the year 2015. However, the expenditure for this programme had been increased by 25 per cent in the year 2016 as compared with the year 2015. Further, the number of inventions participated in all sections had been decreased excluding the school section.

Implementing Research Projects

Eighty- two research projects valued at Rs.303.08 million had been wound up by the National Research Commission from the year 2012 to the year 2016. The following observations are made in this connection.

- Even though Rs.127.08 million had been spent for 41 research projects, any local or foreign publication had not been published out of those researches.

- Even though a sum of Rs.160.18 million had been spent for 51 research projects, the patent license had been granted by the National Research Commission for only 02 projects out of 31 projects that had created either a good or a service.

- The total provision relating to a period of 03 years had been credited to a current account under those projects on the occasion of the initialization of the research in granting provisions for research projects by the National Research Commission. As such, money had been granted at once without identifying the financial requirement. As such, sum of Rs.504.13 million relating to 138 projects initialized in the period from the year 2011 to the year 2016, money had been deposited in such a manner. As such, the balances existing in the current accounts out of that money had been retained idle without receiving any benefit by 31 December 2016.

Providing Technical Assignments for Research Projects

Sixty- four research projects valued at Rs.11.29 million had been wound up from the period of 2014- 2016. The objectives of publishing local and foreign publications, deploying for M.Phil. and Ph.D. Degrees and nominating for President's Award had been achieved as the final results of those 64 projects. However, either providing technical assignments for any project (development for commercialization) or obtaining patents for any project out of those 64 projects had not been carried out by the National Science Foundation.

Not receiving Annual Research Awards

Any research project out of the 21 research projects valued at Rs.27.53 million completed in the year 2015 by the National Science Foundation had not been qualified for receiving Annual Research Awards in the year 2016.

COMMUNICATION

The objective of this sector is to build a digitally empowered nation by improving the ability of accessing the digital industry and services associated therewith, promoting digital services and products and increasing the digital literacy of the people. The Ministry of Telecommunications and Digital Infrastructure and 03 Statutory Boards/Institutions have been established in achieving that objective. The following functions should have been performed by those institutions.

- Formulation, carry out follow up activities and evaluation of policies, programmes and projects in respect of telecommunication and digital infrastructure.
- Take necessary measures for the provision of telecommunication facilities for all by adoption of modern technology.
- Assist in adopting appropriate information technological solutions for promoting productivity and efficiency in the delivery of services by the public sector.
- Implementation of programmes for promotion of computer literacy.
- Development of strategies encouraging the use of information and communication technology.

A summary of audit observations made at the audit test checks on performing the above functions is given below.

Number of Fixed Line Telephone Subscribers

The fixed line telephone subscribers in Sri Lanka which was 3.6 million in the year 2011 had decreased by 29 per cent to 2.55 million by the year 2016 and the number of mobile phone subscribers which was 3.36 million in the year 2005 had increased in the year 2016 by 680 per cent to 26.23 million indicating a combined annual increase in the mobile phone sector during the 10 preceding years. Even though the telephone density per 100 persons had increased to 123.7, these numbers do not reflect the actual position. The actual position may be much less than this number as a considerable number of active Subscription Identity Module Cards (sim cards) are being used by the same person. Details are shown in Figure ….

Number of Internet Subscribers

The number of fixed internet subscribers which was 682,512 in the year 2015 had increased by 36 per cent to 929,089 in the year 2016 and the number of mobile phone subscribers which was 3,408,408 in the year 2015 had increased by 17 per cent to

3,991,465 in the year 2016. Details are shown in Figure 32

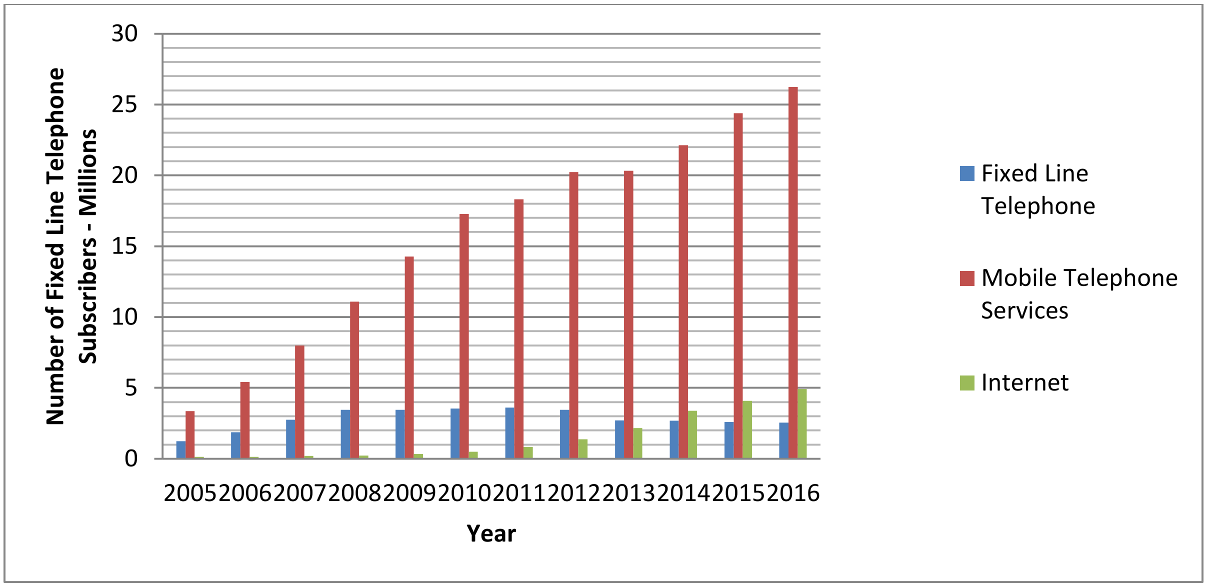


Figure 32- Number of Fixed Line and Mobil Telephone Subscribers

Market Share dominated by State Owned Companies

Even though the number of subscribers of fixed line telephones in the Telecommunication Industry totalled 2,550,432 in the year 2016, the number of mobile telephone subscribers had been 26,227,631, exceeding that number. The number of internet subscribers through fixed line telephones was to 929,089. However, the number of subscribers obtaining internet facility through mobile telephones, exceeding that number had been 3,991,465. Details are shown in Figure 33.

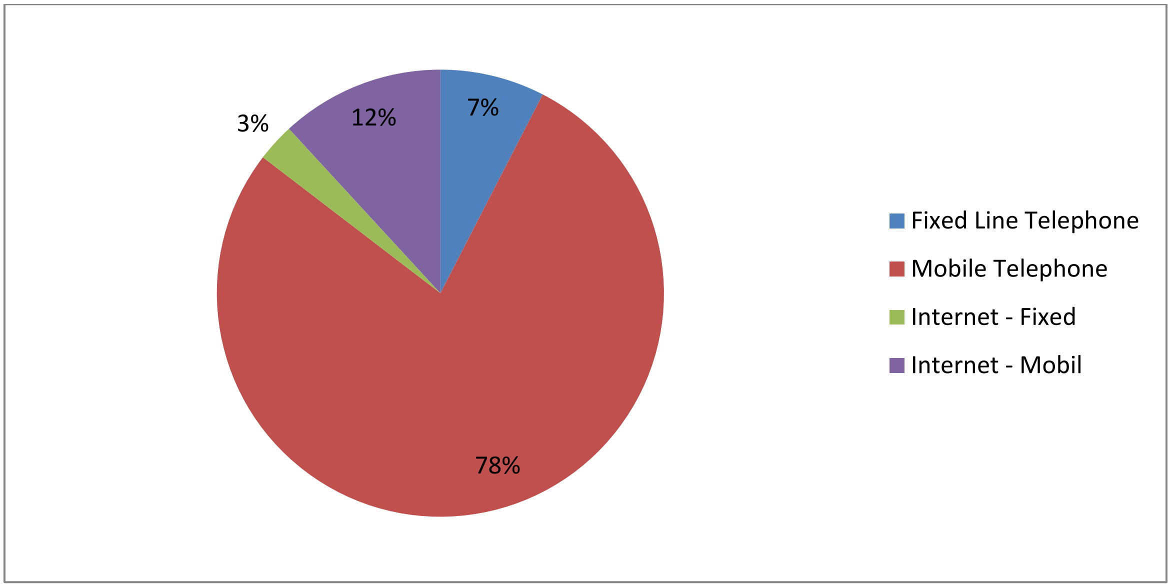


Figure 33- Usage of Fixed Line and Mobile Telephones in the Telecommunications Industry

Figure 34 given below shows numerical data of telephones, internet and subscribers as at 31 December 2016 in respect of the market share of the entire Telecommunication Industry by Sri Lanka Telecom and Mobitel Companies in the Telecommunication Industry.

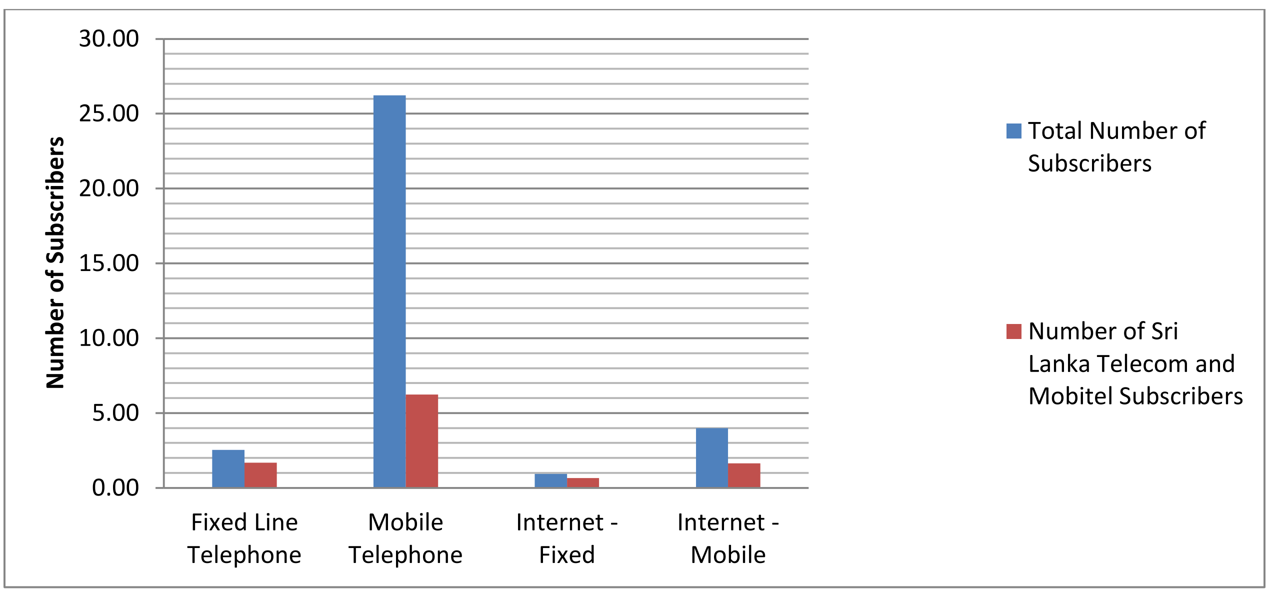


Figure 34 The Market Share dominated by Sri Lanka Telecom and Mobitel

In consideration of the telephone voice usage, the domestic voice usage which gradually increased up to the year 2015, had decreased by 8 per cent to 64,206,794 minutes in the year 2016. The international voice usage which was 2,023,274,456 minutes in the year 2012, had decreased by 46 per cent to 1,083,162,251 in the year 2016. The usage of Smart Phones, Over-the-top mobile applications and the changes in the Government Tax Policy had affected this.

Schools Computer Laboratories Project

. Supply of computers and accessories for 45 schools that are equipped with computer laboratories at present under Phase 1 and establishment of new computer laboratories and new information and communication technological centres under Phase 2 had been planned in the year 2016, for which provisions of Rs.250 had been made. Computers and accessories had been provided for only 38 computer laboratories under Phase 1 by 31 December 2016 and a few accessories had been provided to 06 schools. Fifty nine new computer laboratories had been established under Phase 2. A sum of Rs.146.37 million had been spent therefor. As such, provisions of Rs.103.63 million had not been utilized for the intended purpose. The following observations were made in this connection.

- Computations had not been carried out and plans not prepared for the number of new computer laboratories and new information and communication technological centres expected to be established under Phase II in the year 2016.
- Out of 59 computer laboratories established in the year 2016, thirty had been provided to the Badulla District and as such, there had been a discrepancy in the distribution of resources.
- Even though a sum of Rs.400,000 had been provided to B/Bharathi Maha Vidyalaya and B/Udayaraja Maha Vidyalaya comprising Rs.200,000 each, for the Programme on Repairs of School Computers in the Badulla District, no repairs whatsoever had been carried out in respect of those computers.
- Even though 500 Teachers had been proposed to be trained in the year 2016 for the established computer laboratories, only 432 Teachers had been trained

District Information Technological Centres

The Project on Construction of District Information Technological Centres had been commenced in the year 2014 and 25 District Information Centres had been planned to be constructed island wide. The deficiencies revealed in that connection are as follows.

- According to the Action Plan for the year 2016, six computer technological centres had been planned to be established. However, no information centre out of them had been established by the end of the year under review.

- Computers and other equipment had been provided in the year under review to 08 District Information Technological Centres in the areas of Ampara, Kalutara, Puttlam, Galle, Matale, Kegalle, Vavuniya and Badulla which had continued since the year 2014. The expenditure amounted to Rs.19.02 million. However, the District Information Technological Centres such as Kegalle, Galle, Badulla and Matale were not in operation.

- The progress of Information Centres in Vavuniya, Ampara, Puttlam and Kalutara had not been reported and the District Secretaries had not been made aware as well, of implementing the project.

Establishment of Information Technology Parks

The Ministry had incurred annual recurrent and capital expenditure through relevant District Secretariats for Information Technology Parks established in Jaffna and Mannar with the objective of improving the information technological knowledge of the regional community.

Jaffna Information Technology Park

A sum of Rs.27.98 million had been spent for this Technology Park from the year 2013 up to 31 December 2016 and only 525 persons had been provided with computer training. Even though the income earned during this period amounted to Rs.953,489, as compared with the expenditure, the income had been 3.4 per cent. It had been expected to conduct 13 courses in the year 2016 and to train 245 students therefrom. However, 81 students had participated for only two courses.

Mannar Information Technology Park

A sum of Rs.17.7 million had been spent for this Technological Park from the year 2013 up to 31 December 2016 and 868 persons had been provided with computer training. Even though an income of Rs.3.13 million had been earned during that period, it had been 17.67 per cent as compared with the expenditure.

Sri Lanka Information and Communication Technology Agency

The Sri Lanka Information and Communication Technology Agency had been established on 18 May 2003 for a period of 05 years under the Information and Communication Technology Act, No.27 of 2003 as a Company fully owned by the Government of Sri Lanka. A Cabinet Decision had been taken on 16 July 2003 in respect of financial and administrative affairs of the Agency and thereby the Company had been granted full freedom. Even though the Information and Communication Technological

(Amendment) Act, No. 33 of 2008 had been enacted for the going concern of the Agency after completing a period of 05 years, the aforesaid Decision had not been revised.

Even though the "E Sri Lanka Project" was operated by funds of the World Bank, EXIM Bank of Korea and other Development Assistance Institutions during the period of commencement, at present it is fully operated on Government funds. Nevertheless, the Sri Lanka Information and Communication Technological Agency functions in complete independence up to date in terms of the Cabinet Decisions of 2003 and had not adhered to Government laws, rules and regulations.

The Sri Lanka Information and Communication Technological Agency comprises two subsidiaries. The Computer Emergency Response Team Company had been established for Cyber Security on 15 August 2005 in terms of a Decision dated 19 May 2005 of the Board of Directors. The Lanka Government Information Infrastructure Company had been established on 18 July 2011 in terms of a Cabinet Decision of 16 June 2011 with the objective of operating the Lanka Government Network.

An approved cadre and a procedure of recruitment were not available in the Agency. All officers of the Agency including officers of the Administration and Finance Divisions, Instructors and employees had been recruited on contract basis. The number so recruited by 31 December 2016 stood at 187. The agency had not adhered to any provisions whatsoever in the Public Enterprises Circular No. PED12 of 02 June 2003.

The Inter-ministerial Committee which should be established in terms of Information and Communication Technology Act, No.27 of 2003 and the Amendment Act, No.33 of 2008, had been established after 12 years, on 16 October 2015. As such, the Sri Lanka Information and Communication Technological Agency had not been subjected to the supervision of the Inter-ministerial Committee for 12 years.

Performance of Projects

Sixty five projects had been planned to be implemented in the year 2016 and the approval of the Department of National Planning had been received for 55 projects out of them. Provisions had not been made for this Agency from the Annual Budget Estimate. Provisions of Rs.963 million had been made by allocations of supplementary estimate and out of that, a sum of Rs.651 million had been granted through the Ministry.

The physical performance of projects implemented by the Agency had been at a very weak level and only the award ceremony, "e-Swabhimani" for the best national e-content application had been held.

Out of the remaining 54 projects, performance had been achieved in 20 projects from 0 to 30 per cent, 27 projects from 31 to 60 per cent and 7 projects from 61 to 96 per cent. The delays in commencement of projects, procurement process and obtaining agreement of other institutions related to projects, changing the scope of projects and the delay in implementation of the Lanka Government Network Project had mainly affected this situation. In addition to this, the Agency was of the opinion that the delays in obtaining impressts as well had affected this situation.

Nanasala Project

The main objective of implementing this project was upgrading the access of the rural community towards information communication technology based services. Nevertheless, out of 1,005 Nanasala Centres established by 31 December 2014, three hundred and thirty six centres had been closed down.

HIGHER EDUCATION

Main objective of this field is to ensure that providing grater opportunities for higher education with quality improvement and creating world class universities and post-graduate institutions to achieve knowledge driven economy. The following functions should have been performed by the Ministry of Higher Education and Highways together with one Department and 40 Statutory Boards/ Institutions.

- Formulation of Policies, Programmes and Projects in regard to subjects of higher education and statuary institutions comes under the preview of the Ministry.
- Implementation of Projects in the Field of universities and other higher education institutes.
- Development of clear coordination process with the relevant provincial and Local Authorities to integrated development in conformity with national policy.

Performance of the Foreign Funded Projects

Water and Society (WaSo-Asia) – Water management and Climate Change adaptation in Sri Lanka, Bangladesh and Cambodia

During the years 2015 and 2016, sums of Rs.20.6 million and Rs.25 million had been provided respectively for the above Project (WASO-ASIA). During the year 2016, provided funds had not been utilized any purpose. The Physical Progress of the Project as at end of the year under review was only 52 per cent.

Project for the Construction of Art Gallery at the University of Ruhuna

During the years 2015 and 2016, sums of Rs.306 million and Rs.180 million had been provided respectively for the above Project and that Project scheduled to be Completed by 6th November 2017. The Physical Progress of the Project as at end of the year under review was only 30 per cent.

Project of Education for 21st Century

The following deficiencies were observed relating to the above Project

- Under that Project, a sum of Rs.80 million had been provided to construction of the quality development and centre for leadership building at the Sri Lanka Institute of Advanced Technical Education at Dehivala. The Project had been started in the year 2015 and scheduled to be completed by May 2016. However, the physical progress of the construction activities of the Project was only 60 per cent by 30 June 2016. The provisions amounting to Rs.19 million had been return to the Treasury due to not completion of the Project on scheduled date.

- A sum of Rs.367 million had been given to 240 academic and non-academic staff of the 13 universities and Advance Technical Education Institutes, to follows post graduate mater degree programs, under the Project on Higher Education for 21st Centaury. When it completion of the Project, 30 beneficiaries had not completed the degree programmes.

- In order to establish External Training Unite, affiliated to the Faculty of Physical Science of the University of Sabaragamuwa, sport equipment, protective head gears and training equipment had been purchased for Rs.2.4 million on 29 March 2016. However, due to non-allocation of a location for the Premises and non-preparing of plans, those goods had been kept insecure condition even up to April 2017.

Accelerated Project for the Construction of 60 Hostels for University Students

According to the annual Action Plan of the year 2015 construction of 60 Hostel Project, at an estimated cost of a Hostal for Rs.220 million, had been commenced by the Ministry of Higher Education in the year 2013, with a view to increase the number of accommodation facilities to 12,000 students in the state university system. Some of the deficiencies observed at the audit test check conducted in this regard are summarized below.

- Construction of 30 Hostels had been Completed at the first phase and according to the Cabinet Memorandum dated 26 July 2013, remaining 30 Hostels should be Completed by 31 December 2015. The physical progress of the construction of 15 Hostels at end of the year 2016 were ranging from 50 per cent to 95 per cent. Although construction of 45 Hostels had been completed to date, 11 Hostels had not been handed over to students' accommodation.
- According to the construction agreements of the Hostels, the construction defects of the building which had been identified within a year after being handed over to the Universities should be rectified by the Contractors after being informed to them. However, the construction defects in the unoccupied 11 Hostels by the students, could have not been rectified. This situation was existed due to the lack of simultaneous supervisory programme. In addition to completion of building constructions, for the providing of other infrastructure facilities i.e furniture and equipment, water

electricity fixing of thunder protective equipment etc.

Transaction in contentions Nature

Under the Sri Lanka Presidential scholarship Programme, two Pakistani students had recruited to follow the BSc Animal Science and Fisheries and Agricultural Technology and Management Degree Programmes of the Faculty of Agriculture in the Peradeniya University. Subsequently, the Ministry of Higher Education had taken actions to register those two students for medical degree programme in a non-government degree offering Institute. Although the Ministry of Higher Education had paid a sum of Rs.3.15 million to that non-government degree offering Institute up to June 2017,the approval for the payment had not been furnished to audit.

The foreign students those who were registered to follow the degree programmes in the Sri Lankan Universities had abandoned studies without being continued the degree programmes. Number of students who had abandoned the study during the academic years of 2012/2013, 2013/2014, 2014/2015 and 2015/2016 were 4,7,10 and 1 respectively.

Thus, a sum of Rs.1.73 million paid by the Ministry of High Education to the respective Universities on behalf of 4 students who had abandoned the studies during the academic year of 2012/2013. The remaining balances amounting to Rs.335,000 that had been paid for said 4 students for remaining academic period had not been recovered by the Ministry.

Subsequent vacancies Existed in the universities after being recruited of local students

In some instances, the students had not registered for the degree Programmes such as physics, Agricultural Technology and Management, Food Science and Technology, Computer Science, Biology, conducted by the University Grant Commission in the leading Universities such as Colombo, Kelaniya, Sri Jayawardanapura and in other Universities. However, subsequent actions had not been taken to fill the student vacancies, out of the applied students for degree Programmes. As a result, 1,794 ; 1,453 and 1,695 student vacancies had been existed during the academic years from 2013/2014 to 2015/2016 respectively. Thus, it was observed that large number of qualified students had lost their opportunity to enter into the Universities. Out of 1,645 vacancies that had been existed during the academic year of 2015/2016, it had been informed to 990 qualified student to register for the university Courses. However, it was observed that due to the traditional and outdated features of the Courses, the students had reluctant entered to Universities to follow the Courses. Further, the Deans of the Universities had informed to the Grant Commission that not to fill the vacancies after being commenced the academic activities. This reason also had been affected for existing student vacancies.

Vacancies for students after the enrolment of foreign students to the universities

According to the Cabinet decision taken on 25 January 2011, it had been decided to enroll foreign students to the Sri Lankan universities. However, there was a huge variation between the number of students proposed for the enrolment and actual number enrolments, during the last 3 academic years.

There was a downward trend among the foreign students, those who selected to the Sri Lankan Universities to enter into the regional universities out of Colombo. Under development of transport, food and logging, sanitary facilities up to the international level, with the upgrading to university level, were mainly attributed to this situation.

Violation of Agreement and Bonds

According to Sections 10(2) and 99 (1) of the university Act, No.16 of 1978, the charges collected from the University Lectures due to violation of agreements should be credited to the University Fund. However, as per the University Grant Commission Circular No.738 dated 18 August 1998, a Fund named Bond violation/ Breach Fund had been established contrary to the Act and without obtaining the approval form the Treasury. The income raised from the invested fund had been utilized to miscellaneous expenses. According to the audit test chick, an aggregate amount of funds relating 6 Universities as at end of the year under review amounted to Rs.265 million.

According to the audit test check, a sum of Rs.189 million should be recovered from the Bond violated Lectures belonging to 4 universities and actions had not been taken to recover those receivables in terms of Paragraph 7.6 and 7.8 of the University Establishment Code.

Under utilization of Funds

A sum of Rs.3,855 million had been allocated by the Treasury through the Supplementary Estimates for 5 capital works and out of that a sum of Rs.1,750 million had been allocated for 3 capital works. Out of Rs.900 million which had been provided on 29 December 2016, a sum of Rs.409 million had been saved up to end of the year under review.

Even though the Commission had maintained 30 Fund accounts aggregating to Rs.24 million for providing of various kind of scholarships, only a sum of Rs.15 million had been utilized in 5 Fund Accounts for the desired Purpose. Non-utilized funds in 15 Fund Accounts amounted to Rs.9 million, and those funds had been invested in fixed deposits.

Capital Provisions amounting to Rs.978 million had been provided to Sri Lanka Institute of Advance Technical Education even in the year 2016. Out of that, a sum of Rs.545 million had been received up to 31 December 2016. Only a sum of Rs.395 million or 72 per cent thereon had been utilized and a sum of Rs.150 million or 28 per cent had been under utilized.

A sum of Rs.518 million had been existed in 12 current accounts belonged to Sri Lanka Institute of Advanced Technical Education and affiliated Higher Education Institutes and actions had not been taken to invest those excess money.

Grating of Mahapola Scholarship

For granting of Scholarships under the Mahapola Higher Education Scholarships Fund to the new students enrolled in the academic year of 2013/2014, had been selected based on the Need Index. However, when selecting the students by allocating marks, the marks had been erroneously allocated to the students from higher income families, as same as the low income family students. It was observed at the audit test check that as a result of selecting of in eligible students from higher income families, the eligible students from low income families had lost their opportunity to obtain the scholarships.

POWER AND RENEWABLE ENERGY

The result expected from this sector is to make Sri Lanka an energy self-sufficient nation while increasing the share of electricity generation from renewable energy sources finally to meet the total demand from renewable and other indigenous energy resources and broadening energy sector investment windows to include bonds, debentures, public private partnership and other such novel financial instruments.The Ministry of Power and Renewable Energy and 07 Statutory Institutions under that Ministry should have been reached the expected objectives by fulfilling the following functions.

- Formulation of policies, programmes and projects, monitoring and evaluation in regard to the subjects of power and renewable energy.
- Formulation of an appropriate power policy for the control, regulation and utilization of power resources.
- Investigation, planning, monitoring and development of activities relating to generation of power from sources, such as water, heat, coal and wind.
- Rural electrification
- Management of demand to ensure energy efficiency, and development of renewable power.

A summary of the observations revealed during the course of audit of the Ministry and the Institutions under the Ministry which should perform the above functions is given below.

Commission of the Planned Coal Power Plants

Even though the Ministry of Power and Renewable Energy had planned to add a total of 2000 Megawatt capacity to the electricity system from Coal Power Plants by the year 2025, the Sampoor proposed Coal Power Plant Project with 500 Megawatt capacity had been abandoned and the Hambantota Project with 600 Megawatt capacity had not been commenced even by the year under review.

Utilization of Foreign Aid

Even though, provisions amounting to Rs.768 million had been made under the Ministry of Power and Renewable Energy by the Annual Appropriation Act to implement 10 Projects under foreign financing in the year under review ,161 million or 21 per cent out of that had been saved.

Even though the Sustainable Power Sector- Support 2 Project (ADB) which was implemented from the year 2013 to the year 2016 and estimated cost of Rs.290 million had planned to repair 19 mini-hydropower projects and add to the National Electricity System under the

Ministry of Power and Renewable Energy, out of that, only one mini- hydro power project had been implemented. Even though it had been failure to obtain the expected result from that Project due to 18 projects owners had not agreed to give their contribution for that purpose, a sum of Rs.6.89 million had been spent for the consultancy and administrative expenses.

Estimate of Rs.2,863 million had been made for the construction of System Control Centre at Sri Jayewardenapura under Clean Energy Accesses Improvement Project funded by Asian Development Bank. This Project had been commenced in the year 2014 and the planned activities should have been completed by December 2016. However, only a sum of Rs.714 million had been spent for that Project by 31 December 2016 and the physical progress was 37 per cent.

Estimate of Rs.1,042 million had been made in the year 2015 for the improvement of Network sub centre at Kiribathkumbura by the Ministry of Power and Renewable Energy under Sustainable Power Sector Support Project funded by the Asian Development Bank .That Project should have been completed in the year 2016. However, Rs. 862 million or 83 per cent of the estimated value had been utilized by 31 December 2016, the physical progress as at that date was 47 per cent.

Liquidated damages amounting to Rs.60 million had to be paid due to the Projects should have been implemented by the Ceylon Electricity Board under the loans of the Asian Development Bank, had not been implemented as per the plans made .

Operating Result of the Ceylon Electricity Board

According to the draft financial statements presented to audit, the Ceylon Electricity Board had earned a pre -tax loss of Rs.13,234 million during the year 2016 as compared with the pre-tax profit of Rs.19,409 million for the preceding year. The financial results for the year 2016 as compared with the preceding year, indicated a deterioration of Rs.32,643 million. Increase of fuel borrowing cost by 117 per cent and increase of purchase of thermal electricity power by 59 per cent had mainly attributed for this deterioration.

Existence of Low Water Level in Electricity Generating Water Reservoirs

Hydro-electricity generation in the year 2016 had been decreased by 1,748 Gigawatts hours or 29 per cent due to existence of low water levels in electricity generating reservoirs. Further, generation of coal fired electricity by 14 per cent and the generation of fuel fired electricity by 96 percent respectively during the year 2016 had been increased. A summary of the electricity generated from each source appear in the following table 35.

Source	Electricity Generation Gigawatt Hours		Increase/(Decrease) as Compared with the preceding year	
	2016	**2015**	**Giga Watt Hours**	**Percentage**
Hydroelectricity	4,220	5,969	(1,749)	(29.30)
Fuel	4,461	2,275	2,186	96.09
Coal	5,047	4,443	604	13.59
Non-traditional Renewable Energy	421	402	19	4.73
Total	**14,149**	**13,089**	**1,060**	**8.10**

Table 35 Electricity generated by each source
Source: Statistical Data Report issued by the Ceylon Electricity Board

The Board had incurred more expenditure in the year 2016 on the purchase of thermal- electricity from the private Companies generating electricity. Such increase in expenditure amounted to Rs.22,682 million or 59 per cent.

Payment of Pay As You Earn Tax

Instead of the recovery of the Pay As You Earn Tax from the employees in accordance with the salary revision of the year 2009 in terms of the decision of the Cabinet of Ministers dated 13 December 2007, payments had been made itself by the Ceylon Electricity Board. Therefore , the Board had incurred an additional cost of Rs.2,617 million.

Payment of Allowances to the Staff

Different allowances totalling Rs.3,215 million comprising Rs.1,222 million in the year 2016 and Rs.1,993 million for the preceding two years had been paid to the staff without obtaining the approval of the Cabinet of Ministers in terms of the Public Enterprises Circular No.95 of 04 June 1994.

Construction of the "Vidulakpaya"Building

The construction of this building for use as the Head Office of the Ceylon Electricity Board had been ceased in the Year 2014 after incurring of an expenditure of Rs.418 million . However, it had not been used as alternatives by 31 December 2016.

Lakvijaya Power Station-Idle Assets

Two Tug Boats, 03 barges and a line boat purchased in the year 2009 at a cost of Rs.1,077 million for the transportation of coal are lying idle even by the year under review as they are unfit for coal operations. Further, a sum of Rs.36 million had been paid to the Sri Lanka Shipping Corporation in the year 2016 for retaining those boats in the Port of Trincomalee and the Port of Colombo.

Accounts Receivable

The Ceylon Electricity Board had not taken action to recover the balance of Rs.2,289 million remaining outstanding for over a period of 5 years as at 31 December 2016.

Assets which the Ownership was not Confirmed

Even though 06 vehicles valued at Rs.47 million registered in the year 2009 in the name of then Ministry of Power and Energy had been shown in the financial statements as assets of the Ceylon Electricity Board ,action had not been taken to vest those assets to the Ceylon Electricity Board even by the end of the year under review.

Misplaced Assets

Eleven vehicles costing Rs.07 million released to then Ministry of Power and Energy had been gone missing from several years.

PETROLEUM RESOURCES DEVELOPMENT

Making Sri Lanka an energy self-sufficient nation and Meeting petroleum products demand of the country through our own process while Minimizing haphazard disposal of waste plastics to the environment by converting it into petroleum fuel are the main objectives of the sector of Petroleum Resources Development. For the purpose of archiving these objectives, the ministry of petroleum resources development and the four statuary bodies under the ministry are entrusted with the performance of the following functions.

- Formulation, follow-up and evaluation of policies, programmes and Projects on the subjects related to the petroleum resources development.
- Import, refining, storage, distribution and sale of products related to petroleum and natural gas.
- Activities related to production and refining of petroleum.
- Exploration of petroleum and activities related thereto
- Production of gas from petroleum production sources and distribution
- Development of infrastructure facilities related to the supply and distribution of fuel.

A summary of audit observations revealed in connection with the Institutions in this Sector is given below.

Development and rehabilitation of oil tank farm at Trincomalee

Trincomalee harbor is the world's second deepest natural harbor which has received the world attention for its geographic location. British government built the tank farm in the late 1930's where the entire facility originally contained 102 tanks each having a capacity of 12,500 cubic meters (m) and other associated facilities in this area. Currently there are 99 oil tanks of with and 14 oil tanks in the lower tank farm are used by Lanka Indian Oil Company. Procedures had been initiated in the year of 2011 to develop 84 abandoned oil tanks in upper tank farm which could not be carried out up to year under review as a final decision could not be made on them.

Converting of plastic waste into fuel

With the aim of mitigating the negative effects of disposal plastic on the environment, and saving of foreign exchange a pilot project on converting the plastic wastes into fuel had been initiated by Polypto Lanka Ltd. in the mid of 2009 which had ended in December 2010. The transformation of this pilot project into a semi commercial plant had been started in 2011 and the first batch trial of semi commercial plant had been made on the 07th May 2014. On 3rd September 2015, the semi commercial plant was inaugurated. In this regard, a sum of 250.36 million has been funded by the Treasury from time to time as at 15 July 2015.

The failure to make a proper analysis about the profits, the inability to identify the suitable market for the production, the failure in recognizing the obstacles the challenges and finding solutions to avoid them when initiating the project, the deficit of the required infrastructure for the project, the delay in receiving funds for the initiation of the a semi commercial plant, weaknesses prevailed in the production management when initiating the project have prevented from achieving its targets.

Even though the goals of the project had to be achieved/ fulfilled as depicted in the Table 36 below. according to the following progress report, as a semi commercial plant which has been operated in 2016, the targets have not been achieved.

Main performance index	performance	Performance achievement percentage
Making use of 66000 kg of discarded plastic to avoid their release to the environment	22000kg of dicarded plastic had been used for the production as the raw material	3.3 percent
Saving 30 million of foreign exchange by minimizing the import cost of petroleum products.	A sum of 1.584 million had been earned by producing 39,600 liters of fuel oil and selling one liter at Rs. 40. But Rs 350 had been spent to produce one liter of fuel oil.	When attempting to save the foreign exchange by Rs. 40 from one liter, in reality Rs.350 had been spent for the production of one liter. Hence the performance achievement percentage was -40.92 per cent

Table 36 - Achieving goals of Converting of plastic waste into fuel

Introducing of a pricing formula for petroleum products

The cost of import of petroleum products in sri lanka is about 12 per cent of annual total imports cost of the country And it is around 20 per cent -40 per cent of the total annual export revenue in the country. The local retail prices of petroleum products have not been revised based on the fluctuations of prices in the world market or various taxes and levies imposed by the General Treasury. Therefore the Ceylon Petroleum Corporation (CPC) was compelled to sell Petrol and Diesel at the lower prices than the imported cost. A severe unfavorable financial situation had risen due to various reasons faced by CPC and policies adopted by the successive governments from time to time for selling petroleum products on subsidy basis to the public had prevented CPC from investing on very urgent infrastructure developments such as development of fuel transfer pipe lines, replacement of Single Point Buoy Mooring (SPBM) system and refinery upgrading. Since the CPC does not have sufficient infrastructure for its operations, it had to incur heavy costs due to inefficient operations.

Therefore, it is necessary to maintain the stability in the prices of petroleum products in parallel with the development process of the country. With this regard, a decision had been taken to formulate a financially and economically justifiable fuel pricing formula for petroleum products at the sub-committee meeting on economic affairs held on 02 February 2015. However, any satisfactory progress was not seen by the end of year 2016.

Refurbishment and expansion of existing oil refinery

The existing Sapugaskanda Oil Refinery built in 1969 is currently contributing approximately to 35 per cent-45 per cent of the national demand of petroleum products through refining the imported crude oil. It needs refurbishment and expansion of this existing refinery in par with present requirements. Enhancing energy security of the country, helping to boost the economy, reducing quality issues associated with imported refined products and reducing the high cost on importing refined oil are some of the advantages that can be gained from this.

A sub-committee had been appointed in this regard at the Cabinet Committee on Economic Management.(CCEM) The said matter had been discussed comprehensively at several CCEM meetings from 15 March 2015 onwards and an expert committee had been appointed at its meeting on 10 August 2016 to study the financial feasibility of the proposed project. Even though the Refurbishment and expansion the oil refinery is very important, it had not been given the required priority by the relevant parties.

Project on upgrading and expansion of Fuel Hydrant System at BIA, Katunayake.

The construction of additional storage facilities, expansion and modifications of the fuel hydrant system at Bandaranayaka International Air port had been the major components of this project. The total estimated cost of this project as per the engineering estimate had been around USD 61 million. The Cabinet of Ministers at its meeting on 09 December 2015 had granted approval to call international bids on the basis of International Comperative Bidding procedure. Nevertheless, the bids had not been finalized till the end of the year under review.

Oil importation

According to the Annual Report of the Central Bank of Sri Lanka, a sum of Rs.333 Billion *(US$ 2.541Billion)* had been spent on the import of petroleum to Sri Lanka during the year 2016. That import expenditure represented 3 per cent approximately of the Gross Domestic Product to the current market price of the year 2016 and represented 12 per cent of the overall import expenditure of Sri Lanka for the year 2016. Further, Rs.244 Billion and Rs.246 Billion had been incurred for the import of finished products by the Ceylon Petroleum Corporation in 2015 and 2016 respectively.

The annual average price per barrel of crude oil had been imported by the Corporation in the year 2014 amounted to US$ 104.53 and it had decreased by 47.6 per cent to US$ 54.80 in the year 2015. In the year of 2016 it has amounting to 46 and that had decreased by 16 per cent. In 2015 the import prices of finished petrol octane 92 and 95 had been $ 71 and $ 74 respectively. In 2016 these prices have been $ 58.2 and $ 60.5 respectively. As such, the average import price of a 92 and 95 *barrels* had declined from 18 per cent and 18.2 per cent respectively compared to 2015. Further, I n 2015 the average import prices of finished diesel 10 ppm and 500 ppm had been US$ 68.2 and US$ 68.5 respectively. In 2016 these prices had been $56.9 and $54.7 respectively. As such, the annual average import price of a finished diesel 10 ppm and 500 ppm had declined from 16.6% and 20.1% respectively compared to 2015.

Financial Results of the Corporation

According to the financial statements (unaudited) presented, the operations of the Corporation for the year 2016 amounted to a pre-tax net profit of Rs. 69,620 million as against the pre-tax net loss of Rs. 19,888 million for the preceding year. Accordingly, the financial results for the year 2016 as compared with the preceding year have indicated a growth of 89,506 million. Decrease of import cost due to decrease of petroleum prices in international market, growth of sale due to the increase of the demand for petrolem in the local market, the decrease of the exchange loss caused by the continuous drop in the value of the Rupee against the U.S. Dollar and the decrease of the financial expenditure compared to the preceding year have contributed for the substantial profits generated by the CPC. Even though the financial performance of the Corporation had improved in the year under review, the net assets position of the Corporation had been further eroded to an amount of 185,886 million at the end of the year 2016 due to the heavy losses incurred during the years 2008 to 2015. As such, the going concern of the Corporation as a current business without the financial assistance from the Government had become a contentious issue. The net profit / (loss) and the net assets position of the Corporation for the year 2016 and the previous four years are depicted in the Figure 35 below.

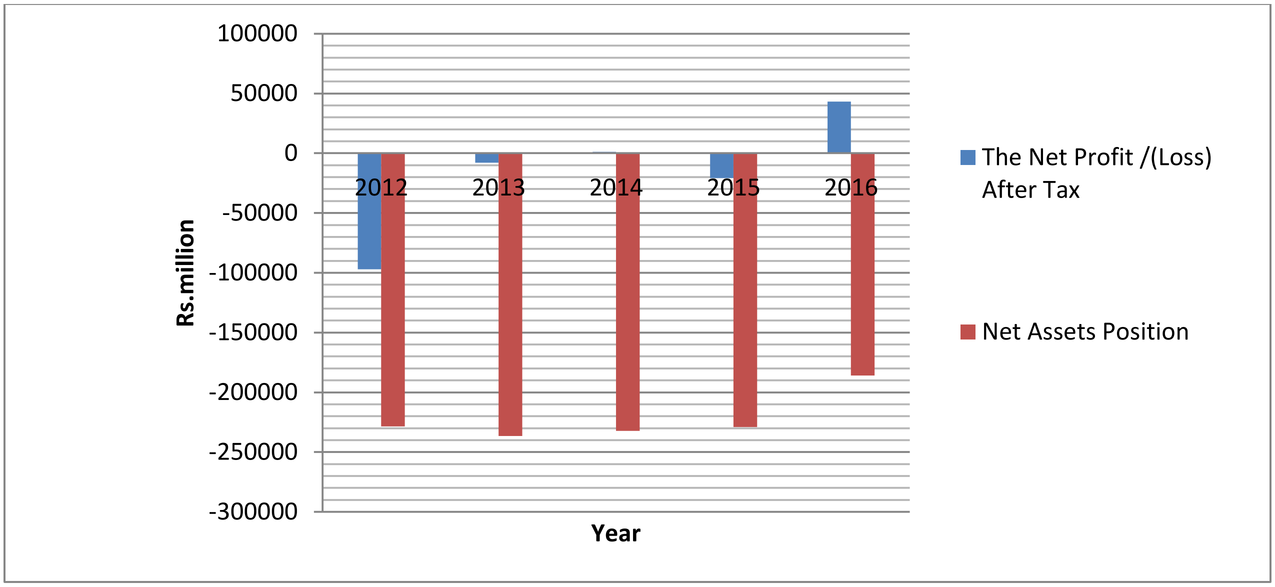


Figure 35- The net profit / (loss) and the net assets position of the Corporation
Source – Certified financial Statements of the Corporation

A profit after tax amounting to Rs.43,099 million had been generated by the corporation in 2016. An amounted to Rs.153, 184 million of contribution had been made by the Corporation in the year 2016 by way of payment of salaries to employees, payment of taxes to the Government, payment of special charges to the Government and the depreciation. The contribution made to the country by the Corporation and the profit / (loss) of the Corporation are depicted in the Figure 36 below.

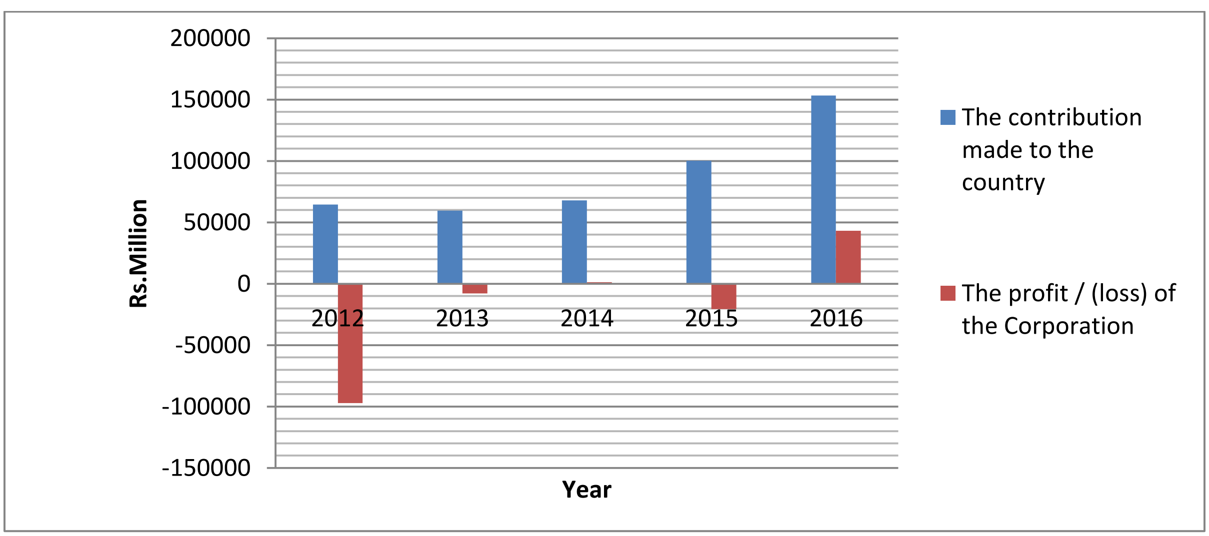


Figure 36 - The contribution made to the country and the profit / (loss) of the Corporation

Hedging Transactions

The overall loss incurred by the Country as a result of the Hedging Transactions executed by the Corporation as at 20 February 2017 amounted to Rs.14.03 Billion. Details are depicted in the Table 37 below.

	Rs.	Rs.
Total Receipt by Hedging Transactions		
Gain on Transactions	137,988,404	
Received on Arbitration Settlement	152,160,848	**290,149,252**
Amount Incurred by CPC		
Loss on Hedging	1,278,531,706	
Arbitration Settlement	11,577,356,580	
Legal Fees (231,906,111+567,487,381)	799,393,492	
Travelling	5,261,827	
Bank Interest	250,570,863	
Other	20,139,947	**13,931,254,415**
Total Gain/ (Loss) to the CPC		**(13,641,105,163)**
Amount Borne by CBSL		
Not reimbursed due to disagreements	3,145,971	
Amount borne by CBSL	370,558,963	
Provisions made by the CBSL - DB	13,079,333	386,784,267
Total Gain/ (Loss) to the Country		**(14,027,889,430)**

Table No 37. - Hedging Transactions

The Corporation had been summoned as a party to the Arbitration Process related to the Hedging Agreements entered into with several commercial Banks in connection with the Hedging Transactions of the Ceylon Petroleum Corporation. Payment of US$ 60 million (Rs.7,713 million) had been made to the Standard Chartered Bank on 03 June 2013 and U.S.$. 27 million (Rs.3,881 million) had been paid to the Deutsche Bank on 04 August 2016 in accordance with the deed of settlement entered into between the parties. According to the information available, the Corporation had incurred a loss of Rs.13,641 million as at 20 February 2017.

The Central Bank of Sri Lanka had incurred legal expenses amounting to Rs. 941.2 million on the Hedging Transactions of the Corporation and out of that a sum of Rs. 370.6 million had been incurred by the Central Bank of Sri Lanka and a sum of Rs. 567.5 million had been reimbursed to the Central Bank of Sri Lanka by the Corporation from the year 2011 to the year 2014. However, an amount of Rs 3.1 million had not been reimbursed by the Corporation as at 20 February 2017**.**

According to the balance confirmation letters, a sum of US$ 22.77 million and US$ 8.65 million had to be paid by the Corporation to Bank of Ceylon and Commercial Bank respectively as at 31 December 2016.

Further, the Commercial Bank had filed a case in the Commercial High Court of Colombo for a claim of US$ 8.65 against the Ceylon Petroleum Corporation.

Matters related to production and refinery of petroleum

The 47 years old Oil Refinery at Sapugaskanda could not fulfill the increasing demand of petroleum products of the country. As compared with the modern Oil Refineries with facilities for refining oil at very low costs, this Refinery had been operated at low level efficiency. The Project (SOREM) for Expansions and Modernisation of the Refinery had not been commenced and the expenditure of Rs.837 million incurred on the Project up to 31 December 2016 was observed as an uneconomic transaction.

Pipeline Network for Transport of Oil

The pipelines installed several decades back to transport of finished petroleum products such as petrol, diesel, kerosene and furnace oil from the Colombo Port to the Kolonnawa Petroleum Installation are in a state of repair and it was revealed that some of them have already been abandoned due to the deteriorated condition beyond repairs. Renovation and modernization of these pipelines have been a very urgent need, as a large quantity of the national requirement of the petroleum products is being carried into Kolonnawa Fuel Storage Terminal through those deteriorated pipelines. The possibility of paralyzing the whole country with a severe fuel crisis due to transporting the imported finished petroleum products through those deteriorated pipelines cannot be ruled out in audit.

Out of this pipeline system, pipeline had been installed from the Port of Colombo to Sapugaskanda for the transport of crude oil ***(pipeline having diameter of 24")*** and pipelines (***pipelines having diameter of 12", 8”,6”)*** had been installed from the Refinery to the Kolonnawa Installations for the transport of the refined petroleum products are belongs to the Corporation. The other pipelines from the Port of Colombo to the Kolonnawa Installations used for the transport of finished products belong to the Ceylon Petroleum Storage Terminal Ltd (CPSTL) which is subsidiary of the corporation. Details of The pipelines belonging to the Ceylon Petroleum Storage Terminal Ltd appear in the Table 38 Below.

Diameters of the Line (Inches)	Product	Current Position
10”	Gas Oil	Working condition
10”	Other refined Oil	Not Working (a part is used to transport naptha from kolonnawa to kelanithissa)
10”	Naphtha Oil	Not Working
12”	Naphtha Oil	Not Working. CPSTL is replacing the line.
14”	Fuel Oil	Working condition

Table 38- The pipelines belonging to the Ceylon Petroleum Storage Terminal Ltd

Rural Economic Affairs

The objective of this sector was to provide economic and social benefits fairly with the rural people and the Ministry of Rural Economic Affairs, a Department and 08 Statutory Bodies/Institutions functioning under the purview of the Ministry should have discharged the following functions for the achievement of above objectives.

- Formulation of policies, programmes and projects, monitoring and evaluation in relation to the subject of Rural Economy.
- Implementation of Rural Livelihood Development Projects.
- Formulation of Regional and Rural Development Policies and Strategic Development Policies.
- Provision of financial assistance for rural economic activities.
- Provision of necessary facilities for enhancement of livestock products.
- Animal welfare and the related activities.
- Taking necessary steps for the promotion of livestock-based products, their propagation and development.
- Expansion of the research field of the livestock sector utilizing modern technology and taking necessary measures for qualitative and quantitative development of products, based on the research findings.
- Propagation of scientific breeding methods for proliferation of the animal population in the livestock sector, protection of such animals from diseases and conduct of quarantine activities.

The audit observations made in regard to the discharge of above functions by the aforesaid institution are summarized below.

Being Self-sufficient in Milk Production

In order to decrease the import of milkpowder and increase milk production, the Livestock Division of the Ministry of Rural Economic had spent Rs.5557.38 million within a period of 7 years from 2010 to the year 2016. The milk production had been increased by 136.5 million liters in the year 2016 as compared with the year 2010 (Excluding expenditure of the Department of Animal Production and Health). Accordingly, a sum of Rs.40.72 had been spent to increase the production of one liter of milk. According to the milk based production and the import of milk based production as indicated in the reports of the Department of Census and Statistics, the consumption of the milk based production of the country had been 22.29

metric tons and 72.53 metric tons respectively in the year 2010. Accordingly, only 23.5 per cent of the country's milk requirement had been produced within the country in the year 2010 and it had been 26.67 per cent in the year 2014. Further, 86.37 metric tons of milkpowder had been imported in the year 2014 and it had been 94.01 metric tons in the year 2016. As such, the import of milkpowder had not decreased as planned.

Liquid Milk Popularization Project

Plans had been drawn to establish 1250 milk stalls under the Liquid Milk Popularization Project implemented from the year 2004. Nevertheless, only 685 stalls had been opened by 31 December 2013 of which 283 stalls had been established by the National Livestock Development Board. Those stalls had been established without conducting a feasibility study and as a result, the number of stalls remained in operational condition was 43 or 15 per cent as at 31 December 2016. Out of 402 stalls established by the Ministry at provincial level, only 112 or 28 per cent of stalls had remained in operational condition. Nevertheless, the Ministry had not adopted necessary measures to halt the closing down of the stalls.

Construction of Cold Stores

For the purpose of maintaining price stabilization in the rural market and minimizing the post harvest damages, provisions amounting to Rs.2,000 million had been made by the Annual Budget Estimate under the Ministry of Rural Affairs in the year 2016 in order to the construct and implement 05 cold stores in combining both the Sri Lanka Government and the private sector. In the Action Plan of the Ministry, this project had been scheduled to be completed within a period of one year from January 2016 to December 2017 under the Development and Planning Division. Nevertheless, not even their constructions had been commenced by 26 June 2017.

Although five officers had participated in tours to Israel and Thailand from 02 to 10 March 2016 for an study on the cold stores, only the Chairman of the Feasibility Study Committee together with three outside officers and the Minister had involved in the tour. No evidence whatsoever had been furnished to Audit in connection with the expenditure of this tour.

The committee appointed to conduct feasibility study for the Project had held meetings on two occasions, whereas a report inclusive of only 6 proposals had been furnished only with the signature of the Chairman of the Committee dated 10

August 2016 without the signatures of the other 10 members of the Committee after the written requests were made by the Ministry in 05 instances. Nevertheless, the matters which should be inevitably included in a feasibility study had not been contained therein.

Economic Centres

With the objective of carrying out direct sale of the agrarian productions of the farmers and implementation of the pricing mechanism effectively through the coordination of producers, stock traders and the consumers, the special economic centres had been established. Nevertheless, no evidence had been furnished to audit to confirm that such fair and efficient pricing mechanism had been implemented. The following observations are made on the economic centres.

- Although the financial statements should be furnished to audit within a period of two months from the close of the year of accounts in terms of Section 4.3 of the Public Finance Circular No.PF/423 dated 22 December 2006, eight financial statements of 06 economic centres situated in Colombo and Gampaha Districts relating to the period from the year 2008 to 2016 had not been furnished to audit even as at 30 June 2017. Further, the financial statements of the Ambilipitiya Economic Centre commence on 05 February 2003 had not been furnished from the year 2003 to the year 2016.

- Although the constructions of the Economic Centres at Killinochchi and Ampara had been completed in the year 2013 and 2014 at costs of Rs.96.7 million and Rs.29.2 million respectively, those stalls had not been given on rent even by 31 December 2016.

- As the Economic Centres had been established without conducting feasibility studies, 3 Economic Centres constructed at a cost of Rs.136 million had been vested in another institutions and local government bodies by 31 December 2016. In connection with the Kandahandiya Economic Centre with 25 stalls established at a cost of Rs.21 million in the year 2014 and the Special Economic Centre partly constructed at accost of Rs.6.9 million at the premises of the Weligama Denipitiya fair in the year 2014, action was being taken to vest those Economic Centres in another institutions.

Factory Modernization Project

For the modernization of factories, agreements had been entered into between the HSBC Bank and the Department of External Resources of the General Treasury and the Department of External Resources and the Milco (Pvt.)Ltd. in the year 2013. For the loan amounting to Rs.5,854.45 million (33.78 Euro Million) obtained in accordance with the above agreements, it had been agreed to pay 2 per cent non-commercial interest and commercial loan interest of 6 per cent +LIBRO. Without calling for bids for the project pertaining to the modernization of Polonnaruwa, Digana and Ambewela factories, the contractor had been selected under the Turnkey Method. In relation to this loan, the Department of External Resources had paid USD. 16.69 million or Rs.2,436.18 million as the loan installments and USD.3.80 million or Rs.554.17 million as interests to the bank by 15 June 2017. The Milco (Pvt.)Ltd. had not paid any amount to the General Treasury as the loan and the interests.

In pursuance of the agreement entered into between the Milco (Pvt.)Ltd. and the contractual company, the contract period of the project should have been terminated on 12 July 2014. Nevertheless, the modernization activities of the Digana and Ambewela milk factories had not been completed even by 31 July 2017. Any of the both parties had not taken action to extend the period of contract or recover the amount agreed to be paid as the liquidated damages. The period of the agreement had delayed for more than a period of 36 months and EUR. 1,688,961 should have been recovered as the liquidated damages, whereas no correspondents whatsoever had been exchanged in this connection even by the end of the year under review.

The contractual company had not completed the contract activities relating to the Ambewela and Digana Factories on the due date and as a result, the loan agreement entered into between the HSBC Bank and the Department of External Resources of the General Treasury had been extended up to 31 December 2016. Nevertheless, the above project activities had not been completed even by 31 July 2017. But, without taking action to extend the period of the loan agreement existed with the Bank, the final retention money of USD 3,071,693 equivalent to 10 per cent of the contract value to be paid to the contractual company had been paid upon a bank security on 27 March 2016 contrary to the agreement.

Monitoring Milk Collecting Centres

As the Milco Pvt.Ltd. had not taken action to improve the milk collecting centres of the country and the milk collecting centres had not been modernized in a manner able to carry out monitoring thereon, payments had been excessively paid for 320,893 liters of milk and 587,247 liters of milk respectively than the volume of milk collected in the years 2015 and 2016. Accordingly, a financial loss of Rs.20.52 million and Rs.39.61 million had been sustained in the year 2015 and 2016 respectively. Further, after delivering the collected milk to the factories, 35,681 liters of milk valued at Rs.2.50 million had been contaminated in the year 2016.

Although the milk production of the country had gradually increased from the year 2014 to 2016, out of the total milk production of the country, the percentage of the liter of milk collected by the Milco Pvt.Ltd. had decreased from 19 per cent to 18 per cent from the year 2014 to the year 2016 respectively. Details appear in the Figure 37.

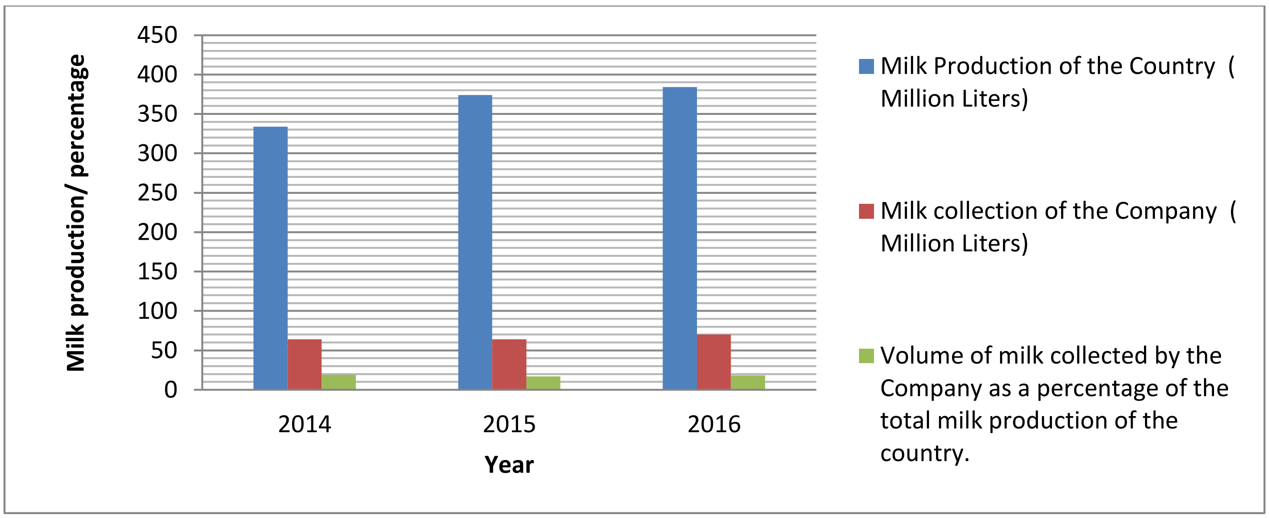


Figure 37 - Total milk production of the country, volume of milk collected by the Company and the percentage.Source- Statistics of the Central Bank.

Yoghurt Mixture Purchased on Lease Basis

The Milco (Pvt.)Ltd. had decided to purchase a Yoghurt Mixture for the Colombo factory on leasing basis without properly recognizing the requirement. The Yoghurt Mixture purchased at a cost of Rs.104.17 million contrary to the Government Procurement Guidelines on 20 January 2011 had been installed in the Polonnaruwa Factory, whereas it had not been used even by July 2017.

Import of Milk Cows

Under the 2nd stage of the Wellard Project, the National Livestock Development Board had entered into an agreement for the import of 2500 milk cows at US$. 3,032.87 per cow within a period of 2 years from 14 July 2014.

Accordingly, 2495 milk cows had been imported on 13 July and 12 October 2015. In this respect, US$.7,576,101 inclusive of the retention money had been paid by 11 October 2016. Although milk cows had been supplied with a short of 5 cows, payments had been made so as to exceed the agreed amount by US$.9,098.59. As the milk cows imported at a cost of Rs.1,036.35 million at Rs.415,372 per cow had not been insured, it had not been possible to cover the loss of Rs.55.24 million sustained by 133 deceased milk cows. According to the agreement, cows should be pregnant at the time of import, whereas 79 cows had not been thus pregnant at the time of import. A number of 260 cows that had been unsuccessful in producing milk after the delivery of first calf and those failed in the second artificial insemination process had not become pregnant even by 30 May 2016. Accordingly, the expenditure of Rs.196.06 million incurred on 472 imported cows had not contributed to the achievement of the objectives of the project.

Photograph No 15 - .Imported Milk Cows.

US$.260,555 had been estimated for the transport of 2500 dairy cattle for a distance of 38 kilometers from the Hambantota Port to Ridiyagama Farm. According to the rates charged for the motor vehicles owned by the National Livestock Developmet Board, average cost required for the transport of 2500 dairy cattle for a distance of 38 kilometers was Rs.570,000. Accordingly, US$.260,347.11 or Rs.35.87 million had been paid for the transport of 2495 cows due to the preparation of unusual overestimate. Although the amount required to be spent for the transport of 2495 dairy cattle using the motor vehicles of the Board was Rs.568,860, an over expenditure of Rs.35,299,208 had been incurred thereon.

According to the Finance Minister's observations made on the Cabinet Decision dated 11 July 2013 under the second stage of the import of dairy cattle, it had been stated that 2000 dairy cattle imported in the year 2012 with the objective of increasing per capita milk consumption under the first stage had successfully adapted to the local environment. Accordingly recommendation had been made to import 2500 dairy cattle under the second stage. Nevertheless, according to the feasibility study report dated 24 March 2009 issued before the commencement of the first stage of the Project, the average volume of milk anticipated from one imported dairy cow had been estimated as 20 liters per day. Although that expected target had not been achieved, approval had been granted to import dairy cattle even under the second stage regardless of that practical situation.

Construction of Gravel Roads

The estimated value relating to project for the construction of a gravel road of 5 kilometers in length had been US$.94,868.89. A sum of Rs.12,734,115 had been paid for the relevant construction during the year under review. According to the road unit rates issued by the Southern Provincial Road Development Authority for the year 2015, the estimated value for the above road had been Rs.1,450,228, whereas a sum of Rs.11,283,927 had been overpaid for the project. Accordingly, unusual overestimation had been prepared exceeding the average prices prevailed in the country and as a result, the National Livestock Development Board had made overpayments. It was observed at the physical inspection carried out in June 2016 that the above road had been damaged even before the lapse of a year from the completion of the construction.

Photograph No 16 Road damaged after the construction.

Construction of Agrarian Wells and Tube Wells

According to the specification of the Project, provision amounting to US$.31,267 had been made for the construction of 6 agrarian wells. Nevertheless, only one agrarian well and 2 tube wells had been constructed. Accordingly, instead of US$.15,633 due to be paid relating to the above construction, US$.31,267 or Rs.4,340,176 had been reimbursed and as a result, US$.15,634 or Rs.2,170,157 had been overpaid by the National Livestock Development Board.

Purchase of Cocoon Stores

As the stores belonging to the Paddy Marketing Board were inadequate to store the paddy purchased in the year 2015, a sum of Rs.39.33 million had been paid to a State Corporation to purchase 15 Cocoon Stores (temporary stores). Out of that, 04 stores valued at Rs.10.49 million issued to the Anuradhapura and Trincomalee Zones had not been utilized for storing paddy even by 06 February 2017.

The relevant company had stated that one Cocoon Store could be utilized for a period of 10 to 15 years, whereas only 2 out of the 6 stores issued to the Ampara Zone had been utilized for the storage of paddy in Yala season, 2015 and the Managaer of the Ampara Zone had informed the Paddy Marketing Board that it would be impossible to use above stores for the coming season without effecting their repairs.

CITY PLANNING AND WATER SUPPLY

The objectives of the Sector are ensuring the access to safe drinking water to the citizens, the construction of pipelines and drainage lines throughout the Island and the proper planning of cities throughout the Island. The Ministry of City Planning and Water Supply and a Department and a Statutory Board under the purview of the Ministry should have performed the following functions in order for the achievement of the above objectives.

- Formulation of policies, programmes and projects relating to the subjects of City Planning and Water Supply and follow up and evaluation.
- Planning and Development of Special cities.
- Direction and implementation all construction works based on the National Physical Plans for the fulfillment of Urban Development Activities.
- Taking all courses of action to ensure the supply of clean drinking water to every citizen.
- Investigation of Water Supply Services, Drainage Systems and Sanitation Facilities.
- Planning, Designing, Construction, Direction and Maintenance.
- Taking necessary steps for the efficient and proper execution of the Community Water Slipper and Sanitation Projects.

A summary of the observations on the performance of the functions by the above Institutions revealed at the audit test checks is given below.

Supply of Water and Sanitation

The National Water Supply and Drainage Board had provided 2,092,471 water connections by the year 2016. That had been less than the expected level by 78,199. The National Water Supply and Drainage Board had been able by the year 2016 for the supply pipe borne drinking water to 47.7 per cent of the total population and providing pipe borne drainage to 2.08 per cent of the population.

The Board had commenced 42 large scale foreign aid projects for the water supply and sanitation, 62 small and medium scale projects, 6 water and sanitation projects for the 65 tsunami affected areas , is water sector community schemes whilst 15 projects had been implemented under the domestic loan aid for the supply of water and sanitation. The Board had commenced 12 new Water Supply and Sanitation Projects in the year 2016.

Review of Purified Water Production, Distribution and Cost

The production of purified water, the quantity of water consumed and the quantity of non-revenue water of the National Water Supply and Drainage had been at a high level as in the preceding years. Details appear in Table 39

Particulars	2013	2014	2015	2016
Production of Purified Water (cum)	547.00	575.00	600.14	649.00
Quantity Consumed (cum)	381.60	410.92	436.27	483.00
Non-revenue Water (cum)	165.40	164.08	163.87	166.00

Table 39 -: Water Supply of National Water Supply and Drainage Board

The production and consumption of water had gradually increased from the year 2013. Even though the non-revenue water had decreased gradually from the year 2013 to 2015, it had increased in the year under review, even beyond the quantity of the year 2013 to 166,000 cubic metre millions. The Board had been deprived of a considerable portion of revenue the water produced due to water leakages, illegal water connections and free water supplies. The ratio of non-revenue water of the overall country had gradually decreased from the year 2013 to the year 2016 to 25.58 per cent. Nevertheless, the non-income water from the water supply to the city of Colombo in the year 2016 had been as 45.72 per cent. Details appear in Figure 38.

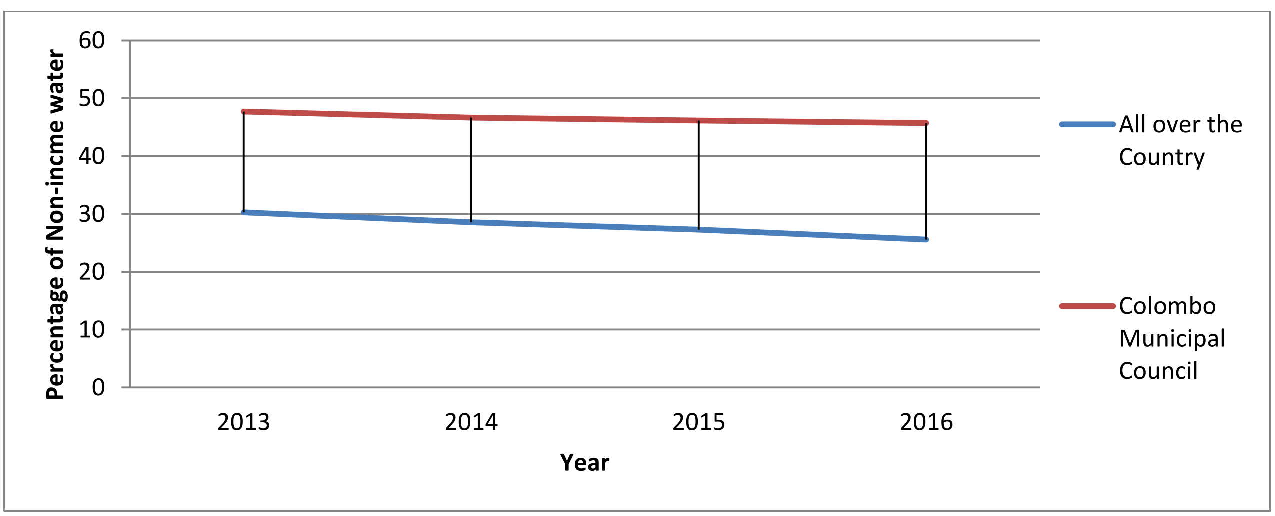


Figure 38. : Percentage of non-income water
Source : Management Information Report – December 2016

Even though several Water Supply Projects had been completed and commenced the production of water during this period, due to the lack of an adequate improvement to meet the demand of the overall supply of water due to the delays in the completion of most projects, the Board had failed to fulfill the water requirements of the people.

Financial Results of the National Water Supply and Drainage Board

The financial results of the Board from the year 2011 to the year 2016 (except the year 2015) had been favourable. Similarly, the total comprehensive income of all the other years except the year 2015 had been increasing gradually. Details appear in Figure 39.

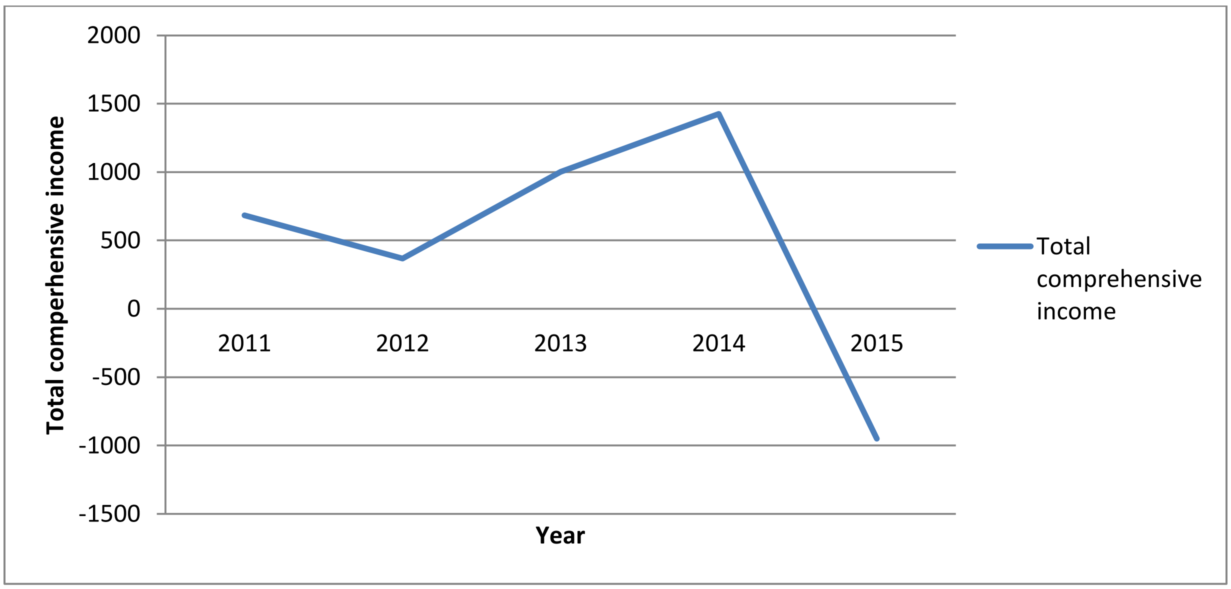


Figure 39. : Financial Results of the Board for 6 preceding years
Source : Financial Statements of the National Water Supply and Drainage Board from the year 2011 to the year 2016

An examination of the data of the 6 years considered, revealed a gradual improvement of the water sales income and as compared with that a larger increase of cost of sales (except the year 2013) was observed. Even though the income of the year 2015, as compared with the year 2014, had improved by 5 per cent, the cost margin for the year 2015 had increased by 2 per cent due to the increase of the cost of sales by 9 per cent. Further the turnover of the Board, as compared with the year 2015, had increased by 20 per cent.

Even though the net financial income of the year 2015, as compared with the year

2014 had increased by 215 per cent, it was observed that, it had been due to the approval granted by the General Treasury to convert the foreign loans and the interest thereon to the Treasury to the Government Equity and the income received on the investment on bonds given by the General Treasury. In considering the, 6 preceding years, the Board had earned a record of after tax profit of Rs.2,914 million in the year 2016 and that as compared with the year 2015, indicated an improvement of 183 per cent.

Even though a gradual improvement of the operating profit was indicated from the year 2011 to 2014, that had decreased by 104 per cent in the year 2015 and converted to an operating loss. The increase of 43 per cent in the administrative expenditure had been the main reason thereto. Nevertheless, the increase of the turnover of the Board by 20 per cent in the year 2016, the operating profit as well had concurrently improved by an unusual percentage of 1829 per cent.

Projects implemented with Financial Provision from Local Funds and Foreign Aid

Delays in the Completion of Projects

Action had not been taken for the completion of the Water Supply Projects within the expected periods. In view of this reason, depriving the income due to the non-inclusion of the expected water connections to the system, the increase of project estimated costs, fluctuations in the foreign exchange, continued payment of consultancy fees and the increase in the commitment Charges were observed. Even though the Board had the capacity to avoid such situation and minimize the cost, it had not been so done.

Award of Contracts without considering Performance Capacity

The Greater Dambulla Water Supply Project commenced on 06 March 2012 was scheduled for completion on 05 September 2014. Accordingly the contract period was 2 years and 06 months. The contract period had been extended in 4 instances up to 31 May 2017 due to reason such as unavailability of an adequate number of labourers, abandoning contract work by the sub-contractors halfway and the failure to supply the imported raw materials. As such, the physical and financial progress of the contract, even as at 30 June 2017 had been 88.6 per cent and 85.0 per cent respectively. Accordingly, the period of delay had been 2 years and 9 months. Despite such inefficiency of the contractor, the Board had awarded two contracts valued at US $108 million and US $ 91.30 million to the same contractor on 08 April 2014 and 02 December 2015 respectively.

In view of the failure to implement the activities of the Kandy Urban Waste Water Management Project as planned, the commitment charges paid in terms of the loan agreement from the commencement of the project up to 31 December 2015 amounted to Rs.104.51 million.

Consultancy Service Fees

The consultancy service fees for the Foreign Aid Projects had been obtained from other institutions and as such the expenditure thereon had been in the ranges of 4 per cent to 10 per cent of the total project cost. The consultancy services for the water supply projects should be obtained from the officers and institutions having specialist knowledge of water supply and other activities incidental thereto. As the Board has 115 Chief Engineers and 423 Engineers in its staff, capacity was available with the Board to deploy in the supply of consultancy services and retain the money flowing out to external institutions. In this connection, the attention of the Board had not been paid to the possibility of improving the financial position of the Board by reducing the loan repayments and interest payments.

Environmental Impacts

One of the objectives of the Ratmalana / Moratuwa and Ja-ela / Ekala Waste Water Disposal Project was the disposal of the waste water and sludge outflow from the waste water purification plant in a manner not harmful to the environment and the people. The Board had failed even by the end of the year 2016 to create a methodology for the proper disposal of outflow of sludge from the waste water purification plants.

Aware of Contracts

A comparison of the Primary Engineering Estimates and the value of contracts awarded for the Local Bank Loan Projects revealed a very high percentage of increases. As such it was observed that the loan service cost of these projects (Interest + Installment) would be unusually high and that due high value capitalization of the assets of these projects would result in higher depreciation. It was also observed that it would result in the increase of the cost of production.

Project	Primary Engineering Estimate	Value of Contract Awarded	Excess on Engineering Estimate	Excess as a percentage of the Engineering Estimate
	Rs.Millions	Rs.Millions	Rs.Millions	
Galagedara Mawathagama Water Supply Project	700	3,064	2,364	337
Kandaketiya Water Supply Project	750	1,662	912	121
Ampara Water Distribution Water Supply Project	3,000	6,848	3,848	128
Wilgamuwa Water Supply Project	1,000	3,113	2,113	211
Colombo East City Project (Package I)	3,000	5,170	2,170	72
Colombo East City Project (Package III)	4,000	10,049	6,049	151

Table 40: Award of Contracts exceeding the Engineering Estimates

Even though a higher rate of interest payable on the loans obtained from Domestic Banks at the rate of market interest as compared with the loans obtained through the Foreign Aid Projects, the attention of the Board had not been paid on the increase of the loan services costs.

Recovery of Taxes from Contractors and Remittance to the Department of Inland Revenue

The Construction Industry Guarantee Fiscal Levy had not been recovered in making payments to the contractors engaged in the activities relating to the Kandy City Waste Water Management Project and the Greater Colombo Water Rehabilitation Project. As such the National Water Supply and Drainage Board and those Projects had not been able to remit a sum of Rs.9.21 million to the Department of Inland Revenue.

Essential Items Abandoned

According to the recommendations in the Report of the Study on the Updating of the Main Plan of the Western Provincial Water Supply, the Institutional Development and the Quantity of Non-revenue water, installation of Flow Meters at the inlets and outlets of water towers and the ground reservoirs had been cited as important and essential. The Board had disregarded those recommendations and granted approval for abandoning the plans for the construction of meter booth and supply and installation of Flow Mater at a cost of Rs.12.86 million and Japan Yen 11.70 million for the Greater Colombo Water Rehabilitation Project.

Determination of Water Services

In view of the problems that had arisen with regard to obtaining water from the Iranamadu Tank by the Jaffna Kilinochchi Water Supply and Sanitization Project, that project had to be abandoned. In view of this situation, a sum of Rs.84.94 million had been paid as the commitment charges on the loan, evaluation charges, interest and loan cancellation charges by the end of the year 2015 and that had been an unfavorable situation for the country.

IRRIGATION AND WATER RESOURCES

The objective of this Sector was to provide irrigation facilities and the water resources management for the prosperity of Sri Lanka. The Ministry of Irrigation and Water Resources Management, the Department of Irrigation and two Statutory Bodies should have performed the following functions in order to achieve the said objective.

- Formulation and implementation of policies, programmes and projects related to every subject under the scope of irrigation, reservoirs and water management.
- Promotion, construction, operation, maintenance, redevelopment and management of Irrigation Schemes, Drainage and Flood Protection Schemes and Salt Water Exclusion Schemes.
- Prevention of the pollution of rivers, canals, streams and other waterways.
- Collection of rain water.
- Engineering Consultancy Services and constructions.
- Implementation of the Water Resources Board Act.

A summary of the audit observations made on the performance of the above functions is given below.

Gin-Nilwala Diversion Project

The Ministry of Irrigation and Water Resources Management had paid mobilization advances for the Gin-Nilwala Diversion Project totaling Rs.4,011.05 million comprising Rs.998.58 million in the year 2014 and Rs.3,012.48 million in the year 2015 to a foreign company. Nevertheless, none of the activities of the Project had been executed even by 31 July 2017. The advance Rs. 998.58 million paid in the year 2014 had been brought to account as expenditure of that year. As the advance paid in the year 2015 had been brought to account as expenditure of the year, the Object indicated an excess expenditure amounting to Rs. 2,972.49 million. Even though a provision of Rs.4,000 million had been made in the year 2016, it had not been utilized for any purpose whatsoever.

Execution of Activities non-related to the Scope of the Ministry

An agreement had been entered into with a company from China on 05 July 2012 for the purchase of pre-fabricated buildings on behalf of the Ministry of Defence for distribution to the Three Forces and the Police and making payment in 7 installments. A sum of Rs.2,774.80 million had been paid in the year 2015 and the payments made from the year 2012 up to 31 December 2016 totalled Rs.12,442.5 million . The purchase of the prefabricated buildings does not fall under the scope of the Ministry while it had not been included in the Action Plan of the Ministry. In addition, the total number of buildings handed over to the

Three Forces and the Police and the certificates of the Heads of the institutions concerned that the buildings were satisfactorily assembled had not been furnished to Audit even by 30 April 2017.

Obtaining Combined Allowances based on Forged Documents

Two high officials of the Ministry who proceeded abroad in the year under review had obtained US$ 8,800 using a forged document.

Conducting Researches on Ground-water

Conducting researches on ground-water is a major objective of the Water Resources Board and a sum of Rs.112.29 million had been spent on 11 research studies commenced from the year 2010 up to the end of the year under review. However, none of the researches had been completed as planned even by 30 June 2017.

Release of Employees of the Board to other Institutions

Six employees of the Board had been released to other Government institutions and a sum of Rs.1.35 million had been paid as their salaries and allowances contrary to Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

SUSTAINABLE DEVELOPMENT AND WILDLIFE CONSERVATION

Minimizing environmental changes and the sustenance on carbon, wildlife conservation and promoting tourism in the wildlife reserve areas had been the main objectives of this field. The following functions had to be executed by the Ministry of Sustainable Development and Wildlife and the three Departments and Statutory Boards/ an Institution under its purview for the achievement of this objective.

- Establishing the relevant policies, programmes and projects relating to the subjects of sustainable development and wildlife and relating to the subjects of the Statutory Boards of the relevant Departments.

- Preparing rules and strategies for the formation of an economy with minimal environmental changes and with the minimal use of carbon.

- Preparing sustainable measurements and environmental indicators.

- Establishing a Secretariat for sustainable development.

- Conservation of flora in Sri Lanka, maintenance of the botanical gardens and the development of floriculture in Sri Lanka.

- Activities relating to the aggregation and exhibition of various animals such as quadrupeds, birds and reptiles.

- Conservation of wildlife resources.

- Taking necessary measures for emphasizing on the conservation of the relevant environmental systems in promoting tourism in wildlife reserve areas.

The audit observations revealed at the audit test check carried out in terms of the execution of the functions by the Institutions given above are summarized and given below.

The increase of deaths by conflicts between elephants and human

The wild elephant population in Sri Lanka is facing significant obstacles towards its existence due to the decrease of the habitations with average quality due to the change in the pattern of the use of land and the deterioration of the habitations that could be used. As such, damages are occurred to both parties by the conflict with human and the deaths of human, deaths of wild elephants, physical damages and damages to property are prominent out of them. The number of deaths of wild elephants, the number of deaths of human, damages to property and physical damages had been increased by 36 per cent, 40 per cent, 8 per cent and 50 per cent respectively as compared with the preceding year due to the occurrence of the conflict between elephants and human. Various actions had been taken by the Department as solutions to the above problem and action had been taken to establish physical obstacles by the electric fence, live fence and other modern methodologies in a manner that prevents the entrance of the wild elephants into the human habitations. However, the number of deaths of elephants and of human had taken high values in the period of approximate 05 years. Details are given in the Figure 40

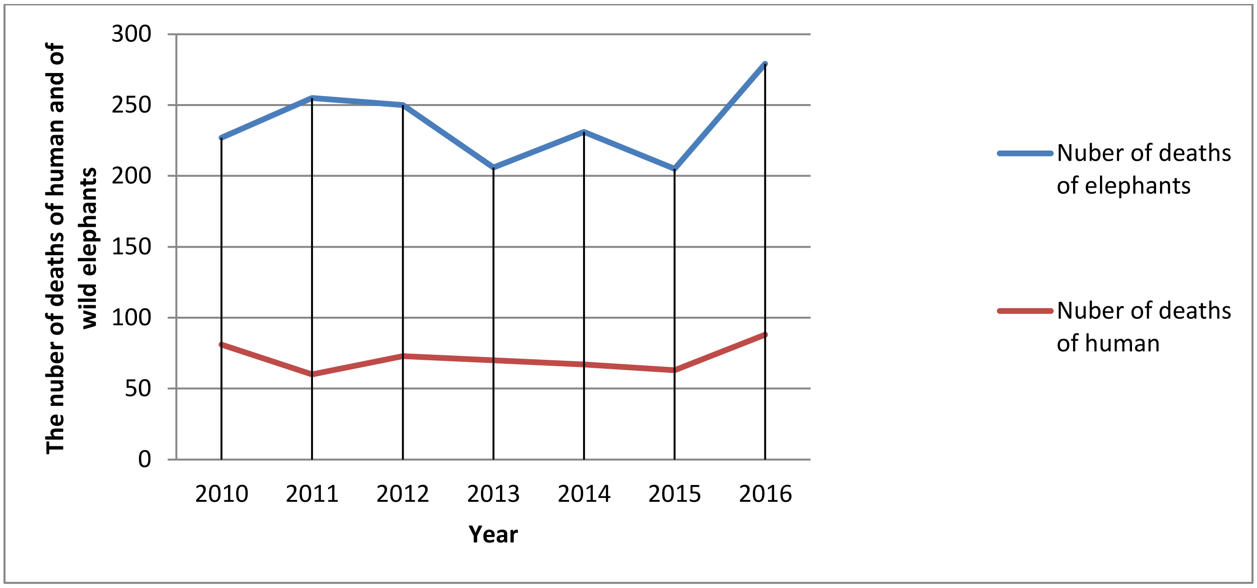


Figure 40- the number of elephants died and the number of human lives lost in the preceding 7 years

The construction of the electric fence

The construction of the electric fence had been the main mechanism being deployed for the prevention of the conflict between the wild elephants and human by the end of the year under review. The electric fence had been constructed in a distance of 3,860 kilometers by the end of the year under review. Out of that, the electric fence had been constructed for a distance of 287.1 kilometers in the year under review. The audit observations revealed in terms of the construction of the electric fence are summarized and given below.

- Even though provisions amounting to Rs.2.81 million had been made available for the construction of 20 kilometers of the Wilmanna Uranaya (Modarapalassa Adala) electric fence, a distance of 6 kilometers and only 1 powerhouse had been constructed. The expenditure of Rs.2.03 million had been fruitless on the construction activities of this electric fence being defaulted. Further, the residents had taken action even to burn the poles of the electric fence.

- Provisions amounting to Rs.4.14 million had been made for the construction of the road of 46 kilometers from Koholankala to Karambawewa and, even though a sum of Rs.2.95 million had been spent to carry out the excavations of 25.5 kilometers of that distance, it had been defaulted due to political influences.
- Only a distance of 19.5 kilometers had been constructed in the electric fence that should be constructed within a distance of 60 kilometers from Aluthganara to Unathuwewa due to problems relating to lands and the sum of Rs.3.23 million spent for it had been a fruitless expenditure on not completing the electric fence. Moreover, even though it had been planned to construct a distance of 24 kilometers of the Sandagalagama Ilukpalassa Mahanetula electric fence, it had also been defaulted on the occurrence of problems relating to lands.
- It was confirmed at the physical audit test check carried out on the construction of the temporary electric fence constructed in the Udawalawa National Park that the maintenance activities of the electric fence is not being properly carried out. It is evident by Photographs 01 and 02 that the electric fence had been broken and its poles had been dismantled by the elephants.

Photograph No 17- The manner that the electric fence being broken

Photograph No 18- The manner that the poles of the electric fence being dismantled

PENSION BENEFITS FOR PUBLIC SERVICE

Offering Legal Benefits to pensioners of public services and their beneficiaries, ensuring satisfaction of both recipients as well as service providers at an excellent level intertwining the public sector with private sector through application of modern technology and sustainable management techniques to make the Pensioner Community highly satisfied in economic and social aspects are the Vision and Mission of the Department of Pensions.

The Department of Pensions had provided benefits to 579,414 active pensioners as at 31 December 2016. The pensions paid in the year 2016 amounted to Rs.172,276 million. That represented 10 per cent of the total Recurrent Expenditure of the Government and 9.8 per cent of the total Public Revenue.

There were instances of overpayments, double payments and fraudulent payments in the payment of pensions through the Divisional Secretariats. The restructuring process introduced in the year 2014 in order to prevent such situations was implemented under different stages and the Centralized System of Payment of Pensions by the Department of Pensions had been commenced with effect from January 2015. The Pensions Management System developed and implemented by the Department of Pensions with effect from October 2016 had connected 2,600 State Institutions approximately with the Internet and the Online System and commenced the pension payment process by obtaining the Pension Applications for the first payment. Nevertheless, a plan for the Restructure Process implemented from the year 2014 had not been prepared.

A summary of several audit observations revealed in connection with the payment of pension to officers of the Public Service who have retired is given below.

Overpayment of Pensions

Overpayment of monthly pensions had occurred due to the absence of strong Internal Control Methodologies in the pension payment process when the pension payment was restructured. Several such instances are given below.

- Test checks of the Pension Payment Database during the period from January to December 2016 revealed that overpayments amounting to Rs.4.7 million to 13 pensioners due to double payments and Rs.0.58 million to 10 pensioners due to double payment of arrears of pensions had been made.
- Overpayment of Rs.0.55 million had been made to 4 pensioners who had retired prior to 01 January 2016 due to the failure to revise the pensions correctly in terms of the Pension

Circular No. 5/2015 dated 06 August 2015.

- Overpayment of Rs.1.82 million had been made to 18 pensioners due to the payment of the Interim Allowance to the pair due to the payment of combined pensions without being combined.

- An overpayment of Rs.81 million had been made to 522 Civil and Armed Forces Pensioners due to the payment of the Cost of Living Allowance exceeding the maximum Cost of Living Allowance receivable as a Public Servant.

- Overpayment of Rs.0.16 million had been made to a pensioner who is living abroad due to the payment of the Cost of Living Allowance and the Interim Allowance exceeding the maximum limit of payment.

- The Internal Audit Unit of the Department of Pensions had detected overpayments of pensions amounting to Rs.37.2 million.

- The value of overpayment of pensions identified as at 31 December 2016 amounted to Rs.320.25 million. Even though action on those overpayment of pensions should have been taken in terms of the Financial Regulations 102 to 113 and determine those responsible thereto in terms of the Financial Regulation 119 and surcharged the amounts against them, it had not been so done. Overpayments of pensions less than 05 years old amounting to Rs.125,257,219 and Rs.262,718,954 respectively and overpayments of pensions old between 5 to 10 years amounting to Rs.63,789,453 and Rs.168,088,603 respectively existed as at the end of the years 2015 and 2016.

Payment of Pensions by Obtaining Life Certificates Annually

According to the Centralised Database on pensions, pensions had been paid to 109,842 pensioners who had not furnished Life Certificates for the year 2016.

Payment of Pensions to Pensioners Without Pension Files

A test audit revealed that the Divisional Secretariats, Kolonnawa and Divulapitiya had paid pension during the year 2016 to 112 pensioners who did not have pension files.

Revision of Pensions

The pension anomalies of 7,343 pensioners according to the Public Administration Circular No. 06/2006 had not been eliminated in terms of the Public Administration Circular No. 16/2015 dated 25 June 2015 even by the end of December 2016.

Payment of Pensions without Verifying the Pension Information

In the preparation of the Centralised Database on Pensions by consolidating the decentralized information on pensions, such information had been used directly without being verified by conducting a census of the pensioners.

Savings Passbooks of Minors

The money allocated to the minors in the settlement of pension claims, the responsibility for the deposit of such money in a Savings Account or a Fixed Deposit in the National Savings Bank and making payment to the minors on reaching the age of maturity had been devolved on the respective State Institutions. The Department of Pensions should have carried out a supervision of that process. Several instances of non-payment of such benefits to the minors who had reached the age of maturity are given below.

- In respect of the minors relating to the Divisional Secretariats Kolonnawa and Sri Jayawardhanapura Kotte, who had reached the age of maturity, 24 Passbooks and 5 Fixed Deposits and 8 Passbooks respectively had been retained by those offices.

- According to information obtained from the Department of Sri Lanka Railways the Passbooks relating to the deposit of Rs.1.55 million made from the year 1927 to the year 1995 on behalf of 1,482 minors had not been handed over to the Minors, who had reached age of maturity, even by 30 August 2013. Even though 943 minors had reached the age of maturity during the years 1995 to 2007 their Passbooks had not been released to them. As such the expected objectives of the deposits made in the Passbooks of Minors by the Department of Pensions had not been achieved.

- In view of the weaknesses in the old methodology for the issue of Passbooks of minors, Passbooks had been handed over to the minors on the date of settling the claims to pension itself in terms of provisions in the Pensions Circular No. 09/2015 dated 14 September 2015. Nevertheless, the Department of Pensions had not formulated a formal course of action for the transfer of the benefits of the Passbooks and Fixed Deposits that existed under the old methodology.

Non-accounting of Recoveries made from Pension Gratuity

The supervision exercised by the Department of Pensions on the correct accounting of the recoveries made from the Pension Gratuity by the Ministries and

Departments had been weak. Several such instances are given below.

- According to the Advances to Public Officers Accounts prepared as at 31 December 2016 by 05 Line Ministries and Departments, the salary advances and loans obtained by the officers retired or deceased amounting to Rs.94.99 million had been recovered either from the Pension Gratuity or the Death Gratuity. Nevertheless, their salary advances and loans had not been settled from those recoveries.

- According to the information obtained from the General Treasury with regard to 27 Line Ministries and 64 Departments, according to the Advances to Public Officers Account as at 31 December 2016, recoveries from the Pension Gratuities totalling Rs.138.02 million comprising Rs.21.58 million from the deceased officers and Rs.116.44 million from the retired officers had not been brought to account.

- The recoveries made from Pension Gratuity of 4,318 officers of the Central Government by the Department of Pensions in the year 2016 amounting to Rs.19.79 million had not been brought to account as expenditure.

Payment of Pension Gratuities to the Pensioner along with Recoveries

An overpayment of Rs.9.96 million had been made to 182 pensioners due to the payment of the full amount of the Pension Gratuity to the pensioner without recovering the amounts due from the pensioner to the Government. In view of the payment of the payment of the Pension Gratuity from an 18 year Bank loan at 12 per cent interest, interest amounting to Rs.10.80 million had to be paid at the end of the period of 18 years only on the loan relating to the gratuity.

Public Service Provident Fund

The number of applications made for obtaining the benefits of the Public Service Provident Fund on which payments had not been made as at 01 January 2016 had been 5,604. The total number of applications on which payments have to be made along with the applications received in the year 2016 had been 12,158. Payment of benefits for 5,109 applications only had been made in the year 2016.

PROVINCIAL COUNCILS

WESTERN PROVINCIL COUNCIL

A revenue totalling Rs.75,394 million comprising a sum of Rs.36,929 million from Government grants and savings and a sum of Rs.38,465 million from internal sources had been estimated for the year 2016 by the Western Provincial Council. A total sum of Rs.75,394 million comprising a sum of Rs.60,476 million for recurrent expenditure and Rs.14,918 million for capital expenditure had been estimated to be utilized in the year 2016. Accordingly, a revenue totalling Rs.65,305 million comprising Rs.24,102 million from Government grants and Rs.41,203 million from internal sources had been collected in the year 2016. A sum of Rs.61,708 million comprising Rs.54,326 million for recurrent expenditure and Rs.7,382 million for capital expenditure had been utilized in the year 2016.

The material and significant audit observations revealed during the course of audit in this connection are given below.

Management of Revenue

According to the audit test checks carried out relating to long term and annual leasing out of lands, arrears of revenue amounting to Rs.80.76 million remained in 06 Divisional Secretariats at the end of the year under review.

The relevant works had not been duly commenced on lands granted to 04 institutions on long term basis within the area of authority of the Divisional Secretary of Mahara. As such, lease revenue had not been recovered from the said lands. The relevant works had not been duly commenced on the lands granted to two institutions and as such, lease revenue of Rs.6.36 million had been deprived of.

Idle and Underutilized Assets

Even though a sum of Rs.11.04 million had been spent by the Provincial Tourist Board on the installation of 04 toilet systems under the Sanitary Facilities Development Project, out of them, only one toilet system had been in the usable level by the end of the year under review.

A coast cleaning machine had been purchased by the Provincial Road Development Authority by spending a sum of approximately Rs.9.5 million in the year 2013. Even though this machine had been purchased for the Ministry of Local Government, Economic Promotion, Power and Energy, Environmental Affairs, Water Supply and Drainage and Tourism, it could not be identified whether money had been received from the Ministry or that machine had been assigned to the relevant parties or engaged in a useful purpose even by the end of the year under review.

Management Inefficiencies

The Governor had granted approval to pay salaries based on the Special Grade of Sri Lanka Administrative Service and SL-03 salary step relevant thereto, from May 2007 instead of the SL-01 salary step entitled to Grade I of the Sri Lanka Administrative Service to a Grade I officer of the Sri Lanka Administrative Service who had not been promoted to the Special Grade of the Sri Lanka Administrative Service, who served in the Provincial Public Service Commission. Based on that, the SL-03 salary scale had been applied for the payment of annual salary increments, making timely salary revisions and request for pension and other relevant privileges.

A decision had been taken to carry out a preliminary investigation against an officer who served as the Municipal Commissioner of the Colombo Municipal Council and she had been attached to the Chief Secretary's Office in the year 2015. However, it had not been confirmed in audit that a service had been obtained to the Provincial Council by assignment of duties on providing office space facilities and giving an appointment to that officer in the Western Provincial Council. Despite failure in obtaining such service, salaries and allowances totalling Rs.2.11 million (before abatements) had been paid from the Provincial Council Fund from February 2015 up to January 2017.

Operating Inefficiencies

According to the audit test checks carried out relating to Offices of Medical Officers of Health and 09 regional hospitals, 1,270,611 units under 129 types of drugs had been disposed or destroyed due to expiry and failure in quality. The computed value of those drugs amounted to Rs.2.33 million.

Transactions of Contentious Nature

Health equipment and spare parts had been purchased at approximately Rs.22 million in the year under review by the Bio Medical Unit of the Office of the Director of Regional Health Services, Colombo. The Procurement process had not been followed thereon and purchases had been made based on the bid of one supplier. In the said purchases, 213 units valued at Rs.8.07 million under 04 types of goods ascertained as not in compliance with specifications and 22 units valued at Rs.13.81 million under 04 types of goods which could not be confirmed as in compliance with the specifications, existed.

Implementation of Projects

Out of 57 schools located within the area of authority of the Gampaha Educational Zone, 61 half completed buildings were observed. A sum of Rs.277.69 million had been spent for those buildings. Eight other buildings had been constructed in 04 schools out of them, by spending a sum of Rs.12.01 million.

A sum of Rs.665.73 million had been provided to the Economic Development Bureau of the Western Province during the period from the year 2012 to the year 2015 under the Object of the Chief Secretary for implementation of the Project named “Sarudam Arunella” with a view to uplifting the Dhamma Schools in the Province. Out of that amount, the Bureau had spent a sum of Rs.29.30 million for other projects by the end of the year under review and only a sum of Rs.572.80 million had been spent for uplifting the Dhamma Schools in the Province. Out of the remaining sum of Rs.63.63 million, a sum of Rs.13.06 million had been obtained for the administrative expenses of the Bureau. The sum remaining by the end of the year under review amounted to Rs.5.41 million. Accordingly, information on the sum of Rs.45.16 million had not been made available to audit.

A sum of Rs.53.36 million had been provided to the Economic Development Bureau of the Western Province during the period from the year 2012 to the year 2015 under the Object of the Chief Secretary for implementation of the Project named “Nethata Aruna” with a view to providing spectacles to families with low income. The Bureau had spent only a sum totalling Rs.42.15 million comprising sums of Rs.39.59 million and Rs.2.56 million respectively for providing spectacles and testing of eyes, which was the main objective of that Project. Out of the remaining amount, a sum of Rs.1.90 million had been spent for other projects implemented by the Authority. A sum of Rs.2.68 million had been retained as Establishment and Administrative expenses. A sum of Rs.0.25 million (Phase 2) had been spent for purposes such as fuel, banners and functions. As compared with the amount received from the Office of the Chief Secretary, information on the sum of Rs.6.38 million had not been made available to audit.

CENTRAL PROVINCIAL COUNCIL

A total revenue of Rs.19,755 million including a sum of Rs.12,989 million by Government Grants and a sum of Rs.6,766 million through internal methods had been estimated for the year 2016 by the Central Provincial Council. It had been estimated to utilize a sum of Rs.30,030 million as Recurrent expenditure and a sum of Rs.12,989 million as Capital Expenditure and a total of Rs.43,019 million in the year 2016. As such, a total revenue of Rs.12,077 million including a sum of Rs.5,097 million by Government Grants and a sum of Rs.6,980 million by internal methods had been collected in the year 2016. A sum of Rs.34,396 million including Recurrent Expenditure amounting to Rs.29,299 million and Capital Expenditure amounting to Rs.5,097 million had been utilized in the year 2016. An investment of Rs.5,097 million had been made in the year 2016.

The significant audit observations revealed in the audit carried out in the year 2016 relating to the Central Provincial Council are given below.

The release of money without the Supply of Goods and Services

Payments amounting to a total of Rs.12.77 million had been made considering as work being completed by the Ministry of Agriculture of the Central Province including a sum of Rs.8.12 million for 4 agrarian paths and a sum of Rs.4.65 million for 6 estate roads which had not completed work as at 31 December 2016.

Payments amounting to Rs.128.7 million had been paid in the year 2016 for the execution of the activities of 08 building construction projects by the Ministry of Health of the Central Province. The procurement activities relating to it had not been wound up even by 31 March 2017.

Payments amounting to Rs.2.21 million had been made by the Department of Agriculture of the Central Province to the relevant trade institutions contrary to the Financial Rule 471.2 of the Provincial Council for the modernization of the Nalanda Farm Centre and for the purchase of furniture and equipment for the *"Hela Bojun"* restaurants under the Project on the Promotion of Local Food. Those equipment had not been received to the Department even by 31 May 2017.

Payments amounting to a total of Rs.3.53 million had been made including a sum of Rs.0.17 million for one work of which work had not been completed and a sum of Rs.3.36 million for the work completed in 4 other works without a certificate from an officer responsible, at the audit test check carried out physically in April 2017 on the constructions of the Galpalama Farm of the Department of Agriculture of the Central Province.

Actions Deviating from the Circular Provisions

A total of Rs.4.88 million, a sum of Rs.15,000 each per one child had been credited to the Bank Account of the School Development Committee by the parents of the relevant children at once and as installments in enrolling children to the Grade One in the years 2014, 2015 and 2016 in the Sarasavi Uyana Maha Vidyalaya contrary to the Circulars No.2013/11 of 13 March 2013 and No.05/2015 of 29 January 2015.

Even though action should be taken to cancel foreign tours in terms of the letter of the Secretary to the President No.CSA/1/1/83 of 05 June 2015, a total of Rs.54.07 million had been spent from the Provincial Council Fund including a sum of Rs.24.92 million and a sum of Rs.29.15 million for 02 foreign tours of 83 Ministers and Members including 22 officers of the Central Provincial Council in the year 2016 contrary to those instructions.

Purchase of Furniture Deviating from the Government Procurement Procedure

Furniture had been purchased by spending a sum of Rs.3.99 million for the Official Residence of the Governor of the Central Province contrary to the provisions of the Government Procurement Guidelines.

Performance

Even though provisions amounting to Rs.190.00 million had been made available for the maintenance of roads belonging to the Road Development Authority of the Central Province in the year under review, only a sum of Rs.73.94 million or 39 per cent of it had been spent for road maintenance activities. Provisions amounting to Rs.116.06 million or 61 per cent of the provisions made available had been utilized for the payment of the salaries of the employees.

Existence of shortages and excesses of Teachers in Schools

Even though an excess of 4,308 teachers remained in schools of the Central Province, 157 teaching vacancies for various subjects in 108 schools belonging to the Galewela region and 710 teaching vacancies in the regions of Kotmale and Nuwara Eliya remained.

Operating Inefficiencies

A sum of Rs.2.73 million had been paid to the Ceylon Electricity Board for fixing 9 power extensions in the years 2009, 2010, 2011 in the Ministry of Power and Energy of the Central Province. Even though it had been informed by the Ceylon Electricity Board that those projects had been implemented by other alternative proposals, the amount paid to the Ceylon Electricity Board had not been received to the Provincial Council Fund even by 31 December 2016.

The market value of the motor bicycle should be paid to the Department of National Budget within 4 months on the occasion that the officers who received motor bicycles are being appointed to a post of which they are not entitled to a motor bicycle under the Programme of Providing Motor Bicycles to the Field Officers of the Central Province in terms of the Circular No.BD/GPS/130/9/14/MC of 06 January 2016 of the Department of National Budget. Nevertheless, a sum of Rs.2,617,180 recoverable from 19 officers who left to other posts after the receipt of the motor bicycles in such a manner had not been recovered even by 31 March 2017.

Irregular Transactions

The Hostel of the Gurudeniya Educational Development Centre had been used for the use of the Security Offers of the Honourable Chief Minister of the Central Province from January 2010 to 09 January 2015 without a proper reservation. The outstanding hostel fees of Rs.2.54 million relating to it remained recoverable from the Resource Centre.

The walking tracks constructed by spending a total of Rs.10.42 million including a sum of Rs.7.13 million under the Object of Maintenance of Assets without the approval of the Finance Commission and sum of 3.29 million under the object of key project to reduce regional imbalances in the years 2014 and 2015 for the development of the Janasavigama playground belonging to the Kundasale Pradeshiya Sabha and for preparing walking tracks, had been inundated with wilderness.

Apparent Irregularities

Even though revenue amounting to Rs.2.63 million had been collected irregularly from external institution for residence and non-residence programme in 407 instances from 21 March 2014 to 26 June 2016 in the CIDA Centre in Hatton, that money had not been accounted by the Coordinating Officer in charge of the Centre.

NORTH CENTRAL PROVINCIAL COUNCIL

The North Central Provincial Council had granted the low level contribution of 5.4 per cent to the Gross National Product of Sri Lanka during the period of last 29 years. The poverty of the Province existed at a level of 7.3 per cent. A revenue totalling Rs. 38,385 million comprising a sum of Rs. 17,404 million from Government grants and a sum of Rs.20,981 million from internal sources had been estimated for the year under review by the Southern Provincial Council in the year 2016 for giving priority to the development of the fields such as provincial agriculture, education, health, rural infrastructure identifying this condition. A total of Rs. 22,296.7 million comprising a sum of Rs. 16,914.5 million as recurrent expenditure and a sum of Rs. 5,382.2 million as capital expenditure had been estimated to be utilized in the year 2016. As such, revenue totalling Rs.19,113 million comprising a sum of Rs. 15,578 million from Government grants and a sum of Rs.3,535 million from internal sources had been collected . A total of Rs. 20,093 million had been spent comprising a sum of Rs. 16,948 million as recurrent expenditure and a sum of Rs. 3,145 million as capital expenditure in the year 2016. Material and significant audit observations made during the course of audit are given below.

Agriculture

Agriculture is the main livelihood about 79 per cent of the population out of about 1.4 million live in the North Central Province . Accordingly, provisions had been made for Rs.302.2 million as recurrent expenditure and Rs.335.1 million as capital expenditure in the year 2016 for the development of provincial agricultural products under the vision of "Isurumath Bhoomiyak Asirimath Govikelak" by the Ministry of Agriculture. That provision in the preceding year had been Rs.279.6 million and 181.5 million respectively. Accordingly, over provision of Rs.176.2 million had been made in the 2016 as compared with the year 2015 ,the growth of relevant products had been decreased. Details are Table 41.

	Year 2016	Year 2015	Decrease as compared with the year 2015
Paddy Growing Lands			
Maha (Thousands Hectares)	161.5	174.6	13.1
Yala (Thousands Hectares)	112.5	112.5	-
Annual Paddy Production (Thousands Metric Tons)			
Maha	657.3	703.5	46.2
Yala	466.3	466.3	-
Production of Subsidiary Crops (Metric Tons)	144	185	41
Annual Vegetable Production(Metric Tons)	93	101	07
Annual Freshwater Fisheries Production (Metric Tons)	7,705	23,860	16,155
Annual Milk Production (Thousands Litres)	35.56	32.03	3.53

Table 41- Annual Milk Production

Source:- Annual Report of the Central Bank od Sri Lanka – Performance Report of the North Central Provincial Council

Action had been taken to cultivate maize in 4000 acres in extent in the Yala Season under the National Food Production Programme during the period 2016-2018. Accordingly, purchase of maize seeds had been carried out for distribution of maize seeds for the farmers. The Procurement Committee had purchased 8,755 kilograms of maize seeds belonging to the S.A.501 variety and distributed among the farmers contrary to the requests of farmers ,Agricultural Officers and recommendations of the Technical Evaluation Committee. However, the objectives expected from the National Food Production Programme had not been achieved due to failure to sprout that seeds .

Provisions for Rs.1.5 million had been made in the year under review for the Five Acres Tract Twenty Programme relevant to produce Big Onion Seeds .The Provincial Agricultural Department had failed to distribute Big Onion seeds to the farmers during the due period under that Programme. Therefore, Big Onion harvest of 100 acres had been lost to the National production.

Two hundred and seventy model cultivations had been implemented in 67.5 acres by spending Rs.6.61 million in the year under review with a view to propagate ginger cultivation as obtain an extra income for the farmers as a subsidiary crop. Out of that, only 23 crop models in 5.75 acres had been effectively succeeded. Accordingly, the success of this Project was existed at a minimum level of 8.5 per cent .

Plans had been made to carry out procurement activities on an estimate of Rs.6.55 million for the construction of buildings for 02 cold stores and purchase of cold stores equipment by the Provincial Department of Agriculture. Even though ,Rs.8.51 million had been spent for that Project due to the aforesaid activities had assumed and implemented by the Provincial Department of Agriculture , those activities had not been completed even by 31 December 2016.

The Chief Ministry had granted a mobilization advances amounting to Rs.26.55 million to the Agency for Development ,Designs and Machinery in the year 2010 for the rehabilitation of 18 Tanks in the North Central Province. That Project had not been implemented even by the end of the year 2016 and the advances paid had not been settled.

Education

Provisions of 48.9 per cent had been provided for the education sector by the budget for the year 2016. Action had been taken to uplift the education sector in the year under review by recruiting 345 teachers , 1065 new graduate teachers with 46 Subject Directors, 37 Diploma holders of the College of Education . Nevertheless, observations on the relevant progress of the education activities in the year 2016 are given below.

Percentage of the students who eligible for the Advanced Level from the General Certificate of Education (Ordinary Level) examination had been decreased from 66.61 per cent to 66.34 per cent from the year 2015 to the year 2016. It was at a low level as compared with 69.94 per cent which is the overall percentage of passing the Advanced Level Examination in Sri Lanka.

- The number eligible for the University entrance on the results of the General Certificate of Education (Advanced Level) examination had been decreased from 59.56 per cent to 59.27 per cent from the year 2015 to the year 2016. It was at a low level as compared with the 63 per cent of the normal percentage of passed the General Certificate of Education (Advanced Level) examination in Sri Lanka.

- Out of the students who sat for the General Certificate of Education (Advanced Level) and General Certificate of Education (Ordinary Level) examinations ,the average percentage of failure in all subjects in the years 2015 and 2016 were 8.56 per cent and 4.01 per cent respectively. However, the percentages relating to that in the North Central Province had been 9.64 per cent and 10.51 respectively.

- Even though 1,235 government quarters belonging to 6 Provincial Educational Offices had been existed in the North central Province , out of that 691 quarters or 56 per cent were unused.

- The North Central Province had got the 7 th place from the educational level of Sri Lanka by the year 2016 according to the results of the General Certificate of Education (Ordinary Level) examination and 9 th place had been obtained according to the results of the General Certificate of Education (Advanced Level) examination .

Health

The Operation Theater of the Hospital at Padaviya which was existed an operative condition in the last war period had remained idle at the period nearly 05 years due to lack of Doctors. The machineries and surgical equipment of the operating theatre had been repaired in the year under review by spending Rs.1.47 million. However, the patients who come for the treatments had to go to the Teaching Hospital at Anuradhapura as a result of non-attachment of Surgeons to this Hospital.

Provisions amounting to Rs.5.84 million had been made in the year 2008 for the construction of the Ayurveda Hospital for Kidney Diseases at Medawachchiya. Even though the construction work had not been completed even by 31 December 2016, a sum of Rs.85.37 million had been spent as at that time. Further, the activities such tiling the floor area ,fixing doors and windows ,supply of electricity for the Doctors quarters ,Nurses quarters of the Hospital should have been done. The construction work of the wall around the hospital had not been completed as well.

Even though ,a sum of Rs.31.3 million had been spent in the year 2008 for the construction of the Maithreepala Senanayake Ayurvedha Research Hospital at Mihintale , the surrounding of the building become wildness and pigeons were perched due to the building had not been used even by 31 December 2016.

Three hundred and sixty one units of drugs valued at Rs.5.08 million belonging to 20 hospitals of the Department of Provincial Health Services and the Medical Supplies Unit ,and 98 units of drugs the value is uncountable in other 4 hospitals had been expired.

Forty eight units of quality failed drugs valued at Rs.5.43 million had been received to the Medical Supplies Division from hospitals and medical institutions during the year under review and 10 categories of drugs valued at Rs.95,265 had been remained at the stores of 04 hospitals.

Quality failed 766,000 drug units belonging to 4 drug categories valued at Rs.1.92 million had been received to the Department of Health of the North Central Province from the Medical Supplies Division in the year under review. Out of that ,433,356 drug units valued at Rs.1.38 million had been issued to the hospital.

Provincial Road Development

Provisions amounting to Rs.341.83 million had been provided by the budget of the year 2016 for the construction and development activities of 16 roads in the North Central Province. Plans had been made for carpeting of 16.9 kilometers in 7 roads and taring 5 roads by fit up the damages on that provisions and agreements amounting to Rs.336.42 million had been entered into in the year under review .The physical progress of this 12 roads by 31 December 2016 had been at a range from 10 percent to 85 per cent and a sum of Rs.76.1 million had been spent for that purpose. It had been 22.6 per cent from the estimated expenditure. Estimates valued at Rs.18.1million had been prepared in addition to that for the repairing of 04 roads damaged by floods . However, it had been failure to grant that Projects during the year under review.

Pibidena Polonnaruwa

A Development Plan had been prepared for the period of 2016-2020 for the National Programme of Pibidena Polonnaruwa commenced through a Cabinet Memorandum of 2015. Accordingly, the Cabinet of Ministers had approved a gross expenditure estimate costing Rs.60,000 million for the development of 20 fields relevant to 5 main activities. A Five Year Plan should prepared for this purpose and an Action Plan should have been prepared mentioning the projects to be completed annually . However, it had not been so done. Out of the provisions amounting to Rs.8,316 million received in the year 2016, 854 Projects had been approved. Nevertheless, out of that 265 Projects had not been completed by the end of the year under review , work of 7 Projects had not been commenced. An expenditure amounting to Rs.4,642 million had been made in the year under review for the Projects which the work had commenced. It had been 57 per cent from the provisions provided for the year 2016.

The Pibidena Polonnaruwa Development Programme 2016-2020 should have been implemented in the year 2016. However, 152 Projects identified as unable to delay by the year 2016 under that Project and plans had been made to commence in the year 2015 and provisions amounting to Rs.756.42 million had been provided. Out of that, 11 Projects valued at Rs.360.73 million had not been completed even by 30 June 2017.

SOUTHERN PROVINCIAL COUNCIL

The Southern Provincial Council had estimated a revenue totalling Rs.36,141 million for the year 2016, comprising the government grants of Rs.28,692 million and internal sources of Rs.7,449 million. Of that revenue, a sum of Rs.29,543 million as recurrent expenditure and a sum of Rs.8,753 million as capital expenditure had been estimated to be utilised. Accordingly, the revenue totalling Rs.30,869 million had been collected in the year 2016, comprising a sum of Rs.23,640 million from government grants and Rs.7,229 million from internal sources. A total sum of Rs.33,293 million had been utilised in the year 2016, comprising a sum of Rs.28,239 million as recurrent expenditure and Rs.5,054 million as capital expenditure. Accordingly, expenditure over revenue had existed and as such a sum of Rs.1,473 million had been spent from the Funds of the Provincial Council.

Significant audit observations revealed in the audit of the Southern Provincial Council relating to the year 2016 are summarised below.

Projects not implemented

Works of 66, 65 and 97 projects proposed to be implemented under the Provincial Specific Development Grants, criteria Based Development Grants and criteria Based Development Grants – under councillers provisions respectively during the year under review had not been commenced even by the end of the year under review.

Collection of arrears of Revenue

Revenue totalling Rs.925.91 million in arrear by the end of the year 2016 under 7 revenue codes. Accordingly, the progress of recovery of arrears of revenue had not been at a satisfactorily level.

Recovery of loan terms lease rent

The arrears of lease rent and penalties thereon receivable in respect of 73 leases of lands given by 8 Divisional Secretariats on long term lease basis totalled Rs.33.45 million.

Uitlisation of criteria Based Funds contrary to the objectives

A sum of Rs.2.05 million had been spent to put up a security iron fence of an official quarter and for garden beautification under the “Saru Bima” programme implemented from the criteria Based Funds meant for the upliftment of agriculture in terms of the objectives of Southern Province Development Authority.

Payment of Value Added Tax (VAT) to the contractor whose registration were cancelled

The Value Added Tax totalling Rs.14.98 million had been paid to 17 contractors in the year 2016 by the Provincial Ministry of Education, Land and Land Development, Provincial Road and Information disregarding that their registration were cancelled.

Payment of allowances to Engineers of the Provincial Road Development Authority

Contrary to the provisions in the Public Administration Circular No.28/2011 dated 12 December 2011, the engineering allowances totalling Rs.2.72 million in the year 2015 and Rs.2.43 million in the year 2016 had been paid at Rs.15,000 per month to the engineers who served in the Authority but not belonged to the Sri Lanka Engineers Service. However, the Department of Management Services had informed that the officers of the Authority were not entitled for this allowance, as a response to an inquery made by audit.

Idle and Under-utilised Assets

Out of the computers purchased by incurring a sum of Rs.24.31 million under the Transforming the School Education system as the foundation of knowledge hub Project (TSEP) for the supply to Provincial Ministry of Education, Land and Land Development, Provincial Roads and Information, Provincial Department of Education, Zone Education Offices and Selected Schools 147 computers were given to the 8 zone education offices to be distributed to schools had been stored in the officers for more than a year.

Out of the eastern and western musical instrument purchased by incurring a sum of Rs.3.33 million to be supplied to the school band under the above project, 224 pieces of musical instrument valued at Rs.1.51 million had been stored unproductively in the Ministry stores, without being distributed. Of these instruments, 25 geta drumps, 22 double drums and 4 flutes had been damaged by creatures as impossible to use and there was a risk that the other instrument might also be destroyed.

Poverty Alleviation Fund

Out of loans of Rs.1.82 million granted to 242 borrowers by 29 Divisional Secretariats under the Southern Province Poverty Alleviation project, any money whatsoever had not been recovered even by 31 December 2016.

Change of Station transfers of teachers

According to the Circular No.2007/20 dated 13 December 2007 of the Ministry of Education the service period of teachers in one school should be limited to 06 years. Nevertheless, 11,960 teachers in 1,024 schools belonged to 3 districts in Southern Province had served for periods ranged from 06 to 20 years in the same school, contrary to that circular.

Similarly, the number of teachers who served in the same school for more than 20 years without being transferred amounted to 1,518.

Uneconomic Transactions

A sum of Rs.11.11 million had been spent during the year under review and the previous 2 years by the Ministry of Southern Province Fisheries, Animal Products and Development Environment, Rural Industries, Electricity and Rural Infrastructure Development for the "Embul Thial" project and it operations had been entrusted to the Southern Province Industrial Development Authority. However, the Authority had failed to commence its operations, even by the end of the year under review.

EASTERN PROVINCIAL COUNCIL

Revenue totalling Rs. 23,121 million comprising a sum of Rs. 20,351 million from Government Grants and a sum of Rs. 2,770 million from internal sources had been estimated for the year 2016 by the Eastern Provincial Council. A total of Rs. 25,233 million comprising Rs. 20,351 million for recurrent expenditure and Rs. 4,882 million for capital expenditure had been estimated to be utilized in the year 2016. Accordingly, revenue totalling Rs. 20,333 million comprising Rs. 17,016 million from Government Grants and Rs. 3,317 million from internal sources had been collected in the year 2016. A sum of Rs. 21,584 million comprising Rs. 20,276 million for recurrent expenditure and Rs. 1,308 million for capital expenditure had been utilized in the year 2016.

Material and important audit observations made during the sample audit carried out in the year 2016 relating to the activities of the Eastern Provincial Council are given below.

Making Payments for works Abandoned by the Contractor

A contract awarded by the Urban Council, Trincomalee on 28 January 2012 for construction of Night Soil Treatment Plant had been abandoned by the contractor after obtaining payment of Rs.4.49 million. However, the Provincial Engineer had certified by his letter dated 20 November 2014 that the entire construction works had been completed satisfactorily. Accordingly, the Council had released the retention money to the contractor even though only 50 per cent of the works had been completed up to now.

Non-utilization of Tractor with a Bowser

A tractor with a bowser operated only 06 kilometers at the time of taking over by the Hospital, Sainthamaruthu from a Non-governmental Organization had remained idle for more than 10 years without utilizing even a single kilometer after handing over it by the NGO.

Non-utilization of Computers

Sixty four computers provided to a Mahindodaya Laboratory of a school at the Zonal Education Office, Thirukovil and twenty four computers provided to a Computer Resource Centre of a Secondary School at the Zonal Education Office, Kanthale had remained idle for more than three years and the warranty period given for those computers had already lapsed.

Non-utilization of Medical Equipment

There were no Dialysis Units at the Base Hospital, Muthur and Kinniya and no kidney patients reported at these two hospitals up to now. However, the Provincial Department of Health had procured equipment for dialysis treatment at a cost of Rs. 19.17 million on 19 December 2016 for those hospitals and as such, those equipment were remained idle. Further, eye surgical equipment issued to the Base Hospital, Kinniya at a cost of Rs. 1.75 million had remained idle for more than one year due to lack of Eye Surgeon.

Non-operation of Compost Yard

A compost yard constructed at Nilaweli at a cost of Rs. 12.8 million and handed over to the Pradeshiya Sabha, Nilaweli on 26 March 2016 with all the machineries had remained idle up to now.

Misappropriation of Public Funds

Providing consultancy services to the Provincial and Central Government institutions in the Eastern Province is one of the key function of the Provincial Department of Buildings. However, a sum of Rs. 6.30 million received as consultancy fees from the District Secretariat, Batticaloa during the years 2016 and 2017 for providing consultancy services with regard to construction of office building had been appropriated among twenty one officers of the Eastern Provincial Council including Chief Secretary and Deputy Chief Secretary, Engineering Services without remitting to the Provincial Treasury. Subsequently, the District Secretariat, Batticaloa had terminated the contract awarded to the Department of Buildings due to lack of specialists in the Department to carry out this kind of consultancy works and as such, the construction of office building had delayed for more than two years.

Idle Sewing Machine

Fifty seven sewing machines purchased at a cost of Rs. 1.95 million on 31 December 2015 had remained idle even up to 30 June 2017 due to non-completion of construction works of the Sewing Centre.

Road Construction Machines Lying Idle

Forty eight machines valued at Rs.140.28 million belonging to the Provincial Road Development Department used for road construction works had remained idle for more than 06 years without taking proper action to repair and use or sell those machines by auctioning.

Arrears of Lease Income

Lease income for Government Lands totalling Rs. 169.98 million had remained arrears since year 1991 without taking action to recover such arrears of income.

Unsettled Loan Balances of Former Members of the Provincial Council

Loan balances aggregating Rs. 0.9 million had remained unrecovered from the former Members of the Provincial Council for more than 07 years.

Non-utilization of LED Display Advertisement

A LED display advertisement board purchased at a cost of Rs. 0.94 million on 10 March 2014 by the Pradeshiya Sabha, Seruwila had not been utilized up to now.

Fraudulent Activity

Rates and Taxes collected by the Revenue Collection Officers from nine receipt books issued to them during the years 2013 and 2014 had not been settled to the Pradeshiya Sabha, Thambalagamam. Subsequently, the former Secretary and five other officers had agreed on 17 February 2015 to return a sum of Rs.160,900 collected from two receipt books out of nine receipt books. However, disciplinary action had not been taken against the officers who involved in the fraudulent activities.

Failure to return Laptops and Fax Machines

Former members of the Provincial Council had obtained 37 laptops and 37 fax machines during the period from 2008 to 2011. However, out of them 25 laptops and 25 fax machines had not been returned up to 30 June 2017.

Construction of Houses according to Housing Development Plan

According to the Housing Development Plan of the Provincial Housing Authority, it was expected to construct 5000 houses at the total estimated cost of Rs. 2,687 million during the year 2016. However, no houses had been constructed during the year 2016.

Non-settlement of Advances for Korean Languages Classes

A sum of Rs. 2.0 million had been paid as an advance to the former Secretary to the Chief Minister to conduct Korean language classes for unemployed youths during the year 2008. However, the above mentioned classes had not been conducted as envisaged and the advance paid had not been settled even up to 30 June 2017.

NORTHERN PROVINCIAL COUNCIL

The Northern Provincial Council had estimated an income amounting to Rs. 25.34 million for the year 2016 which consist of Rs. 16.757 million from the Government Grant and Rs. 2,430 million from other internal sources of income and it was expected to spend a total sum of Rs. 25,550 consisting of Rs. 19.366 million for recurrent expenditure and Rs. 6,184 million for capital expenditure. However, total expenditure aggregating Rs. 23,553 million consisting of Rs. 19,312 million for recurrent expenditure and Rs. 4,241 million for capital expenditure had been incurred during the year 2016. Out of the income aggregating Rs. 23,530 million recovered for the year 2016 consisting of Rs. 20,415 million from the Government Grant and Rs. 3,114 million from other internal source of income. Important audit observations for the year 2016 relating to the activities of the Northern Provincial Council are given below.

Cheques written without Commencement and Completion of Construction Works

Construction of Kabadi Court had been estimated at a cost of Rs. 5 million at Vavuniya District. However, before the commencement of construction work three cheques for Rs. 3,014,206 had been written by the Department of Sports to meet the expenditure without commencement and completion of this work during the year under review. One cheque to the value of Rs. 1,786,341 had been subsequently credited to the revenue account on 14 September 2016 and other two cheques Rs. 1,984,824 written for the above said work had been kept in the deposit accounts without being utilized for the intended purposes. This Kabadi court had not been constructed and up to the report date this report.

Establishment of Livestock Farm and Ineffective Operation

Under the special project for promoting livestock development in the Northern Province, Aninchainkulam breeding farm had been established at 50 acrs of land in 2013 with the objective of produce optimum number of breedable heifers and stud bull calves and Goats to be distributed among the farm. At the same time, about 36,000 lit. milk and 25MT of meat to be produced annually to contribute to achieve the national target in milk & meat production. However, the farm had not been effectively functioned as 17 cows and 08 calves only were available at farm.08 cows were killed by wild animals at this farm which is situated near the forest.

The instrument to get milk had been purchased at a cost of Rs. 3.7 million in 2003, could not be used by the farm and allowed to be idle. A sum of Rs. 245,460 collected as revenue for the year under review whereas an expenditure of Rs. 4,632,674 had been incurred for the farm activities. As a result 4.4 million loss incurred by the farm. A goat shed also had been constructed to the value of Rs. 1.2 million. However, no goats were made available in the shed. Further more valuable trees removed from the land area to establish the farms were not made available for audit inspection.

In this regard no records were maintained for valuable uncounted trees by the office.

Payment made for the Purpose of Lively hood of the Families of Special needs required to the Political Detentionors, Rehabilitated Detentionors and Tamil Soldiers died on civil war Rs. 68.8 Million.

As per Finance Commission letter dated 26 May 2015 a concurrence had been given for Rs. 30 million to improve income of the resettled people in the Province and a sum of Rs. 13 million provided to The Project activities which includes Livestock farming mass, an mushroom cultivation and some vocational training programmes and balance Rs. 13 million given for facilities to self-employment for income generation of the member of Rural Development Society and women Rural development Societies. Further, a sum of Rs. 20 million from PSDG and Rs. 5 million from CBG had been spent to the 517 self-employment of resettle people for income generation without being obtained approval from Finance Commission. In this regards the following observations were made.

- As per Financial Commission letters for the expenditure of Rs. 43 million, the payment to be given to the resettled peoples in the Province but the payment of Rs. 68.8 million were spent to the 1377 families of the Tamil political detentionors.

- The project had not been implemented through RDS and WRDS as instructed by Financial Commission. In this regards the Director of Department of Rural Development stated in his reply to audit query that beneficiaries were selected directly through Hon. Minister's direction without recommendation obtained by the Grama Niladari due to the political situation prevailed during the period of 2014 to 2016 and Divisional Secretaries were unable to confirm the beneficiaries. Further he stated that the beneficiaries list could not be prepared by the Grama Niladari due to the threatened by the intelligent group.

- As per audit investigation it was revealed that a money released through the project had not been supported to improve the income of resettled/ any other people in the Province due to the reasons. Such as money requested by the families for the particular purpose not considered and proper monitoring processes were not carried out by the Department of Rural Development for the Utilization of fund given to the income generation.

Idle Unutilized Medical Equipment Rs. 29.6 Million

09 Nos. of Hemodialysis machines and other various type of accessories valued Rs.107,482,000 had been purchased by the Regional Directorate of Health Services Jaffna Mullaithivu, Mannar and Vavuniya on 19 December 2016 and supplied to 09 hospitals on 27 January 2017. Eventhough total as 200 Nos. of visits of chorionic kidney disease patients had been recorded during the first half year 2017 in each hospital action had not been taken to make it as effective utilization and allowed to be idle during over last 07 months due to non availability of trained human resources and lack of area spaces in the above hospitals including building facilities.

In this connection, the Medical Superintendent of the Base Hospital stated that the medical equipments supplied without being request by the hospital as such the machine cannot be operate without being appoint a consultant and 03 Medical Officers, 03 Nurses and 03 Minor Employees with a provision of adequate training.

Establishment of Electric Power Generating Plants by Fixing Wind Turbines

An agreement had been signed by the Chief Secretary of Northern Province with two private companies to establish the electric generating plants by fixing wind turbines on 07 November 2014 considering the financial support of aggregating Rs. 430 million and lease rentals had been fixed at the rate of Rs. 20 million for the first 10 years and at the rate of Rs. 23 million for the next 10 years without being obtained value assessment from Department of Valuation to be implemented by the Provincial Ministry of Agriculture during the period from March 2014 to March 2034 without being obtained proper approval from Line Ministry or Northern Provincial Council.

However, a sum of Rs. 2,933.81 million had been paid to the above companies by CEB during the period from December 2014 to December 2016 for the supply of electricity to national grid at the area of Pallai Divisional Secretariat, whereas only a sum of Rs. 25 million had been received by the Northern Provincial Council as a rentals during over last 03 years, resulting huge amount of income generated by those companies due to non execution of works considering the competitive price. Further, an incentive allowance aggregating Rs. 840,000 had been paid to 20 officers of 02 Northern Provincial Departments without being obtained an approval from the authority concern.

Eventhough, 06 water bowsers valued to Rs. 5 million and a sum of Rs. 25 million had been received for the period 2014, 2016 and 2017 respectively had not been credited to Provincial Revenue account during the period ranging from 01 to 03 years however, the provisions to be made for an expenditure / revenue for the years 2014, 2015 and 2016 had also not made available for audit.

Irregular Certification of Purchase

4368 No. of sports items to the value of Rs. 3 million procured by the Department of Sports to distribute among the sports clubs in Northern Province. However, no evidence were made available in audit for distribution of those sports items to the sports clubs. Further it was observed that the payments voucher had been certified by the Director of Sports other than the certifying officer in terms of Provincial Financial Rule 107. At an audit verification it was found that no sports items and copies of issue orders were made available at the store.

A sum of Rs. 1,200,000 paid by the Central Government shown as expenditure in the accounts as Sports Development and Football Federation but the amount had been retained in the deposit account without executing the relevant activities. Subsequently this amount had been released to the Sports Department to meet the expenditure of the year 2016.

Financial Fraud Committed in the NELSIP Project

Financial fraud Rs. 4.348 million committed at the Valvettithurai Urban Council and Pointpedro Pradeshiya Sabha on the construction work of roads and market were investigate by the special committee appointed by the Provincial Council and reported to the Council Secretariat. In addition other board of committee was appointed by the Chief Secretary by spend over Rs. 1.5 million for investigation carried out by the retied officer in respect of financial fraud Rs. 4418 million reported on the same project works due to alteration of higher rate for each BOQ items in the bid documents and payments were made accordingly on the civil works payments of the 03 Local Authorities. Legal action and department action in respect of financial fraud had not been taken to recover from the person responsible.

Unsettle Imprest

Out of the imprest released Rs. 6 Million to the Department of Local Government to pay compensation to the traders of Mannar District due to the shops destroyed by fire during the year 2012, a sum of Rs. 4.97 million had not been settled up to now. In this regard no action had not been taken by the relevant authorities to recover the money paid to the private parties even lapse of 5 years

Unutilized Buildings Constructed from the Fund of North East Local Services Improvement Project (NELSIP – Puraneguma)

32 Development works such as children parks, markets, bus terminate, shopping complex, training centre and cultural hall, etc. constructed at a cost of Rs. 459.91 million in remotes and less populated areas in Musali, Nanaddan, Mannar, Manthai West Pradeshiya Sabhas in the Northern Province had remained idle over 03 years. Further, the shopping complexes constructed for market at Thailaimannar railway station, Iranai Illuppaikulam, Periyamadu and Andankulam and building constructed for indoor stadium for children training centre and cultural hall at Nallur Pradeshiya Sabha had been used for other purposes since 2014 instead of utilizing for intended purposes.

Unsettled Payments made by the People's Bank for the Payments of Teachers Salary Rs. 5,200,550 over 08 Years

A cheque issued by the Department of Education Thunukkai to the Manager, People's Bank, Mankulam for the payments of Teachers salary for the month of January 2009. This cheque had been purchased by the People's Bank, Mankulam from the Bank of Ceylon, Mankulam and credited to the respective schools. Subsequently when the cheque was sent to Bank of Ceylon, Mankulam branch for clearance. The Bank of Ceylon had not been settled to the People's Bank up to now. In this regard, no meaningful action had not been taken by the Secretary, Ministry of Education even lapse of 08 years.

Losses incurred on Vehicle Accident Rs. 1,735,000

Vehicle assigned to the Zonal Director of Education, Mannar met with an accident on 16th October 2015 and the estimated cost of repairs for this vehicle was valued Rs.1,735,000. However, it had not been reported to the police in term of Northern Provincial Council Financial Rule 69.1(II) and a preliminary inquiry had not been carried out within the specific period as per the Northern Provincial council Financial Rule 70. Further, the same vehicle had met with an accident in two occasions previously when the vehicle drive by the same driver. Eventhough vehicle had been fully insured an action had not been taken to claim insurance and action in terms of Chapter XLVIII Section 31.1.8 of Establishment Code had not been taken against the officer responsible. In this regard no action had been taken to repair the vehicle up to the date of this report and the vehicle is parked in private garage, Jaffna over two years.

Identified Losses

Final report in terms of PFR 70 (5) had not been furnished by the four departments in respect of losses on 35 items amounting to Rs. 49,059,804 occurred during 1999 to 2015. Details are given Table 42

Ministry / Department	No. of Losses	Amount Rs.
Department of Agriculture	05	98,259
Department of Animal Production & Health	10	17,554,713
Department of Health	11	9,644,965
Department of Irrigation	09	21,761,867
Total	**35**	**49,059,804**

Table 42 - Identified Losses

Lapsed Deposit

A sum of Rs. 9.8 million kept in the deposit account over 02 years by the 08 Provincial Departments. In this regard no action had been taken in terms of FR 570.

SABARAGAMUWA PROVINCIAL COUNCIL

A revenue totaling Rs.26,014 million, comprising a sum of Rs.22,794 million from government grants and Rs.3,220 million from internal sources for the year 2016 had been estimated by the Sabaragamuwa Provincial Council. Expenditure totaling Rs.26,014 million comprising a sum of Rs.21,439 million as recurrent expenditure and a sum of Rs.4,575 million as capital expenditure had been estimated for the utilization of the year 2016. Accordingly, a total revenue of Rs.24,856 million comprising the government grants of Rs.20,766 million and a sum of Rs.4,090 million as internal sources had been collected during the year 2016. A sum of Rs.26,673 million comprising the recurrent expenditure of Rs.22,116 million and the capital expenditure of Rs.4,557 million had been utilized in the year 2016.

Significant audit observations revealed in audit, carried out in the year 2016 relating to the Sabaragamuwa Provincial Council are given below.

Expenditure incurred on foreign tours

Audit test checks carried out in respect of foreign tours relating to the years 2015 and 2016 observed the following.

- A sum totaling Rs.4.01 million had been paid as combined allowances to two Provincial Council Ministers and five officers for 3 foreign tours, though the donor agency had stated that accommodation food and other facilities would be provided. An overpayment of Rs.0.81 million had been made to one Provincial Minister and 4 officers at one foreign tour.
- An over payment of Rs.01 million had been made to 3 Provincial Ministers and 19 officers as incidental allowances at 2 foreign tours and an overpayment of Rs.0.11 million had been made as entertainment allowances at one foreign tour.
- A sum of totaling Rs.2.88 million had been paid to a private company to purchase air tickets at 5 foreign tours. At an audit test check revealed that a financial loss of Rs.1.01 million was incurred as a result of purchasing air tickets from that company relating to only 2 foreign tours.
- Contrary to the instruction of Circular No.CSA/1/1/83 dated 05 June 2015 of the Presidents Secretary, a sum of Rs.20.65 millions had been spent from the Council's Fund in respect of a tour in Italy made by 33 persons, comprising 2 Ministers, 24 Councilors of the Subaragamuwa Provincial Council and 7 selected officers.

- A total sum of Rs.4.34 million had been spent from the Provincial Council's Fund for two foreign tours made by the Provincial Chief Minister and his private Secretary in the 2 years of 2015 and 2016 with the objective of gaining required knowledge in the commencement of various projects within the province and getting such opportunities and one foreign tour made by the Provincial Minister of Social Welfare and Industries Development in the year 2015. Any benefit sustained by the Sabaragamuwa Province from those tours had not been identified even by 30 June 2017.
- According to the invitation made by a private hospital in the United Kingdom for a training programme conducted for the medical officers engaged in the medical administration field, the Chief Minister and his private Secretary had made a foreign tour from 27 March 2016 to 03 April 2016 without being participated any officer engaged in medical field and a sum of Rs.1.67 million had been spent out of the Council's Fund. Even thereafter that tour, training opportunities had not been obtained by the officers who engaged in medical field and as such that expenditure had become fruitless.

Discrepancies occurred in making payments for construction contracts

- A sum of Rs.4.92 million had been spent for the repairs and modify the official quarters of Sabaragamuwa Provincial Councilors in the year 2015. The Provincial Council Fund had sustained a loss of Rs.1.98 million due to weaknesses in the preparation of estimates, approving and making payments.

- According to the recommended bill for the construction contract of Handagiriya 2nd access road in the Udawalawa National Park, 15 Km. in length, a sum of Rs.1.33 million had been paid for 349.08 machine hours for works not done as compared with the work actually carried out in using number of machine hours specified.

Payment of allowances to Provincial Councilors who had been imprisoned.

Two council members represented the Provincial Council had been imprisoned during the period from February 2014 to February 2016. During that period they had not participated in any meeting held by the Sabaragamuwa Provincial Council. Although they have not served in the Provincial Council in their imprisoned period, a total sum of Rs.1.19 million had been paid to them as drivers allowances, fuel allowances, telephone allowances and entertainment allowances, in addition to their salaries.

Rent from Government quarters not properly recovered

The Provincial Council had deprived of a revenue of Rs.2.58 million due to recovery of rent from the officers who had occupied 12 government quarters belong to the Provincial Council for the period 2003 to 2016 contrary to the provisions specified in the Establishments Code.

Purchasing and awarding gifts from the provision of the Provincial Council Fund

A sum of Rs.4.07 had been spent by the Governor of the Provincial Council in the year 2015 for the distribution of various goods as gifts among various parties.

Under utilization of Mahindodaya Technological Laboratories

- The Provincial Ministry of Education had constructed Mahindodaya Technological Laboratories in the 15 selected schools within the Sabaragamuwa Province by spending a sum of Rs.133.29 million. Although those constructions had been completed and elapsed for more than 2 years five Technological Laboratories had not been officially handed over to the students.

- Twenty five items of equipment, including computers and accessories, chairs and tables, the estimated cost of which was Rs.83.50 million planned to be purchased for the Mahindodaya Laboratories in the year 2015, had not been purchased even by 31 December 2016. As such, the Technological Laboratories of those schools for which, such equipment was not received had been under utilized.

Non-supply of facilities for storing non-mouldering garbage

According to the minutes of the meeting of Sabaragamuwa Provincial special anti dengu programme, it was decided to construct buildings for stores facilities to the Local Authorities where no stores facilities were available for storing non-mouldering garbage. However stores facilities had not been provided to 12 Local Authorities in the Sabaragamuwa Province where there were no stores facilities, even by 30 June 2017.

NORTH WESTERN PROVINCIAL COUNCIL

A revenue totalling Rs.43,057 million comprising a sum of Rs.35,346 million from Government grants and a sum of Rs.7,711 million from internal sources had been estimated for the year 2016 by the North Western Provincial Council. A sum of Rs.29,359 million for recurrent expenditure and Rs.13,697 million for capital expenditure had been estimated to be utilized in the year 2016. Accordingly, a revenue totalling Rs.33,219 million comprising Rs.25,701 million from Government grants and Rs.7,518 million from internal sources had been collected in the year 2016. A sum of Rs.33,002 million comprising Rs.28,224 million for recurrent expenditure and Rs.4,778 million for capital expenditure had been utilized in the year 2016.

The significant audit observations relating to the activities of the North Western Provincial Council for the year 2016 are summarized and given below.

Failure in Tax Collection

The arrears of tax by the end of the year under review totalling Rs.4.22 million comprised a total of Rs.0.36 million from 12 owners of cullings, a sum of Rs.**3**.68 million from 167 salt waikkals and a sum of Rs.0.18 million from prawn projects for the year under review and the Kalpitiya Divisional Secretariat had not taken action to collect those arrears of revenue.

Even though the State lands within the area of authority of the Panduwasnuwara (West) Divisional Secretariat had been leased out on long term, action had not been taken by the Panduwasnuwara (West) Divisional Secretariat to recover the lease totalling Rs.1.46 million recoverable annually from the year 2003 to the year 2016.

Purchase of Medical Equipment

The Technical Evaluation Committee had recommended the purchase of medical equipment valued at Rs.134.62 million by the Provincial Department of Health Services in 38 instances in the year under review without the recommendation of a Bio Medical Engineer.

Solid Waste Management

The Nawagaththegama Divisional Secretary had not provided a suitable land to commence a solid waste management project for the garbage collected within the area of authority of the Nawagaththegama Divisional Secretariat. Even though provisions of Rs.1.78 million had been made for that purpose, the project had not been implemented. As such, those provisions had been returned.

Non-payment of Contributions for the Fund

The Provincial Machinery Equipment Authority had not paid contributions totalling Rs.6.19 million from the year 2013 to the year 2016 to the Employees' Provident Fund and the Employees' Trust Fund. As such, a penalty of Rs.5.24 million as well had been imposed by the end of the year under review for non-payment of those contributions.

Examination of Persons affected with Kidney Ailments

Provisions of Rs.5.00 million had been made to the Provincial Department of Health Services for identifying and examining patients affected with kidney ailments in the areas of Ambanpola, Kobeigane, Polpithigama, Galgamuwa, Giribawa, Nikaweratiya and Maho. Out of those provisions, imprests of Rs.1.58 million had been received in the year under review. As such, the examination of patients affected with kidney ailments could not be carried out in the expected level in the year under review.

Prevention of Damage to the Environment

The Environment Ordinance had not been enforced on the steps that should be taken in respect of factory owners maintaining factories without obtaining Environmental Protection Licences . No proper procedure had been identified in respect of legal steps that should be taken to minimize the damage to the environment by such factories. Even though 21 years had lapsed after the establishment of the North Western Environment Authority, no necessary steps had been taken therefor.

Dearth of Teachers for Technological Laboratories

One hundred and twenty six technological laboratories had been established in secondary schools located in the North Western Province and Advanced Level Science/Mathematics classes had been commenced only in 36 schools by the end of the year under review. The dearth of teachers relating to those subjects had been 47. Even though 127 students from the Science/Mathematics streams from 20 schools had sat for the General Certificate of Education (Advanced Level) Examination in the year 2015, out of them, only 11 students had passed.

Rejecting the Lowest Bid

In purchasing 15 Multipara Monitors by the Provincial Department of Health Services, the contract had been awarded by accepting the bid quoted for Rs.6.23 million with the maintenance cost by rejecting the bid submitted for Rs.3.75 million with the maintenance cost which had fulfilled all technical specifications. As such, an overpayment of Rs.2.48 million had been made from the Provincial Councils Fund.

Constructions Abandoned

The Ministry of Provincial Roads, Transport, Co-operative Development and Trade, Housing and Constructions and Industries and Rural Development had spent a sum of Rs.900,000 in the year 2007 for constructing a Rural Development Centre on the land of the Atamune Vidyalaya. The constructions had been abandoned later.

Non-adherence to the Procurement Process

The Provincial Department of Agriculture had purchased 20,300 pheromone traps, 6250 metres of resistant nets, 120 numbers of papaw plucking equipment, 20 ladders, 755,300 black polythene bags, 700 pieces of polythene and 20,000 packings for a total of Rs.13.35 million without inviting competitive bids.

Non-payment of Year 5 Bursaries

Year 5 bursaries totalling Rs.210,500 had not been paid by the Kurunegala Zonal Education Office in the years 2014 and 2015 for 176 scholarship beneficiaries of 15 schools.

Inoperative Water Filter

Action had not been taken to replace the Reverse Osmosis Plant of Ihala Maradankadawala in Giribawa valued at Rs.3.40 million which had been fully inoperative during the guarantee period with a new filtering system.

Non-utilization of resources for intended purposes

Even though the constructions of the Polpithigama Rambe Cultural Centre had been completed by spending a sum of Rs.9.02 million in the year 2016, it had not been made use of even by May 2017 for intended purposes.

Even though a sum of Rs.1.06 million had been spent for partitioning the upper floor of the Madahapola Primary Medical Unit so as to use it, that floor had not been made use of even by May 2017 for any purpose whatsoever.

Purchase of Sub-standard Machinery

A thread drying machine with a capacity of 60 kilograms had been purchased by the Provincial Department of Textile Industries in the year 2014 by spending a sum of Rs.1.76

million. However, the quantity of thread that can be dried at a time is 12.5 kg and as such, it had been revealed that a quantity of approximately 25 kg of thread can be dried per day. Accordingly no intended capacity level had been purchased machine.

Inoperative Sewerage System of the Kuliyapitiya Hospital

The sewerage system constructed in the Base Hospital, Kuliyapitiya by spending a sum of Rs.18.5 million in the year 2008 had been inoperative continuously even from the year 2012 up to the end of the year under review and as such, the wastage had to be disposed by a gully bowser. Even though provisions of Rs.15.00 million had been made under provincial specific provisions in the year 2016 for the repairs of this sewerage system again, it had not been operative even by the end of the year under review.

UVA PROVINCIAL COUNCIL

Total revenue of Rs.22,979 million had been estimated for the year 2016 by the Uva Provincial Council. Out of that revenue, a sum of Rs. 18,587 million by Government grants and a sum of Rs.2,685 million by internal resources as well had been estimated. The Provincial Council had expected to allocate a sum of Rs.18,935 million for recurrent expenditure and a sum of Rs.3,570 million for capital expenditure. Accordingly a sum of Rs. 18,588 million had been received from Government grants and a Sum of Rs. 3,296 had been collected from internal resources. Further a sum of Rs. 19,386 for recurrent expenditure and a sum of Rs. 2,998 million for capital expenditure had been spent.

The audit observations revealed in respect of the affairs of the Uva Provincial Council has been summarized and shown below.

Work Shops in Philippines and Thailand

Thirty Government officers had participated in the training workshop for the school based management and school based teacher development held in Philippines and Thailand from 10 January 2016 to 24 under the Transforming School Education as the Foundation of Knowledge Hub Project (TSEP). A sum of Rs. 30.88 million had been spent for this by Ministry of Uva Provincial Education. Contrary to the objective of capacity development mention in the project procurement plan for the year 2016 as capacity development of Provincial Education and Deputy Education Directors, 10 Officers in other field had been sent and a sum of Rs. 10.67 million had been spent in this regard. The training institute had been selected for this programme without evaluating the experience and capability of the Institute and a sum of Rs. 8.36 million had been paid to that Institute.

Implementing of Rural Power and Energy Projects

An allocation of Rs. 10 million had been provided for Rural Power and Energy under Uva Provincial Chief Minister and Finance and Planning, Law and Order, Education, Local Government, Land, Cultural, Social Welfare and Rural Infrastructure Development and Construction. A sum of Rs.8.60 million had been spend for that purpose by 31 December 2016. As per the direction of Guideline 2.12 of Procedure Guideline Manual No. FC/3/2/2016 dated on 26 November 2016 for Preparing Annual Development Plan for the year 2016 of the Secretary to Finance Commission, though provisions should be used to common electricity extensions, contrary to that, instances were revealed that the allocations had been spent on laying single cable for houses. The programs which should be implemented on providing optional power generators and using electricity economically.

Welimada Pradeshiya Sabha- Sewerage Project

It had been entered into an agreement for Rs. 92.51 million on 10 February 2011 to construct a Sewerage System at Welimada City under the Local Government Infrastructure Development Project with the assistance of Asian Development Bank on Loans and Grants, and had been entered into a new agreement for Rs. 109.61 million on 05 April 2012 by including additional works. The Project had been handed over to Welimada Pradeshiya Sabha by the contracting Company on 14 January 2013 and the entire retention money and the agreed amount had been paid to the contractor without recovering the liquidity damages of Rs. 10.96 million. Following deficiencies were reveled in this regard.

- Sewerage pipe system of the Project had been laid in higher the toilets of the beneficiaries.
- Water leaks to Sewerage tank,
- Though the estimated Sewerage connections were 300, the connections provided at the time of inspection had been 17.
- Damaged sewerage pipe system and the waste water mixing with excreta in main septic tank had been exposed to outside environment.

Leased out Government Lands for Commercial Activities

Leasing out of a land lot from the land of 11.056 hectares in Mipilimana belonging to Welimada Divisional Secretariat to Radio Ceylon had been approved by the Commissioner General of Land for commercial purpose for 30 years on 09 May 2011.Actions had not been taken to either to enter into a lease agreement or prepare an indenture of lease by Welimada Divisional Secretary. Nineteen Acres from this land had been released to a private party for agricultural activities on 06 November 2012 for Rs. 2.76 per annum by the Radio Ceylon. According to the valuation report of District Valuer dated on 14 June 2012, actions had not been taken to recover Rent income of Rs. 8.68 million receivable to Uva Provincial Council from Radio Ceylon. No action had been taken against the Radio Ceylon who had been performed unauthorized agricultural and residential activities, National Youth Brigade, and private parties by the Welimada Divisional Secretariat.

Court Fines and Stamp Fees

Court fines of Rs. 77.59 million and Stamp Fees of Rs. 74.32 million receivable from 02 Municipal Councils, 01 Urban Council and 25 Pradeshiya Sabha had not been paid to Local Government Institutions as per the Municipal Council and Urban Council Act (amended) No.42 of 1979 and paragraph 129(2) of Pradeshiya Sabha Act No. 15 of 1987.

Educational Activities

The audit observations revealed in respect of the activities of the Uva Provincial Council Provincial Education has been summarized and shown below.

- Out of the Students General Certificate of Education (Advance Level) conducted for the period 2014-2016 and General Certificate of Education (Ordinary Level) Conducted in the years 2014-2015 in Bandarawela Educational Zone, less than 50 percent in the same list of schools had been passed those exams.

- A sum of Rs. 3.59 million given to 68 schools under quality input component had been kept in general deposit accounts of Welimada Zonal Education Office for more than two years and had been credited to Government income in June 2016. Therefore the objectives of given allocations to quality inputs had not been achieved.

- Two thousand six hundred schools desk, 2600 school chairs, 867 nursery desk and 1734 nursery chairs had been procured for Uva Provincial schools by spending Rs. 15.00 million by the Uva Provincial Chief Minister and Ministry of Finance and Planning, Law and Order, Education, Local Government, Land, Cultural, Social Welfare and Rural Infrastructure Development and Construction.

Agricultural Activities

The audit observations revealed in test checks carried out on the activities of the Provincial Agricultural has been summarized and shown below.

- Agriculture is the main occupation of the people out of the populations of 1.33 million living in Uva Province a populations of 0.4 million or 30 per cent Accordingly a sum of Rs. 370 million had been spent by the Provincial Agriculture Ministry in the year 2016 for the Development of Provincial Agricultural products under the concept of "Prosperous Uva Wellassa with Full of Energy" that expenditure had been Rs. 80 million previous year. Further, though additional Rs. 290 million had been spent during the year 2016 as compared with year 2015, quantities of respective products had been decreased. Details were shown in the table 42.

Crop Type	Year		Decrease with compared to the year 2015
	2015	2016	
Paddy Cultivation Land Extent			
Maha (Hectares)	525,575	45,140	480,435
Yala (Hectares)	26,264	23,057	3,207
Annual Paddy Production			
Maha (M.Tones)	1,944,627	167,017	1,777,610
Yala (M.Tones)	97,179	85,312	11,867
Potatoes			
Cultivated Land Extent (Hectares)	4,296	3,757	539
Annual Production (M.Tones)	64,438	56,367	8,071
Minor Crop			
Minor Crop Production (Hectares)	45,678	32,609	13,069
Minor Crop Production (M.Tones)	121,576	100,313	21,263
Vegetable			
Vegetable Cultivation Land Extent (Hectares)	13,114	12,202	912
Annual Vegetable Production (M.Tones)	167,752	151,521	16,231

Table 42 – Cultivated land extent and the Crop in Uva Province
Source - Data of Census and Statistics Division of Uva Province Agrarian Department

- Actions had not been taken to repair and use or to take remedial actions to remove 03 Tractors, Hand Tractor and 02 Motor Cycles in Okkampitiya Nursery which were not in running condition.

- Salaries and allowances of Rs. 3.19 million had been paid in the years 2015 and 2016 for 06 labors assigned to Provincial Agrarian Director's Office by Uva Provincial Agrarian Department, other than the approved staff cadre for Office Aids.

- Though projects had been implemented based on Agriculture in Office of the Badulla Deputy Agriculture Director, actions had not been taken to fill the vacancies of 37 Agriculture Consultants which required to field coordination.

- According to the 510.2 of Uva Provincial Financial Rules, though the profit earnt from advance account activities should be credited to Provincial Council Fund, as per the changes of equity statement as at 31 December 2016, cumulative profit of Rs. 9.35 million had not been credited Provincial Council Fund.

- Contrary to the rule 501.3.C of Uva Provincial Financial Rules, maximum debit balance limit had been exceeded by Rs. 1.91 million with relating to activities of Okkampitiya nursery advance for the year 2016 in respect of subject No. 71402.

Health Activities

The audit observations revealed in test checks carried out on the activities of the Provincial Health has been summarized and shown below.

- The posts of essential services in the approved cadre of Uva Provicial Council Health Service as at 31 December 2016 was 2,861 and out of that 608 posts were remained vacant.

- A loss of Rs. 7.80 million had been occurred to Provincial Council Fund due to accepting bids presented higher quotations by refusing the lowest quotations in contrary to the directions made in Government Procurement Guideline with regard to supply uncooked/ cooked food in 06 Hospitals in the year 2016.

- The Medical Officer of Mahiyanganaya Hospital had been assigned toHomagama base Hospital from 13 August 2014 to August 2016 and a sum of Rs. 2.08 million had been paid as Salaries and Allowances from Provincial Council Fund.

- Though 32 years had been lapsed in establishing of Girandurukotte Pradeshiya Hospital under Mahaweli Project in 1984, actions had not been taken to transfer the Hospital premises to Uva Provincial Council.

- Six vehicles of office of the Badulla Regional Health Service Director which were not using for official travelling had been parked in Health Education Unit belongs to the office of the Regional Health Service Director for 04 years without taking action to dispose.

- The land extent of 0.409 hectares belonging to Welimada Base Hospital had been encroached and utilized by 11 unauthorized outside parties and actions had not been taken to remove those encroachers.

- Laboratory Equipment amounting to Rs. 9.29 million and Washing Machine amounting to Rs. 3.56 which had been given to Welimada Base Hospital were kept in idle for more than 02 years.

- The Ophthalmoscopy Equipment acquired in the year2015 for eye treatments in Diyathalawa Base Hospital had been kept idle in laboratory stores at Diyathalawa laboratory stores till February 2017.

- Though a complete Eye Operation Theater was in Mahiyanganya Hospital, it was kept in idle from May 2013 due to non-assigning an Eye Surgeon Specialist.

- According to the test check carried out in August 2016 relating to vehicle movement register, though 05 vehicles had been parked in the premises of Office of Badulla Medical Services Director, fake running charts were maintained in 39 instances for 6597 kilometers.

- It had to be removed the expired 29 types of damaged Medicine stock amounting to Rs. 888,184 and 15 types of non-valued Medicine stock in Diyathalawa Base Hospital due to non-maintaining of sufficient stock levels as per the Provincial Council Financial Rule 762.1