ANNUAL REPORT OF THE

AUDITOR GENERAL

2018

NATIONAL AUDIT OFFICE

Official Emblem of the National Audit Office

Symbols used in this Official Emblem reflect the following.

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

Our Vision

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

Our Mission

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

Our Objective

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

Our Values

- Excellence
- Innovation
- Leadership

Auditor General's Message

The duties and functions devolved on the Auditor General in pursuance of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka for the direction of the independent examinations on the effective and efficient maintenance of the Parliamentary control on the Public Finance devolved on Parliament in pursuance of provisions in Article 148 of the Constitution. I am pleased to present my report for the financial year 2018 in connection with these activities. 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 nine 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	-	Performance Audit Reports
Ninth Installment	-	Public Companies
Tenth Installment	-	Special Audit Reports

According to the Nineteenth Amendment to the Constitution it was accepted by the Government that the Auditor General and his staff should be given more powers and to secure his independence not only in the operational aspect but also in the context of financing and administration. The long awaited Audit Service Commission was established in December 2015 and the appointments, promotions, transfers, disciplinary control and dismissal of staff of the Sri Lanka State Audit Service should have been done by that Commission. The National Audit Act was passed in Parliament on 17 July 2018 as the National Audit Act No. 19 of 2018 and published in the Gazette notification by his Excellency Precedent that the Act will be effective from 01 August 2018. Although the National Audit Act had been effective from 01 August 2018, it has not been possible to establish a Public Audit Service by 15 October 2019.

The Cabinet of Ministers had recognized the valuable contribution of the service performed by the members of the Sri Lanka Audit Service and the Audit Examiners' Service and approved the establishment of a new service called the Sri Lanka State Audit Service. The absorption of the officers of the above two services to the new unified service has been entrusted to the Audit Service Commission.

The National Audit Act No. 19 of 2018 was envisaged to provide for the powers, functions and functions of the Audit Service Commission, to establish the National Audit Office and the Sri Lanka State Audit Service of Sri Lanka, and for matters connected therewith or incidental thereto. Establishment of the National Audit Office to meet the challenges emerging in a constantly changing and more demanding environment, including the pressure arising from being a part of the accounting and auditing professions, is vital. Although the Audit Act had been implemented with effect from 01 August 2018, the Service Minute relating to the Audit Staff which is essential to perform the functions of the National Audit Office had not been established yet. As a result, it had been hindered to perform audit duties and staff had been denied opportunities to get promotions. The organization structure of the Office had already been prepared and the audit and supportive services will be organized under 63 Divisions to enable the expansion of the audit scope and to ensure close supervision and review.

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

It is a privilege for me to work with such a dedicated staff of the National Audit Office 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 Office, the Secretary to the Ministry of Finance and staff, the Public Service Commission, the Salaries and Cadre Commission, the Attorney General and the other State Institutions which assisted in the administration, the International Development Association United States Agency for International Development which contributed to the improvement of the physical and human resources of the National Audit Office.

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

W.P.C. Wickramarathne
Auditor General
October 2019

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Our Organization

Our History

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

Our Authority to Audit

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

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

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

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

- Part II of the Finance Act, No. 38 of 1971 which provides for audit of Public Corporations.

- Provincial Councils Act, No. 42 of 1987 – (Section 23) which provides for Audit of Provincial Councils.
- Section 219 of the Municipal Councils Ordinance – (Cap. 252) which provides for Audit of Municipal Councils.
- Section 181 of the Urban Councils Ordinance – (Cap. 255) which provides for Audit of Urban Councils.

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

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

Our Clients

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

Ministries	51
Departments	96
District Secretariats	25
Corporations	204
State Companies	141
(Brought under the scope of the Auditor General under the Nineteenth Amendment to the Constitution)	
State Banks	10
Statutory and other Funds	60
Foreign Funded Projects	164
Other Independent Institutions	23
Provincial Councils	09
Local Authorities	341
Agrarian Service Canter's	561
Sport Associations	64
Provincial Councils Ministry, Department and Special Expenditure Units	253
Institue of Under the Provincial Councils Ordinance	44
Total	**2046**

Our Scope

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

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

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

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

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

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

- Whether the accounts audited have been so designed as to present a true and fair view of the affairs of the corporation in respect of the period under consideration with due regard being given to principles of accountancy, financing and valuations; and
- Any such other matters as the Auditor General may deem necessary.

Our Independence

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

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

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

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

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

Legal Reforms

The Requirement for Legal Reforms

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

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

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

National Audit Act, No.19 of 2018

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

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

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

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

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

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

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

Our Organizational Structure

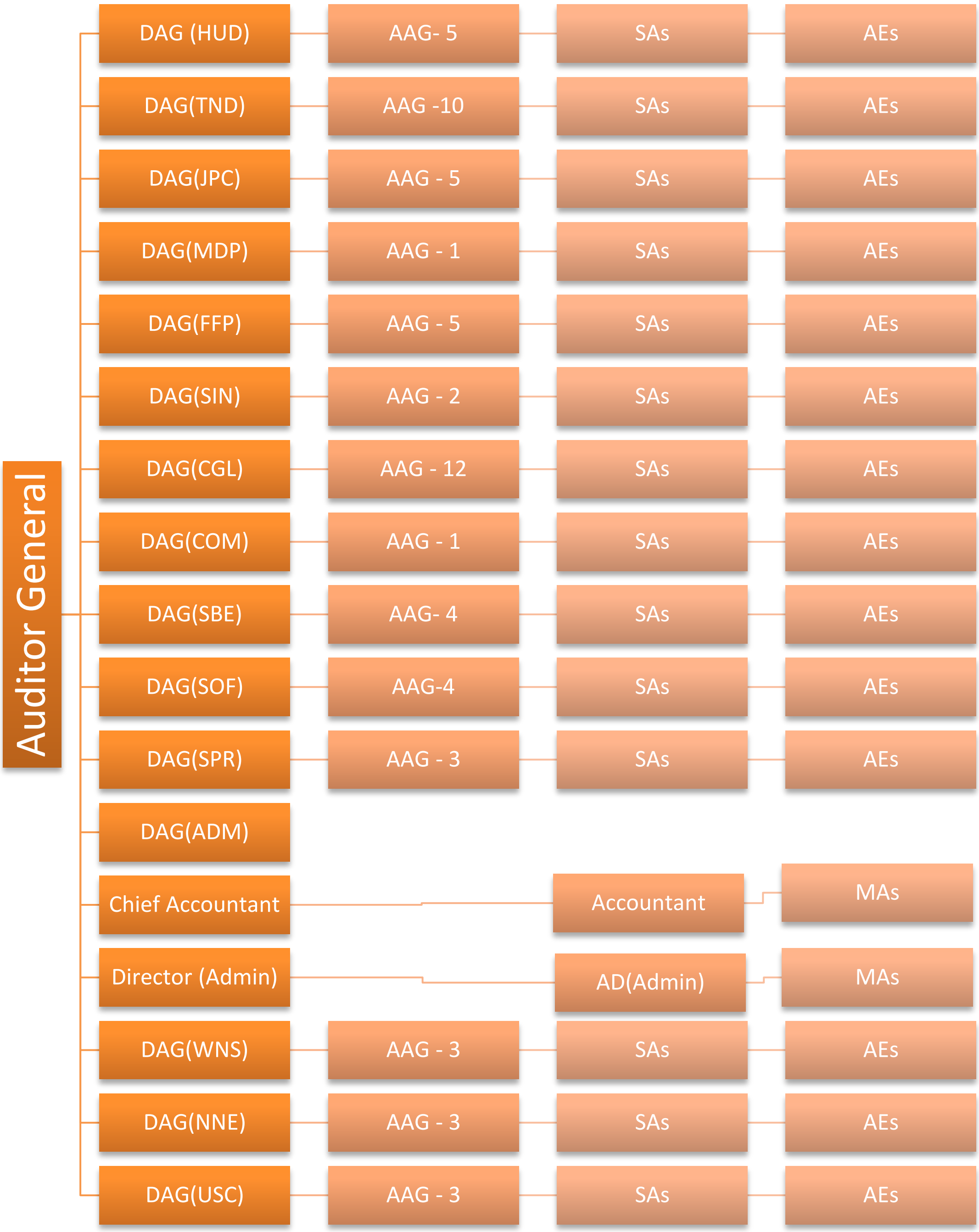
The Auditor General is the Head of the Auditor General's Department and he functions as a Chief Accounting Officer as well in terms of the Financial Regulation 124(2) in respect of financial activities of the Department. The present organizational structure of the Department comprises four levels in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

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

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

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

The Organizational Structure is given below.


Auditor General
DAG (HUD)
AAG- 5
SAs
AEs
DAG(TND)
AAG -10
SAs
AEs
DAG(JPC)
AAG - 5
SAs
AEs
DAG(MDP)
AAG - 1
SAs
AEs
DAG(FFP)
AAG - 5
SAs
AEs
DAG(SIN)
AAG - 2
SAs
AEs
DAG(CGL)
AAG - 12
SAs
AEs
DAG(COM)
AAG - 1
SAs
AEs
DAG(SBE)
AAG- 4
SAs
AEs
DAG(SOF)
AAG-4
SAs
AEs
DAG(SPR)
AAG - 3
SAs
AEs
DAG(ADM)
Chief Accountant
Accountant
MAs
Director (Admin)
AD(Admin)
MAs
DAG(WNS)
AAG - 3
SAs
AEs
DAG(NNE)
AAG - 3
SAs
AEs
DAG(USC)
AAG - 3
SAs
AEs

According to the cadre approved on 14 November 2011 by the Department of Management Services after an evaluation of the responsibility and role of the Auditor General's Department, the total number of officers in the Sri Lanka Audit Service stands at 350 and the officers in the Audit Examiners' Service stand at 1,200. The Sri Lanka Audit Commission established in terms of the Nineteenth Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka could not come into operation as the Draft National Audit Bill has not been passed by Parliament. As such, it was not possible to obtain approval for the Draft Service Minute prepared for the Department staff and the filling of vacancies is carried out by the Public Service Commission according to the old Service Minute.

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

Post	As at 01 January 2018			As at 31 December 2018			As at 01 August 2019		
	Approved Cadre	Actual	Vacancies	Approved Cadre	Actual	Vacancies	Approved Cadre	Actual	Vacancies
Audit Staff									
Additional Auditor General	3	1	2	3	1	2	3	-	3
Deputy Auditor General	15	11	04	15	11	04	15	11	4
Assistant Auditor General	44	22	22	44	32	12	44	28	16
Superintendent of Audit	288	223	65	288	213	76	288	210	78
Audit Examiner	1,200	1137	63	1,200	1,102	98	1,200	1,027	173
Non-Audit Staff									
Director Administration	1	1	-	1	1	-	1	1	-
Chief Accountant	1	1	-	1	1	-	1	1	-
Other Staff Officers	17	10	7	17	11	6	17	12	5
Public Management Assistants' Service and allied Grades	127	98	29	127	115	12	127	115	12
Report Processor	48	48	-	42	42	-	42	42	-
Junior Employees	213	184	29	213	185	28	213	204	9
Total	1,957	1,736	221	1,951	1,713	238	1,951	1,651	300

Table 01 – Cadre Position as at 31 December 2018 and 01 August 2019

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

Approval of the Service Minute

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

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

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

Staff Training

It is examined that the Auditor General's Department has correctly performed the responsibility of accounting for the performance of the financial and performance functions of the public resources in an economic, efficient and effective manner and reported to parliament.

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

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

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

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

Local Training Programme

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

Foreign Training

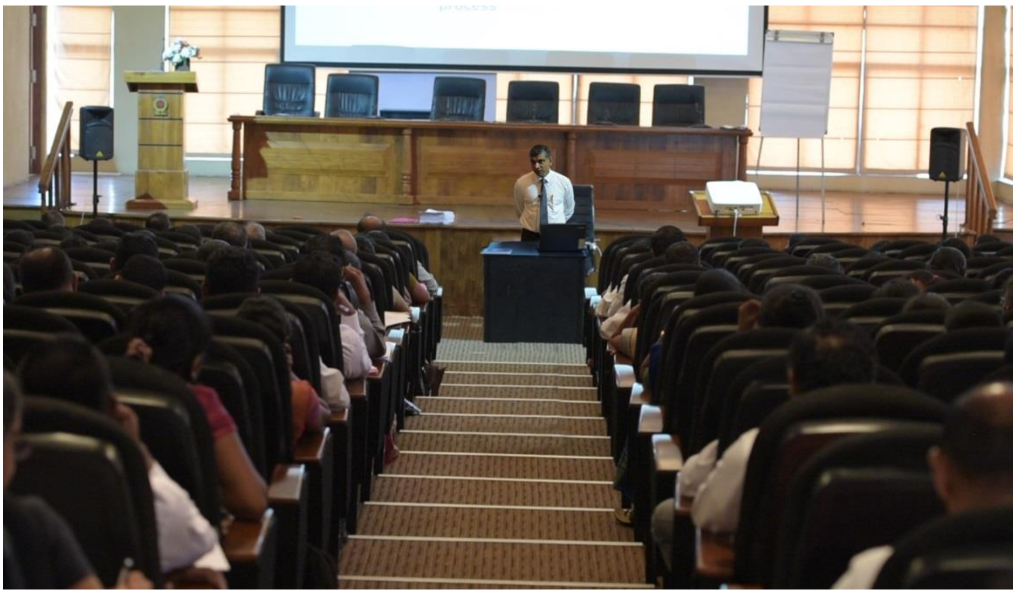
With the objective of providing a foreign training on performance audit to all audit officers, it had been participated 560 audit officers during the year under review for the started Malaysia Performance Audit Training Workshop and being participated 39 audit officers for 27 foreign training programme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

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

	Details of the Programme	No.of Programmes	Officers involved in the Programme					No. of Training Hours
			Divisional Heads	Superintendent of Audit	Audit Examiners	Non-Audit Offic	Total	
	Local Training Programmes							
1	Financial Audit	1		9	35	-	43	312
2	Performance Audit Training	2	-	0	75	-	75	2,175
3	Training of New Officers	1	-	4	28	-	32	232
4	Procurement and Construction Audit	8	11	78	633	-	722	16,858
5	Investigation Audit Training	2	-	5	71	-	76	4,523
6	Apprioprition Accounts Auditing	7	12	144	542	-	698	10,121
7	Forensic Audit	3	4	32	43	-	79	1,871
8	Computer	8	1	14	204	-	219	4,815
9	Taxation	3	43	199	737	-	979	14,196
10	Positive Thinking Development	13	42	212	1131	-	1,385	84,092
11	Auditing for Foreing Funded Project	1	-	6	34	-	40	290
12	Foreign Am busy Audit	1	10	66	262	-	338	2,450
13	Motor Mechanism	2	2	17	78	-	97	2,661
14	Land Aqurisam For Development Maters	1	-	7	38	-	45	326
15	Others	2	2	3	5	-	10	189
16	Training Programme for Non-Auditors	2	-	-	-	374	374	2,712
	Total	55					5,212	145,823
	Foreign Training Programm							
1	Performance Auditing	6	8	80	374	-	462	40,194
2	Sustanable Development	2	1	3	1	-	5	167

	Goles							
3	Training For Information Technology	3	1	1	2	-	4	167
4	ASSOSAI/ SAI Training Programme i. ASSOSAI - workshop on Performance Audit ii. ASOSAI - Seminar on Improvement and Innovation of Audit Process- iii. SAIS - Workshop for Engaging with Stakeholders iv. SAI PMF Training Course	8	5	5	1	-	-	348
5	State Audit Management	2	1	1	1		3	472
6	Public Accounting and Financial Management	3		1	2	-	3	218
7	Constraction Management	1		1			1	145
8	Financial and Economic Administration for the Developing Countries	4		4			4	348
9	Post Graduate	1		1			1	
10	Environmental Audit	1		1	2		1	65
	Total	**31**					**497**	**42,464**

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



Deployment of Qualified Auditors

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

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

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

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

Assistance to Parliament

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

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

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

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

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

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

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

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

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

Surcharges imposed by the Auditor General

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

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

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

Performance and Environmental Audit

Main Audit Observation

Animal of the Zoological Graderns

being subjected to diseases

Post-harvest Loss of Vegitables and Fruits

Non-achievement of Objectives of the Police Reward Fund

Delays in repairs of Rodar Equipment of the Meteorological Department

Performance of Schools with Minimum Nuber of Students.

Low Level of Overall Performance in Achievement of Sustainable Development Goals.

Operation of Lakvijaya Power Plant and its Environmental Impact

Water Pollution in Kelani River

Performance and Environmental Audit conducted by the Auditor General

Performance auditing involves evaluating the economy, efficiency, effectiveness and environmental impact of activities of the government agencies in selected sectors of a government agency, programme, project and expenditure unit through reporting including recommendations on improvements to be made in accordance with relevant audit observations.

Performance and Environmental Audits are carried out in specific areas of economic, social and environmental impact selected by this Performance and Environmental Audit Unit obtaining proposals from other Audit Branches on various areas of Government Institutions. In addition to the financial audit reports, the performance and environmental audit reports are also tabled in Parliament. Training of officers of the National Audit Office are also being carried out relevant to this field.

Although implementing a performance based budget system to implement performance audit and determine key performance indicators for each organization are very important, a performance-based budget system and performance indicators are not defined and implemented currently in Sri Lanka. As a result, we determine performance indicators relevant to each sector and carry out performance audits. Important observations revealed during performance audits during the year under review are summarized below.

Performance Audit

Evaluation of whether the Zoological Gardens Development and Welfare Fund utilize for animal welfare

Dehiwala Zoo which was established in the early 1920s and was taken over by the government on 01 July 1936, is being kept as a collection of wild animals had been established in 1946 as an independent State Department. Subsequently, the administration and management of the Department of National Zoological Gardens comes under the provisions of the National Zoological Gardens Act No. 41 of 1982 . In addition to the Dehiwala Zoo, which is one of the oldest zoos in Asia, the Pinnawala Elephant Orphanage, Pinnawala Zoo, Hambantota Safari Park and Gonapola Animal Feed Farm are belonged to the Department of Zoological Gardens.

The purpose of this audit was to evaluate whether the Zoological Gardens Development and Welfare Fund is being used for animal welfare. In many cases, there is a lack of food at the right time, and the food for animals were eaten by the animals coming from outside, due to there were considerable amount of pieces of branches when supplies of foliage for animal feed, instances of less weight of foliage were seen. The details are shown in the diagram 01

Diagram 01. - foliage, pieces of branches left for after providing to the animals at Dehiwala Zoo

There was no mechanism to meet the shortage of food and even though the food given to elephants had to be changed according to the difference of their weight, the weights were not measured for that.

A number of 328 animals of the National Zoos belonging to the National Zoological Department had died from various diseases during the years 2016 and 2017.

Several occasions where the National Zoological Department had not drawn attention regarding the health of the animals of the National Zoos are shown below.

- Insufficient Quarantine Facilities
- Occasional cases in which veterinary advices were not followed when moving animals from one location to another.
- When the treatments carried out for elephants and tuskers, those treatments were not done continuously.
- Insufficient crushes for easy treatments for animals.

Although shelters should be designed so that animals could be able to demonstrate their natural behavior, there were no enough space for some of the animals in Dehiwala Zoo and also lack of sufficient shade management. In addition to that, some animals were found with no partners. The construction of the Dehiwala Zoo and the Pinnawala Elephant Orphanage had not been carried out for proper discharge of contaminated water. The details are shown in the diagram 02 and 03.

Diagram 02 - waste water collected at the at quarry at Dehiwala Zoo

Diagram 03 Water flowing down the drainage the Pinnawala Elephant Orphanage

A large number of animal cages had decayed at the Dehiwala Zoo and they are being used with everyday repairs.

In the observations made on employee welfare, the reasons such as less than three per cent of the total income earned by the Zoo is spent on workers, as a result of lack of crushes for treatment of animals the employees could be in danger and lack of adequate protection to insufficient insurance coverage to prevent such accidents and not providing formal training had affected Employees' welfare.

The attention should be drawn on develop and maintain a detailed and specific guidelines covering all welfare activities of Zoos and employees of the Zoos belonging to the Department of National Zoological Gardens, taking necessary steps to provide partners for animals who has no mates, provide training for employees to be able to carry out their services more efficiently and effectively, holding medical camps at regular intervals, enhance their service productivity by providing adequate insurance coverage.

The Department of National Zoological Gardens had earned an income about Rs. 999 million in the year 2017 and out of this revenue , 27 per cent for food and medicines for animals, 2.56 per cent for employee welfare and training, 16 per cent for constructions as well had been incurred. The Department of Zoological Garden earns its full income from the display of animals and it is concluded that further attention is needed to be drawn for the animal welfare and employee welfare with a focus on identified observations.

Intervention of Relevant Government Agencies on Minimization of Post-harvest Losses of Vegetables and Fruits of Sri Lanka and to Sell at Reasonable Prices.

As the world population is expected to reach 10.5 billion by the year 2050 and the food supply for that had to be increased by 60 per cent, in addition to improving food distribution simultaneously with that, international researches have also confirmed that reducing post-harvest losses is a critical factor. Since the harvest wastage of 30 percent to 40 percent of the country's vegetable and fruit farming is about 270,000 tons per year until it was in the hands of the consumer and as the disadvantage to economy of Sri Lanka is about Rs. One Billion, the time has come to pay special attention to it.

There are many instances where Sri Lankan farmers are unable to sell their products at harvest time were reported . Similarly, because there is no minimum or reasonable price for the harvest, the instances where the farmers are helpless and unable to cover the cost of cultivation were also reported.

The Ministry of Agriculture and the public institutions involved in this under this Ministry are conducting researches on post-harvest technology. In this case the essential crops and major sectors had not been adequately covered by those researches and it was also observed that the implementation of the recommendations of the research reports by the relevant government institutions was also inadequate.

The process of post-harvest losses from harvesting until it is in the hand of the consumer is shown in the Diagram 04

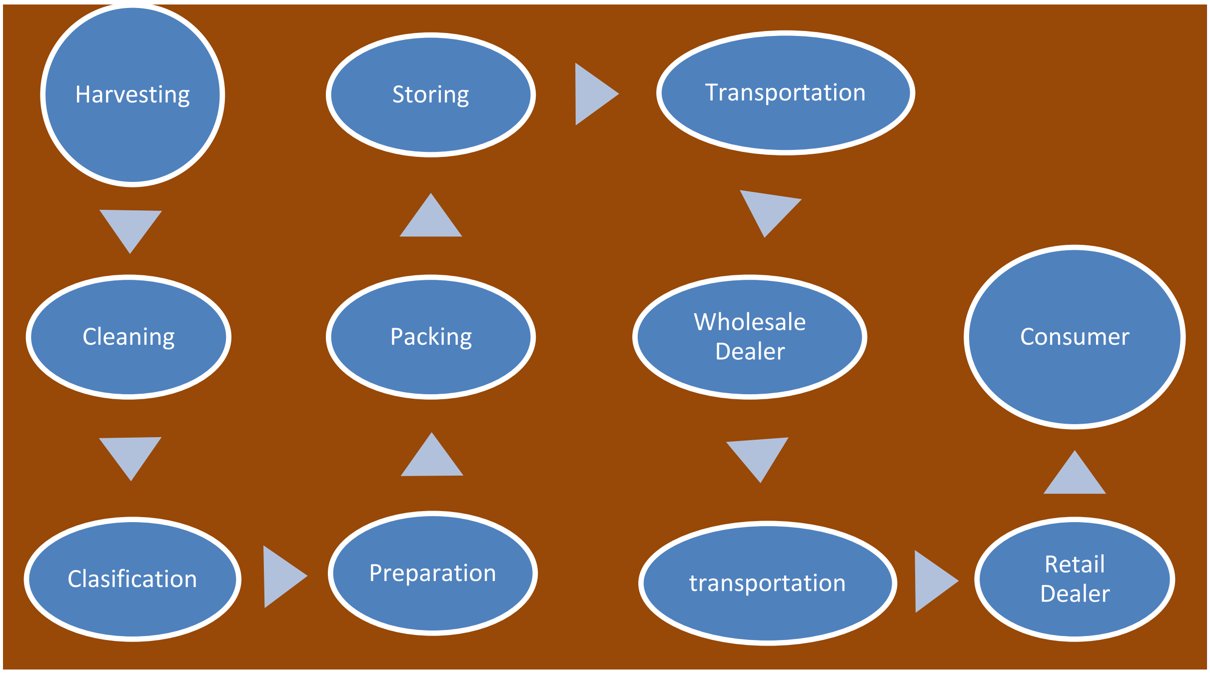


Diagram 04- The process of post-harvest loss from harvesting until it is in the hand of the consumer

The time of harvesting varies from crop to crop and it is a key step in identifying the right time for harvesting. For that, lack of awareness of farmers about the harvesting indicators , lack of knowledge about harvesting system, inadequate training and distribution of necessary equipment , non-establishment of standards in respect of harvest ratings and lack of understanding of it had mainly affected the loss of post-harvest .

Further, storage and transportation of vegetables and fruits without proper packaging has been a major factor to post-harvest losses. Because of this, the directions had been issued to all local vegetable and fruit transporters, distributors and dealers, the two announcements made by the Consumer Affairs Authority in two special gazette notifications in the years 2011 and 2012 when collection of 37 and 21 locally produced vegetables and fruits respectively with the objective of minimizing postharvest losses in packaging when storing and distributing the packages made of plastic and hard paper or wood should be used. However, when issuing the notification in the second gazette it was stated that packaging should be used for 16 vegetables and fruits in the first gazette had been exempted and removed from that requirement. But it had been ascertained that as per the results of surveys conducted by the National Post Harvest Management Institute in the years 2016 and 2017, losses of harvesting in 08 vegetables out of these in transportation and marketing ranges from a minimum of 7.68 per cent to a maximum of 77 per cent.

Diagram 05 - Meegoda Special Economic Development Center - 26 June 2018

Diagram 06 - Special Economic Development Center in Dambulla - 19 March 2019

Out of each of the occasions of post-harvest losses, a number of problems had to be faced during transport. As per the data and research reports on the losses on the transportation of the harvest, it had been shown that the harvest losses occurred in transport of various vegetables under traditional methods (poly-sack bags) , can reduce by 20 per cent to 25 per cent by using plastic crates. Nevertheless, at present the use of these plastic crates is very low.

Diagram 07 – Thabuthagama E.D.C- 20 July 2018

Diagram 08 – Megoda EDC -26 June 2018

To minimize the losses to fruits and vegetables harvest, reaching economic disadvantages to the farmer by eliminating excess crops which cannot be sold has to be controlled. Although several government institutions have introduced value added products, since the lack of availability of value added products in the market, necessary actions should be taken to promote entrepreneurs to incorporate them into the market.

As a result of working on a cultivation plan, since the productivity of each crop can be maximized, a necessity of cultivation plan is important in this case. Although prepare a plan for the crops to be grown and the quantities during each of the season in each of the area for this and motivation of the farmers to implement it should be made, the attention had not been drawn on such motivation.

In the Budget Speech 1988, it had been proposed to establish Regional Sales Centers to facilitate the marketing activities of agricultural products. A favorable environment had been created

The management trusts of the respective Ministries or economic centers had not prepared a necessary programme to carry

to be develop the public and private sector partnerships especially for the sale of vegetables with the opening of the Dambulla Economic Center in the year 1999 later on .

Fifteen economic centers had been established and built shops and leased them out during the period from the year 1999 to 2017. The legal ownership of the lands belonging to Piliyandala, Ratmalana, Nuwara Eliya, Keppetipola, Kurunduwatta, Meegoda and Ampara Economic Centers had not been taken over by the Ministry in charge .

Construction of a roof covering the ground in front of the shops to protect the vegetables and fruits brought to the economic centers by the farmers from the sun and the rain until sell had assisted to minimize losses of post-harvest. Although such a roof had been made at the Dambulla Economic Center, due to the absence of such safe roofs in the economic centers at Thambuththegama, Veyangoda and Nuwara Eliya the losses of harvest had increased.

the excess harvesting stocks at Dambulla Economic Center to other economic centers and to provide necessary information to encourage farmers and to act as a network of economic centers.

The price display boards or electronic price boards had not been implemented in the shops of economic centers functioning under the Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries and Aquatic Resources Development.

At certain times when there is an excessive supply of vegetables at the Dambulla Economic Center, at the instances of they are unable to sell, those vegetables are disposed to Digampathana area . Those discarded vegetables are eaten by wild elephants roaming in that area. The way of eating these vegetables by the elephants is shown in the diagram ....

Diagram 09- Eating vegetables disposed at the Economic Center in Digampathana by Elephants - 04 October 2018

However, since it was not disclosed a reduction in the prices of vegetables in other parts of the island during this period, the attention of authorities had not drawn to implement a network to distribute the vegetables that could not be sold at Dambulla Economic Center to other areas.

According to a survey carried out by the Institute of Post-Harvest Technology in the year 2014, when distribution of 11 vegetables under 09 networks, it had been declared that the vegetables are damaged ranging from 7.68 per cent to 66.45 per cent from those vegetables.

Accordingly, it was revealed that losses to harvest is increased when the vegetables reached from a far to vegetable distribution centers such as bringing from Jaffna to Dambulla, bringing it to Colombo from Nuwara Eliya, from Thambuttegama to Kegalle. Accordingly, price variations had also increased due to the inequality of establishing economic centers island wide.

There were price variances in between the prices of economic centers focused on manufacturing areas and the prices of economic centers located focusing on urban areas. The cost of transportation and the intermediaries in the transactions were also affected on those variations. Similarly, the Government institutions which work with this had not intervened to regulate those price variations.

Police Reward Fund

Ensuring security in all parts of the country, providing full time care to ensure the safety of lives of people 24 hours a day is the responsibility of the Department of Police. Within this aggregation of responsibilities, the Police Department is active through crime control, drug control, traffic management, environmental protection and various issues in civilian life such as providing relief to people at the times of disasters. The details are shown in the diagram 10 and 11

Diagram 10 - Traffic Management

Diagram 11- Environmental conservation

The Police Reward Fund had been established to encourage the officers of the Sri Lanka Police who perform all these functions. The Reward Fund had been established under the Sections 72 and 73 of Police Ordinance No 16 of 1865 which was the mandatory for the Establishment of Sri Lanka Police. The Sri Lanka Police Reward Fund had been implemented by a notification published in the Gazette No. 116 dated 07 August 1974 . The Directives of the Reward Fund had been amended by the Extraordinary Gazette Notification No. 600/20 of 09 March 1990. A certain amount out of the fines receiving to the government on duties of police officers is credited to this Fund. Accordingly, the revenues are credited in two main ways to the Police Reward Fund. That, they can be called as court fines and traffic fines. In addition to that, the investment income generated by investing of the annual surplus of the Police Reward Fund also taken in to accounts as a source of income.

Using the income generated by these major sources of income, criteria have been introduced to encourage police officers through various circulars. Prizes are awarded annually under those criteria. Those payments are classified as General Prize Payments, Motor Vehicle Payments, Special Prize Payments, Special Reward Payments of Inspector General of Police and Entertainment Payments.

A sum of Rs. 1,939 million had been credited to the Police Reward Fund as revenue from fines in the year 2018 and even though a sum of Rs. 885 million or 70 per cent should be paid according to the directives of the Inspector General of Police as rewards, the paid percentage was only 54. A sum of Rs. 9,821 million had been invested in fixed deposits as at 31 December 2018. Although as per the

Directives of the Inspector General of Police, the percentage of investments that should be made in the year 2018 was10 per cent , the percentage of investment had been 92 per cent. When Payment of Rewards to Police Officers the problems in connection with non-revision of reward payment criteria timely to match with present, delays in payment of rewards, availability of police officers who has no rewards, accounting policies which are being followed at the instance of Reward Fund Income taking in to accounts existed with regard to this as well. The Police Rewards Fund which was established to encourage the police officers who work closely with the public and do their service unswervingly for the public in all activities should be maintained efficiently and effectively.

Using of Meteorological Techniques

The Department of Meteorology which was established in 1948 as a separate Department is functioning under the Ministry of Disaster Management at present. This Department is the authorized national institution for weather, meteorological services and weather disasters and early warning for tsunami as well. In addition to the Head Office in Colombo, the Department have 22 external offices, including offices located at Katunayake, Mattala and Ratmalana Airports. In addition to this, obtaining data for weather forecasting is done from 16 collaborative centers located in other areas. Traditional equipment and automated meteorological equipment are being used for ground surveillance and high atmospheric data observation.

A sum of Rs. 400 million was provided by the Government of Sri Lanka in the years 2006 and 2007 approving establishment of a Doppler Radar System in Sri Lanka for the detection of adverse weather conditions, to keep an eye on them continuously, warnings, weather conditions survey and estimate the amount of rainfall. It had been entered into a Trust Fund Agreement by the Ministry of Disaster Management on the advice of the World Meteorological organization on 24 May 2007 for fulfilling of that requirement. The Gongala Peak in the Deniyaya area was selected as a Radar Site under the expert advice of the World Meteorological Organization and a feasibility study had not been carried out on the relative location.

The Doppler Radar System had been decided to be installed in a 20 meter high tower. According to the Decision of Cabinet of Ministers dated 13 January 2010, the contract for the construction of the tower and transporting parts of the imported Radar System from the Port to Gongala had been awarded to the Central Engineering Consultancy Bureau without calling open bids. Due to lack of soil tests, the construction works had to be stopped on a number of issues such as the emergence of soil problems when

laying the foundations for construction.
Implementation of works related to construction, supply of goods and services providing had not been adequately supervised and assessed by the Department in accordance with Guideline 8.12 of the Government Procurement Guideline. Similarly, the construction had been carried out without proper approval. When the completed contract handing over by the Central Engineering Consultancy Bureau there were delays in the parts of work and shortcomings in the quality.

The World Meteorological Organization had been entrusted with the purchasing of equipment including Doppler Radar Equipment on the instructions of the Sri Lanka Meteorological Department in terms of subsection 3.3 of the agreement entered in to with the Trust Fund of the World Meteorological Organization.
Accordingly, the contract for procurement of Radar Equipment had been awarded to the Enterprise Electronics Corporation by World Meteorological Organization. The installation of the System had been commenced by 10 October 2012. The vehicle which had brought the crane needed to install it, fallen down from the hill by breaking a section of the driveway and injuring its driver. The installation of Radar System had been halted based on that reason. The supplier's Technical Engineer had arrived and installed the equipment on 05 October 2013 and it had been stated that the electronic connectivity could not be provided to the above Radar System sending a letter to the World Meteorological Center by the supplier on 17 October 2013. It was decided to send the Radar Equipment at Gongala Site to the factory again for the repairs as a result of the discussions made subsequently.
Accordingly, it was concluded that the cost of repairs would be too high even if the parts of the equipment were sent back to the manufacturing plant in America again. After assembling those equipment parts as this in October 2013 it had delayed for more than 3 ½ years to send back again to the supplier for repairs. As a result, there was a more possibility to damage the parts of that equipment.

Even though an insurance coverage valued at Rs. 142.68 million had been obtained from Sri Lanka Insurance Corporation for this purpose, and parts of this the Radar Equipment were damaged whilst storage and transportation as well the Department had failed to get insurance compensation for it. A sum of 1.84 million US$ had been incurred from the Trust Fund of the World Meteorological Organization even by 25 April 2018. The relevant location had remained unsafe at present and the existence of the equipment was not satisfactory. The details are shown in the diagram 12, 13. and 14

Diagram 13- Fence covering the work area was cut for easily accessible to any person

Diagram 14- The way rain water leaks

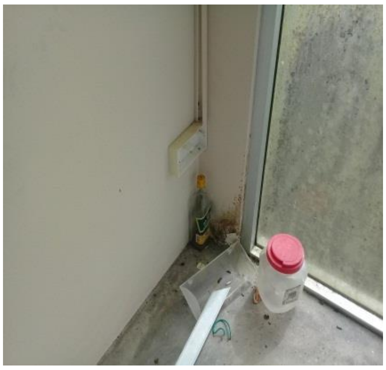


Diagram 15- How the bottles of liquor have been dropped

The Japan International Cooperation Agency (JAICA) and the Democratic Socialist Republic of Sri Lanka had entered in to an agreement on 30 June 2017 for installation of two Doppler Radar Systems near the office premises of the Puttalam and Potuvil Meteorological Centers due to uncertainty about the success of the Gongala Doppler Radar System and the necessity for a Doppler Radar System for early warning in Sri Lanka. These two workplaces had been identified paying more attention on access roads, monitoring and maintenance capabilities and paying less attention to wave barriers, radar misleading resistors and environmental impacts in this Project. Similarly, the extent of land required for this has not been identified specifically and the survey plans had not been made in relation to them. Likewise, a very slow acquisition process of lands is taking place and a school had located next to the Puttalam site.

Thirty eight automated meteorological systems received as Japanese grant in the year 2009 for automatic measurement of weather conditions (data collection), storage and communication and those equipment were installed in the year 2012 and 2013 . Accordingly, despite these equipment was received as a grant had been in idle for more than four years.

Most of these centers had not sent any data for certain months to the Head Office. The function of this system had been interrupted from time to time from the year 2009 to 2018 and it had not provided accurate weather data. Data communication facilities had collapsed and those equipment had not been properly maintained. Parts of the AWS system scheduled to be installed at the Trincomalee Meteorological Center had been stored in idle in the Head Office. The details are shown in the diagram 16, 17 and 18.

Diagram 15.AWS system in Wagolla

Diagram 16 AWS system data logger At the Meteorological Center, Galle

Diagram 17 - How the mounting pole of the AWS system to be installed at the Trincomalee

A sum of 53 million had been made available by the Ministry of Disaster Management for the installation of 100 automatic rain gauges around 05 selected rivers aiming to keep attention on real-time rainfall conditions and issue warnings based on their results. The Project was implemented by the Department of Meteorology. It had spent a lot of time to choose the relevant locations and although the Department of Meteorology had made arrangements to purchase rain gauges, contract agreements had been entered into before the necessity was identified and the transactions had been carried out before those agreements taking into effect. Also, the attention was not drawn on Calibration Certificates when purchasing equipment and except for the rain gauge fixed on the Head Office premises arrangements had not been made to ascertain the accuracy of the data of other rain gauges. Even though the Departmental Officers should be trained for the operations and maintenance of services performed by the contractor as per the contract agreement, the contractor had not performed those activities.

Providing data on air pressure, temperature, humidity, wind speed and direction of the wind are being done by Radio Sound Equipment and although doing all member countries daily on oo UTC and 12 UTC universal times or observation of Radiosond high air monitoring at least once a day as per the instructions of the World Meteorological Society, in Sri Lanka, these observations are made three days a week only on Mondays, Wednesdays and Fridays at 11.30 a.m. . Although the supplier had mentioned that the life of a balloon was 12 months, it was observed that the balloons with a lifespan of more than 12 months are being used for Radiosond surveillance and also the safety measures were not taken to fill hydrogen gas into the balloons.

Diagram 18- Send containers without clothing protective clothing

Diagram 19- Filling hydrogen gas to balloon the without protective

Traditional Meteorological Equipment

Rainfall data is collected from 500 centers island wide and each center itself had to submit that data to the Head Office on a monthly basis. Rainfall reports from the year 2016 to 2018 had not been continuously provided by those centers. Every center had not been inspected by the Department of Meteorology for at least once in 2 years and even in the Annual Board of Survey, these rain gauges had not been surveyed. The instances of those rain gauges not complied with the relevant standards were revealed at the physical examination carried out by audit. Early warnings had been made in respect of the natural disasters and adverse weather conditions occurred in the year 2018 by the National Meteorological Center under the Forecasting and Decision Support Division of the Department to the public, to the various industries, to the community and to the various organizations.

According to the reports examined as a sample submitted by the Divisional Secretaries in respect of disaster situations occurred in land areas during November and December 2018 for the evaluation of the successes of early warnings issued regarding the natural disasters and those incidents occurred in the year 2018, the community had not been made aware by the early warnings with regard to those disasters.

Performance of Government Schools with Minimum Number of Students

The Pirivena education method in Sri Lanka after the establishment of Missionary Schools by the English, in addition to English Missionary Schools, Sinhala Buddhist schools as well and the Muslim and Hindu schools were established. The schools are administratively divided into national schools and provincial schools at present and in addition to that private and international schools have also joined the network. In the meantime, one of the main expectations of parents in Sri Lanka is to get a good school for their children.

There were 10,194 government schools and 859 non-government schools had been existed in Sri Lanka in the year 2017. The government schools were made up of 9,841 Provincial Schools and 353 National Schools. The total number of students thereon were 4,165,964 and the total number of teachers had been 241,591. Accordingly, the teacher to student ratio in schools in Sri Lanka has been calculated as 1:17. About 3.5 per cent out of all schools had been National Schools and 19 per cent out of the total number of students are studying in those schools. Although 40 per cent of the total number of schools were students who study in grades 1 to 5 (type 3) , 16 per cent of the total number of students are studying in these schools.

Students arrive to study to popular schools from other parts outside the area. As a result of that , the total number of students attending school had reduced to less than 200 in more than half of all schools, or 5,161 schools. The specific issues such as parents unwillingness to send their children to schools to study with fewer students , Teachers' unwillingness to teach in such schools, disturbing to parents to enroll their children in a popular school because of the existence of such schools, the results of the examinations of the students of those schools are not high, principals and teachers have to work hard to stop the closure of those schools very large area of land, buildings and other physical resources, and human resource as well remained underutilized, the government has to afford of maintaining such schools had occurred from schools where the number of student is low.

In order to minimize these problems, the government has provided various physical resources to the schools through various projects and presently, the "Nearest School is the Best School" is a special project implemented for that purpose. This project had expected to increase the number of students in these schools including development of resources such as buildings, water and sanitation needs for the development of schools. Even though the huge expenditure on education had made by implementing various projects over the years these schools were not able to control the increase of the number of students or reduce the congestion in popular schools. However, the major shortcomings such as commencement of new schools in contrary to the Guidelines laid down by the Ministry of Education had caused for the closure of other schools in the area, despite the criteria for closing schools without taking actions to close down schools ; making arrangements to close down the schools, despite the high student teacher ratio in these schools, the failure of examination results, availability of excess teachers, students go to other schools as there are no opportunities to choose the secondary subject category as per the expectations of the students due to lack of teachers, a child cannot receive a good education during the school term due to one teacher gathers several classes and teaches in the primary section were revealed. There were also schools with no any student in certain Grades and some schools had conducted pre-schools as well.

Although it was expected to increase the number of children enrolled in the school, there had not improvement in enrollment of students. Similarly, it was revealed that in some schools there were underutilized resources such as buildings, playgrounds and laboratories had remained and in some schools there were lack of modern physical resources.

Underutilized buildings and playground

Preparedness of Government Institutions to achieve Sustainable Development Goals

As decided at the Sustainable Development Summit 2015 held by the Heads of State of the United Nations Member States , Member States had announced 17 Sustainable Development Goals, 169 Goals and 244 Indicators by 2030 .This Agenda is a plan for humanity, the earth and prosperity. The process of achieving these goals and objectives has been started from the year 2016 to suit the individual member countries and as the first phase of the programme, the relevant parties were expected to be aware and prepared. These objectives are interconnected and had to be achieved that objective with the co-operation of all public and private sectors.

Accordingly, in examining the preparedness to achieve these Sustainable Development Goals and Targets by the government agencies for the year 2017 the number of public and semi government institutions including Local Authorities, classified under 11 categories were 964. The number of entities that had completed the activities such as Awareness of Sustainable Development Goals and Targets, Identification of Goals and Targets, Inclusion of Goals and Targets in the Plans, Preparing Indicators, Maintaining Data, Identifying Milestones were 173, 132, 60, 17, 6, 9 and zero respectively.

As the above activities have not been completed by the institutions to be completed to measure the progress of this programme, measuring of the progress of the program was impossible. As such, the overall performance of the programme had remained at a low level. The details are shown in the Diagram 20

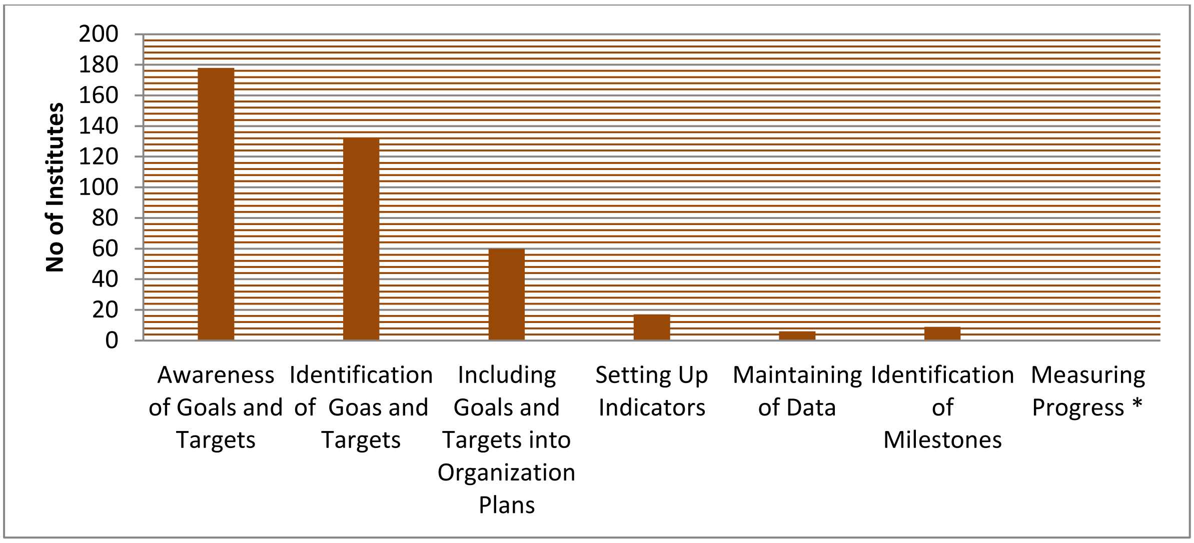


Diagram 20 - preparedness to achieve these Sustainable Development Goals

Environment Audit

Operation of Lakvijaya Power Plant and its Environmental Impact

The first and only coal power plant in Sri Lanka is Norochcholai Lakvijaya Coal Power Plant located at Kalpitiya in North Western Province belonging to Ceylon Electricity Board with a capacity of 900 MW . The first phase of 300 MW in the year 2006, Phase II of the 600 MW project in 2010 were commenced and 900 MW of power had been added to the national grid in the first and second phases. The contribution of 26 major power plants (excluding private power plants) under the Sri Lanka Electricity Board for the present electricity generation in Sri Lanka and the total production in the year 2017 was 14,671.2 GWh. The contribution of the Lakwijaya power plant to this production had been 34.78 per cent. Out of the main sources of electricity used are water, fuel , generating electricity from coal had been the source with the second lowest average unit cost.

The audit observations revealed at the environmental audit conducted on this Plant are summarized below.

- When examination on data analysis during the last 4 years power generation the average contribution of the Lakwijaya Power Plant had been 32.58 per cent and the power generation from hydro, fuel and other sources were 28.08 per cent, 13.80 per cent and 25.54 per cent respectively.

- In the function of electricity generation during the year 2015 to 2017, the electricity generation from source of hydro had decreased from 37.46 per cent (4,904 / 13,089 * 100) to 20.85 per cent (3,059 / 14,671 * 100) out of total power generation . Electricity generation had decreased by 37.62 per cent whilst only consideration of source of Hydro. To meet the electricity demand during this period the electricity generation had gone up using fuel oil by 140.85 per cent, purchasing from private sector (IPP) power by 47.82 per cent. Out of the sources of electricity generated by the Ceylon Electricity Board the number of units of electricity generated during this period increased by only 14.85 per cent using coal, which is the lowest second unit cost source.

- Instead of using low cost sources in the power generation process, it had been focused on high-cost sources.

- The North -western Provincial Environmental Authority was established under the, sub-section 2 (i) of Part I of the North-western Provincial Environmental Statute No. 12 of 1990 on the powers of the Provincial Council under the Thirteenth Amendment. A Provincial Environmental Advisory Council should be established in terms of sub-section 07 (i) of the Statute and its members are appointed by the Minister in charge or there must have been a certain number of members appointed among them. A member representing the Central Environment Authority should also be included in the Advisory Council in terms of section 7 (1) (m) of the Statute . The North -western Environmental Advisory Council had not been implemented by 10 May 2018.

- On renewal of the license issued with 22 conditions by the Provincial Environmental Authority to the Plant, actions had been taken to renew the license until 29 June 2017 without carrying out adequate monitoring on the accuracy and following-up the power Plant the requirements of those conditions. Accordingly, the attention had not been drawn by the authorities on possibility of occurrence of environmental risky circumstances through the functions of the Plant.

- When burning coal for electricity production process, there are mainly two side effects are generated and it is known as Fly Ash and Bottom Ash. The ash disposal yard covers a land area of about 25 acres. The expected life of one unit operating at the plant had been identified as 35 years at the planning stage. Assuming that these three units are operating at 65 per cent efficiency of those 03 units the amount of Flying Ash and Bottom Ash could have been 6,405,750 metric tons and 1,281,150 metric tons respectively.

- The following matters were revealed during the audit examination of the disposal of these by-products.

  - Approximately 425,008 metric tons of Fly Ash were sold during the period from the year 2015 to 10 May 2018. About 443,909 metric tons of Fly Ash remained during this period had been stored in the ash yard. Details are shown in Diagram.......

  - Since the lack of special attention on quality of coal to be existed in coal which was the main raw material used in the production of electricity by the Lakvijaya Power Plant, it had been a major cause of environmental problems. Even though the mechanism of disposal of by-products as Fly Ash and Bottom Ash produce in coal combustion had been identified at the project planning stage, due to inadequate implementation of the process the cost of that had to be incurred could have been increased when taking necessary measures to control the environmental problems. However, instead of deposit of Fly Ash in the yard which is an environmental problem, attention had not been drawn to use as a raw material for other identified products removing from the yard in expedite action. In compliance with the ambient air quality standards published by the Provincial Environmental Authority there was no continuous monitoring by the Environmental Authority regarding the operation of the plant.

- Gases and heavy metals emitted in coal combustion are harmful to the environment. That disposal process, the process of disposal of seawater after treatment which was used for the operation of the plant and necessity for continuous monitoring of groundwater was observed in audit. Further, the efficiency of the emitting gas sulfur abstraction in respect of emission gases and the static emitter in relation to Fly Ash had to be continuously monitored. The maintenance work of the plant is carried out according to plan and widening the existing wind barrier around the coal yard to prevent the dust particles in the coal yard from spreading with the wind, taking necessary measures to prevent the spread of the ashes that are already dumped in the yard should also be carried out.

- The necessary actions had to be planned to minimize the impact on the activities of the power plant to the fisher community, to minimize the amount of coal deposited by conducting seawater surveys. The attention on minimizing coastal erosion and taking measures to protect the coast are being drawn and the possibility of contributing as a eco-friendly industry by minimizing environmental damage and as a power generation industry with a value added to the national economy should be enhanced while by taking all the steps mentioned above.




Water Pollution Issue in Kelani River

The Kelani River , the second longest river and the fourth largest water basin in Sri Lanka is the main source of drinking water for nearly 80 per cent of the population in the Western Province. There are approximately 10,511 factories located along this river basin and due to the functions of these industries, domestics the water pollution in the River is being increased. Similarly, when examine the activities on the two main Export Processing Zones around the Kelani River the contaminated water had been discharged to internal water sources and to the environment without proper treatment from activities of certain factories in those areas and in a way that does not conform to standard parameters. Since the lack of proper management of hazardous and non-hazardous waste disposal systems, Since the disposal system of sediment remained after the wastewater treatment was not done in an eco-friendly manner, the impact was ultimately added to water sources. Even though there had been a growth in economic advantages that humans derive from the Kelani River the contribution of all stakeholders for the protection of the environmental beauty of the river and ecological value of the river had diminished. Around many of the major bridges, the quality of water had exceeded the standard parameters of the Central Environment Authority at the examination of water pollution detection criteria. The cost which had to be incurred to water treatment plants to provide the people with clean drinking water had increased. The provisions of the National Environmental Act were inadequate for the penalties for parties who do not follow the methods laid down by the Central Environment Authority when disposal of wastewater in to internal water sources.

Due to the expansion of industries, the water pollution in the Kelani River had increased. In this case, the Environmental Protection License issued to the Seethawaka Export Processing Zone which is a major industrial hub located in the Kelani Valley had expired since 8 years. The capacity of the public wastewater treatment plants for the wastewater treatment plant of 37 industries in the region was insufficient. The environmental damage caused by the microbial degradation mechanism of the wastewater treatment plant had been re-added as an environmental impact.

Since there was no proper methodology further, to remove sludge generated from factories in Seethawaka and Biyagama Export Processing Zones there was a risk of contamination of sources of water mixed with muddy rainwater.

Erosion of riverbanks due to unauthorized construction on both sides of the river, hotels built along the bordering of the river, and dumping of solid waste, sewage and wastewater into the water of the river, disposal of waste water from vehicle service centers and factories without wastewater treatment as per the observations the Kelani River water pollution had been the major contributing factors as per the observation tours along the Kelani River.

Diagram 22- Unauthorized construction on Kelani River

The Pattivila Canal starts and flows from the Ceylon Petroleum Corporation and there are factories and houses on either side of the Canal. All pollutants discharged from these factories were allowed to flow through this canal .On several occasions the audit conducted , the water in the canal was in discoloured and dirty. This canal was also the one that joins the Kelani River, close to the Intake Water Treatment Plant at Pattiwila as well. The details are shown in Diagram 23.

Diagram 23 - Intake Water Treatment Plant at Pattiwila

The area from Modara to Ambatale around Kelani River had severely damaged to the environment and due to human activities this destruction had occurred. The reasons such as disposal of garbage without proper management, erosion of riverbanks, constructing unauthorized houses and buildings bordering the river and disposing of garbage had affected to the destruction of the environment.




Diagram 24 - Environmental damage from Modara to Ambatale

Due to the large number of pollutants that had added during the last 5 years, and the increasing of use of chemicals in the two water treatment plants at Ambatale and Pattiwila water treatment plants as well, the total cost of refining them had increased. Since the increase of water contamination, chemicals had to be used more. Accordingly, the total cost of purification at Ambatale Water Treatment Plant was Rs. 929 million in 2017 as compared to Rs. 879 million in the year 2015. Similarly, the amount of chemicals used in the Pattiwila Water Treatment Plant had increased by 17 per cent of Alum , 37 per cent of Lime and 74 per cent of Chlorine respectively. Further, since the cost of water treatment is increased gradually, the cost of production of drinking water will be increased and move to the consumer.

Audit activities on investigation, audit and representation of the public

Maintenance of quarries in Mahaweli lands

Failure in the Recovery of Delay Charges in Purchase of Multi Day Boats

Financial Malpractices and Frauds

Sale of Limonite Stocks at Low Price

Obtaining Allowances in Improper Way

Granting Money to External Institutions

Audit activities on investigation, audit and representation of the public

It is expected by an audit investigation to examine to sources of the risks where any person or a group has the possibility to gain a benefit or advantage in an unfair or illegal way. At such cases attention of the audit is drawn to strengthen the administration system in order to reveal such frauds and avoid the occurrence of these frauds.

19th amendment to the constitution of the Democratic Socialist Republic of Sri Lanka has strengthened the government audit in order to ensure the proper management of public finance. In addition to the examination of official documents of the institutions subjected to an audit, it is expected by an audit to make the management of public finance more effective by way of obtaining information from representations of general public, requests of commissions, representations of public accounts committee and COPE, representations of the Heads of institutions and media to widen its investigations. Concurrently to these measures, action has been taken by the Department to develop the methodologies for the enhancement of knowledge and skills of the officers, provide necessary training, physical resources, hotlines, and e-mail facilities etc. .

When the attention of the special investigation unit was paid during the year under review to the representations, which demanded important as well as instant attention, it was revealed at the examination on the expenditure of Rs. 5,090.70 million relevant to 23 representations that the estimated loss incurred to the government was Rs. 4,114.20 million. Therefore important observations, which are relevant to the investigations conducted in year 2018 are submitted in brief in the following manner.

Maintenance of quarries in Mahaweli lands

Hambantota District

Permission has been granted to the private sector to carry out 49 quarries in Hambantota district as per the Circular No 03/2012 dated 01 November 2012 issued by the Director General of Mahawela Authority in order to give effect to the provisions of the Forest Ordinance. Even though the powers vested under Forest Ordinance have been restricted to the area of Mahaweli projects, most of the quarries have been located within the reservations belonging to the Department of Forest Conservation and within the areas of Department of Wildlife Conservation situated within the boundaries declared as Walawa River Basin and Walawa Special Mahaeweli Area under Gazette Extra Ordinary No 13 dated 16 April 1981. As mentioned in the notification published in the Gazette Extra Ordinary No 1600/8 dated 06 May 2009 published by the Minister of Environment and Natural Resources under the powers mentioned in section 20 of the Forest Ordinance, 'charges should be recovered based on the volume of granite removed within each year'. However criteria have not been specifically determined in order to determine the volume of granite removed from the lands alienated for mining and the charges to be recovered. Following weaknesses were observed in this regard.

- When the royalty has been recovered under the permits issued by the Bureau of Geological Survey and Mining to these granite mines within the period from 2010 to 2018, it has been calculated that 1,266,991 cubes of granite has been removed from the sites. However Mahaweli Authority has recovered charges for the use of lands only for 150,837 cubes of granite during that period from 49 quarries. Under such situation, the Government has lost charges for the use of lands of Rs. 1,117.50 million, which could have been recovered by Mahaweli Authority exclusively from these 49 quarries as a result of non calculation of the volume of granite removed from the sties by way of maintaining proper communication with the above government institution.
- According to the measurements taken by the Department of Surveyor General on 09 sites in extent of 41.83 acres our of those 49 quarries, mining has been carried out over 1.9 times comparing to the volume forecasted by Bureau of Geological Survey and Mining depending on the amount of gunpowder approved for the blasting. Since a method has not been introduced in the issuance of permits for the recovery of charges for use of lands by way of mapping the location of granite layer, the forecasted charge for the use of lands on the volume of granite removed from these 49 mines has amounted to Rs. 2,407.28. Relevant particulars are given in 25 and 26

Diagram 25. - Quarry of an engineering company situated in a land in extent of 20 acres

Diagram 26 - Unauthorized quarry in the middle of the proposed southern express way at CH8+250-500 k.m. (The depth of the quarry was 28 meters as per the measurements ofthe Departement of Surveyor General)

- In terms of the notification published by the Minister of Environment Affairs in the Gazette Extra Ordinary No 772/22 dated 24 June 1993 under section 2 of National Environment Act No 47 of 1980, the utilization of lands situated within a land in extent of more than 01 hectare for non forest related purpose has been declared as projects prescribed under IV d of Environment Act. Accordingly the projects should have been implemented in consistent with the regulations of the Environment Authority obtaining the approval for environment protection on submission of a report on the effects made to the environment by the project under section 23 b of Environment act, such environment evaluation has not been made in connection to these granite mining projects. Particulars are given in photo 27 and 28

Diagram 27- A quarry, which has violated the conditions of the permit.

Diagram 28 -Unauthorized mining at Mahaweli lands

- A rehabilitation plan has not been obtained in the issuance of lands belonging to the Mahaweli Development Authority on lease for mining of minerals and further lands have been granted without including conditions in the agreements so as to entrust the responsibility for the rehabilitation of lands to the holders of the permits. Permission has been granted to mine granite in these lands without making an evaluation on environment in consistent with the provisions of the National Environment Act No 27 of 1980. Therefore granite mining has been carried out in violation of the conditions of the permit and neglecting the prescribed charges. However approval has been granted to extend the terms of such permits without taking any legal action in this regard.

Badulla District

Following matters were observed in the inspection conducted at 03 sites at Mahaweli Zone 'c' of Girandurukotte in Badulla District, where permission has been granted to carry out quarries based on the Circular No 03/2012 dated 01 November 2012 by the Director General of Mahaweli Authority in order to implement the powers of Forest Ordinance.

- When permission is granted for mining, no criteria have been introduced to determine to volume of granite removed from the mine. Further a loss of Rs. 236.8 million has incurred in the following manner due to non introduction of criteria for the recovery of charges.

    - Charges to be recovered per 01 cube of granite has not been recovered in terms of the Gazette Extra Ordinary No 1600/8 dated 06 May 2009 published by the Minister of Environment and Natural Resources under the powers in section 20 of the Forest Ordinance and calculations of the volume have not been made based on the amount of gunpowder issued. Bureau of Geological Survey and Mining has applied this method to recover the royalty. Under such circumstance a loss of Rs. 21.8 million has incurred. However after the audit query, Rs. 7.04 million has been recovered during the period from 20 July 2018 up to 31 May 2019. .

    - According to the matters revealed in the physical inspection, the volume of granite removed from these 3 sites is 215,000 cubes. Since no method has been introduced in the recovery of charges for use of lands to calculate the amount of granite removed the loss incurred to the government from the 3 sites as per the forecast id Rs. 215 million.

    - Permission has been granted to mine granite in these lands without making an evaluation on the environment as per the provisions of the National Environment Act No 27 of 1980. Accordingly granite mining has been carried out violating the conditions in the permits and neglecting the payment of charges. Further approval has been granted to extend the term of the permits further without initiating legal action in this regard.

Moragahakanda Project

According to the report of the evaluation on the environment of Moragahakand project, it has been recommended that it is advisable to mine granite required for the project at 02 sites ,which are to be submerged in water, without causing any harm to the wildlife. However granite mining has been done in a land in extent 07 hectare situated on an crossing where elephants in Elehera- Girithale sanctuary cross towards Minneriya and Kavudulla sanctuaries through Wasgamuwa national reservation. The slope of the mining is more than 90 degrees and the height is 30 meters. Following observations are made in this regard.

- As a result of mining granite at such a strip of land (width is 450 meters) which is highly sensitive in environmental terms and situated below the bund of Moragahakanda reservoir elephants' crossing has been severely obstructed.

- There is a risk of increasing the conflict between elephants and human since elephants may turn towards the new settlements located under Moragahakand project for their crossing.

- According to the reports of the Bureau of Geological Survey and Mining, 1,891,950 cubes of granite have been removed from this site during the period from 2012 up to 2017.
  Action has not been taken to recover Rs. 1,891.95 million at the rate of Rs. 1,000 per cube of granite as charges for use of lands in terms of the notification published in the Gazette Extra Ordinary No 1600/18 dated 06 May 2009 by the Minister of Environment and Natural Resources under section 20 of Forest Ordinance (Chapter 45) .
- Cabinet Memorandum has been submitted by the Minister of Higher Education and Highways to obtain granite from this site for the highway development programme conducted under district development programme in the name of Pibidemu Polonnaruwa.

Diagram 29- Even though the mining should have been done from 10 to 10 meters under level basis, mining has been done at a slope of 90 degrees with the height of 30 meters.

- In terms of the observations submitted by the Minister of Finance and Minister of Mahaweli Development and Environment approval has been granted subjected to the following matters.

  - If the Department of Wildlife Conservation extends its concurrence,
  - If the Ministry of Highways extends its concurrence to ensure environment conservation,
  - To make payments deducting the cost included for granite in the contract agreement, after making a feasibility study if the finding of the study are satisfactory. .

  Even where the Director General of Wildlife has informed on 03 April 2017 that it is not possible to recommend the quarry further, approval has been granted by the Director of Wildlife (Operations) for a blasting at the site on 24 May 2017.

  02 companies have signed memorandum of understanding using aforesaid approval and then commenced the functions of quarry neglecting the conditions mentioned in the approval of the Cabinet of Ministers. Accordingly they have removed granite to the estimated value of Rs. 73.5 million.

  No action has been taken against the unauthorized activities taken place in the premises belonged to the Department of Wildlife.

Kandy District

03 plot of lands situated within the area of residential business management office, Digana of Sri Lanka Mahaweli Authority has been issued on lease by Digana office in year 2013 to mine limestone for the production of Dolomite fertilizer. Accordingly it has to recover the charge for the use of land as per the rate of Rs. 1000 per one cube of limestone removed as per the notification published in the Gazette No 1600/18 dated 06 May 2009. However only Rs. 300 has been recovered per cube. According to the information available at the Bureau of Geological Survey and Mining 31,684 cubes of stone have been removes from this site during the period from year 2013 up to 2016. For this purpose charges for the use of lands have been recovered but it has been undercharged by Rs. 30.18. Permission has been given for mining of limestone in the sites without making any evaluation on the environment as per the provisions of National Environment Act No 27 of 1980. Mining has been made in violation of the conditions of the permit and neglecting the payment of charges but the term of the permit has been extended without taking any legal action in this regard.

Establishment of a CCTV system

A CCTV camera system has been established covering Administration building, Farm, Front door, Computer lab 01 and 02 of Higher Technological Institute , Ampara spending Rs. 1.24 in January 2017. Bids were called for the purpose and the Contract has been awarded selecting the supplier who submit the lowest bid. However it has not taken action to enter in to a formal agreement with the bidder. Further the institute has not taken action to obtain the performance security. 14 cameras out of 23 cameras were not working by 09 December 2017. No action has been taken by the institution get them again workable and therefore the total expenditure born for the project has become an uneconomical expense.

Manufacturing 10 trawlers and distributing them among beneficiaries

Department of Fisheries and Aquatic Resources has take action to get 10 multi day boats manufactured from Cey-Nor institute and other private boats manufacturing institutes in order to enhance the production of fish, the quality of the fish, and the fisheries system. This purchase has been made with a view to distribute these vessels among selected 10 beneficiaries on the basis of the recovery of 50% from the total cost from the selected beneficiaries. The matters revealed in the investigation conducted in this regard are given in brief below.

- By the Cabinet Memorandum submitted on 06 December 2016, a request has been made from the Ministry of Finance to provide funds from the vote made under the Ministry for year 2016 for the manufacturing of 10 multi day boats, which have been planned to manufacture in 2017. According to the recommendations made by the Minister of Finance in this respect, it has been informed that the provisions allocated for year 2016 could not be provided for year 2017. Without paying any attention on this recommendation, Department of Fisheries and Aquatic Resources has provided Rs. 149 million, which were required for purchase of 10 multi day boats, from the provisions made for 2016 to Cey- Nor institute.

- In terms of the decision of the Cabinet of Ministers dated 24 May 2016, the Department of Fisheries and Aquatic Resources has provided an aggregate of Rs. 48 million at the rate of Rs. 22 million and Rs. 26 million for making of a mould for manufacturing a multi day boat to the length of 55 feet and manufacturing a model vessel respectively to Cey-Nor institute. Cey-Nor institute has manufactured a model boat to the length of 55 feet spending Rs. 26.06 million using an old mould which has been repaired by it spending only Rs.0.36 million. As a result of manufacturing that model boat without entertaining the views of the beneficiaries they have not agreed to manufacture their boats as per the model boat. Therefore it has to manufacture another mould spending Rs. 13.75 million due to this situation. The amount , which has to be spent at these two occasions, has been Rs. 14.11 million and Rs. 7.81 million remained unspent out of the amount allocated for the manufacturing of mould. Department of Fisheries and Aquatic Resources has not taken any action to recover this amount from Cey-Nor even by the end of the year under review.

- The model multi day boat, which has been manufactured spending Rs. 26.06 million with the length of 55 feet and rejected by the beneficiaries, had been kept idle for a period of one year and then it has been sold to a foreign country to the value of Rs. 21.22 million. The loss caused to the government by this transaction was Rs.4.83 million. Further the Department has not taken action even by the end of the year under review to recover this amount gained from the sale of multi day boat, which has been manufactured utilizing the grants from government.

- In terms of para 24 (a) of the Cabinet Decision dated 14 December 2016, approval has been granted to get multi day boats manufactured from private boatyards subject to following the procurement procedure of the government. However bids have been called only from two institutions depending on the interest of beneficiaries but without following above decision and these two institutions have submitted their bids with similar prices for the purpose.

- In terms of the quadripartite agreement signed by the Department of Fisheries and Aquatic Resources with Cy-Nor limited, Private Boatyard Owners and Beneficiaries , the multi day boats have to be manufactured and handed over to beneficiaries before 31 March 2017. However only 02 out of 05 and 03 out of 05, of which the manufacturing has been entrusted to private boatyards and Cey- Nor institute, have been completed by 31 August 2018. Therefore the total number of multi day boats completed was 05. Under such circumstance action has not been take to recover delay charges of Rs. 4.49 million as per the agreement from two private boatyards.

- One boat produced by Cey Nor and handed over to a beneficiary was destroyed due to a fire within the guarantee period and it has been revealed that the casue for the fire was a manufacturing fault. Under such circumstance there was a possibility either to get the vessel repaired by Cey- Nor or to get a new vessel, the total amount paid by the insurance institution has been provided to the beneficiary. Even though the beneficiary has paid only Rs. 12.35, which was the half of the total cost, Rs. 24.70, which was the total value of the boat, has been paid in this way to the beneficiary. The amount paid in excess to the beneficiary in this way was Rs. 12.35 million.

Financial malpractices and frauds

When 14 fixed deposits, which have been invested in state banks by Post Graduate Institute of Science affiliated to University of Peradeniya for the period from 2009 to 2016, have been reinvested on maturity, the accumulated value of these fixed deposits at the time of maturity has not been reinvested. Only a part of this amount has been invested and Rs. 55.34 million from the remaining amount has been taken fraudulently by a Senior Assistant Bursar. The observations of the audit in this regard are given in brief in the following manner.

- The former Director has stated that the former Senior Assistant Bursar has obtained money by way of submitting a fraud letter containing the amount and instructions to 'pay in cash' instead of the letter prepared to submitted to the bank with the signature of the Director of the institute, which contained the official order to credit a part of the deposit to a current account on maturity and further to commence another fixed deposit with the remaining amount.

- With a view to cover this financial fraud in

- accounts, the accumulated balance and the interest at maturity has not been accounted.

Granting money to external institutions

- Lanka Mineral Sands Limited has provided short term loans to the value of Rs. 545 million to 04 government institutions for management operations contrary to its objectives during the time from 2010 up to Rs. 3.08 million, which is the accumulated amount of 03 fixed deposits and interest at the maturity, has been obtained fraudulently in cash without entering in cash book and without depositing in bank current account of Post Graduate Institute of Science.

- Fixed deposits have been commenced by Rs. 5.14 million out of the Rs. 24.51, which is the accumulated balance of 03 fixed deposits at the maturity, and the remaining balance of Rs. 19.37 has been taken fraudulently. Only Rs. 4.40 million out of Rs. 23.00 million, which has been granted at three occasions by the government, has been accounted as government grants. Rs. 18.60 million, which is the remaining amount, has been utilized to settle the amount of Rs. 19.37, which has been obtained fraudulently at the maturity of fixed deposits.

- Former Senior Assistant Bursar has obtained Rs. 1.93 million out of Rs. 2.93 million, which is the accumulated amount of a fixed deposit at the maturity, by way of submitting fraudulent documents to the Bank. Later action has been taken to get a payment voucher prepared by the officer in charge of the subject to imply that the amount has been paid to National Science Foundation and it has been kept under his custody without paying to NSF after getting the approval of a relevant officer and certifying the same by the Senior Assistant Bursar himself.

- 06 receipts of fixed deposits to the value of Rs. 5.68 million have been kept in the safe under the custody of Senior Assistant Bursar with the signature of the Director and Senior Assistant Bursar after endorsing them for a long time so as to be able to withdraw them at any time depending on the requirement of the institution and without any official order to bank.

- Money required for day to day operations of the institution were kept at the range of Rs. 6 million up to 118 million in current and savings accounts. Further balances at the range of Rs. 1 million up to 27 million were kept in RFC accounts in a state bank. Even where such liquid assets were available at the institute, no clarification has been made to the audit for the requirement of withdrawing money invested in fixed deposits, which have been made to earn an income from the money in excess in the institution.

- With the intension to commit a financial fraud, Rs. 16.89 million, which was the interest due from fixed deposits for the period from 2008 up to 2016, has not been shown in annual financial statements. Action has taken to make financial fraud by way of understating the actual accumulated value of fixed deposits in accounts without accounting the income on interest and withdrawing such interests from the bank. Further action has been taken purposely for a long time to avoid the revelation of such frauds in accounts by way of understating the actual value of fixed deposits and non-accounting the interest of fixed deposits.

- Due to withdrawing money from fixed deposits fraudulently by way of terminating fixed deposits, the institution has lost an amount of Rs. 24.25 million, which could have been earned as the income on interest for the period from 14 March 2008 up to 30 November 2017, the date of audit.

- All activities such as determining the requirement of commencing fixed deposits, preparation of applications for fixed deposits, determining the requirement of withdrawing money closing such fixed deposits, preparation of official orders to the banks for the purpose, carrying out banking operations relating to fixed deposits, calculation of the interest on fixed deposits, preparation and certification of journal entries and vouchers for accounting relevant interests, planning and implementation of internal administrative processes for the control over accounts of fixed deposits etc. have been performed by Senior Assistant Bursar.

- No attention has been made regarding the non-maintenance of fixed deposit register, which is the utility register to be maintained for the carrying out transactions on fixed deposits, non-maintenance of relevant documents properly, non- making a supervision on operations connecting to fixed deposits maintained by Senior Assistant Registrar and accounting process at an adequate level and non-implementation of the internal audit so as to evaluate the internal administration of the institute.

Operational activities of Lanka Mineral Sands Ltd

Observations made at the special audit investigation conducted on the operations of Lanka Mineral Sands Limited, which is one of the main institutes for exportation of mineral sands after refining them as an economic resource, are given in brief in the following manner.

- ### Non- making the income on exports at the maximum level

Since industries have not been established in Sri Lanka for the productions related to mineral sands, there was no demand in the local market for mineral sands, which was the production of the Company. Therefore the whole production has been sent to export market. Accordingly the productions of the Company are exported to Japan, United Kingdom, Europe, United State of America, India, Pakistan, China etc. However the Company has not exported limonite directly to the genuine buyers identifying such buyers and therefore the company has lost opportunity to maximize its income as a result of selling its productions through local and foreign buyers.

- ### Sale of 9000mt of limonite

Approval of the Cabinet of Ministers has to be obtained before commencing activities of tenders for the sale of 9000 mt of limonite. However all activities relating to the tender such as calling of tenders, obtaining quotations, making technical evaluations, granting approval of the tender board for tender etc. have been performed before obtaining the above approval. However the Cabinet Memorandum has been submitted by the Ministry just before awarding the tender to selected bidder. Attention of the cabinet of Ministers has not been drawn by this Cabinet to the facts such as the condition of the huge limonite stocks struck in the stores of company, whether a higher price has been offered by the tender as per the prices of the world market, whether this tender offers a higher price than the previous prices, lack of storage facilities relevant to the higher production of mineral sands and wastage and damages caused to stocks as a result of keeping them in stores for a long time and the requirement of selling its productions due to the increase in production.

Further the price for 01 mt of limonite with 54% of titanium dioxide (TIO2) was at the highest price of 215$ at the world market during that time. Under such circumstance a higher price of 202.89 $ has been offered by the tender for 01 mt of limonite over 51.54% of titanium dioxide (TIO2). However the Secretary of the Ministry, without paying attention to these facts, has ordered to cancel the tender without granting approval to sell the limonite stocks of the Company at the price of the tender. However the Cabinet of Ministers has ordered to the Secretary of the Ministry of Industries and Trade Affairs to take necessary action to sell limonite stocks by calling international bids considering the price escalation in the international market. Further it has been requested from the Minister of Industries and Trade Affairs to submit proposals to the Cabinet Sub Committee on economic management regarding the production of value added items as per the cabinet decision, he has neglected that request. Even though a higher price of 202.89$ has been offered by first tender for 01 mt of limonite, it has been cancelled again tenders have been called. At that time the price received was at a lower level i.e. 163.80 $. However without considering the market trends at that time, which showed a decline in prices for limonite, that tender has also been cancelled without selling the stock even at that price. The Secretary of the Ministry of Industries and Trade Affairs has neglected his responsibilities without making a proper evaluation and study on the market trends in prices and without taking action diligently. At the final and the third tender calling action has been taken to sell limonite stocks at a lower price of 150 $ per 01mt.

As a result of selling this limonite stocks at lower price without taking proper decisions at the correct time, the Company has lost Rs. 476,010 $ (Rs. 72.35 million), which could have earned by the Company.

2013, during which the company was under the Ministry of Public Enterprises Development. This money has been utilized for the purposes such as payment of compensation on retirement for employees of Ceylon Ceramic Corporation, payment of the arrears of salaries in State Plantation Corporation, making urgent payments of Janatha Estate Development Board, payment of arrears of salaries of National Paper Corporation. Instructions of the Ministry of Public Enterprises Development have been followed when making these loans but action has not been taken to obtain approval of the Ministry of Finance and Department of Public Enterprises. No agreement has been made with relevant parties regarding these loans except the loan of Rs. 500 million granted to the State Resources Management Corporation to pay compensation on retirement to the employees of Ceylon Ceramic Corporation. Even though 5 years have lapsed for these loans by the end of November 2018, the Company has failed to recover its loans.

Obtaining allowance in improper way

It has been informed by the letter of the Ministry of Media and Information No MMI/05/06/2/13-2 dated 01 March 2014 to pay holiday pay for the performance of duties on holidays subject to public administration circular No 21/2013, and further not to make any payment for such days and not to take these days in to account for the payment of any other allowance. However 25 employees of Department of Government Printer have obtained commercial allowances to the value of Rs. 4.44 million for 2017 and Rs. 1.35 million up to May 2018 without any entitlement applying the number of hours of the days for which they have obtained holiday pay.

National Audit Office

Basis of Preparation of Financial Statements

Statement of Financial Performance for the year ended 31 December 2018

Imprest Adjustment Account

Statement of Financial Position as at 31 December 2018

Cash Flow Statement for the year ended 31 December 2018

Format of the Preparation of Financial Statements

The financial statements of the National Audit Office have been prepared in term of the provincial in State Account circular No.267/2018 of 21 November 2018, statement of financial position and the cash flow ststement as at 31 December 2018 have been prepared on the following bases stipulated in the said circular.

Basis of Reporting

Reporting Period

The reporting period for these Financial Statements is from 01st January to 31St December 2018.

Basis of Measurement

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

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

Recognition of Revenue

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

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

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

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

Property, Plant and Equipment Reserve

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

Cash and Cash Equivalents

Cash & cash equivalents include local currency notes and coins on hand as at 31st December 2018.

Statement of Financial Performance

For the Year Ended 31 December 2018

			Rs
	Revenue Receipts		
-	Income Tax	**1**	-
-	Taxes on Domestic Goods & Services	**2**	-
-	Taxes on International Trade	**3**	-
140,000,000	Non Tax Revenue & Others	**4**	165,030,063
140,000,000	**Total Revenue Receipts (A)**		165,030,063
-	**Non Revenue Receipts**		-
-	Treasury Imprests		1,603,800,000
-	Deposits		20,365,300
-	Advance Accounts		77,867,428
-	Other Receipts		62,339,998
	VAT Receipts		26,380,610
-	**Total Non Revenue Receipts (B)**		**1,790,753,336**
140,000,000	**Total Revenue Receipts & Non Revenue Receipts C = (A)+(B)**		**1,955,783,399**
	Less: Expenditure		
-	**Recurrent Expenditure**		-
1,456,300,000	Wages, Salaries & Other Employment Benefits	**5**	1,464,526,249
190,200,000	Other Goods & Services	**6**	253,286,132
15,800,000	Subsidies, Grants and Transfers	**7**	13,771,671
-	Interest Payments	**8**	-
-	Other Recurrent Expenditure	**9**	-
1,662,300,000	**Total Recurrent Expenditure (D)**		**1,731,584,052**
	Capital Expenditure		

12,500,000	Rehabilitation & Improvement of Capital Assets	**10**	12,212,631
23,000,000	Acquisition of Capital Assets	**11**	14,834,169
-	Capital Transfers	**12**	-
-	Acquisition of Financial Assets	**13**	-
87,000,000	Capacity Building	**14**	76,136,977
-	Other Capital Expenditure	**15**	-
122,500,000	**Total Capital Expenditure (E)**		**103,183,777**
	Main Ledger Expenditure (F)		**118,826,825**
	Deposit Payments		24,858,261
	Advance Payments		73,254,303
	VAT Payments		20,714,261
1,784,800,000	**Total Expenditure G = (D+E+F)**		**1,953,594,654**
	Imprest Balance as at 31st December 2018 H = (C-G)		2,188,745

Imprest Adjustment Account

For the Year ended 31 December 2018

		Rs..
Imprest balance according to statement of financial performance as at 31.12.2018		2,188,745
(+) Add		
Adjustment balance in advance account	1,204,496	
Debit of other department votes	2,404,375	3,608,871
		5,797,616
(-) Less		
Adjustment of advance receipts	2,462,180	
Expenditure for other department votes	3,335,436	5,797,616
		-

Statement of Financial Position As at 31 December 2018		
	Note	Actual
	-	- Rs.
Non Financial Assets		
Property, Plant & Equipment	ACA-6	126,731,812
Financial Assets		
Advance Accounts	ACA-5/ACA-5(a)	219,416,775
Cash & Cash Equivalents	ACA-3	-
Total Assets		346,148,587
Net Assets / Equity		
Net Worth		205,279,869
Property, Plant & Equipment Reserve		126,731,812
Rent work advance reserves		2,730,000
Current Liabilities		
VAT Payble		4,542,134
Deposits Accounts	ACA-4	6,864,772
Impresst Balance	ACA-3	-
Total Liabilities		346,148,587

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

W.P.C.wickkramarathna Chief Accounting Officer Auditor General Februry 2019	S.M.C.Laksmee Chief Accountan Februry 2019

Statement of Cash Flows

For the Year ended 31 December 2018

	Actual
	Rs.
Cash Flows from Operating Activities	
Fees, Fines, Penalties and Licenses	165,030,063
Non Revenue Receipts	1,666,049,458
Deposit Receipts	20,365,300
VAT Receipts	26,380,610
Total Cash generated from Operations (a)	**1,877,825,431**
Less - Cash disbursed for:	
Personal Emoluments & Operating Payments	1,820,864,723
Tax Payments - VAT	20,714,261
Deposit Payments	24,858,261
Total Cash disbursed for Operations (b)	**1,866,437,245**
NET CASH FLOW FROM OPERATING ACTIVITIES(C)=(a)-(b)	**11,388,186**
Cash Flows from Investing Activities	
Interest	-
Dividends	-
Divestiture Proceeds & Sale of Physical Assets	90,540
Recoveries from On Lending	75,405,249
Total Cash generated from Investing Activities (d)	**75,495,789**
Less - Cash disbursed for:	
Purchase or Construction of Physical Assets & Acquisition of other Invstment	14,834,169
Advance Payamnts	72,049,806
Total Cash disbursed for Investing Activities (e)	**86,883,975**
NET CASH FLOW FROM INVESTING ACTIVITIES(F)=(d)-(e)	**(11,388,186)**

NET CASH FLOWS FROM OPERATING & INVESTMENT ACTIVITIES (g)=(c) + (f)	**-**
Cash Flows from Fianacing Activities	
Local Borrowings	-
Foreign Borrowings	-
Grants Received	-
Total Cash generated from Financing Activities (h)	**-**
Less - Cash disbursed for:	
Repayment of Local Borrowings	-
Repayment of Foreign Borrowings	-
Change in Deposit Accounts and Other Liabilities	-
Total Cash disbursed for Financing Activities (i)	**-**
NET CASH FLOW FROM FINANCING ACTIVITIES (J)=(h)-(i)	**-**
Net Movement in Cash (k) = (g) -(j)	**-**
Opening Cash Balance as at 01st January	**-**
Closing Cash Balance as at 31st December	**-**

A Summary of Audit Observations taken from published Special Audit Reports of the year 2018

Public Debt Management
Construction of Monuments for the Museum
Medical Supplies
Performance on Wildlife Conservation
Uma Oya Multipurpose Development Project
Digitalization of Public Service
Import of Dairy Cattle
Paddy Fertilizer Subsidy Programme
Sports in Sri Lanka and Its Administration
Computerization of Revenue Administration
Performance of the Development Officers in the Public Service
Export of Gold Mixed Soil
Empowering the Samurdhi Beneficiaries
Enhancement of Agricultural Economy
Performance of the Department of Ayurveda, North Central Province
Filling up of Fallow Paddy Lands
Special Audits carried out on Lotteries
Performance of the SEMA Institution
Performance of the National Water Supply and Drainage Board
Safety and Protection for Prisoners
Management and Performance of the Employees' Provident Fund
Performance of the State Printing Corporation
Yan Oya Sand Mining Project
Central Expressway Project
Performance of the Paddy Marketing Board
Performance of Projects implemented by the District Secretariat, Nuwara Eliya

Special Audit Reports Issued in the Year 2018

The Auditor General's Department issued 08 Special Audit Reports up to 01 August 2018 in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. With the inclusion of 19 Special Audit Reports issued after o1 August 2018 in terms of Section 13 of the National Audit Act, No. 19 of 2018 which became effective from 01 August 2018, a number of 27 Special Audit Reports was issued in the year 2018. These reports have been issued with respect to Ministries, Department, Corporations, Boards, and Public Companies being audited by the National Audit Office along with the other institutions audited by the Auditor General. Requests made by the Committee on Public Enterprises or the Public Accounts Committee, the disclosures made by the media, and the public representations are taken into account by virtue of the discretionary powers vested in me for issuing such reports. Attention was made on the national and timely importance as well.

All the Special Audit Reports issued in the year 2018 have been tabled in Parliament as shown below whilst taking action to upload them trilingually on the official website of the National Audit Office in order to be used by the general public.

Information relating to the Special Audit Reports issued in the year 2018 is shown in Table 03

	Title of the Report	Date of the Report	Background of the Report
01	Public Debt Management in Sri Lanka	2018.02.02	To present the Parliament with an analytical report on the debt management of the Government of Sri Lanka.
02	Special Report of the Auditor General on the Construction of D.A Rajapaksha Museum and Monument at Madamulana by Sri Lanka Land Reclamation and Development Corporation	2018.02.06	To present the report by considering the importance and controversy relating to those constructions.

03	Special Audit Report of the Auditor General on Process of Supplying Medical Supplies carried out by the Medical Supplies Division of the Ministry of Health, Nutrition and Indigenous Medicine.	2018.03.14	The deficiencies in the medical supplies and supply process of the Medical Supplies Division of the Ministry of Health, Nutrition and Indigenous Medicine
04	Special Report of the Auditor General on the Solid Waste Management of the Colombo Municipal Council	2018.03.16	The social crisis triggered by the losses of lives and properties due to collapse of garbage dump in Pothuwilkumbura, Meethotamulla.
05	Performance of the Department of Wildlife Conservation	2018.03.23	The common dialogue in the society as to whether the Department of Wildlife Conservation has performed their duties for the protection and conservation of wild life.
06	The Special Report of the Auditor General for the Uma Oya Multipurpose Development Project Under the Ministry of Mahaweli Development and Environment	2018.04.23	The extensive water leakage causing many environmental and social issues.
07	Special Report of the Auditor General on the Role Played by the Information and Communication Technology Agency of Sri Lanka (ICTA) relating to the Digitalization of Public Service	2018.05.09	To investigate as to whether the ICTA has rendered their duties properly on the digitalization of Public Service.
08	Special Report of the Auditor General on the Project for the Import of Dairy Cattle	2018.05.04	To evaluate the productivity of importing 15,000 dairy cattle for the farms belonging to the National Livestock Development Board.

09	Special Audit Report on the Paddy Fertilizer Subsidy Programme in Sri Lanka	2018.05.18	To examine as to whether the objectives of the fertilizer subsidy programme have been achieved.
10	Special Audit Report on Sports in Sri Lanka and Its Administration	2018.05.24	To conduct an investigative examination on the legal background of the sports in Sri Lanka and the institutional functionality thereunder, thus presenting the observations.
11	Special Report of the Auditor General on the effect to the Government Revenue made by holding over of issue of automated assessment reports by the Revenue Administration Computer System of the Department of Inland Revenue	2018.06.14	To look into the effect of discontinuing the automated system.
12	Auditor General's Special Report on the Performance of the Development Officers in the Public Service	2018.09.05	
13	Special Audit Report on Export of Gold Mixed Soil	2018.09.05	To examine the problematic situation arisen in the export of wastage of goldsmith burnt residue.
14	Contribution of the Samurdhi Programmes in empowering the Samurdhi beneficiaries.	2018.06.07	To examine the productivity of the programme empowering the Samurdhi beneficiaries.
15	Special Report on the Evaluation of Contribution Extended by the Agriculture Research and Production Assistants for an Enhanced Agricultural Economy	2018.09.12	To identify as to whether the contribution made by the Agriculture Research and Production Assistants to the society is sufficient.

16	Special Audit Report on the Performance of the Department of Ayurveda, North Central Province	2018.09.12	To examine as to whether the duties expected from the Department of Ayurveda, North Central Province have been performed properly and the Provincial Council of North Central Province has acted to ensure a productive service for the public through that Department.
17	Special Audit Report on the Impact of Filling up of Fallow Paddy Lands in Kagalle District	2018.09.28	To identify the impact caused by the gradual increase in the filling of fallow paddy lands.
18	Special Audit carried out on Thirty Second (32) Colombo Airport Super Draw Lottery, New Airport and Dollar Fortune Lotteries conducted by the National Lotteries Board.	2018.09.09	To examine as to whether the objectives of the lotteries issued with the intentions of promoting the Colombo International Airport as an attractive transit point for the tourists and increasing the revenue generated by the Airport, have been achieved.
19	Performance of the SEMA institution	2018.11.01	To examine as to whether the primary objectives of establishing the SEMA institution have been fulfilled, and evaluate the productivity in maintaining the institution further.
20	Special Audit Report for Evaluation of the Performance of the National Water Supply and Drainage Board.	2018.11.30	Had the proposals on the revision of water charges proposed for the 3 preceding years been implemented, the impact thereof could have been borne by the people. The objective of issuing this report is to examine the reasons for taking measures to revise the water charges without considering to minimize the volume of water that do not generate

			revenue so as to control costs, and increasing the progress of projects.
21	The Special Report of the Auditor General on the process of Caring, Securing, Rehabilitation and Socialization of prisoners.	2018.11.30	To evaluate the functionality of the Department of Prisons relating to the process of properly maintaining the safety, protection, and rehabilitation of the prisoners.
22	Special Audit Report on the Performance of Fund Management of the Employees' Provident Fund for the Years 2015 and 2016.	2018.11.30	The Employees' Provident Fund was extensively questioned at the COPE meeting held for examining the bonds in question issued in February 2015 and March 2016, as well as the Presidential Commission appointed to look into the said bond issue. This report is prepared to examine the performance in the fund management of the Fund by considering the matters identified in those instances with emphasis on the period in which decisions had been taken to suspend the bonds issued under direct placement method.
23	Special Audit Report on the Performance of the State Printing Corporation.	2018.12.06	To examine the reasons that caused the inefficiency of the State Printing Corporation, a prominent institution in the public sector, and identify the measures to be taken to revitalize the Corporation.
24	Report on Industrial Sand Mining Project done within the Yan Oya Reservoir Premises.	2018.12.27	To examine the social, technical, and environmental issues arisen due to informality in issuing licenses and mining, thus proposing solutions therefor.

25	Special Audit Report on Feasibility Study and Procurement Activities of the Central Expressway Project.	2018.12.27	To evaluate as to whether the feasibility study for the Central Expressway Project had been carried out properly and the procurement activities had been done appropriately.
26	Special Report of the Auditor General on the Performance of the Paddy Marketing Board.	2018.12.28	To examine the reasons that caused the Board to become inefficient and identify the measures to be taken to reverse the situation.
27	Special Audit Report on the Performance of Development Projects implemented by the District Secretariat, Nuwara Eliya.	2018.12.31	To identify the economic and social problems due to projects without standard, incomplete projects, and misappropriation of public funds in the implementation of projects.

Table .... : Special Audit Reports Issued in the year 2018
A summary of audit observations in the reports issued in the year 2018 is given in this chapter.

Public Debt Management in Sri Lanka

Reporting the Total Public Debt and Total Assets

According to the financial statements presented to audit, the public debt accounted for as at the end of the year 2005 amounted to Rs. 2,142 billion and it had been Rs.8,861 billion as at the end of the year 2016, thus indicating an increase of Rs.6,719 billion. Further, the total assets (only financial assets) amounting to Rs.293 billion as at the end of the year 2005 had increased to Rs.1,087 billion as at the end of the year 2016, thus indicating only an increase of Rs.794 billion. Even though the debt of the country was rapidly increasing, it was observed that the assets generated by the utilization of those debts had not been correctly identified and brought to accounts.

The total public debt balance as at 31 December 2016 amounted to Rs. 8,861 billion (including the advances obtained by the Government as short -term debt from the Central Bank) was about 74.8 per cent of the Gross Domestic Product of the same year amounting to Rs.11,839 billion. Further, according to the Reports of the

Central Bank of Sri Lanka , the public debt balance as at 31 December 2016 was 79.3 per cent as a percentage of the Gross Domestic Product.

Even though it was indicated that the development of the country had occurred through the investment of debt if the public investments existed similar or more than to the total net public debts (after deduction of debt instalments from total borrowings), it was observed that the value identified as public investment in the year 2016 and preceding years was decreased less than the net borrowings during the relevant year. Similarly, the expenses such as the grants received to the Government Institutions, expenses made for the development assistance activities of social welfare nature , the contribution granted to the Provincial Councils within the public investments are included . Accordingly, it was observed that a considerable amount had been used for the expenditure of recurrent nature from the total net borrowings by the Government.

Moreover, a considerable amount of the domestic and foreign debt obtained by the Government during a long period has to be used in paying debt installments and interest. As such, the achievement of expected development targets of the country had failed. Accordingly, public debt had continuously increased during a long period due to the shortage of adequate production industries as a result of non-increase in public investments as compared with borrowings and gradual increase in recurrent expenditure. Further, it was observed that non-implementation of development projects as expected, could have an adverse effect on the financial stability of the country and the ability of repayment of debt.

In comparison of the total public debt with the midyear population, the per person debt which amounted to Rs.108,908 as at 31 December 2005, was Rs.417,913 as at 31 December 2016. As compared with the per person debt which amounted to Rs.373,462 as at 31 December 2015, an increase of Rs.44,451 representing about 12 per cent as at 31 December 2016 was observed as well. Moreover, a possibility of further increase in the actual per person debt exists due to devaluation of the Rupee in relation to foreign currency as a result of reasons such as the inclusion of a considerable amount of foreign debt in the total public debt (exceeding 40 per cent) and its continuous increase. Further, unaccounted debt (foreign debt unaccounted due to lack of provisions and the understatement of the face value of Treasury Bonds) and Off Balance Sheet Items are not included in the above debt balance and after adjustment of the said balance, the per person debt would further increase.

Financing the Budget Deficit (Settlement of the Budget Deficit)

According to the financial statements of 2016, the total financing estimated for financing the budget deficit amounted to Rs.1,724 billion. However, as the actual total financing amounted to Rs. ------ billion, it was a decrease of 61.4 per cent as compared with the revised budget estimate. According to the corresponding revised budget estimate, the expected local and foreign borrowings for the year under review totalled 2,438 billion. However, the actual value of local and foreign borrowings amounted to Rs.1,616 billion. As such, it amounted to Rs.822 billion representing a decrease of 33.7 per cent as compared with the revised budget estimate.. The total actual borrowings by the Government in the year 2016 as compared with the revised budget estimate appear in Table 04 below.

Loan Catagary	Borrowings in the 2016			
	Amendment Budget Estimate	**Actual Borrowings**	**Increase in the actual debit in relation to the budget estimate**	
			Amount	**Percentage**
	Rs. Billion	**Rs. Billion**	**Rs. Billion**	
Foreign Loan	300	574	274	91.3
Domestic Loan*	2,138	1,042	(1,096)	(51.3)
Total	2,438	1,616	(822)	(33.7)

Table 04 Increase in the actual debt in relation to the revised budget estimate.
*Domestic debt includes the net value received from issuance of Treasury Bonds

Debt Balances not included in the Financial Statements

Off Balance Sheet Items

According to the financial statements presented to Audit, the debt balance payable by the Government as at 31 December 2016 amounted to Rs.8,861 billion. However, it was revealed at the audit test checks that the following debt balance, remained as further payable amounting to Rs.826 billion received in several preceding years, had not been included in the financial statements.

Even though debt totalling Rs.6 billion comprising Rs.5 billion and Rs.1 billion out of foreign debt received in the year 2016 relating to 14 Loan Agreements and in the year 2015 relating to 09 Loan

Agreements respectively had been realized, those debt had not been included in the financial statements.

Financial Performance

The total public expenditure which was Rs.2,357 billion in the year 2015 had increased to Rs.2,365 billion in the year 2016 by Rs.8 billion representing a percentage less than one per cent. However, the total recurrent expenditure had increased by Rs.98 billion representing 5.9 per cent in the year under review as compared with the preceding year. The payment of interest on debt of 31.5 per cent of the total recurrent expenditure in the preceding year, had increased to 34.5 per cent in the year under review. As such, the expenditure on public investments which was 29 per cent of the total expenditure in the preceding year, had declined to 25 per cent of the total expenditure in the year under review.

Repayment of total domestic debt instalments in the year 2016 was 82.3 per cent of the total domestic borrowings and accordingly, net domestic borrowings were only 17.7 per cent of the total domestic borrowings. Further, total domestic borrowings in the year under review, payment of debt interests during the year under review were 20.3 per cent thus the total borrowings had not been adequate to the debt instalments and payment of interest. Accordingly, it was observed that the investment ability had not been available on domestic borrowings.

Budget Deficit Exceeding the Limit of 5 Per Cent of the Gross Domestic Product

According to the financial statements of the Republic in the year under review, the Estimated Budget Deficit had been a sum of Rs. 1,488 billion and it is an increase amounting to Rs.317 billion or 27 per cent than the Estimated Budget Deficit in the preceding year. According to the financial statements of the year 2016, the Actual Budget Deficit had been a sum of Rs.666 billion indicating a decrease of Rs.822 million than the Estimated Budget Deficit. The Actual Budget Deficit in the year under review is 5.63 per cent of the Estimated Gross Domestic Product amounting to Rs.11,839 billion and as such, it is an excess of the limit of 5 per cent of the Gross Domestic Product stated in 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.

Incurring Liabilities In Excess of the Limit

The total liabilities of the Government should not exceed 80 per cent of the Gross Domestic Product in terms of the Fiscal Management (Responsibility) Act No.3 of 2003 as amended by the Fiscal Management (Responsibility) (Amendment) Act No.15 of 2013. According to the financial statements of the year 2016, the total value of liabilities as at 31 December 2016 had been a sum of Rs.9 865 billion and, it was observed to be an excess of the maximum limit of liabilities mentioned in the Fiscal Management (Responsibility) Act as being 83.3 per cent as compared with the Estimated Gross Domestic Product of the year 2016 amounting to Rs.11,839 billion.

Special Report of the Auditor General on the Construction of D.A Rajapaksha Museum and Monument at Madamulana by Sri Lanka Land Reclamation and Development Corporation

Considering the critical situation occurred at present, the objective of presentation of this special report is to present information in detail in connection with the irregular activity which had been observed in audit for the year 2014 and reported summarily relating to the above construction (the project) by incurring public property.

The Sri Lanka Navy had involved directly to this construction and the Corporation had prepared a bill of quantity (BOQ) valued at Rs. 33.94 million. However, there were no evidence to prove that the BOQ had been forwarded for the consent of Foundation. Although the actual cost had been exceeded the estimated cost up to Rs. 81.31 million (including tax and interests), there were no evidence to prove that the consent of the Foundation had been obtained for the above increase of expenditure and the differences made in the structure of the project.

Although the common practice of making payment by a client to a contractor, the payment is made to the office of the contractor in a proper manner on the acknowledgement of the contractor, a sum of Rs. 25 Million had been credited to the account of the Corporation by an unknown person on 31 August 2015.The Corporation was unaware of receiving this money until the bank account was checked by the Deputy General Manager (Finance) of the Corporation.

The corporation had entered in to an agreement with a state bank to obtain a loan amounting to Rs. 14,277 Million creating an extra burden to the Treasury and agreed to be paid in 24 six months instalments by Rs. 592.79 due to non-availability of funds to fulfil the objectives which should be fulfil by the Corporation according to the Sri Lanka Land Reclamation and Development Corporation Act No 35 of 2006 (amended).In such a situation, utilization of limited resources to activities deviating the objectives was questionable in audit.

Special Audit Report of the Auditor General on Process of Supplying Medical Supplies carried out by the Medical Supplies Division of the Ministry of Health, Nutrition and Indigenous Medicine

Reaching the highest possible level of health through providing the people of Sri Lanka with a perfect, apex, qualitative, equal, effective and sustainable health service by responding to the people's needs and acting collectively was the Mission of the Ministry of Health, Nutrition and Indigenous Medicine. Providing patient care service and physical and human resources needed therefor included in the main functions such as policy formulation, implementation of programmes and projects for the health sector, setting up standards and guidelines for healthcare delivery, human resources development, management, planning and systems development, resource allocation, monitoring, supervision and evaluation of programmes and projects are more vital.

Medical supplies have proved to be unparalleled among the physical resources required for supplying patient care service, as we cannot imagine a patient care service without medical supplies.

Drugs, surgical materials, radioactive materials and laboratory items required for patient care service supplied by all hospitals under the purview of the line Ministry and Provincial Councils and other institutions belonging to the field of Health, are called medical supplies.

The Medical Supplies Division has been established under the Ministry of Health, Nutrition and Indigenous Medicine for implementing, controlling, monitoring and supervising the entire process of procurement, ordering, taking over, payment to suppliers, storing and issuance for implementation of the entire requirement of medical supplies.

The total net provision made for the Ministry of Health, Nutrition and Indigenous Medicine by the annual budget estimate during the period of 06 years from the year 2011 to the year 2016 had been Rs.685,152 million and out of that, 26 per cent or Rs.180,544 million was for medical supplies. The actual expenditure incurred for medical supplies during those 06 years amounted to Rs.165,162 million. In addition to that, liabilities of Rs.7,266 million had been incurred relating to the State Pharmaceuticals Corporation and other institutions for medical supplies by 31 December 2016. The total expenditure of the Government during those 06 years amounted to Rs.11, 404,759 and 1.4 per cent out of that was for medical supplies.

Special Report of the Auditor General on the Solid Waste Management of the Colombo Municipal Council

The main duties of a Municipal Council include: ensuring healthy communities, well-being and welfare of the public, and securing the recreational facilities in the city. Hence, the management of waste should be prioritized by the Municipal Council.

The Colombo Municipal Council had disposed of the waste generated within the jurisdiction thereof in the Bloehmendal area up to April 2009 by paving for a colossal dump of garbage. Due to constant public uproar against the disposal of waste, the Supreme Court returned a verdict preventing the disposal of waste at the Bloehmendal garbage disposal site. Later, approval had been granted to dispose of waste at a land in extent of 2 acres located in Pothuvilkumbura, Meethotamulla for a period of 2 years from April 2009. Defying the verdict of the Supreme Court, the Municipal Council had disposed of waste for a period of 8 years, thus resulting in the garbage dump to expand through an area of 23 acres. Eventually, the colossal garbage dump had collapsed on 14 April 2017, causing 32 deaths, and damages to a large number of properties. Fire broke out on the garbage dump in Meethotamulla on 2 occasions in January 2018, and no attention was drawn on the negative impact caused by such a disaster on the environment and the routine life.

Waste should be considered as a property of the Municipal Council. However, the Colombo Municipal Council had obtained services from private companies by incurring heavy costs for the disposal of waste in an area outside the jurisdiction of the Municipal Council, and compacting the waste in the colossal garbage dump. Furthermore, in the disposal of waste, the Municipal Council had not considered the verdicts returned by the Court, Laws and Rules imposed by the Government on the management of waste, and the existing policies relating to waste. In addition to continuously seeking for areas suitable for disposal of waste, the Municipal Council has so far been unable to find a sustainable solution for the disposal of waste. Contrary to being pointed out by the local and foreign scholars, the failure in recycling waste, and converting waste into an asset, had caused the Municipal Council to spend a significant amount of its revenue annually on garbage disposal. Moreover, financial provision had been made through the annual budget from the year 2010 for purchasing vehicles required for the waste disposal activities of the Municipal Council, but instead of being purchased in that manner, vehicles had been obtained on lease basis from the same institution.

Performance of the Department of Wildlife Conservation

Sri Lanka is a country awash with a great number of wild animals and the significance of the wild animals found herein has immensely contributed towards the promotion of tourism industry. The absolute responsibility regarding the protection and the coexistence of the animals resists with the Government legally. The Department of Wildlife Conservation has been entrusted with above legal responsibility by the Fauna and Flora Ordinance, Nos.2 of 1937, 31 of 1942, 12 of 1944, 12 of 1945 (Cap.469) and the (Amendment) Act No. 38 of 1949, (Amendment) Act No. 44 of 1964, (Amendment) Act No. 01 of 1970, (Amendment) Act No. 49 of 1993 and (Amendment) Act No. 22 of 2009 and accordingly, the Department of Wildlife Conservation performs the responsibility regarding the protection of the wild animals for the sake of the Government. Legal provisions, too, have been made under the Fauna and Flora Ordinance for the protection of wildlife resources found outside the wildlife reservations and that legal power, too, has been vested in the Department of Wildlife Conservation by this Act.

The Department of Wildlife Conservation has been provided with all facilities and resources required for this purpose and the fully responsibility relating to taking decisions rests with the Department of Wildlife Conservation. In addition, several institutions have joined hands with the environment protection initiatives and the Department of Wildlife Conservation, Ministry of Mahaweli Development and Environment, Central Environmental Authority, Ministry of Sustainable Development and Wildlife, Geological Survey and Mines Bureau, Coastal Environment Protection Authority, Department Cost Conservation and Costal Resources Management and the National Aquatic Resources Research and Development Agency can be cited as examples therefor. However, the Department of Wildlife Conservation holds the prime responsibility for the wildlife conservation. The fact as to whether the Department of Wildlife Conservation had duly accomplished its responsibility on the conservation and protection of wild animals over a number of years has resulted in the formation of a vast dialogue in that regard in the society. Intensification of the conflict between human and wild animals, killing of tuskers and a large number of elephants considered as an inestimable resource can be outlined as the main reasons attributed thereto.

Further, it was revealed in audit that some animal species are gradually subject to the extinction while some other animal species are highly proliferating exceeding its average population limit. (Example:- Tuskers and Peacocks respectively). However, the Department of Wildlife Conservation lacks a clear database capable of obtaining information in this connection and evidence could not be found to establish whether there was a specific arrangement towards that end.

The Special Report of the Auditor General for the Uma Oya Multipurpose Development Project Under the Ministry of Mahaweli Development and Environment

Various studies had been carried out through-out a number of decades around the Uma Oya basin and more attention had been paid to decide the most attractive alternative of two options of development of inter basins in the Uma Oya aquifer area or development of inside the basin. Accordingly, the feasibility study had been divided into two stages and as the first stage to recommend the most appropriate alternative out of the feasibility study carried out inter-basin and inside the basin. Secondly actions had been taken to carry out an extended feasibility study regarding the recommended alternative and to ascend the ability to implement the project. The first stage of this Feasibility study had been carried out by S.N.C. Lavalin Company Limited in the year 2002 and the proposal of inter-basin had been recommended by their report.

According to the memorandum of understanding entered in between the government of Sri Lanka and the government of Iran in the year 2007, It was agreed in the year 2008 to commence project activities through FARAB Company of Iran as the contractor under the grants of the government of Iran in order to supply irrigation for an area of 5000 Hectares in extent in the north east dry zone by diverting water of Uma Oya to Kirindi Oya through an underground tunnel in extent of 20kms and to produce Electricity at a capacity of 100Mega Watts by constructing a water power station.

Due to various issues such as delays in acquisition of lands and delays in engaging feasibility studies the Uma Oya Multipurpose Development Project had been commenced in the year 2010. Problems had occurred in providing funds for this project due to imposing sanction to the Iran government in 2013 and afterwards all the expenses regarding this project up-to now had been borne by the Sri Lankan Government. And also, many environmental and social issues were occurred due to the 1st water leakage in December 2014 and the massive water leakage in December 2016.

Special Report of the Auditor General on the Role Played by the Information and Communication Technology Agency of Sri Lanka (Pvt) Limited relating to the Digitalization of Public Service

The requirement for the establishment of an institutional framework for planning and implementation of Information Communication Technology strategies had arisen with the publication of ICT Development Roadmap and e-Sri Lanka concept under the objective of improving the social and economic development through the utilization of Information Communication Technology. Accordingly, the Information and Communication Technology Agency of Sri Lanka (ICTA) had been established under the Companies Act, No. 17 of 1982 on 12 May 2003 as a private company fully owned by the Government in terms of Cabinet Decision, No. 03/060/134/022, dated 09 April 2003, and Information and Communication Technology Act, No. 27 of 2003. The ICTA is vested with the main responsibility of spearheading the process of utilizing the Information Communication Technology in view of successful implementation of economic development programmes in Sri Lanka. The ICTA is authorized in terms of the Information and Communication Technology Act, No. 27 of 2003 to take all necessary measures to implement the Government's Policy and Action Plan in relation to ICT.

During the period 2004 – 2014, the ICTA had implemented projects under e-Sri Lanka Development Programme in respect of 06 main areas identified thereunder with World Bank and other foreign assistance, and Government funds, whereas the projects are being fully implemented on consolidated funds since the year 2015.

Re-engineering the Government sector had been identified as a main component in the Information Communication Technology development programmes. In the wake of ICTA's endeavor in that connection, Sri Lanka, ranked number 115 in the year 2012 among 192 countries in accordance with the e-

Government Index, had secured 74th rank climbing higher up by 41 positions. However, the rank had dropped to 79th position in the year 2016.

According to the financial statements of the institution, the total expenditure incurred thereon during 2010 – 2016, amounted to Rs. 5,799.9 million. However, as per the observations made, it is concluded that the responsibility of the ICTA with respect to the digitalization of Public service, has not been exercised properly.

Special Report of the Auditor General on the Project for the Import of Dairy Cattle

In keeping with the Government Policy and the Mahinda Chinthanaya formulated in the year 2006, popularization of fresh milk consumption and the formulation of Government tax policies and the policies pertaining to the import of dairy products to suit to that endeavor, had been recognized.

For the purpose of minimizing the cost incurred on the import of milk powder by avoiding existing shortage of elite cattle, a decision had been reached to import 15,000 elite cattle and distribute them to the farms of the National Livestock Development Board.

Of 4,495 dairy cattle thus imported comprising 2,000 dairy cattle under the first phase in the years 2012 and 2013 and 2,495 dairy cattle under the second phase in the year 2015, 2,500 dairy cattle imported in the year 2015 had been made available to the Hambantota Ridiyagama Farm which is situated in an area not resisting to those animals. The National Livestock Development Board had failed to settle, as expected, the foreign loan obtained as a sub-loan for this project .

Notwithstanding the matters referred to above, in granting approval for the import of 20,000 dairy cattle under the third phase in pursuance of the Cabinet Decision dated 20 June 2014, a decision had been taken not to distribute the imported cattle directly to the farms. Instead, it had been decided to keep such cattle under the care of the Government farms and subsequently, distribute the cattle of second generation to the farmers. Nevertheless, without being complied with that decision, action had been taken in the year 2017 to directly provide

5,000 dairy cattle for the dairy farmers.

Relevant procurement procedures had not been adopted in a manner beneficial to the Government and the procurement procedure had not been abided by at the second and third phases of the importation of dairy cattle. Further, the feasibility study report applicable to the project had not been presented at an adequate professional standard. Even though a sum of Rs. 7.9 billion had been spent for the project, the officer concerned had failed to execute the project in a manner achieving the expected results.

Special Audit Report on the Paddy Fertilizer Subsidy Programme in Sri Lanka

The national economy of Sri Lanka is basically founded on the agriculture and the background associated with the demand for rice and the historical, climatic and geographical importance connected to the agriculture has led to create an atmosphere more incline towards the paddy production. Out of the total employment, the contribution for the agriculture sector stood at 27 per cent in the year 2016 while the contribution of the agriculture sector for the national income accounted for 7.5 per cent. Besides, 13.5 per cent out of the total extent of agricultural lands has been reserved for the paddy cultivation.

Provided however that, as a result of certain issues cropped up recently on the paddy farming, a gradual deterioration of the contribution of this field for the national economy could be witnessed. It was mainly attributed to the prevalence of earnings at a minimal level as compared with the cost of the inputs used in the agriculture, thus resulting falling of living standard of the farming community comparatively in to a lower position. Hence, it can be observed that the above matter has given rise to move the farmers gradually out of the paddy cultivation. Accordingly, it is a responsibility of the Government to develop infrastructure facilities including irrigation systems essential for the paddy cultivation as well as to formulate policies at national level in relation to this field and provide various services connected thereto.

Accordingly, in the year 2006, it was expected to minimize the cultivation cost by way of introducing a subsidy scheme for the fertilizer which is used as a main application in the field of paddy cultivation. While giving priority to the above expectation, the main objective of this programme was to provide a hundredweight of fertilizer at Rs.350 for the farmers. However, while this subsidy programme was in progress up to the year 2015, it was switched to grant of a financial assistance instead of providing fertilizer at subsidized rates in the year 2016 and thereby, it was expected to implement this subsidy scheme more efficient.

The performance of the other sectors inclusive of increasing paddy harvest, expansion of the lands under the paddy cultivation, minimization of rice importation and amelioration of the living standard of the farming community expected from this subsidy programme implemented since year 2006 remained at a minimal level.

The financial provision made by the Government in respect of the fertilizer subsidy programme amounted to Rs. 24,254 million or 01 per cent of the total Government expenditure by the year 2016. In the implementation of this programme, contribution of various Government institutions are made thereon and it paves the way for the overall effectiveness of the programme.

In view of the matters revealed in the examination conducted on the programme of granting financial assistance commenced in lieu of providing fertilizer with the change of Government policy regarding the fertilizer subsidy programme in the year 2016, particulars such as failure in granting relevant financial assistance to the farmers who were actually eligible for the receipt of financial assistance, payment of financial assistance exceeding the maximum payable limit and credit of money to the accounts of the irrelevant persons have been brought to light. According to the sample examined thereon, the value of uneconomical payments thus made totaled Rs.1,266,733,838for the Yala and Maha Seasons in the year 2016 and the Yala Season in the year 2017. Further, instances were observed where financial assistance required to be granted prior to the relevant season had been granted following the expiry of the due date and the value of the payments thus made during the foresaid

03 instances amounted to Rs.5,475,649,532.

Similarly, expected results had not been received from the computer system introduced in the year 2017 to make payments more accurate and efficient manner.

Simultaneously to the subsidy programme, it is the predominant duty of the National Fertilizer Secretary to determine the fertilizer requirement of the country in order to meet that requirement and take action to provide fertilizer to the farmers in proper time by duly carrying out procurement activities relating to the import of fertilizer. However, failure in purchasing relevant fertilizer on a procurement plan had resulted in facing a severe fertilizer shortage during the Maha Season, 2017 . Herein, instances of changing the Cabinet decisions given for the import of fertilizer from time to time and containing unfounded matters in the Cabinet Memorandums could be observed.

Accordingly, it is observed that the achievement of the aforesaid objectives which could have been expected from the Fertilizer Subsidy Programme was not at a satisfactory level. Therefore, the development of other infrastructure facilities required in the paddy cultivation and further streamlining the implementation of fertilizer subsidy policy and simultaneously, further expansion of the Organic Fertilizer Programme can be herein identified as the basic requirements.

Special Audit Report on Sports in Sri Lanka and Its Administration

The support of the sport to help a citizen of a country become enthusiastic, healthy, disciplined and proud is vast. With this hope, every country in the world is greatly involved in the development of sport.

Sri Lanka also had attempted to adapt it. Accordingly, various actions such as setting up a separate ministry for sports, creating a sports act for the construction of a legal background for sports, introducing an administrative structure through the introduction of sports regulations for national sports associations of each sport and administrative functions had taken so far by Sri Lanka.

Although it was recommended to prepare specialized government regulations to suit with the International Olympic Committee Regulations and to amend the Sports Act No. 25 of 1973 within 06 months amendments had not been done so far even after a 5 years' time.

Although various actions had been taken for the development of sports of Sri Lanka as above, there have been tough discussions about the achievements and the progress achieved in sports from both national and international. It is clear when considering sports achievements of Sri Lanka taken in the past few decades.

Special Report of the Auditor General on the effect to the Government Revenue made by holding over of issue of automated assessment reports by the Revenue Administration Computer System of the Department of Inland Revenue

Sri Lanka Government Revenue consists of tax and non-taxable revenue and the Department of Inland Revenue can be identified as one of the parties responsible for administration of revenue from tax. Out of the revenue from tax collected by the Department of Inland Revenue, approximately 65 per cent is collected from Indirect Revenue from Tax and the VAT and NBT included in the said Indirect Revenue from Tax are highly significant. Hence, in case payments of VAT and NBT are defaulted by tax payers, the decrease in the revenue from tax thereby to the Government is inevitable. Therefore, earning maximum revenue from tax for the Government is the responsibility of the Department of Inland Revenue and with a view to achieving that, a procedure in issuing automated assessment reports on outstanding Tax on Return had been implemented from the year 2002 to 31 March 2012.

Through issuance of these automated assessment reports, several important tasks such as reporting in case of a default, imposing of penalties on outstanding tax and indicating outstanding tax in the computer system had been performed and the Department of Inland Revenue had held over the issuance of automated assessment reports from 01 April 2012 and commenced the process of carrying it out through officers manually. As a result of holding over the automated assessment system as mentioned above, this report reveals a tax balance of VAT and NBT amounting to Rs.15,283 million to be recovered / settled as at 31 December 2015 and that the penalty recoverable on those tax according to computations of the Audit amounts to approximately Rs.9,237 million. Moreover, this system comprised of a large number of outstanding balances of tax with less values. Hence, only the outstanding balances of tax exceeding the value of Rs.1000 had been considered in the preparation of this report.

Auditor General's Special Report on the Performance of the Development Officers in the Public Service

Out of the employed population of the public service (Government and Semi-government Sector) established with the primary objectives of providing a quality service to the people by the Government Institutions and strengthen the Government Institutions, a proportion of 14.5 percentage of officers are employed. Enrollment of Graduates as Development Officers had been a prominent reason to the quantitative growth of the public service in recent period. In this regard it was revealed that according to the current surveys conducted, out of the total number of public officers 41,668 are Development Officers.

The attention should have been paid in the matter of obtaining a knowledge in respect of evaluation of the materiality of the services provided, framing the nature of the duties commensurate to the salary paid, being stationed on duties, proportion of the work environment structured and how far this service focused to the requirements of the people from the graduates joined to the public service in this manner.

According to the audit test check carried out more than 86 per cent out of the Development Officers enrolled were Arts Graduates and nearly a proportion of 75 per cent out of those officers were female officers. Even though the Development Officers Service is considered as a field occupation, about 22 per cent were stationed officers out of the officers and the number of field officers were 78 per cent. Further, the number of projects undergone on supervision by those officers during the year had been ranged between 02 and 09.

As a result of non- implementing an annual transfer procedure by preparation of a Scheme on Transfer for the Development Officers employing in the same work station for a long period has also effected to the performance and it was confirmed that the expected performance from the service of Development Officers had not been fulfilled.

Special Audit Report on Export of Gold Mixed Soil

Special Audit Report on Export of Gold Mixed Soil Wastage of Goldsmith Burnt Residue from Jewellery manufacturing institutions had been exported to several foreign countries showing as soil by three private companies for extraction of gold from the soil and the said materials were in process for export as well at the time. Fifty one containers loaded with these materials had been already exported to foreign countries through the Sri Lanka Customs and another 23 containers being so exported had been taken into the custody of the Sri Lanka Customs. Customs inspections had been completed relating to 04 containers out of them and penalties imposed thereon. Moreover, customs inspections are being carried out for the remaining 19 containers. Containing of a large quantity of gold in the Wastage of Goldsmith Burnt Residue being exported, was doubtful and the export process carried out without the approval and license of the Geological Survey and Mines Bureau and its exportation without obstruction by the Sri Lanka Customs, had been controversial. An audit examination had been carried out on how far the Sri Lanka Customs and the Geological Survey and Mines Bureau being two Government Institutes, which are directly involved in this process, had performed their functions.

The irregularities occurred in the Sri Lanka Customs and the failure in proper implementation of provisions cited in the Mines and Minerals Act, No.33 of 1992 by the Geological Survey and Mines Bureau.

Deficiencies in the systems and controls of the said institutes as well as the failure in coordination between the institutes had supported the export of Wastage of Goldsmith Burnet Residue in this manner.

Special Report on the Evaluation of Contribution Extended by the Agriculture Research and Production Assistants for an Enhanced Agricultural Economy

The Department of Agrarian Development which is functioning in keeping with its mission - Encouragement of farming community to bring forth optimum yield from all the agricultural lands in Sri Lanka, has been recognized as a pioneering institution operating in relation to the agriculture sector at regional level. With a view to achieving the above mission more effectively, the post of Agriculture Research and Production Assistant (A.R.P.A.) was created in the year 1999 and a strength of about 9,600 of the above officers presently engage in the service throughout the island. The Commissioner General of the Agrarian Development had, under Section 74 (1) of the Agrarian Development Act, No.46 of 2000 as amended by the Agrarian Development (Amendment) Act, No.46 of 2011, appointed the Agriculture Research and Production Assistants to implement the provisions of the Act within the relevant Agriculture Research and Production Assistants Divisions and assist the other Government institutions engaging in the activities relating to the agriculture.

The agriculture sector's contribution to the Gross Domestic Production demonstrates a gradual diminishing trend at present and according to the data pertaining to the paddy cultivation in the Kegalle district, decrease in the harvest and the extent of cultivated paddy lands and increase in the extent of fallow lands could be revealed. It was further observed at the audit test check conducted in this connection within the Kegalle district that the failure in properly handling the Agriculture Research and Production Assistants appointed to achieve the mission of the Department of Agrarian Development and the failure of such officers to properly accomplish their duties in the field in certain instances had resulted in the above situation. Further, it was recognized that by way of adopting measures to set up a strong internal control mechanisms to properly handle the Agriculture Research and Production Assistants and monitor their activities, duly manage the issues they face in the discharge of field duties and find solutions, give policy decisions to the matters that remain beyond the control of the Agriculture Research and Production Assistants, the ensuring maximum possible service of these officers is essential for the enhancement of the field of agriculture.

Special Audit Report on the Performance of the Department of Ayurveda, North Central Province

With the advent of Provincial Councils in terms of the 13th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka, the Department of Ayurveda had been established in the North Central Province in the year 1987 under the supervision and instructions of a Provincial Ayurvedic Commissioner. The Ayurvedic Hospital in Anuradhapura, 03 rural hospitals, and 10 central dispensaries had been established under the purview of the said Department. By the year 2017, nine Ayurvedic hospitals, 32 central dispensaries, a drugs manufacturing unit, and a traditional cottage hospital had been established in the North Central Province under purview of the Department of Ayurveda.

Only a limited provision from the overall financial provision made annually for the North Central Provincial Council, is allocated for the provincial Department of Ayurveda, and that represents about 3 per cent of the estimate for the year 2017. Although the locals as well as the foreigners have shown even more interest on the indigenous Ayurvedic Medicine at present, it was observed that the Department had been unable to offer a productive service due to lack of provisions, and human and physical resources. Moreover, it was further observed that the factors such as, failure to properly prepare plans, failure in the management of physical and human resources properly, and non-identification of requirements, had also contributed thereto.

In this backdrop, expectations of the people seeking treatments of the indigenous medicine, could not be satisfied. It was also observed that public funds had been made use of in an uneconomic manner due to failure in following the Procurement procedure properly. The Department faces many environmental problems owing to the failure in taking necessary action for the management of solid waste being disposed of by the Ayurvedic hospitals.

Accordingly, it seems that the duties expected from the provincial Department of Ayurveda had not been performed, and the North Central Provincial Council had not taken action to provide a productive service for the public through that Department.

Special Audit Report on the Impact of Filling up of Fallow Paddy Lands in Kagalle District

It has come to light in the analysis of statistics pertaining to the period from the year 1990 to 2017 that the extent of land hectares remained under the paddy cultivation and the production of paddy had gradually dwindled in Kegalle district. The ongoing irregular filling of fallow paddy lands has been identified as a one major reason behind the above incident. It was observed that due to failure in taking action to halt this filling up of fallow paddy lands and not properly taking necessary steps to encourage the farmers towards re-cultivation, the contribution which could have been made by the Kegalle district to enhance the domestic agriculture economy seemed gradually decreasing.

An extent of about 63 Acres 02 Roods and 12 Perches of paddy lands had been filled up only upon the approval obtained through the permits in 372 instances within the Kegalle district subjected to our inspection. In the preparation of this report, information was collected through the perusal of books and registers, physical inspections and the discussions. Accordingly, a large number of observations such as issue of permits deviating from the formal methodology, filling up of lands exceeding the permitted limits in a manner causing damages to the cultivated paddy lands, failure in taking action to halt the reclamations carried out on informal permits and causing damages to the paddy lands due to the disposal of wastes could be revealed at the audit test check carried out in that connection.

Accordingly, it is hereby recommend that necessary steps should be taken to prevent the irregular filling up of paddy lands by way of reconsidering and revising the powers vested in the Commissioner General of Agrarian Development under Section 28 of the Agrarian Development Act, providing assistance for the farmers in order to encourage them towards the cultivations and implementing the provisions imposed by the Agrarian Development Act and the circulars through the officers.

Special Audit carried out on Thirty Second (32) Colombo Airport Super Draw Lottery, New Airport and Dollar Fortune Lotteries conducted by the National Lotteries Board

The Cabinet of Ministers had granted approval on 02 October 1991 for operating a lottery named "Foreign Exchange Motor Car Lottery" in the Katunayake International Airport with the motive of promoting the Colombo International Airport as an attractive centre of transit to travelers around the world and to increase the income earned from the Airport. Accordingly, it had been proposed to conduct the said lottery by the National Lotteries Board, which is the authorized institute in Sri Lanka for conducting lotteries and to organize this lottery by the Airport and Aviation Services (Sri Lanka) Limited.

According to the aforesaid proposal, the provisions of conducting this lottery had been declared by the Gazette Extraordinary dated 02 December 1992 of the Democratic Socialist Republic of Sri Lanka and this lottery had been named **"Colombo Airport Super Draw Lottery"** therein. In addition to the above lottery, the National Lotteries Board had launched 02 other lotteries named Dollar

Fortune and New Airport Lottery which carry out transactions in foreign currency mainly targeting high end segment of customers, Sri Lankans abroad and the customers visiting Sri Lanka from foreign countries.

Even though the said lottery tickets had been issued with the intention of achieving the aforesaid objectives, it had fallen into a situation in which the said objectives could not be achieved specially in the thirty second (32) **Colombo Airport Super Draw Lottery** and in other draws as well. Further, the weaknesses such as failure in formulating and notifying by Gazette of the rules relating to lottery draws, weak condition in implementing Treasury Circulars and instructions, improper contributions to the Consolidated Fund and relevant institutions, launch of the lottery, determining and maintaining the price without a market research, weaknesses in supervision and decline in financial discipline and losses of income from lotteries through conducting lotteries in a manner of losing the customer trust were observed relating to all these lotteries. Therefore, the achievement of objectives intended by the Board in the methodology of conducting the said lottery draws had failed and it was also apparent that the trust of the public towards the Board was lost. As such, the lottery draws should be organized in a manner of gaining maximum benefit by paying attention to the objectives of conducting lotteries. Further, action should be taken to minimize the existing deficiencies through conducting of lotteries with transparency and efficiency.

Special Audit Report on the Evaluation of Performance of Strategic Enterprise Management Agency (SEMA)

According to the Article 33 of Constitution of the Democratic Socialist Republic of Sri Lanka, strategic Enterprise Management Agency had been established in year 2004 as per the powers of His Excellency the President. The main objective of establishing this agency was forming of not for profit state entities as autonomous commercially viable enterprises through strategic plans without privatization. However, it was observed at the audit that objective had not been achieved and accordingly this audit had been planned to examine the effectiveness of carrying out this entity further.

Although the power should be given through a warrant by His Excellency the President in order to make this entity effective, it was a specialty that the present President had not signed such warrant and this entity had been carried out without obtaining such power.

Further, a Board of Directors had not been appointed for the administrative matters in here and all the operational activities had been done based on the financial powers granted by the presidential Secretary to the Chairman of the entity. Also, a cadre had been recruited to the entity without proper Scheme of Recruitment and cadre that should be in the entity or even salaries and allowances that should be paid had not been approved properly even by the present. Further, although the allowances of about Rs. 19 million had been paid from January to September 2017 to the Advisory Board that recruited to the entity, it was observed that the necessity of those advisors had not been identified properly and the role performed by them had not been documented properly.

Although this entity had been assigned for the preparation and supervision of strategic plans of 12 state institutions at the initial, later 10 another state institutions other than these institutions, the sufficient evidences that preparation and supervision of the strategic plans for those institutions was done as such had not been presented to the audit.

Accordingly, it is likely to show that the liquidation of the existence of this entity properly is suitable ass it is not productive to operate such entities further by spending public money unnecessarily as such without sufficient benefit or to operate with the Board of Directors appointed properly by enforcing through a warrant by consolidating productively with other state institutions that engaged in parallel works.

Special Audit Report for Evaluation of the Performance of the National Water Supply and Drainage Board

The National Water Supply and Drainage Board has been established in the year 1975 in terms of National Water Supply and Drainage Board Act, No.02 of 1974. By 30 June 2018,

the Board had taken steps to supply pipe borne water to about 49.9 per cent of the population and a contributory beneficial rate of approximately 42 per cent is earned

as well by producing a unit of purified water. However, the Board incurs a high employee cost and thereby giving rise to a situation in which a loss of Rs.4.57 is sustained by a unit of purified water.

Moreover, it was observed as well that approximately 166 million cubic metres of the capacity of purified water produced, becomes non-revenue water annually.

Burdening the consumers with the increase in the cost of a unit of purified water is inevitable and due to the said reason, the Board had taken steps to revise water tariff from time to time. Proposals on the revision of water tariff expected to carry out during the period of 03 preceding years are not implemented up to now. However, if those proposals were to be implemented, the people would have been pressured to bear it. Accordingly, the objective of issuing this report was to examine the reasons for taking steps to revise water tariff without taking necessary action to control the cost, to minimize the quantity of non-revenue water and to improve the performance of projects. Accordingly, the performance of the Board had been examined during a period of 10 years from the year 2008 to the year 2018 and examination of books and registers, holding discussions with relevant parties and analyzing the information obtained etc. had been carried out for the said examination on performance. It was observed that adequate steps had not been taken at present, in minimizing the level of non-revenue water being gradually increased annually, particularly in Colombo city, in minimizing the quantity of non-revenue water existing in a level as high as 43 per cent reported annually and that even the performance of water projects implemented therefor at present as well is at a very low level. Moreover, the Board had to incur a high cost due to inability of completing the projects which have been already commenced within the due period, having to incur an additional cost exceeding the estimated values thereby and due to making payments for water projects based on the overestimates submitted by contractors.

It was identified that the cost incurred by the Board should be controlled through taking steps such as controlling the cost incurred for production and distribution of purified water of the Board through control of employee cost, reducing the non-revenue rate of water of 43.14 per cent in the Colombo city at least up to the average non-revenue water level of 23 per cent of other regions and avoiding payments exceeding the engineering estimate etc. It is concluded that the Board can earn a profitable income by taking action as mentioned above, and that burdening the people through revision of water tariff is unnecessary.

The Special Report of the Auditor General on the process of Caring, Securing, Rehabilitation and Socialization of prisoners

The prison was established in the year 1832 as a result of reform of Judiciary introduced by the Governor Cameron who was the comptroller of the Ceylon in the era of British imperialism. Accordingly the prison of Welikada was established compatible with the British bostal system in accordance with the Law and Judicial act number 18 of 1844. Further this service was re-established on 16 July 1905 as a department controlling under a commissioner according to the prison act No 16 of 1877. Likewise concurrence with the social expansion it was mentioned in the prison history as a result of blistering of the service, the Bogambara prison had been constructed on the form of the prison of Been Field of England in 1875.

In the incipient of the Department of Prison administrated under the Ministry of Judicial and Prison reform, caring and securing of Prisoners had been identified as ultimate objectives. However with the complication of society and expansion of process of prison caring, securing and rehabilitation had been identified as an ultimate objectives.

A number of 7,872 staff had been approved to carry out duties of 30 prisons Island wide. Budgeted provision of Rs. 30,119 million had been allocated by the Government to maintain these institutions during previous five years. Examination of books and records, collecting information by a questionnaire, conducting interviews and physical examinations were carried out relating to incur this provision, identify the achievement of objectives of the department and it's management and the situations socialized about the prisons in present.

It was observed that it was difficult to maintain caring, securing and rehabilitation process properly due to the prison act which is older than 140 years was not being revised according to the current requirements, congestion of prison cells and wards, delays in examining appeals of prisoners, using prohibited substances in prisons and problematic situations of the officers of the prison. It was concluded that the Prisons were not managed properly and the Department was failed to fulfill the main objectives of caring, securing, rehabilitation through the process of prison.

To avoid this situation it was identified that immediate action should be taken to provide good accommodation facilities for prisoners in making amendments to the prison ordinance as suitable for the present, local and international standards. Further it was observed that long term plans should be prepared and implemented in order to rehabilitate prisoners to a continuous and proper process.

Special Audit Report on the Performance of Fund Management of the Employees' Provident Fund for the Years 2015 and 2016.

The Employees' Provident Fund has been initiated under Employees' Provident Fund Act, No.15 of 1958 with the motive of establishing a social insurance scheme for the employees of Private and Semi-Government Service in Sri Lanka and the operations thereof had been commenced on 30 May 1958. In terms of Section 4(1) and Section 5 of the said Act, the responsibilities of general administration of the Act and the management and custody of funds respectively have been assigned to the Commissioner of Labor and the Monetary Board of the Central Bank of Sri Lanka. The number of active members of the Employees' Provident Fund as at 31 December 2017 stood at 2.63 million while the total net worth of the Employees' Provident Fund as at that date amounted to Rs.2,066,299 million. Accordingly, it was subjected to discussion in several instances during the preceding years that this Fund, which has been created by the contributions of employees of Semi-Government and Private Sector in Sri Lanka, has directly and indirectly been affected. As such, this matter was widely questioned at the Committee on Public Enterprises held for the examination of the controversial issuance of bonds carried out during February 2015 and March 2016 by the Central Bank of Sri Lanka and the Presidential Commission appointed there for. This report was prepared for examining the performance of the fund management of the Fund, focusing on the period in which decisions had been taken to suspend the issuance of Treasury Bonds in Direct Placement by taking the aforesaid matters identified at those instances as well into consideration. In the preparation of this report, methodologies such as examination of documents related thereto, holding discussions with relevant parties and analyzing the data obtained was followed.

It was observed that the quality of the Fund has been affected directly and indirectly due to failure in carrying out the investment approval process, non-participation at auctions despite the availability of adequate moneys for investments in the Fund and re-purchase of the same bonds under low yield rates from the secondary market and investment of money in companies running at a loss without a proper study by the Employees' Provident Fund. Accordingly, an impairment loss of Rs.1,300 million and an actual loss of Rs.42.8 million had occurred by investing in 42 million shares and the Fund had to incur an additional cost of Rs.316 million as a result of purchasing bonds from the secondary market instead of purchasing from the primary market. Further, a loss of Rs.347 million had been incurred due to purchase of the same Treasury Bonds from the secondary market within a few days of sale of Bonds at the Secondary Market. Therefore, it is apparent that the Fund has been mismanaged and it is clear that decisions required for selecting more productive and efficient sources of investment are necessary in the reinvestment of moneys. Further, it is observed that the financial and administrative functions of the Fund could be performed efficiently by updating the Employees' Provident Fund Act in an appropriate manner, taking steps to enter into transactions relating to the Fund with transparency and expedite implementing of recommendations given by the Commission on Bonds relating to the Employees' Provident Fund.

Special Audit Report on the Performance of the State Printing Corporation

The State Printing Corporation has been established in the year 1968 under State Printing Corporation Act No.24 of 1968 with an initial capital of Rs.15 million. The objectives of the Corporation as in this Act and subsequently adopted State Printing Corporation (Amendment)Act, No.24 of 1978, State Printing Corporation

(Amendment)Act, No.51 of 1981 and State Printing Corporation (Amendment)Act, No.7 of 1998, had been referred to as accomplishment of printing requirements of the Government, state corporations, statutory boards, local government institutions and private establishments, and manufacture, import, export, sale and purchase of books and stationery. The Corporation which is governed by a Board of Directors headed by a Chairman consists of a staff with 715 members at present. The Corporation which was successful in generating a net profit of Rs.41.8 million in the year 2013 has gradually declined to a position of sustaining losses by the year 2017. It was further observed that the liquidity position and the Return on Capital Employed of the Corporation remained deteriorating, thus creating an uncertainty on the going concern of the institution. Under such a circumstance, the objective of this audit was to ascertain the reasons attributed for the deterioration of the efficiency of this leading Public instruction and look into the measures that can be adopted to convert the same into a profit generating institution. Further, the matters contributed for gradually declining the Corporation into a position of continuing losses from the year 2013 to 2017, too, were examined.

Accordingly, the higher employee costs as well as increase in the financial cost on short term loans could be recognized as the main factors attributed to the losses observed in the years 2016 and 2017. Accordingly, granting salary increase as required by the budget proposals for a staff of 715 employees had resulted in increase in the employees cost. Further, the use of machines older than 20 years by the Printing Corporation had deteriorated the production efficiency, thus resulting inability to accept the orders received. Moreover, the dependency of the Corporation upon the printing orders received from the Lottery Board and the Education Publication Department was observed as a risk. This was vividly distinguished according to the situation faced by the Corporation following the cancellation of the concession by the Education Publication Department to print books deviating from the tender procedure. Accordingly, it is crystal clear that if the Corporation does not adopt measures to shift to the production diversification with the use of new machinery, it is unavoidable for the Corporation to get rid of the severe hardships inevitably face in the days to come. Further, it was observed that it is essential to bring the Corporation back to a profit generating institution by way of resolving the liquidity issues prevailing.

Report on Industrial Sand Mining Project done within the Yan Oya Reservoir Premises

Report on Industrial Sand Mining Project done within the Yan Oya Reservoir Premises Yan Oya project had been commenced by crossing Yan Oya that connect to the sea from Pulmude area by flowing around 145 kilo meters starting from Ritigla Mountain range, from Pamburugaswewa area in Trincomalee District. This project had been scheduled to be completed by 31 May 2018 by incurring Rs. 36,855 million and it had been identified that a huge sand deposit had been deposited inside the earth within the area submerged to the reservoir when mining to supply required materials for the project by CAMCE Company that assigned the construction works of this project. Yan Oya project office had informed that tentative estimate of this sand deposit was approximately 675,000 cubes and its value was grossly Rs. 2,700 million. Accordingly, the licenses for mining of this sand deposit had been issued by Geological Survey and Mines Bureau to CAMCE Company and 183 other parties. The objectives of this report were to examine on the social, technical and environmental issues arisen due to the informalities that occurred when issuing licenses and mining as such and to propose the solutions that can be given for this.

The fields such as the procedures followed when removing sand deposit, implementation of committee recommendations given regarding the projects and charging fees when supplying materials for Yan Oya project had been checked when preparing the report and examination of required documents for that and discussions with relevant parties had been done. Here, sample tests were carried out regarding mining licenses as resources and time was not sufficient, and it could not calculated the sand stocks collected in the reservoir premises and confirmed the actual quantities of rocks, sand, soil and gravel that mined by CAMCE company as the technical knowledge was not sufficient.

The responsible entities regarding the removal of sand deposit were entities such as Geological Survey and Mines Bureau, Department of Irrigation and Department of Forest Conservation and the activities of removing above sand deposit had been improper due to the non-execution of these entities properly. Further, it was identified that there was no transparency and formality of the mining activities as many issues including giving sand mining licenses without calling competitive and open bids, not revaluing the environmental impact from removing sand deposit by Central Environmental Authority, not taking actions to rehabilitate the environment by supervising the license owner who escaped from the responsibility of rehabilitation of environment by Geological Survey and Mining Bureau and not taking required action to stop taking the illegal money by the unofficial parties. On this situation, the recommendations had been stated to solve issues by appointing a committee of three for examining the mining works. But, it was observed that even the recommendations given by that committee had not been implemented properly.

Accordingly, it was suitable to stop sand mining due to the impact badly on the environmental damage occurred and future existence of the reservoir and filling the places mined currently in the reservoir premises, the premises should be restored by flattening the stacks of soil. Further, the Bureau should be taken action to introduce and implement the appropriate arrangement to take follow up actions on that after issuing mining licenses and enforce the Act.

Therefore, it was concluded that it had been affected unfavorably to the environment as it had not been managed properly and informality when removing the sand deposit valued at Rs. 2.7 billion even the income that should be received to the government had been lost from that.

Special Audit Report on Feasibility Study and Procurement Activities of the Central Expressway Project

Construction of a Northern Expressway had been identified according to the Expressway Master Plan for the year 2007 to 2017 of the Road Development Authority (RDA) by the Ministry of Higher Education and Highways, presently the Ministry of Highways and Road Development. In further consideration, it is confirmed that plans had been implemented to construct a Highway to the Central Province since 1990. Since there was no national policies related to these constructions, the loss to the country cannot be estimated and some of the observations had been included in this report. However, this report is forwarded according to the concurrence with the request made to the Auditor General to prepare a special audit report based on the information provided by the Ministry of Higher Education and Highways, Road Development Authority and the Project Director at the COPE discussion held on 19 September 2017 at 1430 hour on the progress of the Central Expressway Project and on the current issues of the Project.

(i) SMEC, the consultant for feasibility study had been paid an amount of Rs.1,759 million as at 31 December 2014 and since the reports are not in an acceptable position, a sum of Rs..65 million had also been paid to outside institutions for various studies. However, a final feasibility study report had not been prepared even up to date.

(ii) As the estimates had not been revised after identification of actual trace of the highway, the preparation of bid documents and the accuracy of evaluation of bids is doubt to the audit.

(iii) The names, signatures and the designations of the officers for preparation, approval on the engineering estimates for the Project, approved date and seal of the prepared officers had not been mentioned.

iv) The procedure for selecting a consultant and a contractor for the Section I, II and III of the Central Expressway had been contravened to the Section 1.1 of the Public Procurement Guideline - 2006

(v) Because of not following a competitive bidding process, it had been contravened to the Section 1.2.1 of the Public Procurement Guidelines -2006.

(vi) According to the procedure followed in selecting the contractor, it had been contravened to the procurement principles in the 1.4.2 and 1.4.3 of the Public Procurement Guidelines.

(vii) The recommendation had not been obtained from the Technical Evaluation Committee to call bids from the institutions named by the Japanese Ambassador.

(viii) Even though the Embassy of Japan has shown their un-wiliness for following such an informal procurement process, the Secretary of the Ministry had not been taken care of that and sent letters to the embassy by contrary to the Procurement Guidelines.

(ix) Although the Minster of Finance has expressed his un-wiliness against the proposal of being considered and negotiate with Fujitha Corporation that had been stated in the memorandum of the Subject Minister by cancelling the present bidding process was contrary to the Procurement guidelines.

(x) Even though, the bid submitted by Fujitha had been rejected due to lack of capacity, accepting and implementing the request made by the Japanese special advisor to reconsider and evaluate the bid once again was contrary to the procurement guidelines.

(xi) Although the procurement committee has recommended that the Fujita corporation is not qualified, making effort by forcing Thaisei Corporation, the selected bidder to form a Consortium with Fujita is contrary to the principles of the procurement guidelines.

It was observed that public money and other resources are wasted due to the above mentioned mismanagement and there is a big difference between the cost and the value addition. Public debt utilized for projects should be spent efficiency, economically and effectively. It is the responsibility of the management to plan, implement and maintain adequate internal control systems to ensure that the public resources are utilized such manner. Further, when designing and implementing such large scale Projects implemented under foreign funds, the officers who are involving with project activities should carry out a proper professional behavior and the related institutions should work in a good governance framework.

Special Report of the Auditor General on the Performance of the Paddy Marketing Board

The Paddy Marketing Board has been incorporated in the year 1972 under the Paddy Marketing Board Act, No.14 of 1971. The Board has been established in achieving purchasing, selling, supplying and distributing paddy and rice as a business considering as the main objectives and achieving several other objectives as well. Even though this Boardhas been established in achieving the said objectives, the Board had become an unprofitable entity during the period from the year 2008 to the year 2016 and it had reported an operating loss of Rs.5,894 million by the year 2016. This audit was carried out to examine the reasons or the Board to fall into this inefficient situation and to examine the steps that can be taken to restore the Board into an efficient entity. The matters relating to the period from 2008 – 2018 were examined and the purchasing, selling, import export process and storing facilities were examined in the examination of operating efficiency of the Board during the said period. Accordingly, in consideration from the year 2008, except the year 2011, a gross loss had been reported every year in addition to the incurring of operating losses. This status had arisen in the Board as a result of the irrational sales price decided by the Government or the Top Management. Moreover, in accordance with the opinions of the Central Bank of Sri Lanka, the inefficiency had further increased due to reasons such as failure in carrying out a comprehensive study to decide that commercial activities can be carried out before the establishment of the Board, failure in carrying out an optimum control over stores, issuing of consumable stocks of paddy as animal food, issuing of stocks of paddy to various institutions at less than the cost and unavailability of an updated price policy. It had been realized that steps such as sale of paddy through proper quotations, speedy recovery of moneys recoverable to the Board and release of commitments by payment of loans, establishment of a proper control over stores and issuing rice at a rational price to external institutions should be carried out promptly. However, it is concluded that action should be taken to break the monopoly existing in the private sector by competing with the private sector through the expedite restructuring of the Paddy Marketing Board and making it an efficient institution.

Special Audit Report on the Performance of Development Projects implemented by the District Secretariat, Nuwara Eliya

Nuwara Eliya District that 1,741 square kilometers in extent is consisted with 5 divisional secretariats and 496 Grama Niladari divisions. The accomplishment of public requirements efficiently, fairly, reasonably and friendly by a coordination that monitoring resources and institutions productively for the sustainable development that enables to contribute for the national development with proper planning in compliance with government policies by the public of the district is prioritized out of the main functions of the District Secretariat. In order to achieve above objectives, the financial provision had been allocated annually by the government and, financial provision of Rs. 4,768,574,578 had been allocated from 2013 to 2016. The implementation of 7,537 projects had been commenced by utilizing Rs. 3,613,421,660 out of it and the activities of 5,812 projects had been completed out of it. Although more than 1,000 projects had been implemented annually by accomplishing these projects by divisional secretariats and local government authorities, it was observed that issues such as the officers with technical knowledge were not sufficient within the district and actions had not taken to recruit those officers, delays in projects due to commencement of contracts without pre study on weather condition of the area, the failures of projects by make it accomplish by community based societies without calling open quotations when awarding the contract and evaluating about the financial strength of societies had been arisen.

Further, it was observed that the expected objectives could not be accomplished from the projects implemented within the district as it was not done the identification of projects, preparation of cost estimates, completion of continuing projects, following proper procurement procedures, preparation of indicators of division of provisions accurately. Many economic as well as social issues had been arisen from the generation of the projects free from proper standards and uncompleted projects due to above issue and misuse of public finance when implementing projects.

It was the main responsibility of the officers in District Secretariat and Divisional Secretariat that the responsibility of projects from capital provision given to implement the regional development projects by provisions of various ministries and departments as well as ministerial and member of parliament in addition to the capital provisions allocated from the Budget annually in the period from 2013 to 2016 and, the objective of this audit was evaluating the legal mechanism of that methodology and its operation.

Accordingly, it was essential matter that taking steps such as smooth the procurement process for avoiding the identified defects, completion of prevailing vacancies of officers, taking proper actions regarding misused public finance ,black listing the contractors who not doing contracts properly. In that manner, if actions will not take immediately, the expected regional development could not be achieved.

Summary of Audit Observations Sectorwise

Consolidated Fund
National Security
Public Enterprises
Local Government
Foreign Funded Projects
Banking
Plantation Industry
Land Affairs
Education
Labour and Trade Union Relations
Environment
Foreign Affairs
Foreign Employment
Development of Fisheries
Health and Nutrition
Mass Media
Law and Order and Southern Development
Ports and Shipping
Highways
Disaster Management
Sports
Women and Child Affairs
Tourism Affairs
Urban Development
Industry and Commerce
Housing and Construction
Transport
Social Empowerment
Science and Technology
Communication
Higher Education
Power and Renewable Energy
Petroleum Resources
Rural Economic Affairs
City Planning and Water Supply
Irrigation and Water Resources
Agriculture
Cultural Affairs
Prison Reforms, Rehabilitation and Resettlement
Pension Benefits for Public Service
Description of Provincial Councils
Western Provincial Council
Central Provincial Council
Southern Provincial Council
Northern Provincial Council
North Western Provincial Council
North Central Provincial Council
Uva Provincial Council
Sabaragamuwa Provincial Council
Eastern Provincial Council

Consolidated Fund	**Inadequacy of the income to cover recurrent expenditure** Increase in the balance of Public Debts annually Increase in the per capita debt continuously Lack of the income collected to pay the installments of public debts and interests thereon Failure to account domestic bank loans obtained for the payment of pensions gratuity Omitting the balances of foreign loans from accounts

Consolidated Fund

In terms of the Article 148 of the Chapter XVII of the Constitution of the Democratic Socialist Republic of Sri Lanka, Parliament shall have full control over public finance. In terms of the Article 149 of the constitution, the Government shall remit income collected to the Consolidated Fund. The method for the payments from Consolidated Fund has been stipulated in Article 150 and 152.

Legal provisions required for the expenditure of the Government for year 2018 have been made by the Appropriation Act No 30 of 2017. Accordingly allocations to the value of Rs. 4,298 billion have been made for the supplies and services of the Government for the year under review. Particulars are given in table 05 below.

Source	Provision for capital expenditure	Provision for recurrent expenditure	Total
	Rs. billion	Rs. billion	Rs. billion
Provisions made for supplies and services by Appropriation Act.	831	1,312	2,143
Provisions for specific legal services , which have become a financial burden to Consolidated Fund and approved by existing laws	1,153	852	2,005
Provisions made additionally for the supplies and services	30	-	30
Provisions made additionally for the expenses on specific legal services	86	34	120
Total	2,100	2,198	4,298

Table 05 –Provision made for the supplies and services of the Government
Source – Department of Public Accounts

In terms of the section 6 of the Appropriation Act No 30 of 2017, an additional provision of Rs. 313.30 billion has been made only for the utilization of provision for the purposes mentioned in para 2.3.3 of annual budget estimate under supplementary assisting services and urgent requirement obligations project under the development programme of the Department of National Budget –vote 240. Rs. 312.97 billion out of the above provisions have been transferred during the year under review to other votes. Accordingly Rs. 0.33. billion out of the provisions made for the projects was remaining unspent by the end of the year under review. Particulars are given in table 06

Nature of the expense	Net provision	Transfer of provisions to other votes	Balance	Balances as a percentage of net provision
	Rs. billion	Rs. billion	Rs. billion	
Recurrent	130.99	130.92	0.07	0.05
Capital	182.31	182.05	0.26	0.14
Total	313.30	312.97	0.33	0.11

Table 06 –Provision and transfers under supplementary assisting services and urgent requirement obligations project
Source – Department of National Budget

Provisions of Rs. 4,298 billion have been made during the year under review for the supplies and services of the government and the provision made for the previous year has been Rs. 3,860 billion. Comparatively to previous year the provision of the year undr review has been increased by Rs. 438 million. i.e. by 11.3 %. Rs. 3,971 billion out of the provisions made for the year under review has been utilized and Rs. 327 billion i.e. 7.6% from the provisions made remained unspent.

The total net provision made for recurrent expenditure has amounted to Rs. 2,181 billion and Rs. 2,109 out of the above has been utilized. Accordingly Rs. 73 billion remained unutilized and it held 3.3% from net provision. Rs. 880 billion has been provided for capital expenditure of the year under review and Rs. 625 billion out of the above has been utilized. Accordingly 28.9% out of the provisions made i.e Rs. 225 billion remained unutilized. The balance of the provisions can be shown as per vote in the following manner.

- Total provisions of Rs. 7 billion made for 121 recurrent votes of 59 heads , and Rs. 37 billion which have been made for 369 recurrent votes relevant to 101 heads remained unutilized.
- Rs.36 billion out of the Rs. 59 billion provided for recurrent expenditure and Rs. 186 billion put of Rs. 372 billion provided for capital expenditure (Total of Rs. 222 billion) remained unutilized. These balances consisted of a range from 25% to 99% from the net provision

Provision for capital expenditure was Rs. 880 billion except payment of loans relevant to the year under review and Rs. 625 billion i.e. 71.04% out of it has been utilized. During the previous year capital provisions of Rs. 658 billion has been utilized. Accordingly the utilization of capital provisions has marked a decrease by 3Rs. 32 billion during the year under review comparatively to previous year. But the provision for recurrent expenditure for the year under review was Rs. 2,181 billion and Rs. 2,109 out of the above i.e. 96.69% has been utilized. It has marked an increase by Rs. 163

billion when comparing with the previous year. Accordingly the total expenditure of the previous year, which has amounted to Rs. 2,603, (Except payment of loans) , has marked an increase up to Rs. 2,734 billion by Rs. 131 billion. The total expenditure of the year under review except payment of loans has held 19.25% from estimated gross domestic product and the value of the same in previous year was 19.59%. Comparatively to the previous year it has marked a decrease in the year under review. When comparing with the previous 7 years, it has become possible by the end of the year under review to reduce the total expenditure of the state (Except payment of loans) as a percentage of gross domestic product. Particulars are given in Diagram 30.

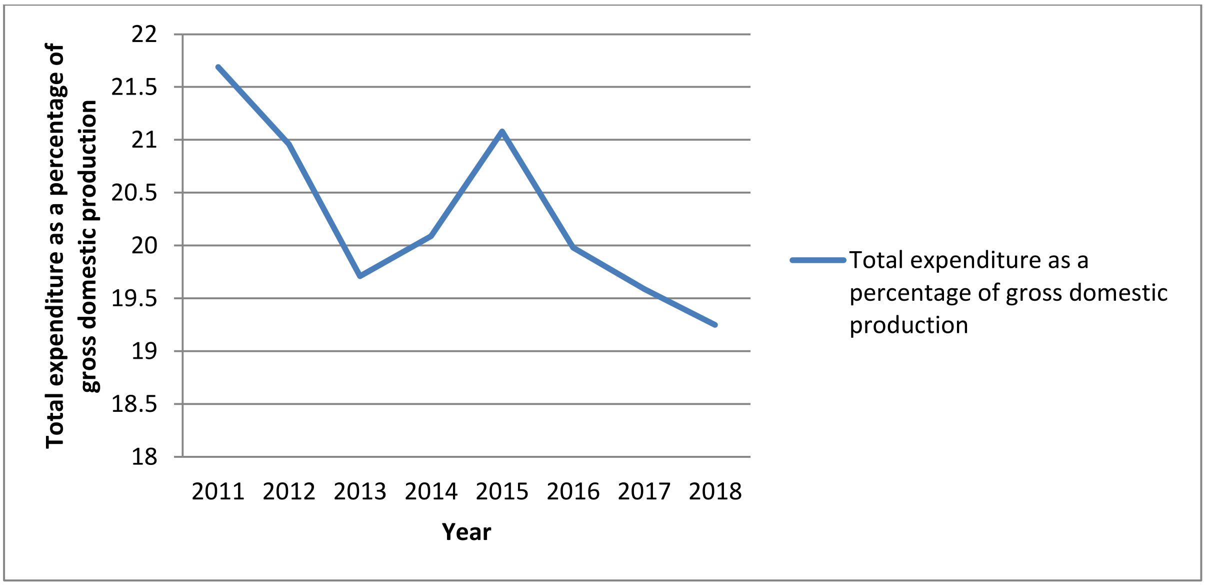


Diagram 30 –Total expenditure as a percentage of gross domestic production
Source – Financial statements of the government and annual reports of the Central Bank

Rs. 852 billion has been spent during the year under review for interest of local and foreign loans, discounts on treasury bills and treasury bonds. It has held 40.41% from the total recurrent expenditure and it has marked an increase by Rs.117 i.e. 15.85% comparatively to the previous year. In addition to the above, Rs. 485 billion, Rs. 599 billion and Rs. 172 billion have been spent for personal emoluments, grants and aids and expensed for other goods and services respectively. Above expenditure has caused a significant contribution for the total recurrent expenditure and the income collected during the year was not sufficient to cover the total recurrent expenditure. Accordingly the recurrent expenditure over the total income of the state during the year under review was Rs. 174 billion. Further Rs. 625 billon has been spent during the year under review for capital expenditure and it has to obtain local and foreign loans to settle a part of recurrent expenditure and investment of the government and installments of loans. Accordingly it has to pay a huge amount as annual loan installments and interest and that cost was showing gradual increase annually.

Total of recurrent expenditure, capital expenditure and settlements of loans have amounted during the year under review to Rs. 3,971 billion and 31.14% and 21.46% have been made out of the above to pay loans and interest of loans and discounts. The way that the total expenditure has been distributed among 16 identified sections is given in Diagram 31

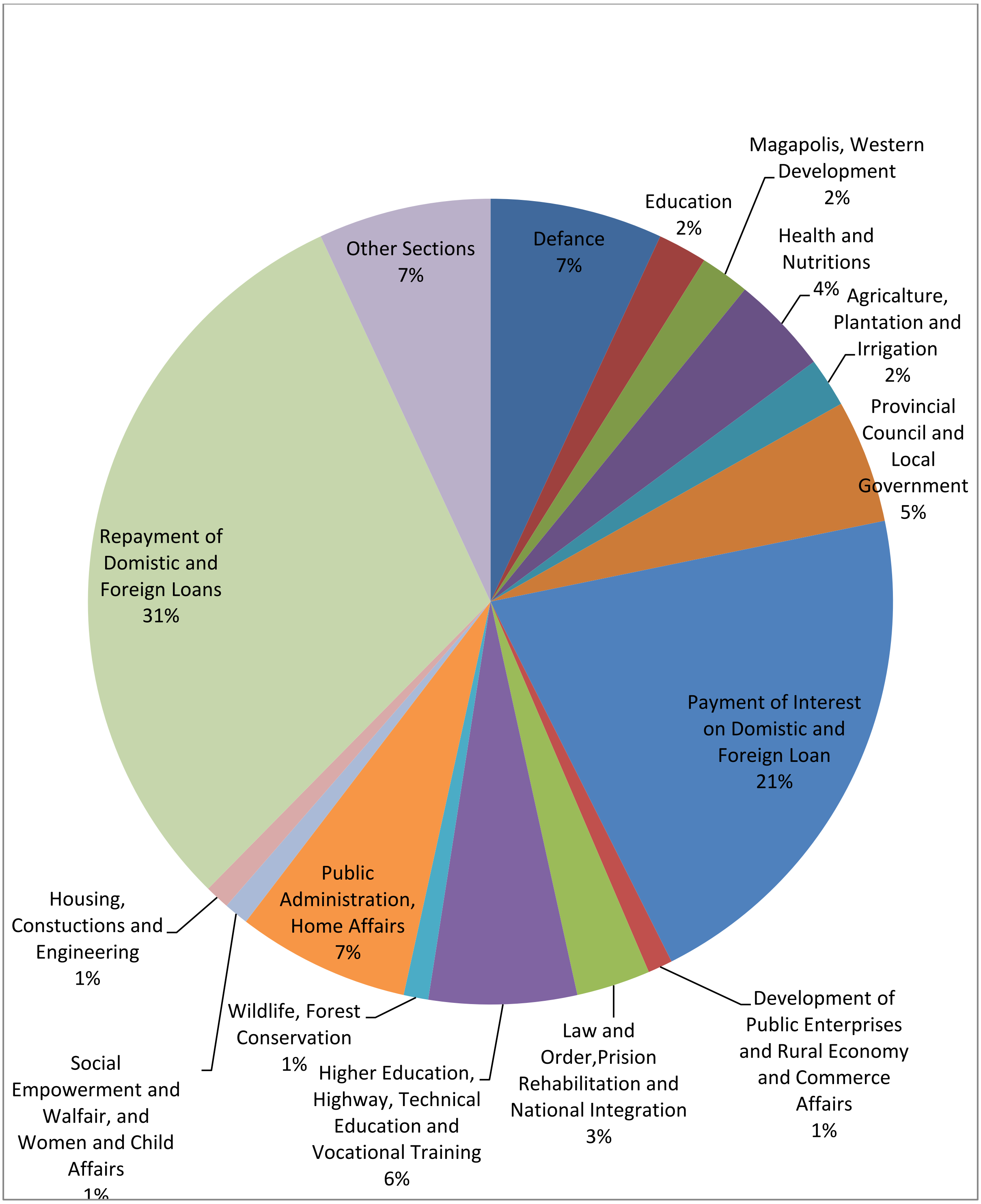


Diagram 30- The way that the total expenditure has been distributed among 16 identified sections
Source – Financial statements of the republic 2018

Income of the state

In terms of the annual budget estimate 2018 approved by the Parliament of the Democratic Socialist Republic of Sri Lanka, the income of the state estimated as income from tax, non-tax income and other income has amounted Rs. 2,233 billion. When it is compared with Rs. 1,914 billion, which is the estimated income of the previous year, it has marked an increase by 319 billion i.e. 16.7%. Comparatively to estimated income, Rs. 1,935 billion has been collected as the income of the year under review and it showed a growth by Rs. 90 billion i.e. 4.9% to over Rs. 1,845 billion, which was collected in previous year. When the income collected by the state during the year under review and previous year, it has held values as 13.4% and 13.7% respectively. Accordingly the income of the state has decreased as a percentage of gross domestic products. The percentage of the year 2016 was 14.3% and then it showed a gradual decrease in later years. Relevant particulars are given in Diagram 31.

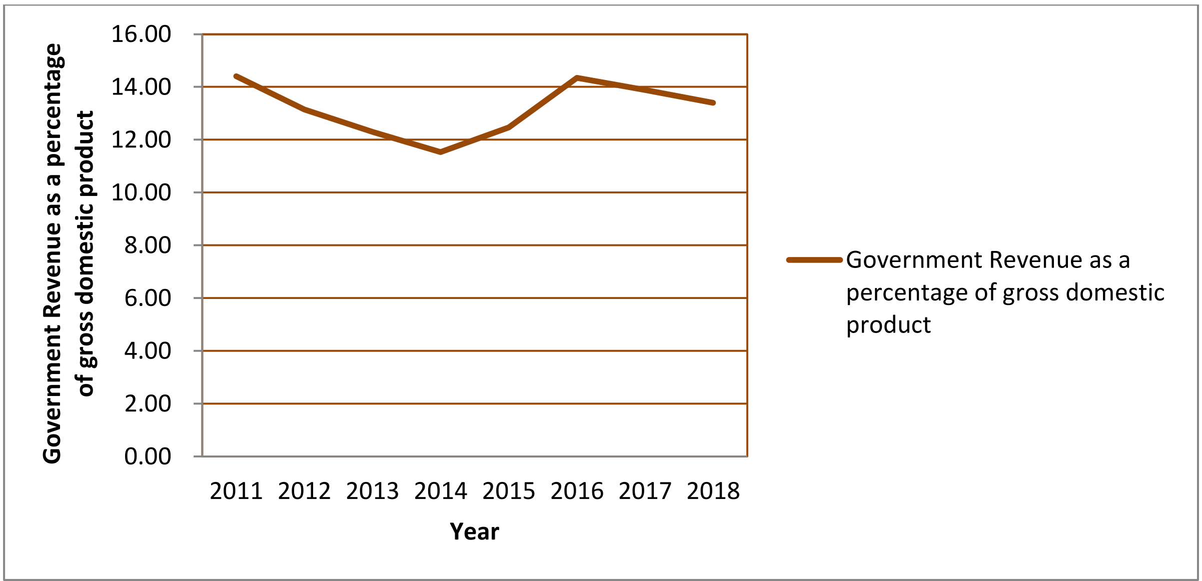


Diagram 31 – Government Revenue as a percentage of gross domestic product
Source - Financial statements of the Government.

The income of the state has been reported under two main categories as Tax income and Non-tax income and that tax income has again been categorized on as income tax, tax on local goods and services, tax on international trade etc. and then shown in financial statements of the state. Even though it was expected to collect Rs. 370 billion as the income tax for the year under review, only 310 billion out of the above could have been collected. Further even though it was expected to collect Rs. 1,243 billion from tax on local goods and services only Rs. 1,060 out of the above has been collected. In the meantime it has been estimated to collect Rs. 42 billion from tax on international trade, only Rs. 341.7 billion has been collected by the end of the year under review. Even though it was expected to collect Rs. 2,034 billion from taxes it has become possible to collect only Rs. 1,712.3 billion i.e. 84%out of the above. It has been estimated to collect Rs. 199.1 billion from other income, which are non-tax income, during the year under review, Rs. 222.8 billion has been collected by exceeding the estimated target by Rs. 23.7 billion. Estimated income and collected income of the year under review are given in Diagram 32

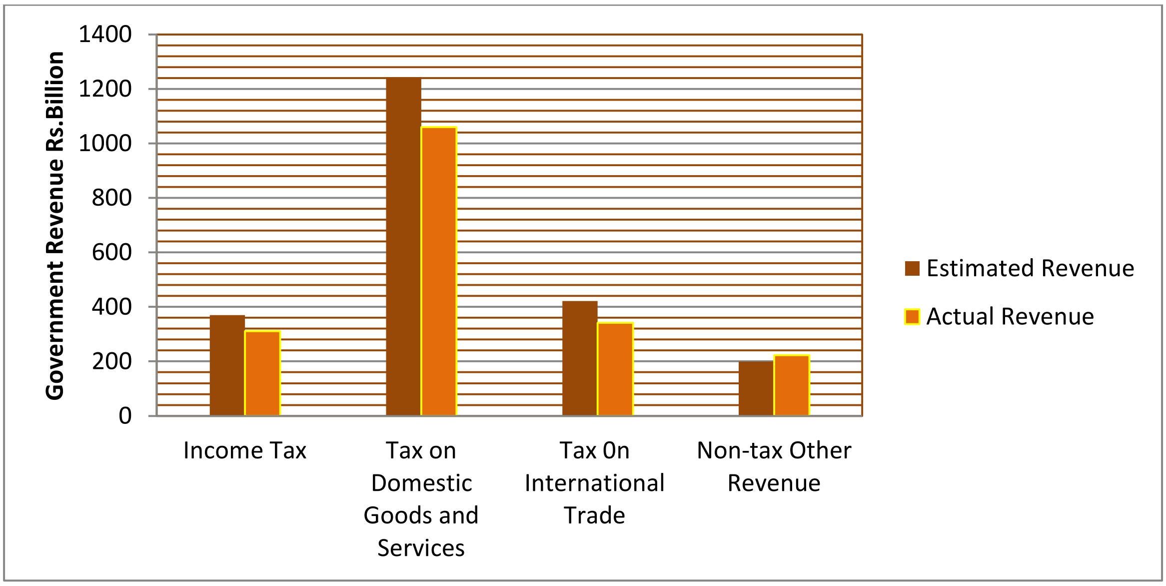


Diagram 32 - Estimated and actual income
Source - Financial statements of the republic - 2018

Budget deficit

'To reduce the loans of the Government to the farsighted level by way of ensuring that the budget deficit at the end of year 2006 may not exceed 5% from the gross domestic product estimated for the year and further that level is maintained continuously' has been mentioned in section 3 (a) of Financial Management (Responsibilities) Act No 03 of 2003 as an objective based for a responsible financial management to be followed by the Government. However the estimated budget deficit in the previous year and year under review has been 7.77% and 5.83% from gross domestic product. Accordingly General Treasury has failed to take action as per the provisions of Financial Management (Responsibilities) Act.

Total income of the Government of the year under review is Rs. 1,935 billion and total expenditure of the Government (Recurrent expenditure+ Government investments) is Rs. 2,734. Accordingly the deficit of the budget has amounted to Rs. 799 billion. Income, expenditure and budget deficit of the state in the year under review and previous 7 year are given in the following Diagram 33.

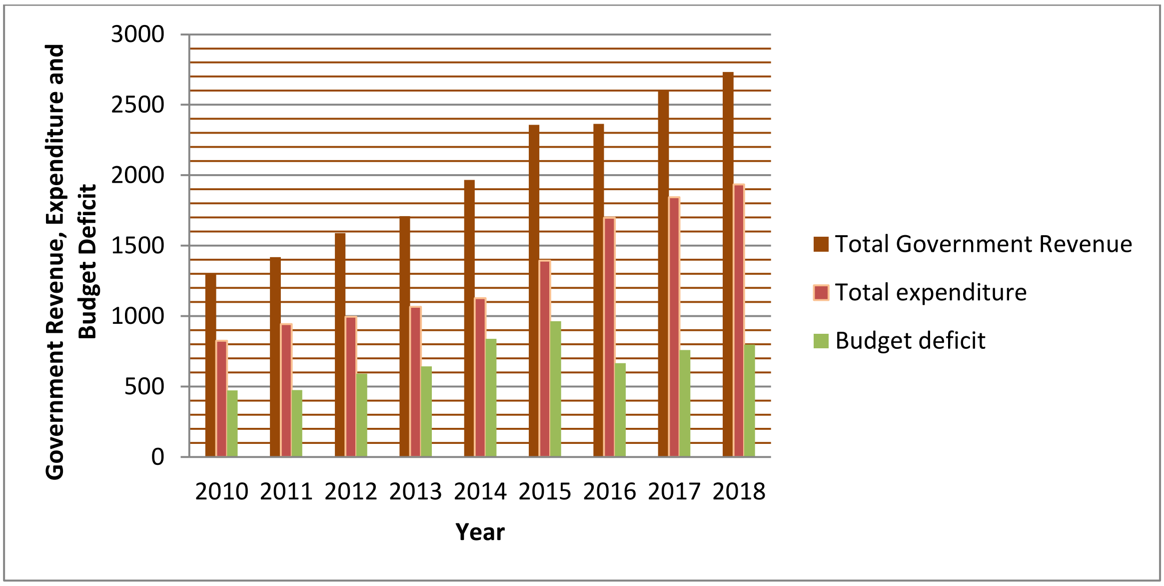


Diagram 33 - Total income, total expenditure and budget deficit of the Government
Source - Financial Statements of the Republic

Financing the budget deficit

Comparatively to the previous year, the budget deficit of the year under review has marked an increase by Rs. 41 billion i.e. 5.42% and further net foreign loans has also marked an increase by Rs. 83 billion i.e. 21.63% from 382 billion to Rs.465 billion. However net local loans has marked a decrease by Rs. 39 billion i.e. 18.52% from Rs. 209 billion to Rs. 170 billion. Accordingly the positive balance of Rs. 20 billion , which is the net change of savings accounts and liabilities and Rs. 108 billion received for granting Hambantota Harbour on lease and Rs. 26 billion on recovery of sub loans have made a higher contribution for financing the budget deficit of the year under review.

Inadequacy of the income to cover recurrent expenditure

In terms of the financial statements of the Government, the recurrent expenditure for the year under review was Rs. 2,109 billion and capital expenditure was Rs. 625 billion and the aggregate of both was Rs. 2,734 billion. Since the total income earn by the Government was only Rs. 1,935 billion, it was not sufficient to cover the recurrent expenditure of the year under review. Accordingly Rs. 174 billion has been spent as recurrent expenditure over the total income of the Government. Particulars for year 2010 up to 2017 are given in Diagram 34.

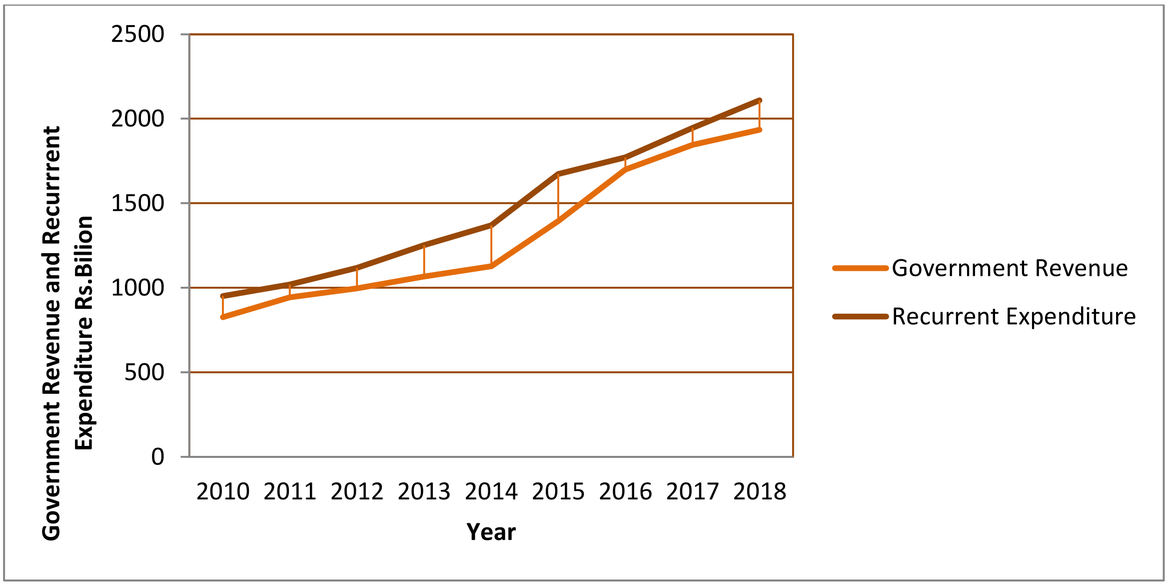


Diagram 34 - Inadequacy of the income of the Government to cover the recurrent expenditure
Source - Financial statement of the Government

Public debt

As per Article 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka, Parliament shall have full control over financial control including public debt. Accordingly approval of the Parliament should be obtained for all the loans of the Republic. Accordingly approval of the Parliament has been granted to obtain loan within or outside Sri Lanka for or on behalf of the Government as per section 2.1.(a) of Appropriation Act No 30 of 2017.

In terms of the financial statements of the Government, the foreign loans obtained for the year under review was Rs. 772 billion and non local loans, which were not bank loans, obtained was Rs. 2,178 billion and the aggregate of both was Rs. 3490 billion. When comparing them with the loans of Rs. 3,150 billion obtained in previous year, it has marked an increase by Rs. 340 billion i.e. 10.79% . Government has paid more attention to obtain local loans and when the local loans obtained by the Government during the year under review was compared with the local loans of Rs. 2,549 billion obtained during previous year, it has marked an increase by Rs. 170 billion i.e. 6.66%. Particulars are given in table 08

Description	2017 Rs. billion	2018 Rs. billion
Foreign Loans	601	772
Local Loans		
Treasury Bills	1,624	1,653
Treasury Bonds	549	763
Foreign Exchange Bank Units (Non- Project)	33	62
Development Bonds	339	234
Foreign Exchange Bank Units (Non- Project)	4	6
Total of Local Loans	2,549	2,718
Total loans obtained during the year	3,150	3,490

Table 08 - Local and foreign loans
Source - Department of Public Accounts/ Financial Statements of the Government

In terms of the financial statement of the Government, the total of the public debts to be paid by 31 December 2018 was Rs. 11,276 billion and when it was compared with the balance of public debt of Rs. 9,588 by 31 December 2017, it has marked an increase by Rs. 1,688 billion i.e. 17.61 % . The particulars of total public debt in previous year and at the end of the year under review are given table 09

Loan category	Balance as at 31 December	
	2017	2018
	Rs. Billion	Rs. billion
Treasury bills	725	759
Treasury bonds	3,755	4,000
Rupee loans	24	24
Sri Lanka Development Bonds	638	614
Local loans from Foreign Exchange	64	101
Foreign Exchange Bank Units (Projects)	14	19
Loans obtained to construct Suhurupaya building	-	7
Lease creditors	12	8
Total local loans	5,232	5,532
Foreign (Projects)	2,664	3,194
Timely loan facilities from foreign funds	217	330
International Sovereign Bonds	1,475	2,220
Total Foreign Bonds	4,356	5,745
Total balance of public debt	9,588	11,276
Estimated gross domestic product	13,500	14,200
Total balance of public debt as a percentage of estimated gross domestic product	71.02	79.40

Table 09- Composition of public debt
Source - Department of Public Accounts/ Financial Statements of the Government

In terms of the Financial Management (Responsibilities) Act No 03 of 2003 amended by Financial Management (Responsibilities) Act No 15 of 2013, the maximum value of the liabilities, which can exist at the end of a certain year, should not exceed 80% from the estimated gross domestic product of the year. Even though it is shown as per the reports of General Treasury that that the Ministry of Finance has taken action in compliance with such limits, it is evident that limit has exceeded when considering the relevant liabilities of public enterprises , which have been accounted outside the statement of financial position. Particulars are included in table 10

Liabilities	Liabilities as at 31 December 2018
	Rs.Billion
Bank overdraft	149
Advance of Central Bank	199
Public debt	11,276
Liabilities not accounted in financial statements:	
– **Foreign loans which are accounted outside balance sheet**	366
– **Under accounting of the balance of treasury bonds**	344
– **Foreign loans not accounted due to lack of provisions**	58
– **Loans obtained from commercial banks for the payment of pension gratuity**	65
– **Loans obtained to make payments for the construction of International Stadium at Suriyawewa**	4
Total liability	12,462*
Gross domestic product	14,200
Total liabilities as a percentage of the gross domestic product	87.76

Table 10 – Year ended to be the Liabilities

* Rs. 829 billion, which is the value of guarantees and letters of concessions issued to the banks for the loans obtained by public enterprises on the guarantees of General Treasury, and Rs. 259 billion, which are included in the statement of liabilities of annual financial statements of Department and special expenditure units (As per the reports of the Department of Public Accounts) have not been included in the above mentioned liabilities.

Per capita debt

When the balance of public debt is compared with the mid-term population, the per capita debt, which is at the level of Rs. 291,304 by 31 December 2013, has marked an increase up to Rs. 520,363 by 31 December 2018. When it is compared with Rs. 447,123, which is the per capita debt by 31 December 2017, it has marked an increase by Rs. 73,241, i.e. 16.38% as at 31 December 2018. Due to holding 45% of the balance of public debt by foreign loans and devaluation of Rupee, the value of per capita debt has recorded further a higher value.

Balance of public debt for the period of previous 05 years and the year under review , mid-term population and per capita debt are included in table 11

Description	2013	2014	2015	2016	2017	2018
Balance of public debt as per financial statements of the Government (Rs. billion)	5,996	6,577	7,685	8,794	9,588	11,276
Mid-term population ('000)**	20,585	20,771	20,966	21,203	21,444	21,670
Per capita debt (Rs)	291,304	316,664	366,544	414,751	447,123	520,364

Table 11- Balance of public debt, mid-term population and per capita debt

Source – Financial Statement of the Government and annual report of the Central Bank of Sri Lanka

Further the share of foreign in the total balance of public debt is at a significant level and the balance of foreign loans to be settled has recorded continuous growth due to the effect made on the foreign loan balances in the face of the devaluation of Rupee. An additional burden of loans of Rs. 1,029 has occurred on the balance of foreign loans at the end of the year under review due to devaluation of the Rupee.

The balance of the loans may record escalation further in the coming years due to the increase in the loan installments and interests and devaluation of Rupee.

Lack of the income of the government to pay the installments of public debts and interests relevant to the year

Even though the income of the Government has recorded an amount of Rs. 1,935 billion during the year under review, Rs. 2,856 billion and Rs.852 billion have been paid as the loan installments and interests of the year under review and the aggregate of both is Rs. 3,708 billion. Accordingly Rs. 1,773 is required further over income of the government to pay loan installments and interest of the year under review. Under such circumstance the Government has compelled to obtain Rs. 2,718 billion and Rs. 772 billion as local loans and foreign loans to cover the above requirement and bear the expenses of the government and the aggregate of both has been Rs. 3,490 billion. Such situation is shown in table 12 comparing with previous years.

Description	2014 Rs. billion	2015 Rs. billion	2016 Rs. billion	2017 Rs. billion	2018 Rs. billion
Local loan obtained during the year*	2,020	2,793	2,518	2,549	2,718
Foreign loans obtained during the year	423	556	574	601	771
Total of the local and foreign loans obtained	2,443	3,350	3,092	3,150	3,490
Payment of installments for local loans **	1,584	2,265	2,073	2,340	2,549
Payment of installments for foreign loans	107	187	145	219	307
Payment of interest for local loans	376	450	510	597	668
Payment of interest for foreign loans	70	77	101	139	185
Total of the loan installments and interest	2,137	2,980	2,829	3,295	3,708
Income of the government	1,127	1,394	1,699	1,845	1,935
Loan installments and interest which exceeded the income of the Government	1,010	1,586	1,130	1,450	1,773
Balance of the public debt as at 31 December	6,577	7,685	8,794	9,588	11,276

Table 12 – Obtaining public debts , payment of installments and interest, income of the government
Source – Financial statements of the Government

Even though the total of the income of the year under review has marked an increase by Rs. 90 billion i.e. 4.88% comparatively to the previous year, it has marked a decrease by Rs. 298 billion i.e. 13.34% comparatively to the estimated income. Further the amount of net loans (Local and Foreign loans) has marked an increase in the year under review comparatively to previous year by Rs. 44,700 million and payment of interest for loans has marked an increase by Rs. 117 billion i.e. 145.85% during the year under review comparatively to the previous year. The total payment of loan installment and interest of the previous year has held 104.60% from the total amount of loans obtained during the year and it has amounted to 106.23% in the year under review. Accordingly the total loans obtained during the year were not sufficient even to pay the loan installments and interest of the year. Accordingly the total balance of public debt at the end of the year has recorded a continuous growth for several years . Particulars are included in the Diagram 35

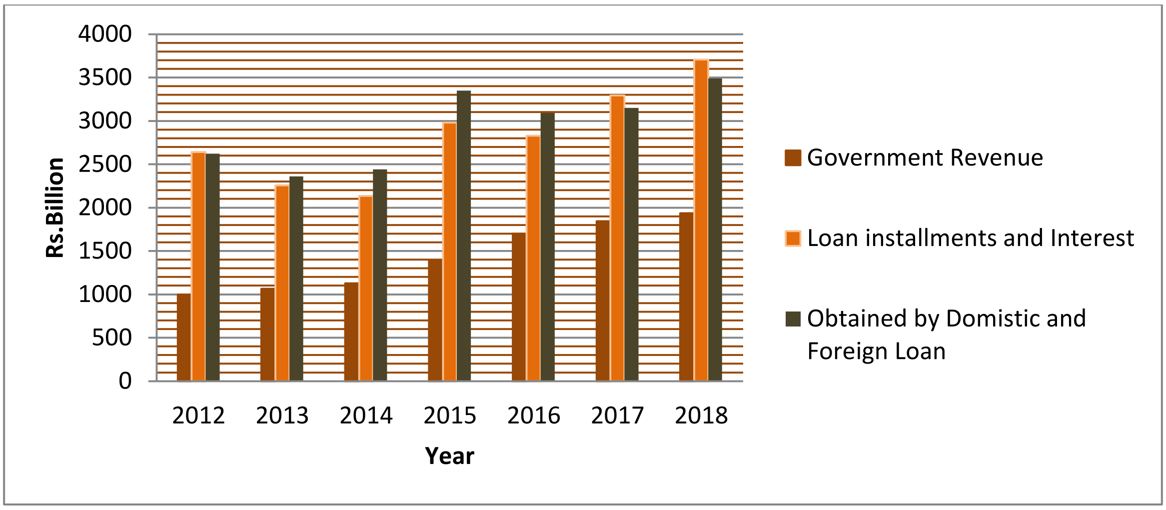


Diagram 35 – Obtaining public debts, payment of installments and interest, income of the government
Source – Financial statements of the Government

Observations made at the audit conducted on public debt are given in brief in the following manner..

- The total balance of public debt, which has been Rs. 11,276 billion by 31 December 2018, has amounted to 79.40% from the estimated gross domestic product, which has been Rs. 14,200 billion. Accordingly a considerable amount of local and foreign loans obtained by the Government have been utilized for a long time to settle loan installment and interest. Under such circumstance it has become impossible to make sufficient investment for the development projects as expected.

- As per the financial statements of the government submitted for the audit, the outstanding balance of the public debt as at 31 December 2018 has amounted to Rs. 11,276 billion. However that balance has been understated by Rs. 828 billion in financial statements due to following reasons.

  – The accounting policy on treasury bonds included in financial statements of the government has been rectified from year 2016 and accordingly it has started accounting the face value of treasury bonds instead of net values in their issuance. However the face value of treasury bonds issued before 2016 has further not been adjusted in the accounts and therefore thetotal liability of treasury bonds has been understated by Rs. 344billion in financial statements by 31 December 2018.

  – The balance of the loan to the value of Rs. 366 billion, which existed by 31 December 2018 relating to

08 foreign loan agreements under the agreed liabilities, has not been included in financial statements.

- Rs. 172 billion out of the loan balances included in 08 foreign loan agreements mentioned above, has to be settled from the loans obtained by the Government to construct Hambantota harbor. Approval of the Cabinet of Ministers has been granted on 04 August 2017 to the Cabinet Memorandum submitted by the Ministry of Ports and Shipping Affairs under the title ‘ Concessionary Agreement for Hambantota harbor” and bearing no MPS/SEC/2017/32 dated 20 July 2017. Accordingly the responsibility to pay the outstanding balance of loan obtained by the Government to build Hambantota harbor, has been obtained by General Treasury from the effective date of the aforesaid agreement. But the balance of the said loan has not been included in the financial statements of the Government. Further the balance of loan has been removed from the financial statements of Sri Lanka Ports Authority as at 31 December 2018.

- Rs. 39 billion in relation to 50 foreign loan agreements realized in year 2018 and Rs. 19 billion in relation to 15foreign loan agreements have not been accounted as foreign loans even by 31 December 2018 and the aggregate of both has amounted to Rs. 58 billion.

- When note 29 of financial statements of the Government, loan balance in foreign exchange in the statement of foreign loans as at 31 December 2018 has been converted to Rupees, the adjustment of exchange as at 31 December 2018 which is relevant to above mentioned realized loans but not accounted so far, has also been adjusted the loan balance. Due to such situation the balance of foreign loans at the end of the year has been overstated by Rs. 9 billion relating to 36 foreign loan agreements and understated by Rs. 13 billion in relation to 02 foreign loan agreements.

- The outstanding balance of the loan obtained by the Department of Pensions from Commercial banks to pay pension gratuity from year 2014 was Rs. 65 billion as at 31 December 2018 and that value has not been accounted identifying them as local loans in financial statements.

– Sri Lanka Potrs Authority has obtained a loan from Peoples Bank in order to pay the outstanding amount of Rs. 4 billion, which has to be paid to the contractor for the construction of Suriyawewa international cricket ground. As per the Cabinet Memorandum No 17/2660/706/111-1 dated 20 November 2017 and the cabinet decision, the responsibility to pay the aforesaid loan and relevant interest has been entrusted to the former Ministry of Finance and Media. Accordingly the payment of the interest of the loan has been commenced from year 2018 by way of providing necessary budget allocations. The payment of installments of loan has to be commenced from 2021 after lapse of the concessionary period of 03 years. However that value has not been accounted identifying them as local loan in financial statements.

Audit observations made in the sample tests made on the collection of income of the government are given in brief in the following manner.

The tax imposed on local goods and services out of the tax income collected during the year under review has amounted to Rs. 1,060 billion or 61.91% from the total tax income and 54.78% from the total income of the Government. It has held 61.32% from total tax income and 55.51% from total income of the Government in the previous year. Accordingly it has failed even in the year under review to transfer the tax income to the customer.

- In terms of the financial statements of the Government in year under review, more that 27% from VAT on local goods and services and nation building tax has been contributed to the total income of the Government. The contribution from the tax imposed on alcohol and cigarettes (Excise) was 5.88% and more than 19% of the total income has been covered from the production tax imposed on cigarettes, alcohol, motor vehicle and petroleum productions.

- In terms of the financial statements of the Government, Rs. 342 billion has been collected from the tax imposed on international trade and it has held 19.95% from the total tax income and 17.65% from the total income of the Government.

However the collection of income from the taxes imposed on international trade has marked a decline by Rs. 30 billion i.e. 7.97% during the year under review comparatively to the previous year. Main reason for such decline is the decrease in importation tax by Rs. 40 billion during the year under review.

- Even though the following factors have made a considerable contribution for higher contribution and growth in the income, which can be treated as indirect taxes in the income structure of the Government as mentioned above, Departments which are collecting income have not made adequate measures to calculate the financial value of these effects. Under such situation, it is observed that only the growth in the income collected is not sufficient to measure the real performance of the Department, which are collecting income.

  – Imposing a higher tax ration by the Government

  – Growth in the tax income due to the increase in the imports on special occasions.

  – Growth in the tax income due to escalation of the prices of goods and services in the foreign market.

  – Enhancement in the income on tax due to the growth of import cost occurs as a result of the decline in foreign exchange rate. Further comprehensive details on the effect made to the income of the Government due to emitting of taxes on foreign trade agreements and other laws, mitigation and releasing of taxes have not been considered in the evaluation of the performance of the relevant Departments.

- As per the annual estimates of 2018, income estimate of Provincial Councils was Rs. 99 billion but records have not been maintained on the actual income relevant to the above.

- In terms of the matters revealed by the Guideline No 01/2015 dated 20 July 2015 of the Department of the Public Finance Policies for the estimation, collection, supervision and reporting of the income of the Government, evidences have not been submitted to the audit by the Department regarding the review of non-tax income or action taken to take further measures in this respect.

- Even though income has not been estimated under 06 revenue codes of the budget prepared for the year under review, an income to the value of Rs. 229.9 million has been collected by the end of the year under these 06 revenue codes.

- Even though it was expected to collect income of Rs. 18 billion for the year under review under 06 revenue codes, no income has been collected under these revenue codes by the end of the year under review.

- An income of Rs. 3 billion remained in arrears by the end of the year under review under 3 revenue codes, which were remaining in arrears for years. Particulars on the action taken either by Accounting Officer or Department of Public Finance Policies have not been submitted for the audit.

- Charges recovered for the service deliveries have not been revised for previous 3 years in terms of the Public Finance Circular No 01/2018 dated 17 January 2017.

National Security

Delay in Amendments to Acts on National Security

Non- performance of the function of the Ministry relating to the Controls on Explosives

Maintenance of Internal Funds and Projects by the Security Forces

Construction of the Headquarters Building of the Ministry of Defence
Failure to make amendments to the Defence Academy Act

Non-operation of the Teaching Hospital of the University of Defence in full capacity

National Security

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

- Ensure the maintenance of the territorial integrity and defense of Sri Lanka.
- Maintain the defense of the air, sea and land zones.
- Directing the research and development activities related to defense.
- Assist in maintaining the dignity and majesty of Sri Lanka.
- Implementation of the policies on programmes and project related to defense.
- 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 Defense and the institutions functioning under the purview of the Ministry are summarized below.

Delays in Amendments required to be made in the Parliament Acts on National Security

The amendments are required to be made on recovering of **general charges** on services provided by the government in terms of the Circular No, PED/04/08/01/59 of 11 December 2015. However, the revision of charges under the Private Security Services Regularity Act, No. 45 of 1998 and Firearms (Amendment) Act, No. 22 of 1996 had not been made even at the end of the year under review.

Functions of the Ministry of Defense relating to the Controls on Explosives not implemented

As per the Explosive Law, No. 21 of 1956 , the powers on use and controls over the explosive within the country is rest with the Ministry of Defense and such powers are implemented by the Ministry through Assistant Directors of Explosive Controls assigned the each District Secretariats. According to the audit tests carried out at the Explosive Control Offices at Kurunegala, Puttalm and Anuradhapura district, it was reveled that records to be maintained to control over the use of explosives such as details of license holders and issues of explosives etc had not been maintained in proper manner, Further, it was revealed at the site inspections made in Kurunegala and Puttlam districts that 35 metal quarries were running without a license thereon.

Internal Funds and Projects maintained by the Security Forces

It was regularly pointed out in the Auditor General's Reports in the previous years that the need of strengthening of the parliamentary controls over the various internal funds and projects managed by the security forces for commercial purposes to generate profits . Further, the directions had also been issued by the Committee on public enterprises thereon and no action taken to stipulate a proper mechanism. According to the directions issued it was expected to form such projects which use the physical and human resources of the tri forces, as statutory fund under a common platform, as enable to supervise by the parliament and subject to audit annually. Eventhough the Secretary of the Ministry of Defense had issued instruction in this connection by the Letter No EA/IA/05/05(02) of 11 November 2009 , proper action had not been taken thereon. It was revealed in the detailed audits carried out in this connection that 03 Holiday Resorts and agriculture farms had been conducted by the Sri Lanka Air Force and conducting of 07 Holiday Resorts and 05 Reception Halls by Sri Lanka Navy on commercial basis and no information on financial and operating results were presented along with the financial statements . Further, the share ownership of the Company rested with 05 officers of Sri Lanka Air Force and the Committee on Public Accounts had directed to reform the Company as enable to receive the share ownership to the General Treasury. However action had not been taken to initiate the process even as at 31 December 2018.

Providing of welfare facilities to the families of war heroes deceased or disabled

The institutions established under the Ministry of Defense to provide welfare facilities to the family members of war heroes deceased or disabled had limited their services only to provide houses and housing loans and implement the scholarships to the children .It was observed that proper coordination among the institution had not been maintained on the activities implemented . A provision of Rs. 833.51 million had been made to 03 institutions established under the Ministry to implement housing projects and out of that a sum of Rs. 787.53 had been utilized.

Further, the Ministry of Defense had not taken action to conduct studies to understand the social issues faced by the war heroes, spouses and other family members and launch a proper mechanism to solve such issues.

Construction works of the Headquarters Building of the Ministry of Defense

The progress on construction works of the building for Headquarters of security forces were remained with further delays. The estimated cost amounting to Rs. 25 billion in 2011 on construction works had increased upto Rs.55.60 billion due to amendment of the designs of the constructions subsequently. The offices remained in the Sri Lanka Army Headquarters located at Galle Face area had been shifted to other government and private owned buildings in Colombo and suburbs and located since 2011. It was observed that building rents amounting to Rs 1,566 million had been spent up to 31 December 2018.

Academic activities of the Sir John Kotalawala University of Defense

The Sir John Kotalawala University of Defense had been established under the Sir John Kotalawala Defense College Act, No.68 of 1981 , amended Acts of No. 27 of 1988 and No.50 of 2007 and according to the provisions of said Acts, the degree programmes conducted by the institute had been limited to studies on defense purposes only. However, the University had conducted degree programmes for sectors such as Medical, Law and Engineering etc due changes of the subsequent requirements and awarded degree certificates, without being obtained necessary authorization through making amendments to the above mentioned Acts.

The student population of the Medical Faculty of the Defense University as at 31 December 2018 consisted with 1,393 students including 112 Cadet Officers of armed forces , 819 students transferred from the South Asian Institute of Technical and Medical studies (SAITAM) and 192 foreign students. Eventhough the provision had not been made to award Medical Degrees for local students, it was observed that intake of 64 students had been made as the foreign students who were local students having duel citizenships

Eventhough there is a competition in the market to promote students for degree programmes in the universities on charging fees , no action had been taken by the Defense University to prepare a business plan for next years. Therefore, it indicated that there was no attention made adequately to meet the future market challenges .

The Teaching Hospital of the Sir John Kotalawala University of Defense

Eventhough the operational activities of the Teaching Hospital had been commenced in December 2017, it was not functioned in full capacity . The Teaching Hospital consisted with 433 patients beds as at 31 December 2018 and only the treatments had been made to 2,012 in door patients during the period from 31 March to 31 December 2018, Therefore, the average bed utilization ratio had remained only at 04 patients during the said period. Further, only 25,735 patients had been treated as at 31 December 2018 through 16 outdoor clinic centres implemented, eventhough there was a capacity to provide treatments for 25,735 patients.

The inadequate deployment of staff member was the reason for running of the Teaching Hospital with less capacity. The cadre of the medical and administrative staff of the Teaching Hospital consisted with 1,380 officers and 516 officers respectively and actual cadre consisted with only 437 officers 284 officers respectively including the officers recruited though contract basis and released from armed services as at 31 December 2018. Further, 85 officers deployed under contract basis had been vacated the posts as at 30 June 2018. The Teaching Hospital consisted with all the facilities had remained underutilized due to delays in preparation and obtaining approvals on Scheme of Recruitment of the staff.

The Loans of US$ 177.33 million in foreign currency and Rs 3,165,12 million obtained from the National Savings Bank under the guarantee provided by the General Treasury to construct the Teaching Hospital had been restructured on 17 September 2017. Therefore, US$ 82.33 million equivalent to Rs 12,733.34 million had been converted as the Rupee Loan and added the interest amounting to Rs 717.92 million payable as at 31 December 2018 and loss on foreign currency exchange amounting to Rs.617.47 million to the Rupee Loan. As a result total loan to be payable by the General Treasury and the Defense University since 2013 had become as US$ 95 million and Rs 17,274.55 million respectively.

Assets Management

A loss of Rs 74.76 million had been incurred by the Sri Lanka Air Force, as a result of misplacing of Rader Receiver and an Antenna Scanner while transporting by air to China on 25 April 2014 for repairing purposes. A preliminary report in this connection had been furnished on 31 August 2015 and no futher action had been taken even as at 31 December 2018.

Action had been taken by the Civil Security Department to construct an new building Headquaters office at Molpe in Panadura. The land of the building constructed was belongs to a temple and acquired on lease basis for 30 years period. Further, the clauses were included in the lease agreement to transfers the ownership of the building to the temple, after end of the period of the lease.

Public Enterprises

According to Information presented, 101 of 389 Institutions running at a Loss

Expression of Adverse Opinions relating to 13 Institutions on the Financial Statements presented to Audit

Non-presentation of Financial Statements to Audit of 59 Institutions relating to the year 2018

Public Enterprises

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 different 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 389 Public Enterprises as at 31 December 2018 as compared with that as at the end of the preceding year is depicted in the following Diagram 36

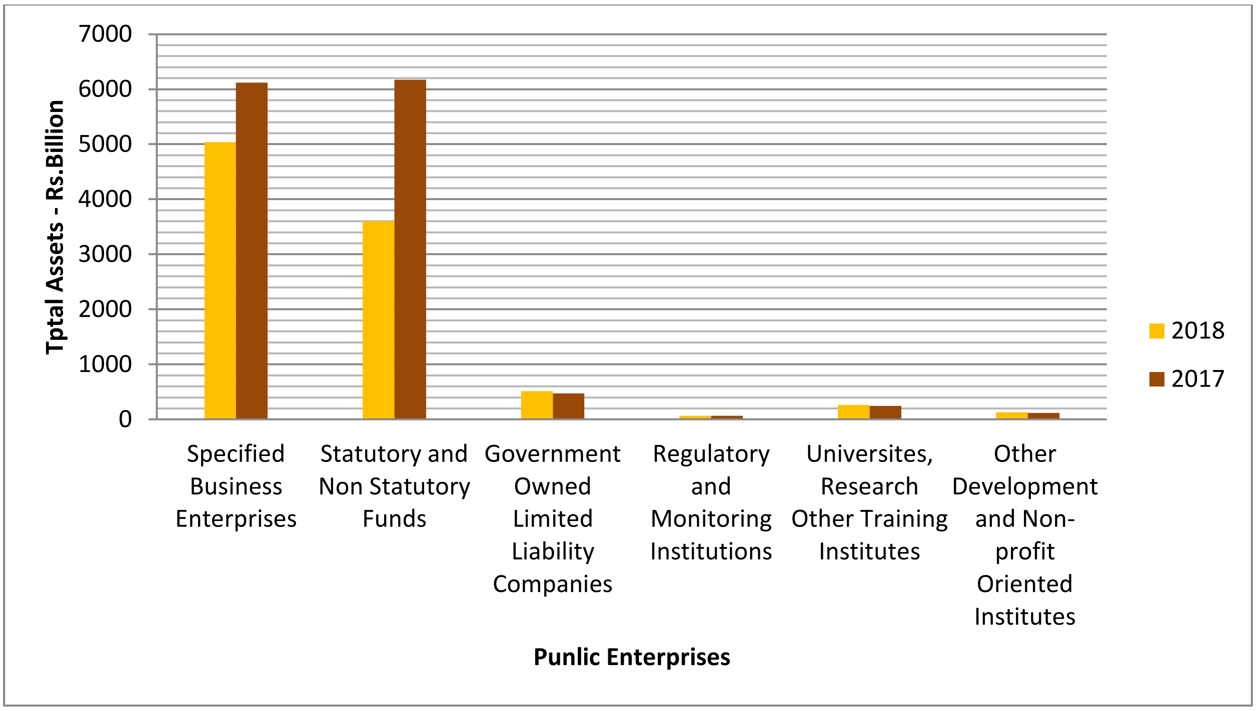


Diagram 36 - Total Assets of public Enterprises in the year 2018 as compared with year 2017

In 2018, state-owned enterprises received approximately recurrent grant of Rs. 28.6 billion for recurrent expenditure and approximately capital grant of Rs. 21 billion for capital expenditure. Fifty five billion and Rs.20 billion respectively in comparison to last year. Accordingly, there has been a decline in the allocation of government grants.

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 National Audit Office, 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.

By selecting several controversial incidents which created serious social and economic impacts and fallen to public consideration, 26 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 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	**70**	**23**	**34**	**13**
Statutory and Non-statutory Organizations	**54**	**04**	**22**	**28**
Regulatory and Monitoring Organizations	**29**	**10**	**18**	**01**
Specified Business Enterprises	**58**	**12**	**38**	**08**
Universities, Research and other Training Institutions	**66**	**28**	**29**	**09**
Government Owned Limited Liability Companies	**112**	**24**	**51**	**37**
Total	**338**	**101**	**192**	**96**

Table 13 – Information of 338 Institutes of Public Enterprises

According to the above information, 75 public enterprises were shown the deficit of Rs. 135,821 million in their financial results. The National Housing Development Authority Ceylon Electricity Board" Ceylon Petrolium Corporation" Paddy Marketing Board and 15 Universities including University College and 15 Universities were with considerable financial deficits.

In addition to that, 97 institutions had recorded the financial surplus of Rs.237,487 during the year under review.

Sustainable development

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

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

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

Auditor General’s Opinion on the Financial Statements

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

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

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 330 Public Enterprises on which the Audit Reports have been issued for the year 2018 as compared with the preceding year are as following Table 14

Audit Opinion	2018	2017
Unqualified	75	80
Qualified	160	113
Disclaimer	9	20
Adverse	13	6
Not yet decided	73	228

Table 14- 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.

Preparation and submission of Annual Financial Statements

Draft annual report and Financial Statements must be submitted to the Auditor General within 60 days of the end of the Accounting year as per Public Enterprises Circular No. PED/12 dated 2 June 2003.

The financial statements of 330 Public Enterprises for the year 2018 had been presented to the Auditor General for audit by 30 September 2019. However it was observed that 59 Institutions had not submitted their financial statements for the year ended 31 December 2018 even after the elapse of 9 months after the end of the financial year.

The Auditor-General shall, within three months of the receipt of the approved annual financial statement and other relevant documents and information of a public corporation or a company in which the Government or a public corporation holds fifty per centum or more of the shares, present a report to the Chairman of the governing body of such public corporation or company for publication in its annual report.

Lack of Autonomy to recruit and to retain Professional Staff

The numerous approval requirements have the overall effect of constraining the ability of Directors to make commercial decisions and to recruit and retain skilled staff. Due to this constraint it was observed that most of the enterprises recruit professionals on contract basis with higher salaries. 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 Government

Deficiencies in Contract Administration

Improper Disposal of Garbage

Despite Acquisition of Assets, Non-utilization in relevant Objectives

Failure in taking action to recover Arrears of Rates

Non-recovery of Arrears of Lease due to shortcomings in Lease Agreements

Local Government

There are 341 Local Authorities comprising 24 Municipal Councils, 41 Urban Councils and 276 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 2018 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 as at 15 August 2019	Number of Audit Reports issued	Audit Opinions expressed on the Reports issued as at 15 August 2019			
				Qualified	Clear	Disclaimer	Adverse
Municipal Councils	24	24	24	22	-	01	01
Urban Councils	41	40	40	40	-	-	-
Pradeshiya Sabhas	276	272	271	266	03	02	-
Total	**341**	**336**	**335**	**328**	**03**	**03**	**01**

Table …. – Presentation of Accounts to Audit by Local Authorities and Audit Opinions issued
Source – Auditor General's Reports 2018

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

- The Ja-Ela Pradeshiya Sabha had discontinued the constructions of a multi - purpose building at Kudahakapola only by laying a foundation due to non-receipt of provisions therefor. As such, the contractor had filed a case regarding the loss sustained by him. Accordingly, a compensation of Rs.2.40 million had been paid in the years 2012 and 2013 and the file relating to the said construction had not been made available to Audit. It was further revealed that the foundation thereof had been removed by 30 September 2019.

- Contributions for the Employees' Provident Fund for 105 project labourers who were in the service of Urban Council had not been paid by the Katunayake, Seeduwa Urban Council during the period from the year 2004 to 2011. As such, a sum of Rs.12.22 million had been paid in the year under review as arrears of contributions for Employees' Provident Fund and as surcharges relating to the said period.

- Legal action had been taken by the Business Institute in respect of the assessment rate of a metal roof factory for assembling motor cars in the Japalawatta Industrial Estate, assessed by the Minuwangoda Pradeshiya Sabha. Even though the revised rate had been confirmed by the Court, measures had not been taken by the Sabha for the recovery of arrears of rates of Rs.557,600 recoverable by 31 December 2018.

- Action had been taken to deploy a motor vehicle obtained from a private institution, in the service instead of an official motor vehicle of the Mayor, Matale Municipal Council contrary to provisions of Section 179 (a) of the Municipal Council Ordinance (Cap.252). Moreover, action had been taken to deploy the said motor vehicle in the service before completing the procurement process and the said motor vehicle had been registered in the personal name of the Mayor. A sum of Rs.1.69 million had been paid as hiring charges for the said vehicle during the period from June 2018 to 11 July 2019. Further, a sum of Rs.260,000 had been payable from 12 July 2019 to 11 September 2019.

- In terms of the agreement entered into for the establishment of a Geographical Information System in the area of authority of Galle Municipal Council, the said Project should have been completed on or before 02 June 2013. However, the Project had not been completed even by 31 December 2018. Even though a sum of

Rs.2.03 million had been spent in addition to the contractual amount, expected objectives of the project had not been achieved.

- A number of 30,725 tractor loads containing recyclable and decayable garbage and 1,661 tractor loads containing non-recyclable garbage had been disposed of to the Kotawila garbage yard in an irregular and improper manner during a period of 04 years from the year 2015 by the Matara Municipal Council, thus resulting in a garbage dump therein. Sums of Rs.1.31 million and Rs.2.63 million had been spent as expenditure on fuel for a bacho machine of the Sabha and for a private bacho respectively for levelling the said garbage dump for 2,703 hours from the year 2015 to October 2018. Moreover, public protests had arisen day by day due to improper disposal of garbage.

- Ten motor bicycles had been purchased by spending Rs.2.68 million for the Solid Waste Management Programme in the year 2012 by the Matara Municipal Council. In purchasing those motor bicycles, attention had not been paid on matters such as spare parts needed therefor and servicing of them. As such, 06 motor bicycles valued at Rs.1.61 million had been removed from being used due to lack of spare parts.

- A sum of Rs.1.59 million had been paid to the Water Supply and Drainage Board by the Hakmana Pradeshiya Sabha for constructing 02 tube wells for supply of water under the Kurundu Piyasa Water Project under provincial specific development grants in the preceding year. The relevant activity had not been carried out even by the year under review due to failure in identifying water sources.

- A Truck of Tata Super make had been purchased by spending Rs.2.17 million in the preceding year by the Pasgoda Pradeshiya Sabha for the commencement of a mobile library. However, the said motor vehicle had not been made use of for achieving the intended objective even by the end of the year under review.

- A bacho loder costing Rs.5.81 million owned by the Tissamarama Pradeshiya Sabha was being decayed in a private garage being exposed to natural disasters for a period of 07 years.

- The Super Market Complex had been vested in the Mahawa Pardeshiya Sabha in September 2016. Lessees had been selected for leasing out stalls of the said Super Market Complex. Even though keys had been handed over in September 2018 to lessees so selected, rentals could not be recovered due to failure in obtaining electricity and due to defects in doors. As such, a revenue of at least Rs.3.28 million had been deprived of to the Sabha.

- In terms of paragraph 3(b) of the Circular dated 05 June 1990 of the Secretary to the Ministry of Provincial Councils read in conjunction with Section 1 of Chapter IX of the Establishments Code, the approval of the Governor should have been obtained for payment of allowances to the staff of the Provincial Council. A sum of Rs.2.39 million out of administrative expenditure received to the Sabha Fund from the year 2011 to the year 2017 for carrying out development activities based on various provisions received from Government institutions had been paid by the Kurunegala Paradeshiya Sabha to 22 officers of the Sabha without the approval of the Governor.

- The Pompakele City Park with high biodiversity and natural swimming pool with natural water filter owned by the Ratnapura Municipal Council had not been properly maintained. As such, the water filter is inoperative at present and the swimming pool as well had become polluted and unusable. This Park with an initial extent of 56 acres, had been restricted only up to 35 acres in extent at present due to illegal constructions, resettlement of displaced persons and providing space facilities for Greater Ratnapura Water Project. Even though proposals had been made in the years 2012 and 2015 for the conservation of the said Park, the Sabha had failed to implement those proposals whatsoever, even by the end of the year 2018.

- The land of 05 acres in extent and the building, two Tennis courts and the Badminton court located therein with a high commercial value, situated at the centre of the city owned by the Ratnapura Municipal Council had been leased out to the Lawyers' Association in Ratnapura in November 2000 on long term basis for a period of 33 years at an annual lease rent of Rs.350 without proper valuation. Even though 18 years had lapsed by 30 September 2019, the lease rent had not been revised and no money whatsoever had been recovered as lease rental to the Sabha.

- The access road for the Thunkama Maha Vidyalaya, with 264.4 metres in length had been laid with concrete by spending Rs.1.92 million by the Ambilipitiya Pradeshiya Sabha under provisions of the Ministry of Provincial Councils and Local Authorities. The cement and granite layer of the surface of about 195 metres in length of the said road had come off and as such, a sum of Rs.1.42 million had been spent for the reconstruction of the said part.

- The penalty of Rs.1.52 million imposed on 08 August 2016 by the Assistant Commissioner of Excise, Ratnapura regarding the possession of 163,110 ml of foreign liquor, in the Balangoda Restaurant owned by the Balangoda Municipal Council on 21 May 2016, the Vesak Full Moon Poya Day for the purpose of selling, contrary to conditions of the license, had been paid by the Council on the basis of recovery from responsible parties. Even though cases had been filed against three defendants for the recovery of penalties from responsible parties, the Council had not taken action to include other charges including charges such as the sale of liquor on Vesak Full Moon Poya Day which was mentioned in the charge sheet of the Assistant Commissioner of Excise, as charges of the case.

- Arrears of rates as at 31 December 2018 of the Colombo Municipal Council amounted to Rs.3,203.55 million. Out of that, the value of arrears of rates relating to 753 properties exceeding Rs.500,000 had been Rs.1,507.22 million. It had been 47 per cent of the total arrears of rates. Moreover, the number of ratepayers who pay rates more than Rs.10.00 million, stood at 25 and despite having arrears of rates of Rs.349.50 million, no amount whatsoever had been paid by 19 persons of them.

- Sixty four houses had been constructed on the laundry land located at Paradise Place, Colombo 12 by spending Rs.200.86 million by 28 February 2016 by the Colombo Municipal Council. Action had not been taken even by 30 April 2019 to provide those houses for entitled residents and for low income and homeless people.

- The land of 01 Rood 4.1 perches depicted in the Plan No.4/89 at Hotel Road, Mount Lavinia, had been leased out by the Dehiwala Mount Lavinia Municipal Council to the Mount Lavinia Hotel for use as a motor vehicle park. The arrears of rental of the said property by 31 December 2018 had been Rs.5.12 million due to shortcomings of those agreements and those rentals could not be recovered from the lessee.

- The Public Salary Formulation System had been used for the formulation of salaries of the staff comprising 532 permanent and casual employees of the Anuradhapura Municipal Council. The misappropriation of salaries of Rs.40.85 million had been committed due to failure in proper administration of data base and in controlling input controls for entering persons names and basic salaries, no authority for extraction, failure in carrying out proper internal examination, non-maintenance of personal salary sheets, Widows' and Orphans' Pensions Register and Public Service Provident Fund Register.

- An office aide who has served in the Anuradhapura Municipal Council had transferred to Provincial Department of Engineering from 19 August 2013. The said transfer had not been recorded in salary registers and as such, a sum of Rs. 1.82 million had been paid as salaries and allowances by the Municipal Council for the period from September 2013 to June 2018.

- A waste recycling centre had been constructed by spending Rs.13.66 million in the year 2013 under provisions of the National Solid Waste Management Project of the Ministry of Provincial Councils and Local Authorities by the Mahiyangana Pradeshiya Sabha. The electricity connection as well had been obtained by spending Rs.18,846 in the year 2017. However, the said Project had not been commenced even by 31 December 2018.

- A motor vehicle park had been constructed by spending Rs.73.40 million in the year 2017 by the Badulla Municipal Council and 09 employees had been deployed therein and a computer operating system as well had been installed therein for the management of the said vehicle park. Even though about 170 motor vehicles can be parked therein per day, a number of 10-15 motor vehicles have been parked therein at present and a monthly revenue of approximately Rs.58,000 had been earned therefrom. An arrangement for directing motor vehicles which are parked improperly at various places in the city, to the said motor vehicle park, had not been made and as such, the entire capacity of the vehicle park could not be utilized.

- A building had been constructed and completed in June 2017 by spending Rs.29.25 million for the Hingurukaduwa sub-office under the Pura Neguma Project by the Badalkumbura Pradeshiya Sabha. However, the sub-office had not been established therein and furniture and office equipment valued at Rs.1.48 Million provided by the Project had remained idle.

- Seven stalls located at Haththi Kuchchi at a monthly rental of Rs.200 owned by the Giribawa Pradeshiya Sabha had been sold by the lessee at a cost of Rs.2.00 million without informing the Sabha.

Foreign Funded Projects

Failure in Settlement of Contractors’ Bills for completed Works

Non-utilization of Scientific Equipment distributed to Schools due to low quality

Non-presentation of Financial Statements of 18 Foreign Funded Projects

Foreign Funded Projects

According to the Annual Report of the Ministry of Finance for 2018, the Loans aggregating Rs 437 billion from domestic resources and other loans aggregating Rs 324 billion from foreign sources had been proposed to obtain for the purpose to settle the total Budget Deficit for the year under review amounted to Rs. 761 billion. The loans aggregating Rs 439 billion had been obtained in the previous year from foreign sources and it was a decline by 26 per cent of foreign loans obtained during the year under review.

During the year under review, 39 new foreign financial loan agreements had been entered into with Foreign Development Parties and with Lending Agencies and scheduled to obtain US$ 1,241.60 million in the forthcoming years . It included US$ 1,108.70 million to be received through 25 Loan Agreements and US$132.90 million to be received from other 25 Grant Agreements and expected to be used for developments of education and training ,environment, health and sanitary facilities and social infrastructural Development sectors .

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

There were 164 Foreign Funded Projects remained in the implementation stage by the end of the year under review and out of that the annual financial statements of 146 Foreign Funded Projects had been furnished to audit. The Loan Agreements entered in to with Indian Loan Scheme, Chinese Agencies and other bilateral loan schemes had not comprised with the clauses for the audit to be carried out compulsorily by the Auditor General as a result the financial statements of such Projects financial statements of the projects had not been furnished for audit. The details of the Foreign Funded Projects implemented by Foreign Development Partners and Lending Agencies is given in the Figure ------ below.

The performance of the Foreign Funded Projects

Power Section

For the purpose of improve the quality of services supplied in the power sector in Sri Lanka , 11 Foreign Funded Projects had been implemented during the year under review. However the physical Progress of such Projects were remained behind the targets as a result of separate Project monitoring Units had not been established for each projects .The Divisions of the Ceylon Electricity Board and the Sustainable Development Authority had implemented the components of such Projects separately. Further, there were no mechanisms establish to maintain a proper co-ordination between the Divisions and no separate recording system maintained to record the Plant, property and equipment procured by the Project. As a result, the financial and physical progress of the Projects was remained difficult. It was necessary to review the mechanism adopted by the Implementing Agencies to optimize the utilization of foreign loans invested through the above mentioned Projects to carry out development activities in the Power Sector. Further, the progress of the Projects implemented by the Ceylon Electricity Board for renewable energy absorption transmission development purposes had remained behind the target changed subsequently due to subsequent changes of the scope of the works and delays in the implementation of the activities of the Projects.

Highway Sector

It was observed that the progress of the many of Foreign Funded Projects implemented during the year under review by the Ministry of Highways & Highways Development and Petroleum Resources Development had remained behind the targets. The delays caused due the weaknesses of the contractors involved as well as the failures of the Line Ministry to take immediate actions to settle the bills presented by the contractors.

The Integrated Road Investment Program had been implemented since 2015 to rehabilitate 285 kilometres of the national roads and 3,038 kilometres of rural roads in the Southern, Central, Sabaragamuwa, North Western and North Central Provinces and Kalutara District in the Western Province. According to the progress reports, the rehabilitation works of 25 kilometres of national roads and 2,338 kilometres of rural roads in the respective Provinces had been completed as at 31 December 2018. Under the Part - 02 of the above mentioned Prpject, the road rehabilitation works of 400 kilometres of national roads and 3,750 kilometres of rural roads in the Northern, Eastern, Uva and Western Provinces were expected to be completed. However, the procurement activities thereon had remained at the initial stage as at 31 December 2018. The rural roads identified to be rehabilitated at the planning stage had been revised at the later stages and the delays of the works of the contractors etc had caused delays on slow progress of the activities of the Project.

Water Sector

As a common feature, the level of the physical progress of the Foreign Funder Projects implemented by the National Water Supply and Drainage Board was remained unsatisfactory. The reasons such as changes of the proposed plans at the later stages, delays in supply of water pipes and other equipment, tame taken to receive the approvals from the Road Development Authority and Local Authorities etc had caused delays to complete the works under many Projects on due dates.

The activities under Jaffna Kilinochchi Water Supply and Sanitation Project implemented to improve water supply and sanitation infrastructure for residents living in the Jaffna peninsula using Iranamadu Tank as the main source of water had been suspended due to strong protest of the people in the Iranamadu area. However, it was subsequently decided to transform the activities of the Project to desalinate sea water to fulfill the water requirement of people of Jaffna Peninsula. For that purpose the Asian Development Bank had agreed to finance under 02 new Loan Agreements No. 3603 SRI and No.3604 SRI of 15 December 2017 had been entered into with Asian Development Bank and increased the cost of the Project by US$ 120 million. However, the activities of the Sea Water Reverse Osmosis Plant had not been completed and as a result, 15 allied water towers and water transmission lines completed as at the end of the year under review were remained idle.

Urban Development Sector

The activities under the Metro Colombo Development Project and the Strategic Cities Development Projects implemented by the Urban Development Authority had remained very slow due to changes of the political policies thereon. As a result the additional expensed had to be incurred and the intended benefits had not been entertained by the citizens in the urban areas.

Out of the allocation of US$ 213 million equivalent to Rs.27,890.02 million made under the Metro Colombo Development Project implemented to improve the facilities within the Colombo Municipality and suburbs, only US$ 103.66 million equivalent to Rs.14, 890.18 million had been utilized as at 31 December 2018. The activities under the construction works of t. Sebastian Canal and Kollonnawa Canal, constructions of flood control gates at Thalangama and Bauddhaloka Mawatha on construction works of tunnels at Mutwal and Torrington Place had remained slow.

Education and Skill Development Sector

There were several Forein Funded Projects were in operation during the year under review for the development of primary and secondary education in the schools and technical education and action had been taken to promote infrastructure facilities to implement the Technology Stream of education in the schools under the Transforming the School Education System as the Foundation of a Knowledge Hub Project . However, the instances of school equipment distributed by the Project not receiving to the schools on scheduled dates, as a result of weakness of the distribution system and remaining such equipment unused due to shortage of school teachers, inadequate building facilities etc were observed in audit. Further, scientific equipment valued at Rs 13.07 million distributed to 45 schools in the Ratnapura district had not been used due to inferior quality. The supplier had not taken action to supply the computers valued at Rs 24.90 million to the Provincial English Education Centres on due dates.

According to the information made available, there were 10,284 students in the Special Education Units in 112 national schools and 704 provincial schools in Sri Lanka.. It was observed that 597 posts of qualified teachers to serve in the Special Education Units had remained vacant as at 31 December 2018 whilst deploying 158 teachers trained for special education purposes to teach other subjects. Further, 189 teachers trained for special education purposes had been assigned to the schools which do not have Special Education Units.

General Observations

It was observed in audit that the posts of the senior management levels of the Project Monitoring Units were remained constantly vacant and that fact was a major barrier to achieve the intended objectives of the Projects in efficient manner. The progress of the activities of the Strategic Cities Development Project, Greater Colombo Water and Wastewater Management Improvement Investment Programme, Rural Infrastructure Development Project were remained behind the performance targets due to vacant positions of Project Directors, Environment Officers, Land Acquisition Officer.

It was observed in audit that the financial statements are prepared and presented by the Project Monitoring Units on going concern basis eventhough the active period of the Projects were completed. That situation was arisen due to lack of proper instructions issued by the Ministry of Finance and Media on preparation of financial statement at the last year of the operations of the Project. Further, the Line Ministries had not taken action to carry out follow up reviews on usage of Plant Property and Equipment of the Project for intended purposes, after end the period of the Project and handing over to the respective Implementing Agency.

Banking	**Increase in the Nonperforming Loans and Advance Balance of the Bank of Ceylon, It Increases from 2.9 per cent to 3.6 per cent.** **Deterioration of the Market Share of the National Savings Bank from 13.7 per cent to 9.9 per cent** **Increase in the Fraudulent Money Withdrawals from the National Savings Bank** **Payment of PAYE Taxes of employees of the Housing Development Finance Corporation Bank and the Pradeshiya Sanwardhana Bank by the Banks**

Banking

Banking Sector consists of Licensed Commercial Banks (LCBs) and Licensed Specialized Banks (LSBs). By the end of 2018, the banking sector consisted of 26 LCBs and 7 LSBs. There were 13 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, 34 new branches were opened and 801 new ATMs were installed during the year 2018. Distribution of Banks and Branches by the end of 2018 is summarized in table 16

<table>
<tr><th colspan="2">Category</th><th>Banks</th><th>Branches</th><th>Student Saving Units</th><th>ATMs</th></tr>
<tr><td rowspan="2">LCBs</td><td>Domestic banks</td><td>13</td><td>2876</td><td rowspan="2">3309</td><td rowspan="2">4655</td></tr>
<tr><td>Foreign banks</td><td>13</td><td>51</td></tr>
<tr><td rowspan="3">LSBs</td><td>National Level Saving Banks</td><td>1</td><td>261</td><td rowspan="3">-</td><td rowspan="3">376</td></tr>
<tr><td>Housing Finance Institutions</td><td>2</td><td>64</td></tr>
<tr><td>Other LSB’s</td><td>4</td><td>371</td></tr>
</table>

Table 16 - Distribution of Banks and Branches by the end of 2018
Source – Central Bank of Sri Lanka (Revised or Provisional Data)

Assets

The banking sector asset base surpassed Rs. 11 trillion by end of 2018; with year-on-year growth reaching 14.6 per cent by end 2018 from 13.8 per cent by end 2017.The asset portfolio mainly consisted of loans and advances, which accounted for 65.2 per cent of the banking assets. Assets of the main two state banks, Bank of Ceylon and People’s Bank were Rs.2,268 billion and Rs.1,735 billion respectively which accounted for 33.9 per cent from the total assets of the banking sector.

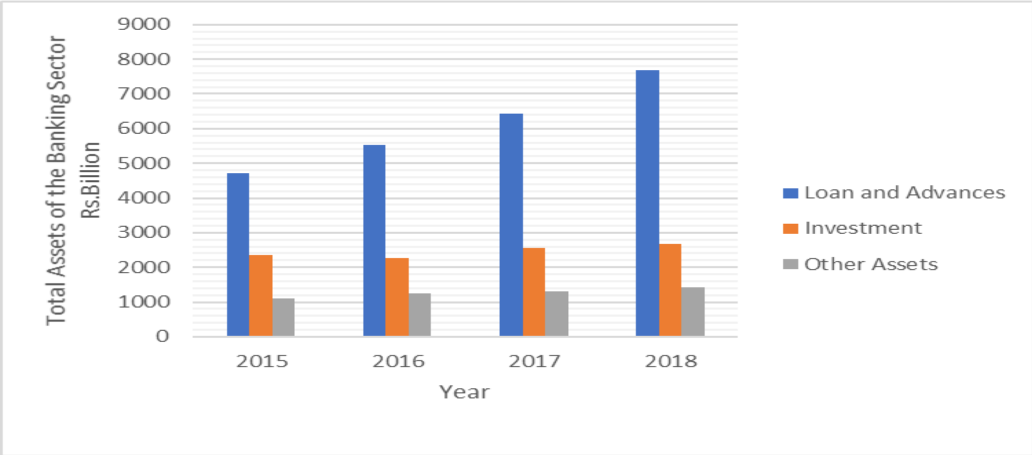


Diagram 38 –Total Assets of the Banking Sector
Source – Central Bank of Sri Lanka (Revised or Provisional Data)

Non - Performing Loans (NPL)

The overall NPL ratio of the banking sector increased from 2.5 per cent at end 2017 to 3.4 per cent at end of 2018. NPLs of the main two state banks, Bank of Ceylon and People's Bank were Rs.53.75 billion and Rs. 31.47 billion respectively by end of 2018 and accordingly NPL ratio reported as 1 per cent and 2.48 per cent respectively showing lower ratios than banking sector at the end of 2018.
Diagram 39 Non – Performing Advances of the Banking Sector

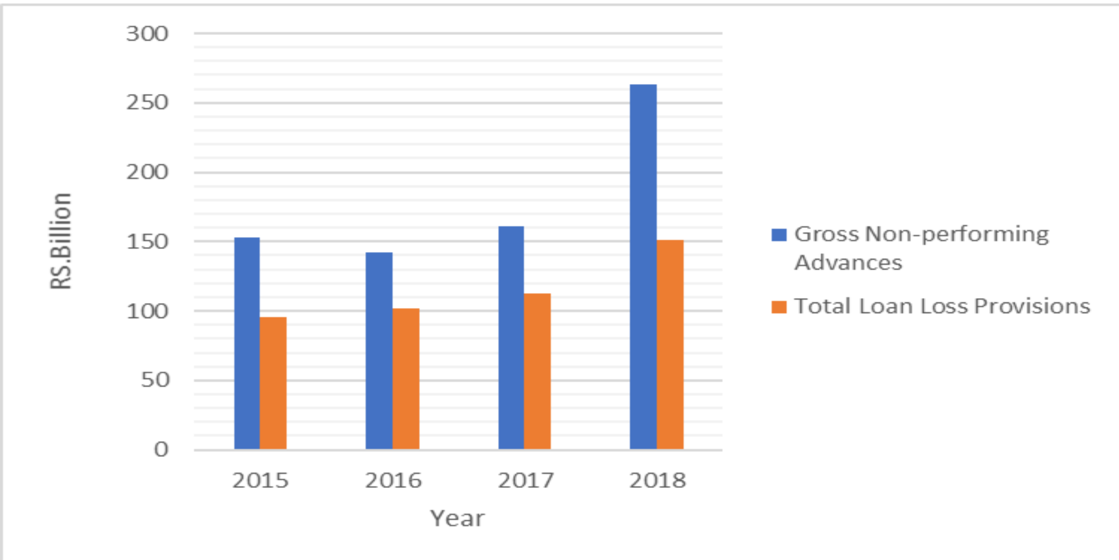


Diagram 39 - Non – Performing Advances of the Banking Sector
Source – Central Bank of Sri Lanka (Revised or Provisional Data)

Liabilities and Capital

The customer deposits continued to be the major source of liabilities which accounted for 72 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.1,765 billion and Rs.1,423 billion respectively as at the end of the year 2018 which accounted for 37.5 per cent from the total deposits of the banking sector. Total borrowings of the banking sector increased significantly by Rs.156.3 billion (9.7 percent) in 2018 compared to the decline of Rs.89.3 billion (negative growth of 5.3 per cent) in 2017.This increase in 2018 was mainly due to the increase of Rupee borrowing which grew by 23.7 per cent (Rs.142.3 billion) in 2018.Borrowing of the main two state banks were Rs.237 billion.

Diagram 41 – Liabilities and Capital of the Banking Sector

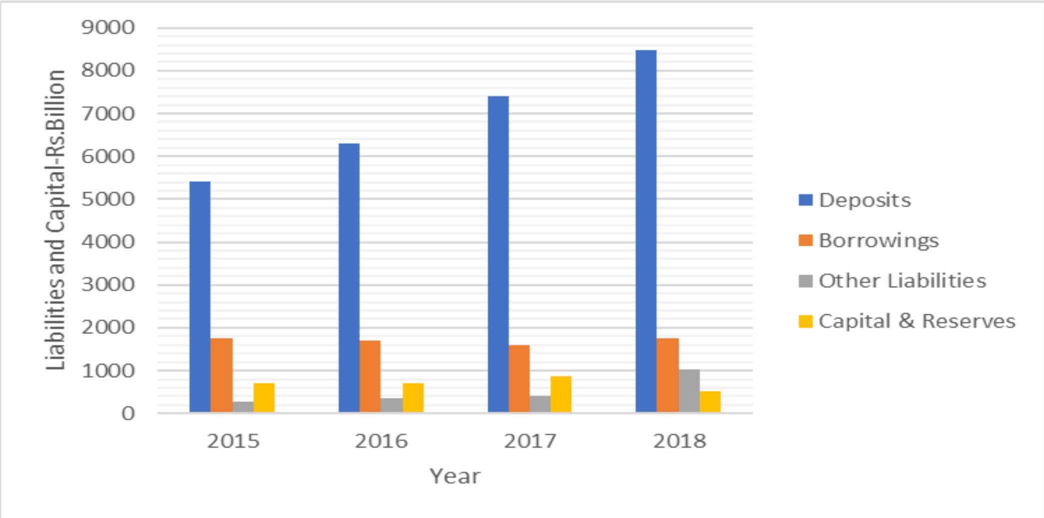


Diagram 41 – Liabilities of the Banking Sector
Source – Central Bank of Sri Lanka (Revised or Provisional Data)

Deposit

The deposit base of the banking sector increased by Rs.1, 100 billion during the year reaching Rs.8, 500 billion at end 2018.The share of time deposits in total deposits had increased to 65.5 percent at end 2018 compared to 63.6 percent at end 2017.Time Deposits of the main two state banks totaled Rs.1,743 billion by the end of 2018.

Diagram 41 Deposits of the Banking sector

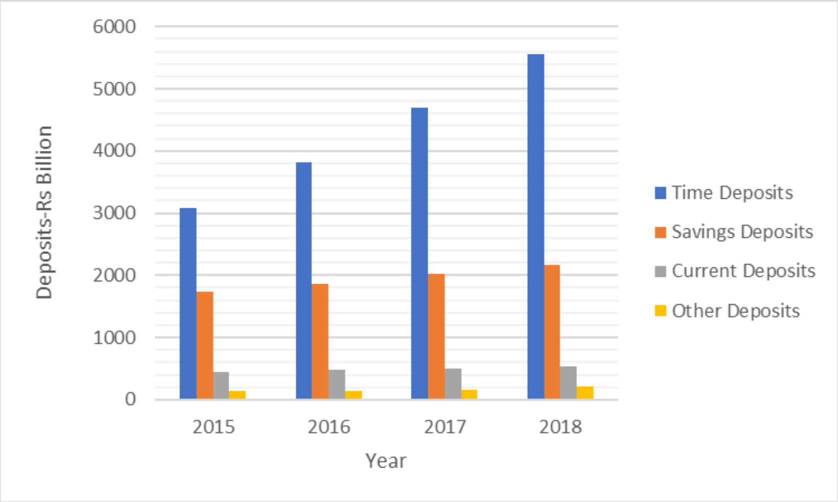


Diagram 41 – Deposits of the Banking Sector
Source – Central Bank of Sri Lanka (Revised or Provisional Data)

Central Bank of Sri Lanka

The Central Bank of Sri Lanka (CBSL) was established under the Monetary Law Act No.58 of 1949 as amended, as the apex authority responsible for the administration, supervision and regulation of monetary, financial and payment system of Sri Lanka. Central Bank of Sri Lanka is charged with the objectives of securing economic and price stability and financial system stability with a view to encouraging and promoting the development of the productive resources of Sri Lanka.

The Monetary Board of the CBSL shall endeavor so to regulate the supply, availability, and cost of money as to secure, so far as possible by action authorized by the Monetary Law Act to determination of domestic monetary policy for domestic monetary stabilization. The changes in money supply are a primary causal factor affecting price stability. Price stability is to be achieved by influencing changes in broad money supply which is linked to reserve money through a multiplier.

Reserve money is the operating target of monetary policy. The main monetary policy instruments currently used are policy interest rates, open market operations (OMO) and the statutory reserve requirement (SRR) on commercial

bank deposit liabilities. Policy rates such as Standing Deposit Rate and Standing Lending Rate had been increased to 8 per cent and 9 per cent from 7.25 per cent and

8.75 per cent respectively during the year 2018.

Reserve money expanded only by Rs.21.3 billion to

Rs.961.1 billion during 2018, compared to an expansion of Rs.83.6 billion recorded in 2017. Commercial banks' deposits with the Central Bank, which recorded a cumulative increase of Rs.43.1 billion the first ten months of 2018, subsequently contracted by Rs.64.7 billion in the months of November and December 2018, with the reduction in SRR to 6 per cent from 7.5 per cent effective mid November 2018.

Assets side of the reserve money consists of Net Domestic Assets (NDA) and Net Foreign Assets (NFA) of the Central Bank. As per the assets side of reserve money, the growth of reserve money was entirely due to the expansion in Net Domestic Assets of the Central Bank. NDA of the Central Bank was increased by Rs.116.9 billion in 2018 in comparison to a sharp decline of Rs.203.9 billion in the previous year. The expansion in NDA of the Central Bank was the result of a significant expansion in credit extended to the government on a net basis by the Central Bank, reflecting an increase in the Treasury bill holding of the Central Bank.

The external value of the Sri Lankan rupee continued to depreciate in 2018. The rupee depreciated by 16.4 per cent against the US dollar from Rs.152.85 as at the end of 2017 to Rs.182.75 as at the end of 2018. Depreciation of rupee against US dollar was 2 per cent from Rs.149.8 to Rs.152.85 during the year 2017.

Other major currencies depreciated against the US dollar in line with the broad based strengthening of the US dollar, amidst rate hikes by the US Federal Reserve Bank. Accordingly, the Exchange rate of the Sri Lankan rupee depreciated against the Euro by 12.68 per cent, the Indian Rupee by 8.72 per cent, the Japanese Yen by 18.05 per cent and the Sterling Pound by 11.35 per cent.

The financial sector continued to expand moderately during the year without causing any major macro prudential concerns, amidst challenging market conditions both globally and domestically. However, credit quality of the banking sector and the Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) sector deteriorated considerably during 2018 with increased non performing loans and advances compared to 2017.

Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) sector comprised of 43 LFC s and 5 SLCs at end 2018. However, Licenses of Central Investments and Finance PLC (CIFL) and The Standard Credit Finance Limited (TSCFL) had been cancelled by the Monetary Board of the Central Bank of Sri Lanka with effect from 5 March 2018 and 25 July 2018 respectively due to financial problem and liquidity crisis of those companies.

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

Total deposit balance of Central Investments and Finance PLC (CIFL) and The Standard Credit Finance Limited (TSCFL) at the time of cancellation the licenses were Rs.3,966.39 million and Rs.2,656.12 million respectively. Out of this, the eligible compensation payable to depositors of CIFL and TSCFL was Rs.1,656.71 million representing 15,126 depositors and Rs.1,235,91 million representing 6,793 depositors respectively. Accordingly, a sum of Rs.597.61million (36 per cent) had been paid as compensation as at 31 December 2018 to depositors of CIFL. However, No compensation had been paid to depositors of TSCFL as at 31 December 2018.

With the implementation of Sri Lanka Financial Reporting Standard (SLFRS) 9: “Financial Instruments”, financial reporting of financial assets and liabilities of all entities for annual periods beginning or after 1 January 2018, was in line with the new Accounting Standard. Accordingly, licensed banks are required to provide for loan losses under the expected credit loss approach instead of the previous incurred loan loss approach.

Bank of Ceylon

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

The mission of the Bank is to provide highly efficient, customer focused, technologically sophisticated, resilient and innovative financial services to the Nation with global access, empowering employees and enhancing value to the stakeholders.

To achieve the above mission, the Bank has distributed their services through 577 branches, 281 CDM machines and 776 ATM machines by the year 2018. In addition, 8,724 numbers of staff had been involved.

Bank

According to the financial statements presented, total interest income of the Bank had been increased by 14 per cent or from Rs. 171,344 million to Rs. 195,394 million during the year 2018. Total loans and advances had been increased by 22.9 per cent or from Rs. 1,163,161 million to Rs. 1,429,107 million as at the end of the year under review compared with the previous year. In addition, total deposit base of the Bank had been increased from Rs. 1,546,832 million to Rs. 1,765,026 million at the year end.

The operations of the Bank had recorded a pre-tax net profit of Rs. 41,480 million for the year under review as compared with the corresponding pre-tax net profit of Rs. 37,592 million for the preceding year, thus indicating an increase of Rs. 3,888 million or 10.3 per cent in the financial results. Return on Average Asset (ROAA) and Return on Average Equity (ROAE) had been decreased by 0.2 and 4.1 per cent respectively when compared with previous year.

Further, in the local banking sector, Fitch Ratings Lanka Limited reaffirmed the Bank’s National Long Term Rating as “AA+ (lka) with stable outlook” and ICRA Lanka Limited awarded a credit quality rating as “(SL) AAA with stable outlook” during the year 2018.

Group

Group reported a profit of Rs. 42.2 billion for the year 2018 representing a 10.6 per cent increase as compared with the previous year. Total assets base of the Group had been increased up to Rs. 2,313 billion as at the end of year representing 15.7 per cent increase as compared with previous year end. Gross Loans & advances and total deposits had been increased by 23.3 per cent and 13.9 per cent respectively compared with the year 2017 and the group was able to maintain Non performing loans ratio at a rate of 1.3 per cent. The Group also passed Rs.1 trillion milestones in customer loans & advances during the year 2018.

Regulatory requirements on licensed banks necessitate the maintenance of a Tier I (core) Capital Adequacy Ratio (CAR) of not Less than 5 percent and an overall CAR of not less than 10 percent. As at the end of December 2018, the Bank's Tier I declined to 10.4 per cent from 10.9 per cent and an overall CAR increased to 14.6 per cent from 14.5 compared with the preceding year.

Peoples Bank

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

People's Bank operates with 738 Branches Island wide as at the end of the year 2018. In addition, 256 ATMs, 111 CDMs and 97 Kiosks were installed during the year while 108 express banking centers and 2 service centers were also established in year 2018. Total deposits base of the Bank was expanded by Rs.179 billion or 14.4 per cent during the year reaching to Rs.1,423 billion by the end of the year 2018.

Total assets base of the Bank was expanded by Rs.267.7 billion or 18.2 per cent surpassing Rs.1,734.7 billion by end of December 2018. The increase in assets was mainly attributed to increase in loans and receivables to other customers of Rs.253 billion. The asset quality of the Bank declined during the year recording the non performing loan ratio of 2.5 per cent compared to 1.9 per cent reported in 2017.

Bank reported the profit before tax of Rs.24.4 billion which was 5.8 percent decrease against the previous year. However, net interest income of the Bank was Increased by Rs.9.6 billion or 19.1 per cent compared to year 2017.

The capital adequacy ratios of the Bank demonstrated an increasing trend, and continued to be a level higher than the minimum regulatory requirements. The Core Capital Adequacy ratio and total Capital Adequacy Ratio stood at 11.02 per cent (minimum 8.875 per cent) and 14.47 per cent (minimum 12.875 per cent) respectively at the end of 2018.

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 two new branches during the year 2018 and accordingly total branches stood at 255 at the end of the year 2018. Total deposit base of the Bank was expanded by Rs.102 billion or 14 per cent during the year reaching to Rs.840 billion by the end of the year 2018.

Total asset base of the Bank was expanded by Rs.27 billion or 3 per cent during the year reaching to Rs.1,037 billion by end of December 2018. The increase in assets was mainly attributed to increase in loans and advances of Rs.49 billion which was primarily funded by a growth of deposit of 14 per cent during the year. The asset Quality of the Bank improved during year recording the Non performing loan ratio of 1.34 per cent compared to 1.44 per cent reported in 2017.

Bank reported the profit before tax of Rs.8 billion which was 44 per cent decrease against the previous year. The decrease in net interest income, net gain from trading, net operating income and increase in personal expenses were the main reasons for the deterioration.

The net interest income had decreased by Rs.249 million or 1 per cent as compared with the previous year due to non-consideration of notional tax relating to the nine month period in 2018 and increase of cost of deposit due to increase in fixed deposit interest rates.Net gain from trading had also declined by Rs.1,914 million or 159 per cent due to declining the fair value of equity and government security portfolio of the Bank. The net operating income has declined by Rs.630 million or 37 per cent compare to the previous year due to non-declaration of dividend by NSB Fund Management Company (A Fully owned Subsidiary of the NSB) for 2018. Personal expenses of the Bank had increased by Rs.2,376 million or 35 per cent due to salary increments granted to employees as per the collective agreement with effect from 1 January 2018 and absorption of some contract basis employees in grade VI and VII into the permanent cadre during the year 2018

The capital adequacy ratios of the Bank are higher than the minimum regulatory requirements. The core capital adequacy ratio and total Capital Adequacy Ratio stood as 13.3 percent (minimum 10%) and 16.1 per cent (minimum 14%) respectively. The deposit based market share of the Bank compared to the Licensed Specialized Banking Sector had decreased by 1.8 per cent.

Fitch Rating has revised the National Long-Term Rating of NSB to ‘AA+(lka)’ from ‘AAA(lka) in February 2019 following the recalibration of the Sri Lankan National Rating scale after the sovereign’s Long-Term-Foreign-Currency Issuer Default Rating was downgraded to “B” from “B+” with a Stable Outlook on 3 December 2018. However, the Bank has been assigned (SL) AAA with Stable Outlook by ICRA Lanka Limited on June 2019.

The Bank has received 8 awards namely “Silver award – State Banks by CA Sri Lanka”, “Most Improved Integrated Report and among top 10 best Integrated Report by CMA Sri Lanka”, “Best Integrated Report in State Owned Enterprises by CMA Sri Lanka”, “Bronze award written text Savings and Loans – ARC award competition”, “Bronze award Interior design - Savings and Loans – ARC award competition”, “Bronze award Non-trading annual report-Savings and Loans-ARC award competition” and “Silver award-cover photo design-Savings and Loans-ARC award competition” for the Bank’s Annual Report - 2017.

The Bank won another two website awards namely “Most popular corporate website award” at the bestweb.lk 2018 competition organized by LK Domain Registry and “1st runner up award” under the best website category in Financial Sector at “SLT Zero One Award for Digital Excellence 2018”.

State Mortgage and Investment Bank

State Mortgage and Investment Bank is a government owned bank which was incorporated in State Mortgage and Investment Bank Law No. 13 of 1975 and amended thereto and according to Section 2 of the Law, the purpose of the Bank shall be to assist in the development of agriculture, industry and housing by providing financial and other assistances in accordance with the provisions of this law.

The total deposits of the Bank as at 31 December 2018 was surpassed Rs.34 billion and it was an increase of 1.9 per cent compared with the previous year. Total assets of the Bank expanded by Rs.0.6 billion or 1.4 per cent and it was surpassed Rs.43 billion as at 31 December 2018. The increase in assets was mainly attributed due to increase in loan and advances by Rs.1.2 billion compared to the preceding year.

The Bank reported the profit before tax of Rs.480 million which was 27 per cent increase against the previous year result. Further, net interest income of the Bank increased by 304 million or 19 per cent compared with the previous year.

The total capital adequacy ratio of the Bank was decreased by 2.05 per cent compared to the previous year and it was 22.24 per cent as at 31 December 2018. The non-performing loan ratio was decreased by 1 per cent compared with the preceding year and it was 22 per cent as at 31 December 2018. Total Deposits was increased by Rs.652 million compared to the preceding year and it was Rs.34,272 million as at 31 December 2018.

Housing Development Finance Corporation Bank

Housing Development Finance Corporation Bank (HDFC) 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 there is to become the undisputed market leader in providing housing related finances; to realize the dream of shelter for all in Sri Lanka.

HDFC Bank had not established new branches in the year 2018 and accordingly total branches stood at 39 at the end of the year 2018. In addition, Loans granted were expanded to Rs. 37.9 billion in 2018, compared to Rs.34.9 billion in 2017 which was an increase of 8.4 per cent. Hence, interest income during the year was increased by 1 per cent, reaching Rs.6.68 billion, from Rs. 6.61 billion in the previous year. Further, the Bank expanded its deposit base from Rs. 36.65 billion to Rs. 37.02 billion during the year and it was reported as 1 per cent increase.

Total assets of the Bank had declined to Rs. 49.28 billion, from Rs. 49.72 billion in 2017 and Bank's total assets declined by Rs.440 million, due to the strategic decision to reduce the low yielding investment portfolio and liquid assets. Non-performing loan ratio of the Bank had increased from 18.2 per cent in year 2017 to 20.46 per cent in year 2018.

Bank had reported the profit before tax of Rs.629 million in 2018 which was 6.79 per cent increase against the previous year. Further, net interest income of the Bank increased by Rs.367 million or 19.59 per cent compared to year 2017.

The Core Capital Ratio (Tier 1) was 16.41 per cent as against the regulatory requirement of 7.87 per cent. However, As per the Central Bank (CBSL) direction No. 02/17/402/0073/002, issued in conjunction with the Master Plan on Consolidation of the Financial Sector dated 17 January 2014, the Bank should maintain Rs. 5,000 million as its core capital balance as on 1 January 2019. The Central Bank has granted a further extension of six months to comply with this direction in consideration of the ongoing proceedings to obtain government approval to the proposed source of the long term capital qualified as core capital under the Basal 111 guidelines.

Pradeshiya Sanwardhana Bank

Pradeshiya Sanwardhana Bank, as a state owned Licensed Specialized Bank was established in Sri Lanka with the amalgamation of six provincial development banks in 2010 by Pradeshiya Sanwardhana Bank Act No.41 of 2008. The objective of the Bank in terms of Section 6 of the Act shall be to facilitate the overall regional economic development of Sri Lanka by promoting the development of agriculture, industry, trade, commerce, livestock, fisheries activities and empowerment of women, mainly by granting financial assistance to Micro Finance Institutions and Small and Medium Enterprises.

Total branches of the Bank stood at 265 at the end of the year 2018. Total deposit base of the Bank expanded by Rs.1.7

billion or 1.2 per cent during the year reaching to Rs.141.6 billion by the end of the year 2018. Total asset base of the Bank expanded by Rs.7.7 billion or 4.5 per cent surpassing Rs.176.9 billion by end of December 2018. The increase in assets was mainly attributed to increase in loans and receivables from other customers by Rs.5.9 billion. However, asset quality of the Bank had been decreased during year recording a Gross Non performing loan ratio of 5.40 per cent as compared with 3.27 per cent reported in 2017. Bank reported the profit before tax of Rs.2.1 billion which was 4 per cent decrease against the previous year. However, Net interest income of the Bank increased by Rs.2.2 billion or 23 per cent compared to year 2017.

The Bank has maintained minimum Capital Adequacy Ratio as at 31 December 2018 and accordingly, the Tier I capital adequacy ratio and total CAR stood as 11.58 per cent (minimum 7.875%) and 13.61 per cent (minimum 11.875%) respectively. Further, Pradeshiya Sanwardhana Bank has acquired 100 per cent equity stake in Lankaputhra Development Bank in line with the government budget proposal of the year 2016 thereby proposed to Lankaputhra Development Bank to be merged with Pradeshiya Sanwardhana Bank for a purchase consideration of Rs.4.176 billion. Purchase consideration was settled by way of new share issue in favour of General Treasury with effect from 31 December 2018.

Lankaputhra Development Bank

The Lankaputhra Development Bank Limited, was a fully government owned public limited liability company incorporated in Sri Lanka under the provisions of Companies Act and a Licensed Specialized Bank established under the provisions of Banking Act No.30 of 1988 with a vision to be the vibrant facilitator of economic and social development in Sri Lanka. Pradeshiya Sanwardhana Bank has acquired 100 percent equity stake in Lankaputhra Development Bank in line with the government budget proposal of the year 2016 thereby proposed to Lankaputhra Development Bank to be merged with Pradeshiya Sanwardhana Bank for a purchase consideration of Rs.4.176 Billion. Purchase consideration was settled by way of new share issue in favour of General Treasury with effect from 31 December 2018.

Total branches of Lankaputhra Development Bank stood at 8 at the end of the year 2018. Total deposit base of the Bank had been decreased by Rs.77.7 million or 19 per cent during the year. Total asset base of the Bank expanded by Rs.244 million or 2.6 per cent. Loans and receivables to customers have been decreased by Rs.404 million or 12.9 per cent as at the end of year 2018. Further, asset quality of the Bank had been decreased during year recording a Gross Non performing loan ratio of 46.5 per cent as compared with 37.2 per cent reported in 2017. Bank reported the profit before tax of Rs.297.5 million for the year 2018 as compared with the profit before tax of Rs.298.1 million for the year 2017.

The Bank has maintained well above the minimum Capital Adequacy Ratio as at 31 December 2018 and the Tier I capital adequacy ratio and total Capital Adequacy Ratio stood as 95.09 per cent (minimum 7.875%) and 95.76 per cent (minimum 11.875%) respectively.

The Sri Lanka Savings Bank Limited

The Sri Lanka Savings Bank Limited (SLSBL) was established in July 2006 under the Banking Act and incorporated under the provision of the Companies Act mainly with the purpose of provide relief to the depositors of the failed Pramuka Savings and Development Bank (PSDB). The Sri Lanka Savings Bank commenced its business in 2008 as a state owned Licensed Specialized Bank. The Bank merged with National Development Trust Fund (NDTF) Company in the year 2010.The major operations of the Bank include deposit mobilization, loan granting, leasing, hire purchase and pawning.

Total deposit base of the Bank expanded by Rs.11 million or 1 per cent during the year reaching to Rs.1,089 million by the end of the year 2018. Loan and advances of the Bank decreased by Rs.272 million or 6 per cent during the year under review while the Repo and fixed deposit investments are increased by 95 million or 2 per cent compared with the previous year.

Bank reported the profit before tax of Rs.488 million which was 19 per cent decrease against the previous year. Reduction of other operating income, higher personnel and other expense and increase in VAT, NBT, and being liable to income tax with effect from 1 April 2018 were the main reasons for this decrease.

The gross non performing advance ratio of the Bank excluding non-performing customers of PSDB for the year ended 31 December 2018 was 11 per cent which is higher than Licensed Specialized Banking sector average ratio of 4.8 per cent.

The total Capital Adequacy Ratio of the Bank stood at 89.9 per cent as at 31 December 2018 while the minimum requirement is 12.5 per cent.

Major Audit Findings

Central Bank of Sri Lanka

- The distributable profit for the year under review was nil as determined in terms of Sections 38 and 41 of the Monetary Law Act No.58 of 1949 and profit distribution policy of the Bank. Accordingly, no any amount could have been distributed to the Consolidated Fund. However, a sum of Rs.15 billion had been distributed to the Consolidated Fund out of the distributable profit in the preceding year.
- The Bank had unveiled the Master Plan on Financial Sector Consolidation on 17 January 2014 with the objective of developing a strong Banking/ Non-Banking Financial Institutions sector with enhanced resilience to internal and external shocks in order to cater to the growing demands of the economy. Accordingly, the Consolidation Plans with 19 institutions including Banks, Financial companies and Leasing companies had been completed as at 31 March 2018 by spending Rs.74 million. However, the Consolidation Plans with 14 institutions had not been completed even up to the end of March 2019, though the Bank had incurred a sum of Rs.53 million in this regard. In addition to the above expenditure, the Bank had incurred an additional sum of Rs. 59 million for preparing Information Memorandum, Due Diligence, Valuation reports and other matters relating to 20 Institutions which were not included in the above Consolidation Plan.
- As per the Finance Leasing Act, No.56 of 2000, duties of lessors, lessees and

supplier are described from the clause number 11 to 31. As per the clause number 11, only right of the Lessee is the undisturbed and peaceful possession of the equipment provided to the lessee under a finance lease. As per the clause number 15, upon the expiration of the period of a finance lease, the lessee shall return the equipment to the lessor in the condition in which it was delivered to the lessee subject to fair wear and tear and to any modifications agreed to by the parties to the finance lease. As per the clause number 20, at any default of the lessee, the lessor has right to recover possession of the equipment provided and recover such damages as would place the lessor in a position the lessor would have been if the lessee had complied with the provisions of the finance lease. As per the provisions included in the Act, the all benefits such as possession of the equipment, recovered money and if any recovered damages whether or not the lessee has paid the due amount as scheduled under finance lease are entitled to the lessor and overall responsibilities under finance lease are assigned to the lessee. Therefore, it may be required to review the Act for identifying the necessity to do any amendments to the Act.

- The Licensing, Regulation and Supervision of Companies carrying on Microfinance Business are carried out by the Monetary Board of the Bank under the Microfinance Act, No 06 of 2016 with effect from 15 July 2016. Companies which are accepting deposits and providing financial services mainly to low income persons and micro enterprises (Micro Finance Business) should obtain a license under the Act. Accordingly, only two companies had obtained the licenses to carry on microfinance business from the effective date of the aforesaid Act to 9 May 2019. Companies which are not accepting deposits but providing financial services to low income persons and micro enterprises in the country do not require obtaining a license under the Act. Therefore, those companies are not licensed, regulated and supervised by the Monetary Board of the Bank under the Act.

- The Bank had entrusted the management of a particular primary dealer company to the National Savings Bank on 04 January 2016. Unrecoverable amount of investment with accrued interest to the Customers due to Security shortage for repurchase transactions was Rs.7.2 billion as at 04 January 2016. Out of total irrecoverable amount, Rs. 2.1 billion was appeared to be irrecoverable to the four departments of the Central Bank which handle internal funds.
- Section 2.2 of Lanka settle System Rules version 2.1 (2013) which was issued for the operations of the Lanka Settle System by the Bank states that fines can be imposed against Primary Dealers when a Primary dealer violates rules and regulations that they are required to follow. However, fines had not been imposed against any Primary Dealer as the Bank was unable to enforce the System Rules. The Monetary Board instructed the Public Debt Department of the Bank in September 2015 to develop an appropriate framework to impose fines against Primary Dealers who act against the interest of customer. However, such appropriate framework had not been developed even up to the end of March 2019.

Peoples Bank

- According to the direction 4(5) dated 8 May 2008 issued by the Central Bank of Sri Lanka (CBSL) when multiple credit facilities are granted to a single borrower and if the aggregated amount of outstanding classified as non-performing loans (NPL) exceeds 30 per cent of the total credit granted to the customer the total credit facilities extended to such borrower need to be classified as NPL .However, several customers were not classified as NPL according to the said instructions.

- Bank had not collected Value Added Tax (VAT) on some revenue items and as a result of that the Bank had to bear an output tax of Rs.19,412,393. Thereby it is recommended to check the mapping of revenue accounts with VAT payable.
- According to the Bank Circular- No. 614/2007(4), Temporary Overdrafts (TOD) should be recovered without any delay. However, several instances with delays were noted in recovering the TOD facilities.
- According to the CBSL Direction No.03 (4.1 (xi)) of 2009 dated 01 September 2009, all Licensed Commercial Banks are required to maintain a real time monitoring system for the monitoring of all deals done by the dealers at the front office to ensure the dealers do not engage in excess of their delegated dealer limits. However, treasury limits of the Bank have been input to the Finnacle Treasury System and due to absence robust online monitoring system in the Bank. Monitoring is done during the day at frequent intervals or on the following day.

Bank of Ceylon

Loans and Advances

- Gross loans and advances granted by the Bank as at 31 December 2018 was Rs. 1,510,534 million compared with previous year balance of Rs.1,219,914 million indicating an increase of 23.8 per cent. The main reason for the aforesaid increase is the rise of overdrafts during the year under review. Out of the above balance, a sum of Rs. 1,136,530 million or 75 per cent of total outstanding had consisted with term loans, overdrafts and personal loans. An increasing trend had shown in all loans and overdrafts and it was 64 per cent improvement during the year 2018.
- The total non-performing loans and advances as at 31 December 2018 was Rs. 53,753 million as compared with the said value of Rs. 34,261 million for the year 2017 and showing an increase of 57 per cent. Non-performing Loan ratio of the Bank had increased from 2.9 percent to 3.6 per cent in year 2018 compared with the previous year.
- Further, it was identified that Corporate, Second Corporate branches and Offshore Banking Division had reported highest non-performing amounts totaling to Rs. 20,636 million as at the end of the year 2018 and it is

38 per cent of the total non-performing loans and advances of the Bank. In addition to that, Second Corporate branch was handling Non performing advance totaling of Rs. 5,354 million.

- It was observed three highest non-performing customers amounting to Rs. 2,738 million, Rs. 1,532.48 and Rs. 1,455 million respectively as at the end of the year 2018 and it is 15 per cent of the total non-performing loans and advances of the Bank.

Banking

Written off loans & advances

The total capital part of the loan written off in the year 2018 was Rs. 40 million and it represents 2,843 customers of the Bank. Interest related to above outstanding was Rs. 53 million. Out of the above, capital part of Rs. 26 million and interest of Rs. 40 million were related to the Recovery Provinces Unit and capital part of Rs.14.8 million and interest of Rs.12.5 million were related to Recovery Corporate Unit.

National Savings Bank

- Though total deposit base of the Banking Sector had improved by 228 per cent from year 2010 to 2018, NSB achieved a growth of only 136 per cent during the said period. Therefore, the market share of NSB has deteriorated from 13.7 per cent in 2010 to 9.9 percent in 2018. Market share of NSB with compare to the licensed specialized banking sector also deteriorated from 82.1 per cent in 2010 to 77.4 per cent in 2018.
- Receivable amount to the Bank from fraudulent withdrawals as at 31 December 2018 is Rs.110.5 million and this indicates Rs.15.7 million or 16.6 per cent increase compared to the previous year. The fraud occurred in Head office Branch in 2018 mainly causes to increase this receivable balance. Out of the above balance, a sum of Rs.85 million had remained outstanding for more than one year and a sum of Rs.29 million had remained outstanding for over five years period.

- Out of 5,406 number of approved cadre of the Bank, the cadre approved for the Staff Assistant and Office Assistant posts were 2,066 and 563 respectively. Accordingly 48.6 per cent of the total cadre was allocated for the above posts. The recruitments to the above posts are done by using a list forwarded by the ministry and management, without publicly calling applications from qualified candidates. Therefore, it was observed that it is unfair for the whole masses who are seeking jobs in the Sri Lankan job market.

State Mortgage and Investment Bank

- The credit division of the Bank during the period from 01 September 2016 to 31 March 2017 had granted loans amounting to Rs.68.34 million to fourty seven (47) applicants who were presenting themselves as the employees of two fake private organizations. It was revealed that the applicants presenting themselves as employees of the two fake organizations had submitted forge documents in applying for respective loans. Total amount of above loan was included in the non-performing loan balance at 31 December 2018.

- The Bank had spent Rs.1.16 million for the Partition and construction works of the Kiribathgoda branch in March 2017. However, the branch has shifted into a new premises in January 2018 just after nine month the completion of the partition work. Therefore, the expense incurred for the partition became a fruitless expenditure.

- Even though a sum of Rs.38,312,700 had been paid as rental for the Head Office building for the year under review, most of the facilities such as office and parking space, wash room, lunch room, stores, wiring systems etc. of the building are not in a satisfactory level as the building is very old. However, the Bank had failed to obtain an insurance coverage as per provisions in the rent agreement. Hence, the staff, assets and customers' safety is at a risk.

Housing Development Finance Corporation Bank

- A sum of Rs.75.14million was shown in the Special Interest Scheme on Fixed Deposits of Senior Citizens subsidy receivable account and out of that, Rs.41.19 million or 55 per cent outstanding for over one year without being recovering from government.

- Contrary to the Public Enterprises Circular No. PED 03/2016 of 29 April 2016, the Bank had paid Pay As You Earn (PAYE) tax amounting to Rs. 22.39 million for the year 2018 out of its own funds on behalf of its employees instead of being deducted from the salaries of the respective employees.
- According to the Board Paper No. 09/188/2015, the Bank had planned to gain potential estimated annual return of 15 per cent per annum from the Ceybank Unit and manage the assets and liability maturity gap. However, no return had been received since the year 2015 for the investment of Rs.25million. Further, it was observed that market value of the unit trust was significantly deteriorating during last 3 years when compared with initial investment price of Rs.10. The market rate of the unit trust for the year end was Rs.7.50.
- 37 loans amounting to Rs.57.17million were in arrears without any secondary recovery option to the Bank due to the unavailability of security and they were categorized as under watch states which have risk of subsequently becoming to non-performing states.
- 808 loans valued at Rs. 282.27million had been granted during the year 2018 which were transferred to non performing category due to non-repayment of single installment and out of that, 798 loans valued to Rs.264.03million or 93.6 per cent were represented by EPF Loans.
- 280 loans valued at Rs.107.92million granted during the year 2018 were transferred to non performing category due to non-repayment after the settlement of first installment and out of that, 274 loans amounted to Rs.107.48million or 99.6 per cent were represented by EPF Loan.

Pradeshiya Sanwardhana Bank

- Contrary to Procurement Guideline reference No.2.1.1 and Public Finance Circular PF/429(i), Bank has used its own developed procurement manual without obtaining approvals from Director General of Public Finance.
- Contrary to the Section 114 of Inland Revenue Act, No. 10 of 2006 and Section 83 of Inland Revenue Act, No. 24 of 2017 (effective from 01.04.2018), Public Finance Circular No. PF/PE/06 of 31 January 2000 and Public Enterprises Circular No. PED 03/2016 of 29 April 2016, the Bank had paid Pay As You Earn (PAYE) tax amounting to Rs.191.48million for the year 2018 out of its own funds on behalf of its employees instead of being deducted from the salaries of the respective employees. As per PED 03/2016, the Board of Directors and Senior Management of SOEs should ensure to deduct PAYE tax and remit to Inland Revenue Department.
- Return on Assets and Return on Equity had been decreased up to 0.62 per cent and 7.30 per cent respectively as at 31 December 2018. Impairment charges due to high Non Performing Loan (NPL) ratio and higher staff cost resulted low profitability level and amalgamation of Lankpauthra Development Bank contributed towards increase in the equity.The staff cost to operating expenses of the year 2018 was 75.01 per cent as compared with the Sector ratio of 54.2 per cent. Adverse trend in assets quality was observed with the significant increase in NPL ratio up to 5.40 per cent as at 31 December 2018 from 3.27 per cent as at the previous year end due to poor credit evaluations and ineffective & unsustainable recovery efforts. Further, as at 31 May 2019, NPL of the Bank has been increased up to 9.87 per cent.

Lankaputhra Development Bank

- The Bank had invested a large proportion of Bank's money in fixed deposits at a risk free interest rate without granting loans to its customers. This is contradicted with the primary objective of the Bank of assisting in the promotion, establishment, expansion, modernization and development of the industrial, agricultural, commercial, construction and other enterprises.
- Sri Lanka Financial Reporting Standard SLFRS - 9 "Financial Instruments" shall be applicable for financial reporting periods beginning on or after 01 January 2018. However, financial statements of Lankaputhra Development Bank had not been prepared in accordance with SLFRS 9 and therefore, impact on the above standard to the financial statements could not be assessed.
- A loan balance of USD 16.41million and interest payable of USD 20.51million have been converted to LKR using CBSL buying rate of Rs.180.72 instead of using CBSL selling rate of Rs.184.6966 as at 31 December 2018. Therefore, the loan payable balance and interest expense have been understated by Rs.65.33 million as at 31 December 2018. During the year, total of Rs.109. 39 million had been paid as capital and interest installments of GOSL USD loan balance to the Treasury by using CBSL buying exchange rate. However, that USD loan installments need to be converted using CBSL selling rate. Therefore, payment of 2018 loan installments had been understated by Rs. 2.47million.
- A difference of Rs.6.89million had been observed between the balance as per physical verification and balances as per general ledger in respect of consumables, stationeries and promotional items of head office as at 31 December 2018.

Sri Lanka Savings Bank

- The Banks' main objective as per the Articles of Associations is to identify, develop, promote, catalyze and support sustainable income generating opportunities and a higher quality of life for the poor through a range of activities including productive self-employment micro enterprises and rural work by the provision of financial assistance and services. Oppose to the above objective, the Bank had maintained nearly 66 per cent of its total assets in different investments such as repo, fixed deposits, debentures and equity instruments. The loans and advances represented only 26 per cent of the total assets of the Bank.

- According to Section 1.3 of the Memorandum of Cabinet Paper No. PED/NDTF dated 24 May 2010; the Bank was established in 2006 to provide relief to the depositors of the failed Pramuka Savings and Development Bank (PSDB). The Bank had paid Rs.541 million during the year 2018 to the PSDB depositors and this balance represents 47 per cent of the outstanding deposit liability balance of the previous year. Further, the PSDB liability outstanding balance as at 31 December 2018 was Rs.656 million.

- Out of the PSDB non-performing loan outstanding amount of Rs.1,035 million as at 31 December 2017, an amount of Rs.15 million or 2 percent was recovered during the year under review. Accordingly, the loan balance to be recovered by the Bank as at 31 December 2018 was Rs.1,020 million.

- Out of the total loan portfolio of the Bank, a sum of Rs.1,319 million or 33.3 per cent represented the micro finance loan as at 31 December 2018. Out of total outstanding amount of micro finance loans as at 31 December 2018, a sum of Rs.568 million or 43 per had been granted to six community based organizations and each loan exceeds Rs.50 million. Securities provided against the above loans covered only 13 per cent to 45 per cent of the outstanding loan balance. Reliance heavily on few customers creates a considerable credit risk to the Bank.

Plantation Industry	
	Non-revision of the Rentals considering the Commercial Value of the Lands **Though Expenditure on Tea Promotion had increased, Export Quantity of Tea had Decreased** **Though Subsidies for Replanting Tea had been Paid, Tea Replanting had not reached to the Expected Level** **Annual Coconut Harvest of the Plantation Companies had decreased from 11 to 54 Nuts** **Though Rubber Subsidy Programmes have been implemented, the Overall Rubber Production has been Declining Continuously**

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 below.

- Formulation, taking follow-up action and evaluation of policies, programmes and projects, and projects relating to plantation industry
- Providing support and other facilities needed for increasing the productivity of plantation crops
- Enhancing the international competitiveness for the productivity of Plantation Industry.
- Taking necessary steps for uplifting the industry for enhancing the value addition of the plantation crops.
- Issue of licenses relating to Tea and Rubber.
- Issue of permits for the export of Tea.
- Issue of licenses for fragmentation of Tea and Rubber and control.
- Optimum use of plantation lands through multi-crop cultivation and collective farms and thereby achieving increased production and employment.
- Matters relating to the development, promotion and research activities of tea, rubber and coconut industries
- Introduction of enterprise and structural changes to industries affiliated to the Ministry.

A summary of audit observations revealed in connection with execution of the said activities,is given below.

Vesting of Lands on Lease Basis and Collection of Revenue

Out of estates in total extent of 617,486 acres owned by the Government given out to 23 plantation companies in the year 1992, the annual revenue from lease rent received from one acre had been ranging from Rs.433 to Rs.2,780. Action had not been taken to revise the lease rent recovered by considering the commercial value of lands at present.

According to the Letter No.PE/PL/RP/Gen/2017 dated 15 February 2017 of the Director General of the Department of Public Enterprises, it had been ordered to charge a 20 per cent fee from the revenue to the Consolidated Fund from rent earned by subletting the state lands. Action had not been taken to credit the 20 per cent fee from the revenue from rent amounting to Rs.36.51 million recovered for the year 2018 relating to 05 plantation companies sublet before the year 2017.

A plantation company had leased out a land in extent of one acre to the Sri Lanka Air Force on a sublease value of Rs.12.22 million annually for the period from 31 May 2011 to 17 June 2045. In terms of the agreement by which state lands had been leased out to the said plantation company, the Ministry may recover the possession of the lands leased out to plantation companies on the requirements of the

Government. However, attention had not been paid therefor.

Implementing the Programme on Promotion of Tea Sales

A private company had been selected for production and creative activities of the Global Tea Promotion Campaign which had been planned to be implemented by utilizing Rs.8 billion from earnings of Tea Promotion Fund and incurred Rs.199.67 million for commercials and creative work. The programme could not be implemented as expected due to incompletion of media activities. Moreover, as compared with the preceding year, promotion expenditure had been overspent in the year 2018 by 18.87 per cent. Nevertheless, the quantity of export of tea had decreased by 2.21 per cent. Details are given in Table 17.

Year	Local Tea Export (Kg. millions)	Tea Sales Promotion (Rs.Millions)
2014	317.8	381,134,199
2015	298.9	481,352,966
2016	280.8	884,151,296
2017	278.2	560,202,236
2018	271.7	665,959,711

Table 17- Local Tea Export and Promotion of Tea Sales
Source - Statement of Statistics Data and Financial Statements of the Sri Lanka Tea Board

Tea Replanting Subsidy

The tea replanting subsidy had been paid under five stages during the period from the year 2012 up to the year 2016. Planters owning lands of 577 hectares in extent had obtained the tea replanting subsidy of Rs.920.13 million under only the first three stages. However, those planters had not carried out replanting and as such, the expected objectives could not be achieved by granting those subsidies. The attention of the management had not been paid thereon.

Coconut Industry

Various programmes had been implemented for the Coconut industry to provide the highest contribution to Gross Domestic Production from the plantation industry, and to become the global leader in sales diversification of products. However, the coconut harvest had slightly increased in quantity from 2,450 million coconuts in the year 2017 up to 2,623 million coconuts in the year 2018. Nevertheless, as compared with the coconut harvest of 3,056 million coconuts in the year 2015, the coconut harvest had declined. Details are given in Diagram 42

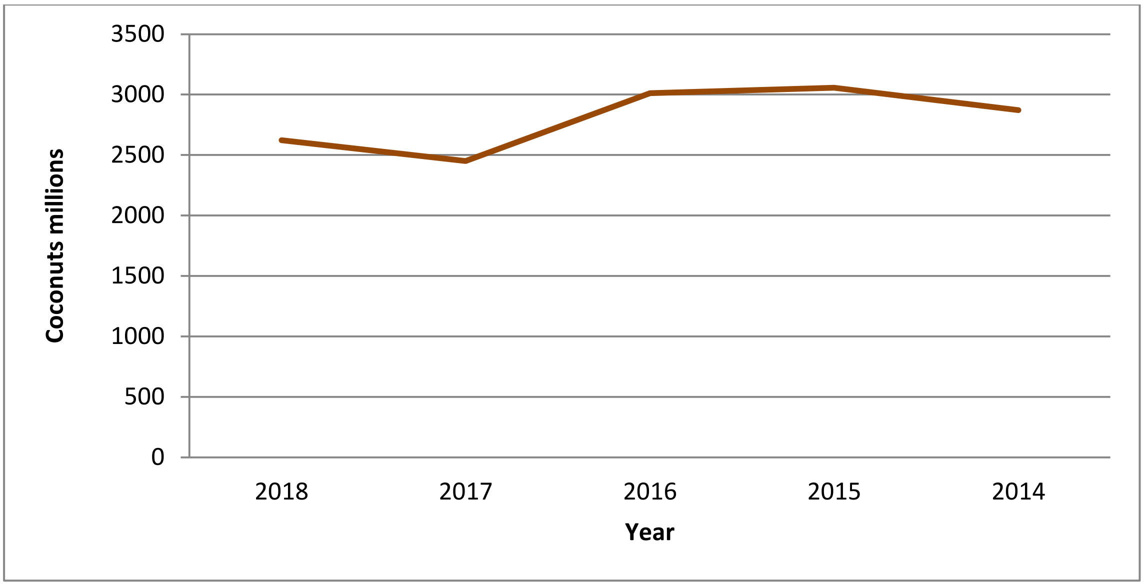


Figure 42- Annual coconut production
Source – Performance Report 2018 of the Ministry of Plantation Industries

Annual Coconut Harvest

According to standards of the Coconut Research Institute, the annual average harvest of a coconut tree should be approximately 72 coconuts. However, the said number had been 31-54 and 11-36 in 07 and 06 estates managed by Kurunegala Plantations Ltd. and Chilaw Plantations Ltd. respectively. Necessary action should have been taken by companies to reach the standards of the Coconut Research Institute by carrying out the soil test and to use fertilizer and chemicals and to create irrigation systems to obtain the due harvest from new cultivations. Nevertheless, action had not been so taken.

Rubber Production

The Rubber Development Department had implemented subsidy programmes for increasing the extent of rubber cultivation lands and to improve the productivity of rubber cultivation lands. The total rubber production was on continuous decrease from the year 2014 up to the year 2016 and the rubber production of 83,070 metric tons in the year 2017 had decreased up to 82,560 metric tons in the year 2018. Details are given in Diagram 43

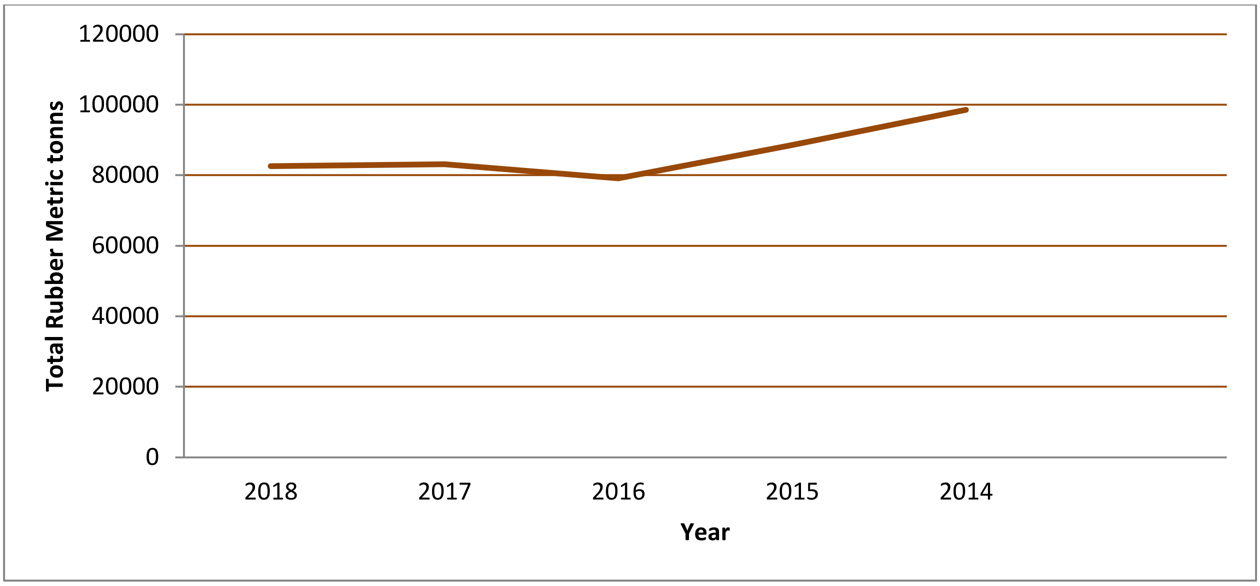


Figure 43 Annual rubber production
Source – Annual Performance Report 2018 of the Ministry of Plantation Industries

Export of Raw Rubber

The export of rubber which was 17,230 metric tons in the year 2017, had decreased up to 13,982 metric tons in the year 2018 representing 19 per cent and income of Rs.5,920 million from export of rubber in the year 2017 had decreased up to Rs.5,088 million representing 14 per cent in the year 2018. Details are given in Diagram 44

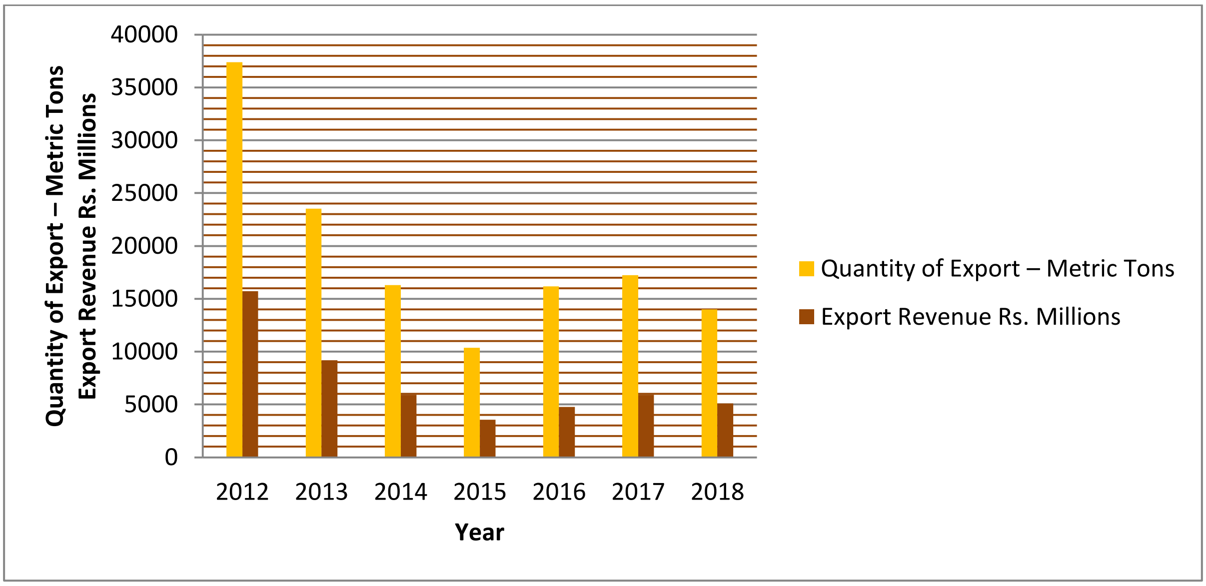


Diagram 44 - Export of Raw Rubber
Source – Annual Performance Report of the Ministry of Plantation Industries

Non-achievement of Objectives

Rubber had been expected to be replanted on lands of 1,000 hectares and 500 hectares in extent of Rubber Small Holders and Plantation Companies respectively in the year under review. Out of the said extent, only 523 hectares and 319 hectares had been cultivated with rubber respectively. Accordingly, out of the extent planned, the extent not achieved had been 48 per cent and 36 per cent respectively.

Even though it had been planned to cultivate rubber on new lands of 750 hectares in extent in traditional and non-traditional areas in the year under review, only 342.5 hectares of land had been cultivated with rubber. As such, the extent not achieved had been 54 per cent of the extent planned.

Idle Assets

The equipment named Walk in Type Environmental Facility had been imported from India on 08 May 2018 by spending Rs.14.03 million, received to the Tea Research Institute for special projects. The said equipment had been imported without deciding the expected active level. As such, a year had lapsed after receiving the equipment to the Institute. However, it had remained idle without being made use of for research purposes.

Laboratory items valued at Rs.5.80 million had been purchased since the year 2014 without identifying the requirement. As such, stocks valued at Rs.3.46 million of the said stocks had remained idle.

A number of 4,076,000 stickers valued at Rs.7.18 million had been purchased for pasting on coconut related products during the period from the year 2014 to the year 2018 without identifying the requirement. Those stocks had remained idle over a period of 2 years.

Four equipment valued at Rs.15.74 million purchased by the Rubber Research Institute during the period from the year 2010 up to the year 2017, had remained idle for a period ranging from 2 years to 8 years without repairing and making use of.

A generator had been purchased for a cost of Rs.1.39 million on 19 March 2018 by the Chilaw Plantations Ltd. for obtaining water to the coconut seedling garden maintained in a portion of the Keeniyama Estate. The said machine had not been made use of due to non-completion of laying water pipes even by 31 August 2019.

Out of 06 factories owned by the Elkaduwa Plantations Ltd., 03 factories had been in inoperative condition and action had not been taken to utilize the inoperative factories for production of tea or to lease them out.

Management Activities

A land of approximately 160 acres in extent of the Suduwathura Ara seedling garden owned by the Cashew Corporation and an extent of 10 acres of the portion of land at Ottukolama of the Kamandaluwa Estate had been illegally enjoyed by external parties and cultivations including seasonal crops and betel was being carried out. The Cashew Corporation had not taken legal action necessary to reacquire those lands.

Even though the Cashew Corporation had been informed by the Committee on Public Enterprises held on 24 July 2012 that action should be taken to vest the ownership of lands without legal ownership to the Cashew Corporation, action had not been taken even by 31 May 2019 to vest the legal ownership of 15,329 acres of land cultivated with cashew by the Corporation.

Fruitless Expenditure

The raw material required for operating the production activities of the rubber factory with maximum capacity by spending Rs.12.08 million in the year 2016 without carrying out a feasibility study by the Kurunegala Plantations Ltd., had not been available and an adequate income from sales could not be earned. As such, the production activities of the factory had been discontinued by the end of the year under review. Accordingly, the amount spent for the factory had become fruitless.

Operating Inefficiencies

A number of 4,131 cashew plants had been cultivated in the year 2013 on a land of 20.75 hectares in extent in St. John B and Marichchikattuwa estates belonging to the Chilaw Plantations Ltd. A sum of Rs.7.06 million had been spent therefor by the end of the year 2018. Out of cashew trees grown from cashew plants so cultivated, 3,685 or 89 per cent trees had been destroyed due to weaknesses in maintenance and supervision.

Progress of Foreign Funded Projects

Provisions of Rs.1,400 million had been made in the year 2018 for the Smallholder Tea and Rubber Revitalization Project implemented during the period from the year 2016 to the year 2021 under the financial contribution of the International Fund for Agricultural Development and the Government of Sri Lanka. Even though 2,115 hectares of tea estates and 1,000 hectares of rubber estates and 31 roads had been planned to be developed, only 1.344 hectares of tea estates, 293 hectares of rubber and 24 roads had been completed. As such, the expected targets could not be reached.

In terms of conditions mentioned in agreements on payment of subsidies, the recommendation of the Tea Inspectors of the Tea Smallholdings Development Authority should have been obtained for releasing the subsidy installment to planters. Even though lands totalling 47.23 hectares in extent of 331 Tea smallholders in the District of Kandy had been prepared for replanting of tea, the second and third installments of the subsidy could not be obtained due to delay in the recommendations of Tea Inspectors.

The basic subsidy totalling Rs.3.58 million had been paid to 109 recipients who had obtained licences for replanting of tea in 23.85 hectares of land in the District of Kandy. However, replanting of tea had not been commenced.

A sum of Rs.4.88 million had been paid to 99 recipients in the years 2016 and 2017 for cultivating lands of 59.457 hectares in extent owned by the Damana and Lahugala areas and the Divisional Secretariat Division of Maha Oya in the District of Ampara. Nevertheless, the said subsidies paid for those rubber cultivations had become fruitless due to drought, destroying by wild elephants and acquisition for construction of the Warapitiya reservoir.

Fifteen planters in the District of Ampara had obtained basic subsidies totalling Rs.849,317 for 12.135 hectares cultivated in the years 2016 and 2017 and abandoned those cultivations thereafter.

Land Affairs	**Payment of a Sum of Rs. 542.71 million as Interest on Compensation due to the Delay in Paying Compensation for Acquired Lands** **Out of the Income Earned from Land Lease, an Income of Rs. 2,657 million Remained Outstanding** **Lands are not leased out properly** **Deterioration in the performance of mapping** **Non-preparation of the Land Use Plan** **Taking slow action on the misconducts of the Surveyors**

Land Affairs

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

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

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

Acquisition of Lands

According to the Secondary direction order of 38 (a) of the Land Act No.9 of 1950 process of the acquisition of Land from private sector for the government development process had to be fulfil in collectively by the Land Ministry, Institute which is the implement the development activity, Department of Assess, Divisional Secretary office, Survey Department and other institutions which are connected to this, for fulfilment of that task including the time period an action plan had not been prepared. Therefore within the period of from the year 2014 upto the year 2018, 8029 files had presented for the activities of the acquisition of Lands like that out of these 1368 files or 17 per cent like less quantity of the activities shall be done had been completed at the end of the year under review. In the reason of delay in the payments of compensation for that Lands which were acquired from the year 1970 upto the year 2015, a sum of Rs.452.71 million had been paid as interest on compensation during the year under review.

Informations on State Lands and Management System

Using the information technology on behalf of the informations on State Lands and create a management information is being carry on since the year 2013 and a sum of Rs.115.71 million had been spent for that as at the year 2018.

Information about the all Lands leased had not been included into this system even as at 31 May 2019. Therefore necessary information in connection with collecting lease could nit be obtained from this system.

Management of the Income on Land Lease

Collecting of the income on Land lease in the area od Inter Provincial colonies had been functioned by the Land Commissioner General's Department and follow up activities relating to the collecting of that income had existing in poor situation.
In this reason income of Rs.35.65 million had existing in outstanding as at the end of the year under review.
Expect the area of Inter Provincial colonies, collection of Lease income in other areas had been functioned by the provincial Land Commissioner General's Department.

Administration of the State Lands and supervision of the officers who are related to the administration in that areas entire authority had been assigned to the Land Commission General as per the 91 Section of the State Land Ordinance and President Office Circular No.SP/RD/02/10 dated 03 February 2010. However, leasing process and supervision activities of the collecting leasing money has been existing in poor situation in the reason of that revenue amounting to Rs.2,656.59 million has existing in outstanding at the end of the year under review.

Non Reaching towards the planned targets

- Although it had been planned to initiate the Bimsaviya programme in the year 2002 and to complete it in the year 2021. But spend time for that was 16 years at the end of the year 2018. But Bimsaviya programme had been implanted in 3659 Grama Niladharies Division under 57 Divisional Secretariats by 31 December 2018. Surveys had been completed only in 1695 or 46 per cent of Grama Niladharee Division.
- Also between the rights clearing process 34,428 files were lay down in the year 2018 and total number of 414,543 files had been lay downed as at the date of 31 December 2018. Out of the lay downed that files only 12,341 files had been clear and copy rights had been issued.
- Therefore progress of the work had been 36 per cent in respect of the lay downed files.

Leasing of Lands had not in function as Regularly

Approval of the Cabinet of Ministers had to be obtained in Leasing of lands for projects where the instances extent of the Land is over 5 acres. But 50 acres of Maddey Gedhara watta in Kaluthara District had given on lease for the agricultural activities by the Council of the Land Commission without the approval of the Cabinet of Ministers. Only the basic estimated amount had been collected for that an according to the government assessment lease amount had not been collected.

Lands should have to be lease on a regular lease agreement in obtaining the recommendations such as the institutions of Central Environment Authority and Geology and Excavation Bureau in respect of leasing of granite lands for over a one year. Granite Lands situated in 22 acres which lands belongs to the estates of Olaboutuwa, Yahalakelle and Ingiriya belongs to the Land Reform Commission had been leased in the years 2001, 2004 and 2005 without lease agreement and recommendations of the relevant institutions during the year under review. Also, a granite stone situated in a 10 acres land belongs to the estate of Horaekanda at milleniya although excavating had been done without permission from the year 2003 upto the year under review action had not been taken in respect of that by the Land Reform Commission. Non payment of Lease money by the Lessees and in the reason of non obtaing the approval from the relevant institutions eventhough agreements were entered with the Land Reform Commission had been cancelled but action had not been taken to stop the non permission excavations. Therefore, lease amount of Rs.47.43 million had existing in outstanding as at the date of 30 November 2018. Also, although 173 acres in Puttalam District had been given without permission and on lease basis to cultivate prawns in the reason of non follow up a appropriate methodology income amounting to Rs.16.42 million had existing in outstanding at end of the year 2018.

Maintaing a Register in Connection with Lands

A register had not been updated relating to the Lands acquired by the Land Reform Commission from the date of established the Land Reform Commission in the year 2016 including the all details such as number of acres of that lands, situate area of each land, from whom had been acquired, details on the assign of possession at present, relevant notice published in the Gazette and disposal of Lands. Also, the Commission was failed to explained that by the supporting documents. Therefore, existing of the acquired lands valued at Rs.676.17 million and correctness of the valuation could not be confirmed.

Alienation of Lands

Although alienation of Lands had been prohibited by the Cabinet of Ministers in the year 2004 lands had been alienated exterior to the leasing of lands methodology for the projects by the Land Reform Commission from the year 2002 upto the year 2004. It had been listed in 2 ways assign for to possession and non function assign for possession lands alienated in that manner. Out of the lands assign for possession 760 acres and 31 perches had not been return backward. Action had not been taken to refund the advance money to that applicants for the advance money had obtained from the 1689 acres of land which the non assign for possession and the follow up actions had not been functioned in connection with that lands.

Performance of the fulfilment of Survey Requisitions and Mapping

Survey General Department's a surveyor work had been done on the standard of minimum of 20 number of Norms should be surveyed for a month from 36 years ago. Action had not been taken to revise the standard which was established before 36 years ago make review in the way of match at present with the technical improvement of the instruments. Out of the total Survey requisitions of 33,443 was received from the year 2009 upto the year 2018 Survey requisitions of 22,039 had failed to complete by the Department. Likethis, overall performance had existed at 34 per cent level on the fulfilment of the Survey requisitions. Although it had been decided to creation of 1. 50,000 92 maps at the end of the year 2017 only 70 maps had done at the end of the year under review. Although it should be create 1.10,000 1,834 maps covering with the all Island only 700 maps had been completed at the end of the year under review.

Preparation of plan on use of National Lands

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

Examination of the acts of misconducts of the Surveyors and Regulations

With the objective of ensuring proper maintenance of the Surveying profession and its practices and the maintenance of standards and procedures relating to land surveying and professional discipline among persons engaged in Land Survey Council had been established in terms of Survey Act No. 17 of 2002. The total number of complaints made by the people against the professional misconducts of the Surveys had been 78 during the year under review where as only 45 or 58 per cent of the above complaints had been settled by the Council. The persons who are functioning the survey activities who were not registered in the Council to search it sufficient procedures had not been followed also.

Education	**Admission of Students to National Schools by Exceeding Limits** **Vacancies for Teachers in the Technology Stream** **Non-completion of Disciplinary Inquiries** **Non-assignment of any duty to a Portion of the Staff attached to a Large Number of National Schools** **Non-fulfilment of the required qualifications by 1,906 Teacher Librarians in Schools** **Failure to fill Vacancies for Principals in 258 National Schools**

Education

Ministry of Education, 02 Departments and 04 Statuary Institutions should have performed the following functions as the pioneer of providing education effectively through reconstructing it to befit the changing world in order to accomplish the national general objectives pertaining to the general education field within the national education policy framework.

- Creation of a National Educational System which enables to access the global competition with self-confidence and thereby reach success with self- assurance on behalf of Sri Lankan young generation.
- Supervision of all Schools in Sri Lanka in compliance with the National Educational Policies.
- Formulation, follow up and evaluation of policies, programmes and projects relating to the subjects of Education.
- Taking necessary steps to provide physical and human resources required for National Schools.
- Providing free text books, uniforms, shoes and lunch.
- Proper maintenance of the quality of education and discipline within the entire school system.
- Administrative and personnel management affairs of the Sri Lanka Education Administrative Service, Principals' Service, Sri Lanka Teacher Educators' Service and Sri Lanka Teachers' Service.
- Promoting Buddhism and Pali Education and upgrading Piriven Education.
- Promotion and Development of school libraries to encourage students for reading.
- Proper management and preservation of Government documents.
- Ensuring the opportunities for education of students with special needs.

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

Underutilization of Provisions

Provisions totalling Rs.10.27 million comprising Rs.5.46 million and Rs.4.81 million made for 21 Capital Objects and 04 Recurrent Objects respectively for performing the functions of the Ministry of Education for the year under review, had not been utilized for any purpose whatsoever.

Admission of Students to Intermediate Grades

In terms of Circular No.37 of 19 September 2008 of the Ministry of Education and the Cabinet Decision dated 14 October 2015, it had been stipulated that the maximum number of students for a parallel class in Primary Grades as 40, the maximum number of students for a parallel class in Secondary Grades as 45 and the maximum number of students selected per class in the admission to Grade One as 38 of the year 2018 in a National School. However, 3,339 students had been admitted by 73 National Schools beyond those limits in the year 2018.

Appointment of Officers for Covering up Duties

According to the Establishments Code of the Democratic Socialist Republic of Sri Lanka, an acting officer can be appointed on temporary basis until a substantive appointment is made. However, in 258 out of 353 National Schools, the post of Principal had been vacant by the end of the year 2018 from many years and officers had been appointed for covering up duties in those posts. Moreover, it had been failed to fill those vacancies even by 31 December 2018.

Vacancies of Teachers for the Technology Stream

There were 166 vacancies of teachers island wide for the Technology Stream by the end of the year under review. Out of those vacancies, thirty five, 117 and 14 vacancies respectively of teachers for the Engineering Technology Subject, Science Subject for the Technology and for the Bio Systems Technology existed. The Ministry of Education had failed to fill those vacancies even by the end of the year under review.

Incompletion of Disciplinary Inquiries

Three hundred and ninety seven disciplinary matters relating to the Ministry of Education, National Schools, Teacher Training Colleges and other institutions that come under the Ministry had not been resolved even by the end of the year under review. Among those disciplinary matters, there were 128 matters remaining less than two years, 30 matters, from 02 years to 07 years and 09 matters, over a period of 7 years. Moreover, among those disciplinary matters, there were 42 on financial irregularities, 62 on admission of students to schools and 19 matters on child abuse.

Past Pupils' Associations in Schools

It has been mentioned according to the Education Circular No.1964/27 dated 20 November 1964 and letter dated 21 June 1996 of Past Pupils' Associations that Past Pupils' Associations should be established for enhancing the welfare and performance of schools. As such, the entire or more of funds collected by Past Pupils' Associations by using name of the schools should have been spent on behalf of welfare and performance of those schools. However, a sum of Rs.129 million had been collected by Past Pupils' Associations in 18 schools in the year 2018. Out of them, only a sum of Rs.24 million had been spent for 08 schools. A sum of Rs.70 million collected by Past Pupils' Associations in 09 schools had not been spent for any purpose whatsoever in those schools.

Commencement and Close Down of Schools

According to statistic data of the year 2018, one hundred and one schools had been closed down in 21 Districts. Out of those, 31 and 45 schools had been closed down due to inadequate number of students and the situation of the country respectively. A clear policy on the manner in which action is taken on physical resources existed for the usage of schools so closed down, had not been made available to Audit.

Programme of Producing Talented Sportsmen/Sportswomen

The approval of the Cabinet of Ministers had been received to a project proposal of the Ministry of Education for endowing a healthy generation, physically and mentally balanced with the country and producing skilled sportsmen/sportswomen. A sum of Rs.18,394.5 million had been estimated for the implementation of the said programme from the year 2016 to 05 ensuing years based on 07 objectives. The said programme had not been implemented in the year 2016 and provisions of Rs.250 million and Rs.300 million had been received in years 2017 and 2018 respectively. Out of provisions amounting to Rs.300 million made for the year 2018, only a sum of Rs.99 million had been spent for activities of the said programme. However, the programme had not been implemented as per above objectives.

Special Education Units

Special Education units had been established in 112 national schools and 704 provincial schools. A number of 10,284 students with special needs are studying in those schools. A number of 1,189 and 597 Teacher vacancies existed in special education units in National Schools and Provincial Schools respectively. Out of the Teachers of the Special Education Unit, 158 representing 13 per cent are the Teachers who were appointed to another subject. Hundred and eighty nine Teachers who were appointed and trained for the special education are engaged in the teaching works where those Units have not been established and 54 Teachers, in other class rooms of schools where those Units have been established. Accordingly, Teachers who had undergone Special Education Teacher Training had not been attached so as to fulfill the said requirement.

Operating Private Schools

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

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

Balancing, Transferring and Assignment of Duties of Teachers

A number of 1,359 teacher vacancies and 898 excess existed for 1,069 subjects and for 584 subjects respectively in 113 National Schools due to failure in balancing teachers. The Ministry had failed even by the end of the year under review to balance the said excess and vacancies. Even though the implementation of the annual transfer scheme had been commenced, there are 2,276 teachers who are still engaged in the teaching in 115 National Schools for over a period of 08 years whilst, a number of 601 Teachers of 107 National Schools had been attached for teaching subjects extraneous to the subjects, for which they were appointed. Even though the Deputy and Assistant Principals and Teachers of National Schools should be assigned 10, 12 and 35 periods per week respectively, the number of Deputy and Assistant Principals and Teachers of 164 National Schools, who had not been assigned even a single period of teaching activities stood at 139, 42 and 549 in the year 2018.

Results of Subjects of the G.C.E. Advanced Level and Teachers Feasibility

Out of students who had followed subjects such as Information and Communication Technology, Physics, Chemistry, Combined Mathematics, Logic and Scientific Method and Science Subject for Technology in the year 2017, approximately 1/3 students had failed the examination. Achievement of distinction passes for subjects such as Agriculture, Agro Technology, Engineering Technology, Bio Systems Technology and Science Subject for the Technology was at a level as low as 1 per cent. It had been 0.82 per cent, 0.44 per cent, 1.11 per cent, 0.61 per cent and 0.37 per cent respectively. Fifty two teacher vacancies existed in foreign languages such as English Literature, French, Russian and Japanese and teachers had not been recruited for Russian and Japanese languages during 05 preceding years. No Teacher Training Programme whatsoever had been conducted for English Literature from the year 2014 to the year 2018.

Sisu Aruna Education Fund

The Sisu Aruna Educational Fund had been established in the year 2001. According to the report of the Meeting of the Board of Directors, held on 29 April 2003, it had been decided that necessary steps should be taken to offer scholarships after reaching the value of fixed deposits amounting to Rs.2.5 million of the Fund. The value of relevant fixed deposits by the end of the year 2015 had reached Rs.2.6 million and it had increased up to Rs.4.4 million by 31 December 2018. Even though the limit decided by the Board of Directors had exceeded by the end of the year 2015, action had not been taken even by the end of the year under review to offer scholarships. The name of the Fund had been withdrawn due to failure in carrying out an adequate supervision on this Fund and as such, properties and Rights of the Fund had been vested in the General Treasury.

Development of School Libraries

The total number of schools in the island at present stood at 10,162 and out of those, only 3,499 schools are equipped with permanent library facilities, 2,185 with reading rooms and 3,314 with temporary libraries. Eighty Directors of Subjects in 98 zones in 09 provinces had been trained on the Library Development by spending Rs. 3.6 million under 3 stages in the year 2018. However, achievements of the said training had not been provided to schools through the provincial officers. A number of 2,607 persons had been deployed as Teacher Librarians in schools and out of them, 1,906 persons had not been fulfilled required qualifications therefor.

Achievement of Sustainable Development Goals

According to the 2030 “Agenda” of the United Nations for sustainable development, action had not been taken to include the procedure for reaching the targets of functions thereof in the plan and to identify indices for measuring the achievement of said focal points and targets.

Issuance of Results of Examinations

It was observed that a large number of applicants arrive daily at the Department of Examination for obtaining the result certificates of General Certificate of Education (Ordinary level) and (Advanced Level). This situation had arisen due to failure in taking action to issue a certificate from schools, equal to the certificate in high quality issued by charging money by the Department.

Moreover, as a large number of applicants arrive daily at the Department for obtaining certificates through the one-day service, more officers attached to the Certificates Branch, had been attached to counters of the one-day service. As such, it was unable to deploy an adequate staff for the purpose of confirmation of results. Therefore, results of 10,660 could not be confirmed by 31 December 2018. Even though 40 out of 49 vacancies in the post of Data Assistant existed in the approved cadre of the Department, the Department of Examination had failed to fill those vacancies.

Printing and Distribution of Text Books

A number of 39,714,000 copies of 419 books valued at Rs.3,499.25 million had been printed for the year 2019 through 02 Government institutions and 27 private printers by the Educational Publications Department of the year 2018. Even though a committee comprising a Commissioner and two Deputy Commissioners had been nominated and the responsibility of printing of text books had been assigned to printers at several instances on recommendations of the said Committee, approval of the Cabinet Appointed Procurement Committee had not been obtained therefor.

According to paragraph 9 of the Internal Circular No.2017/09 of 31 May 2017 of the Commissioner General of Educational Publications, instructions had been given to schools to apply for text books by computing the required number of essential text books accurately so as not to store surplus books in stores. However, a number of 10,545 Text books had been issued to 11 schools in Colombo area by the Department exceeding the requirement thereof.

According to Guideline 5.6.3 of the Government Procurement Guidelines, the standards adopted by Sri Lanka Standard Institution should be used to the maximum extent possible. However, quality tests and tests methods relating to 04 quality tests specifications had not been implemented.

The English Work Book, Writing Book and the Text Book of Grade 3 prepared in accordance with the new syllabus for distribution in the year 2018 had been revised again in the year 2019 due to errors therein. As such, a number of 27,275 books valued at Rs.5.72 million printed in the year 2018 exceeding the requirement, had been removed from being used.

According to paragraph 7 of the Specification Committee Report 2018, it had been decided to increase the quality and level of the brightness up to 85 per cent of papers due to increase in the reusage of text books of Grades 6, 7, 8 and 9 up to 50 per cent. A penalty of Rs.6.13 million had been charged due to changing the brightness of 106 out of 357 total types of books for the year 2018 printed in the year 2017. The Tensile Index test to be carried out for outer covers and inner pages of books printed in the year 2018 for the year 2019 in granting approval for printing and storing according to specifications prescribed by the Department, had not been carried out regarding any book whatsoever.

The annual requirement of books had not been correctly identified, thus indicating the increase in the stocks of surplus books. Moreover, a number of 1,190,691 text books, teachers' manuals and supplementary books had been disposed of in the years 2016, 2017 and 2018 due to weaknesses in storing of those books.

Construction of the Lavatory System in the three storeyed Hostel

A sum of Rs.1.20 million representing 5 per cent of the contract value had been paid as consultancy charges for preparing plans and estimates for the construction of a lavatory system in the three storeyed hostel of the National Institute of Education at an estimated cost of Rs.27.85 million in the year 2008. Even though 10 years had elapsed after the said payment, construction activities had not been commenced even by 31 December 2018.

Labour and Trade Union Relations

Non-utilization of the 02 Laboratory Premises owned by the Occupational Hygiene Division

Moneys referred to the Employees' Provident Fund by Court Decisions had been retained in the Department without paying to employees

There were 4,921 dormant cases and a sum of Rs.1,547.62 million had to be recovered therefrom

Labour and Trade Union Relations

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

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

The summary of Audit observations revealed at the Audit test check carried out on the performance of functions mentioned above, by the Ministry, Departments and Statutory Institutions appear below.

Occupational Safety and Health in Sri Lanka

Building a safe working place free of accidents and injuries is instrumental in enhancing the efficiency and productivity of workers. Legal provisions had been made by the Factories Ordinance No.45 of 1942 to the employers in achievement of the said objectives. The following deficiencies were revealed at the Audit test check carried out on the occupational safety and health in Sri Lanka.

- In terms of Section 13(2) of the Factories Ordinance, the standard on providing sufficient light had been ordered by the Gazette Extraordinary No.14577 of 04 December of 1965. That order had not been updated to suit present conditions. Moreover, in terms of Section 12(2) of the Factories Ordinance, the Minister may, by regulations, prescribe a standard of adequate ventilation for factories. However, action had not been so taken.

- Even though 02 laboratory premises are owned by the Occupational

Hygiene Division of the Department of Labour, they had not been maintained so as to be made use of. Blood tests of employees had been carried out free of charge by these laboratories. However, carrying out blood tests free of charge after the year 2004 had been discontinued. Laboratory equipment used therefor had remained decayed in the laboratory premises. Moreover, vacancies had existed in 03 posts of Research Assistant in the approved cadre.

- The National Institute of Occupational Safety and Health had been established by the National Institute of Occupational Safety and Health Act, No.38 of 2009 on occupational safety and health in Sri Lanka. The Standards on occupational safety and health which is one of their main objectives, had not been stipulated even by the end of the year 2018.

Settlement of Employees' Benefits

Out of moneys referred to the Employees' Provident Fund through judgements of Courts from the year 2011 to November 2018, a cash balance totalling Rs.299.35 million unpaid to employees, had been retained by the Department of Labour without crediting to the Employees' Provident Fund Account of the Central Bank of Sri Lanka. The balance so retained in the year 2011 amounted to Rs.1.11 million and by the year 2018, the said balance was on the increase up to Rs.219.34 million annually. Details are given in Diagram 45.

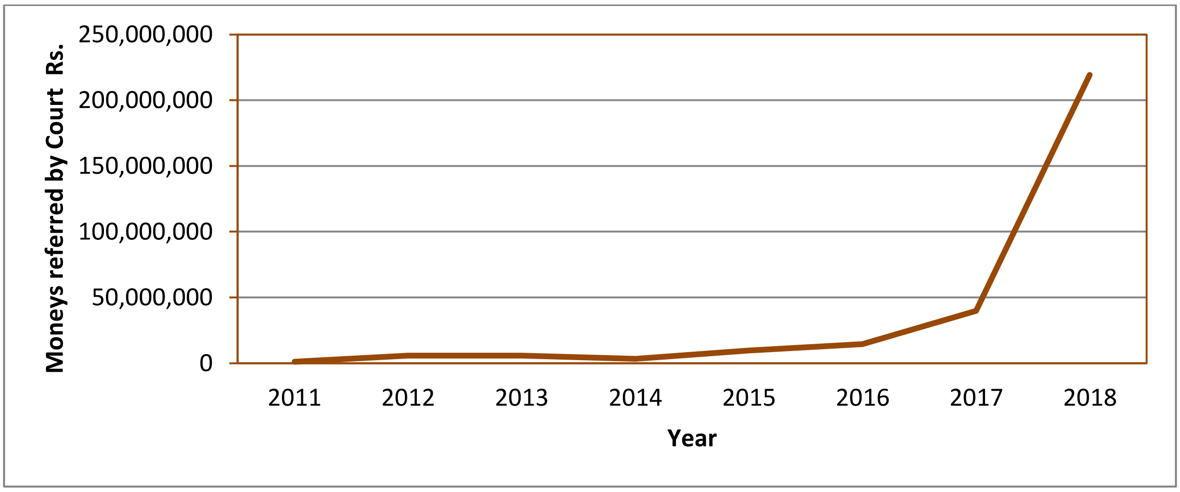


Figure 45- Moneys granted by judgements of Courts
Source – Information made available to Audit by the Employees' Provident Fund

- The moneys deposited in Courts by employers are sent through cheques in installments to the Commissioner of Labour. Moreover, a balance of Rs.93.09 million existed relating to 181 cases for which payments could not be made due to the various shortcomings in "C" Forms and requisition forms prepared for the said moneys.

- Out of other recoveries which do not belong to Employees' Funds, recovered through cases by Labour Offices, a sum of Rs.409. 76 million had been retained even by 01 July 2019 without paying the employees.

- In sending the moneys collected by Courts to the Department, only the Case Number is mentioned and the relevant Labour Office is not mentioned. As such, the employees to which the said moneys are payable, could not be specifically identified and a large amount of time had to be spent therefor. However, in sending money by Courts in such a way, the relevant Labour Office had been identified and mentioned. Nevertheless, an unpaid sum of Rs.0.79 million had remained even by 01 July 2019.

- It had been agreed at the discussions held with the Central Bank that speedy measures will be taken through Labour Offices to account the contributions of work places, retained in the Contributions Account of the Central Bank of Sri Lanka. There were several institutions with balances over Rs.10 million by 31 December 2018 and those moneys had remained without being accounted, due to non-receipt of correct "C" Forms.

- Even though moneys for which Court decisions had been given and which should have been credited to beneficiaries' accounts, a sum of Rs.43.69 million had not been so credited even by the end of the year under review due to shortcomings in "C" Forms.

Adequacy of Labour Inquiries

Out of entire institutions of 146,468 to be examined relating to 40 District Labour Offices, 75,086 institutions representing 51 per cent had not been examined in the year under review. Among them, the percentage of institutions of District Labour Offices of Maharagama, Colombo West, Anuradhapura, Colombo North, Ja Ela and Nuwara Eliya, which were not subjected to examinations, had been 84, 80, 64, 66, 65 and 75 per cent respectively.

Action on Public Complaints and Petitions

The total number of various public complaints remained at the beginning of the year under review and received in the year under review relating to 40 District Labour Offices had been 24,972. In terms of Labour Departmental Circular No.06/2011 of 29 April 2011, complaints should have been resolved within 14 days. However, out of them, 10,064 or 40 per cent of complaints had not been resolved even by the end of the year under review.

Dormant Cases

The total number of dormant cases as at 31 December 2018 stood at 4,921 and a sum of Rs.1,547.62 million should have been recovered thereunder. Out of those cases, the cases filed for over a period of 05 years had been 3,186. It represented 65 per cent of the total number of cases. Moreover, 2,994 cases remained as open warrants and a sum of Rs.933 million should have been recovered thereunder. Out of them, 2,047 cases were being brought forward for a period over 05 years and it had been 68 per cent of the total number.

Settlement of Employees' Compensations

A sum of Rs.17.29 million recovered from employees by the Office of the Commissioner for Workmen's Compensation as compensation for employees subjected to distress or deceased from the year 2013 up to the year 2018 had been retained even by 31 December 2018 without paying to recipients, indicating various reasons. A number of 384 accounts valued at Rs.9.96 million brought forward during a period ranging from 01 to 25 years which should have been released to minors who had completed of age, had not been settled by the Office of the Commissioner for Workmen's Compensation even by 14 February 2019.

Project on Re-registration of Members

- Phases one, two and three of the Project on Re-registration of Members had been implemented in the years 2007/2008, 2010/2011 and 2016/2017 respectively. Out of provisions made by annual estimates of the Department of Labour from the year 2008 to 31 December 2018, a sum totalling Rs.247.1 million had been spent therefor. However, out of the number of members estimated, the number of members from which thumb impressions were obtained, had been at a level as low as 38 per cent, 25 per cent and 14 per cent under each phase respectively.

- Sums of Rs.12.61 million and Rs.2.75 million had been spent respectively for purchase of 15,000 cards and 05 kiosk machines in December 2008 under phase one of the Project of installing kiosk machines. The cards, even after printing details such as the names and National Identity Card Numbers of members, had been stored throughout 10 years by 31 December 2018 without distributing to members. Moreover, there was no information that the kiosk machines so purchased had been in operation from the date of purchase itself. As such, the amount spent under phase one of the Project had become fruitless. Moreover, out of 30 machines purchased in the year 2015 by spending a sum of Rs.14.92 million under phase two, 10 machines had been inoperative by 31 December 2018.

Unsettlement of Moneys recovered by filing of Cases

A sum of Rs.301.47 million recovered by filing cases against employers who had failed to send contributions to the Employees' Provident Fund, had been retained in a deposit account by 31 December 2018 of the Department of Labour since the year 2011 without crediting to the members' accounts. As a result of retaining the said moneys, the members had been deprived of the interest income due to them.

Unsettled Benefits

Out of applications submitted to 18 District Labour Offices during the period from 01 January 2016 up to 31 December 2018 by members for claiming benefits, reference had been made to the Central Bank of Sri Lanka for making payments relating to 112 applications of benefit amounting to Rs.17.92 million and afterwards they had been rejected for various reasons. Moreover, out of those applications, 90 applications representing 80 per cent of the total number of applications had been delayed during a period ranging from 06 months to 03 years by 01 March 2019. Nevertheless, action had not been taken to settle same

.

Environment

Inability to implement the Uma Oya Multi-Purpose Development Project within the specified time frame

Non Initiation of Constructing the Waste Containers under the Project of Constructing Solid Waste Disposal Facility even by the End of the Year

Action had not been Taken to Construct 30 Compost Yards Anticipated to construct under the Pilisaru Project

Environment

Two Departments and 08 Statutory Institutions had been established under the purview of the Ministry of Mahaweli Development and Environment to take action for a sustainable development. The following functions had to be executed by those Institutions.

- Compilation of policies and programmes for various fields of environment.
- Conservation of environment for the present and for the future generations.
- Compilation of programmes and implementation of those programmes effectively for the elimination of environmental pollution.
- Carrying out the disclosure of marine pollution and solid waste management.
- Preservation and conservation of forests, wildlife and flora and fauna.
- Promotion of the commercial plantation of forests to fulfill the timber requirement of the country.
- Promotion and regulation of the Gem and Jewelry Industry and the sale of Gem and Jewelry.
- Preservation and conservation of the coast.

The audit observations revealed at the audit test checks carried out on the execution of the functions given above by the Ministry of Mahaweli Development and Environment are summarized and given below.

Uma Oya Multi-Purpose Development Project

A mutual agreement had been entered into between the Government of Sri Lanka with the Government of Iran on 27 November 2007 with the key objective of annually diverting 145 million cubic meters of water to the Kirindi Oya Basin in the Southern Zone which suffers from the shortage of water in that basin, in a manner that would on make an impact on the environmental and other needs of water in the Uma Oya Basin. The provisions required for this project consists of a sum of USD 450.00 million provided by the Export Development Bank of Iran (EDBI) and a sum of Rs.15,474.25 million or USD 79.06 million, provided by the Government of Sri Lanka. It had not been able to achieve the intended results due to not being able to either complete or to wind up all the activities of the Project during the required time frame.

Construction of Slid Waste Disposal Facility Project

The total estimated cost of the Construction of Solid Waste Disposal Facility Project carried out with Korean Loan Assistance had been a sum of USD 41.89 million. A loan amounting to USD 33.54 million as Financial Assistance in this connection had been obtained on Korean Loan Assistance on a 0.15 per cent of annual interest in a manner that should be repaid in a period of 40 years, after a concessional period of 10 years. The local provision of funds for the Project had been a sum of USD 8.35 million. The loan agreement had been entered into between the Fund and with the Government of Sri Lanka on 23 July 2013. The facilities had to be supplied for the final disposal of waste generated in the areas under the Local Governance under the Cluster Method within a period of 04 years by this Programme.it had been planned to construct 04 Sanitary Waste Containers in Kirkkulama in Anuradhapura, Monrowyawatte in hikkaduwa, Malamulla in Panadura and in Gonadhikawatte in Udunuwara for the achievement of that objective.

Action had not been taken in the initiation of the Project to select places for the Sanitary Waste Containers by carrying out a proper feasibility study. A period of approximately 2 years had lapsed after the initiation of the project that had been initiated to construct these waste containers only in Jaffna, Keerimale, Madirigiriya and Yudaganawa instead of constructing them in Panadura, Malamulla, Udunuwara and in Gonadhikawatte. As such, it had not been able to achieve the objectives intended by the Project timely and efficiently and the constructions of the Waste Containers had not been initiated even by the end of the year under review.

Pilisaru Project

The proper conservation of resources and the confirmation of solid waste management, the development of knowledge and competencies of the relevant persons relating to solid waste management, the implementation of solid waste management projects, the observation of programmes, facilitation, making available the necessary initial provisions, th establishmsnt of a Solid Waste Recycling Banking Scheme, taking legal action relating to the Local Authorities that do not manage solid waste properly are the key objectives of the Pilisaru Project. The total cost of the Project had been a sum of Rs.5.6 billion as per the Fund Plan for 06 years. It had been intended to obtain a sum of Rs.2.675 billion from the Treasury and a sum of Rs.03 billion from the “Green Tax” that had been introduced by the Annual Budget

One- hundred and eight operative Compost Yards, 12 Compost Yards that remain being constructed and 14 inoperative Compost Yards remained out of 139 Compost yards from the initiation of the project and by the year under review. It had not been able to implement at an average level due to not properly implementing a large number of operative Compost Yards by Local Authorities and not taking follow- up action properly by the Project.

Foreign Affairs

Building owned by the High Commission of Canberra

Payment of Rent to Missions

Renovation of the Consular General Office

Sending Imprests to the Embassy

Foreign Affairs

To be a friendly country in the world of acquiring mutual benefit is the expected outcome of the Ministry of Foreign Affairs . The following roles would have to be carried out by a global network of missions of the Ministry as 18 Divisions in local and 37 Embassies in overseas, 13 High Commissions, 01 Deputy High Commissions, 13 Consulates, 02 Permanent Missions for the United Nations , 01 Representative Office by the end of the year 2018 to obtain that outcome.

- Formulation, follow up and evaluation of policies, programmes and projects related to foreign affairs.
- Promote a favorable image of Sri Lanka and proper respond on internationally hostile antagonistic propaganda.
- Maintaining diplomatic relations with foreign countries, discussing Treaties , Agreements and Conventions.
- Grant Diplomatic Immunities and Privileges.
- Assisting in the promotion of foreign trade and tourism.
- Study of geopolitical trends and advise the government on these trends.
- Taking necessary actions for the welfare of Sri Lankans living abroad.

The audit observations revealed in carrying out the above functions by the Ministry are summarized as follows.

Building owned by the High Commission of Canberra

Two buildings valued at Australian Dollars 2,589,000 belonging to Canberra Sri Lanka High Commission in Australia have been removed from use in the years 2012 and 2007. The approval of was given at the meeting of Cabinet of Ministers on 26 September 2017 to convert one of the buildings into the official residence of the High Commissioner. Even though a sum of Rs. 260 million was allocated from the Budget 2018 for this purpose any utilization in that regard had not been made.

Payment of Rent to Missions

A sum of Rs. 93 million had been spent on rent to Missions and Official Residence in Toronto and Ottawa, Canada (excluding the Ottawa Residence) for the year under review. Arrangements had not been made to draw attention on the ability of purchasing of properties as an alternative to minimize those costs.

Renovation of the Official Residence of the High Commissioner

Without looking into alternative measures to renovate the official residence which was about 100 years old of the Ottawa High Commissioner in Canada a sum of Rs. 26.71 million had been incurred during the year under review.

Fees charged for Consular Functions

Fees charged for consular functions carried out by Sri Lankan Missions abroad, had been amended and published by the notifications bring out in the Gazette with effect from 01 March 2018 . However, a general mechanism had not been determined in respect of how to convert currency of countries that do not use the monetary units specified in that Gazette. As a result of that, the conversion rates had been determined based on various criteria.

Renovation of the Consular General Office

The Consular General's office Mumbai had been renovated at a cost of Rs 28.16 million in the year 2016. However, due to the failure of the repair work properly a sum of Rs. 999,626 had to be spent again for repairs.

Sending Imprests to the Embassy

Due to sanctions imposed by the United States, sending of imprests to the Embassy of Tehran had been made by the Consulate General of Dubai. For this purpose, the Ambassador of Tehran had to travel to Dubai every month. This process had been an insecure and costly and a sum of Rs. 5.12 million and Rs. 3.83 had been incurred respectively in the years 2017 and 2018 as air tickets and other allowances.

Daily Income from the Pilgrim Rests

A list of pilgrims whom visits to the Pilgrim Rest administered under the High Commission Office of Sri Lanka in New Delhi had not been updated. As a result, an adequate mechanism had not been introduced to ascertain the accuracy of the number of receipts issued in relation to the daily income from the pilgrim rest and whether all the income received deposited in bank. Further, a proper recruitment procedure had not been followed in respect of the Reverent and an officer who was attached on contract basis for the activities of there.

Foreign Employment	Non-maintenance of an Updated Information Non-implementation of an Adequate Programme to Promote the Field of Foreign Employment Not Taking Action on Irregularities Non-settlement of Kuwaiti Compensations Duly Charging Various Fees from the Labourers Emigrated from the Country Payment of Allowances for the Staff without getting a Systematic Approval Implementation of an Insurance Scheme for Employees without a Systematic Approval

Foreign Employment

Formulation of policies required to increase foreign employment opportunities and to augment the contribution of foreign remittances to the National Economy was the expected outcome in the field of foreign employment. The following role had to be accomplished by 02 statutory Boards / Institutions which are under the purview of the Ministry of Foreign Employment.

- Formulation and implementation of policies, programmes and projects related to foreign employment.
- Establishment of the welfare of migrating employees and the welfare of nonresidential Sri Lankans.
- Regulation and supervision of registered foreign employment agencies.
- Career guidance for foreign employment.

The Audit observations revealed in the audit test checks carried out pertaining to the accomplishment of the aforementioned roles by the statutory institutions under the purview of the Ministry are summarized and stated below.

Non-maintenance of an Updated Information System related to the Field of Foreign Employment

In terms of Section 53 (1) of the Sri Lanka Bureau of Foreign Employment Act, No. 21 of 1985, the Bureau shall maintain an Information Date Bank in respect of Sri Lankans employed outside Sri Lanka and who return on completion of such employment. However, the Ministry of Foreign Employment and Sri Lanka Bureau of Foreign Employment had not maintained an updated Information Date Bank with the coordination of the institutions related to the field even by the end of the year under review. Specifically, the Bureau had not received the facility of getting information of labourers, who leave the country for getting foreign employments and who return to Sri Lanka, in collaboration with the Data system maintained by the Department of Immigration and Emigration. This situation had hindered the process of giving accelerated solutions to various issues in the field and the implementation of national emigration and migration policy and the other national and international laws and policies on emigration.

Making Arrangements to Promote the Field of Foreign Employment

It is very important to maintain the coordination with Sri Lankan labourers migrated from Sri Lanka, confirmation of the safety of the migrated labourer, establishment of a high standard qualitative foreign employment market for emigrated labourers, obtaining diplomatic assistance for exchanging knowledge among states and exchanging the other resources and maintaining strong Modes of Understanding. However, when the issues prevailing in the field are considered, it is clear that an adequate programme has not been implemented for maintaining the aforementioned relationships.

Taking Action on Irregularities

Special Investigation Unit had been initiated in the Bureau in accordance with a Decision of the Cabinet of Ministers for making necessary arrangements on various irregularities occurred in the field of foreign employment. Thirty Six (36) employees including 17 police officers had been attached to this Unit. Two thousand four hundred and fifty two (2452) complaints had been lodged to the Unit in the year 2018 and investigation of 1,364 out of those complaints had been finalized. Steps had been taken to refer 322 complaints to the Police Stations and 1088 complaints were being investigated even by 31 December 2018.

Two hundred and seventy four (274) complaints related to financial frauds amounting to Rs. 108.46 million committed by promising to provide foreign employment opportunities during the period of 13 months in the year 2017 and 2018 had been received to the Unit. Those complaints had been referred to police stations after getting statements at the Special Investigation Unit as it was not possible to find written confirmations for such promises given for the provision of foreign employments. Following up activities had not been carried out in relation to those complaints and it was not possible to minimize such irregularities occurred in the field of foreign employment merely by initiating the Unit.

Minimizing the Number of Employees Attending Security Houses

10,324 Sri Lankan women, out of the women came to Middle East countries seeking employments during the previous three consecutive years, attended the Foreign Missions for the protection and they had been directed into security houses. Two hundred and fifty (250) detainees had stayed until the end of the year 2017 and 20 women out of those detainees had stayed in those houses over 06 months. Further, a total of Rs.43.30 million had been spent by the Government in the year 2017 for paying rents of those houses, for food and medical assistance. A total of Rs.87.32 million had been spent for that purpose during the year 2018 as well and 2,383 detainees had attended the security houses. Action had not been taken to investigate the reasons for women to attend security houses constantly and a methodology for minimizing the situation had not yet been implemented.

Non-settlement of Kuwaiti Compensations Duly

The balance of Rs. 3,177.56 million was in the Fund Account as at 31 December 2018, which had been maintained in relation to the compensation received from the United Nations Compensation Commission for the payment of compensation for Sri Lankans who had employed in Kuwait during the Gulf War 1990/199. The actual amount that should be paid to the claimants had become Rs. 251.45 million. However, the Bureau had invested the amount without settling it and had collected a total income amounting to Rs. 2,926.10 million.

Rataviru Project

Under the housing loan scheme implemented for the emigrants in collaboration with the Samurdhi Authority of Sri Lanka and the Bureau, a loan amounting to Rs. 3,557 million had been provided to 12,078 emigrants by 20 September 2018 by the Samurdhi Bank. 2,157 persons migrated had default the payment of loans amounting to 214.68 million. Loans had been granted to 1,573 emigrants in contrary to the Conditions of providing loans and without any bond. This Scheme had become inactive due to not performing functions in compliance with the Agreement and weaknesses in implementing the project and in carrying out following up activities. The Bureau had not recorded any information pertaining to this. The Bureau had deposited a sum of Rs. 100 million in the Account maintained in favour of the Samurdhi Authority in the Bank of Ceylon instead of depositing a sum of Rs. 100 million in favour of the Bureau in terms of the Agreement related to the aforementioned function. As a result, the Bureau had been deprived of the interest related to that amount from the year 2014.

Charging of Various Fees from the Labourers Emigrated from the Country

In terms of the Provisions of the Sri Lanka Bureau of Foreign Employment Act, No. 21 of 1985, the Bureau can charge an amount of Rs. 15,200 in an initial registration and Rs. 3,200 in re-registration from persons emigrating for foreign employments. However, the Bureau had charged fees by various methods from emigrating labourers without obtaining formal approval and without adopting a systematic methodology for determining the fees. Therefore, The Bureau was able to earn an income of Rs. 391.67 million merely during the year 2018.

Payment of Allowances for the Staff without getting a Systematic Approval

Action had been taken to pay staff allowances under 09 methods on the criteria determined by the Bureau without obtaining the approval of the Secretary of the General Treasury as per Section 9.7 of the Public Enterprises Circular No. PED/12 of 02 June 2003. Amounts of Rs. 83.17 million and Rs. 86.40 million had been incurred in the years 2017 and 2018 respectively in this regard. Likely, in addition to the incentives of Rs. 90.35 million paid in the year 2018, the Bureau had paid a sum of Rs. 17,500 per one officer as special incentive allowance in accordance with the decision taken by the Cabinet of Ministers on 20 June 2018 and thereby, a total of Rs. 28.63 million had been paid by the Bureau.

Implementation of an Insurance Scheme for Employees without a Systematic Approval

An Insurance scheme of reimbursing medical bills and paying compensation for accidents had been implemented from the year 1995 for the staff of the Bureau without obtaining the approval of the Public Enterprises Department. Full amount of compensation amounts in relation to the scheme had been paid annually using the income of the Bureau and amounts of Rs. 45.09 and Rs. 44.29 million had been incurred on that in the years 2017 and 2018 respectively. It is not allowed to incur such expenditure from the Funds of the Bureau in terms of Sub Section 17 (3) of Part II of the Sri Lanka Bureau of Foreign Employment Act No. 21 of 1985.

Development of Fisheries and Aquatic Resources	
	Gradual Decline in the Annual Fish Production
	Non-Removal of Silt in Lagoons for which Provisions had been made
	Purchase of Boundary Stones for the Demarcation of Lagoons without complying with the relevant standards
	Manufacturing of an Ambulance Boat
	Manufacturing of Multi-day Vessels
	Allowing to Misappropriate Public Funds
	Purchase of Fishing Nets exceeding the Requirement
	Underutilized Assets
	Payment of Salaries and Wages of the Officers released

Development of Fisheries and Aquatic Resources

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

- Formulation, taking follow-up action, and evaluation of policies, programs, and projects relating to the scope of the Departments, Statutory Institutions, and Corporations functioning under the purview of the Ministry of Fisheries and Aquatic Resources, and the Ministry.
- Development and management of marine brackish water and fresh water fisheries.
- Operation and management of fishing vessels belonging to the Government.
- Development and management of fishing activities within the exclusive economic zone.
- Establishment and implementation of ice factories, cold rooms, and other infrastructures required in fishing industry.
- Development of animate and inanimate national aquatic resources.
- Manufacture, import, and distribution of fishing vessels and fishing gear.
- Development and management of aqua farming including salt water 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-ofthe-art scientific methodologies.

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

Gradual Decline in the Annual Fish Production

Even though the expected target of fish production of the year under review was 633,750 metric tons, the quantity produced had been 527,060 metric tons. Even though the fish production of the year 2014 had been 535,050 metric tons, it had declined by 7,990 metric tons up to 527,060 metric tons by the end of the year 2018. Details are given in Diagram 46

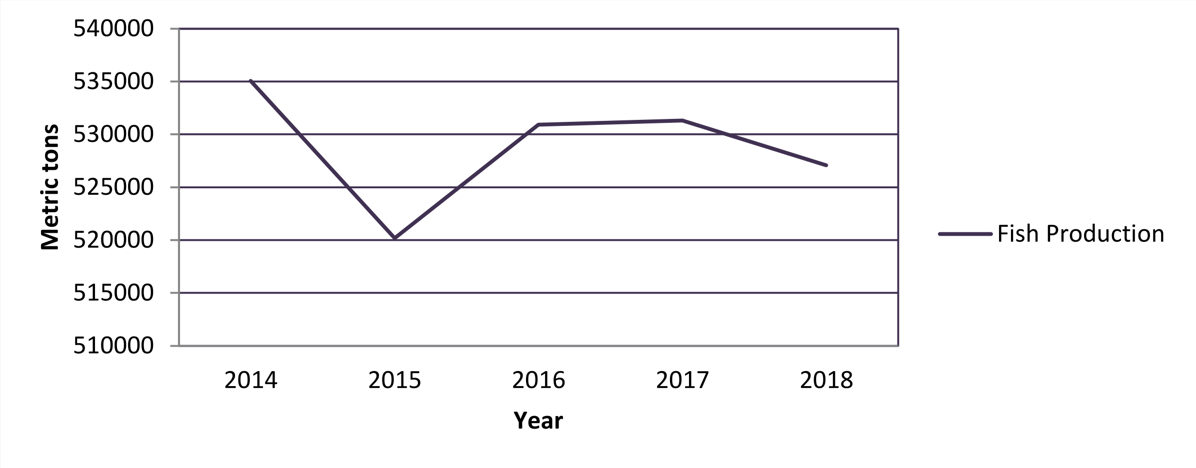


Table 46 - Annual Fish Production
Source: Statistic Division of the Ministry of Fisheries and Aquatic Resources

Increase in the Import of Total Fish and Fish Products

The import of total fish and fish products in the years 2017 and 2018 had been 24,827 metric tons and 27,998 metric tons respectively and it had increased by 3,171 metric tons as compared with the year 2017. Nevertheless, the contribution of fish and fish products to the Gross Domestic Production had been 1.3 per cent and 1.2 per cent in the years 2017 and 2018 respectively.

Removal of Silt in Lagoons

A provision of Rs.1,000 million had been made by the Annual Estimate of the year 2018 to remove silt and clean 10 lagoons. Even though it had been stated that priority was given to remove silt in lagoons at Puttalam, Nayaaru, Arugambay and Rekawa by utilizing the said provision, no development work of any lagoon had been commenced even by 31 May 2019.

Purchase of Boundary Stones for the Demarcation of Lagoons

The necessity of demarcating lagoons had been identified for maintaining as a special reservation by the Department of Fisheries and Aquatic Resources. Accordingly, it had been planned to purchase 19888 boundary stones with 5x 6 square feet at a cost of Rs.31.96 million for the demarcation of 10 lagoons and 11264 boundary stones had been provided by January 2019. A sum of Rs.7.70 million had been spent for providing 4831 boundary stones as at 31 December 2018. However, the said boundary stones had not been used for the demarcation of lagoons despite a lapse of 6 months as at June 2019. Those boundary stones were piled up at the lagoons nearby and it was revealed that certain boundary stones were not complied with the relevant standards.

Construction of the Building of Vessel Monitoring Centre

In terms of Guidelines 4.3.1 and 4.3.2 of the Government Procurement Guidelines, the variance should have been Rs.8,974,795 as per the maximum contingencies payable for the construction contract of extending the building of Vessel Monitoring Centre of the Department of Fisheries and Aquatic Resources based on the total cost estimate. A payment up to Rs.15.93 million had been made for physical contingencies exceeding the said value. As such, a sum of Rs.6.96 million had been overpaid without an approval contrary to the Procurement Guideline.

Manufacturing of an Ambulance Boat

An Ambulance Boat had been manufactured at a cost of Rs.4.52 million by the Ceynor Foundation Limited upon an order placed by the Uva Provincial Ministry of Health Services in the year 2015 without entering into a written agreement. A boat engine valued at Rs.1.13 million had been purchased and installed in the boat without an assurance after having examined by a Technical Evaluation Committee to the effect that it complied with the relevant specifications. The buyer had rejected to purchase the boat as the said engine overheats. As such, the cost of Rs.4.52 million incurred on the boat and engine was not possible to be recovered. A formal inquiry on the officers responsible in this connection, had not been held even by 29 October 2018.

Manufacturing of Multi-day Vessels

The Cabinet of Ministers had decided on 06 July 2016 to manufacture and provide 10 multi-day vessels to the Cey-Nor Foundation with a view to supplying quality fish products to the consumers by minimizing the post-harvest losses of fish. The manufacturing price of a multi-day vessel had been assessed at Rs.26 million and the Government subsidy was fifty per cent while the fisherman should bear fifty per cent. The said activity was planned to be carried out before 15 December 2016 and as such, 05 of the multi-day vessels had been commenced to be manufactured by the Cey-Nor Foundation while other 05 vessels had been commenced to be manufactured by two private yards registered in the Department of Fisheries and Aquatic Resources under the supervision of Cey-Nor Foundation.

Even though the manufacturing work of 05 multi-day vessels should be completed by the Cey-Nor Foundation before 15 December 2016, manufacturing of one multi-day vessel by the Cey-Nor Foundation and the manufacturing of 3 multi-day vessels by a private company had not been completed as at 31 December 2018.

A vessel manufactured by the Cey-Nor Foundation and given to a fisherman was destroyed from fire in the first voyage on 22 March 2018. Even though the Marine Engineer Assistant of the Department of Fisheries and Aquatic Resources had confirmed on 20 February 2018 that the multi-day vessel had properly manufactured, a formal inquiry on the said damage had not been held in terms of Financial Regulation 103 and 104.

Misappropriation of Public Funds

The National Aquaculture Development Authority had paid a sum of Rs.42.57 million to the supplier for the purchase of 03 machines valued at Rs.161.40 million to remove weeds and debris under the Lagoon Development Programme. The documents of bonds presented for payment of advances and signatures were forgery and advances amounting to Rs.42.57 million had been paid based on those forged documents. The said advances had been recovered after giving opportunity to utilize on private purposes for a period about 06 months.

Purchase of Fishing Nets exceeding the Requirement

Fishing nets valued at Rs.21.41 million had not been distributed and remained in 15 centres including the Head Office of the National Aquaculture Development Authority as at 31 December 2017. Out of Rs.8.93 million spent on the management of parent fish as at 30 September 2018, a sum of Rs.7.18 million or 80 per cent had been spent on the purchase of fishing nets. Even though a stock of nets valued at Rs.17.71 million existed in the centres at Dambulla, Kala wewa, Udawalawa, Iranamadu and Muruthawela, nets valued at Rs.4.90 million had been distributed to the same centres mentioned above in the year 2018 as well.

Underutilized Assets

An old By-product Factory in Anuradhapura, 07 Ice Plants in Polonnaruwa, Ratnapura, Puttalam, Velani, Saindamarudu, Beruwala and Hambanthota, an Government Quarter, dry fish yard, Net Mending Hall in Trincomalee, an old dry fish yard in Mannar, Ice Plant in the land at Pesalai, 03 parts of cool room containers in Batticaloa, land and cool room building at Kareipur in Jaffna, the land and old circuit bungalow in Kurunegala owned by the Ceylon Fisheries Corporation had remained idle without being used over a period ranging from 02 years to 29 years. Further, 20 motor vehicles belonging to the Ceylon Fisheries Corporation had remained idle in the premises of Corporation and relevant regions. Moreover, 07 compressors, 13 cool rooms, 04 deep cool rooms and 02 condensers had remained idle.

Payment of Salaries and Wages of the Officers released

Five officers of the Ceylon Fisheries Corporation had been released to 04 other Government institutions in the year under review. A sum of Rs.1.66 million from funds of the Corporation had been paid as salaries and wages for three officers out of the said five officers.

Purchase of Fish Harvest contrary to Expected Prices

Stocks of fish had been purchased and sold on the approval of the then Deputy Chairman of the Ceylon Fisheries Corporation contrary to the expected prices of the Tuna Project commenced under the Treasury grants for the purchase of excess fish harvest of the fishermen until the sanction imposed by the European Union was lifted. As such, a loss of Rs.47.36 million had sustained during a period of 02 weeks.

Reinstatement in the Post without holding a Disciplinary Inquiry

The Ceylon Fishery Harbours Corporation had paid a sum of Rs.2.79 million as advances to the contractor in respect of the contract of obtaining 06 fuel tanks at a cost of Rs.5.06 million in the year 2007. Even though instructions had been given to hold a disciplinary inquiry against the Supplies Manager who was responsible for the failure in obtaining those fuel tanks to the Corporation, the relevant Supplies Manager had been reinstated in the post without holding the said disciplinary inquiry.

Non-installation of Bridge Scales for Use

The contract of Rs.4.48 million for the purchase of bridge scales with a capacity of 40 tons for the Fishery Harbours in Galle, Mirissa, Kudawella and Beruwala under the National Competitive Bidding, had been awarded by the Ceylon Fishery Harbours Corporation to a private company on 23 December 2016. Even though the contractor should have install the bridge scales in 04 Fishery Harbours within 120 days from 28 December 2016, the date of accepting the contract to 26 April 2017, no bridge scale in any harbour had been installed for use despite a lapse of 777 days as at 12 February 2019.

Health and Nutrition	Failure to credit the collected income to the Consolidated Fund **Failure to use Finger Scanners** **Irregular Payment of Overtime** **Purchase of Busses without a Feasibility Study** **Ordering Drugs in accordance with a Proper Timetable** quality failed medical supplies **Expired Medical Supplies** **Payment of Salaries to the Medical Officers who had Vacated the Service** **Failure to recover the Possession of the Properties belonging to the Dr. Neville Fernando Hospital** **Remaining Two Hydroclave Machines in idle** Purchase of a Land in the Name of Hospital Development Association **Irregular Payment of Specimen Allowances**

Health and Nutrition

The Ministry of Health and Nutrition is expected to ensure aqualitative health service through theformulation of policies, strategies anddevelopment activities for the sake of ahealthy citizenry contributing to a rapideconomic development in the country. Inorder to achieve that result, the Ministrycomprises a Department, and 12 StatutoryBoards/Institutions. Those Institutions shouldexecute the following duties.

- Policy Formulation, Implementation of Programmesand Projects for the Health Sector
- Setting up Standards andGuidelines for Healthcare Delivery.
- Human Resource Development.
- Management, planning, andsystems development.
- Resource Allocation, Monitoring and Evaluation of Programmes and Projects
- Administration of Main Hospitals.
- Regulation and supervision ofPrivate Health Institutions.
- Matters relating to National HealthInsurance Programmes.
- Formulation and implementation of Programmes to Improve PublicHealth and Nutrition.
- Expand Research Opportunities inthe health sector.

A summary of audit observations made in audit test checks conducted on the execution of the said functions is given below.

Failure to Utilize Provision

Provision worth Rs. 2,664 million comprising Rs. 1,198 million of provision made for 15 Capital Objects by the Ministry of Health, Nutrition & Indigenous Medicine, and provision amounting to Rs. 1,466 million made on 12 Objects through supplementary estimates & transfers as per Financial Regulation 66, had been saved in full without being utilized.

of 6 months from December 2016 out of the service and maintenance charge totalling Rs. 3 million paid in August 2016 relating to the period 2016/2017, had become uneconomic. Furthermore, the said 2 Hydroclave machines and the 2 electronic steam boilers connected to the machines , had remained idle from December 2016.

Procurement of a Pet CT Scanner

The lowest bid of Rs. 156 million had been furnished for the procurement relating to supply , installation, inspection and activation of a Pet CT Scanner for the Apeksha Hospital, Maharagama. The contract had been awarded to the bidder who furnished the second bid which

Failure to Credit the Income to the Government Revenue

The sum of Rs. 120 million received by the National Blood Transfusion Service through the sale of 31,572 liters of excess blood plasma, had not been credited to the Government revenue in terms of Article 149 of the Constitution of the Democratic Socialist Republic of Sri Lanka; instead, that sum had been credited to the National Blood Bank Development Fund maintained under the National Health Development Fund.

Furthermore, the procurement activities relating to the rental of the cafeteria at the General Hospital, Kurunegala had not been executed by the Hospital; instead, the welfare association of the employees of the Hospital had executed the procurement. The rent income amounting to Rs. 7 million, instead of being credited to the Government revenue, had been credited to an account belonging to the welfare association.

Eight locations of the Teaching Hospital, Jaffna had been provided for the welfare association, and 05 of those locations had been given on lease to private sector by the welfare association thus earning an income. As the welfare association had been allowed to collect the lease rent that should have been received by the Hospital, the Government had been deprived of an income totalling Rs. 4.21 million. A monthly income ranging from Rs. 30,000 to Rs. 300,000 had been earned through the business activities maintained by the welfare association at the other 03 locations of the building. No income whatsoever had been credited to the Consolidated Fund therefrom.

Failure to Use Finger Scanners

A number of 224 finger scanners purchased by the Ministry by spending a sum of Rs. 32 million in the year 2017 and the years prior, had not been made use of even by 31 May 2019. In terms of the Public Administration Circular, No. 03/2017 , dated 19 April 2017, and the Letter, No. DMS/0016 of the Deputy Secretary of the Treasury, dated 12 May 2017, it is necessary to ensure that no overtime payments should be made under the new salary, in case that finger scanners are not used. However, the Ministry had made overtime payments based on the current salary. Due to Medical Officers of the top level management refusing to use the finger scanners, the other employees had also refused to do so.

Irregular Payment of Overtime

Contrary to provisions set out in Section 1.1 of Chapter XXVIII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka and Public Administration Circular, No. 09/2006, dated 30 May 2006, the Secretary to the Ministry had issued the General Circular, No. 02-20/2014 on 05 February 2014 fixing office hours for the Medical Officers.

Based on the said Circular, the Medical Officers performing duties relating to general administration of health services at various sections of the Head Office of the Ministry without being directly involved in clinical duties, had been paid the overtime that should have been paid only to the Medical Officers performing clinical duties, for a period of one or two hours per day.

The Medical Officers who had obtained the overtime allowance, did not use the finger scanners to record their arrival and departure in terms of Public Administration Circular, No. 03/2017, dated 19 April 2017 read in conjunction with Section 1.3 of Chapter XXVIII of the Establishments Code. Instead, the overtime payments were made based on records on arrival and departure in a diary that had been signed once a month by a supervising officer.

Irregular Collection of Monies and Bearing Expenses

A total of Rs. 5 million comprising a sum of Rs. 3 million from 04 Government institutions, had been collected to a bank account under the name of Director General of Health Services with no authority at all to hold a ceremony to pay tribute to the Minister of Health, Nutrition & Indigenous Medicine, thus spending a sum of Rs. 7 million on the expenses of the ceremony. As for the event management of the ceremony, a minimum bid of Rs. 6 million had been presented. Action had been taken focusing on a predetermined institution without paying attention of the said bid which had been presented based on bogus documents, and deviating from the Government Procurement Guidelines, the contract had been awarded to the predetermined institution. Among the parties who had funded the ceremony, was the contractor supplying medical gasses to a majority of hospitals functioning under the Ministry.

Allowing a Non-government Officer to Proceed Abroad and Incurring Expenses

Although not being appointed as an officer of the staff of the Minister, a non-government officer who had posed as Media Secretary of the staff of the Minister, Event Manager and Coordinator of Functions, had been allowed to participate in a conference held in New York , United States on 26 and 27 September 2018, and a conference held in Switzerland during 01 – 06 October 2018. The Ministry had spent a total of Rs. 1,173,045 in that connection comprising a sum of Rs. 487,500 on air tickets and a sum of Rs. 685,545 on incidental & combined allowances.

Purchase of Busses without a Feasibility Study

Five air-conditioned luxury busses with 54 seats at Rs. 10.6 million each, had been purchased at the expenditure of Rs. 53 million for 05 nursing schools in the year under review by exceeding the financial limit of Rs. 40 million approved by the National Budget Department. Those busses, purchased without a feasibility study, had remained underutilized and parked at the nursing schools due to reasons such as, difficulties in running on the roads in areas of the nursing schools, impossibility to drive into the premises of the nursing schools, and various technical issues.

Failure to Order Drugs in accordance with a Proper Timetable

The Medical Supplies Division had purchased the estimated items by following the policy of issuing orders to the State Pharmaceuticals Corporation with a supply period of 11 months. Nevertheless, the State Pharmaceuticals Corporation had failed to provide supplies without delays. As for the medical supplies relating to the year under review, the total number of items ordered, had been 8,918 whereas 5,544 items therefrom equivalent to 62 per cent, had not been supplied by the State Pharmaceuticals Corporation within the year. Owing to this delay, medical supplies with higher costs had been purchased from the local market in every year. Accordingly, due to the delay in the supply of main order, the total cost of the medical supplies purchased from the local market during the year under review through the State Pharmaceuticals Corporation together with the commercial stock of the State Pharmaceuticals Corporation, amounted to Rs. 5,242 million.

Medical Supplies with Quality Failures

The total cost of 48 items of medical supplies that had been withdrawn during the year under review due to quality failure, amounted to Rs. 538 million. That included 08 types of antibiotics, and medicines for dengue, cholesterol, epilepsy, diabetes and ophthalmic diseases, as well as surgical items and gauze. At the time of receiving orders to withdraw the quality failed medical supplies, it was revealed in audit test check that certain items had already been issued 100 per cent to the patients. As such, it was revealed in the year under review that the drugs so issued to the patients, had been quality failed.

Expired Medical Supplies

It was verified in accordance with the information obtained from the Pronto software that medical supplies worth Rs. 126 million, comprising supplies costing Rs. 31 million existed at 08 stores in the Medical Supplies Division and supplies costing Rs. 95 million stored at 50 hospitals and institutions under the Ministry, had expired in the year 2018. Of that, 4 items costing Rs. 9 million had expired in the stores of the Medical Supplies Division whilst 10 items costing Rs. 12 million each costing over Rs. 1 million, had expired in 08 hospitals. Overestimations and being slow-moving items had attributed to this scenario.

Obtaining Stocks of Drugs on Overestimations

The item, Calcium Lactate 300 mg administered to pregnant mothers, had been obtained on overestimates. In order to get rid of the excess stocks, the said item had been distributed among the school children over 13 years and the participants in Suwanari clinics without seeking approval of the Family Health Bureau. Furthermore, action had been taken to administer an overdose of that drug to lactating mothers. Stocks of the drug worth Rs. 13.5 million, the distribution of which could not be completed, had become expired.

Failure to Return to the Service after Proceeding Abroad on Academic Affairs

A sum of Rs. 118 million remained receivable from 69 officers who had breached bonds entered into with the Government due to reasons such as, failure to report for duty after proceeding abroad for post graduate studies, failure to provide the Government with mandatory service after returning to the service, abstaining to report to the duty after proceeding abroad on no-pay leave for job opportunities, and abruptly ending the training opportunities. The sum receivable from 141 other officers had not been calculated by the Ministry. Furthermore, due to failure in taking into account the overpaid salaries, receivable loan balances, and other payments, the sum recovered from 06 Medical Officers had been Rs. 2 million less before closing their files whilst the sum receivable from 06 more Medical Officers had been undercalculated by Rs. 2.8 million.

Permanent Appointments Made Irregularly

There existed no possibility for the employees recruited on contract basis to the projects implemented under Management Services Circular, No. 33, dated 05 April 2007, to be made permanent in accordance with Public Administration Circular, No. 25/2014, dated 12 November 2014. Furthermore, despite the impossibility in granting permanent appointments to the employees not belonging to the service categories stated in the Public Administration Circular, permanent appointments had been granted to 120 such project employees.

Retention of Consumables without being Distributed

The Family Health Bureau had received consumables worth US $ 500,000 provided by the SAARC Development Fund as donations. A period of 27-105 days had been spent for the clearance of those consumables from the airport thereby incurring clearance charges totaling Rs. 15.7 million including demurrages amounting to Rs. 6 million. A stock of 145,000 units of Dispo Van Single Use 24 G 20 ml syringes included in the said stock of consumables, had been retained at the premises of the Family Health Bureau and the Chintana Trainintg Center, Nainamadama since the year 2015 without being distributed. The lifetime of those items had expired in the months of March, July, and October, 2017. As such, the demurrages and the clearance charges totaling Rs. 1.9 million spent on the said 145,000 syringes, had become futile.

Payment of Salaries to the Medical Officers who Vacated Service

Letters of vacation of post had been issued after a delay of 01 – 57 months from the date of the Medical Officers' vacation of service. There existed instances in which salaries had been paid with respect to periods during which they had not served. Due to failure in finding out the present addresses of the Medical Officer who vacated the service, legal action could not be taken for the recovery of Rs. 53 million receivable from them. Instances were observed in which follow up action had not been taken on the legal action taken in that connection.

Deficiencies in the Management of Vehicles

it was verified in accordance with the data collected from the Department of Motor Traffic that there were 5,556 vehicles registered under miscellaneous designations in the health service such as, Secretary to the Ministry, and Director General of Health Services, but according to the register of vehicles maintained at the Ministry, that number was 5,792 of which the physical existence of 1,794 vehicles had not been verified. According to the Department of Motor Traffic, the physical existence of 171 motor vehicles and motorbikes out of 202 vehicles not included in the register of vehicles made available by the Ministry despite being owned by the Ministry, had not been verified.

Albeit included in the register of vehicles made available by the Ministry, the basis , in regard to 177 motor vehicles and motorbikes verified by the Department of Motor Traffic as being transferred to external parties, had not been ascertained by the Ministry.

The Secretary to the Ministry had requested the Department of Public Finance on 24 March 2017 for the elimination of 584 vehicles of which the physical existence could not be verified, from the Register of Fixed Assets. However, approval had not been granted on that request.

In excess of the number of vehicles entitled in terms of Section 4.1 of the Circular, No. CA/1/17/1 of the President's Secretary relating to the Management of Government Expenditure, dated 14 May 2010, sixteen vehicles had been assigned to the Minister, the staff, and the Office of the Minister, whilst 8 vehicles had been assigned to the Deputy Minister, the staff, and the Deputy Minister's office. Furthermore, in addition to the fuel allowance that the Minister and the Deputy Minister were entitled to, the Ministry provided fuel worth Rs. 2 million and Rs.

4 million respectively during the year 2017 alone.

During a period of 06 months in the year 2017 alone, pool vehicles had been provided in 314 instances in addition to the vehicles assigned to the Minister, Deputy Minister, and the staff. As for 102 instances therefrom, fuel expenses totaling Rs. 795,375 had been incurred by the Ministry with respect to 56,182 Km.

Deviation from the Loan Agreement

The loan agreement valued at US $ 20 million or 75 million Saudi Riyals (appx Rs. 3,000 million) had been signed on 26 March 2008 for the construction of an epilepsy hospital at the National Hospital of Sri Lanka and epilepsy health centers in 09 provinces in the island. According to the said loan agreement, the project had been scheduled to be completed by 31 December 2009. Only the epilepsy hospital had been constructed after a delay of 08 years though, the constructions of health centers in 09 provinces had not at least been commenced. Furthermore, contrary to the loan agreement, the loan amount approved for the construction of health centers in 09 provinces had also been spent on the construction of epilepsy hospital. In order to construct the 09 epilepsy health centers - an objective of the project, an additional loan agreement had been entered into on 30 October 2015 for obtaining a loan of 45 million Saudi Riyals equivalent to US $ 12 million (appx Rs. 1,800 million) from the Saudi Development Fund. The loan , instead of being utilized on the construction of health centers, had been utilized to purchase diagnostic medical imaging equipment for the epilepsy hospital contrary to the conditions of the loan agreement.

Taking Possession of the Properties belonging to the Dr. Neville Fernando Hospital, Malambe

Considering the Cabinet Memorandum that proposed : to reach an agreement for transferring the physical possession of the buildings including the properties belonging to Dr. Neville Fernando Sri Lanka – Russia Friendship Teaching Hospital in Malambe, to the Government of Sri Lanka on a sublease for a period of 10 years ; until a loan of Rs. 1,013 million obtained by a private institution from a state bank for the establishment of the Hospital is repaid, the ownership and legality of the said properties should be retained with said private institution ; and , once the loan is settled in full, the ownership of the Hospital along with all the properties should be transferred to the Government of Sri Lanka, approval of the Cabinet had been granted on 05 July 2017 so as for the Government to take over the Hospital.

Even after a period of 2 years since the Cabinet approval had been received, a sublease agreement had not been entered into in order to vest the physical possession of buildings and properties of the Hospital with the Government. However, the Ministry had spent a sum of Rs. 583 million on the settlement of revenue expenditure of the Hospital relating to the period from 01 August 2017 to 31 December 2018.

Overpayments Made on Nutritional Supplements

A nutritionist with knowledge about nutritional supplements had had not been appointed to the Technical Evaluation Committee relating to procuring food items for the National Hospital of Sri Lanka for the year 2016/2017. The unit of measurement for 05 nutritional supplements had been shown as cans or sachets in the estimate prepared based on monthly requirements and recommendations of the Medical Officers and Nutritionists, but the weight and types of nutrients had not been mentioned. Furthermore, food items on which bids had been presented promising to supply in cans, had been supplied in sachets, and vice versa. The supplier who had furnished a bid of Rs. 1,390 per tin containing 05 sachets of the nutritional supplement, named Impact, had been overpaid a sum of Rs. 25 million as payments had been made to him in the manner of Rs. 1,390 per sachet for a total of 23,304 sachets. The average market price of a sachet of Impact weighing 74 grams was only Rs. 365.

The Two Hydroclave Machines Remaining Idle

A private institution had been entrusted to service and maintain the two Hydroclave machines installed at the National Hospital of Sri Lanka for destroying clinical waste. However, the process of destroying clinical waste by using those machines had been halted prior to 6 months of the expiration of the agreement period. As such, the sum of Rs. 1.6 million paid for the period was also the highest and revised, amounting to Rs. 192 million. In terms of Guideline 5.4.5 of the Procurement Guidelines, an advance payment not exceeding 30 per cent of the value of Letter of Credit may be paid on the submission of an acceptable guarantee. Contrary to that, the Bio Medical Engineering Service Division had opened Letters of Credit under the name of the parent company of the Pet CT Scanner to the value of 80 per cent of the value of the machine. The supplier had been paid a sum of Rs. 179 million in regard to this Procurement as at 30 March 2018.

Funds had been raised with a citizen’s organization for purchasing the machine, and the funds had been credited to an account maintained under the name of National Health Development Fund. However, prior approval of the Secretary to the Ministry of Health, Nutrition & Indigenous Medicine, and the National Health Development Fund had not been obtained thereon.

The said citizen’s organization that had not been properly authorized by the Department of Social Services to act as a charity organization to provide social welfare and common amenities, had raised funds from the general public. A television channel had only involved in promotional activities whilst the said citizen’s organization had not donated any amount for purchasing the machine. The said organization had influenced the officials of the Ministry whilst commenting on the specifications of the machine.

At present, that organization functions using letter heads mentioning as a limited company, but the Ministry has not drawn attention on the said organization enjoying an improper authority to collect monies from the general public.

Purchase of a Land Under the Name of Hospital Development Association

Letters had been exchanged with the District Secretary of Jaffna with respect to the Director of the Teaching Hospital of Jaffna and the Hospital Development Association purchasing a land. It was verified according to those letters that an NGO, named Jaffna Teaching Hospital Development Association was expecting to purchase the land. However, by exceeding the powers vested in the District Secretary and the Director of the Hospital, public funds amounting to Rs. 12.5 million had been released to the Hospital by the District Secretary without any authority or approval whatsoever, and then again the Director of the Hospital had released those funds to the Hospital Development Association.

The Hospital Development Association had purchased the land under their name by paying a sum of Rs. 12.5 million. Instead of purchasing the land by directly paying to the owner, an indirect payment method had been followed to conceal the irregularity of the transaction.

Before the funds being released by the District Secretariat for purchasing the land, it was necessary to have been satisfied with the transparency and fairness of the transaction by verifying the information such as history, plan , and assessment value of the land through folios. However, it had not been so done.

The land had been purchased on 02 August 2011, and later, the assessment report had been obtained on 19 September 2011. The assessment report had been issued with the objective of providing the land owner with the value that he had expected. Furthermore, the land had been assessed by considering the land as having a commercial value.

Constructions at the Teaching Hospital of Jafffna

Three hundred and ten contracts with the total contract value of Rs. 170 million relating to the constructions at the Teaching Hospital of Jaffna, had been awarded to an association registered as an NGO , in the years 2016, 2017, and 2018. The said association having only 06 Consultants of the Teaching Hospital of Jaffna as its members, could not be considered as a community-based organization, and had not been registered with the ICTAD under the grade M8 or above. Accordingly, this association that had not fulfilled the requirements set out in Guidelines 3.9.1 and 3.9.2 of the Government Procurement Guidelines, had been awarded the aforesaid contracts without obtaining recommendations from a Committee comprising two members appointed by the Divisional Secretariat of the division and the Head of the Department.

In accordance with the Guideline 3.9.1 of the Government Procurement Guidelines, the contracts assigned, should not be subcontracted to other parties. However, all of those contracts had been subcontracted to a welfare association chaired by the Director of the Teaching Hospital of Jaffna. Furthermore, the said welfare association - the subcontractor, did not have prior experience and professionally skilled employees, nor had registered with ICTAD. As such, the subcontracts awarded to them had been executed by deploying professionals at personal level. The transparency of procurement had been deprived since the Director of the Hospital chairing the Procurement Committee, had directly obtained the hospital contracts for the welfare association also chaired by him.

The BOQs relating to 310 contracts had been prepared by the Central Engineering Consultancy Bureau. It is the generally accepted methodology to prepare drawings by including the location of the project, how the task should be done, measurements, and the essential items used, before preparing the BOQs. However, without such drawings, the Central Engineering Consultancy Bureau had prepared the BOQs with only quantities and rates included. In the preparation of BOQs for the contracts and repairs relating to public institutions, the rates issued by the Buildings Department with respect to each area, should be taken into consideration; nevertheless, the Central Engineering Consultancy Bureau had used the rates prepared by them for the Hospital. As the Technical Officer of the Hospital had used rates other than the ones provided by Central Engineering Consultancy Bureau, the cost estimates shown in the BOQs prepared for the said items of contract, had been neither accurate, nor realistic.

Irregular Payment of Specimen Allowances

The officers in the paramedical service, such as Radiologists, Physiotherapists, Electrocardiogram Technicians, and Medical Laboratory Scientists (MLT) attached to the 3 hospitals in Polonnaruwa, Jaffna, and Badulla selected as samples, had irregularly and illegally obtained overtime payments and specimen allowances without transparence.

Efficient and fully-automated machines with lower risks had been introduced for the officers in the paramedical service. However, due to lack of an unambiguous definition for the specimen and specimen allowance, overtime payments had been made in an impractical and unfair manner.

Discrepancies existed in the Circulars on overtime allowances issued from time to time with respect to the values of specimen allowance, overtime allowance, waiting allowance, and maximum overtime allowance. A permanent and common criteria for overtime payments had not been formulated.

Action had not been taken to control overtime payments by regulating the possibility of earning overtime equivalent to several times of the basic salary through implementation of a roster . It was verified in many instances examined that a number of tests two or three times more than the ones carried out during the normal working hours had been carried out during the overtime period thereby obtaining overtime in an unusual manner. There were instances in which allowances were obtained using fake notes stating that the tests actually carried out during the normal working hours, had been carried out within the periods of interval.

Idle or Underutilized Bio Medical Equipment

Due to reasons such as, existence of vacancies, lack of Medical Officers, non-construction of buildings, lack of accessories and spare parts, transfer of the Consultant who had made the request, receipt of equipment without being requested sans requirements, failure to obtain the relevant licenses in terms of the Sri Lanka Atomic Energy Act, and failure to make repairs, 854 bio medical equipment costing Rs. 3,030 million had remained either idle or underutilized at 33 hospitals for periods ranging from 05 months to 07 years. In addition to that, 03 high energy radiology equipment purchased at the value of Rs. 726 million for cancer treatment units of the Teaching Hospitals in Jaffna, Karapitiya, and Batticaloa, had remained idle for a period of over 03 years due to non-availability of bunkers to install those machines.

Mass Media

Non-compliance with Procurement Guidelines

Payment of Surcharges to the Employees' Provident Fund

Decrease in the Sale of Newspapers

Non-implementation of Projects

Mass Media

The objectives of this Sector are formulation of Strategies for the Mass Media as a proactive agent in economic, social, cultural and political fields towards better public attitudes. The following functions should have been performed by the Ministry of Finance and Mass Media and one Department and 09 Statutory Institutions under its purview in achieving those objectives.

Formulation and implementation of policies and strategies relating to matters of public finance and mass media to ensure the optimum use of public resources in expediting the economic growth and social progress of Sri Lanka and contributing as a proactive agent in economic, social, cultural and political fields towards better public attitudes.

The summary of Audit observations revealed at the Audit test check carried out on the performance of functions mentioned above, by the Ministry, Department and Statutory Institutions, appear below.

Purchase of Communication Equipment

In the procurement for purchase of communication equipment from a foreign supplier by spending a sum of Rs.48.60 million to the Main Studio of the Channel of Coexistence, the warranty period for the parts of equipment had been mentioned as 5 years according to technical specifications of the Sri Lanka Rupavahini Corporation. However, the warranty period in the contract agreement had been limited to one year. Moreover, the contractor had agreed to provide 24 hour service assistance on any day of the week. However, the 64x64 Digital Video Switch had become inoperative before the lapse of 09 months of purchasing. The supply of service therefor had been commenced after 21 days. Moreover, it had been agreed according to specifications, to provide an additional system for this equipment and to provide additional accessories required for certain equipment. Nevertheless, action had not been taken accordingly.

Non-compliance with Procurement Guidelines

In terms of Guideline 3.6.1 of the Government Procurement Guidelines, in placing repeat orders with the original supplier for the supply of the same Goods, the value of the said order should not exceed 50 per cent of the original contract value. However, the Sri Lanka Rupavahini Corporation had purchased two cameras again in the months of March and April for US$ 47,685.52 from the contractor itself from whom three Broadcast quality HD cameras had been purchased in the months of January and February 2018. Accordingly, the value of 50 per cent of the contract had been exceeded by US$ 6,557.46.

Delay in Payments

An agreement had been entered into between a foreign private company and the Sri Lanka Rupavahini Corporation for obtaining broadcasting rights of the Rio Olympic Series held in August 2016. According to the said agreement, US$ 125,000 had to be paid to the foreign company in August 2016. The Corporation had lost a sum of Rs.2.12 million due to the disadvantageous difference in the currency ratio as a result of the delay of over two years in making that payment.

Broadcasting of Lottery Draws

The Sri Lanka Rupavahini Corporation had earned an income of Rs.763.36 million by broadcasting the lottery draw in the year under review. The Corporation had spent a production expenditure of Rs.154.01 million therefor. The sum totalling Rs.246.49 million comprised of Agent's commission and Sales Executive's commission amounting to Rs.91.40 million and Rs.1.08 million respectively. The Corporation had been deprived of Rs.91.40 million due to failure in direct connection in the said transaction by Government institution.

Non-recovery of Advances paid

The Cabinet of Ministers had granted approval in December 2014 on the concurrence of the Ministry of Finance to operate a television channel in a studio established in Italy or another country in Europe via satellite technology and to temporarily obtain equipment therefor on lease basis for taking Sri Lanka's identity to the world and promoting the knowledge and appreciation of Sri Lankans living abroad. A sum of Rs.3.45 million had been paid as advances on 02 January 2015 to a company distributing satellite technology for commencement activities thereof. Moreover, no written agreement had been entered into for the said payment and the concurrence of the Ministry of Finance as well had not been obtained. However, the said function had been completely abandoned after January 2015 and action had not been taken even by the end of the year under review to recover the advances paid.

Payment of Surcharge to the Employees' Provident Fund

According to Section 15 of the Employees' Provident Fund Act, No. 15 of 1958, the contributions of Employees' Provident Fund should be remitted to the Employees' Provident Fund before the last day of the succeeding month in which contributions of Employees' Provident Fund were deducted. However, the Sri Lanka Broadcasting Corporation had delayed in remitting the contributions of the Employees' Provident Fund abated in the years 2007 and 2008. The Corporation had paid surcharges of Rs.15.05 million relating to the period from April 2007 to December 2009 due to this delay.

Non-implementation of Projects

Even though provisions of Rs.81 million had been made for implementation of 10 internal development projects in the Department of Government Information of Sri Lanka, those projects had not been implemented in the year under review, thus saving the entire provisions made therefor.

Decrease in the Sale of Newspapers

The number of copies sold in the year under review relating to Sunday Observer, Daily News, Dinamina and Silumina newspapers published by the Associated Newspapers of Ceylon Limited had decreased, ranging from 5 per cent to 12 per cent. The number of copies sold relating to periodicals of "Tharuni", "Manchu", and "Subasetha" as well had decreased, ranging from 9 per cent to 11 per cent.

As compared with the preceding year, the income of the Commercial Publication Division, Special Publications and Digital Prints of the Associated Newspapers of Ceylon Limited had decreased by 13 per cent, 21 per cent and 63 per cent respectively.

Law and Order and Southern Development

Increase in Motor Vehicle Accidents

Decrease in solving of complaints on crimes as compared with the preceding year

Failure to develop the Information communication system

Underutilization of provisions made for "Gamata Polisiya" concept

Non-participation in the United Nations Peacekeeping Operations

Law and Order and Southern Development

The expected result of this Sector was to maintain law and order for a law abiding society and enhance the development of the Southern Province. The following functions should have been performed by the Ministry of Law and Order and Southern Development, a Department and three statutory bodies/institutions in order to achieve this objective.

- Formulation of policies, programmes and projects relating to the scope of the Department and statutory bodies for Law and Order and Southern Development, taking follow up action and evaluation, maintaining law and order, development of strategies including wide reforms ensuring social discipline.
- Vehicular traffic control.
- Control and prevention of crimes and anti-social activities.
- Conservation, safety and rehabilitation of the historical Galle Fort.
- Establishment of the Southern Development Board.

The summary of the audit observations made in the audit test check carried out on the performance of above functions is given below.

Prevention of Vehicular Accidents

Taking necessary steps in order to streamline the vehicular traffic so as to secure the lives and property of the people has been the key function of the Ministry of Law and Order and Southern Development. As compared with the preceding year, the total number of vehicular accidents had dropped by 2,133, whereas number of fatal accidents and the accidents with serious injuries had increased by 31 and 173 respectively. The number of vehicular accidents occurred during the period from the year 2016 to 2018 is shown in the Table 13

Type of Accident	No. of Accidents as at 31 December		
	2016	**2017**	**2018**
Fatal	2,824	2,922	2,953
Serious Injuries	8,148	8,302	8,475
Minor Injuries	14,604	13,592	12,264
Damages	13,510	13,072	12,064
Total	**39,086**	**37,888**	**35,756**

Figure 13 Number of Vehicular Accidents
Source : Annual Report of the Law and Order Division.

Solving Complaints on Crimes

A key index which reflects 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 so reported. As compared with the preceding year, the percentage of the number of complaints solved from the total number of complaints received by Sri Lanka Police had become a low in value relating to 09 types of crimes other than 01 type. The details appear in the Table 14.

Type of Crime	2017			2016		
	Reported	Solved	Percentage of Solution	Reported	Solved	Percentage of Solution
Grave Crimes	35,979	28,016	77.87	36,355	28,246	77.69
Minor Offences against Persons	42,224	29,303	69.40	41,888	27,831	66.44
Minor Offences against Properties	32,881	16,664	50.68	31,415	14,143	45.02
Minor Complaints	1,029,087	1,029,047	100.00	971,617	971,617	100.00
Crimes against children	2,911	1,998	68.64	3,344	1,572	47.01
Crimes against women	790	498	63.04	775	326	42.06
Liquor related offences	120,198	103,022	85.71	129,813	104,048	80.15
Offences related to narcotic drugs	107,944	104,592	96.89	124,940	120,052	96.09
Corruptions	1,055	1,025	97.16	954	868	90.99
Statutory Offences	49,013	46,857	95.60	40,607	38,102	93.83

Table 14 - Reported number of crimes and solutions
Source – Annual Performance Report 2018- Sri Lanka Police

Drugs Control

One of the key functions of the Ministry was to prevent using and trafficking of dangerous drugs. The number of persons arrested for the offences related to Heroin and Cannabis during the preceding year stood at 29,288 and 51,788 respectively and it had been 40,997 and 54,685 during the year under review. The quantity of drugs arrested in the year under review and the preceding year is shown in the Table 15

Institute	Heroin (k.g.)		Cannabis (k.g.)		Hashish (k.g.)		Cocaine (k.g.)	
	2017	2018	2017	2018	2017	2018	2017	2018
Police Narcotics Bureau	23.598	669.310	206.587	543.555	1.122	1.667	2.050	18.266
Police Stations	236.814	46.658	3,876.945	2,420.902	3.040	9.814	218.647	0.134
Special Task Force	0.295	3.831	512.882	1,267.644	-	1.846	-	0.036
Other Institutions	54.246	12.325	390.644	546.648	34.009	19.983	-	2.768
Total	**314.953**	**732.124**	**4,987.058**	**4,778.749**	**38.171**	**33.310**	**220.697**	**21.204**

Table 15- Quantity of Narcotic Drugs arrested
Source- Annual Report of Police Narcotics Bureau-2018

Development of Police Information and Communication System

Although provisions of Rs.440 million had been made for the development of Information and Communication systems and the Crime Investigation Unit of the Sri Lanka Police in keeping with the present requirements, the entire provision had been saved as it had not been used for any purpose.

Development of Community Police Concept

Provisions of Rs.150 million had been made for the purchase of equipment including motorcycles relating to the "*Gamata Polisiya*" concept and the community police activities of 483 police stations. Nevertheless, Rs.143.67 million of the above provisions had been saved without being utilized for the relevant purpose.

Establishment of Police University

For the activities such as drafting Police University Act and purchase of furniture, provisions of Rs.125 million had been made during the year under review. However, those activities had not been carried out by the end of the year and accordingly, Rs.102.94 million of the provisions made had been saved

Progress of the Construction of Buildings of the Sri Lanka Police

The implementation of 04 construction projects of the Sri Lanka Police under the middle term budget frame 2016-2018 at a total cost of Rs.1,808.09 million had been awarded to the Buildings Department. The physical progress of these 04 projects relating to the construction of constable quarters, auditorium, official quarters and Traffic Headquarters Building had ranged from 2 per cent to 60 per cent.

UN MISSION Project of the Special Task Post

For the establishment of a specific troop in the Special Task Force to carry out operations of United Nations Peacekeeping mission, steps were taking from the year 2016 to purchase necessary equipment including weapons, armed vehicles and communication equipment. Three hundred and twenty officers had been trained for that purpose in the year 2016. Sums totalling Rs.792 million had been spent for the purchase of equipment in the years 2017 and 2018 and those equipment had been stored in the Katukurunda camp. The officers of the Special Task Force had not involved in the United Nations Peacekeeping operations even by May 2019.

Ports and Shipping	**Non-achievement of Expected Objectives.** **Under-utilization of Foreign Loan.** **Failure to Ensure the Optimum Utilization of Government Sponsorship.** **Decline in the Terminal Operations.** **Non-commencement of Operations of the East Container Terminal.** **Elimination of Foreign Loans Obtained for the Construction of Hambanthota Port, from the Financial Statement without Proper Approval.** **Failure to Install the CCTV System.**

Ports and Shipping

The expected result of this field was creation of marine harbour facilities without hindrance. To fulfil this desire the Ministry of Ports and Shipping and three statutory Boards/ Institutions following functions should have performed.

- Formulation of Policies, Programmes and Projects relating to the subjects of Ports and Shipping.
- Development and administration of ports, oil 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 check is given below.

Implementation of Major Development Projects

Provisions amounting to Rs.3,376.90 million had been allocated for implementing of 8 capital projects under 15 capital objects. Although out of that, provisions amounting to Rs.2,270.00 million had been allocated for 5 development projects but total provision had been saved in the reason of non-implementing of that projects.

Non-achievement of Expected Objectives

Will the object of the regularize the maritime passenger transport service in the Jaffna peninsula and between Islands for the supply of facilities such as registration of passengers and goods transportation vessels, regulations and renovations 2 projects had been implemented during the year 2016. It had been planned to complete the relevant constructions at the date of 31 December 2017. Only the primary constructions had been completed at the date of 31 December 2018 while the developing of infrastructure facilities including water and electricity existed at primary level even as at the date of 09 April 2019.

Under-utilization of Foreign Loan

Provisions amounting to Rs.1,350 million had been allocated during the year under review to construct a administrative building and a store for direction and development of activities of the Kankasanthurai Harbour on the approval of the cabinet. That provision had been financed under line of credit of Indian Exsim Bank. It had been planned to complete only about 5 per cent of the relevant procurement activities and constructions relevant to the project during the year under review. But that planned activities were existed at primary level and total provision had been saved. Therefore, state loans provided for the project had failed to utilize as optimum.

Import of Government Section's Shipment

Import of shipments of the Government Section including the foreign projects all Government Institutions should have to be done through Lanka Shipping Corporation Ltd. as per the regulations in the Public Finance Circular No.415 dated 06 May 2015 in terms of the decision of the cabinet held on 13 January 2016. Also it had been further confirmed by Public Finance Circular No.03 dated 18 February 2016, also by the instructions gave on 11 August 2016 by the Central Bank of Sri Lanka for the Commercial Banks in connection with import of goods for the Government Section should be done through Lanka Shipping Corporation Ltd.

Services of the company obtain by the Government Institutions had existing in limited while Government Institutions which are engage in import activities in huge the services of the company had not been obtained. Also, it was observed some Government Institutions had been requested for importing of goods by other foreign shipping companies. The company had issued waivers in connection with such requests made more than 700 instances during the year 2017 and 538 instances for the year 2018. Therefore, suitable methodology had not been developed for function to obtain business occasions to the company in connection with importing of goods. Action had not been taken by the Lanka Shipping Corporation Ltd. as per the above mentioned circulars to enlarge company's market share by applying the provided government assistance.

International place in the container handling operations and the market share of the Ports Authority

According to the Alphaliner Report issued by the Alphalyin Organization about the World Harbour for the year, Colombo Harbour remained in the placement No.20 equivalent unit handling 7,047,486 operations remain in the placement of 23 of the World as compared to the year 2017 an increase of 13.5 per cent had been achieved in that works. Also handling of containers of the Sri Lanka Ports Authority had been increased by 14.6 per cent in the year 2018 as compared to the year 2017.

Operational Activities of the Shipment

Although 5,023 number of ships came in the year 2016 for the harbours of Colombo, Galle, Hambantota and Trincomalee had been reduced it up to 4933 number of ships as at the year of 2018. But 4.91 million Twenty Equivalent Units of containers had been increased from 4.91 million in the year 2014 up to 7.05 million in the year 2018. Also number of traditional shipments handling in the year 2016 from metric ton 7.81 million had been reduced up to metric ton 7.44 million at the end of the year 2018. Details are shown in the following table.15

Description	2014	2015	2016	2017	2018
Number of ships arrived (containerised, Traditional, Other)	4,298	4,760	5,023	4,942	4,933
Number of twenty equipment container units handled (units '000)	4,908	5,185	5,735	6,209	7,047
Quantity of Traditional Shipments handled (Metric Ton '000)	6,339	7,156	7,811	7,735	7,438

Table.15-Quantity of container units handled in the main harbours and traditional shipments.
Source.-.Performance Review Report of the Sri Lanka Ports Authority

Operational Activities of the Colombo Harbour

Decline of the Terminal Operational Activities

The container operations capacity of the Sri Lanka Ports Authority during the 18 years period from the year 2001 to the end of the year 2018 had rapidly decreased from 81 per cent to 33 per cent as considering as a percentage of handling of total containers. However, out of the two private companies operating in competitively in the Colombo Harbour, the company which commenced its operations in the year 2013 had achieved a rapid improvement from 1 per cent up to 38 per cent. Other company's 19 per cent of the market share in the year 2001 had been improved up to 29 per cent as at the year of 2018. The details of containers handling in 18 years appear in the Diagram 47.

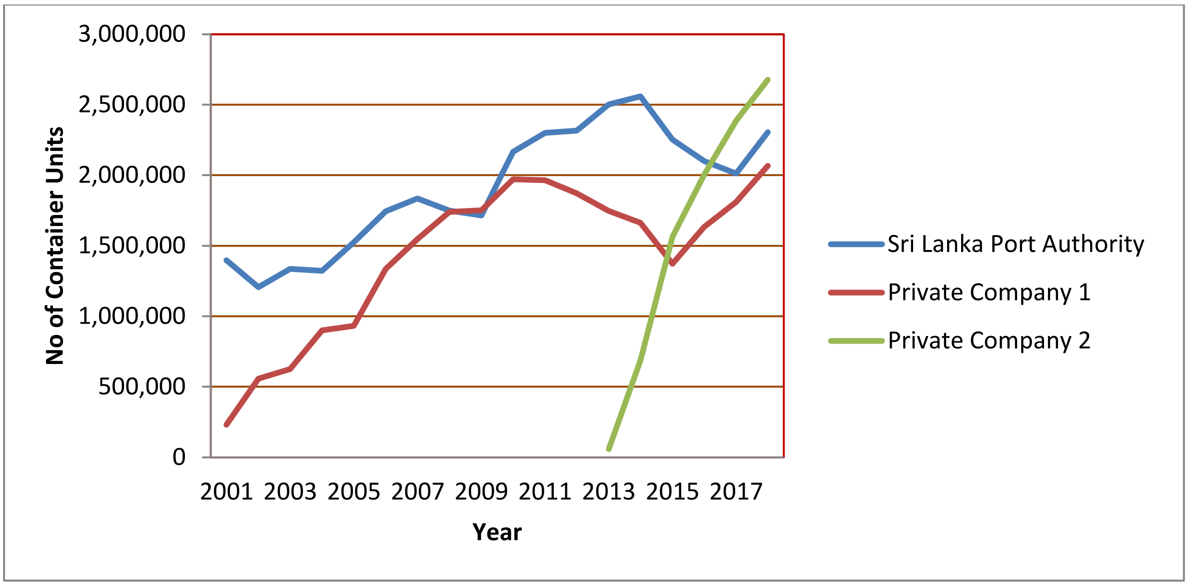


Diagram 47 - Operational activities of the Sri Lanka Ports Authority's Terminal
Source – 2018 Performance Review Report of the Sri Lanka Ports Authority

According to the above data market share of container handling of the Sri Lanka Ports Authority had been gradually taken possession by the private sector. In considering the Terminal Occupancy Ratio of the container operations of the Sri Lanka Ports Authority as compared with year 2017 had improved from 60 per cent up to 65 per cent in the year 2018.

Non-commencement of Operations of the East Container Terminal

Out of the working Terminals for direction of containers at present at the Colombo Harbour is only the Terminal Colombo International Container Terminal the ships Draft more than 14.25 metres able to come only its capacity is Twenty Equivalent Units 2.4 million for a year. 308 ships had came for this Terminal which were over 14.25 metres Draft during the year 2018 and it had been directed containers more than totalling 2.6 million units. Therefore, there had been increased of 12 per cent direction of containers in this Terminal as compared to the year 2017. Attention had not been paid for the supply of container services of the Colombo Harbour which could be occure in future in respect of Terminal Service equal to the demand.

However, relevant to the Colombo Harbour Expansion Project with the construction cost of Rs.11,168 million draft 18 metres and length of 440 metres the funds compiled by a local bank the construction activities of the East Container Terminal although had been completed in the month of April 2016 but for the direction of the shipment necessary equipments including Grants Cranes obtained by and to initiate the operational activities of this Terminal action had not been taken by the Sri Lanka Ports Authority even as at the date of 30 April 2019.

Foreign Loan obtained for the construction of Hambantota Harbour

Out of the foreign loan obtained for the construction of Hambantota Harbour, the loan balance amounting to Rs.147,746 million remaining in the accounts of the Sri Lanka Ports Authority as at the date of 30 November 2017 had been eliminated from the financial statements of the Authority without the concurrence of the General Treasury or without approval of the cabinet. In that reason, that loan money had not been included in any Government Account. According to the records of the Department of External Resources of the General Treasury that loan balance was Rs.179,546 million as at 31 December 2018. However, two parties had not came to a concurrence in connection with accounting of this loan even as at the end of the year under review.

A sum of Rs.31,544 million as the foreign conversion exchange loss calculated as at the date of 30 November 2017 with relevant to the above loan also had been eliminated from the accounts of the Sri Lanka Ports Authority. Foreign exchange cumulative loss from 30 November 2017 up to the date of 31 December 2018 amounting to Rs.28,396 million had not been entered in any account. Like this, in connection with this loan cumulative foreign exchange loss had been amounted to Rs.59,940 million as at 31 December 2018.

Make Guarantee in respect of loan obtained by a company

Loan amounting to US$ 24 million had been obtained from a private bank by the Magampura Ports Management Services (Private) Ltd. while it had been guaranteed by the Sri Lanka Ports Authority for that. Operational activities of that company had been suspended since the month of November 2017 while the loan obtained by that company had not been settled sufficient money haven't owned by the company to settle that loan as at the date of 30 August 2019. Action will be taken as against to the Sri Lanka Ports Authority in legally to recover the arrears loan balances of US$ 22.3 million as the gurantee for the loan amount.

Non-fix CCTV Camera System

It had been planned to fix a CCTV Camera System by spending Rs.60 million in the year 2017 for the security of the all boats and Bonded Warehouses to confirm the security of the Ports Premises which has name as a high security zone. Although provision amounting to Rs.150 million had been supplied for that in the year 2018, relevant work had not been completed even as at the end of the year under review as expected.

Penalty Imposed by the Custom

An appeal could be able to present to the Minister of Finance an a decision of a custom examination as per the section 165 of the custom ordinance for the simplify the custom penalty amounting to Rs.1,580 million imposed by the custom in connection with the import of 27 cranes without acknowledgement make to the Sri Lanka Custom in the year 2011. But such an appeal had not been presented to the Minister of Finance by the Authority. However, contingent liability amounting to Rs.1,577 million had been shown in the financial statements in connection with this. A case had been filed by the Authority in High Court in respect of above matter, that had been rejected by the High Court. After that a case had been filed by the Authority in the Supreme Court against the order of the High Court.

Highways	**Failure to Take Action for the Acquisition of Lands.** **Utilization of Revenue from the Expressways.** **Spending for the Police Department of Sri Lanka** **Failure to Renovate Bridges in line with the Improvement of Roads.** **Lack of a Proper Mechanism to Maintain the Iron Bridges.** **Failure to Complete the Construction of Roads within the Contract Period.** **Recruitment of Staff before Commencing the Project.**

Highways

The objective of this sector is to improve the quality of life of road users by reducing travel time and cost by improving the circulation system and improving the safety and comfort of the road users. In order to achieve this, the Ministry of Higher Education and Highways and two statutory bodies had to perform the following functions

- Formulating policies, programs and projects within the scope of highway
- Implementation of those projects
- Coordinate national policy based development activities in collaboration with provincial councils and local authorities

The audit observations made in sample audit inspections carried out in respect of the execution of the said duties by the Ministry and Statutory Agencies on their role are summarized below.

Expenses not related to improve the capacity of the Expressway system

The total expenditure of Rs. 5,063 million which was done from 1991 to 2005 for the Colombo-Katunayake Expressway was credited to the year 2018 as the cost of the Expressway system maintained by the Road Development Authority. However, the expenditure incurred during that period did not contribute to improve the capacity of the Expressway system.

Actions had not been taken to acquire the lands

Action had not been taken to acquire 546 plots of land of 7,586.39 hectares which were subsequently handed over to the Road Development Authority as at 31 August 2019. Furthermore, financial statements of the Authority did not state the value of the remaining 164 plots of land to be delivered for the displaced persons and the acquisition of lands for the expressway projects.

Asset Management

The Asset Management and Revenue Division of the Road Development Authority had leased 11 plots of 21.5 acres of land to outsiders. The said property was leased on six occasions with no lease agreements and five occasions with lease agreements and there were significant shortcomings of those agreements. It was revealed that the agreements were entered contrary to the provisions of the National Road Act No. 40 of 2008. The Authority failed to generate revenue from the property and to keep the property under proper supervision. Further, the Authority did not have an adequate information system on road reservation and did not implement a proper internal control system for leasing of road reservation.

Recovering the costs by the Income of the Expressways

The total revenue of the Expressway system, 169.13 km, under the scope of the Road Development Authority was Rs. 36,074 million as at 31 December 2018. The government had spent Rs. 245,769 million for the construction of the above express system. Accordingly, the revenue received from the expressways to cover the cost at the end of the year under review was 38 years for the Southern Expressway, 16 years for the Katunayake Expressway and 35 years for the Colombo Outer Circular Expressway.

Utilization of Revenue from the Expressways

According to the notification published in the Gazette Extraordinary No. 1912/2 dated 27th April 2015, the revenue of the expressways should be credited to the account of the Road Development Authority and the money should be utilized for the purpose of developing and maintaining the National Expressway System to be charged. However, the total income of the expressway was Rs. 36,074 million as at 31 December 2018, Rs.25,548 million from that income had been expend for the daily expenditure of the Road Development Authority and the payment for the General Treasury. Only Rs. 5,507 million from that income had been left in the account.

However, the loan amounting to Rs.245,769 million taken by the government to construct the expressway and the interest of the loan was paid by the Treasury the highway revenue received by the Road Development Authority has not been utilized for such payments. However, the Expressway revenue received by the Road Development Authority has not been utilized for such payments.

Spending for the Police Department of Sri Lanka

Rs. 414 million had been paid by the income of the expressway to Sri Lanka Police for the purchase of assets and fuel in behalf of the duties perform by the officers of Sri Lanka Police and Special Task Force in the expressway system

Rehabilitation of bridges in accordance with the road improvements

According to the Bridge Information System of the Road Development Authority as at 31 December 2018, the number of flyovers under the National Highway Network was 15 and bridges width more than 3 meters was 4,153. It was identified that 46 bridges had to be rebuilt and 161 had to be rehabilitated from that. Although these roads had been asphalted, widened and improved during the past few years, action had not been taken to construct and rehabilitate the bridges at that time.

The widening of the bridges on time of widened and improved the roads was inadequate and some bridges were dilapidated, thus obstructing to fulfill the mission of the Authority to serve the people of the country.

Lack of proper mechanism to maintenance of the Iron bridges

There are 615 iron bridges out of 4,168 bridges, including flyovers located on the National Highway Network. Although these iron bridges were to be maintained periodically, the Road Development Authority did not have a unit with expertise for the maintenance of the iron bridges. For this reason, the maintenance of the iron bridges in the future could be problematic for the Authority.

The Road construction shall not be completed during the contract period

According to the information provided by the Road Development Authority, out of the Rs. 1,871 million contracts for road improvements and expansion agreements in the years 2016 and 2017 although 35 contracts amounting to Rs. 1,871 million from that improvement an expansion agreement had been expired, the agreed activities had not been accomplished up to 31 December 2018.

Cancelation of Road Construction Agreements

19 agreements valued at Rs 1,245 million entered by the Road Development Authority for construction of roads had been cancelled due to various reasons. Action had not been taken to complete the construction work as 31 August 2019.

Double payment

Rs.1,759 million had been paid to an Australian company to conduct a feasibility study on the Central Expressway, without being carried out the study by that company agreement had been entered with several local companies for Rs.97 million to carry out the above feasibility study.

Recruitment of staff before commencement of the Project

The contractor and consultancy firm had been selected for Pothuhera to Galagedara Section of the Central Expressway in the year 2017 but had not been signed the contract or commenced the construction activities. Rs.3,200 million and Rs 1,931 million respectively had been spend for the Land Acquisition and Project Management, therefore the expenses had been done for the recruitment of staff for the project, vehicle maintenance and utilization without commencement of the project.

Payment of Mobilization Advances exceeding the performance Guarantee

The contractor who is engaged in the road rehabilitation work at the Package 1 of the Integrated Road Investment Program in Kegalle District had been paid Rs.30 million mobilization advances exceeding the Performance Guarantee.

Payment of fruitless Commitment Charges

The disbursement of Asian Development Bank loan had not been utilized timely, therefor Rs. 476 million from the Integrated road investments program I and Rs. 31 million from the Integrated road investments program 2 had to be paid as commitment Charges fruitlessly.

Removal of Construction Machinery by Contractor

Two packages from the Integrated Road Investment Program in the Kegalle District and one Package from the Ratnapura District had to be recovered Rs.1,087 million. However, it was decided to suspend the contract and the contractor had withdrawn his machinery plant paying the advance and without the approval of the engineer.

Payment for feasibility study

The objectivity of the Expressway Connectivity Improvement Plan Project was to complete feasibility study and preparation of detailed designs of 250 kilometers of 30 roads connected to the southern expressway. The total cost of the Project was Rs.790.80 million and the activities of the Project had commenced on 09 December 2014 and had completed on 31 August 2016. However, only 24 kilometers had been selected for rehabilitation as at 14 March 2019. As a result, roads designs was out dated and expenditure incurred for the designing of roads become fruitless

Sending back without utilizing the loan to the lending Agency

The allocation of US$ 6.12 million equivalent to Rs.923 million of the National highway sector Project representing 7.20 per cent of the total allocation made by the Lending Agency could not be utilized at the end of the Project, due to slow progress on civil construction works and had refunded to the Lending Agency. Sending back the loan to the lending Agency without utilization.

Overpayment of Mobilization Advance

It was observed that the works under 235 items of Bill of Quantities valued at Rs.134.32 million under the Contract package - 1 and the works under 260 items of Bill of Quantities valued at Rs.189 million under Contract package -3 of the Southern Road Connectivity Project had not been attended by the contractors, thus indicated that the Engineers estimate of the contract packages were not prepared in accurate manner, allowing additional advantages to the contractors on receiving mobilization advances for non attended works valued at Rs.61.72 million

Payment of Idle Commitment Commission

It was observed that only Japan Yen 7,003 million had been utilized as at 31 December 2018 representing 57 per cent of the allocation of Japan Yen 12,381 million made in Loan Agreement, due to delays in completion of construction of new bridges. Further, the commitment charges amounting to Rs.68.53 million had been recovered by the Lending Agency up to 31 December 2018 on the proceeds of the Loan undisbursed. The possibility to utilize the entire allocation of funds was remained in doubt during the period of the Project scheduled to be closed on 05 July 2021, unless expedite action taken to complete bridge construction work.

Non utilization of Provision

The procurement plan of the Port Access Elevated Highway Project for the year 2018 had included to commence the supervision consultancy services, design works of the buildings and construction supervision of the buildings and workshops during the year under review at an estimated cost of Rs.44,945 million. However, such activities had not been commenced even as at 30 June 2019 except the piling works carried out for the construction relocation of the buildings at the Port. As a result, out of the allocation amounting to Rs.3,040 million made in the Budget Estimate -2018 to meet the capital expenditure of the Project, a sum of Rs.2,925 million had been transferred to the other Project. Further, a sum of Rs.84.55 million had been returned to the General Treasury without using by the Project at the end of the year under review.

The contractor of the Ingiriya to Rathnapura Road under Contract Package -1 had obtained Arbitration award against the Road Development Authority on 27 February 2018. Accordingly, the contractor of the above road had submitted claim amounted Rs.1,687 million for 7 disputes. This amount had included Rs.903.10 million interest up to 30 April2018. However, this dispute had not been settled by the Project even as at 30 may 2019.

Not Settlement of Arbitration Problem

According to the information made available, it was scheduled to acquire 7,082 plots of land including 1,535 plots of crown land and out of that compensation amounting to Rs. 1,933 million for 4,343 plots of land had been paid under the Section 17 of the Land Acquisition Act. Further, the additional payments amounting Rs. 4,134 million had been made thereon under the decisions of the Land Acquisition and Resettlement Committees. In addition, a sum of Rs.379.44 million had been paid as interest on delays in settlement of compensation up to 31 December 2018. The Project had not completed the acquisition process of any plot of land even as at 31 December 2018, under Section 44 of the Land Acquisition and Settlement Act, No. 13 of 1986.

Non Settlement of Land Acquisition

According to the information made available, it was scheduled to acquire 7,082 plots of land including 1,535 plots of crown land and out of that compensation amounting to Rs. 1,933 million for 4,343 plots of land had been paid under the Section 17 of the Land Acquisition Act. Further, the additional payments amounting Rs. 4,134 million had been made thereon under the decisions of the Land Acquisition and Resettlement Committees. In addition, a sum of Rs.379.44 million had been paid as interest on delays in settlement of compensation up to 31 December 2018. The Project had not completed the acquisition process of any plot of land even as at 31 December 2018, under Section 44 of the Land Acquisition and Settlement Act, No. 13 of 1986.

Disaster Management

The Country Facing the Most Number of Natural Disasters.

Non-implementation of Amendments Proposed for the Disaster Management Act of Sri Lanka.

Distribution of Aids to the People Affected by the Disasters.

Implementation of Disaster Mitigation Projects.

Doppler Radar System Becoming Non-functional.

Failure to Take Adequate Measures for the Achievement of Sustainable Development Goals.

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.

Facing with natural disasters

According to the classification of countries with natural disasters published in 2019 by the "German Watch Organization" which is a recognized institution on studies of natural disasters of the world, Sri Lanka become second country faced with major incidents of natural disasters during the period of 1998-2017. Thus it indicated that the urgent need of attention on the management of natural disasters.

The legal framework on disaster management in Sri Lanka

The legal provisions on disaster management in Sri Lanka had been made through the Sri Lanka National Disaster Management Act No. 13 of 2005. Eventhough the necessity of widening of the legal provisions included in the Disaster Management Act had been raised to meet the future challenges, the amendments made to the Disaster Management Act proposed in 2013 had not been furnished to the Parliament of Sri Lanka even at the end of the year under review.

Further , the National Building Research Organization had not been established under a statutory provisions and as a result , the legal acceptance of the assessment reports issued on risks of landslips had not been received. As a result, the legal action against the parties who involved in building construction works without considering the assessment of disaster risks could not be implemented.

Identification of probable natural and non- natural disasters in Sri Lanka

According to the Sri Lanka Disaster Management Act, No. 13 of 2005 it was identifies 21 probable disasters in Sri Lanka. However, major disasters of which countries faced in the recent past including global warming and increase of sea water level etc had not been identified as the disasters. Further, the mitigation activities carried out by the Disaster Management Authority during the year under review had been limited to several disasters such as floods, earth slips and drought etc,.

Preparation of Disaster Management Plans

According to the paragraph 2(a) of the Section 08 of the Sri Lanka Disaster Management Act, a Disaster Management Plan is required to be prepared in line with the internationally recognized convention called " Sendai Framework". However, the works initiated on 07 March 2017 on Preparation of Disaster Management Plan for the period from 2018 to 2030 had not been completed even as at 31 August 2018. As a result of delays in preparation of national Disaster Management Plan, the other sub plans such as District Disaster Management Plans, Institutional Disaster Management Plans, and National Emergency Operations Plans etc to be prepared in line with National Disaster Management Plan could not be completed.

Distribution of aids to the people affected by the disasters

It was identified that 1,444 families in Kalurara district,312 families in Ratnapura district and 328 families in Kandy district as vulnerable groups living in the high risk areas due to the floods and landslide occurred in 2017 and need of assistances. According to the detailed audit carried out in this connection, common deficiencies such as inadequate mechanism adopted on selection of beneficiaries, slow progress on construction of new houses and difficulties on selection of plots of land outside the risk areas etc had been revealed. Therefore in construction works of 167 houses in Kalutara district and 151 houses in Ratnapura district had remained in the initial stages. It was observed that members of 125 families selected in Kandy district remained in the high risk areas without any housing facilities.

It was observed that the provision of Rs. 700 million had been released to the District Secretaries on 25 September 2018 to provide drought subsidies for 451,224 beneficiaries identified in 14 districts during the year under review. However, action had been taken to call the provisions return on 09 October 2018 under the instruction issued by the Secretary of the Ministry of Disaster Management.

A separate Bank Account had been maintained by the Minister to to provide assistance to the people affected in emergency situations and a sum of Rs 294.43 million contributed by the local and foreign donors had remained in the Bank Account unutilized as at 06 August 2018. The contribution of US$ 1.00 million received from the Republic of China had also included therein. Therefore, it was observed that the intention of the donors in this connection was not fulfilled.

Implementation of Disaster Mitigation Projects

A allocation amounting to Rs 480 million had been made to implement disaster mitigation projects during the year under review. However the information relating to the disaster mitigation projects expected to be implemented in each district had not been indicated in the Action Plans of the Disaster Management Centre. The allocation amounting to Rs 20 million made to settle the bills of 15 projects implemented in the previous year had also been included in the above mentioned allocation. However, according to the progress reports of the Centre, a sum of Rs 474.43 million had been released to the District Secretariats and out of that a sum of Rs 361.49 million had only been utilized as at 31 December 2018.

A sum of Rs 104.97 million representing 22 per cent of the allocation made to implement the disaster mitigation projects had been utilized for 93 projects implemented in Anuradhapura district and thus evidenced that the distribution of the allocations between the districts was not done in fair manner. Further , a sum of Rs 10 million had been allocated to develop the land of Aluthwattapara was revealed as an activity which was not related to the disaster mitigation works.

Out of the allocation amounting to Rs 50 million made under the “Development of Muti -Purpose Mitigation Aspects”, a sum of Rs 20.31 million had only been utilized during the year under review and no action had been taken to utilize the entire allocation made thereon.

Doppler Radar System

A Doppler Radar System had been procured at a cost of Rs 320 million from the World Metrological Association under the allocation amounting Rs 400 million made through a Budget proposal in 2006 and established in the Deniyaya area in 2011. However, the System was not functioned even as at 31 December

2016 due to various technical problems. The System was remained idle for long period after being imported and it was the main reason for malfunctioning of the System.

The Radar System remained out of order had been removed and sent back to the Manufacturing Company in the United State in 21 April 2017. However no any reports on the position of the repairing activities as at 31 December 2018 had been called by the Metrological Department.

Eventhough a sum of Rs 408.82 million had been spent as at 31 December 2018 to install the Rader System, no action had been taken to disclose the information in this regard in the financial statements of the Meteorological Department. Further, the Fixed Assets Register had not been maintained in updated manner and thus it revealed the risk on concealing the information in this regard.

Achievement of Sustainable Development Goals

The subject of Disaster Management is directly related to the achievement of Sustainable Development Goals and no any action had been taken by the institutions under the purview of the Ministry of Disaster Management to identify the Sustainable Development Indicators and take action to implement the activities thereon adequately.

Human Resources Management

The institutions under the purview of the Ministry of Disaster Management were operated with shortages of the staff in key positions and it influenced badly to implement the activities assigned thereto in effective manner. It was observed that 35 posts in the Ministry of Disaster Management and 11 posts of the Meteorological Department including the post of Director General had remained vacant as at 31 December 2018.

Sports	
Sports	**Delays in the Execution of Projects.** **Failure to Complete Constructions of the Sports Complexes as Expected.** **Over-payment of Salaries .** **Projects without Progress.** **Deviation from the Government Procurement Guidelines.** **Non- compilation of Rules against the use of Doping Materials.** **Making Payments to Officers from the National Sports Fund.** **Failure to Furnish Financial Statements to the Audit.** **Financial Fraud.**

Sports

The compilation, implementation and monitoring of the activities relating to the local and international sports in the country for building a sportive nation and for uplifting the national image of the country at the international level had been the intended result of the Ministry of Sports. The following functions had to be executed by the Ministry of Sports and by the Department of Sports Development, 05 Statutory Institutions and 64 Sports Associations, under its purview.

- The compilation, carrying out follow-up action and the evaluation of the policies, programmes and projects relating to the subject of Sports.
- Taking steps for the encouragement of sports and the development of the infrastructure necessary for the field of Sports.
- The promotion of Sports Education.
- The compilation of new strategies and the implementation of programmes in a manner that Sports could be deployed for building the image of Sri Lanka at the international level.
- The carrying out of promotion and coordination of facilities necessary for ensuring the physical fitness of the general public.
- Monitoring of Institutions.

International Achievements of Sri Lankans

Sri Lankan Sportsmen had acquired 79 Medals in the year 2017 by participating for 08 international competitions as 29 Gold Medals, 39 Silver Medals and 11 Bronze Medals respectively. Sixty- one Medals had . been obtained in the year under review by participating for 10 competitions 23 Gold Medals, 16 Silver medals and 22 Bronze Medals respectively

Delays in the execution of projects

Provisions amounting to Rs.429.39 million had been made available for the 04 projects of the construction of Walwetithurei Swimming Pool Complex, preparing of the 400 meters Race Track, the lavatory system and the access roads of the Diyagama Mahinda Rajapakse Sports Academy and the construction of the Shooting and Archery Training Centre of Maliyadeva College, by the Ministry. A sum of Rs.222.48 million had been spent for those projects in the year under review. Those projects had not been completed even by May 12019.

Construction of Sports Complexes

Provisions amounting to Rs.1,000 million had been made available by the Department of Sports Development for the construction of 12 District Sports Complexes and 7 Provincial Sports Complexes in the year under review. The activities of the construction of 10 District Sports Complexes and 7 Provincial Sports Complexes had been initiated in the year under review and a sum of Rs.692 million had been spent in this connection. Works of 6 District Sports Complexes and 2 Provincial Sports Complexes out of them had been completed and works of 4 District Sports Complexes had not been completed.

Over- payment of Salaries

Over- payment of salaries had been made in making salary conversions relating to the promotion of the Officers in the field of Sports to the post of Project Officer in the Combined Service. A sum of Rs.1.70 million remained recoverable by 31 December 2018 as a sum of Rs.1.20 million from 26 Officers who are currently being deployed in service and a sum of Rs.0.50 million from retired Officers of whom that had been overpaid accordingly. Moreover, the retirement had been approved for an Officer who had not completed 55 years of age from 8 April 2017 and the salaries overpaid to that Officer remained recoverable. It had been failed to recover the salaries that were overpaid accordingly, even by the end of the year under review.

Projects that had not achieved Progress

The Project of identifying the children with sports talents in the age group of 13-14 years on scientific basis and referring them to the Olympics which will be held in the years 2024 and 2028 had been approved by the Department of National Planning. Provisions totaling Rs.474 million had been made available for this project which had been planned to be implemented from the year 2016 to the year 2018. A sum of Rs.132.1 million had been spent relating thereto by the year 2018. This project had been defaulted in the year 2018 and the progress of the Project and reasons for the defaulting of the Project had not been furnished to audit.

Deviation from the Government Procurement Guidelines

Contracts totaling Rs.54.63 million had been awarded for supplying food for the sportsmen in the National Pools. The selection of contractors in this connection had not been carried out in a manner that achieves the objectives mentioned in the Guideline 1.2 of the Government Procurement Guidelines.

Non- compilation of Rules against the use of Doping Materials

Rules had to be compiled against the use of doping materials and had to be published in the Gazette and had to be enacted under the approval of the Minister in terms of Section 33 of the Convention against Doping in Sports Act No.33 of 2013. Even though 5 years had lapsed since the establishment of the National Anti-Doping Agency by the end of the year 2018, rules had not been prepared for taking action against the use of doping materials, the key function intended from the Institution.

Making payments to Officers from the National Sports Fund

A total sum of Rs.1.19 million had been paid as monthly allowances in several instances from the National Sports Fund to 4 Staff Grade officers serving the Department of Sports Development, considering them as coaches in the years 2017 and 2018. An Evaluation had not been carried out on the performance relating to the coaching executed by those 4 Officers. Moreover, a sum of Rs.1.60 million had been paid from the National Sports Fund for winning for the weight lifting competitions in the Commonwealth Games under the coaches for 02 officers out of the Officers mentioned above.

Balances that remains receivable and payable from a long period of time

The total of the balances receivable as at 31 December 2018 of the Sugathadasa National Sports Complex Authority had been a sum of Rs.39.99 million and even though balances amounting to Rs.31.66 million out of that balance remains outstanding from a period of over 01 year, it had been failed to recover that amount even by the end of the year under review. Action had not been taken to settle the balance amounting to Rs.1.12 million that remained being settled from a period of approximately 11 years to the Colombo Municipal Council, even by the end of the year under review.

Not furnishing Financial Statements to Audit

A limited guarantee company named Cricket Aid (Guarantee) Limited had been established by 23 May 2016 by Sri Lanka Cricket. It had been approved by the Executive Committee of Sri Lanka Cricket to provide a sum of Rs.10 million annually as assistance for charity and social responsibility programmes and as such, a sum of Rs.16.75 million had been provided to that Company from the year 2017 to 30 June 2019. The financial statements of the years 2016, 2017 and 2018 had not been furnished for auditing, to the Auditor General.

International Cricket Broadcasting Right

An agreement had been entered into with an international television company by Sri Lanka Cricket to provide the international cricket broadcasting right of Sri Lanka Tour of South African National Cricket team for a sum of .USD 1.25 million on 12 July 2018. The value of the final payment amounting to USD 0.19 million or a sum of Rs.29.83 million, 15 per cent of that agreed value, was scheduled to be obtained after the completion of the tour on 19 August 2018. A complaint mentioning that it had been informed that the Head of the Finance Division of Sri Lanka Cricket had referred to the relevant company by including a fraudulent foreign Bank Account Number and a fraudulent e- mail address to the Invoice for obtaining that payment value, had been referred to the Special Investigations Unit of the Criminal Investigations Department in Colombo by the Chief Executive Officer on 04 October 2018. Even though it had been informed to the Chief Executive Officer by that Company that this amount had been provided to Sri Lanka Cricket on 10 May 2019, proper action had not been taken by Sri Lanka Cricket relating to the recovery of money even by 31 May 2019.

Financial Fraud

It had been revealed in the investigations carried out by the Sri Lanka Football Federation in the year 2017 that money had been obtained by the former Finance Manager of the Sri Lanka Football Federation by including false names as Referees. Further investigations relating to this financial fraud is being carried out by the Criminal Investigations Department and it had not been able to disclose the total amount of forged money even in the year under review. A sum of Rs.14.53 million had been stated as unidentified transfers of funds in the financial statements of the year 2018 under the receivable accounts despite it had been indicated in this regard by the Auditor General's Report of the year 2017.

Women & Child Affairs	**Failure to Enforce the Laws and Policies.** **Providing Quick Relief for Women and Children** **Encouragement and Empowerment of Women.** **Delay in Resolving the Complaints.** **Social Protection Programme for Children.** **Failure to Legalize the National Child Protection Policy.** **Failure to Execute the Activities of Early Childhood Development Project as Expected.**

Women & Child Affairs

With the objective of ensuring a favorable and sensitive society in which rights and protection of children and women are protected, the Ministry of Women & Child Affairs and Dry Zone Development should have discharged the following functions together with three institutions such as, a Department, a Statutory Authority, and a foreign funded project.

- Formulation, follow up and evaluation of policies, programmes and projects relating to women and child affairs.
- Formulation and implementation of strategies for the enhancement of women's participation and their representation in the sphere of decision making in public affairs and politics.
- Adoption of measures for empowerment of women with special focus on women-headed households groups affected by conflict and poverty and to ensure gender equality and equity.
- Implementation and strengthening of laws and policies for the prevention of violence against women and child abuse.
- Accomplishment of Millennium Development Goals relating to women and child affairs.
- Implementation of Women's and Children's Charter.
- Formulation and implementation of policies, programmes and projects for the early childhood care development and for the children who are under unsafe situations so as to appropriate to the national policies and international standards.
- Implementation of *Sevana Sarana* Foster Parents Scheme.

A summary of audit observations made in regard to the execution of aforesaid functions is given below.

Safeguarding the Children's and Women's Rights

The Laws formulated and the policies prepared in view of ensuring , safeguarding and promoting the rights of children and women, had not been implemented.

Construction of a Daycare Center at the *Govijana Mandiraya*

Provision amounting to Rs. 1.5 million had been made for the construction of a daycare center at the Govijana *Mandiraya* and providing instruments for the center. A sum of Rs. 1.26 million out of the said provision had been remitted to the Secretary General of Parliament in September 2018 to execute the work. Those monies had been retained in the General Deposits Account without being utilized for the intended purpose.

Providing Quick Relief for Women and Children

In the year 2018, provision amounting to Rs. 3 million had been made for providing women and children with quick relief. Of that provision, benefits worth Rs. 378,329 had been provided only for 6 beneficiaries.

Encouragement and Empowerment of Women

With the objectives of providing a niche market for the products of the women entrepreneurs to maximize their income, and encouraging them to provide goods and supplies with proper standards matching the market requirements, the project for encouraging and empowering women with respect to environmental tourism sector, had been implemented. Plans had been prepared to obtain provision amounting to Rs. 4 million thereby establishing 2 sales centers in the year 2018. Of that provision, a sum of Rs. 1.01 million had been spent and only one center had been established. Even though 2 sales centers had been established in the year 2017 by incurring a sum of Rs. 5.47 million, one of those centers had not been declared open even up to 08 May 2019-the date of audit, thus failing to fulfill the objectives expected from the project.

Delay in Resolving the Complaints

The National Child Protection Authority had received 9,266 complaints during the year 2011 up to the end of the year 2018. Solutions had not been provided for 7,326 of those complaints equivalent to 79 per cent by 31 March 2019. As the issues such as, inefficiency of the divisional and district officers in gathering and reporting information relating to the complaints received annually by the Authority, failure to take follow up action on the investigations and summoning information, and failure to supervise properly, had not been solved, the number of complaints received had rapidly increased.

Social Protection Programme for Children

Under the social protection programme for children, the Department of Probation and Child Care Services had planned to conduct 25 workshops in 25 districts, establish 18 committees at national and provincial levels, conduct 11 training programmes, and implement 3 programmes in view of 6 capacity development programmes and strengthening the protection for children. Provision amounting to Rs. 7.8 million had been made in that connection, but those activities had not been executed. Furthermore, the National Child Protection Authority had also obtained provision amounting to Rs. 20 million by including 11 activities to the social protection programme. The activities such as, providing training on the Guidelines relating to daycare centers for children, formulation of national policy on the protection of children, implementation of 25 programmes and preparation of publications & documentary programmes for the prevention of child marriages, and preparation of publications relating to rights and problems of children, had not been commenced even by the end of the year 2018.

Failure to Legalize the National Child Protection Policy

Even after a period of 20 years since the establishment of the National Child Protection Authority, the National Child Protection Policy could not be legalized even in the year 2018.

Failure to Execute the Activities of Early Childhood Development Project as Expected

The Early Childhood Development Project had been implemented under World Bank loans amounting to US $ 50 million with a view to developing early childhood in Sri Lanka in a qualitative manner. Provision amounting to Rs. 1,000 million had been made on the project for the year 2018, and a sum of Rs. 767.75 million had been spent therefrom. The activities for which provision amounting to Rs. 3,957 million had been made and included in the Action Plan for the year 2018 such as, construction of 28 early childhood development centers relating to estate sector, construction of early childhood development centers in areas with low benefits, providing training for the school teachers of the primary grades, and registration of early childhood development centers, had not been carried out as planned. Although provision amounting to Rs. 1,230.10 million had been made in order to be granted for developing the facilities of 1,500 early childhood development centers, grants amounting to Rs. 51.32 million only had been made for 259 early childhood development centers in the year 2018.

Tourism Affairs

Under-utilization of Provision.

Performing the Expected Activities.

Failure to Achieve the Targets Expected from the Sales Promotion Expenses.

Non-recovery of Embarkation Levy.

Tourism Affairs

The main objective of the tourism sector is to earn foreign exchange to the economy by providing direct and indirect employment opportunities to the youth of Sri Lanka by formulating policies to recognize Sri Lanka as the best island in the world for tourists' memory, authentic and diverse experiences. The Ministry of Tourism Development and Christian Religious Affairs, 4 Statutory Boards and a Fund should have fulfilled the following functions.

- Developing tourism industry in accordance with the national policy on tourism and formulating standards.
- Registration and Regulation of tourism agencies.
- Promotion of activities relating to provision of recreational facilities for holidaying.
- Adoption of measures to lay emphasis on conservation of eco- systems in promoting tourism industry in wildlife protected areas.

The audit observations revealed at the audit test checks carried out in respect of performing above functions are summarized below.

Tourists Arrivals and Earning Foreign Exchange

Natural beauty beaches, rich wildlife with friendly and friendly people and Nature, Culture, Culinary Arts, Archaeological Heritage, Water-based Adventure and mixed with wonder as well as the fabulous location of the Universal Travelers , awarded as Asia's leading adventure tourism destination at the World Travel Awards. Obtaining first place internationally as per Lonely Planet magazine, Sri Lanka is the "No. 1 Destination of 2018" and it had been enhanced the image as the Top Global Safe Destination for Women Travelers as per People’s Daily News in China. Contributing a sum of Rs. 712,027.3 million in foreign exchange to Sri Lanka during the year under review a number of 2,333,796 tourists had arrived. Tourist arrivals increased by 10 per cent in the year under review as compared to the previous year.

As a country, Sri Lanka is expecting a high foreign exchange earnings from tourism industry and a revenues of US $ 4,380.6 million had been generated in the year 2018 . This amount can be mentioned as an increase of 11.6 per cent as compared to the previous year. Detail appear in Diagram 48

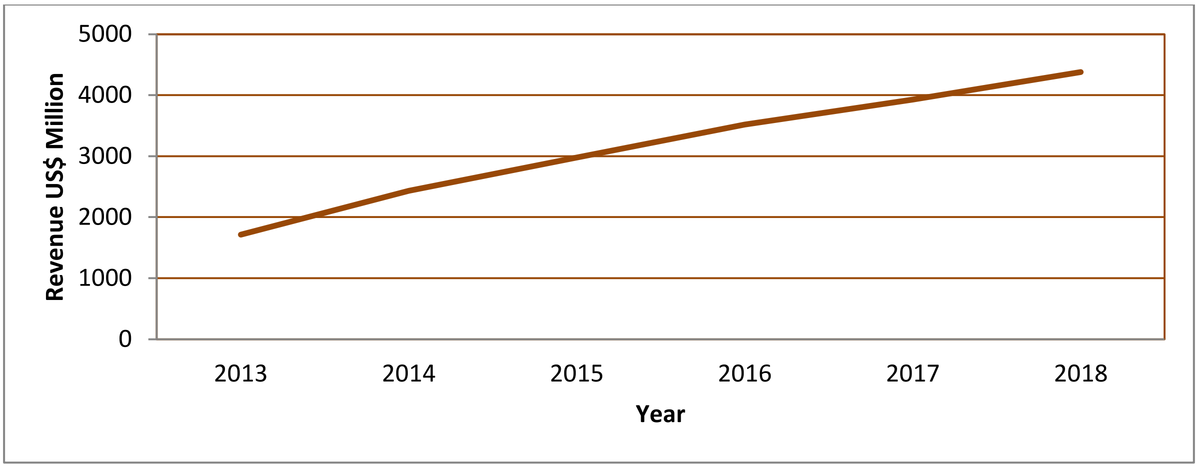


Diagram 48 - Income earned from Tourism
Source: Sri Lanka Tourism Development Authority

However, the tourists arrivals from the majority of major regions had increased in the year under review as same in the previous year. Similarly, the highest number or 424,887 of tourists had arrived from India . This arrival is a growth of 10.46 per cent as compared to the previous year. The next highest number of tourists arrival in the year under review was 265,965 from Republic of China . But it had declined by 1.12 per cent as compared to previous year.

Increase in foreign tourist arrivals as well as average cost of a tourist and increase of average number of days a tourist spends in Sri Lanka can be cited as the main factors to grow tourism earnings. The average daily cost of a tourist in the year 2018 was US $ 173.8 and that amount was US $ 170.1 in the year 2017 . Accordingly, this also had affected for the increase of the earnings from tourism at a certain rate. Similarly, The average number of days a tourist spends in Sri Lanka in the year 2018 was 10.8 days and when compared with the average number of 13.2 days a tourist spent in Sri Lanka in the year 1987, it had been impossible to achieve that target.

Under-utilization of Provisions

A provision of Rs.845 million had been made available Ministry of Tourism Development and Christian Religious Affairs for the tourism development projects. Out of that although a sum of Rs.390 million had been made available to develop tourist attractions, only a sum of Rs. 256.83 million or 65.85 per cent had been incurred by the end of the year under review. Similarly, a sum of Rs. 10 million had been made available for the development of tourist villages in the year under review, only a sum of Rs. 2.19 million had been spent by the end of the year .

Performing Expected Activities

Out of the expected 178 activities as per the Annual Action Plan of Sri Lanka Tourism Development Authority, only 72 activities had been implemented. There are 07 divisions established to carry out the activities of the Authority and although a sum of Rs. 2446.9 million had been made available , a sum of Rs. 244.33 million or 9 per cent from the provision made available had been utilized.

Marketing Promotion Expenses

The tourism promotion expenditure made by Sri Lanka Tourism Promotion Bureau for the countries such as Middle East, China, Indonesia, Malaysia, Thailand and Korea had taken a higher percentage during the year under review as compared to the previous year. Nevertheless, the growth rate of tourists arrivals from those countries had declined during the year under review as compared to the previous year. Further, out of the number of 152 promotional events planned to be implemented in 28 major countries for the year under review as per the Action plan of the Bureau, only 89 had been completed.

Non- recovery of Embarkation Levy

The taxes are charged on every ticket issued for a passenger who leaves Sri Lanka by a Ship and a portion of it should have been remitted to the Tourism Development Fund as per the sub-section 2 (b) of the Finance Act No. 25 of 2003 . The taxes had not been charged as such from the passengers who travel in ships and sent to the Authority . Since 87631 passengers had left during the year 2018 , the Authority had not act to recover the embarkation levy receivable amounted to Rs. 23.56 million from 1.66 US $ from each passenger for that.

Urban Development	**Failure to Commence the Activities Stated in the Master Plan for the Development of Trincomalee District.** **Project of Improving Public Transport and Bus Services.** **Kottawa, Kaduwela and Kadawatha Township Development Project.** **Western Region Mega polis Master Plan Project.** **Science and Technology Township Development Project.** **Aero City and Admin City Project.** **Metro Colombo Urban Development Project.**

Urban Development

The expected result of this sector is the creation of the Western region and other megapolis as highly modernized and architecturally designed cities comprised of a community developed as economic, social and cultural. The following functions should have been performed by the Ministry of Megapolis and Western Development, a Department and 02 Statutory Boards / Institutions.

- Formulation, follow up and evaluation of policies, programmes and projects relating to the subjects of statutory institutions in regard to the subjects of megapolis and Western development.

- Kottawa, Kaduwela and Kadawatha Township Development Project and related activities.

- Integrated and systematic promotion and regulation of economic, social and physical development of urban areas.

- Urban Solid Waste Management

- Matters relating to reclamation and development of low lying areas

- Provide necessary guidance to develop urban areas with low level of services and facilities and marshy lands according to a common plan
- Preparation of national physical plans and regional physical plans

- Direct and regulate all construction work based on the national physical plans to ensure an integrated urban development
- Matters relating to all other subjects assigned to the institutions coming under the purview of the Ministry
- Supervision of the institutions coming under the purview of the Ministry.

The summary of the audit observations made in the audit test check carried out on the performance of above functions is given below.

Master Plan of the Trincomalee District

With the objective of improving agriculture, energy and tourism industry in the Trincomalee District, a consultancy firm in Singapore had been selected without being followed Guidelines in the Government Procurement Guidelines in order to prepare Master Plan for the Trincomalee district. The said Master Plan had been forwarded to the Ministry during the year under review and US$ 982,000 equivalent to Rs.90.29 million had been spent thereon. However, subsequent to the preparation of Master Plan of the Trincomatee district, steps had not been taken to properly study the said Plan and execute the development activities included therein even by the end of the year under review.

Project of Improving Public Transport and Bus Services

For the aforesaid project, sums totalling Rs.713.83 million comprising Rs.104.04 million by the end of the year 2017 and Rs.609.79 million in the year 2018 had been spent. A sum of Rs.346.93 million had been spent for the implementation of an induction programme on priority bus lane for the improvement of public transport service. The said Programme had not been implemented by October 2019. Hence, the expenditure incurred thereon had become fruitless.

Kottawa, Kaduwela and Kadawatha Township Development Project

The Kottawa, Kaduwela and Kadawatha Township Development Component (3K) had been commenced as a subcomponent of the Greater Colombo Urban Transport Development Project. The Project had been completed 31 May 2015 according to the relevant Loan Agreement. However, functions which were planned to be performed under the Project, had been failed to perform within the due period. As such, this Project is being implemented at present on Treasury provisions without obtaining loans. Accordingly, the administrative expenditure (salaries and other expenses) payable to the staff was approximately Rs.1.4 million per month due to incompletion of the project within the scheduled period. Hence, the total administrative expenditure of the project was approximately Rs.60.2 million and the project was in progress at a snail's pace.

Western Region Megapolis Master Plan Project

The Western Region Megapolis Master Plan Project had been commenced in May 2015. It was being implemented over a period of 02 years by the end of September 2017. A sum of Rs.330.23 million had been incurred on the Project. However, this project had been continued as a new project called Western Region Planning Project by spending Rs.10.22 million during the year under review and a time frame had not been fixed for the completion of the project. Further, a formal feasibility study had not been conducted on the implementation of projects planned under the Western Region Megapolish Master Plan Project. Several different projects had been launched only for the implementation of a part of the plans presented by the Western Region Megapolish Master Plan Project. However, the Department of National Physical Planning, too, had engaged in the preparation of various Region Planning Projects.

Science and Technology Township Development Project

Under the Science and Technology Township development project, the towns of Malambe, Homagama, Kaduwela and Athurugiriya were proposed to be developed. Development activities were expected to be implemented by dividing the project in to 05 zones as Tertiary Education Zone, Scientific Research and Development Zone, Technology Enterprises Zone, Nano Technology Zone and Biotechnology Exhibition Zone. This project had been initiated on 01 March 2017 and scheduled to be completed by 01 March 2023. A Memorandum of Understanding had been entered into between the Ministry and the Ministry of Lands Infrastructure Facilities and Transport of the Korea State on 24 May 2016 for the implementation of the project. Subsequently, the Ministry of Korean State had commenced a feasibility study. However, a sum of Rs.25.49 million and Rs.40.72 million had been spent in the year 2017 and 2018 respectively as salaries and allowances of the staff attached to the Project Management Unit established for the Technology Township Development Project. The main objective of this project was to develop common amenities of the Science and Technology town.

Aero City and Admin City Project

A sum of Rs.80.7 million had been spent during the year under review for the staff salary and recurrent expenditure of the two projects of Aero City and Admin City Town Project implemented under the Ministry. Nevertheless, a feasibility study had not been conducted and assessment reports on the environmental impact resulting from the implementation of the project had not been obtained before the commencement of the project. Similarly, investors had not been found for the discharge of functions planned by those 02 projects and as such, these projects were also being implemented totally under the Treasury funds and they were in progress at a snail's pace without specific plans .

Metro Colombo Urban Development Project

The Metro Colombo Urban Development Project had been commenced with the objective of mitigating flood in the catchment of the Colombo Water Basin and strengthening the capacity of local authorities in the Colombo metropolitan area and increasing the beauty of the Colombo city. The total estimated cost of the Project had been US$ 321 million equivalent to Rs.42,031.44 million. Out of that, a sum of US$ 213 million or 66.35 per cent of the total cost is financed by the International Bank for the Reconstruction and Development and the remaining amount is financed by the Government of Sri Lanka. The following deficiencies were observed during the course of audit test check carried out on the project.

- Even though this Project was scheduled to be commenced on 10 July 2012 and completed by 30 June 2017, the period of the Project had been extended in 02 instances. Accordingly, the Project was due to be completed by 30 June 2020. However, a sum of US$ 103.66 million equivalent to Rs.14,890.18 million from the funds received under World Bank loans had been utilized by the end of the year 2018 and in addition, a sum of Rs.4,891.46 million or US$ 32.86 million had been spent out of the Sri Lanka Government funds. Accordingly, an amount of approximately 48.66 per cent of the loan had been utilized after 05 1/2 years of the implementation of the Project.

- A sum of Rs.1,552.07 million had been spent for various purposes of the development of Beira Lake by the Project for increasing the beauty of Colombo city in an environmental friendly manner. Another sum of Rs.470 million had been spent from Treasury Funds. However, there was a stench around the Beira Lake due to failure in taking measures to prevent the dumping of waste from residences and hotels near the Beira Lake. However, the development activities of the Beira Lake had not created an environment suitable for spending leisurely to both tourists and local visitors and people had not received benefits in commensurate with the funds spent for the development of Beira Lake.

- According to the plan for the establishment of flood mitigation system, expenditure of Rs.390 million or US$ 2.6 million had been estimated for that purpose. A sum of Rs.105.5 million had been spent during the year under review for the project. Out of the amount so spent, a sum of Rs.24.74 million had been paid as the remuneration of the Consultant of that Division , whereas Treasury approval had not been obtained thereon. Action had not been taken to obtain necessary accessories and equipment for the establishment of prevailing flood mitigation system and that Consultant had taken steps only to obtain weather forecasts while recording data on rain falls with the assistance of the undergraduates of the University of Moratuwa.

Strategic Cities Development Project

This Strategic Cities Development Project had been implemented with the objective of improving selected urban services and public open spaces in the participating city regions of Sri Lanka. The Kandy city and Galle city had been selected as the participating city regions under this Project and according to the financial agreement of the Project, the estimated total cost of the Project had been US$ 202 million equivalent to a sum of Rs.27,507 million. After the lapse of 4 ½ from the commencement of the project, that is, by 31 December 2018, only US$36.38 million equivalent to Rs.5,638.million representing 18 per cent of the total allocation had been utilized.

Under The Strategic Cities Development Project, provisions of Rs.3,700 million had been made from the budget estimate for the Galle and Kandy cities development projects and out of that, Rs.2,386 million or 64 per cent only had been spent. Similarly, provisions of Rs.1,400 million had been made from the budget estimates for the Jaffna City Development Project and Rs.313 million or 22 per cent of which only had been utilized.

The physical performance of 13 projects in progress which had been planned to be implemented during the year under review, had remained less than 50 per cent and financial performance of 33 projects had been less than 50 per cent. Further, physical performance of 03 projects completed by the end of the year under review had ranged from 62 per cent to 90 per cent. Selection of contractors without evaluating the financial viability of the contractors, not deploying an adequate number of technicians by the contractors, defects founds in the estimates prepared by the Consultants, delays occurred in giving consultancies had directly attributed to the poor performance of the contract works.

Out of the projects for which provisions of Rs.6,100 million had been made and scheduled to be implemented during the year under review, 26 projects estimated at Rs.1,333 million had not been implemented and it had been 22 per cent of the estimated value.

Although provisions of Rs.144 million had been made relating to the consultancy services of 03 programmes scheduled to be implemented under the Jaffna City Development Project for the year under review, those consultancy services had not been implemented by the end of the year. Similarly. Provisions of Rs.5.8 million had been made for the Contact Facilitate the Proposed Developments Intervention in Jaffna Peninsula Programme scheduled to be implemented during the year under review, whereas that programme had not been implemented.

Western Region Marine City Development Project

With the objective of developing coastal belt from Negambo up to Kalutara Kelido beach by dividing it into 03 zones, a project had been commenced from the year 2017 to create the area from Kollupitiya to Dehiwala as a recreational coastal belt, to use Blumendal Kimbulaela area for the development activities related to the Colombo Port and to establish supplies and services network in Welisara area in which the Navy Headquarters is situated. Sums totalling Rs.47.2 million had been spent on this project in the years 2017 and 2018. Nevertheless, that project was being implemented without conducting a feasibility study or obtaining an assessment reports on the environmental impact resulting from the implementation of the relevant project.

Urban Regeneration Project

Under the Urban Regeneration Project, 8,113 housing units had been fully completed by the implementation of 16 housing projects from the year 2013 up to the end of the year 2018 and law income families had been settled therein. A number of 7,395 housing units were being constructed during the year under review through 02 continuous projects and 12 new housing projects. Plans have been drawn to construct 68,000 housing units for low income shanty dwellers and to settle them in those housing units under this project.

Preparation of Urban Development Plans

In terms of Section 3 of the Urban Development Authority Act, No.41 of 1978, the urban zones to be developed should be identified and development plans should be prepared for those zones. However, despite being identified 243 urban development zones by the end of the year under review, development plans had been prepared only for less than hundred zones of the above zones.

Industry and Commerce	**Development of Industrial Estate.** **Non-implementation of Regulatory Methodologies.** **Lack of Proper Procedure for Sale of Potatoes.** **Non-renewal of Registration of Contract Agreements.** **Loss of Revenue due to Failure in Registering Financial Reports of the Companies.** **Abandonment of the Project for Computerizing the Registration of Companies.** **Registration of Trademarks Internationally.**

Industry and Commerce

The expected result of this sector is creating a globally competitive and beneficial business environment. The following functions should have been performed by the Ministry of Industry and Commerce, 09 Departments, 07 Statutory Boards and 20 Public Enterprises under its purview for achieving that result.

- Formulation, follow up and evaluation of policies, programmes and projects relating to the subjects of industry and commerce
- Promotion and development of industries
- Conduct of trade exhibitions
- Take measures for the supply of quality consumer goods at reasonable price in the local market without a shortage
- Approval of credit agencies under Section 114 of Mortgage Act, No. 6 of 1949
- Formulation and implementation of national pricing policies with regard to consumer goods
- Take measures for the protection of consumers
- Development and popularization of designs for production in the handicraft industry in Sri Lanka
- Matters relating to administration of the International Convention on Intellectual Property and functions relating to World Intellectual Property Office

The summary of audit observations made during the course of audit test checks conducted on the discharge of the said functions is given below.

Development of Industrial Estate

The Ministry of Industry and Commerce, Resettlement of Protracted Displaced Persons, Cooperative Development and Vocational Training and Skills Development makes its contribution through the industrial development programme to diversify the development at regional level, which was restricted only to developed areas and thereby, to enhance the contribution made by the industrial sector, to the national income. A sum of Rs.328.76 million had been spent for 33 projects of 18 industrial estates by the Industrial Development Sector of the Ministry in the year 2018 for encouraging the investment in the industrial sector at regionally and providing infrastructure facilities required therefor. According to the Annual Action Plan, a sum of Rs.25.85 million, out of the provisions totalling Rs.26.11 million made in the year under review for development of infrastructure facilities in 02 industrial estates had been spent. No physical progress whatsoever had been achieved and 13 projects valued at Rs.165.25 million planned to be completed by the end of the year under review, had not been completed even by the end of the year under review. Further, a sum of Rs.11.37 million had been spent for 02 projects which were not included in the Annual Action Plan and a sum of Rs.21.82 million had been spent for 07 projects exceeding the estimated amount therefor.

Non-implementation of Regulatory Methodologies

In terms of the Cabinet Decision dated 26 April 2013, it had been decided that a Special Regulatory Unit should be established for regulating activities of Co-operative Rural Banks, Rural Bank Societies, SANASA Societies, SANASA Sangams and other financial co-operative societies. Accordingly, a sum of Rs.20.99 million had been spent by the Department of Co-operative Development from the year 2013 to the year 2018 for affairs of the Regulatory Unit established. Even though a period of 06 years had elapsed after the commencement of the said Unit, the Department had not implemented a proper procedure regarding those regulatory activities. Further, the Department had not implemented the regulatory methodology on behalf of other financial services societies and SANASA Societies except for the Rural Bank Sector.

Lack of Proper Procedure for Sale of Potatoes

It had been decided at the Cabinet Sub-committee to grant a sum of Rs.150 million in 02 installments by the General Treasury to the Sri Lanka Consumer Co-operative Societies Federation Ltd. through the Department of Co-operative Development for the purchase of potatoes at a certified price of Rs.92 per 01 kg from farmers in the Uva Province on the recommendations of the Cost of Living Committee held on 16 October 2018. Accordingly, provisions of Rs.75 million had been received to the Department under Expenditure Head of the Presidential Secretariat. Those provisions had been granted to the Federation on 29 November 2018. The Secretary to the Ministry of Industry and Commerce had informed the Department that those moneys so granted should be withdrawn and settled to the General Treasury and coordination and supervision of all activities relating thereto are assigned with the Department. However, a number of 932,868 kg of potatoes valued at Rs.85.82 million had rotted due to unavailability of proper procedure for sale of potatoes with the Federation and inadequate supervision of the Department.

Non-renewal of Registration of Contract Agreements

Every public contract exceeding Rs.05 million should have been registered in terms of provisions of the Public Contracts Act, No.3 of 1987 by virtue of powers expressly conferred or imposed upon the Registrar in terms of Sub section 5(1), 5(2) and 2(1) of the said Act. Even though a number of 24,345 contractors who are expected to carry out procurements had registered in the year under review, only 398 contracts had been registered after awarding contracts. Even though action should have been taken to renew the registration of contracts after one year of its registration in terms of Sections 1 and 3 of the said Act, no contracts whatsoever had been renewed.

Taking Action in compliance with Provisions of the Companies Act

In terms of Sections 131 (1) and (2) of the Companies Act, No.07 of 2007, every company shall deliver to the Registrar an Annual Return after 1 ½ years of its registration. The total number of companies registered from the year 2007 to the year 2018 stood at 83,225 and out of that, 18,054 companies had delivered annual returns relating to the year 2018, in the year under review. Moreover, the number of companies defaulted from delivering annual returns in the year 2010 stood at 11,411 and it had continuously increased up to 65,171 by the year 2018. The income from annual returns recoverable by the end of the year under review had been Rs.1,974.60 million.

In terms of Section 170(1) of the Companies Act, every company that is not a private company, shall ensure that financial statements of the company with a copy of the auditor's report are delivered to the Registrar of Companies for registration. Even though the number of companies which should register its financial reports of the year under review stood at 6,893, out of that, only 2,110 companies had registered its financial reports. Accordingly, income of Rs.9.57 million receivable for 4,783 companies registered only for the year under review, had been deprived of.

Registration of Societies

According to the Societies Ordinance Act, No.11 of 2005, out of 12,307 registered societies, only 180 societies had delivered annual returns for the year under review. As such, the outstanding income of societies only for the year 2018 had been Rs.12.12 million.

Recovery of Lease Income

A sum of Rs.1,500 had been estimated as basic lease income for the year under review. No income whatsoever under the said Revenue Code had been collected in the year under review. Even though income should have been collected by publishing a Gazette Notification for the recovery of these lease income, it had not been so done, thus resulting in a problematic situation. Therefore, collection of revenue had been suspended for avoiding the said situation.

Computerizing the Process of Registration of Companies

A Project for installation of a software on Computerizing the Process of Registration of Companies had been implemented. The contract of the said project had been awarded to a contractor on 30 May 2017 at the value of Rs.57 million with a view to completing within 09 months. The contract period had been extended at two instances and even though 25 months had elapsed, the contract had not been completed even by 31 August 2019. Only the first installment of Rs.1.52 million had been paid for the completion of the first phase by the end of the year under review. Another contract had been awarded even in the year 2014 for the process of computerizing the registration of companies and a sum of Rs.13.27 million had been paid therefor and the Project had been abandoned halfway.

Investment of Company Funds

The Department of Registrar of Companies had invested a sum of Rs.90.27 million from the Company Fund in the year 2007 in the share capital of a company which was running at a loss. The approval for the said investment had been granted by a Cabinet Decision dated 29 March 2007 and moneys required for the investment had been remitted to the Secretary to the Ministry of Cooperative Development and Marketing. No benefit whatsoever had been received from this investment even by 30 August 2019 to the Company Fund from the date of investment and the value so invested had been shown as non-current assets in the financial statements. A Memorandum of Cabinet of Ministers dated 02 January 2013 had been submitted by mentioning that the said company was bankrupt.

Registration of Trademarks Internationally

Provisions of Rs.93.00 million had been made by the Line Ministry to the National Intellectual Property Office of Sri Lanka from the year 2016 to 31 December 2018 for the implementation of the Madrid Project for the registration of trademarks internationally. Out of that, provisions of Rs.79.43 million had been utilized. A sum of Rs.32.5 million had been paid on 30 December 2016 to the Information and Communication Technology Agency for the purchase, installation and maintenance of a Server required for the implementation of the Project. A Memorandum of Understanding had been signed between two parties on the same day itself and according to Section 4.3 of the agreement, it had been indicated that the Information and Communication Technology Agency should be responsible for the entire process of purchasing and the said process should be completed within 06 months from the date of agreement. However, action had not been taken to supply the Server even by the end of May 2019.

Interior Decorations of the Proposed Canteen

A sum of Rs.6.00 million had been estimated for interior decorations proposed for the canteen of the Institute of Textile and Apparel. Provisions of Rs.6.41 million had been made by the Treasury in December 2017 therefor. The contract for the said purpose had been awarded on 28 November 2017 to a contractor who had submitted a bid at a cost of Rs.8.02 million. Advances of Rs.1.88 million had been granted by the Institute of Textile and Apparel to the contractor on 03 January 2018 on a security for a validity period from 06 December 2017 to 06 March 2018 on behalf of the said contract. However, the said contract had not been completed even by the end of the year under review. Even though the guarantee period of the security on advances had expired, action had not been taken to renew it and even an engineer's report had not been obtained on completed works of the contract. Even though an agreement had been entered into by stipulating that the contract should be completed within 60 days from 09 September 2018, action had not been taken to renew the agreement.

Obtaining a Building on Rental Basis

The old building is scheduled to be demolished for the construction of the new 04 storyed building. As such, a building had been obtained on rental basis for a period of one year from 01 June 2017 at a monthly installment of Rs.80,000. The procurement process for the construction of the new building had not been completed by 31 August 2019. The building obtained on rental basis had been closed down for a period of one year. Sums of Rs.960,000 and Rs.8,353 had been paid as rental and electricity charges therefor.

Housing and Construction

Model Villages Programme.

Bogaswewa Special Housing Project.

Viru Sumithuru Housing Programme.

Grama Shakthi Udagammana Programme.

Visiri Housing Project.

Housing and Construction

Providing suitable housing facilities for every family with the objective of ensuring a better standard of living for all citizens had been the result expected from this sector. The following functions should have been performed by the Ministry of Housing and Constructions two Departments and 08 Statutory Boards/ Institutions under its purview in achieving that result.

- Compilation, follow up and evaluation of policies, programmes and projects relating to the subjects of Government departments, statutory institutions and corporations on housing and construction.
- Assign standards and norms for government quarters and other buildings.
- Implementation of housing schemes and housing financial programmes to meet the housing needs of the people including low income earners and special community groups.
- Guidance for rural people about technical methods of housing construction which bring cost effective benefits ecofriendly.
- Supply of mechanical engineering services for government institutions.
- Regulation, registration, regularization and Standardization of the activities of the construction industry consistent with relevant rules and regulations and standards.
- Provision of consultancy and regulatory service for the construction industry and operation of heavy construction equipment and training on maintenance.
- Management and regulatory activities of Condominium property.
- Reform of public condominium property and transfer of the title of houses efficiency and speedily.

Significant audit observations revealed during the course of audit test checks relating to the functions performed are summarized and shown below.

Model Villages Programme

This programme had been implemented by the National Housing Development Authority. Even though provisions of Rs.937 million had been made for the project in the year under review. only a sum of Rs.581 million out of that had been utilized. A number of 20,375 houses had been expected to be constructed in the year under review. However, only 1,555 houses out of that target representing 08 per cent had been completely and up to the roof constructed by the end of the year. Accordingly, the performance of the programme had been at a weak level.

A sum of Rs.632 million had been estimated for the construction houses which were could not be completed during the year 2017 that were continue for the year 2018. A sum of Rs.486 million had been spent during the year under review for that. Therefore financial progress of the project had become 76 per cent. Out of the targeted houses of 4960 only 3,099 houses had been completed. Although the project should have to be complete at the date of 30 September 2018, but the project had failed to complete it even the elapse of 03 months period at the end of the year under review.

Bogaswewa Special Housing Project

This project had been implemented by the National Housing Development Authority and an expenditure of Rs.449 million had been estimated. A number of 978 houses had been constructed upto the roof and had been completed by spending a sum of Rs.280 million. Eventhough 1,566 houses had been expected to be completed in the year under review only 978 houses representing 62 per cent out of that had been completed by the end of the year.

Viru Sumithuru Housing Programme

This project which is implemented by the National Housing Development Authority in amalgamation with the Ranaviru Sewa Authority had planned to construct 550 houses on an estimate of expenditure amounting to Rs.116 million. But 405 houses had been constructed upto the roof and completed by spending Rs.113 million during the year under review. Accordingly, only about 74 per cent out of the number of houses to be completed by the end of the year under review had completed constructions.

Grama Shakthi Udagammana Programme (New)

This project had been implemented by the National Housing Development Authority. An expenditure of Rs.100 million had been estimated to construct and complete 1,200 houses through the project by the end of the year under review. Including the additional provisions a sum of Rs.234 million had been spended for that during the year under review, 255 houses had been constructed completely and upto the roof. Out of the targeted number of houses at the end of the year under review only 21 per cent of houses had been completed.

Visiri Housing Project (New)

This housing project had been implemented by the National Housing Development Authority. Estimated cost for the year was Rs.709 million and a sum of Rs. 637 million had been spent as at the date of 31 December 2018. Therefore financial progress of the project was 90 per cent. Out of the 7,000 targeted construction of houses, 4879 houses had been completed upto the roof and had been completed in full. That number of houses was 70 per cent of the number of targeted houses.

Transports

Lack of Roadworthy Buses for the Express Ways

Issuance of Permanent Route Permits without Calling for Tenders

Colombo Suburban Railway Project

Decrease in the Number of Train Turns

Poor land usage of the Sri Lanka Railway Department

Declining the revenue earned from the freight transport

Delay in the Rehabilitation of Train Compartments

Decrease in the deployment of buses for the passenger transportD De Decrease in

Implementation, development and sustainable maintenance of higher standard transport infrastructure facilities with the use of futuristic technology strategies for the amelioration of living standard of the people had been the function to be discharged by the Ministry of Transport and Civil Aviation. In order to achieve that result, the following functions had to be discharged by the Ministry, two Departments and 07 statutory boards/ institutions functioning under the Ministry.

- Take necessary measures to ensure efficient operation of integrated passenger and freight rail transport services by adoption of new technology, development of railway infrastructure, and provision of railway services.
- Provision of passenger ferry services.
- Provision of secured and reliable passenger transport service.
- Introduction of an environmental friendly transport system.
- Regulation of private passenger transport services.
- All affairs relevant to the construction of new railway lines including acquisition of lands and infrastructure facility development.
- Registration and licensing of motor vehicles.
- Issuance of driving licences.
- Regulation and issuance of guidelines and laws relating to motor traffic.
- Conduct development and regulatory functions of airports.
- Regulation of progress, charges and the quality of the services provided by air ports.
- Taking necessary steps including entering into agreements with other countries for the expansion of international air travels.
- Promotion and execution of regulatory functions in relation to use of airports in Sri Lanka by foreign countries.
- Supervision and regulation of private air services.
- Registration of aircrafts.

The Audit observations revealed at the audit test checks conducted on the discharge of the above functions by the Ministry and the institutions functioning thereunder are analyzed below.

Construction of Matara, Beliatta and Kataragama New Railway Line

The project of the construction of new railway line from Matara to Kataragama was commenced on 01 August 2013 by the Ministry of Transport and Civil Aviation under a foreign assistance project at an estimated cost of Rs.36,166 million and it was scheduled to be completed by 31 July 2016. Due to failure on the part of the contractor to properly complete the project activities, project had been extended up to 31 December 2018 and a sum of Rs.33,730 million or 93 per cent of the project value had been paid to the contractor by then. Although the railway line had been opened in the year 2019 to run trains up to Beliatta, the following deficiencies had been revealed thereon.

- In terms of Section 7.4 of the conditions of the contract agreement, quality of the rails and sleepers supplied by the contractor should be locally examined by the Engineer and issued a Quality Assurance Report. Nevertheless, the Quality Assurance Report related to rails and sleepers purchased at US$ 4,526,117 on 31 March 2018 had not been submitted.

- The consultancy company had failed to submit a report including the details on number of rails to be purchased, number of rails used and the remaining quantity of rails relating to the construction of railway line.
- In terms of Section 1.3 of the conditions of the loan agreement relating to the project, the loan should have been obtained within four years from the dated of signing the agreement. The relevant period had elapsed by April 2017 according to the loan agreement signed in April 2013. Owing to the delays occurred in the constructions, foreign exchange loss of Rs.5.35 million had been incurred in respect of the payments made from May 2017 to 31 December 2018.

Construction of Kurunegala- Habarana Railway Line

For the construction of a railway line of 84 kilometer in length from Kurunegala to Habarana, provisions of Rs.500 million had been made under the Ministry in the year 2018. Since land acquisition activities relating to the implementation of the project were in slow progress, provisions of Rs.420 out the provisions made thereon had been transferred to the Matara-Kataragama railway line project. Even though this project should have been implemented within the Five Year's Plan from the year 2016 to 2020, only Rs.56 million had been spent for the acquisition of lands by the month of May 2019.

Colombo Suburban Railway Project

Under the Asian Development Bank Assistance, the Colombo Suburban Railway Project had been implemented under the Ministry. Provisions of Rs.1,000 million had been made for the execution of project activities, whereas Rs.700 million of such provisions had been transferred for a housing construction project. This project inaugurated in January 2018 is required to be completed by the year 2020, only 30 per cent works of the preparation of detailed designs had been completed by the year 2018.

Sri Lanka Railway Department

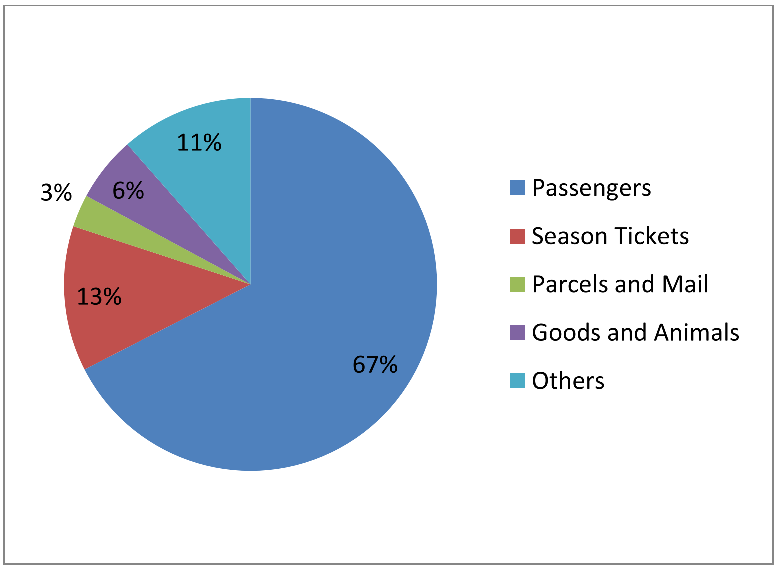
Sri Lanka Railway Department had been founded in the year 1867. The Department had gained operating profits from that year up to 1934. About 57 per cent of the total revenue had been earned by the transport of freight during that period. The recurrent income of the Railway Department was Rs.7.41 billion by 31 December 2018 and the recurrent expenditure amounted Rs.14.08 billion as at that date. Accordingly, recurrent loss had been Rs.6.97 billion and the recurrent loss exceeding the recurrent income had been 94 per cent. Details appear in Table 17.

Recurrent Income, Expenditure and Loss	2013 Rs.Million	2014 Rs.Million	2015 Rs.Million	2016 Rs.Million	2017 Rs.Million	2018 Rs.Million
Recurrent Income	5,425	5,910	6,335	6,623	6,490	7,412
Recurrent Expenditure	10,586	16,943	14,048	13,396	14,080	14,380
Recurrent Loss	5,161	11,033	7,713	6,773	7,590	6,968
Recurrent Loss as a percentage of Recurrent Income	95.13	186.68	121.75	102.26	116.95	94

Table 17: Recurrent Income, Expenditure and Loss of the Department of Sri Lanka Railways.
Source : Financial Statements of the Department of Sri Lanka Railways.

Collection of Revenue

Collection of revenue of the Department of Sri Lanka Railways remains at an extremely poor position and as compared with the preceding year, recurrent expenditure had increased over two fold of the revenue collected during the year under review. For the discharge of functions of the Department of Sri Lanka Railways, supplementary provisions of Rs.25.29 billion had been made by the General Treasury during the year under review. The composition of the revenue of Rs.7,412 million collected by the Department during the year under review appears in the Diagram 49



Transport

Diagram 49 - Composition of Revenue 2018
Source : Revenue Accounts, 2018.

The mission of the Sri Lanka Railway Department is the Provision of safe, reliable and punctual rail transport service for both passenger and freight traffic, economically and efficiently. The following observations are made in this connection.

Decrease in the Number of Train Turns

Even though Sri Lanka Railway Department had planned to operate 121,143 passenger train turns for the year under review, the number of turns operated had declined up to 117,189. Accordingly, 4,284 train turns had not been operated. The number of delayed turns stood at 50,997 and 4,284 turns had been cancelled.

Poor Land Usage of the Sri Lanka Railway Department

Although there are 14,000 acres of lands as the reservation of Sri Lanka Railways, a data system has not been maintained thereon. Therefore, the Sri Lanka Railway Department had been deprived of a colossal amount of revenue owing to unauthorized occupation in those lands and default of taxes.

Declining the Revenue Earned From the Freight Transport

The Sri Lanka Railway Department could have earned an additional revenue through the transport of goods by trains, whereas freight transport revenue had declined by 2.25 per cent compared to the preceding year. Details appear in Table 18.

Indicator	2017	2018	Increase/(Decrease) compared to the preceding year	Percentage of Increase/(Decrease)
Freight Km (Mn)	144.79	119.78	(25.01)	(17.27)
Freight Tons (Mn)	2.00	1.84	(0.16)	(8.00)
No. of freight trains	6,590	6,845	255	3.87
Freight Revenue (Rs.Mn)	429.11	418.22	(10.89)	(2.53)

Table 18-: Freight Transport Revenue of the Department of Sri Lanka Railways.
Source : Annual Performance Report 2018 of the Department of Sri Lanka Railways.

Delays in the Rehabilitation of Train Compartments

Out of 88 compartments given for the repairs under the programme of the rehabilitation of 200 passenger compartments implemented in collaboration with a private party, only 52 compartments had been rehabilitated by 31 December 2018.

Road Safety and Minimization of Road Accidents

The National Council for Road Safety had earned an income of Rs.66 million at 01 per cent of the income received by the Insurance Institutions from the third party insurances and other income during the year under review. Out of that, a sum of Rs.14 million only had been spent for the discharge of the functions of the Council. Even though the Council had invested Rs.319.5 million , its attention had not been drawn on the discharge of functions relating to the minimization of road safety. In consequence of train accidents, 474 incidents of imageries and 220 of deaths had been reported during the year under review. The National Council for Road Safety had not taken adequate measures for the prevention of accidents caused by the trains. Although the minimization of road accidents and maintenance of a data base including all the details on new roads and vehicle population added to the road network in each year, number of road accidents and property damages had been an objective of the Act, passed for the establishment of the Council, the Council had failed to achieve that objective even by the end of the year under review.

Decrease in the Deployment of Buses for the Passenger Transport

The Sri Lanka Transport Board possessed a fleet of 7, 302 busses in the preceding year, whereas it had dropped up to 6,929 by five per cent by the end of the year under review. The Board had 5,575 roadworthy buses that cab be operated per day and 5,151 of the above buses only had been in operation daily. According to the time table requirement, the number of busses needed in the year 2018 was 6,465, but 5,575 busses only had been made available for operations.

Failure to Deploy Busses for the Gemisaviya

The Sri Lanka Transport Board had operated about 5,000 busses per day and those buses had been driven on profitable routes as well as for office transport and school transport services. Accordingly, 726 busses had been deployed for the Sisu Seriya and 142 busses been deployed for the Nisi Sariya services in the year 2018. Nevertheless, the Board had not taken steps to deploy buses for the Sisu Seriya service operated in the rural routes during the year under review.

Failure to Obtain Expected Results from the GPS System

In order to examine the information on the operation of busses, the Sri Lanka Transport Board had made arrangements to operate GPS System from its Head Office. Accordingly, an agreement at a total sum of Rs. 33,628,840 had been entered into with a private company to operate the aforesaid system. This GPS system was due to be operated for 125 Luxury busses of the Board and necessary cameras and accessories therefor had been installed. Officers had not been appointed either in the Head Office or the depots to monitor the above system and as such, expected results of the project could not be achieved.

Lack of Roadworthy Buses for the Express Ways

The Sri Lanka Transport Board operates buses on the express ways, whereas the Board lacked appropriate and adequate number of buses for those express ways. Therefore, arrangements had been made to operate busses obtained from external parties in those roads under the logo of the Board and thereby, obtain 15 per cent of the income of those buses to the Board.

Issue of Permanent Route Permits without Calling for Tenders

In terms of Cabinet Decision dated 06 October 2005, the Commission had been granted approval to issue permanent route permits according to the tender procedure. Nevertheless, without being called for bids, the National Transport Commission had issued 3,440 route permits as at 31 December of the year 2018 of which, 64 per cent had been granted only upon the recovery of annual renewal fee of Rs.3,000 and 27 per cent upon the recovery of annual fee of Rs.15,000. Accordingly, out of the total number of permits issued 91 per cent had been granted without calling for tenders, thus depriving of an income to the Commission. Similarly, the Commission had issued temporary route permits for the buses on express ways based on the minimum technical value. Accordingly, 820 permits had been issued maximum for 28 days during the year under review, thus depriving of the maximum income that could have been earned by calling for tenders.

Failure to Issue Passenger Service Permits

The Mobile Inspection Division had identified that about 28 busses were being driven to the North and East Provinces from various Provinces during the year under review without having Passenger Service Permits. Accordingly, the National Transport Commission had taken steps to issue 31 Passenger Service Permits for 17 routes. Herein, the Commission had called for bids to issue 09 Passenger Service Permits for 06 routes and thereby selected the successful applicants. Since the Board of Directors meetings had not been held, approval could not be obtained for the award of Passenger Service Permits for the selected candidate and accordingly, it had not been possible to award the Permits during the year under review. As a result, the Commission had been deprived of an income of Rs.25.82 million.

Failure to Fulfill the Requests made by the Students and Schools

Even though 31 requests had been made by the students and schools for the Sisuseriya Project, it had not been possible to fulfill those requests during the year 2018. In the implementation of this project, it has been a key function as well as a social responsibility of the National Transport Commission to deploy the busses for the relevant service. Nevertheless, necessary steps had not been taken by paying attention in that respect.

Issue of Medical Certificate Obtaining Services of The Medical Officers on Hourly Wages Basis

Although the issuance of medical certificates has been the key function of the National Transport Medical Institute, due to lack of adequate number of Medical Officers in the institution to discharge the above function, service of the Medical Officers had been obtained on contract and hourly wages basis. It was revealed at the audit test check carried out in the year 2018 that at least one permanent Medical Officer had not been appointed for 07 branch offices and medical certificates had been issued by employing Medical Officers on hourly wages basis.

Failure to Discharge Functions Specified in the Act, Adequately

In terms of the National Transport Medical Institute Act No.25 of 1977, the functions such as to provide medical services and assistance, to provide advice and special guidelines relating to the quantum of compensation or damages payable in cases of accident, to appoint a panel of suitable medical officers for the purpose of discharging its functions, to ensure either by itself or in consultation with other agencies, that motor vehicles of all descriptions are operated or driven only by persons who are physically and mentally fit and competent and to set standards and prescribe parameters regarding transport medicine to be adopted and implemented by the relevant implementing authorities, had not been discharged by the Institute.

Social Empowerment and Welfare

The Balance of the Social Security Fund had not been Utilized on the relevant

Failure to Conduct Researches on Positive Aging

Failure to Complete Constrctions of Vocational Training Centers for the Disabled Persons

Failure to Establish the Management Information Systerm.

Failure to Utilize the Provision Made

Social Empowerment and Welfare

The Ministry of Social Empowerment and Welfare, together with 02 Departments and 05 Statutory Boards / Institutions, should discharge the following duties to achieve the outcome of establishing an economically and socially empowered Nation.

- Formulation and evaluation of policies, programmes and projects relating to the subjects of social empowerment and welfare.
- Introduction of strategies to empower the rural lives and provision of financial assistance to execute such strategies.
- Formulation of rural and regional economic policies.
- Implementation of Divineguma (Samurdhi) Programmes.
- Identification of disabilities of the persons with special needs and rehabilitation of such persons.
- Reviewing and restructuring of Public Aid Scheme and introduction of suitable new revisions to the Public Aid Scheme.
- Granting aid for patients suffering from tuberculosis, kidney diseases, leprosy and thalassemia, and for their dependents.
- Providing family counselling services.
- Formulation of strategies to provide vocational training and career opportunities for disabled persons.
- Implementation of social security schemes for disabled persons.
- Making arrangements to care and safeguard the elders and to increase the participation of elders in social developmental activities and to safeguard the rights of the elders.

Audit observations revealed in audit test checks carried out with respect to the discharge of the aforementioned duties by the Ministry, Departments and the Statutory Institutions are summarized and mentioned below.

The Allowance for Senior Citizens

Provisions of Rs. 9,816.50 million had been allocated for the payment of the senior citizens’ allowance of Rs 2,000 each for 386,083 senior citizens who had exceeded the age limit of 70 years and in low income group during the first 03 months of the year under review and for 416,667 elders during the subsequent 09 months. Allowances of Rs. 9,590.03 million had been paid for 410,397 elders during the year under review. A sum of Rs. 226.47 million out of the provisions made had been saved without utilizing as at 31 December 2018. However, 117,598 elders in 25 Districts were in the waiting list seeking the allowance paid for Senior Citizens. A sum of Rs. 100 each had to be deducted from this allowance provided to elders and the sum had to be granted to the National Secretariat for Elders by the Divisional Secretariats as per the decision taken by the Cabinet of Ministers dated 31 August 2016. Accordingly, a sum of Rs. 490.82 million had to be remitted to the Social Security Fund for the year under review. Nevertheless, an amount lower by Rs. 5.36 million had only been remitted to the Fund. However, the National Secretariat for Elders had not inquired on the recovery of this deficit from the Divisional Secretariats.

The balance of the Social Security Fund as at 31 December 2018 was Rs. 1,476.16 million and the balance had remained idle without using it for any function stated in the decision of the Cabinet of Ministers even by the end of the year under review.

Research on Positive Aging

Provisions of Rs. 4.20 million had been allocated for National Secretariat for Elders in order to conduct researches on the development of community based elderly care system in Sri Lanka. Researches related to the Project had not been conducted even by the end of the year under review.

Payment of Allowances for the Disabled Persons

Provisions of Rs. 1,151.77 million had been allocated to the National Secretariat for Elders for the payment of allowance of Rs. 3,000 each for disabled persons per month for 34,667 disabled persons in 25 Districts as the payment of allowance for disabled persons during the year under review. Provisions of 10.55 million had been saved after paying allowances for 31,956 disabled persons during the year under review.

Payment of Housing Aid to Disabled Persons

Works of 366 houses had not been finalized even by 31 December 2018 although the Programme of providing housing aid for disabled persons in the low income group was initiated in the previous years. The value of instalments to be paid further for such houses had become Rs. 25.11 million and even though instalments were paid, there were 169 houses in which work had not been finalized even for the period of 02 years to 06 years after the commencement of construction activities. There were 67 houses of which work had not been finalized even the period more than one year had passed after the initiation of constructions. A total of Rs. 17.66 million had to be paid for such houses comprised of Rs. 14.26 million and Rs. 3.40 million respectively.

Provision of Access to the Disabled Persons to Enter Buildings

The National Council and Secretariat for Persons with Disabilities had been assigned the responsibility of taking legal action under the Rights of Persons with Disabilities (RPWD) Act No. 01 of 2016 and the responsibility of performing the following up activities and supervisory activities on the fulfilment of facilities for access for disabled persons as well as all the functions related to that. The function could not be accomplished successfully since a technical Officer in the Approved Cadre of the National Secretariat for Persons with Disabilities had not been recruited even by 30 September 2019.

Non-utilization of Provisions Made

A total of Rs. 263.33 million had been allocated in the year under review comprised of an amount of Rs. 2.50 million incurred for recruiting and training of 100 Elderly Care Assistants and Rs. 5.00 million for Attamma Catering Project for the promotion of traditional and local cuisines practised by elderly persons within the society and Rs. 3.00 million for the renovation of the official quarters of the Head of the home for elders in Kataragama and a sum of Rs. 252.83 received from the Social Security Fund for the accomplishment of 03 main functions for the welfare of the elders by the National Secretariat for Elders. Nevertheless, the total provisions had not been utilized as fundamental activities required to utilize the provisions had not been performed.

Land Utilization

The Holy cross land of Gampaha valued at Rs. 13.00 million and land called Rajitha Watte in Haragama valued at Rs. 3.20 million transferred to the Council by Deeds of Gift in the year 2011 for the construction of elderly homes were remained idle due to the failure of constructing the relevant houses.

Purchasing of a Building

Sri Lanka Social Security Board had purchased a building in the year 2013 by incurring a sum of Rs. 195.00 million from the Pensions Fund to conduct the Head Office of the Board by exceeding the amount of Rs. 165.00 million which was the Government valuation without allocating the required funds and without following the procurement process. At the end of the year under review, 5 years had passed after the purchase of this building. Nevertheless, a methodical decision had not been taken by the Board of Directors regarding the valuation of the building for obtaining the present value of it.

Purchasing of a Management Information System

Provisions of Rs. 12.51 million had been made in the year 2018 for the purchase of an information system for Social security Pension Management. Even though it had been scheduled to purchase this computer system from 03 years, the system could not be established. It was not possible to identify active and inactive contributors due to the defects in the Management Information System available at the Board. Therefore, The Board was not able to submit precise numerical data on that.

Construction of Vocational Training Centre for the Disabled Persons

Even though an amount of Rs. 25 million had been estimated for the construction and finalization of the Vocational Training Centre in Kottawa in the previous year, Provisions of Rs. 5 million had been allocated from the annual estimate during the year under review as the commencement of the project had delayed. Accordingly, the total expenditure by the end of the year under review was Rs .12.06 million and the physical progress was 50 per cent only. Therefore, it was not possible to commence the Vocational Training Centre by finalizing the Project as expected.

The construction of the Batticaloa Vocational Training Centre had been scheduled to commence in the year 2016 and to finalize in the year 2017. The estimated value of the Centre was Rs. 100 million. Even though a sum of Rs. 64.74 million had been incurred for the construction of the Centre by the end of the year under review, the Vocational Training Centre had not been commenced as expected.

It had been scheduled in the year 2016 to construct the Vocational Training Centre in Killinochchi in two stages for the economic development of the youth of the Northern Province and the estimated value of it was Rs. 64.00 million. Even though the construction had to be finalized in October in the year under review, an amount of Rs. 54.37 million had been incurred by the end of the year under review and the second phase had not been completed.

Science, Technology and Research

Non-performance of Planned Functions

Recruitment of Employees without proper approval

Officers who had breached Agreements on Foreign Scholarships

Underutilized Assets

Uneconomic Expenditure

Purchase of non-essential goods

Science, Technology and Research

The outcome expected from this field was to establish a scientifically and technologically developed country. The following role has to be performed by the Ministry of Science, Technology and Research and 13 statutory institutions for the realization of the Expectations.

- Formulation, following up and evaluation of policies, programmes and projects related to science, technology and research subjects.
- Provision of necessary facilities required for the local researches and discoveries to be appropriate to the novel international discoveries and innovations in the scientific and technological fields.
- Making necessary arrangement to expand scientific, technical, social and economic researches and developmental activities.
- Planning and directing researches through facilitation for researches and research institutions.
- Taking steps to direct and motivate the community for new discoveries and innovations.

Audit observations revealed in the audit test checks conducted on the accomplishment of the aforementioned role are summarized and mentioned below.

Non-performance of Planned Functions

The following functions had been included in the Annual Action Plan with the objective of accomplishing the functions in the year 2018. However, the functions had not been accomplished even by the end of the year under review.

- Selection of 100 teachers by representing zones to conduct training programmes for solar panel project.
- Registering of 250 students in technical colleges for solar panel project and conducting the programme.
- Commencement of construction activities of the National Science Centre in the last quarter of the year 2018 and initiation of the fundamental activities such as designing plans and purchasing lands.
- Establishment of a Centre for Excellence in Genetics.
- Even though Provisions of Rs. 44 million had been allocated in the year under review, the construction of the proposed laboratory for the Sri Lanka Standards Institution.
- Project for facilitating the testing of petroleum products, for which provisions of Rs. 100 million had been allocated by the Industrial Technology Institute of Sri Lanka in the year under review.
- Project of providing assistance for Product Designing Engineering (PDE) through Economic Development Initiative empowered by Mechanical Electronics (MEDI) for which supplementary provisions of Rs. 250

million had been allocated during the year under review.

- Enterprises Resource Planning Project implemented by the Sri Lanka Standards Institution for which provisions of Rs. 150 million had been allocated to be implemented in the year under review.

Recruitment of Employees without getting Systematic Approval

The Industrial Technology Institute of Sri Lanka had employed 19 persons on the work load basis in contrary to Provisions stipulated in the Treasury Circular No. 1/2016 of 08 January 2016 and without obtaining the approval of the Secretary of the General Treasury and a sum of Rs. 10.29 million had been incurred for that purpose.

Officers who had breached Agreements on Foreign Scholarships

A sum of Rs. 7.61 million had to be recovered from 18 officers who were awarded foreign scholarships by the Industrial Technology Institute of Sri Lanka and who had not functioned in compliance with the agreements signed by them. The Institute was unable to recover the amounts even by the end of the year under review.

Under-utilized Assets

The Sri Lanka Standards Institution had purchased equipment worth Rs. 24.61 million on 12 November 2017 for the establishment of a Gas Chromatograph mass spectrophotometer GC/MS-MS to test whether pesticide residues are contained in food. The equipment was remained idle without utilizing even by May 2019. Likely, a laboratory suitable to establish the System had not been designed even by May 2019 and necessary training for that purpose had not been provided to the staff even by May 2019.

Uneconomical Expenses

A sum of Rs. 1.68 million had been incurred in the year 2017 for the formulation of a media policy to promote and to establish an innovative media culture within Sri Lanka. The media policy had not been practically executed even by April 2019.

A private institution had been selected for printed and electronic media advertising campaign of the Exhibition "Sahasak Nimavum 2018" and a sum of Rs. 2.65

million had been incurred for that purpose. A sum of Rs. 1.25 out of the amount had been incurred for publishing newspaper advertisements in the Dinamina, Thinakaran, Daily News, Lankadeepa and Daily Mirror. Since the designing of advertisements had been carried out by the Staff of the Sri Lanka Inventors Commission, a sum of Rs. 2.25 million had been paid to an intermediary for publishing such advertisements in the newspapers.

Purchasing of Non-Essential Goods

Arthur C. Clarke Centre had purchased 6 items of assets worth Rs. 24.08 million for research and developmental projects. In the audit test checks carried out on the equipment, accessories and systems purchased so, it was observed that the assets remained idle without using.

Communication

Decrease in the Number of Internet Subscribers in relation to the Population

Decrease in the Distribution of ADSL Internet Facilities

Lotus Tower Project

Communication

The Ministry of Telecommunications and Digital Infrastructure and 03 Statutory Institutions under its purview have been established in achieving the objective of building a digitally empowered nation. The following functions should have been performed by those institutions.

- Formulation, carrying out follow up action and evaluation of policies, programmes and projects relating to the subjects of telecommunication and digital infrastructure.
- Taking necessary measures for the provision of telecommunication facilities for all by adoption of modern technology.
- Assisting to adopt appropriate information technological solutions for promoting productivity and efficiency in the delivery of services by the public sector.
- Implementation of programmes for promotion of computer literacy.
- Development of strategies encouraging the use of information and communication technology.

A summary of audit observations revealed at the audit test checks on performing the above functions has been given below.

Decrease in the Number of Internet Subscribers in relation to the Population

The number of fixed internet subscribers in the year 2016 was 4,921,000, and it had been 5,904,260 and 7,263,098 in the years 2017 and 2018 respectively, thus indicating an improvement in the number of internet subscribers. Nevertheless, it had been at a very low level as compared with the population of Sri Lanka.

Decrease in the Distribution of ADSL Internet Facilities

ADSL internet facilities were obtained by 864,821 persons by the end of the year 2018. Out of the said ADSL internet facilities, 49.88 per cent had been in the Western Province and only a number ranging from 0.48 per cent to 5.04 per cent had been distributed in other provinces. Accordingly, the distribution of ADSL internet facilities in rural areas had been at a very low level.

Delay in Implementation of Digital Economy Project

Provisions amounting to Rs.1,731.85 million had been made in the year 2018 by the Ministry for the Digital Economy Project. Out of that, only a sum of Rs.637.96 million had been utilized in the year under review. Moreover, bills amounting to Rs.89.36 million had been payable by the end of the year under review. Accordingly, the financial progress thereof had been 42 per cent and no project whatsoever out of 14 projects to be completed during the year, had been completed. Failure in taking action for achieving targets as planned in the year under review and carrying out procurements on due periods, had been specially attributed to this situation.

Lotus Tower Project

The Telecommunication Regulatory Commission which is the regulatory agency for telecommunications, was under the purview of the Presidential Secretariat, while at present this Commission is functioned under the Ministry of Defence. In terms of the Cabinet Decision dated 29 October 2010, the contract of construction of the Lotus Tower had been awarded to 02 companies of the People's Republic of China. The Telecommunication Regulatory Commission and the Group had entered into a contract agreement on 03 January 2012. The contract value of the Project was US$.104,300,000 and according to the agreement, this contract should have been completed within 912 days from 12 November 2012 to 12 May 2015. Audit observations revealed in this connection are given below.

- A Project Report and a proper Feasibility Study Report had not been prepared and only a Financial Feasibility Study Report with shortcomings had been prepared for the Project.

- After completion of the contract period of the construction of the Tower, approval had been granted in terms of the Decision No.2K15.217.02(2) of 28 August 2015 of the Commission to extend the contract period up to October 2017. However, construction activities had not been completed even by 31 March 2019.

- The entire contractual loan could not be obtained due to delay in construction works. As such, the loan released by the Export-Import Bank of China (EXIM) had been restricted to US$ 67,259,754. The total amount of loan being US$. 88,655,000 had been utilized in the computation of the agreed charges from the beginning and as such, the agreed charges of Rs.91.88 million (US$. 636,508) had been over paid.

- The additional agreed charges that had to be paid for the loan, not utilized during the period from 19 August 2016 to 27 October 2017 due to inability of obtaining the loan within the due period, had been Rs.49.61 million or US$ 322,984.

- The approval of the Cabinet of Ministers had not been obtained for Rs.198.69 million due to be paid as consultancy fees to the University of Moratruwa and despite having completed only 50.2 per cent of the project by 31 December 2015, seventy five per cent representing Rs.150 million of the consultancy service fees had been paid beyond the planned limits of the agreement.

- After making payments in 12 installments as consultancy fees, further payments had been suspended. Contrary to Conditions stipulated in the agreement entered into for paying consultancy fees, having stated for inspection of contract, consultancy fees was being paid at a rate of Rs. 3 million per month from November 2015.

- According to the Cabinet Decision dated 14 December 2014, both parties had agreed on 23 January 2012 for vesting and allocating the land on the basis of payment of Rs.11.7 billion as installments to the Urban Development Authority without computing the cost incurred therefor by then.

- Contrary to the Cabinet Decisions, a sum of Rs.2,250 million had been paid to the Urban Development Authority up to 10 April 2015 and according to the Cabinet Decision or the Memorandum of Understanding, the land had not been vested even by the end of the year under review.

- Even though a process had been initiated to lease this Tower to a Property Management Company for further constructions, no Cabinet approval had been obtained even by the end of the year under review for same.

Higher Education

Non-implementation of Budget Proposals
Decrease in the Performance of Foreign Aid Projects

Construction of a Building Complex in the Eastern University

Construction of the Building for the Faculty of Medicine in the University of Ruhuna

Higher Education

The outcome expected from this field is to achieve qualitative development in education with the objective of enhancing the efficiency and productivity of the higher education institutions and to create higher educational opportunities for approaching to knowledge based economy through improving local Universities and Higher Education Institutions up to the international standards. For the accomplishment of the outcome, Ministry of Higher Education, 36 statutory Boards/ institutions have to discharge the following functions.

- Planning and coordinating the University education in accordance with the National Policy.
- Maintaining the Educational standards in the higher education institutions and regulation of the administration of those institutions.
- Implementation of projects related to universities and other higher education institutions.

Significant audit observation revealed at the audit test checks carried out pertaining to the performance of the aforementioned roles are summarized and mentioned below.

Increasing the number of Students enrolled to the Universities and higher Education Institutions

Increasing the number of students enrolled to the Universities and higher education institutions from 27,000 students up to 40,000 students by starting from the year 2017 up to the end of the year 2020 was one of the main objectives included in the Action Plan of the year 2018. However, number of students enrolled in the adjoining years of 2016/2017 and 2017/2018 were 30,660 and 30,550 respectively and it was a reduction by 110 students in the year 2017/2018. Likely, the number of students selected for the university entrance the academic year 2017/2018 was 19 per cent out of the students who were qualified to the University Education.

Construction of a Building Complex in the Eastern University

It had been planned to construct a building complex of 351,898 Square feet for the Faculty of Health Protection in the Eastern University and construction had been scheduled to commence in the year 2016 and to complete in the year 2019. Even though financial provisions amounting to Rs. 288.5 million had been allocated during the year under review, only a sum of Rs. 31.3 million had been spent. The financial progress remained in a low level of 14 per cent. Only the procurement activities of awarding the contract had been completed by the end of the year under review.

Construction of the Building for the |Faculty of Medicine in the University of Ruhuna

The 8 storied Faculty Building of 85,935 square meters in the University of Ruhuna had to be commenced in the year 2017 and had to be finalized in the year 2020. Provisions of Rs. 500 million had been allocated for this project in the year under review and only a sum of Rs. 269.3 million out of the Provisions had been utilized. Even though Rs. 200 million had been granted as advance for initiating the work, work adequate to settle even the advance paid had not been completed even one year had passed after the commencement of the work. The financial progress of the Work completed even by 02 May 2019 had been only Rs. 101 million.

Student Loan Scheme

It had been targeted to provide loan facilities to 5000 students in the year under review under the student's loan scheme. Only 1382 applicants had registered under this loan scheme to follow 38 degree courses in 08 non state Universities during the year. Accordingly, only 27 per cent of students out of the total targeted students had obtained loans under this loan scheme.

Non-implementation of Budget Proposals

Provisions amounting to Rs. 663 million had been allocated for 07 schemes and projects during the year under review by the General Treasury with the objective of implementing budget proposals. Even though the responsibility of designing of plans related to that purpose and executing those proposals had been assigned to the Ministry, the total provisions allocated had been saved without utilizing as arrangements had not been made to achieve the related targets.

Performance of Foreign Aided Projects

- The projects for expanding higher education and accelerating the development implemented under the World Bank aids had been initiated in the year 2017 and it had to be completed in the year 2023. Though provisions amounting to Rs. 714.21 million had been allocated for this project during the year under review, the physical progress of this project at the end of the year was in such a low level of 5 per cent.

- The physical progress of the Township Development Project of the University of Wayamba implemented with the aid of the Government of Sri Lanka and the Government of Saudi Arabia at an estimated provisions of Rs. 280 million and technical resources development programmer for the Universities of Kelaniya, Sabaragamuwa, Rajarata and Colombo implemented under the aid of the Government of Sri Lanka and Asian Development Bank at an estimated provisions of Rs. 1450 million and the project of commencement of the Faculty of Engineering in the University of Sri Jayawardenepura was in such a low level of 02 Per cent.
- Provisions of Rs. 133.5 had been allocated during the year under review for rehabilitation and reconstruction activities of the Universities located in areas affected by Tsunami disaster commenced in the year 2017 with the aid of the Government of Sri Lanka and the Government of Kuwait. Though activities of this project had to be finalized in the year 2019, the physical progress and the financial progress of the project at the end of the year under review remained at such a low level of 37 per cent and 23 per cent respectively.

Applying For University Entrance through the Internet

Opportunity had been granted to apply for the University Entrance through the Internet as well as under the normal procedure in the academic year 2015/2016 for the first time. A sum of Rs.9.35 million had been incurred at the end of the academic year 2017/2018 for this online system and a sum of Rs. 0.70 million had been incurred for the maintenance from the year under review. However, 1081 issues had been submitted by students in the registration of students for the academic year 2015/2016 in which both systems, viz, the normal system and online system had been implemented. The number of issues submitted in the academic year 2018/2019 in which only the online system was activated had increased up to 5602.

Sabbatical leave

As per number 07 of Chapter 5 of the Establishments Code for Universities and Higher Educational Institutions and in terms of the Circular of the University Grants Commission No. 02/2018 of 17 December 2018, officers of academic and non-academic staffs of the Universities should be entered in to a bond agreement that they would return to the service at the end of the prescribed period after getting employed in another institution subsequent to receiving sabbatical leave or going abroad by obtaining study leave. However, an amount of Rs. 761.3 million had to be recovered from 350 members of the academic and nonacademic staffs in relation to 17 universities and higher education institutions as those officers had not returned to service as per bond agreements. Nevertheless, it was not possible to recover the amount.

Non-utilization of Capital Grants

A sum of Rs. 14,098 million had been provided by the General Treasury as capital grants for the Universities during the year under review. A sum of Rs. 2,261.2 million out of the Capital grants had been retained even by the end of the year under review without utilizing the amount for relevant functions.

Power and Renewable Energy

Payment of commitment charges due to non-commencement of the construction of the Moragolla Hydropower Plant of 31 MW

Delay in completion of projects

Non-presentation of accurate information on import of coal

Non-vesting of Assets

Shortage in Supply of Coal

Payment of Pay As You Earn Tax by the Board, Which should be paid by employees of the Electricity Board

Payment of Allowances to the Staff

Non-payment of interest on Consumers' Deposits

Power and Renewable Energy

The following functions should have to be executed by the Ministry of Power and Renewable Energy and 07 Statutory Boards/ Institutions with the intention of making a Nation self-sufficient with energy by increasing the power generation by renewable power sources.

- The compilation, carrying out follow up action and evaluation of policies, programmes and projects relating to subject of power and renewable energy
- The compilation of a suitable power policy for the control, regulation and the utilization of power sources
- Exploring, planning, supervision and development of the activities relating to the generation of power by the sources of water, heat, coal and wind
- Rural electricity
- The management of the demand in a manner that creates energy efficiency and the development of renewable power
- The development of renewable energy

The summary of audit observations revealed in executing the functions mentioned above by the Ministry and the Statutory Institutions, is given below.

Construction of the Moragolla Hydro Power Project of MW 31

It had been planned to commence the construction of the Moragolla Hydro Power Project in the year 2014 with the objective of obtaining a capacity of 31MW to the National Grid. However, this project was commenced in the year 2017 after a delay of 3 years. The project had been estimated at a value of Rs.16,780 million and a sum of Rs.14,851million of that had been received from the Asian Development Bank. The physical progress thereof had been 17 per cent by the end of the year 2018. The awarding of the contract on consultancy services of the project had delayed and as a result, the project could not be commenced as scheduled. As such, a sum of Rs.28 million or US$ 177,931 had to be paid as Commitment Charges for loans obtained.

National Transmission and Distribution Network Development and Energy Efficiency Improvement Project

A sum of Rs.23,720 million had been received for this project and it had been scheduled to be commenced in January 2015 and completed in January 2018. Accordingly, the project had been commenced in January 2015 and it could not be completed by January 2018 due to reasons such as delay in coming to an agreement by holding discussions with the Japan International Cooperation Agency JICA Institute relating to the scope of consultancy, delay in obtaining approval of JICA for the pre- qualifications (PQ) of contractors and for procurement documents. Moreover, the progress of the completion thereof had been only 84 per cent even by December 2018.

Delay in Completion of Projects

It had been planned to commence the Broadlands Hydro Power Project with a capacity of 35 MW in August 2013 and to complete it in August 2017. A sum of Rs.9,424 million had been received for the project. Out of that, a sum of Rs.6,426 million had been spent by the end of the year under review and the physical progress thereof had been 58 per cent. However, the said project had not been completed even by 31 May 2019.

A sum of Rs.4,149 million had been received for constructing infrastructure facilities of the Mannar Transmission Line, to develop Lot A Vavuniya Grid Substation and to construct the Mannar Grid Substation. The project was scheduled to be commenced in the year 2015 and completed in the year 2017. The completion of the project had delayed due to the change in the scope of package for constructing the Mannar Network Substation, within the duration of the project.

Non-presentation of Accurate Information on Import of Coal

Lanka Coal Company (Pvt) Ltd had not stated the accurate transaction value of import of coal during the period from 19 September 2016 to 09 April 2018. As such, the Sri Lanka Customs had levied a penalty of Rs.205 million.

Non-vesting of Assets

A sum of Rs.7.36 million had been invested by Sri Lanka Energies (Pvt) Limited Company and Group together with a private company as a joint venture for constructing a factory for sale of a product related to cement by using Fly Ash and Bottom Slag. However, the joint venture agreement had been withheld and the asset had remained inoperative due to absence of a business partner. Even though the Board of Directors of the Company had made a decision to hand over the assets to the Ceylon Electricity Board and had communicated it to the General Manager on 10 November 2016, the Ceylon Electricity Board had not vested the said asset even by 15 July 2019.

Shortage in Supply of Coal

The Lanka Coal Company (Pvt) Ltd had not recovered an outstanding balance of Rs.539.19 million even by the end of the year under review from a coal supplying company from a period of six years under an agreed method of settlement. Moreover, an additional commission of Rs.2.93 million had been payable by the Lanka Coal Company (Pvt) Ltd for five opened Letters of Credit which exceeded the validity period of 90 days.

Pay As You Earn Tax

In terms of the Cabinet Decision dated 13 December 2007, the Pay As You Earn Tax recoverable from employees by the salary revision of the year 2009, had been paid by the Ceylon Electricity Board itself without such recovery. Accordingly, an additional expenditure of Rs.4,210 million had been incurred by the Ceylon Electricity Board during the period from the year 2010 to the year 2018.

Payment of Allowances to the Staff

Contrary to the Cabinet Decision dated 14 November 2007 and the provisions of the Management Services Circular No.39 of 26 May 2009, various allowances of Rs.1,873 million had been paid in the year under review to the staff on the approval of the Board of Directors.

Accounts Receivable

The Board had not taken action to recover trade debtors' balances and other receivable balances amounting to Rs.5,235 million outstanding over a period of 05 years.

Risk of Investment Recovery

The sum of Rs.404 million invested in bonds by the Pension Fund of the Ceylon Electricity Board had not remained as a financial tool. As such, receiving interest amounting to Rs.16 million therefor together with the said amount, had been at a risk. The adjustments or provisions required therefor had not been made in the financial statements in the year under review.

Payment of Interest on Consumers' Deposits

The interest payable in the year under review on deposits of consumers of the Ceylon Electricity Board had been Rs.1,562 million in terms of Sub section 28(3) of the Ceylon Electricity Act, No.20 of 2009.

Purchases contrary to the Electricity Act

Urgent purchases of 1,398 GW hours amounting to Rs.34,326 million had been made by the Ceylon Electricity Board without following the procurement process during the period from April 2016 to December 2018 contrary to Sub section 4c (ii) of Sri Lanka Electricity (Amendment) Act, No.31 of 2013.

Petroleum Resources Development

Delay in the Amendment of Ceylon Petroleum Corporation Acts

Failure to finalize the Formulation of a National Policy on Natural Gas

Methodologies for the accomplishment of sustainable developmental goals had not been introduced.

Pending Case on Forward Securities Transactions (Hedging)

Network of Pipelines Transporting Petroleum Products

Petroleum Resources Development

Making Sri Lanka an energy self-sufficient nation with local petroleum and natural gas production was the main objective of the Ministry. For the purpose of achieving that objective, the Ministry of Petroleum Resources Development and the 04 Statutory Boards / Institutions should perform 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.
- Activities related to production and refining of petroleum.
- Exploration of petroleum and activities related thereto
- Production of gas from petroleum producing sources and distribution of gas.
- Development of infrastructure facilities related to the supply and distribution of fuel.
- Supervision of institutions.

Audit observations revealed in the audit test checks conducted on the accomplishment of the aforementioned role are summarized and mentioned below.

Amendment of Ceylon Petroleum Corporation Acts

A proposal had been passed in the Parliament in the year 2006 to include the Petroleum Industry in to the industries regulated under the Public Utilities Commission of Sri Lanka Act, No. 35 of 2002 as there is no regulatory authority in relation to the petroleum industry since the year 2004. Accordingly, the fundamental activities related to the amendment of the Petroleum Products (Special Provisions) Act, No. 33 of 2002 and Ceylon Petroleum Corporation Act, No. 28 of 1961 had been commenced in the year 2006 for the provision of instruments required to regulate the industry to the Public Utilities Commission of Sri Lanka It had not been finalized by 31 December 2018.

Formulation of a National Policy on Natural Gas

Power had been entrusted upon the Ministry of Petroleum Resources Development for the preparation of a national policy on natural gas by a notification published in the Gazette Extraordinary of 21 September 2015. The National Gas Policy scheduled to be formulated and finalized by June 2018 had not been finalized even by the end of the year under review.

Development and Rehabilitation of the Oil Tank Farm in Trincomalee

The Oil Tank Farm in Trincomalee had been established in the year 1930 at the harbour of Trincomalee and it is the second deepest harbour of the world according to its geographic location and therefore, it has become the focus of attention of the entire world. The Oil Tank System is comprised of 102 tanks with the capacity of 12,500 cubic meters together with other facilities. Fourteen (14) tanks in the lower part of the tank system out of the total tanks of 99, are utilized by the Indian Oil Company. Even though the activities of taking fundamental decisions for the modification of the rest of the tanks that had been abandoned had been initiated on 29 April 2015, modernization project could not be implemented the even by 31 December 2018 as a final decision had not been taken on that.

Accomplishment of Sustainable Developmental Goals

Every government institution should have functioned in terms of the “2030 Agenda for Sustainable Development adopted by the United Nations”. The Ministry had not made arrangements to identify sustainable developmental goals and targets related to the functions which come under the purview of the Ministry and the milestones for reaching those targets and indexes for measuring the approaches to targets.

The Ministry had not issued any internal circular or guidance even by 31 December 2018 on the operation of the staff of the Ministry for the accomplishment of the sustainable developmental goals and even an awareness programme had not been implemented for the interested parties.

The Ministry had not established a methodology for collecting data on the accomplishment of the sustainable developmental goals and an officer had not been attached for that purpose.

The Ministry of Petroleum Resources Development had not identified financial provisions required for the accomplishment of the sustainable developmental goals. Further, the Ministry had not identified a methodology for deploying the physical resources available and the present staff of the Ministry for that purpose and a methodology for the regulation of the relevant functions for the accomplishment of the sustainable developmental goals.

Local Petroleum Market

The Ceylon Petroleum Corporation had supplied 87 per cent of the local petroleum market in the year 2018. A sum of USD 4,152 million had been incurred for the importation of the entire petroleum requirement in the year under review. As a result of the changes in the overall petroleum market, the average price of a barrel of crude oil had increased by 31.9 per cent from USD 57.79 existed in the previous year up to USD 76.25 in the year under review. The average price per metric ton of refined petroleum products imported had been increased by 25.3 per cent from

USD 518.9 recorded in the year 2017 up to USD 650.02 recorded in the year 2018.

Financial Results and Net Assets Position of the Ceylon Petroleum Corporation

According to the financial statements presented to the audit, the Corporation had recorded a net loss before taxation amounting to Rs. 105,028.6 million during the year under review. A Profit of Rs. 2,815.2 had been earned in the previous year. According to the Central Bank Report for the year 2018, increase in crude oil prices, depreciation of the rupee compared with the US dollar (a loss of Rs. 82,717.3 million had been recorded by the depreciation of rupee) and the delay in the revision of local retail price level of petroleum products until May 2018 had been the major reasons for the loss incurred by the Corporation in the year 2018.

According to the financial statements of the year under review presented to audit, the value of total trade debtors as at 31 December 2018 was Rs.86,652.1 million and it was an increase of 12.60 per cent compared with the value of trade debtors in the previous year amounting to Rs.77,005.4 million This debtors balance was comprised of public sector debtors amounting to Rs.77,120.1 million and private sector debtors amounting to Rs. 9,531.9 million.. The arrears to be recovered from the Ceylon Electricity Board and Sri Lankan Air lines to the Corporation were Rs. 46,813.1 million and Rs.29,005.3 million respectively.

The minus value of net assets of the Corporation in the preceding year amounting to RS.176,991.9 million had increased up to Rs.281,761.5 million at the end of the year under review and thereby, the minus value had further increased by Rs. 104,769.60 million. Minus variation in the currency ratio and short term and loan term credits obtained from foreign currency were the major reasons for this accumulated loss. Therefore, the Company's ability to make enough money to stay afloat or avoid bankruptcy without obtaining the financial assistance of the Government had become controversial.

The financial result of the Corporation in the year under review and 05 preceding years is shown in Diagram 50.

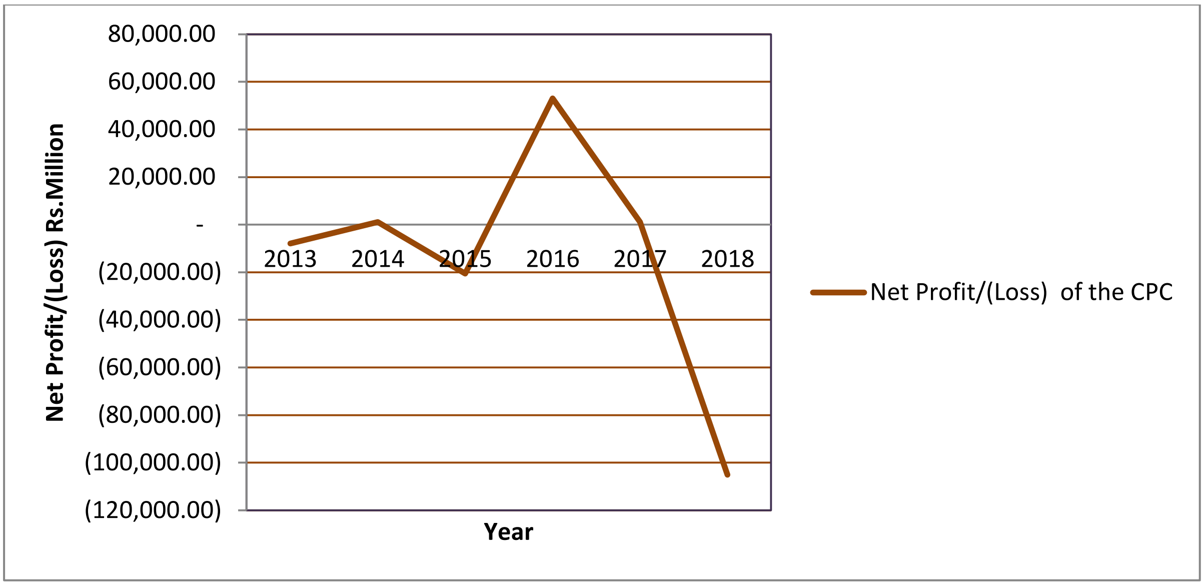


Diagram 50 : Net Profit / (Loss) of the Ceylon Petroleum Corporation
Source: Audited financial statements of the Corporation

Forward Securities Transactions (Hedging)

The Ceylon Petroleum Corporation had been summoned as a party in the arbitration process relating to the Hedging agreements entered into between the Ceylon Petroleum Corporation and several commercial banks. A sum of US $ 60 million (Rs.7,613 million) had been paid to the Standard Chartered Bank (SCB) on 03 June 2013 under the arbitration instruments between the relevant parties whilst US $ 27 million (Rs. 3,881 million) had been paid to the Deutsche Bank on 04 August 2016. According to the information received, the Corporation had sustained a loss of Rs. 13,641 million as at 31 August 2018. The Central Bank of Sri Lanka had spent a sum of Rs. 941.2 million as legal expenses on the Hedging transaction of the Corporation. A sum of Rs. 370.6 million therefrom had been incurred by the Central Bank of Sri Lanka whilst a sum of Rs. 567 million had not been reimbursed by the Corporation to the Central Bank of Sri Lanka during the period 2011-2014. Nevertheless, a sum of Rs. 3.1 million had not been reimbursed by the Corporation even up to the end of the year under review. The Commercial Bank had filed a case at the Commercial High Court against the Ceylon Petroleum Corporation for a right worth US $ 8.6 million, and the case remained pending even by the end of the year 2018.

Financial Management

Long term debt and short term debts based on US dollars had increased by Rs. 1,311.6 million or 493 per cent and Rs.115,021.1 or 64 per cent at the end of the year under review when compared with the preceding year. As a result, a cost totaling Rs. 94,770.60 million had been incurred as Rs.12,053.30 million as the interest expenditure in the year under review and Rs. 82,717.3 million as currency loss occurred on the variation in foreign currency. Likely, value of total investment at the end of the year under review had increased by Rs. 83,180.3 or 176 per cent and the total interest income earned from that in the year under review was only Rs. 7,732.9 million. Accordingly, the Corporation had obtained short term and long term debts based on foreign currency during the year 2018 as depicted in financial statements and they had been reinvested in short term basis. Accordingly, the Corporation had been failed to minimize the disadvantage of severe debt interest cost incurred by the Corporation and the variation in foreign currency through the settlement of debt based on foreign currency using the funds available in the Corporation. It had made severe impact on the financial result of the Corporation.

Network of Pipelines Transporting Petroleum Products

Petroleum products are transported through pipelines laid decades ago from Colombo harbour to the Terminal in Kolonnawa, and the said pipelines needed repairs. Several of the pipelines were unrepairable, and hence, abandoned already. Leakages were reported in fuel pipes of the sizes 10 inches and 14 inches that are being utilized. Therefore, it became an urgent requirement either to renovate or modernize the pipelines.

Meanwhile, no link whatsoever existed between the Terminals in Muthurajawela and Kolonnawa hindering the optimal utilization of those terminals. Further, even though the approval of the Cabinet of Ministers had been granted on 13 September 2012 for the implementation of “Cross Country Pipeline Project”, it had not been implemented.

The pipe in diameter of 12 inches laid before 05 decades to transport fuel from Colombo Harbour (south jetty) to Kolonnawa remained non-functional for about a decade. A length of 300 meters of that pipe had been renovated in the year 2011at the area of Mahawatta, but it had not become fully functional. Provision amounting to Rs. 260 million had been made through a Paper of the Board of Directors of the Ceylon Petroleum Storage Terminals Limited (CPSTL) bearing No. 09/137 on 13 February 2015 to renovate the pipeline. Accordingly, a length of 2,171 meters had been renovated in the year 2015 incurring a sum of Rs. 120 million and 2,573 meters had been renovated in the year 2016 at an expenditure of Rs. 153 million. Even though the rest of the length of the pipeline to be renovated in order to make it fully functional had been less than 1000 meters, no action had been taken promptly to complete the renovation process so as to prevent the risk of a crippled fuel supply to the country.

Establishment of a New Bulk Depot in Northern Province

The bulk depot of fuel being maintained by the Ceylon Petroleum Storage Terminals Limited provides for the growing demand for fuel of the masses and security forces in the North that had grown rapidly in the wake of the end of the war. That depot was maintained at the premises of the Cement Corporation in Kankasanturai. The Ceylon Petroleum Storage Terminals Limited had been informed by the Cement Corporation in the year 2011 that the said bulk depot should be shifted from that location.

The bulk depot is being conducted in the same premises of the Cement Corporation after being renovated and expanded. According to the decision of the Cabinet of Ministers dated 19 October 2016, it had been decided to conduct this bulk store after entering in to a formal lease agreement after clearing the title of the land and if there is any arrears in the lease amount, it should be paid to the Cement Corporation. Nevertheless, action had not been taken in accordance with that decision even by 30 May 2019.

Intercompany Transaction Balances and Agreements

Systematic supervision and guidance of the functions of Subsidiary Companies established for a certain definite objective by a certain State Corporation had become a highly essential task. However, Ceylon Petroleum Corporation had not systematically reviewed the functions of the Ceylon Petroleum Storage Terminals Limited, which is the Subsidiary Company of it. According to the Section 4.2.3 (b) of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the Board of Directors of the parent company should review the performance of the subsidiary companies half-yearly and should prepare a performance report. Even though the performance report prepared so should be submitted to the Department of Public Enterprises, it had not been done so. Further, the Corporation had not been systematically informed of the decisions taken by the Board of Directors of the said Company. As an example, the Corporation had not been made aware of the provision of fuel to ships, which is the major business activity of the Corporation implemented as per the decision of the Board of Directors of the Subsidiary Company. Likely, there were considerable differences between current accounts of the two parties for a longer period of time due to non-availability of systematic coordination on intercompany transactions. It had become a difference of Rs. 2,475.80 million at the end of the year under review.

Further, systematic procedures required to update and maintain the said agreements with the consent of the all the parties had not been taken even by 30 May 2019 though the validity period of the shareholders' agreement and Share purchase agreements for Common User Facility among the Ceylon Petroleum Corporation, Lanka Indian Oil Corporation (LIOC) and Ceylon Indian Oil Company and Ceylon Petroleum Storage Terminals Limited had been expired on 31 December 2008.

Rural Economic Affairs

Import of Dairy Cattle

Import of Animals insecurely to the Country

Failure to Achieve Sustainable Development Goals

Higher Expenditure on Animal Foods

Renovation of Ambewela Factory

Rural Economic Affairs

For the amelioration of economic standard of the rural community who plays significant role of the Sri Lankan economy, the Ministry of Rural Economic Affairs functioned under that title from January 2018 to 11 May 2018 and as the Ministry of Fisheries and Aquatic Resources Development and Rural Economy (Rural Economy Sector) from 12 May 2018 to 27 December 2018 and subsequently, as the Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries and Aquatic Resources Development (Economic Affairs and Livestock Development Sector) from 28 December 2018 and the following functions should have been discharged by the Ministry, a Department, 05 statutory institutions and 13 Special Economic Centres functioning under the Ministry.

- Formulation of policies, programmes and projects, and implementation, monitoring and evaluation in relation to the subject of Rural Economy.
- Provision of financial assistance for the rural economic affairs.
- Expansion of livestock related research sector with the use of state-of-the-art technology and taking all necessary steps to bring about qualitative and quantitative development in the field of production upon its outcome.

The Audit observations revealed at the audit test checks conducted on the discharge of the above functions by the Ministry and the institutions functioning thereunder are analyzed below.

Import of Dairy Cattle

Under an agreement entered into by the Sri Lanka Government with the Australia and Netherland Governments, 4,500 dairy cattle had been imported. The above 4,500 imported dairy cattle had been handed over to the Livestock Development Department under a Countervailing Credit Agreement. The Livestock Development Department was required to pay to the Treasury the amount to be paid to two foreign companies under the Countervailing Credit Agreement and the relevant interest. The amount payable by the Livestock Development Board and the outstanding interest as at 31 December 2017 had been Rs.5,374.17 million. The Livestock Development Board had paid only an interest of Rs.28.26 million to the Treasury during the period from the year 2012 up to 31 December 2018.

The Chairman of the Board had informed the Audit on 22 December 2017 that the above installment could not be paid since a colossal amount of money had to be spent for the animals imported under first and second stages.

According to the information made available by the National Livestock Development Board, out of 2,143 animals brought to the Farm under the first phase, only 883 animals or 41 per cent of the imported animals could be observed by the year 2018, after lapse of 05 years. Seventy two per cent or 1,796 animals out of 2,489 animals imported in the year 2015 remained after lapse of 3 years, in 2018.

Under the first phase, the reproductive capacity of these animals stood at 45 per cent during an average of 7 years and it had been 52.4 per cent during 4 years under the second phase. The reproducing capacity of the second generation had been at a minimum level as 21.4 per cent and 7.17 per cent under the first and second phases respectively.

Import of 20,000 Dairy Cattle

Without being conduct an in-depth study or feasibility study on the proposal for the import of 20,000 dairy cattle to the Ministry of Rural Economy, an agreement worth US$.73.95 million had been entered into between the Ministry and a private company on 14 October 2014 without following the Procurement Procedure to award the contract to the same contractor who had been selected by calling for tenders in the year 2007.

Despite being identified that the project was unsuccessful, it had been agreed in November 2016 to import 20,000 dairy cattle under a revised agreement and to import 5,000 of such animals under the first phase and the remaining 15,000 animals under the second phase depending on its success while amending Sections 3.01 and 3.02 of the above agreement. In order to obtain approval for the methodology adopted in the implementation of this project, a Cabinet Memorandum had been presented and relevant Cabinet approval had been granted on 04 April 2017.

Before taking decision on the import of these 20,000 dairy cattle, a proper feasibility study had not been conducted by studying farms of the Board in which imported dairy cattle had been retained, through the persons who had expertise knowledge thereon. A number of 5,011 dairy cattle comprising 1,994 animals in May 2017 and 3024 animals in December, 2017 had been imported. A sum of US$ 16.74 million had been spent for vaccinations, testing charges and Customs Duty relating to those 5,000 imported dairy cattle. A sum of US$ 868,518.52 or Rs.135.01 million had been spent for technical management and capacity development of those cattle. Nevertheless, it was observed according to the following matters that output of those animal remained at a minimum level.

- Out of the above dairy cattle, 803 out of 858 cows imported under the second stage had given birth to calves for the first instance and 242 or 53 per cent of the above calves were male. Further, out of the above 803 calves, 361 or 45 per cent had died. The number of imported cows remained by 28 February 2019 had been 533 and the number of pregnant cows stood at 210 or 39 per cent. It was observed that number of calves reproduced at the second instance was 116. Accordingly, only 13 per cent of the imported 858 cows had given birth to calves in the second instance.

- Out of the sample of 902 animals selected from the cattle imported on 14 May 2017 and 02 August 2017, only 656 mother cows had been alive by 28 February 2019 and it was established that out of 902 animals purchased, only 190 animals were living in the farm after giving births to calves.

- Out of 3034 animals imported under the second phase, a sample of 858 animals was selected and it had been reported that 12 farmers were sustaining losses ranging from Rs.25,240 to Rs.5,200,000 monthly from 858 animals.

- The committee appointed to evaluate the performance of project of the import of dairy cattle had stated that the expected output of the cattle imported on 20 March 2018 under the first phase of the import of 20,000 dairy cattle was successful. While stating that the first phase was successful, it had been recommended that the import of remaining 15,000 dairy cattle was suitable. Provisions had not been made in the annual budget 2018 for the import of these dairy cattle. It had been expected to import 15,000 dairy cattle as 2,500 animals, 7,500 animals and 5,000 animals during the years 2018,2019 and 2020 respectively. Advance aggregating Rs.1,749.67 million had been paid on 08 May 2018 comprising Rs.291.61 million, Rs.874.83 million and Rs.5,83.22 million respectively. It was observed that the Sri Lanka Government had to bear the interest relevant to this import and the foreign exchange depreciation loss before the import of those cattle to the country. Since the project was unsuccessful, at least 2,500 animals due to be imported in the year 2018 had not been imported even by September 2019. Accordingly, the advance paid in that respect had been ineffective.

Import of Animals Insecurely to the Country

In terms of Section 38 of the Animal Diseases Act No.59 of 1992, every animal imported into Sri Lanka shall be subject to quarantine. Nevertheless, only a sample of cattle imported into this country under the first phase had been examined and accordingly the Quarantine Officer and the Director- Veterinary Research had presented a quarantine report. Accordingly, having examined a sample of such animals, the Director General of Department of Animal Product and Health had informed the Secretary to the Ministry of Rural Economic on 28 February 2018 in writing that there would be a risk in infecting diseases of such animals to the local cattle and the people as well. Further, according to that report the measures to be immediately taken had been determined and a risk in destructing certain animals too had been revealed. Nevertheless, without being retained the animals imported under the second phase in isolated areas under the supervision of Veterinarians for 30 days, such animals had been directly provided for the farms. According to the post-mortems done in respect of the death of imported animals, it was observed that those animals had afflicted with BVD virus and it had not been detected by way of quarantining in the importation.

Failure to Achieve Sustainable Development Goals

With the objective of decreasing the import of milk powder by increasing milk production and thereby, increasing the fresh milk consumption, foreign loan of Rs.6,435 million had been obtained for the dairy cattle import project from the year 2012 to 2018 and 9,500 cows had been imported thereunder. Those imported dairy cattle had been distributed to the National Livestock Development Board and among the privet farmers under the Ministry. However, the quantity of imported milk powder during the year 2011 had been 84.02 metric tons and it had increased up to 99.03 metric tons in the year 2018. Accordingly, the milk powder importation had not decreased as desired and the sustainable goals had not been achieved.

Higher Expenditure on Animal Foods

The main operating process of the National Livestock Development Board, Mahaweli Livestock Enterprises Ltd. and Sri Lanka Poultry Development Company (Private) Limited. had been the production and marketing of animal products. These institutions had sustained continuous losses owing to higher expenditure incurred on animal foods. Attention had not been drawn on growing sorghum, maize as an under cultivation on large areas of lands that remained idle in animal production farms and to produce foods by using food production machines that remained idle and thereby decrease the animal food production expenditure. The aforementioned institutions had purchased foods by calling for limited quotations deviating from the open competitive method..

- A sample of 04 farms in which imported cows were rearing from among the cattle farms of the National Livestock Development Board were examined. Accordingly, 14,385.21 tons of animal food had been purchased from 3 institutions at a cost of Rs.735.99 million during the year 2018. That expenditure had ranged between a higher percentage from 63 per cent to 89 per cent of the income of each farm. The total loss of those 04 farms in the year 2018 had been Rs.411.53 million. Nevertheless, 4 food production machines capable of producing total of 3.75 tons of food per hour viz, 10,950 tons per year (3.75 tons @ 8 hours per 365 days) remained idle in the 4 farms of the National Livestock Development Board.
- For the purpose of implementing Poultry project, 4,553.33 tons of poultry food had been purchased for 03 farms of the National Livestock Development Board and 02 farms belonging to the Mahaweli Livestock Enterprises Ltd. and Sri Lanka Poultry Development Company (Private) Limited and Rs.225.22 million had been spent thereon. The above expenditure had been 64 per cent, 54 percent and 36 per cent of the poultry income of the farms belonging to Sri Lanka Poultry Development Company (Private) Limited, Mahaweli Livestock Enterprises Ltd, and 03 farms of the National Livestock Development Board respectively. Hence, 2 of the above 05 farms had suffered losses during the year 2018. Nevertheless, 06 grinding and mixing machines capable of producing total of 9 tons of food per hour viz, 26,280 tons per year (9 tons @ 8 hours per 365 days) remained idle in 5 farms belonging to the above three institutions

Renovation of Ambewela Factory

The Milco Private Ltd. had spent Euro 26.69 million or Rs.4,625.35 million for the renovation of Highland Milk Factory, Ambewela and production had been commenced in August 2017 by installing new machines. According to the progress reports of the Factory, the milk powder production had been 7,087 tons during the year 2018 and it had dropped up to 6,719 tons in the year 2018. Accordingly, expected increase in the production through the installation of new machines had not been achieved during the year under review.

City Planning and Water Supply

Coverage of Facilities for Pipe borne Water and Pipe borne Sewers

Delay in Completion of Projects

Suspension of Ambathale Energy Saving Project

Jaffna Kilinochchi Water Supply Project

Colombo District East Water Supply Project

Eastern Provincial Water Supply Development Projects

City Planning and Water Supply

Providing people with favourable living conditions through sustainable city planning, safe drinking water supply and improved sanitation facilities had been the objective expected by the Ministry of City Planning and Water Supply and the institutions under its purview. The following functions should have been performed by the Ministry and the Department of National Community Water Supply and the National Water Supply and Drainage Board under its purview in achieving those objectives.

- Formulating of policies, programmes and projects on the subject of city planning and water supply and monitoring and evaluation of the matters coming under the scope of the relevant Departments and Statutory Institutions.
- Planning and development of special cities
- Direction and implementation of all construction works based on the National Physical Plans for the performance of urban development activities
- Taking necessary action to ensure the supply of safe drinking water to every citizen
- Investigation, planning, designing, construction, direction and maintenance of water supply services, drainage systems and sanitation facilities
- Taking necessary steps for the efficient and proper execution of the Community Water Supply and Sanitation Projects.

The Audit observations revealed during the Audit test checks carried out relating to the performance of these functions by the Ministry and the above two institutions under its purview, are summarized and shown below.

Coverage of Facilities for Pipe borne Water and Pipe borne Sewers

The Water Supply Board had implemented 26 large scale foreign aid projects on water supply, 07 large scale foreign aid projects on sewerage, 14 domestic funded water supply projects, 13 small and large scale projects and 09 schemes for water sectorial community facilities in the year under review under the supervision of the Ministry, with the objective of water supply and sanitation.

According to the Annual Action Plan of the Water Supply Board, it had been expected to achieve 54.9 per cent and 2.7 per cent relating to pipe borne water and piped sewerage facilities respectively by the end of the year 2018. However, the progress achieved by the end of the year under review had been only 50.5 per cent and 2.06 per cent respectively. Moreover, the number of new water connections supplied in the year under review stood at 109,462 and as compared with the number of water connections of 126,701 supplied in the preceding year, it had decreased by 14 per cent. As such, the total number of water connections supplied by the end of the year under review had been 2,328,634.

Details on the coverage of water supplies of the National Water Supply and Drainage Board for the period of 5 preceding years are given in figures 51 and 52

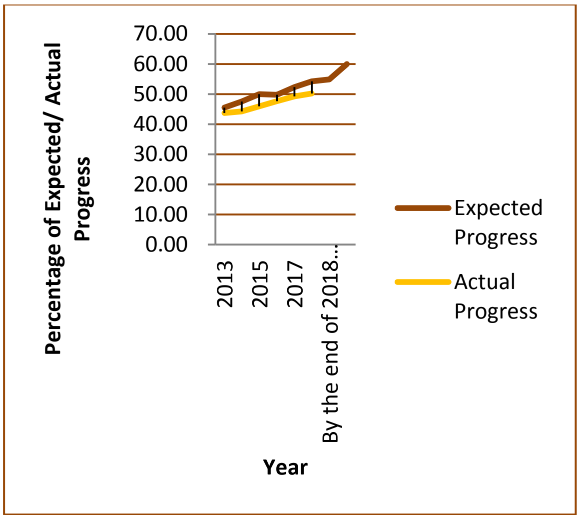


Figure 51- Total number of pipe borne
Source:- Performance Report 2018

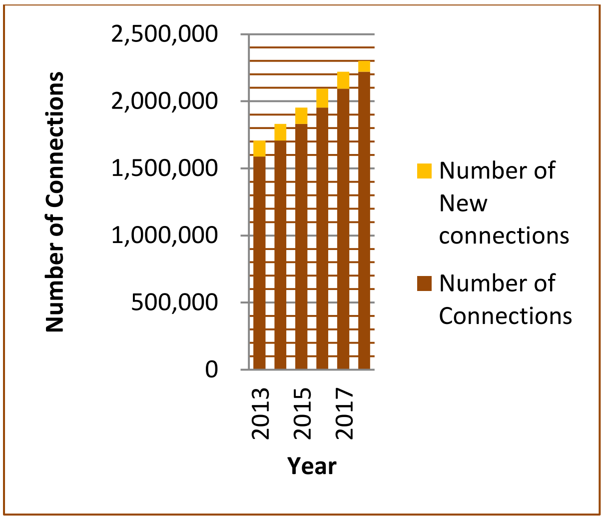


Figure 52- Increase in water connections
Source:- Performance Report 2018

Production and Consumption of Water

Data on purified water production, consumption and non-revenue water of the National Water Supply and Drainage Board for the period of 5 preceding years are given in figure 53 below.

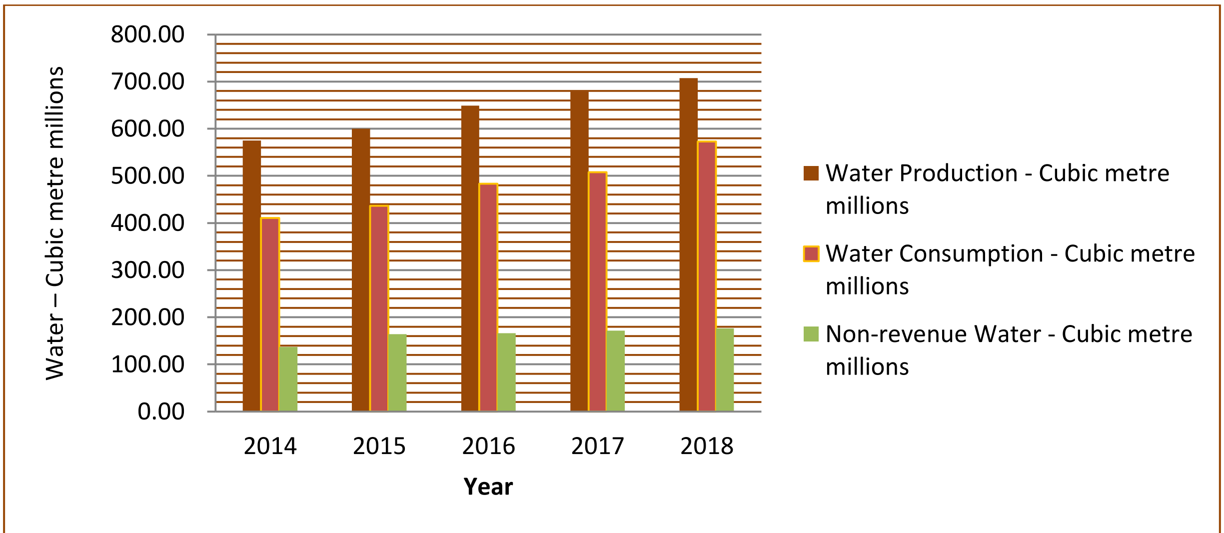


Figure 53 Purified Pipe borne Water Production, Consumption and Non-revenue Water
Source:- Performance Report 2018

The Board had succeeded in reducing the ratio of entire non-revenue water, island wide from 25.24 per cent in the preceding year to 24.93 per cent, by 1.05 per cent in the year under review. The non-revenue ratio of water in the city of Colombo which was 43.14 per cent in the preceding year, had taken a very high value of 41.65 per cent in the year under review as well. Matters such as the progress of the 2 projects under the Greater Colombo Water and Sewerage Management Investment Programme, targeting the minimization of non-revenue water in the city of Colombo, being at a very weak level, failure in completing those projects within the expected period had mainly attributed to this situation. Moreover, the ratio of non-revenue water in the Southern, Uva and Sabaragamuwa regions had exceeded even 25 per cent in the year under review. If the Board had the capability of reducing the entire non-revenue water by 1 per cent, the approximate cost of Rs.270 million could have been minimized in the year under review.

Delay in Completion of Projects

Activities of 07 large scale foreign funded projects implemented in the year under review had been delayed from 349 days to 2009 days due to reasons such as weak performance of contractors, delay in land settlements, environmental and resettlement issues, delay in awarding of contracts and supply of low standard pipes by contractors.

Ambathale Energy Saving Project

Even though the works of the Ambathale Energy Saving Project should have been completed in 63 months, by 31 December 2018, out of that period, 52 months or 83 per cent of the said period had lapsed. However, the total physical and financial performance of the project had been 10.84 per cent and 11.67 per cent respectively. Moreover, the utilization of the loan had taken a minimum value of 15.5 per cent and out of 05 components of the project which should have been implemented, 03 components had not achieved any progress whatsoever. Accordingly, the Government had to pay commitment charges of Rs.227.89 million (2.1 per cent of the loan value) equivalent to US$ 1.5 million by 31 March 2019.

The contract (ICB 04) of supply of water pipes and accessories including laying of pipes of 1,200 mm in diameter for a distance of 9 km from the Ambathale Water Purification Centre to the Elihouse water store was due to be commenced in July 2016 and completed on 04 May 2018. However, the distance of laying water pipes had achieved only a low progress of 1,316 metres (14.62 per cent) out of 9,000 metres due to the weak performance of the contractor.

Even though the payment of money had been suspended for a period of 06 months by the French Agency until a new bank account is opened, the contractor had discontinued constructions of the project from July 2018 up to 31 July 2019.

Jaffna Kilinochchi Water Supply Project

The loan amounting to Rs.5,363 million granted for the purpose of supply of water from Iranamadu Wewa to Jaffna, which is one of the components of the Jaffna Kilinochchi Water Supply Project had been cancelled due to public protest. A sum of Rs.124.64 million representing 2.3 per cent of the estimated value of the said project had been spent by then. Moreover, an additional expenditure of Rs.84.95 million comprising an indemnity of Rs.11.95 million, evaluation fees of Rs.15.17 million and Rs.57.83 million of commitment charges had to be incurred by the Government on behalf of the lending agency due to cancellation of the said loan.

The contract of constructing 18 water towers in Jaffna awarded for Rs.1,139 million and the contract of laying of purified water transmission pipes awarded for Rs.5,536 million under the aforesaid project had been completed by 31 December 2018. However, all constructions had remained idle by the end of the year under review due to the non-existence of a water source for the project.

Colombo District East Water Supply Project

The contract relating to package No.1 of the Colombo District East Water Supply Project funded by a Government commercial bank had been awarded to a bid value of Rs.4,700 million on 23 July 2014 to a private institution. The main objective of this project had been indicated as supply of a distribution water system with a distance of 176 km to cover the areas of authority of the Divisional Secretariats of Padukka, Seethawaka, Horana and Homagama and laying of transmission lines with a distance of 4 km and supply of service connections.

However, the amount spent for purchase of pipes and accessories for the said project had been an overpayment of Rs.531 million as compared with the rates of the Water Supply and Drainage Board. Even though the distance expected in laying of pipes under the project had been 32,550 metres, pipes had been imported for laying for a distance of 131,000 metres and an overpayment of Rs.77.7 million had been paid to the contractor therefor. Moreover, in comparison of the amount spent for purchase of 4,900 water metres with the normal market value, an overpayment of Rs.8.9 million had been made.

Eastern Provincial Water Supply Development Project

A water tower, a pump house and a transmission and distribution system had been constructed by spending a sum of Rs.253.83 million by the Panama Water Supply Scheme under this project. As Note there was no suitable water source available therefor, the said project had remained idle from 30 September 2016 by the end of the year under review.

Irrigation and Water Resource

Retention of Employees' Provident Fund Contribution

Failure to obtain desired output from the rehabilitated tanks

Human Resources Management

Assets not properly acquired

Uneconomic Expenditure

Irrigation and Water Resource

The expected outcome of this sector was ensuring the availability of irrigation water for agricultural purposes. The Ministry, a Department and one statutory institutions had to perform the following functions to achieve this outcome.

- Preparation and Implementation of Policy Programmes and Projects pertaining to the every subject of Irrigation, Reservoirs, Water Resources Management and the Department under the Ministry and Public Enterprises and the scope thereon.
- Promotion, construction, implementation, maintenance, redevelopment and management of the Irrigation Schemes, Water Transport and Flood Protection Schemes, Saltwater Disposal Schemes.
- Prevent pollution of river canals and other water sources.
- Rainwater harvesting.
- Engineering consulting services and constructions.
- Implementation of the Water Resources Board Act.

The following shortcomings were revealed at the audit test checks carried out in respect of the achieving of the above functions by the Ministry and the institutions under its' purview.

Retention of Employees' Provident Fund Contribution

Employees' Provident Fund Contribution which was deducted from the salaries of the Employees of the International Training Institute on Irrigation and Water Management, Kotmale for the years 2017 and 2018 amounted to Rs . 927,580 had been retained in the Deposit Account without remittance.

Not obtaining desired output from the rehabilitated tanks.

Incurring a sum of 54.83 million made available by the Ministry to rehabilitate major and medium irrigation schemes from the year 2015 to 2018, three tanks belonging to the Department of Agrarian Development had been rehabilitated. Nevertheless, out of that, 15 acres of paddy lands in extent which were being cultivated from the Mudiyannegama Tank rehabilitated incurring a sum of Rs. 3.71 million , 14 acres had been reclaimed. A sum of 6.19 million had been spent by the Ministry in the years 2016, 2017 and 2018 to repair the Kudagale Tank which belonging to the Department of Agrarian Development. Since the lake sluice was broken, the water collected in the tank could not be used for cultivation. Since non- cultivation of 95 acres of paddy fields which are fed by the lake , the expenditure made for the rehabilitation of the tank amounted to Rs. 6.19 million had been unproductive.

Human Resources Management

Six designations had been approved for the International Training Institute for Irrigation and Water Management in Kotmale. Fifteen had been recruited beyond the approved number of posts thereof . Without recruiting for 04 approved labourer posts , 28 persons were recruited on contract basis and a sum of Rs. 19.58 million had been paid as salaries and allowances for the year under review. The institute had recruited 06 persons for 05 designations without having the approval of the Department of Management Services. Although the position of Management Assistant had been approved, 10 employees for that and 25 workers on casual basis had been recruited.

Assets Management

Arrangements had not been made to take over the assets valued at Rs. 640,354 provided to the former Minister in the year 2017 . Allowances totalled to Rs. 3.12 million, Rs. 2.20 million and Rs. 0.92 million respectively had been paid to the Minister's personal security officers, from the provisions of the Ministry and the Department in contrary to Paragraph 2.1 of the Presidential Secretary's Circular No. CA / 1/17/1 of 10 May 2010 .

Even though 129 vehicles belonging to the Ministry had been provided to Other

When construction of the feeder canal from Siyabalangamuwa Tank to Usagala Tank, the agreement entered in to with the machinery suppliers had been cancelled before the expiry of the contract with the suppliers of machinery.

Although the 07 lecturer posts had been approved for the International Training Institute for Irrigation and Water Management Kotmale, external lecturers had been occupied to do so without recruiting those lecturers. A total of Rs. 1.80 million had been paid as Rs. 1.1 million and 0.70 million to 25 and 11 external lecturers respectively for the years 2017 and 2018 .

Departments, Ministries and Water Resources Board, actions had not been taken to transfer ownership to these institutions. The value of those vehicles was calculated and included in the statement of non-financial assets.

Assets not properly acquired

Eighty nine vehicles valued at Rs. 332.95 million and 27 motorcycles valued at Rs.0.27 million had been used without taken over to the Department of irrigation from 07 public institutions

Uneconomic Transactions

Subsequently, it had been entered in to agreements with the same suppliers of these machines at higher prices. Due to this, the Irrigation Department had incurred an uneconomic expenditure of Rs. 1.16 million.

Agriculture

Improvement of the Production of Organic Fertilizer

Over-valuation of the Insurance Liability

Research Expenditure

Abandonment of Projects

Fruitless Expenditure

Fishermen's Pension and Social Security Benefit Scheme

Farmers' Pension and Social Security Benefit Scheme

Farmers Trust Fund

Agriculture

A vibrant and dynamic agricultural sector to increase the food production for food security and national prosperity in the country is the vision of this Sector. The following functions should have been performed for achievement of the said objective.

- Formulation, direction, facilitation and implementation of policies, programs, projects for the development of Agriculture Sector.
- Establishment of food security through the proper management of domestic food items and additional food reserves
- Providing the public with environmental friendly, hygienic and poison free agricultural products through the waste management by minimizing the use of chemicals and pesticides in food production, streamline the use of chemical fertilizers
- Enhancement of the productivity of crops and minimization of the production cost by mechanization, innovation, efficient water management, diversification of crops and introduction of the methodologies of soil conservation
- Self-production of high quality seeds, promotion of value added production methods among the farmers, encourage the manufacturers towards high quality agricultural products in local and foreign market by introducing Good Agricultural Practices(GAP) and good production practices
- Contribute to the increase of paddy cultivation by the renovation of tanks, anicuts and canals in dilapidated condition and asweddumaization of fallow fields.

The audit observations revealed at audit test checks carried out with regard to the performance of those functions by the Ministry of Agriculture, 2 Departments, 10 Statutory Bodies and Institutions, a Foreign Funded Project and 2 Funds are summarized below.

Improvement of the Production of Organic Fertilizer

Provisions totalling Rs.400,000 granted to the District Offices in Kalutara and Matara by the Ministry of Agriculture and loans amounting to Rs.900,000 granted to three farmers by 03 Agrarian Services Centres for improvement of the production of organic fertilizer had not been utilized for the said purpose.

Non-completion of Research Projects

Even though the Hector Kobbekaduwa Agrarian Research and Training Institute had spent a total sum of Rs.9.6 million including Rs.6.2 million for 09 Research Projects in the years 2015 and 2016 and Rs.3.4 million for research activities of 04 projects in the year 2017, the said researches had not been completed even by the end of the year under review. As such, there was no progress despite the expenditure incurred since the year 201

5.

Over-valuation of the Insurance Liability

The Agricultural and Agrarian Insurance Board had decided to grant a free insurance liability with a maximum value of Rs.7,500.00 million in respect of 6 compulsory crops from 01 April 2018 to 31 March 2019. Even though the re-insurance of an insurance liability amounting to Rs.5,000.00 million as per previous records had been Rs.3,500.00 million , the Board had entered into a re-insurance liability of Rs.5,315.00 million. Accordingly, a sum of Rs.1,815.00 million had been overvalued and re-insured.

According to the Agreement pertaining to the re-insurance mentioned above, it could be claimed a re-insurance after paying the compensation up to Rs.2,185.00 million by the Board and a compensation of Rs.1,500.00 million by the National Insurance Trust Fund. However, the value of re-insurance premium amounting to Rs.675.76 million had been paid by the Board. Compensations totalling Rs.412.62 million had been paid for Yala season 2018 and Maha season 2018/19 as at 30 April 2019. The foreign re-insurance premiums amounting to Rs.473.03 million had been fruitless.

Research Expenditure

A sum of Rs.1.96 million had been spent in the year 2017 to test whether 04 heavy metals were mixed with 07 food items imported under the National Food Production Programme of the National Institute of Post-Harvest Management. A sample of 500 had been tested for the research and it was confirmed that certain food items were contaminated with heavy metals exceeding the maximum security level. However, necessary information had not been presented to take proper course of action in this connection. As such, the expenditure incurred for researches had been fruitles

Abandonment of Projects

Provisions amounting to Rs.17 million had been made in the year under review for a project of using biological pest control for pests in vegetables of the Department of Agriculture. The project had been abandoned after spending a sum of Rs.1.15 million as administration and field research expenditure of the project. Therefore, the expenditure incurred for the project had been fruitless.

Fruitless Expenditure

- A sum of Rs.28.64 million had been spent in the year 2018 on printing Training Manuals and Work Books prepared by the Instructors for farmers training and capacity building of the project for the renovation of agriculture sector. However, training programme for farmers had not been commenced even by 13 May 2019 and as such, benefits from the money spent was not possible to be reaped.
- A sum of Rs.2.76 million had been spent from August 2017 to July 2018 for scanning and computerization of 281,250 applications of farmers in 05 Districts by the Agricultural and Agrarian Insurance Board. However, the said data had not been used for the process of payment of compensation.

- A sum of Rs.1.34 million had been spent on construction of the Observation Deck of the Seethawaka Botanical Garden and kumbuk timber had been used for those constructions. The physical verification carried out regarding the said constructions on 06 February 2019 had revealed that a large quantity of kumbuk timber used for the constructions had cracked and dilapidated although only 03 years had lapsed since the completion of contract. Even though kumbuk timber were water-resistant and suitable for long term use, kumbuk timber of a high quality had not been used for the said contract.

Fishermen's Pension and Social Security Benefit Scheme

This scheme had been established by the Fishermen's Pension and Social Security Benefit Scheme Act, No. 23 of 1990. The following weaknesses were revealed this connection.

- The pension liabilities as at the end of the year under review amounted to Rs.3,590.89 million and it had increased by 8.9 per cent as compared with the preceding year. The Accumulated Fund had been at a negative value of Rs.2,947.93 million as at 31 December 2018. This situation had adversely affected the going concern of the Scheme. The institute had not taken action even by 30 September 2019 to restructure and implement the Scheme with a financial viability.

- Pensions had been computed and paid to 95 fishermen from January 2017. Further, pensions amounting to Rs.2.79 million should have been payable to pensioners relating to the period from January 2011 to December 2016. However, the said pensions in arrears were not possible to be settled even by 30 September 2019.

Farmers' Pension and Social Security Benefit Scheme

The scheme had been established by the Farmers' Pension and Social Security Benefit Scheme Act, No.12 of 1987. The following weaknesses were revealed in connection with this scheme.

- The actuarial valuation for the pension liabilities of active contributors and farmer pensioners should have been done in a timely manner. However, an actuarial valuation had not been carried out in respect of pension liabilities totalling Rs.66,508.21 million shown in the financial statements.
- According to the Farmers' Pension and Social Security Benefit Scheme published in the Gazette Extraordinary No.1853/49 of 14 March 2014, contributions of pension should be recovered and paid. Contributions of pension amounting to Rs.24.55 million had been recovered and pensions totalling Rs.3,059.37 million had been paid in the year under review. A sum of Rs.2,725.00 million had to be obtained from the Treasury due to the decrease in contributions of pension and increase in the payment of pensions. Action had not been taken to recover the contributions of pension in terms of provisions in the notification

published in the Gazette Extraordinary, thus contribution of the Treasury had to be obtained further in respect of the payment of pensions.

- Pensions totalling Rs.3,484.65 million including the pensions of Rs. 451.32 million entitled to 19,283 farmers retired during the period from April 2017 to 31 December 2018 and pensions amounting to Rs.3,033.33 million entitled to 90,573 farmers relating to the period from the year 2012 to 2013 had not been paid even by 30 September 2019.

Farmers Trust Fund

The Fund had been established and maintained with a view to achieving the objectives of improving the agricultural development and welfare of farmer community which was expanded by a Cabinet Memorandum in the year 2002, providing agricultural credit facilities and market credit facilities to small farmers, supply of agricultural inputs, implementation of awareness programmes and special agricultural programmes and assisting the manufacturing process of crop and animal products and also the processing of products. Even though the Fund had been established for the achievement of objectives stated in the Deed of Trust, the monies therein were not adequately utilized for the said purposes and instead, sums amounting to Rs.835.00 million and Rs.93.04 million had been invested in fixed deposits and treasury bills respectively. Attention had not been paid by the Fund to utilize the sum of Rs.3,542.06 million out of the income of *Govisetha* Lottery receivable to the Farmers Trust Fund from the Treasury, for the programmes beneficial to the farmers.

Cultural Affairs

Establishment of Cultural Centres

Non-recovery of Value Added Tax

Overpayment for Contracts of Constructions

Cultural Affairs

The result expected from this Sector was to ensure the sustainable socio economic development through the enhancement of cultural values of the country. The Ministry of Internal Affairs, Wayamba Development and Cultural Affairs and two Departments should have performed the following functions in order to achieve the said result.

- Adoption of necessary measures for the advancement of all aspects of Sri Lanka's national culture
- Maintenance of cultural relations with foreign countries
- Extension of corporation for the improvement of culture-based tourism programmes that will not be detrimental to cultural and archaeological heritages
- Adoption of measures for the continuous compilation of Sinhala Encyclopedia, Sinhala Dictionary and Mahawansa
- Identify trends in employing cultural contributions to create harmony among communities and take actions to implement them

The audit observations revealed in respect of performing the said functions by the Ministry and Departments thereunder are summarized below.

Establishment of Cultural Centres

Even though the programme for establishment of one Cultural Centre in every Divisional Secretariat had been implemented in the year 2011, the Ministry had failed to establish Cultural Centres in 110 Divisional Secretariats as at 31 December 2018.

A sum of Rs.93.8 million had been spent on the establishment of 09 Cultural Centres as at 31 December 2018 while the relevant construction work had not been completed even by February 2019 despite a lapse of 05 years since the commencement of such work.

The construction work of 03 centres commenced had been abandoned halfway due to the reasons such as landslides and war situations occurred during the construction of Cultural Centres. A sum of Rs.4.26 million had been spent on those constructions as at 31 December 2018 and it was a fruitless expenditure.

Non-recovery of Value Added Tax

The Department of National Museums had not separately disclosed the Value Added Tax (VAT) pertaining to the contracts of purchases and constructions in the relevant payment vouchers. Further, action had not been taken for a long period to present Monthly Reports on the payment of Value Added Tax (VAT) to the Commissioner General of Inland Revenue. A sum of Rs.5.35 million had been paid as Value Added Tax in the year under review. However, attention had not been paid to take action to credit the said tax to the Revenue accurately.

Overpayment for Contracts of Constructions

The contracts of 06 construction projects pertaining to the Department of National Museums had been awarded to the State Engineering Corporation on the estimated value in the years 2017 and 2018. A sum of Rs. 2.2 million had been overpaid in respect of the functions performed by the State Engineering Corporation. The amount so overpaid had not been recovered even by the end of the year under review.

Prison Reforms

Failure to implement the Information Management System throughout the entire prison system

Uneconomic Expenditure

Lack of training for many officers in the staff

Failure to Recover the Fines

Control over Motor Vehicles

Prison Reforms, Rehabilitation and Resettlement

It is the expected objective of the Ministry of Prison Reforms, Rehabilitation, and Resettlement to foster a contented community through protection and productive correction. In order to achieve the said objective, the Ministry along with 02 Departments and an Authority had been entrusted with the following functions.

- To be involved in projects relating to community based corrections.
- Resettlement of persons, displaced or physically and mentally affected due to conflicts. Implementation of programmes and projects relating to rehabilitation.
- Coordination between the Government and the funding agencies, and Non Governmental Organizations and the civil society with respect to resettlement activities.
- Coordination of activities relating to the supply of essential services to the displaced persons.
- Implementation of strategies for the social integration of properties and persons affected by conflicts.
- Formulation of policy programmes and projects to promote religious values among people in view of an ethical society.

The following deficiencies were observed in the audit test check conducted on the Ministry, Departments, and the Authority discharging the aforesaid functions.

Implementation of the Prison Information Management System

A period of 07 years had elapsed as at 31 December 2018 from the date of commencing the development of a Prison Information Management System, and an expenditure approximately amounting to Rs. 101 million had been incurred thereon. In the year 2016, the Sri Lanka Telecom had been entrusted to link the Welikada prison to the Prison Information Management System, and a sum of Rs. 957,978 had been spent thereon. The contract to link 12 prison institutions had been awarded to a private institution in the year 2018 at a value of Rs. 30.51 million. Sixteen more institutions were scheduled to be linked in due course. Nevertheless, the said Information Management System could not be implemented throughout the entire prison system even by the end of the year under review

Uneconomic Transactions

The existence of 2138 vacancies in the staff had hampered the smooth functioning of the Department. As for the recruitment of 1,184 Jailors , action had not been taken to include a competitive examination under the method of recruitment in the Scheme of Recruitment as agreed by the officers of the Public Service Commission, the Ministry, and the prison. Having planned to recruit Jailors by interviewing in accordance with instructions of the Line Ministry, a sum of Rs. 4.23 million had been spent in that connection. As the Minister in charge had presented a Cabinet Memorandum and cancelled those recruitments, the amount spent had become uneconomic.

Training of the Staff

A sum of Rs. 3.04 million had been utilized in the year under review on providing training for the staff. However, no training whatsoever had been provided for 1831 officers of 25 prison institutions. Apart from the orientation programme, officers of 23 prison institutions had not been provided with any other training opportunity whilst many officers had not been provided with training opportunities at least within the 05 years immediately preceding.

Failure Recover the Fines

Fines totalling Rs. 2.67 million receivable from 13 officers who had still occupied the Government quarters without being entitled to such a facility due to being transferred or lapse of lease period, had not been recovered.

Control of Vehicle

Twenty one vehicles running without being registered under the Department, and 32 vehicles not in running condition, had remained at the premises of the Department. Action had not been taken even by the end of the year under review in terms of Public Finance Circular, No. 02/2015, dated 10 July 2015 either to repair and use or dispose of 43 vehicles that had remained non-functional for periods ranging from 03 months to 09 years by January 2019. Having been exposed to the elements, those vehicles remained decaying. Action had not been taken even up to the end of the year under review to dispose of 16 vehicles that had been decided to be suitable for disposal within a period of 01 – 03 years. Due to non-availability of registration certificate, insurance certificate, and revenue license, with respect to 53 vehicles, those vehicles had not been taken over and registered under the Department. Eight of those vehicles had not been registered with the Department of Motor Traffic.

By the end of the year under review, vehicles belonging to the Department of Prisons had met with accidents in 180 instances during the preceding years. The value of the damages caused by those accidents, amounted to Rs. 43.26 million. Furthermore, losses and damages totalling Rs. 2.54 million had been sustained following accidents taken place in 27 instances during the year under review.

The Department of Prisons had failed either to recover the damages or write them off from the books in terms of Financial Regulations.

Pension Benefits for Public Service

Impact of Expenditure of Pensions on the Economy

Administration of Funds

Overpayment of Pensions

Transactions in the Nature of Financial Irregularities

Management Inefficiencies

Informing the Death of Pensioners

Retention of Deposits

Pension Benefits for Public Service

The vision and mission of the Department of Pensions are to make the pensioners‟ community highly satisfied in economic and social aspects by offering legal benefits to pensioners of public services and their beneficiaries, ensuring satisfaction of both recipients as well as service providers at an excellent level intertwining public sector with private sector through applications of modern technology and sustainable management techniques.

The main responsibility of the Department of Pensions is to make payment of pensions under the Pensions Minute established on 05 February 1934, payment of pensions for widows, widowers and orphans under the Widows' and Orphans' Pensions Fund Ordinance No.01 of 1898 and Widowers' and Orphans' Pensions Act, No.24 of 1983 and administration of Public Services Provident Fund and regulation of paying process in terms of Ordinance No.18 of 1942.

Impact of the Pension Expenditure on the Economy

The Department of Pensions had offered benefits for 619,176 active pensioners by 31 December 2018 and the expenditure on pensions in the year 2018 amounted to Rs.224,853 million. It represented 10.75 per cent of the total recurrent expenditure of the Government and it constituted 11.4 per cent of the total Public Revenue.

The number of Pensioners had increased from 514,584 in the year 2012 up to 619,176 in the year 2018 by 104,792 persons or by 20 per cent and expenditure on pensions had increased from Rs. 126,461 million up to Rs.224,853 million by RS 98,392 million or by 78 per cent.

Expenditure on pensions had been increased continuously due to the growth in the public service, new Provisions for retirement, payment of cost of living allowances to the pensioners as well, increase in salaries of the public service and computation of the pensions on the basis of the increased salary, rectification of the pension anomalies and increase in life expectancy. It is anticipated that the expenditure on pensions will increase continuously in the future as well and therefore, expenditure on pensions will have a considerable impact on the public expenditure in the future.

The growth in the total expenditure on pensions in the year under review and 6 previous years is depicted in Diagram 53

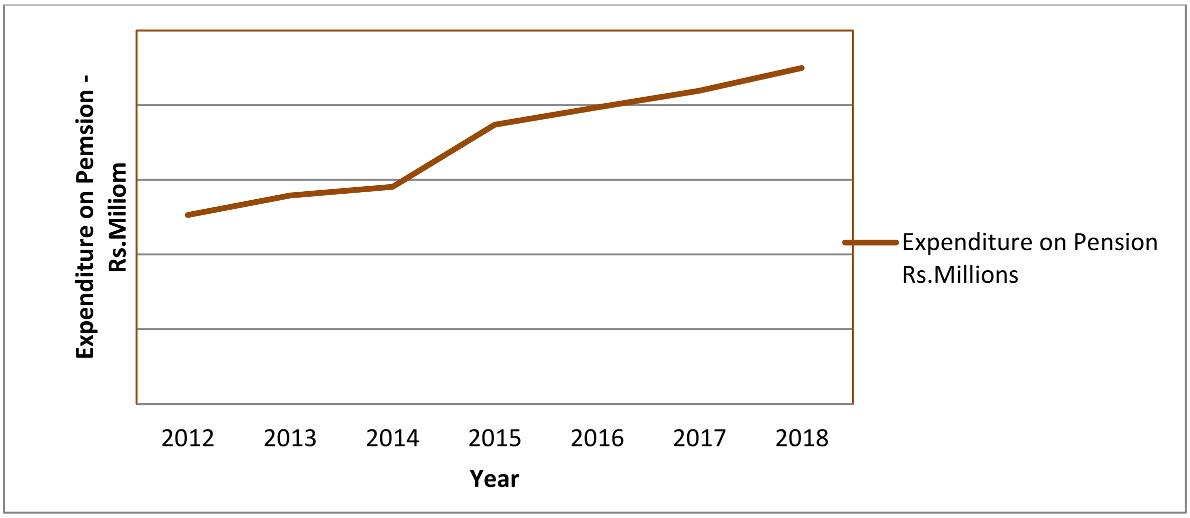


Diagram 53- Expenditure on Pensions
Source – Pensions Data System, Statement of Financial Position 2018

Several audit observations disclosed at the audit test checks carried out in the year under review are summarized and given below.

Administration of Funds

The Department of Pensions administers 05 funds in addition to the payment of pensions for the public service and only the Public Service Provident Fund out of those 5 Funds was in an active level. With the establishment of the Provincial Public Service in the year 1993, The Provincial Public Servants were entitled to get the benefits of Pensions and Widows' and Orphans' Pensions that were entitled by the Public servants. Therefore, new members were not added to the Local Government Service Pension Fund, Local Government Widows' and Orphans' Pension Fund and Local Government Widowers' and Orphans' Pension Fund. Likely, the Department of Pensions had incurred expenditure for Funds using the budget provisions under the Expenditure Head of the Department of Pensions since there is no enough money in Funds as new membership fees are not received to Funds.

Meanwhile, in terms of Order No. 04 of the School Teachers Pension Act, No. 44 of 1953, a Fund should be established by using contributions of the Teachers' Widows' and Orphans' Pension Fund and the Teachers' Widows' and Orphans' Pensions should be paid from the Fund. However, a bank account had not been maintained for the Fund to collect contributions and to incur expenditure and the objectives of establishing this Fund had not been accomplished as contributions to the Fund had been collected to Widows' Orphans' Contributions Bank Account of the Department of Pensions and due to incurring of the aforesaid expenditure from the budget provisions under the Expenditure Head of the Department of Pensions.

Over Payment of Pensions

The pensions which had been overpaid but had not been recovered even by the end of the year under review totalled Rs.591 million. A sum of Rs.546 million brought forward from the period less than 5 years, a sum of Rs.37 million brought forward from a period ranged between 5 years to 10 years and a sum of Rs.8 million from more than a period of 10 years had been unrecovered at the end of the year under review.

Transactions in the Nature of Financial Irregularities

The pension received by a deceased retired female officer who had been receiving two pensions as the civil pension and widow pension until her death had been debited to the bank account for 55 months after her death. The son of the deceased officer had removed Rs. 2.70 million out of the amount debited so using the ATM card. An amount of Rs. 308,052 out of the amount had been later paid by the Son to the Department. However, the outstanding balance of Rs. 2.39 million had not been recovered even by 30 June 2019.

Two Divisional Secretariats had paid two pensions as temporary and permanent to an officer for a period of 20 years from January 1991 up to February 2016. One Divisional Secretariat had over paid an amount of Rs. 1.87 million. Even though payment of pensions had been stopped from 10 February 2016, action had not been taken to recover the amount paid in excess.

A daughter had wrongfully obtained a sum of Rs. 1.56 as the pension of the deceased mother even for a period of 86 months after the death of the pensioner using the Identity Card Number of the daughter in the Pensions Data System instead of including the Identity Card Number of the pensioner in the Data System. Action had not been taken to recover the sum paid in excess.

Management Inefficiencies

There were 669 files in Negombo, Meerigama, Gampaha, Alawwa, Warakapola and Wattala Divisional Secretariats in which pensions had not been revised in terms of the Public Administration Circular No.6/2006 of 25 April 2006.

Even though persons who were not fully disabled at birth have to be referred to a Medical Board once in every 05 years as stated in the notification published in the Gazette Extra ordinary No. 1719/3 of 15 August 2011, any of the persons in Negombo, Meerigama, Gampaha, Alawwa, Warakapola and Wattala Divisional Secretariats were not fully disabled at birth had not been referred to the Medical Board any day.

Even though a pensions file has to be maintained for every pensioner who is paid a pension, pensions were being paid to 512 pensioners without maintaining files at 6 Divisional Secretariats, namely, Negombo, Meerigama, Gampaha, Alawwa, Warakapola and Wattala.

Informing the Death of Pensioners

Pensions had been paid to deceased pensioners as the Divisional Secretariat had not been made aware of the death of pensioners and 10 pensioners deceased in the year 2016 had been paid an excess of Rs. 336,378 by the Gampaha Divisional Secretariat. The full amount of Rs.750,390 to be recovered from 07 pensioners deceased in the year 2017 had to be recovered even by September 2018.

Deposits

An amount of Rs. 696,500 recovered for motor bicycles provided to the Development Officers' Service and Document Assistants' Service had been retained in the general deposit account from the month of October 2018 without sending the amount to the Department of National Budgets as 05 field based officers employed in the Department had moved to another service.

Consolidated Financial Statements of Provincial Councils

Description of Provincial Councils

Nine Provincial Councils are presently being operated as Provincial Council within nine provinces of the island in terms of Provincial Council Act No.42 of 1987 read in conjunction with thirteenth amendment of the Constitution of Democratic Socialist Republic of Sri Lanka. Objectives mentioned in simultaneous list included in thirteenth Constitution should be implemented by Councils. Accordingly, powers in provincially level in many sectors including agriculture, education, health, housing, local government and social services were vested to these Councils. Controlling of Provincial Councils are coming under the Governor appointed by the President and the chief minister is act as the head of its legislature. Cabinet of Ministers of the Provincial Council led by the executive is consisted with 4 members including the chief minister. A chief secretary is act as administrative authority and he is appointed by the President. Every Council is consisted with Council Fund and Emergency Fund. This Council Fund, which is almost equal to Consolidated Fund of Central Government, is realized through government grant, tax income and other sources; and expenditure has to be born from the fund in the form of recurrent and capital. Provincial Council Institutions, Provincial Council Ministries not coming under the purview of a Ministry and all Departments coming under the purview of Ministries are prepared financial statements including Appropriation Account.

Other than that, financial statements so as the country account of the central government are prepared for every Council showing that the all income, expenses, assets, liabilities.

Powers of auditing accounts of provincial council funds had been received to Auditor General in terms of article 154 (1) of the Constitution and Section 23 (1) of Provincial Council Act No.42 of.

Accordingly, actions were taken to present an analysis in this chapter with relating to the financial statements audited in the year 2018 and its related financial statements of the year 2017 of 9 Councils such as Eastern, North Central, Sabaragamuwa, North East, Central, Northern, Eastern, Southern and Uva.

Financial Performance Statement of Provincial Councils for the year ended 31 December 2018

Description	2018	2017
	Rs.000	Rs.000
Revenue		
Government Revenue		
Government Grand	203,820,936	201,289,575
Tax Revenue	6,287,894	5,858,351
Provincial Revenue		
Tax Revenue	75,096,438	71,193,811
Non- tax Revenue	10,127,500	9,481,133
Other Revenue	5,949,267	2,866,628
Total Revenue	**301,282,035**	**290,689,498**
Expenditure		
Personal Emolument	198,203,699	187,724,905
Other Goods and Services	17,165,910	14,545,706
Transfer and Grand and Other Recurrent Expenditure	50,231,703	49,406,673
Total Recurrent Expenditure	**265,601,312**	**251,677,284**
Development Expenditure	34,848,622	34,373,399
Total Expenditure	**300,449,934**	**286,050,683**
Excess of Revenue over Expenditure	**832,101**	**4,638,816**

Statement of Financial Position of Provincial Councils as at 31 December 2018

Discription	2018	2017
	Rs.000	Rs.000
Assets		
Non-Current Assets		
Property, Plant & Equipment	172,688,283	85,191,431
Gurantar's deposit investment	28,906	24,951
Investment	6,665,533	7,689,392
Working Progress	95,874	-
Intangible Assets	8,715	-
Total Non-Current Assets	**179,487,311**	**92,905,774**
Current Assets		

Stock	51,065	58,774
Provincial Public Offices Loan	16,102,576	14,757,383
Impest Account Balance on Provincial Ministry and Department	1,081,887	1,199,250
Authorized Advance Account Activities	497,884	496,057
Fixed Deposits and Short term Investment	3,075,655	2,234,018
Other Finance Assets	1,914,208	1,737,818
Deposit on Provincial Treasury & Emergency Fund	26,887	514,340
Advance to Provincial Ministry and Department	2,465,894	2,770,141
Advance to Provincial Emergency Fund	3,582	3,581
Commercial Advance	94,735	80,482
Prepayments	106,073	22,417
Capital Contribution in Provincial owned Enterprises	249	2,969
Receivable Accounts from Provincial Ministry and Department	43,896	350,079
Other Receivable	1,912,999	1,192,006
Cash and Cash Equivalent	15,425,105	18,662,063
Total Current Assets	**42,802,695**	**44,081,378**
Total Assets	**222,290,006**	**136,987,152**
Accumulated Funds and Reserves		
Contributed Capital	195,894,215	107,553,674
Surplus/ Deficit Reserves	(474,065)	108,520
Emergency Fund	24,139	21,683
Depreciation on Reserve	141,785	108,520
Investment on	839,554	-
Reserve	10,455,659	5,994,077
Grant Received for acquitition of Capital Assets	1,458,266	-
	195,586,074	**117,205,741**
Long-Term Liabilities		
Financial Leasing – Vehicle	21,844	104,841
Gurantars Deposits	20,250	18,551
Interest on Gurantars Deposits	8,656	6,401
Other Payable	44	227
Current Liabilities	-	-
Financial Leasing - Vehicle	93,609	78,310
Deposits Accounts	6,760,477	5,938,918
Payable/Accrued Expenditure	7,045,573	7,640,086
Total Liabilities	**13,950,453**	**13,787,334**
Total Funds and Liabilities	**222,290,006**	**136,987,152**

Provincial Council Revenu

Revenue of the Provincial Council is consisting with income sources such as government grant, taxes and non-taxes.

Government Grant

Government grant given for 09 Councils in the year 2018 was Rs.204 billion and that was an increase of Rs.2 billion as compared with the year 2017. The highest percentage i.e. 15 per cent of government grant had been given to Central Province in the year 2018 and that as rs.30 billion. Further the lowest had been given to Western Province and that was Rs.17 billion or 8 per cent from the grant. Accordingly, out of the entire expenditure of the government amounting to Rs.2,734 billion, a sum of Rs.204 billion or 7.4 per cent had been given to Provincial Councils as government grant. Details are shown in the diagram 54

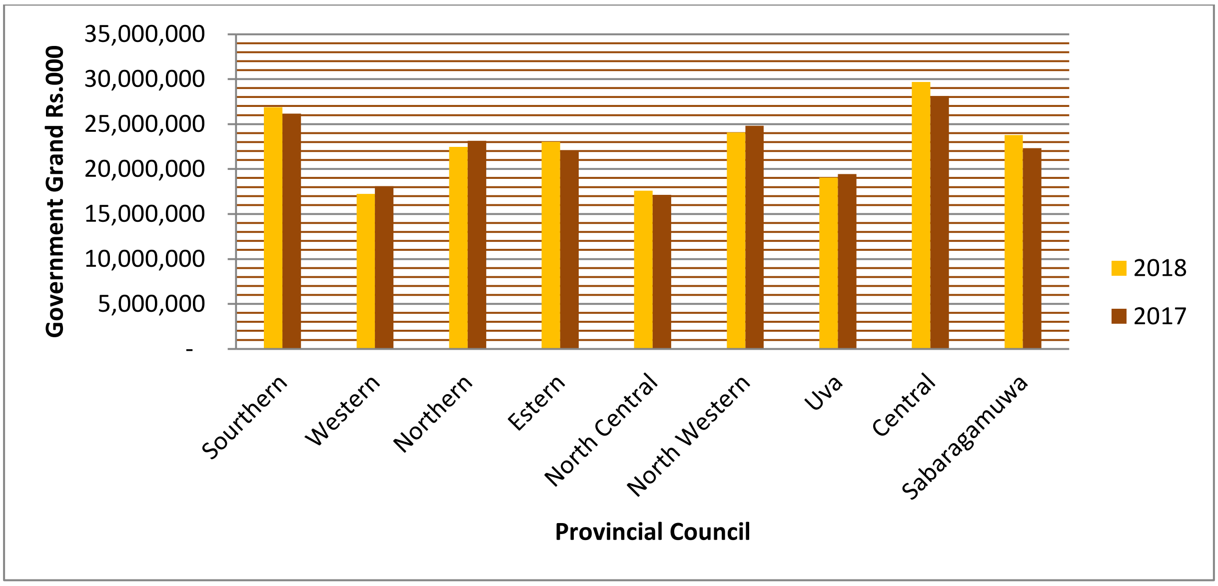


Diagram 54 – given to Provincial Councils as government grant 2017 and 2018
Source - Financial Statement of Provincial Councils

Tax Revenue

Tax revenue of all Councils for the year 2018 was Rs.75 billion and it was about 5 per cent increase as compared with the year 2017. A sum of Rs.43 billion or 57 per cent had been collected by Western Provincial Council as compared with the entire tax revenue collected by all Councils in the year 2018. However, as compared with the entire tax revenue of the government in the year2018, tax amount collected by the Councils was 4 per cent. Details of collected revenue for the years 2017 and 2018 by each Council are shown in diagram 55.

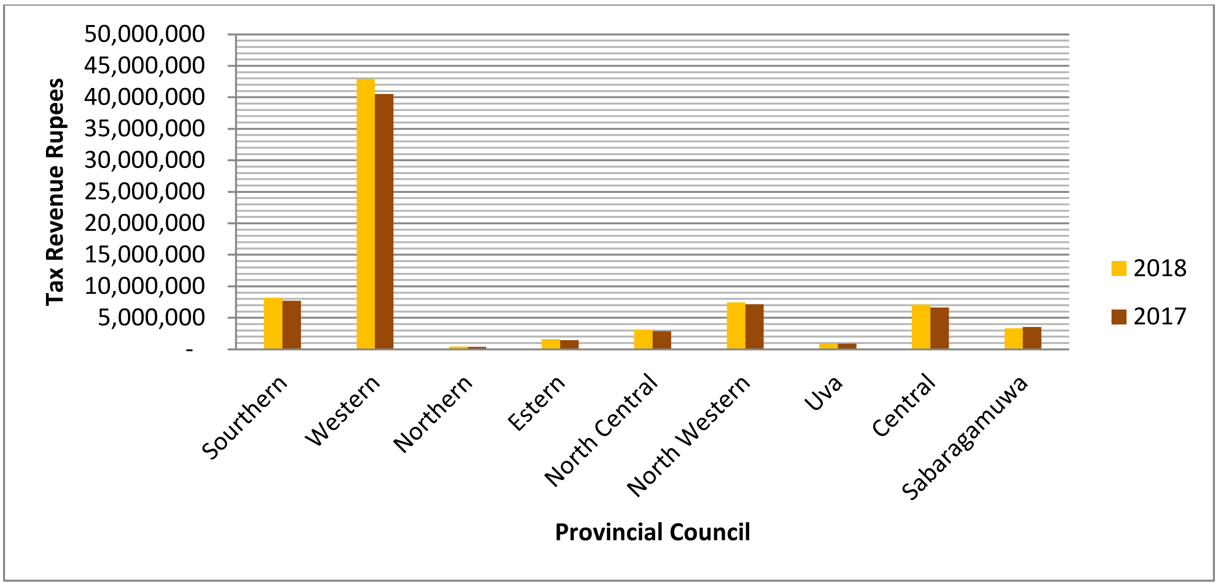


Diagram 55 –Tax Revenue for the years 2017 and 2018 Collected by
Source – Financial Statements Presented by Provincial Councils

Non-tax and Other Revenue

A sum of Rs.22 billion had been generated by Councils in the year 2018 from non-tax and other sources. Revenue of Rs.6 billion received from Department of Inland Revenue is included in this revenue. Non-tax revenue of Rs.4 billion had been generated by estern Province in the year 2018. However, the entire non-tax revenue of Councils had only been 4 per cent of entire non-tax revenue of the government.

Government Grant and Generated Revenue of Provincial Councils

Grant of Rs.203 billion had been given to Councils by the government in the year 2018 and compared to that, revenue of Rs.97 billion had only been generated by Councils. Accordingly, government had to contribute 47 per cent of entire council revenue to maintain Provincial Councils. Details are shown in diagram 56

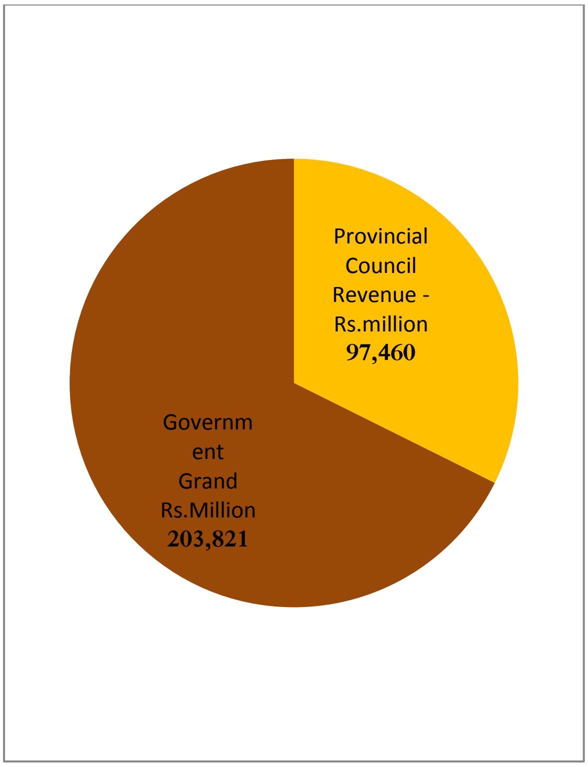


Diagram 56– Revenue Structure in Provincial Councils
Source - Provincial Council Financial Statement

Expenditure

Recurrent expenditure including personal emoluments, other goods and services, maintenance expenses and development expenditure in capital nature are incurred annually by every Council. Accordingly, entire expenditure incurred by Councils for the year 2018 was Rs.300 billion. It is 10 per cent of the entire expenditure of the country.

Recurrent Expenditure

A sum of Rs.265 billion had been incurred for recurrent expenditure in the year under review by the Councils and income of Rs.97 billion had been collected. Therefore the recurrent expenditure had been made by exceeding the revenue collected by the Councils by Rs.168 billion or 273 per cent. Recurrent expenditure of Rs.273 billion had been incurred in the year 2017. Recurrent expenditure made by the Councils had been 21 per cent of the recurrent expenditure made by the government in the year 2018.the revenue collected by each Council had not been sufficient to meet its recurrent expenditure and that was ranging from 659 percent to 100 percent. Further, the grant of Rs.203 billion provided by the government was even not sufficient to meet its recurrent expenditure. That had been ranging from Rs.63 billion to Rs.266 billion. Details are shown in Diagram 57

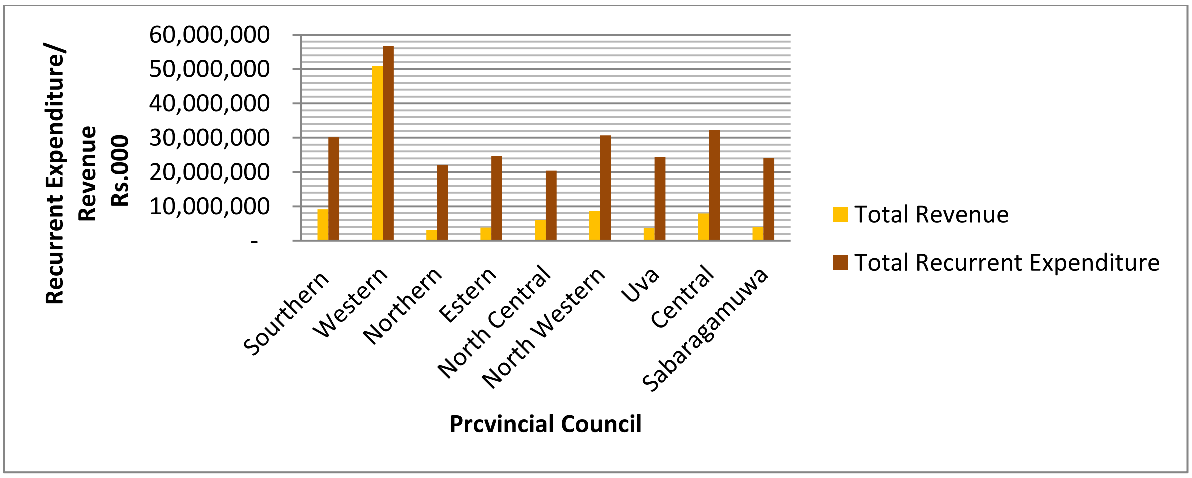


Diagram 57-Provincial Councials Collective Revenue and Recurrent Expenditure – 2018
Source – Provincial Councils Fnancial Statements

Personal Emoluments

A sum of Rs.198 billion had been spent by Councils as personal emoluments in the year 2018 and a sum of Rs.188 billion had been spent for this in the year 2017. Every council had spent more in the year under review than the previous year. Details are shown in the diagram 58

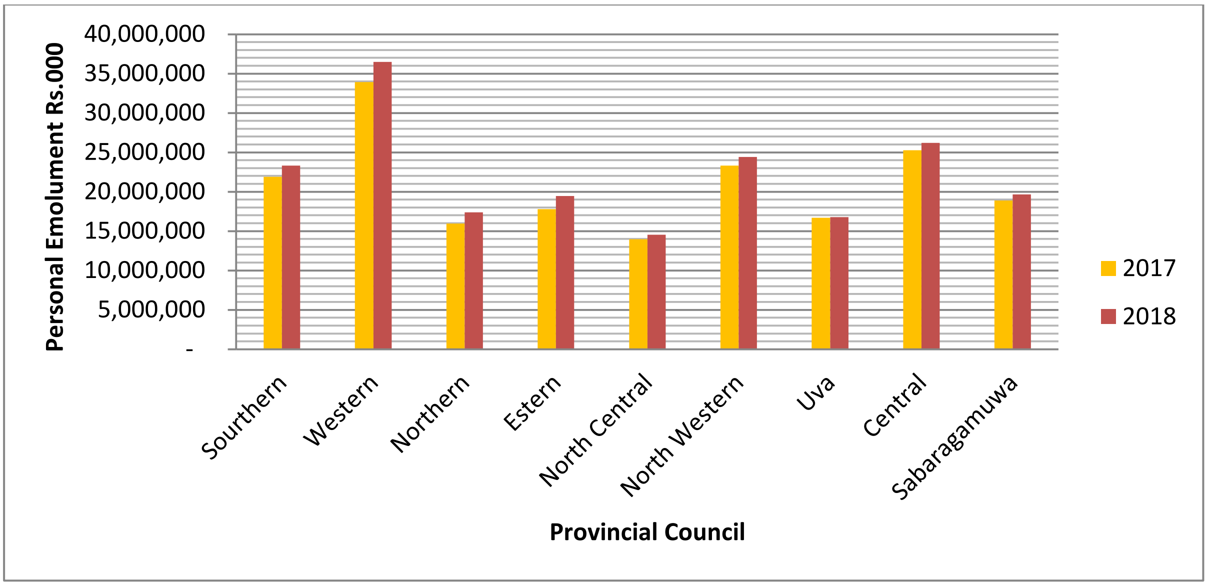


Diagram 58 – Provincial Councils Personal Emoluments in 2018
Source – Provincial Councils Financial Statement

Development Expenditure

A sum of Rs.34.8 billion had been spent as development expenditure in the year under review by all 09 Councils. That expenditure had been Rs.34.3 billion in the previous year. Government investments had been Rs.625 billion as compared with Provincial Council Development Expenditure. The highest development expenditure of Rs.12.6 billion had been incurred by western Provincial Council and the lowest development expenditure of Rs.0.5 billion had been incurred by Eastern Provincial Council. As compared with the development expenditure and recurrent expenditure incurred by 9 Provincial Councils in the year 2018, total recurrent expenditure had only been 13 per cent from the development expenditure. The comparison of development expenditure and recurrent expenditure incurred by Councils are shown in diagram 59

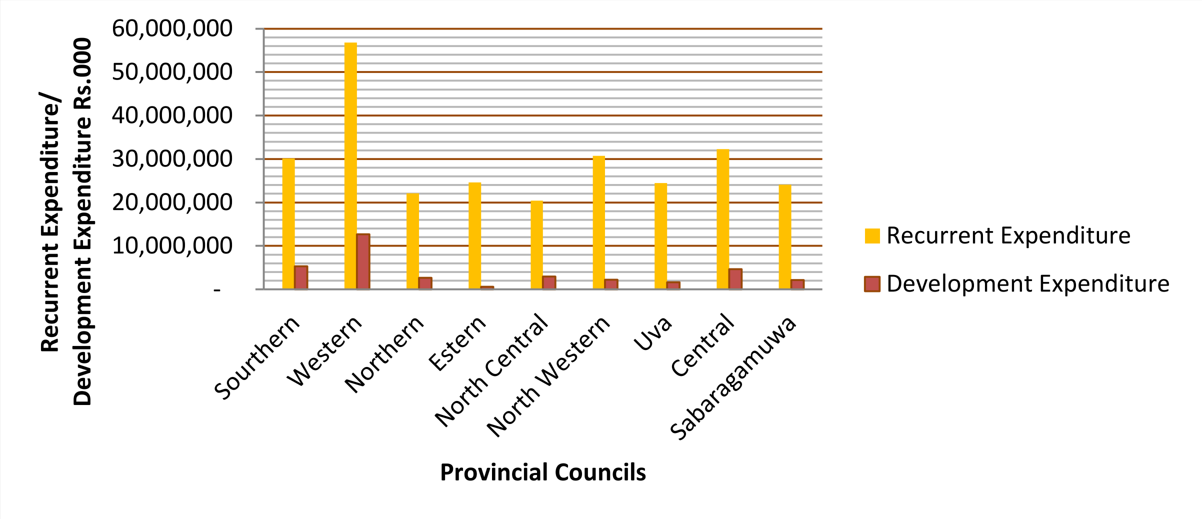


Diagram 59 – Provincial Councils Development Expenditure .
Source – Provincial Councils Financial Statements

Assets

Total assets of Councils recognized in the year 2017 as Rs.136 billion had been recognized in the year 2018 as Rs.222 billion. Accordingly it was an increase of 63 per cent as compared with the previous year. According to the government financial statements, total assets remained Total non-current assets remained with Provincial Councils in the year 2017 had been Rs.93 billion. That had been increased up to Rs.179 billion as at the end of the year under review by increasing Rs.86 billion. Valuation amounts of property plant and equipment amounting to Rs.172.6 and investments amounting to in the year 2018 had been Rs.2,133 billion. Therefore total assets remained with the government and Provincial Councils in the year 2018 had been Rs.2,355 billion.

Non-current Assets

Rs.7.7 billion had been included in these non-current assets of 8 Councils. Total non-current assets of the government and Provincial Councils in the year 2018 had been Rs.1,266 billion with the non-current asset of Rs.1,087 included in the financial statements of the government for the year under review.

Western Provincial Council

A total revenue of Rs.76,984 million including a sum of Rs.25,218 million by Government Grants and a sum of Rs.51,766 million through internal sources had been estimated for the year 2018 by the Western Provincial Council. It had been estimated to utilize a total sum of Rs.76,984 million including a sum of Rs.61,119 million as Recurrent Expenditure and a sum of Rs.15,865 million as Capital Expenditure. As such, a total revenue of Rs.68,132 million including a sum of Rs.21,023 million by Government Grants and a sum of Rs.47,109 million by internal sources had been collected in the year 2018. Further, a total expenditure of Rs.69,454 million including a Recurrent Expenditure amounting to Rs.56,805 million and Capital Expenditure amounting to Rs.12,649 million had been incurred.

The significant audit observations revealed in the audit test check carried out in this connection are summarized below.

Activities deviated from Objectives

A total revenue of Rs.3.25 million including a sum of Rs.1.87 million from the Market Project -2015 and a sum of Rs. 1.43 million from the Market Project -2016 of the WP/Jaya/ Sri Rahula Balika Maha Vidyalaya - Malabe, had been collected for the construction of indoor stadium. However, the construction work of indoor stadium had not been carried out from the said money and the details of expenditure amounting to Rs.3.30 million which was earned by the Market Project had not been presented to Audit.

Asset Management

Four Dialysis Machines, 01 Ro Plant and 02 Dialysis beds had been received for the Dialysis Unit by the Office of the Provincial Director of Health Services on 27 June 2017. Although relevant infrastructure facilities should be provided before obtaining those equipment, it had not been so done even by 14 September 2018. The boxes containing the said equipment which have been received without a request from the Hospital , were kept in the corridor of 6th floor of the new building in an unsafe manner. The warranty period of these equipment of which the packing was not opened, has expired without being used. Further, three medical officers, two male nurses and one officer of the Junior staff had been trained to work in the Unit.

As the other facilities required for the Base Hospital, Minuwangoda were not installed, one 3 Part Hamatology, one Semi-Automated Biochemistry Analyzer and one 1000 VA Isolation Transformer which has been received to the laboratory in the year 2015 were kept with packings without being used and the warranty period thereof had also expired.

Idle and Underutilized Assets

A sum of Rs.1.32 million had been spent on 45 tab computers provided to Agriculture Instructors of a project implemented with a view to enhancing the quality of technical knowledge of the public under the Province Specific Development Grants in the year 2016. Further, a sum of Rs.156,078 had been spent to obtain the relevant data connection even by October 2017. However, all tab computers had been vested by the letter No.WP/AG/PD/3/1/2-2018 of 02 October 2018. As such, all tab computers had been taken back as at 30 January 2019 and the battery has run down.

Deficiencies in the Contract Administration

An advance of Rs.6.59 million had been paid as 30 per cent of the contractual value on 14 July 2017 to assign the construction work of the building of mortuary of the District Hospital, Gampaha to a construction company. However, only the foundation was laid and the construction work had been stopped halfway despite a lapse of nearly one year since the due date of completion of the constructions of building. The security bond dated 16 December 2016 could not be encashed and after deducting the value of work done amounting to Rs.2.67 million, the balance of Rs.3.92 million was not possible to be recovered.

Management Inefficiencies

Extra buildings had been constructed without considering the necessity of class room buildings of schools. Government quarters of Principals and teachers and cafeterias valued at Rs.42.38 million had been constructed in the Yatiyana Junior School and Baduraliya Maha Vidyalaya while its students were studying in the class rooms temporally constructed.

Surcharge

House rent for Government quarters totalling Rs.5.34 million had been paid to 11 officers in Executive Grade at Rs.30,000 each on the approval obtained from the Governor from November 2017 to April 2019. Out of them, 10 officers were residing in the Western Province while 08 officers were residing at their permanent addresses.

Procurement

Out of the provisions totalling Rs.7.50 million approved by the Secretary of the Ministry of Agriculture on 15 August 2018 under the *" Shrama Saviya"* programme, a sum of Rs.7.44 million had been paid to purchase agricultural goods which were not included in the Budget Proposals of the year 2018, contrary to the procurement procedure. Thirty five lawn mowers valued at Rs.596,625 were included in the said purchase. Further, 85 lawn mowers had been purchased again at a cost of Rs.1.71 million on 11 January 2019 contrary to the procurement procedure and 100 lawn mowers purchased had been distributed among the persons selected by the Chairman under the *"Sithamu"* Project.

Central Provincial Council

Central Provincial Council has estimated an aggregate income of Rs. 17,183 million, of which Rs. 8,741 million and Rs. 8,442 million as income from the grants of the Government and internal sources respectively in 2018. In the meantime it has estimated to utilize an aggregate of Rs. 42,917 million, of which Rs. 34,176 million and Rs. 8,741 million as recurrent and capital expenditure respectively in 2018. Further Rs. 4,663 million has been earned from the grants of the Government and Rs. 7,967 has been earned from internal sources and accordingly the total income has amounted to Rs. 12,630 million. In the meantime Rs. 36,941 million has been utilized , of which Rs. 32,278 million has been utilized as recurrent expenditure and Rs. 4,663 million has been utilized as capital expenditure.

Important audit observations, which have been made in the audit conducted relevant to Central Provincial Council during the year 2018, are given in brief in the following manner .

Investing funds without utilization

Even though the Central Provincial Council should have utilized Rs. 1,782.40 million by the end of year 2018 for the development of the province, it has invested that amount in fixed deposits. Further it has earned Rs. 163.21 million as the income on interest during the year under review. In the meantime it has retained a total balance of Rs. 413.38 million in two current accounts maintained by the Provincial Council by 31 December 2018. Even though the Government has granted Rs. 4,663 million to the Provincial Council obtaining overdraft facilities on an interest rate of 27%, the Provincial Council has invested Rs. 1,782.40 million in fixed deposits. Therefore the Government has to bear an additional financial cost of Rs. 318.03 during the year under review.

Unauthorized payments

When the compensation and interests were paid in relation to the acquisition of lands for Seethadevi Balika Vidyalaya, Kandy, it has been informed that compensation and interest should strictly be paid to the person mentioned in the decision 17, the order of the Ministry of Lands and Department of Attorney General. However the Divisional Secretariat , Kandy has paid without any authority an amount of Rs. 1.47 million as compensation and Rs. 1.13 million as interest to a party not mentioned in the aforesaid decision and the aggregate of the amounts paid was Rs. 2.60 million.

Water conversion tax

The amount of power generated by two small scale powerhouses in 2016 established at Delta Estate and Stelarnburg Estate within the Divisional Secretary's Division, Doluwa by a private institution was 5,222,056 kilowatts and 2,931,126 kilowatts respectively. However the water conversion tax, which has to be paid at a rate of Rs. 100 per killowatt per year has not been paid in terms of the Circular of the Commissioner General of Lands No 2010/2 dated 11 March 2010

Inactive resources

- The Maternity and children's clinic of the regional hospital, Gonaganthenna, Hanguranketha has been constructed in three phases from year 2004 up to 2017. However it has been in dilapidated condition by August 2019 without utilizing. Even though the ground floor, of which the space was 200 sqft , has been constructed spending Rs. 2 million in 2003 and opened on 15 February 2004, no clinic has been conducted at the aforesaid premises. Later the first floor was constructed and the roof was also completed spending Rs. 6.92 million in year 2016 and 2017'

- The plans were prepared in 2005 for the construction of new two storied building for Ayurveda Hospital in Hanguranketha town and accordingly only the ground floor was constructed laying concrete with 1500 sqft spending Rs. 2.5 million. However the building was remaining idle by the end of the year under review without completing the remaining works.

Uneconomical transactions

- An accident unit has been constructed spending Rs. 2.74 million in year 2016 at the regional hospital Kongahawela, which was identified as an institution affected by Kaluganga development project , Moragahakanda. Since this hospital was submerged by Kaluganga deevelopment project, Moragahakanda, the amount spent for the aforesaid construction has become fruitless.

- Since the new clinic building constructed in year 2004 at Divisional hospital Pallepola spending Rs. 5 million is now sinking, it has become impossible to open it for the benefit of people.

Discontinuing the constructions of school buildings

Rs. 45.58 million, Rs. 31.11 million and Rs. 37.71 million, which were made from year 2016 to 2018 for the construction of 07 school buildings under specific provincial development grants, have become discontinued. It has become impossible to transfer these allocations to another tasks due to discontinuing the projects.

Closing of the clinic

There are nearly 1200 patients, who are suffering from chronic kidney failures in the Divisional Secretary's Division, Wilgamuwa. With a view to avoid such situation, the Ministry of Health and Indigenous Medicine has constructed a clinic with modern facilities providing an allocation of Rs. 41.46 and it was opened for the benefit of General Public on 13 March 2017. Even though that medical unit has been handed over to the Central Provincial Council, it has been closed down on 30 June 2019 without taking any advantage due to the lack of medical officers.

Damages and losses

According to the annual financial statements of the Provincial Department of Education, there were losses and damages to the value of Rs. 18.51 relevant to 181 cases connecting to 03 programmes. Damages and losses to the value of Rs. 6.08 million relevant to 68 cases out of the above, were being brought forward for a period from 5 up to 10 years. Damages and losses to the value of Rs. 3.57 million relevant to 53 cases out of the above, were being brought forward for a period over 10 years. However no action has been taken either to recover or write off these damages and losses as per financial regulations , which is brought forward for more than 10 years.

Granting loans improperly

Since loans have been issued improperly from the cooperative fund of the Department of Cooperatives in Central Province, there were loans balances to the value of Rs. 17.12 million for a period from one year up to 27 years by 15 December 2018 and it has not been recovered even by the end of the year under review. Out of the above, loan balances to the value of Rs. 2.27 million granted at 09 occasions have not been fully recovered. Non remittance of net

Surplus to the fund of provincial councils.

In terms of the financial regulation No 378 (22) of the provincial council, the net surplus of any transaction should be remitted to the fund of the provincial council. However provincial Department of Animal Productions and Health has not remitted the accumulated surplus of Rs. 13.99 ,which is the aggregate of year under review and previous years, to the revenue head of provincial councils.

Non recovery of lease rent

Equipments for freezing milk to the value of Rs. 1.23 million, out of the allocations made by Department of Divineguma Development in year 2015 have been provided to the provincial Department of Animal Production and Health. However the Department has alienated the building belonged to Veterinary Office, Ududumbara, and equipment for freezing milk, to a welfare society on 25 March 2015 by an agreement but without obtaining a security deposit. The said society has provided the same property to another external party on a monthly rental of Rs. 6,000 by an agreement for two years. When the Veterinary Office came to know about the lease, it has taken nearly 31/2 years. Evidences were not submitted to prove that efforts have been made to take over the property by the welfare society and further action has not been taken to recover Rs. 264,000 ,which is the amount owed to the Government for the period from the date of alienation of property up to 06 December 2018, which is the date of audit. .

Southern Provincial Council

The Southern Provincial Council had estimated revenue totalling Rs.33,911 million comprising Rs.25,653 million from the Government Grants and Rs.8,258 million through internal sources for the year 2018. It had been estimated to utilize sums totalling Rs.33,711 million comprising Rs.28,950 million as recurrent expenditure and Rs.4,761 million as capital expenditure from the above revenue. Accordingly, revenue aggregating Rs.36,061 million comprising Rs.26,889 million from the Government Grants and Rs.9,172 million through internal sources had been collected in the year 2018. The utilization of the revenue comprising recurrent expenditure of Rs.30,147 million and capital expenditure of Rs.5,328 million aggregated to Rs.35,475 million during the year 2018. Accordingly, the revenue over expenditure had been Rs.586 million.

The significant observations revealed during the course of audit test check carried out on the Southern Provincial Council in the year 2018 are summarized below.

Provision of Electricity Facilities

It had been certified that the auctioned land called Natural Park at Middeniya in Hambantotta district had been provided with electricity facilities in accordance with Subdivision Permit Application dated 20 October 2015. Nevertheless, the Southern Provincial Ministry of Fisheries, Animal Products and Development, Environment Affairs, Rural Industries, Powers and Rural Infrastructure Facilities Development had paid Rs.1.67 million to the Ceylon Electricity Board to obtain electricity facilities to the aforesaid land.

Overpayments

The Southern Provincial Chief Minister and Ministry of Finance and Planning, Law and Order, Local Government, Transport, Health and Indigenous Medicine, Tourism and Engineering Services had purchased 04 water bowsers to distribute among the Local Authorities under the poverty minimization and implementation of special national programmes. The Procurement Committee had made the relevant purchase irrespective of the recommendations made by the Technical Evaluation Committee and therefore, a sum of Rs.9.63 million had been overpaid.

Non-compliance with the Procurement Guidelines

The Southern Provincial Ministry of Education, Land and Land Development, Highways and Media had spent Rs.3.00 million for the purchase of sports equipment for 659 schools. Since the Guideline 3.4 of the Government Procurement Guidelines had not been abided by in making the above purchase, a financial loss of Rs.1.06 million had been incurred.

Failure to Recover Losses

A vehicle belonging to the Southern Provincial Ministry of Education, Land and Land Development, Highways and Media had met with an accident in the year under review and the total damage caused to the vehicle due to the accident had been estimated to be Rs.1.63 million. The Secretary to the Provincial Ministry had, by the Letter dated 22 March 2019, informed that the above loss should be recovered from the responsible parties. Nevertheless, steps had not been taken to recover the relevant loss even by 31 May 2019.

Irregular Utilization of Funds of a School Development Society

The officers of the Provincial Education Department had credited Rs.846,000 in excess to the amount to be credited to an account of a School Development Society of a school belonging to the Galle Education Zone of the Southern Provincial Education Department for the development of sanitary facilities of the school. The principal of the School had irregularly utilized sums totalling Rs.2.96 million existed in the account of the School Development Society including the above amount and Rs.1 million granted to the school by the Southern Provincial Ministry of Education under the Project of the Transforming School Education into Knowledge Hub.

Irregular Payments

A female officers who had served in the personal staff of the former Governor of the Southern Province with effect from 01 November 2006 had received an appointment as a Museum Assistant in the National Museum Department from 24 April 2012 and performed duties in the post as a Museum Assistant. She had obtained salaries of Rs.760,368 and Rs.733,267 from the Southern Provincial Governor’s Secretariat and the National Museum Department respectively in respect of serving in both the institutions during a same period from 24 April 2012 up to January 2015.

Northern Provincial Council

Northern Provincial Council had estimated an income amounting to Rs. 26,669 million for the year 2018 which consisting Rs. 23,169 million from the Government Grant and Rs. 3,500 million from other internal sources of income, and out of the estimated income it was expected to spend a total sum of Rs. 28,289 million consisting Rs. 23,323 million for recurrent expenditure and Rs. 4,966 million for capital expenditure. However, total expenditure aggregating Rs. 25,572 million consisting Rs. 22,109 for recurrent expenditure and Rs. 3,463 million for capital expenditure had been incurred during the year 2018 out of income aggregating Rs. 26,744 million received for the year 2018 consisting Rs. 21,788 million from the Government Grant and Rs. 4,956 million from the other internal source of income.

The important and material observations revealed in Provincial Council are summarized below.

Irregular Appointments

- A Lift operator had been appointed in year 2015 without obtaining approval of the Department of Management Services and a sum of Rs. 3.1 million had been paid as salary for the period from 31 December 2005 to 31 December 2018. However, there were no any lifts constructed in that building in the particular period.
- Without approval of the Department of Management Services sixteen employees in ten categories of staff had been appointed in the Office of the Regional Director of Health Service in Jaffna.
- Even though, seven staffs including a cook, a lift operator, a labour, an attendant and three Health Service Assistants had been assigned for the duties of driving and vaccinating in contrary with their duty lists.
- An engineer and a veterinary surgeon had been appointed in 2014 to the Municipal Council without obtaining proper approval and an aggregating amount of salary and travelling expenses of Rs. 1,135,309 had been paid during the years of 2014 and 2015.
- The secretary to the Provincial Ministry of Education had given an irregular appointment to a teacher who had been terminated from the previous service on 31 July 2007 by the Secretary to the Line Ministry of Education and the payment of Rs. 428,482 had been made as salary in year 2014.
- At the Public Accounts Committee held on 07 September 2017, it was directed to the CAO / AO to appoint a Committee to study this issue and to given recommendation on validity of this appointment. That nominated committee had recommended that the said appointment was not regular. As a result the salary and other allowances paid were observed as a financial loss to the Government.

- Further, the appointed Committee had recommended conducting a disciplinary inquiry against the former Secretary to the Provincial Public Service Commission of Northern Province as he was solely responsible for that appointment in the Provincial Service.
- The appointed committee had also recommended having further inquiries through an appropriate commission exclusive of public officers against the Secretary to the Ministry of Education due to manipulation and submission of documents to the Governor.

Fraudulent Transactions

A cash fraud amounted to Rs. 2,934,429 had been occurred in the year 2015 and it was revealed that a management assistants had involved in that fraud. However, only a sum of Rs. 320,000 had been recovered from that person and an inquiry had been conducted over two years continued without being taken remedial actions to finalize the case and to recover the balance amount of fraud amounted to Rs. 2,614,429 from that accused Management Assistant.

According to an audit test check, carried out on 30 May 2019 it was observed a loss of Rs. 592,750 due to cash fraud conducted by a Development Officer during the period from January 2018 to May 2019. The opportunity to do such a cash fraud had created due to lack of proper internal control over the collection of revenue. ie. all the activities of cash collection and deposit in the bank had been performed by one person.

Apparent Irregularities

02 School Principals, 151 Teachers and 17 Office Employees of Mannar Zonal Education Office had been assigned to six schools in North Western Province (Puttalam District) and the Provincial Department of Education of Northern Province had paid a sum of Rs. 160.09 million as salaries and other allowances during the years of 2017 & 2018. However, any action had not been taken to reimburse that money from the North Western Provincial Council even up to the date of 28 June 2019. Accordingly, it was observed that a value for money spent by the Mannar Zonal Education Office had not been received to the Northern Provincial Council.

Unutilized Assets

Eighteen development works such as shopping complex, weekly markets, children parks, principal quarters and tourism buildings, etc. constructed at cost of Rs. 259.18 million using the funds from the Projects of NELSIP, ENREP and PSDG had not been utilized for intended purposes.

Revenue Management

Unrecovered revenue amounting to Rs. 1,352.08 million due from arrears of income in stamp duty of Rs. 774.02 million, court fine amounted to Rs. 220.98 million, Rates amounted to Rs. 238.78 million and other revenue arrears amounted to Rs. 118.3 million had been remained unsettled from 01 Municipal Council, 05 Urban Councils and 28

Pradeshiya Sabhas as at 31 December 2018.

Contract Administration

In terms of the Section 6.4 of the Contract Agreement, 54 numbers of Nearest School Best School Project works (NSBS) had not been completed within the specified period. Accordingly, the period of delays was ranging from 30 to 559 days as at the date of audit of 21 June 2018. However, estimated Liquidity Damages of amounting to Rs. 53.13 million had not been claimed.

Weaknesses in Implementation of Project

The construction of Kabadi Court work had been commenced in Vavuniya District at an estimated cost of Rs. 5 million without being conducted a survey on requirements of that area before commencement of a project, and 03 cheques valued at Rs. 3,014,206 had been issued to Pradeshiya Sabha by the Provincial Department of Sports. However, works had not been completed within the agreed period. A cheque amounting to Rs. 1,786,341 had been credited to the revenue account of the Department on 14 September 2016 and 02 other cheques amounting to Rs. 1,984,824 had been credited to the General Deposit Account of this Department.

Abandoned Projects

Three Nearest School Best School project works (NSBS) amounted to Rs. 31.7 million had been completely abandoned without being initiated by Ministry of Education.

Personnel Administration

In terms of the Provincial Public Administration Circular No. NP/02/2009(7) dated 25 March 2009, the maximum period of service of an officer in one institution had been limited to 05 years. Nevertheless, it was observed that 27 employees at the Office of the Regional Director of Health Services in Jaffna had been working in the same institution for a period ranging from 07 years to 34 years.

Out of the 864 approved cadre for medical officers, only 644 medical officers were working at that time. As a result several peripheral hospitals were functioning without consultation of medical officers.

Out of 97 approved cadre for Dental Surgeons in Northern Province only 90 dental surgeons were working as at the end of the year 2018. Accordingly, 07 vacancies of Dental Surgeons in the Province were not filled.

Several shortages of nursing officers were observed in major hospitals and accordingly, it was observed that out of 1,119 approved cadre, only 889 nursing officers were working in the Province.

North Western Provincial Council

North Western Provincial Council has estimated an aggregate income of Rs. 40,227.3 million, of which Rs. 30,937.3 million and Rs. **9,290** million as income from the grants of the Government and internal sources respectively. In the meantime it has estimated an aggregate of Rs. 40,227.3 million, of which Rs. **32,058.5** million and Rs. **8,168.8** million as recurrent and capital expenditure respectively. Further Rs. 24,077.3 million has been earned from the grants of the Government and Rs. 8,591.9 has been earned from internal sources and accordingly the total income has amounted to Rs. **32,669.3** million. In the meantime Rs. 32,943.7 million has been utilized , of which Rs. 30,710.2 million has been utilized as recurrent expenditure and Rs. 2,233.5 million has been utilized as capital expenditure.

Important audit observations, which have been made in the sample audit investigations on the role played by North Western Provincial Council during the year under review, are given in brief in the following manner.

Investing money in fixed deposits

Rs. 196.99 million out of the allocations made by Provincial Council to the institutions established by charters under the main Ministry and collected income has been invested in fixed deposits at banks without performing the tasks to be performed for the benefit of the General Public.

Releasing teachers for other services

Even though an officer holding a post in the public service should not be released for another service for more than 2 years under section 2.5.1. of Chapter V of the Establishments Code, 24 teachers belonging to 04 educational zones in North Western Province have been released for the active service in volunteer divisions of three armed forces and it has lapsed two years after such release. However they have not reported again for teachers service. Further the total of Rs. **61.14** million has been paid by the Department of Education of North Western Province to these 24 teachers for the period from 1993 up to 2019.

Stamp fee and fines imposed by the Court

The stamp fees and fines imposed by courts ,which were collected for 31 Local Government Institutions by the end of the year under review for the performance of development activities and other community services, were Rs. 323.23 million and Rs. 150.90 million respectively. However the office of the Chief Secretary has not taken action to provide that money to Local Government institutions.

Income and crop tax in arrears

Action has not been taken to recover the crop tax and land tax to the total value of Rs. 65.49 million, which were to be recovered by 31 December 2018 from 14 Divisional Secretariats and Rs. 236.21 million for 07 revenue codes as at 31 December 2018 by the Office of the Chief Secretary, Department of Provincial Revenue and Department of Land Commissioner .

Inactive assets

The Tourist Information and Facilities Center at Madurankuliya, which has been constructed spending Rs. 12.62 million without making a proper feasibility study and planning, has remained idle without utilizing for any purpose.

There were unutilized stocks of thread to the value of Rs. 1.14 in different categories at Janasalu centers of the Department of Textile Industries.

Unsuccessful projects

Rs. 7.6 millions has been granted to the project for increasing pregnant cows under specific provincial development grants and Rs. 6.61 out of the above has been spent by year 2018. However cattle pens have not been made as per the plans by the end of the year under review and no animal was ready for the sale.

Expired drugs and drugs, which were not up to the standards

There were 439 units of drugs to the value of Rs. 9.69 million ,which were not up to the standards and 124 expired drug units to the value of Rs. 2.60 million at 48 institutions belonging to the Director of Health Services of Kurunegala District.

Management inefficiencies

Rs. 18.69 million has been spent for the construction of Ranawiru monument of North Western Province , which has been commenced in year 2017, and further Rs. 7.09 million has been spent under Criterion Based Development Grants for the opening ceremony held on 11 May 2018. The amount spent for the opening of Ranawiru Monument has held 38% from the total amount spent for the construction of the same.

North Central Provincial Council

The North Central Provincial Council had estimated a total revenue of Rs. 22,439.92 million for the year 2018 comprising a sum of Rs. 18,199.92 million from the Government grants along with a sum of Rs. 4,240 from the internal sources. Of that revenue, it was estimated to utilize a total of Rs. 22,236.22 million including a sum of Rs. 18,314.91 million spent on recurrent expenditure and a sum of Rs. 3,921.31 million spent on capital expenses. As such, revenue totalling Rs. 22,974.44 million had been collected in the year 2018 comprising sums of Rs. 14,013.10 million and Rs. 3,961.30 million through the Government grants and the internal sources respectively. A sum totalling Rs. 28,400.70 million had been spent in the same year comprising sums of Rs. 18,635.37 million and Rs. 9,764.70 million spent on recurrent expenditure and capital expenses respectively.

A summary of material audit observations made in the audit carried out in the year 2018 on the North Central Provincial Council, is given below.

Lack of Evidence for Audit

The total of the imprest debit balances not settled by 05 provincial Ministries and Departments amounted to Rs. 29.03 million as at 31 December 2018. The imprest credit balance not settled by the Provincial Department of Health amounted to Rs. 3.33 million. Evidence adequate for verifying the accuracy of balances totalling Rs. 27.86 million remained unsettled over 4 years relating to 4 provincial Ministries and Departments, had not been made available to the Audit.

Revenue to be Settled to the Local Governments

Although the Provincial Council had collected court fines totalling Rs. 288.06 million in the year 2018, a sum of Rs. 190.02 million therefrom had been settled to the Local Governments. Accordingly, a sum of Rs. 98.04 million form the revenue collected had not been settled to 26 Local Governments even by the end of the year under review.

Furthermore, the Provincial Council had collected a revenue of Rs. 149.74 million in the year 2018 through stamp fees, and a sum of Rs. 114.51 million had been settled therefrom to the Local Governments. As such, a sum of Rs. 35.23 million had not been settled to the Local Governments as stamp fees even by the end of the year under review.

Fund of the Provincial Chief Minister

The management and administration of the Fund had been entrusted to the Board of Control thereof in terms of Section 3(1) of the Statute No. 05 of 1992 on Chief Minister's Funds. The Board of Control comprised 06 members including Chief Minister and 02 members of the opposition party. As the methodology to be followed in maintaining the Fund once the Provincial Council is dissolved, is not stated in the Statute, the Fund remains dormant since the date of dissolving the Provincial Council.

Outstanding Stamp Fees

In terms of Section 40(2) of Chapter XII of the Financial Statute No. 13 of 1990 of the North Central Province, the stamp fees payable on an instrument relating to the sale or transfer of an immovable property should be paid at the time of signing the instrument. Stamp fees totalling Rs. 728,250 had remained due with respect to 32 instruments signed by 2 notaries in the year 2018. Action had not been taken even up to the end of April 2019 to recover the said stamp fees.

Projects not Completed

The Chief Secretary had entered into an agreement with a supplier on 23 March 2016 to the value of Rs. 15.80 million for the production of a documentary video programme, printing a book containing attractive images, and developing a website with accurate information with a view to promoting tourism in the North Central Province. A sum of Rs. 12.14 million equivalent to 77 per cent of the agreed price had been paid by 26 December 2016 though the project had not been completed or handed over to the Provincial Council even by 10 September 2019. As for the development of an attractive website, a main feature of the project, the supplier had been selected without calling for open bids and obtaining details on the supplier's qualifications and the websites he had developed earlier. Due to various deficiencies in the agreement such as, failure to mention the completion date of the project, and the relevant parties had not signed under the conditions of the agreement, legal action could not be taken against the supplier as well.

Dialyzers Remaining Idle

A sum of Rs. 1.37 million had been incurred by the Provincial Department of Health Services in the year 2016 for the construction of a blood dialysis unit at the Base Hospital, Kebithigollewa whilst a sum of over Rs. 10 million had been spent by the Ministry of Health, Nutrition, and Indigenous Medicine on the equipment for that unit including 04 blood dialysis machines, 04 beds, and a RO water filter system. Furthermore, a high power electric generator too had been provided for the continuous functioning of the said unit and protection of the blood dialysis machines. Nevertheless, the blood dialysis unit had remained idle due to lack of staff including a consultant doctor. The possibility of performing dialysis 11,680 times on kidney patients had been deprived of as the said unit, capable of performing dialysis on 16 kidney patients daily, had remained idle for a period of 02 years.

Uneconomic Transactions

With the objective of enhancing efficiency of the health service so as to ensure benefits such as, computerization of patients' data, minimizing the deficiencies in dispensing drugs, increasing the productivity and efficiency, and facilitating the patients to receive treatments within a short time, the project had been implemented to link the outpatient departments of 3 hospitals selected in Anuradhapura district. Accordingly, computer software and accessories valued at Rs. 12.35 million had been provided in the years 2012 and 2017 in order to implement the said project without conducting a feasibility study and training the staff. However, the project had not been implemented. Of the computer software and accessories purchased, Rs. 9.68 million worth items had become technically obsolete. Thus, the expenditure had become futile as the expected objectives could not be achieved.

Abandoned Projects

A sum of Rs. 1,777 million had been spent on preliminary activities relating to engineering consultancy services including the preparation of project plans and engineering estimates in the year under review for 473 projects in regard to engineering works of the Provincial Departments and Ministries in the North Central Province. Nevertheless, 192 projects worth Rs. 977 million had been abandoned whereas only 281 projects valued at Rs. 800 million had been implemented in the year under review.

Uva Provincial Council

A total revenue of Rs.23,887 million including a sum of Rs.19,567 million by Government Grants and a sum of Rs.4,320 million through internal sources had been estimated for the year 2018 by the Uva Provincial Council. It had been estimated to utilize a sum of Rs.20,031 million as Recurrent Expenditure and a sum of Rs.3,855 million as Capital Expenditure. As such, a sum of Rs.19,053 million by Government Grants and a sum of Rs.3,708 million by internal sources had been collected in the year under review. Further, Recurrent Expenditure amounting to Rs.20,307 million and Capital Expenditure amounting to Rs.2,937 million had been incurred.

The significant audit observations revealed in the audit test check carried out in the year under review relating to the Uva Provincial Council are summarized below.

Revenue Management

Statutes relating to 13 Revenue Codes of duties assigned to provincial councils by the Thirteenth Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka, had not been passed by the Uva Provincial Council.

Revenue totalling Rs.147.88 million pertaining to 05 Revenue Codes remained in arrears as per the Financial Statutes passed by the Provincial Council. Even though the said revenue in arrears remained over a period ranging from 01 year to 22 years, the Provincial Council had failed to recover those loan balances by the end of the year under review.

Operating Inefficiencies

Five development projects proposed by the Members of Provincial Councils had been implemented by utilizing criteria based provisions. In the utilization of provisions for the said projects, 46 per cent of provision had been utilized exceeding the limit of a project which could have utilized 30 per cent of the criteria based provisions granted in terms of the Circular No.2016/01 of 30 December 2015 of the Finance Commission. Even though the limit of expenditure of another project was 10 per cent of the total criteria based provisions, 19 per cent had been spent exceeding the said limit. Accordingly, provisions had been utilized exceeding the expenditure limit for the said two projects by Rs.41.77 million and the excess had been covered from the savings of provision made for other 03 projects.

Management Inefficiencies

In terms of the Statute, No.1 of 2001 on Passenger Transport Services Authority of Uva Province, the passenger transport services within the Uva Province and also the inter provincial passenger transport services connected to the Uva Province should have been streamlined relating to the Uva Province. Action had not been taken even by 28 February 2018 to formulate regulations for the Passenger Transport Services Authority Statute of the Uva Province to streamline the other activities related to the function mentioned above.

The Uva Provincial Ministry of Youth Affairs , Tourism, Transport, Cultural and

Textile and Small Industries had spent a sum of Rs.700,200 for landscaping the plot of land in the upper part of the tunnel at Ella town and beautifying it by growing flower plants under the Province Specific Development Grants in the year 2017. Nevertheless, most of the flower plants grown were destroyed even by 13 November 2018 due to lack of proper maintenance.

Death of Milch Cows

The Ministry of Rural Economic Affairs had provided 100 pregnant milch cows at Rs.48.00 million to the Boralanda Farm on 24 December 2017. Eight milch cows purchased at a cost of Rs.3.84 million have died due to non-availability of a suitable cattle shed in the farm to rear them hygienically.

Further, calves were not taken care of in hygienic conditions and as such, 45 calves out of 89 calves given birth by imported milch cows had fallen sick and died as at 30 November 2018.

Idle and Underutilized Assets

The Bio gas Unit of the District Hospital, Bandarawela which was completed at a cost of Rs.264,548 in the year 2016 had remained idle without being used even by 11 October 2018. Fifty computers in 2 Computer Training Units of the Mo/ Kowularagama Vidyalaya were inoperative while 04 teachers' quarters had remained underutilized without being repaired.

Non-completion of Projects

Development of Udumulla Canal

The contract of construction work of the development of Udumulla canal at Koslanda under Province Specific Development Grants in the year 2018, had been awarded to a Farmers Organization at Rs.1.10 million by the Provincial Director of Irrigation on 03 October 2018 . No development activity of the said work had been commenced even by January 2019 while it had been stated in the Progress Report as at 31 December 2018 that the relevant works were being carried out and the physical progress was 15 per cent.

Reconstruction of the Buththalagas Ara Wewa

The contract of the reconstruction of Buththalagas Ara Wewa planned to be constructed by the Department of Irrigation in the year 2018 under Province Specific Development Grants, had been awarded to a private company at Rs.4.23 million on 24 July 2018. Even though the said construction work should have been completed by 24 October 2018 as per the Contract Agreement, no reconstruction activity of the said work had been commenced even by January 2019.

Construction of Spring Valley Hospital

The contract of 06 construction items valued at Rs.16.99 million of the Spring Valley Hospital under the project of developing Estate hospitals of the Ministry of Health, had been awarded to a private construction company on 17 March 2017. Nevertheless, 04 activities out of the above had been abandoned and even though 02 activities of which the construction work was commenced should have been completed by 08 July 2017, the said contract had not been completed even by 04 October 2018.

Projects Abandoned

Construction work of 02 irrigation projects of which the agreements were entered into by the Department of Irrigation with 02 Farmers Organizations, had not been carried out and action had not been taken against those Farmers Organizations and also to assign those construction work to other Farmers Organizations. As a result, financial provision of Rs.3.89 million had not been utilized, thus the objectives expected by the said projects were not possible to be achieved.

Failure to reap expected Benefits

The Uva Provincial Ministry of Agriculture, Irrigation, Animal Products and Fresh Water Fisheries had carried out development works in the agricultural road of Rambukpotha canal under the Agricultural Road Development Programme in the year 2017. The value of finished work of those development activities amounted to Rs.1.82 million and a sum of Rs.1.17 million had been paid to the contractor on the said value of finished work. However, the side wall mentioned in the estimate had slanted and supported with props while the Committee headed by the Regional Irrigation Engineer of Badulla had recommended that the said road was not suitable for transportation. Further, 03 lamp posts erected in the centre of road had not been removed even by 05 September 2018.

Sabaragamuwa Provincial Council

A revenue totalling Rs.29,636 million, comprising a sum of Rs.24,641 million from Government grants and a sum of Rs.4,995 million from internal sources had been estimated by the Sabaragamuwa Provincial Council for the year 2018. A sum totaling Rs.29,636 million comprising of Rs.26,436 million as recurrent expenditure and a sum of Rs.3,200 million as capital expenditure had been estimated to be utilized in the year 2018. Accordingly, the revenue totalling Rs.27,774 million, comprising a sum of Rs.23,772 million from Government grants and a sum of Rs.4,002 million from internal sources had been collected in the year 2018. A total sum of Rs.26,062 million comprising a sum of Rs.24,098 million as recurrent expenditure and Rs.1,964 million as capital expenditure had been utilized in the year 2018.

Significant Audit observations revealed during the Audit of the Sabaragamuwa Provincial Council relating to the year 2018 are summarized and shown below.

Payment of Salaries and Allowances contrary to Circular Provisions

- In terms of paragraph 02 of the service minute for the Primary Level unskilled service category of the Sabaragamuwa Provincial Public Service, the appointing authority for the aforesaid service category is the Secretary to the Sabaragamuwa Provincial Public Service Commission. However, appointments had been given for 02 posts in the Labourer Grade II of the Primary Level unskilled service category of the Sabaragamuwa Provincial Department of Sports Development by the Secretary to the Ministry on 24 October 2014, made them permanent in the service and paid salaries totalling Rs.3.1 million from that day up to 31 December 2018 for the relevant officers.

- An officer of Accountant Special Grade had been recruited on contract basis for the post of Director Internal Audit of the Sabaragamuwa Provincial Council from 02 May 2014 up to 02 October 2018 contrary to Public Administration Circular Nos.09/2007 of 11 May 2007, 27/2017 of 13 October 2017 and 03/2018 of 20 February 2018 and paid professional allowances, interim allowances and salary arrears totalling Rs.652,662.

Revenue from Hospital Canteens

Monthly revenue from canteens collected relating to 05 provincial hospitals had been deposited in a separate account of hospitals without taking action to credit to the Provincial Council revenue. The balances of those accounts had totalled Rs.7.7 million by the end of the year under review. Out of the said revenue, Rs.840,605 had been spent without approval by the Embilipitiya Base Hospital for leisure trips, entertainment, purchase of telephones and travelling expenses.

Non-formulation of a Set of Rules for Funds established by Ordinances

- The Co-operative Fund established under the Department of Co-operative

Development according to Section 42 (b) of the Co-operative Societies Ordinance No.03 of 2007, should make provisions by rules for control of liquidation and arbitrator funds. However, such a set of rules had not been formulated and obtained approval.

- According to Section 20 (3) of the Provincial Councils Act, No.42 of 1987, the Governor may make rules for regulating all matters connected with, or ancillary to, the custody of the payment of moneys into, and the withdrawal of moneys from, the Emergency Fund of the office of the Governor. Nevertheless, action had not been taken accordingly

Arrears of Revenue

The tax on lands recoverable by the Land Commissioner General's Department by the end of the year under review had been Rs.13.4 million. However, the Provincial Department had failed to recover the said arrears.

Purchase and Distribution of Hearing Aid

Four hundred equipment of hearing aid had been purchased by the Ministry of Social Welfare by spending Rs.5.8 million to be distributed to hearing disabled persons under the Social Services Fund without entering into an agreement and without identifying the requirement. It was confirmed according to stock records that the equipment had been issued to the Ministry of Social Welfare on the day itself of receipt of the equipment to stores. However, according to the physical verification of stocks carried out on 14 May 2019, twenty three high power hearing aid equipment valued at Rs.411,700 and 85 medium power hearing aid equipment valued at Rs.1.1 million had remained in the store of the office and the supplying institute respectively. Those equipment had been distributed after being pointed out by the Audit while 43 equipment had been distributed after the warranty period thereof had already expired.

Idle and Underutilized Assets

The Provincial Department of Industrial Development had failed to take necessary action relating to lands and buildings valued at Rs.5.3 million remaining idle over a period of 5 years belonging to 5 textile centres, lands and buildings valued at Rs.0.55 million remaining idle over a period of 12 years owned by the Athsalu Institute and machinery and equipment valued at Rs.2.7 million remaining over a period of 10 years, owned by the Department of Industrial Development

Three dental X Ray machines valued at Rs.1.4 million, 2 Auto Clave machines valued at Rs.19.4 million, 2 laboratory medical equipment valued at Rs.12.1 million and a generator valued at Rs.4.8 million owned by 5 hospitals in the province had remained idle from a period ranging from 4 months to 2 years.

Expenditure contrary to Objective

The Sarana Sevana Housing Development Programme had been implemented by the main Ministry with the motive of supplying financial aid for constructing a house for low income earners. Contrary to the said objective, financial aid had been provided to persons who are not low income earners, for purchase of a land, to renovate the verandah of a fully completed house, to construct a house of two storeys and to plaster a half constructed house and to fix doors and windows.

Non-implementation of Projects as planned

- A contract agreement for Rs.105.6 million had been entered into on 16 October 2015 on condition that the construction of the five storeyed building of the Karawanella Base Hospital is completed within 18 months. The said building had not been completed and handed over even by 31 December 2018.

- An agreement had been entered into on 01 August 2018 with the Sabaragamuwa Provincial Council Development Creations and Machinery Authority for a value of Rs.4.1 million for modernization of the drug store of the Embilipitiya District Hospital. In terms of the agreement, the works should be completed by 30 January 2019. However, the Ministry of Health, Nutrition and Indigenous Medicine had not made payments of Rs.1.78 million which is the first bill. As such, the contractor had discontinued with the constructions.

- The constructions of the soil laboratory of the Karapincha Agri Training Centre owned by the Department of Agriculture, constructions of the bathroom, dining room and the upper floor of the Provincial Agricultural Director's Office and constructions of the Ruwanwella Agricultural Director's Office commenced in the year under review for an estimated value of Rs.37.7 million had delayed due to failure in taking proper action.

- Two projects of landscaping and improving roads for an estimated expenditure of Rs.34.6 million of the Ministry of Provincial Roads planned to be implemented in the year under review had not been commenced due to difficulty in selecting bidders.

- Phase 1 project of constructing the proposed hostel building of the Karapincha Agri Training Centre at an estimated cost of Rs.35.9 million by the Provincial Department of Agriculture had been commenced on 07 June 2017. A sum of Rs.22.2 million had been paid to a contractor therefor by the end of the year under review. A work estimate of Rs.74.3 million had been prepared for the works of phase 2 of this building and sent to the Development Creations Machinery Authority on 01 October 2018. However, the agreement had been cancelled due to failure in proper constructions by contractors. Moreover, the part constructed under phase 1 thereof had not been made use of even by 31 May 2019. As such, the amount spent had been fruitless. Accordingly, objectives expected to be achieved by the project could not be achieved even by 31 May 2019.

- The Kuruwita Pradeshiya Sabha had awarded a direct contract valued at Rs.1.7 million to a Samurdhi Society contrary to provisions of the Government Procurement Guidelines for the Project on Supply of Drinking Water to Samagi Mawatha at Halpe in Kuruwita. Even though constructions had been completed on 05 October 2017, the project could not be implemented due to unavailability of adequate capacity of electricity in the area, required for operating the water motor installed for obtaining water.

Overpayments

- An overpayment totalling Rs.1.1 million had been made for 08 development projects of playgrounds and roads implemented by the Ministry of Provincial Roads, of which works were not carried out. Moreover, an Item of Work, that had been covered by an Item of Work for which payments of 21 playground development projects implemented under the Kolonna Pradeshiya Sabha had been made, had been included in the bill as an additional Item of Work and made an overpayment totalling Rs.5.9 million for 38,872 cubic metres of soil.

- A sum of Rs.1.3 million had been paid on 02 April 2018 for the Project on Development of the Parakaduwa Watappitiya Arunalu Volleyball Playground cancelled on 31 December 2016 after implementing by the Ministry of Provincial Roads under the supervision of the Kuruwita Pradeshiya Sabha.

- In the comparison of payment bills with measurements obtained at the physical examination relating to construction of the five storeyed building of the Balangoda Base Hospital implemented by the Main Ministry under the supervision of the Balangoda Executive Engineer's Office, a sum of Rs.3.6 million had been overpaid for 09 Items of Work.

- Out of entire provisions of Rs.1,535.42 million of the Sabaragamuwa Ministry of Provincial Roads for the year 2017, provisions of Rs.566.34 million representing 37 per cent had been provided to the Embilipitiya Pradeshiya Sabha for implementing 380 industries. The said provisions had been made without specific identification of the areas which should be developed within the area of authority of the Sabha. Out of 57 projects to an estimated value of Rs.112.09 million, a payment of Rs.17.92 million had been made without carrying out estimated Items of Works of 30 projects. A sum of Rs.4.16 million spent for 03 projects had become fruitless.

Non-recovery of Liquidated Damages

Provisions of Rs.5.7 million had been made by the Provincial Ministry of Education for purchase of 3,000 large children's chairs. An agreement had been entered into with a private institution for supply of 3,000 large children's chairs for Rs.5.7 million in the year 2016. Even though the last date of handing over of goods had not been included in the agreement, the said goods should have been handed over before 15 February 2017 according to the Goods Specification Register included in the Bidding Documents. Handing over of goods had been commenced on 14 July 2017 after a delay of 27 weeks and action had not been taken to recover the relevant liquidated damages of Rs.1.1 million due to delay in supply of goods.

Non-performance of Environmental and Social Responsibilities

According to the monthly reports of the Public Health Inspector of the office of the Kiriella Medical Health Officer, 1,972 houses that use unprotected wells and 07 houses without sanitary toilets existed by October 2018. However, the Provincial Main Ministry had not taken action to provide sanitation facilities for them.

In the examination of monthly reports of Public Health Inspectors of 02 Public Health Inspector Divisions in Elapatha, 55 houses without toilet facilities, 48 houses using toilets without sanitation facilities and 364 houses using unprotected wells had existed by the second quarter of the year 2018. The Provincial Main Ministry had not taken action to provide sanitation facilities for them. As compared with the preceding year, this number had increased by 139 per cent, 50 per cent and by 14 per cent respectively in the year under review.

Non-achievement of Sustainable Development Goals

Provisions of Rs.2,746 million had been made for provincial purpose specific development grants in the year 2018 under the Annual Development Plan of the Sabaragamuwa Provincial Council. Even though the said provision had been made to achieve sustainable development goals, the Provincial Council had not identified the goal relating to expedite implementation against climatic changes and its effects, which is one of the said goals. Moreover, attention had not been paid towards important targets of 16 identified goals. According to progress reports of the year 2018, sustainable development targets had not been achieved under the Annual Development Plan of the year 2018.

Revenue totalling Rs. 29,022 million comprising a sum of Rs. 24,752 million from Government Grants and a sum of Rs. 4,270 million from internal sources had been estimated for the year 2018 by the Eastern Provincial Council. A total of Rs. 28,355 million comprising Rs. 24,752 million for recurrent expenditure and Rs. 3,603 million for capital expenditure had been estimated to be utilized in the year 2018. Accordingly, revenue totalling Rs. 24,320 million comprising Rs. 20,482 million from Government Grants and Rs. 3,838 million from internal sources had been collected in the year 2018. A sum of Rs. 27,143 million comprising Rs. 24,586 million for recurrent expenditure and Rs. 2,557 million for capital expenditure had been utilized in the year 2018.

Material and important audit observations made during the sample audit carried out in the year 2018 relating to the activities of the Eastern Provincial Council are given below.

Non - appointment of Provincial Commissioner of Revenue

According to Section 2 of the Finance Statute No. 01 of 2008, a Provincial Commissioner of Revenue shall be appointed. Even though the post of Provincial Commissioner of Revenue was vacant from 18 December 2011, the Provincial Council had not taken actions to fill this post in terms of Section 3.2 of an approved Service Minute and Scheme of Recruitment of the Provincial Department of Revenue of the Eastern Province. As a result of non- appointing a Provincial Commissioner of Revenue for 07 years, the activities relating to the collection and administration of provincial revenue of the Eastern Province as stipulated in the Finance Statute had been affected to a large extent.

Weak Revenue Collection

Even though the Department of Provincial Revenue had been established on 18 November 2008 with the cadre of 54 as a separate Department, the Provincial Council had abolished the Department abruptly in 2013 and reduced the key cadre posts from 54 to 23 in the Provincial Revenue Service by reducing 01 Deputy Commissioner, 07 Tax Assessor and 19 Tax Officers from the approved cadre. As a result, the revenue collection and tax administration in the Province had been hampered considerably. In this regard, actions had not been taken even up to date to increase the cadre in order to improve the efficiency of the Department.

Failure to Enact Statute to Collect Revenue

Even though it has been 10 years after the establishment of the Department of Provincial Revenue, a Statute had not been enacted in order to register the pawning centers operating in the Eastern Province and issue annual license in this respect. As a result, a considerable amount of revenue had been lost to the Provincial Council.

Collection of Stamp Duty

According to the mobile service conducted during the year 2017 and 2018 by the Provincial Department of Revenue relating to the collection of stamp duty from the registration of lands at the Land Registry in the Eastern Province, it was revealed that 794 land owners had declared less value for their lands in order to pay less amount as stamp duty. Therefore, additional stamp duty aggregating Rs. 14 million had been imposed for those undervalued properties. However, the Provincial Department of Revenue had not taken actions even up to 31 December 2018 to recover the outstanding back duty of Rs. 4.8 million from the land owners to whom they were imposed.

Failure in Assessment of Deeds

Seven thousand six hundred and sixteen (7,616) deeds registered in the Eastern Province during the period from 2012 to 2018 had not been subjected to assessment by the Department of Provincial Revenue in order to verify and impose additional stamp duty due to under-valuation of lands.

Arrears of Lease Income from the Land

Lease income for Government lands relating to 09 Divisional Secretariats totalling Rs.208 million had remained as arrears since the year 1991. However, prompt actions had not been taken to recover those arrears of income up to 30 April 2019.

Fruitless Expenditure

The Eastern Province Road Passengers Transport Authority had constructed a building in a land allocated by the Kalmunai Municipal Council for bus stand in Kalmunai at a cost of Rs. 2.4 million during the year 2011 from the Fund of the Authority in order to accommodate the office of the Authority. However, the Kalmunai Municipal Council had claimed the ownership of the building and rented out it to a private bank. As a result, the Authority had not made use of this building.

Construction of Houses According to Housing Development Plan

According to the Housing Development Plan (2015-2019) prepared by the Eastern Provincial Housing Authority, it was expected to construct 6,600 houses for houseless families at the total estimated cost of Rs. 3,225 million during the year under review. However, no houses had been constructed during the year except providing housing assistance of Rs. 10.6 million to fifty beneficiaries under the Criteria Based Grant and providing financial assistance of Rs. 7.5 million during the year under review for constructing 300 toilets.

Failure to Generate its Own Funds

According to the letter No. G/EPC/B/14/R/H dated 20 June 2014 issued by the Secretary to the Governor of the Eastern Province, the funds had been made available during the year 2014 for salaries and other expenditure subject to condition that the Provincial Housing Authority must generate its own funds without depending on the Consolidated Funds. However, the Authority had failed to start any business activities in order to generate its own funds to meet expenditure even after the lapse of 04 years from the establishment of the Authority.

Deployment of Teachers for Special Education

According to the Ministry of Education Circular No.42/2012 and Circular Letter No. ED/9/18/8/2/6 dated 17 December 2015, teachers who are specialized in the teaching of special education subject should be engaged only in their special education subjects teaching. However, forty-five (45) teachers who had obtained training for teaching special education subjects in 13 Educational Zones in the Eastern Province had been deployed in non-special education subjects without deploying them for the teaching of special education subjects even up to 31 December 2018.

Construction of a School Building Across a Canal

A two storeyed building had been constructed at a cost of Rs. 11 million across the Canal in one of Kattankudy Schools of Batticaloa Central Zone to accommodate 459 primary education students without considering the environmental impacts of blocking of water in the Canal and without obtaining prior approval from Urban Development Authority and Central Environmental Authority. As a result, water flow in the Canal had been clogged and stagnated to become a breeding place for mosquitos.

Pre - School Education

Goods such as furniture and sports items purchased for Rs. 608,000 under Criteria Based Grants (CBG) in the year 2017 for the supply of 21 Pre-schools in the Eastern Province had not been supplied to the respective Pre-schools even up to 31 March 2019. However, the payments for the above goods had been made in the year 2017 to the supplier by the Pre-school Education Bureau without obtaining the goods. As a result of this, the Government funds had been misappropriated.

Idle Assets

There were no Dialysis Units at Base Hospitals of Nintavur and Valaichenai due to the lack of reported Chronic Kidney Disease (CKD) patients. However, the Provincial Department of Health had procured equipment for dialysis treatment at a cost of Rs. 18.6 million and the medical drugs amounting to Rs. 6.15 million for those hospitals without considering the needs. As a result, such equipment was remained idle from 22 March 2017 up to date.

A total sum of Rs. 12.32 million had been spent in the year 2017 under Digital Health Project to the five selected Base Hospitals in the Eastern Province. However, equipment such as Laptops, Printers, HD Cameras, Barcode Readers and Servers valued at Rs. 12.32 million had not been used for the intended purposes up to 30 November 2018.

Establishment of Model Organic Garden

The Department of Agriculture in the Eastern Province had decided to establish model organic garden at selected 23 schools in Ampara and Trincomalee Districts at a cost of Rs. 4.2 million in order to promote the Agriculture Knowledge of school children in 2017. However, equipment and machineries valued at Rs. 1.99 million were remaining idle without being used for the intended purpose even up to 31 March 2019.

Establishment of Mini Industrial Park Clusters

A project proposal on "Establishment of Mini Industrial Park Clusters" had been envisaged in 2014 and the Project was implemented by the Department of Rural Industries in the Eastern Province in collaboration with the private partners under the Public Private Partnership. The Project proposal envisaged to establish 06 mini industrial clusters in all three districts in the Eastern Province. In this regard, the following observations are made.

- According to the section 1.4 of the agreement, the fee would be Rs.3.00 per unit of production during the period of this agreement. However, a private garment factory had paid Rs.2.00 per unit. As a result, the Provincial Council had lost considerable revenue.
- According to the section 1.6 of the agreement, the Provincial Council has to pay a sum equivalent to 0.25 per cent on the fee received from a private garment factory at the end of each quarter to contribute to the community fund established by the Community Based Organization (CBO) through the Provincial Department of Industries. However, no arrangements had been made to contribute to Community Based Organization (CBO).