ANNUAL REPORT OF THE

AUDITOR GENERAL

2020

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

Note of the Auditor General

The duties and functions devolved on the Auditor General in pursuance of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 2020 in fulfilling discharging such activities. The Annual Report is presented as the seventh installment of my report presented to the Parliament and arrangements have already been made to table the other reports under the following nine installments.

First Installment	-	Ministries and Departments
Second Installment	-	Public Corporations, Authorities, 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 and Environmental Audit Assignments
Ninth Installment	-	Public Companies
Tenth Installment	-	Special Audit Assignments

The National Audit Act No. 19 of 2018 was envisaged to provide for powers and functions of the Audit Service Commission, to establish the National Audit Office and the Sri Lanka State Audit Service, and for matters connected therewith or incidental thereto. Although the Audit Act had been implemented with effect from 01 August 2018, the State Audit Service Minute relating to the Audit Staff which is essential to perform the functions of the National Audit Office had not been established yet. As a result, it had been hindered to perform audit duties and also the staff opportunities have had with them, have been limited to get promotions. With the abolition of the Audit Service Commission, chaired by the Auditor General by the 20th Amendment to the Constitution, the authority for appointments, promotions, transfers and disciplinary control of his staff which he had taken until then had been transferred to Public Service Commission. The Auditor General’s independent audit process has been hampered by transferring of such powers to the Public Service Commission and the legal impediment to the delegation of those powers to the Auditor General by the Public Service Commission. I suggest that this situation be considered in future of a Constitutional Amendment.

I had to overcome various obstacles in fulfilling my role in the year 2020 due to Covid 19 pandemic and even in those challenging situations; I did my best to complete the audit duties on time and submit the scheduled reports within the targeted timeframes with the hard work of my staff. I look forward to implement a number of initiatives in the National Audit Office by taking into the important role of the National Audit Office and to ensure a better understanding of the key issues facing the public sector. The National Audit Office is committed to continuously developing and reviewing the activities of the office for the efficient and effective distribution of audit reports. Finally, the independence of audit vested by the Constitution is clearly identified as a key factor of the productivity of the office.

It is an honor for me to work with the dedicated staff of the National Audit Office and I appreciate their commitment to carry out their duties efficiently and effectively. I also take this opportunity to thank to the Chairpersons and members of the Committee on Public Accounts and the Committee on Public Enterprises, Institutions consisting of Chartered Accountants who are generally have in practicing audits in the public sector, The Institute of Chartered Accountants of Sri Lanka, Auditee Institutions, Staff including the Secretary to the President, Staff including the Secretary to the Ministry of Finance, Public Service Commission, National Pay Commission, Attorney General and other Government Institutions that have assisted in the Administration and also the International Development Association and the European Union for their contribution to the physical and human resource development of the office.

I will continue to work with great commitment to achieve the needs of the general public and Parliament during this challenging period.

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

W.P.C. Wickramaratne
Auditor General

28 October 2021

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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 Generals as the Supreme Audit Institution known as National Audit Office 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 and it is further expanded by the Twentieth Amendment to the Constitution and the provisions of the National Audit Act No. 19 of 2018 with effect from 01 August 2018.

"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 Twentie Amendment to the Constitution by inclusion of Companies. The following is our Client base at present.

Clients	No of Institutes
Ministries	28
State Ministries	40
Departments	98
District Secretariats	25
Corporations	214
State Companies (Brought under the scope of the Auditor General under the Twentieth Amendment to the Constitution)	125
State Banks	08
Statutory and other Funds	65
Foreign Funded Projects	124
Other Independent Institutions	21
Provincial Councils	09
Local Authorities	341
Agrarian Service Canter's	562
Sport Associations	68
Provincial Councils Ministry, Department and Special Expenditure Units	270
Institue of Under the Provincial Councils Ordinance	64
Total	**2,062**

Our Scope

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

- Auditor General Should,
  - audit all income received to the Consolidated fund and all expenditure from the Consolidated fund.
  - ascertain whether the money shown in the accounts of auditee entities as having been disbursed were legally available to, the services or purposes to which they have been applied for or charged with;
  - determine whether the expenditure conforms to the authority which governs it; and
  - in each audit, examine income, expenditure, transactions and events.
- The scope of an audit carried out by the Auditor General includes examining the accounts, finances, financial position and prudent management of public finance and properties of auditee entities.
- The Auditor General shall be responsible to parliament in carrying out the provisions of this Act.
- Subject to the provisions in section 3, the Auditor General may examine any matter relating to an auditee entity brought to his notice by any member of the public in writing along with the substantial proof of the matters asserted, and report thereon to Parliament.

The Auditor General will determine the scope of the audit at his discretion and will act in accordance with Section 5 of the National Audit Act No. 19 of 2018 in this regard. Accordingly

- Sri Lanka Auditing Standards determined by the Audit Standards Committee established under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 shall be applicable for audits conducted by the National Audit Office established under Section 29 of the Audit Act.
- Where there are no auditing standards specified in Sri Lanka Auditing Standards for performance audits, environmental audits, technical audits and any other special audits, published in the Gazette, specify the provisions of the International Standards of the Supreme Audit Institutions which shall apply to such audits, with necessary amendments to suit local requirements.
- The Auditor General is directed by the Committee on Public Accounts (COPA) and the Committee on Public Enterprises (COPE) of the Parliament.

The Auditor General has discretionary power to determine the the scope of audit as per the Section 5 of the National Audit Act No. 19 of 2018. Accordingly,

- Standards Committee established under the Sri Lanka Accounting and Auditing standards Act ,No.15 of 1995 shall be applicable to audits undertaken by the National Audit Office established under section 29.
- Where there are no auditing standards specified in Sri Lanka Auditing Standards for performance audits, environmental audits, technical audits and any other special audits by order published in the Gazette, specify the provisions of the International Standards of the Supreme Audit Institutions which shall apply to such audits, with necessary amendments to suit local requirements.
- The Auditor General is directed by the Committee on Public Accounts (COPA) and the Committee on Public Enterprises (COPE) of the Parliament.

Our Independence

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

"There shall be an Auditor General who shall be a qualified auditor and subject to the provisions of Article 41A, be appointed by the President and shall hold office during good behavior"

He can be removed from office by the President only on the grounds of ill health or infirmity or upon an address of Parliament. Article 153 of the Constitution further states that the salary of the Auditor General shall be determined by the Parliament, and shall be charged on the Consolidated Fund and shall not be diminished during his term of office.

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

Legal Reforms

The Requirement for Legal Reforms

Though the functional independence of the Auditor General has been safeguarded by the Constitution, financial and administrative independence of the Auditor General had been constrained by the Executive due to Constitutional and legislative provisions on the subject. However, those constrictions have been obstructed by the provisions of the National Audit Act, No.19 of 2018, from 01 August 2018. It is also of the view that the dependence of the Auditor General on the Executive for his resources in terms of both manpower and finance would harm the truly independent nature of the audit performed on behalf of the Parliament as he must be completely free from all obligations to any individual or institution and must be free from arbitrary retaliation. Elaborate safeguards have to be provided by the Parliament through legislation to ensure the Auditor General's independence, including functional and financial. The Auditor General depended on the General Treasury for his budget up to the year 2018, and the resource allocation for his department was not linked to fiduciary risks. Unlike in other advanced Commonwealth Countries, the budget of the Auditor General in Sri Lanka is neither approved by a legislative committee after being subjected to scrutiny nor safeguarded against Executive control. As per the provisions of the National Audit Act, No.19 of 2018, the budget of the Auditor General is determined by the Parliament 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 had already been shifted to the Public Service Commisssion after the dissolution of the the National Audit Service Commission by the 20th Amendment to the Constitution. Due this situation the Auditor General had to depend on a Commisssion which the Auditor General is not going to be a member in order to obtain the required human resources by resisting the administrative independence of the Audtor General. By enhancing this the Auditor General had been refrain from giving the authority to the officers appointed by the Public Service Commisssion. This situtuation has arised due to the Auditor General had been included in to the " Non -Public Officers' List" by the Constitution 170. The administrative independency over its officers should be made sure in future Constitutional amendments. Further, the Auidtor General had been included in to the " Special list of Non – Public officers" by the 170 contitution. This had been done to make sure the administrative independence of the Auitdor General.

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 XIX Congress of INTOSAI (2007 in

Mexico) defined these requirements in more concrete terms and identified following eight major requirements for the independence of the Supreme Audit Institution to carry out a proper audit.

Principle 1

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

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

Principle 2

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

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

- Appointed, re-appointed, or removed by a process that ensures their independence from the Executive (see ISSAI 11 Guidelines and Good Practices Related to SAI Independence);

- Given appointments with sufficiently long and fixed terms, to allow them to carry out their mandates without fear of retaliation; and

- Immune to any prosecution for any act, past or present, that results from 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 governmrnt or public entities operations.

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

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

- Selection of audit issues;
- Planning, programming, conduct, reporting, and follow-up of their audits;
- Organization and management of their office; and

- Enforcement of their decisions where the application of sanctions is part of their mandate.

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

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

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

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

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

Principle 4

Unrestricted access to Information

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

Principle 5

The right and obligation to report on their work

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

Principle 6

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

- SAIs are free to make observations and recommendations in their audit reports, taking into consideration, as appropriate, the views of the audited entity.
- Legislation specifies minimum audit reporting requirements of SAIs and,where appropriate, specific matter. That should be subject to a formal audit opinion or certificate.
- SAIs are free to decide on the timing of their reports except where specific reporting requirements are prescribed by law.
- SAIs may accommodate specific requests for investigations or audits by the Legislature, as a whole, or one of its commissions, or the government.
- SAIs are free to publish and disseminate their reports, once they have been formally tabled or delivered to the appropriate authority – as required by law.

Principle 7

The existence of effective follow-up mechanisms on SAI recommendations

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

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

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

Principle 8

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

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

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

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

The Constitution refers only the Auditor General and not his staff and therefore it is required that the authority and function of the staff of the Auditor General be amplified through a separate Audit Act like other countries. That requirement had been fulfilled by the Audit Act No. 19 of 2018 with effect from 1 August 2018.

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

The Nineteenth and Twentieth Amendments to the Constitution make the following new provisions that protect the independence of the Auditor General and strengthen his role. In addition, new provisions have been included in the Audit Act to strengthen State Audit.

- There shall be an Auditor-General who shall be a qualified auditor and who shall, subject to the provisions of Article 41A, be appointed by the President. The Auditor General shall hold office during good behaviour.

- The Auditor-General shall audit all Departments of the 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 Services 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 Auditor General is excluded from the definition of "Public Officer" to secure his independence from the Executive.

- Determination of the Annual Budget Estimates of the National Audit Office by Parliament to ensure that adequate funds are provided to carry out the functions of the Auditor General without any intervention of the Executive.

National Audit Act, No.19 of 2018

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

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

- Expansion of the scope of an audit carried out by the Auditor General in a manner to enable examining the accounts, finances, financial position and financial control of public finance and properties of auditee entities, a performance audit, an environmental audit, a technical audit and any other special audits.
- The Auditor General will be given the discretion to inquire into any matter relating to an audited entity brought to his notice in writing by any member of the public with adequate evidence to prove that matter, and report thereon to Parliament.
- The Sri Lanka Auditing Standards determined by the Auditing Standards Committee established under the Sri Lanka Accounting and Auditing Standards Act, No.15 of 1995 are applicable to all audits undertaken by the National Audit Office.

- The Auditor General shall issue a Summary Report within five months after the closure of each financial year to an auditee entity in respect of any financial statements or any account submitted by such entity, other than a public corporation or company.

- The Auditor General shall within three months of the receipt of the approved annual financial statements and other relevant documents and information of a public corporation or a company in which the Government or a public corporation holds 50 per cent or more of the shares, present a report for publication in its Annual Report.

- The Auditor General shall present an Annual Detailed Management Audit Report to the Governing Body of each auditee entity within the five months after the end of each financial year with a copy each to the Minister to whom the respective auditee entity is assigned and the Minister assigned a subject of finance.

- The Secretary to the Treasury shall submit the financial statements of the Government to the Auditor General not later than three months after the closure of each financial year of the Government.
- The Auditor General shall charge a fee for conducting an audit from public corporations Statutory Funds or Boards, businesses and other takings vested in the Government by or under any written law and any company registered or deemed to be registered under the Companies Act, No.7 of 2007 in which the Government or a public corporation or local authority hold 50 per cent or more of the shares of that company.

- The salaries and other allowances and any other benefits of persons recruited to the National Audit Office shall be charged on the Consolidated Fund.

- All auditee entities shall cooperate with the Auditor General and any officer deployed by him and shall provide a safe and secure working environment to facilitate the carrying out of an effective audit.
- The annual budget estimate of the National Audit Office should be prepared within the period as specified by the Minister assigned the subject of Finance. The said estimates shall be submitted to the Speaker on such date as may be decided by the Speaker. Comments of the Minister of Finance should be taken within 10 days by the Speaker and should be tabled in the Parliament. The estimate approved by the Parliament should be submitted to the Minister of Finance to be included in to the National Budget.

- The Speaker shall appoint an independent qualified auditor to carry out the audit of the financial statements, accounts and other information relating to the financial year of the National Audit Office and for this purpose the Audit Office shall be deemed an auditee entity under the said Act.

- The responsibilities of Chief Accounting Officer or the Accounting Officer shall be cited.
- An Audit and Management Committee shall be appointed by the Chief Accounting Officer or Accounting Officer or the respective Governing Officer.
- Failure to assist the Auditor General or any person authorized by him to be an offence.
- Auditor General's authority had been expanded enable to access to written or electronic records, books, documents or information without considering the confidentiality.
- Auditor General had been given the power to charge the cost of audit and to determine the auditfee of any person or any institution after been audited.
- Dead lines for tabling the reports in the Parliament had been specified.
- Security of the persons who provide information the the Auditor General had been secured.
- Reports should be made available in the official website of the Natioanl Auidt Office after tabling the report in the parliament to enable general public to make use of them.
- The Auditor General or any officer of his staff are free from any legal action taken against any action or pre-leagal action under the Constitution done in goog faith and honesty by those officers.

With the effect of the Twentieth amendment to the Constitution, the audit service commission was cancelled out and the main activity of that commission of being activate the state audit service had been shifted to the Public Service Commisssion. However, the below mentioned functions had been assigned to the Audit Service Commission by the Audit Act No.19 of 2018 and actions should be taken to transfer susch authority to the Auditor General by amending the Audit Act as this commission is inactive at present.

Referance to the Audit Act	Section
Section 5(2)	Where there are no auditing standards specified in the Sri Lanka Auditing Standards for performance audits, environment audits, technical audits and any other special audits, the Audit Service Commissioin may, by Order published in the Gazette, specify the provisions of the International Standards of the Supreme Audit Institutions determined by the International Organization of Supreme Audit Institutions which shall apply to such audits, with necessary amendments to suit local

	requirements.
Section 19(1)(a)	Unless otherwise specifically provided for, in any other written law, the Audit Service Commission shall report the amount of any deficiency or loss in any transaction of an auditee entity where the Audit Service Commission has reasonable grounds to believe that such transaction has been made contrary to any written law and has caused any deficiency or loss due to fraud, negligence, misappropriation or corruption of those involved in that transaction to the Chief Accounting Officer of the auditee entity for imposing of a surcharge on the value of the deficiency or ;loss in every transaction of such auditee entity.
Section 34	The Audit Service Commission shall prepare the annual budget estimates of the Audit Office within the period as specified by the Minister assigned the subject of Finance.

Our Organizational Structure

The Auditor General is the Head of the National Audit Office and he functions as a Chief Accounting Officer as well in terms of the Financial Regulation 124(2) in respect of financial activities of the Department. The present organizational structure of the National Audit Office comprises five 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 Generals. The second level comprises of 15 Deputy Auditor Generals who is attending policy matters and overall supervision of the Government Audit.

Forty four divisions are established under the Deputy Auditor Generals and the Assistant Auditor Generals headed by such divisions represents the third layer.They carry out the Government and Provincila audits. Audit Branches coming under the Divisional Heads are headed by a Superintendent of Audit or a senior officer of the Audit Examiners' Service and represent fourth level. They are charged with the responsibility for execution of the audits of Public Institutions assigned to them by deploying the supportive field officers of the Audit Examiners' Service assigned to them, efficiently and effectively. Accordingly, the fifth level comprises those field officers who assist Branch Heads by conducting audit of the affairs of Public Institutions assigned to them through carrying out examinations, making field visits, etc., in conformity with Sri Lanka Auditing Standards, statutory and other regulatory requirements and best practices as programmed. The above mentioned third level comprises 44 Divisions and 17 out of them, are in charge of Regional Sub-offices at Provincial level and they are supervised by three Deputy Auditors General.

The administrative activities of the Department are carried out by the Director (Administration) of the Establishments Branch under the supervision of an additional Auditor General and the financial activities are carried out under purview of the Chief Accountant of the Accounts Branch.

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

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

Accordingly, the new Organizational Structure of the National Audit Office had been amended to enable to carry out the audit functions is shown below.

Our Organization

Organizational Structure of the NAOSL

AUDITOR GENERAL

Additional Auditors General	Deputy Auditors General	Assistant Auditors General	
Central Government Audit & Assurance Services (CGSA)	Audits of State Banks and Financial Institutions (BAF)	Banking	(BAN)
		Finance and Leasing	(FAL)
		Insurance	(INS)
	Audit of Special Business Enterprises (SBE)	Treasury & Public Debt	(TPD)
		Public Revenue	(PUR)
	Audit of Government Owned Companies (COM)	Trade & Commerce	(TAC)
		Communication and Media	(CAM)
		Culture & Arts	(CAA)
		Sports & Youth Affairs	(SYA)
	Audits of Foreign Funded Projects (FFP)	Road & Highways	(RAH)
		Construction & Engineering	(CAE)
		Housing & Urban Development	(HUD)
	Audits of Provincial Councils (PRC)	Defence	(DEF)
		Judicial, Law & Order	(JLO)
	Special Audit Assignments (SPR)	Education	(EDU)
		Higher Education	(HED)
		Vocational Training	(VOT)
	Audits of Statutory and other Funds (SOF)	Power	(PWR)
		Energy	(ENR)
		Ports & Shipping	(PAS)
		Airport & Aviation	(AAV)
	Audit of Utilization of Central Government Allocation in Provincial Level (CGL)	Agriculture & Related Industries	(ARI)
		Irrigation, Water Resources & Mining	(IWR)
		Water & Sanitation	(WAS)
		Forest, Wild life & Environment	(FWL)
		Plantation & Land	(PAL)
		Fisheries & Liverstock	(FLS)
	Audits of Universities and PG Institutions (UPG)	Public Administration & Foreign Affairs	(PAF)
		Labour, Employee Benefits & Social Welfare	(LSW)
		Parliamentary Affairs & Independent Commissions	(PIC)
	Audit of Ministries (MIN)	Medical Supplies	(MSU)
		Teaching Hospitals	(THO)
		Medical Administration	(MED)
	Audits of Departments (DEP)	Commuter Transpotation	(COT)
		Industries, Manufacturing & Technical	(IMT)
		Tourism & Investment Promotion	(TIP)
	Audits of Corporations, Boards and Authorities other than SBEs and Universities (CBA)	Foreign Funded Projects	(FOP)
		Disaster Management	(DMG)
	Treasury and Public Debt (TPD)	Special Audits (Investigation & Forensic)	(SIF)
		Performance & Environmental Audit	(PEA)
Administration, Corporate Stratagy & Development (ACSD)	Administration (ADM)	Training, Research & Development	(TRD)
		Quality Assurance	(QUA)
		Legal	(LEG)
		IT Audits	(ITA)
		Taxation	(TAX)
		Compliance	(COM)
		Parliament Reporting & Codination	(PRO)
Provincial & Local Government Audit & Assurance (PDSA)	Audits of Local Authorities (MUP)	Surcharge, Local Authorities and Provincial Councils	(PLG)
		Colombo	(COA)
		Colombo	(COB)
		Gampaha	(GMP)
		Kaluthara	(KLU)
		Galle	(GAL)
		Mathara	(MTR)
		Hambantota	(HMB)
		Trincomalee	(TRC)
		Ampara	(AMP)
		Batticoloa	(BTC)
		Jaffna	(JAF)
		Kilinochchi, Mulathive,Vavniya & Mannar	(KVM)
		Puttalam	(PTL)
		Kurunegala	(KRG)
		Matale	(MTL)
		Kandy	(KDA)
		Kandy	(KDB)
		Nuwara Eliya	(NUE)
		Anuradhapura	(ANP)
		Polonnaruwa	(POL)
		Ratnapura	(RAT)
		Kegalle	(KGL)
		Badulla	(BDU)
		Monaragala	(MNG)

SUPERINTENDENTS OF AUDIT

AUDIT EXAMINERS

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 National Audit Office, the total number of officers in the Sri Lanka Audit Service stands at 350 and the officers in the Audit Examiners' Service stand at 1,200. The Audit Act No. 19 of 2018 was empowered with the approving of Audit Commission under the Nineteenth Amendment by Parliament. As such, it was not possible to obtain approval for the Draft Service Minute prepared for the Department staff even by 31 August 2021 and 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 2020, as at the end of year 2020 and as at 30 June 2021 under such circumstances are given in the Table 01 below.

Post	As at 01 January 2020			As at 31 December 2020			As at 30 June 2021		
	Approved Cadre	Actual	Vacancies	Approved Cadre	Actual	Vacancies	Approved Cadre	Actual	Vacancies
Additional Auditor General	03	-	03	03	-	03	03	-	03
Deputy Auditor General	15	11	04	15	10	05	15	09	06
Assistant Auditor General	44	26	18	44	22	22	44	18	26
Superintendent of Audit	288	205	83	288	199	89	288	192	96
Audit Examiner	1200	1013	187	1200	992	208	1200	1139	61
Non-Audit Staff									
Director Administration	01	01	-	01	01	-	01	01	-
Chief Accountant	01	01	-	01	01	-	01	01	-
Chief Internal Auditor	-	-	-	01	01	-	01	01	-
Other Staff Officers	17	11	06	17	12	05	17	12	05
Public Management Assistants' Service and allied Grades	127	113	14	127	112	15	127	113	14
Report Processor	41	41	-	41	41	-	41	41	-
Junior Employees	213	201	12	213	193	20	213	194	19
Total	**1950**	**1623**	**327**	**1951**	**1584**	**367**	**1951**	**1721**	**230**

Table 01 – Cadre Position as at 31 December 2020 and 30June 2021

As per the above Table, the existence of a large number of vacancies in the cadre ranging from 237 to 367 from 01 January 2020 to 31 December 2020 of every post of the Department was an impediment to discharge the statutory function of the Department. However, the said numbers of vacancies have been 230 by 30 June 2021.

Approval of the Service Minute

The audit staff of the Auditor General's Department consists of officers of the Sri Lanka Audit Service and Audit Examiner's Service. Under the circumstances at that time, even though separate Service Minutes were formulated in respect of these two Services in terms of Public Administration Circular No.6/2006, a Committee was appointed by the Secretary to the President to look into the various proposals and requests made by the staff in this connection. That Committee was chaired by the Former Auditor General at that time and it consisted of two other former Auditors Generals and an Additional Secretary to the President. Considering the recommendations made by the Committee, approval had been granted on 23 December 2014 for the Cabinet Memorandum submitted to the Cabinet of Ministers with a view to establishing a new service named "Sri Lanka State Audit Service" by combining the Sri Lanka Audit Service and Audit Examiners' Service.

The establishment of "Sri Lanka State Audit Service" proposed to be set up by combining the Sri Lanka Audit Service and Audit Examiners' Service in accordance with the aforesaid Cabinet by the Government as a policy. Accordingly a Service Minute for the new service is being formulated after the approval of the National Audit Act No.19 of 2018.The Audit Service Commission was in the process of approving it. The approval of the new Service Minute will pave the way for the maintenance of a staff of more extensive professional level for the efficient performance of duties and functions assigned to the Auditor General. Even though it has lapsed three years after the implementation of the Audit Act by 31 August 2021, it was unable to get approved the new service minute.However, by resolving the legal barears in functioning the activities of the National Audit Office, the Cabinet had reinforced the cabinet decision already passed on 23 December 2014 with the new Cabonet decision dated 13 September 2021by ordering to the National Pay Commission to prepare a new salary scales by treating the State Audit Service as a extra ordinary service. Accordingly, the activities are in progress to establish this service without delay.

Staff Training

National Audit Office examines whether the Government institutions have correctly performed the responsibility of discharging financial and performance functions to make sure of providing a quality and reliable public service necessary contribution and the guidance to strengthen the utilization of state resources in an economic, efficient and effective manner and reported to parliament.

At present, the National Audit Office makes use of the contribution of the staff of 1358 audit officers and 363 offices in supporting services to fulfill this statutory role.

In fulfilling this statuary requirements in an efficient and effective mannar, the following areas have been identified as required for the training persepectives of the staff of the National Audit Office.

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

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

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

Accordinly, to get the service in relation to,

- Financial Audit
- Investigation Audit
- Performance Audit
- Environment Audit
- Forensic Audit
- Procurement and Construction Audits
- Project Audits
- Sri Lanka Accounting and Auditing Standards
- Taxationa
- Auditing of Aprropiation Accounts
- Local Authorities
- Accounts and Auditing
- Surcharge Process
- Audit Reporting
- Development of Computer Literacy
- Devellpment of Language Skills

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

Local Training

In achieving the above objectives, 8 training sessions had been carried out under 3 topics for the audit officrers while training the non audit staff too in the year 2020.

Foreign Training

Seven officers of the office had been participated to a foreign training on

Financial Fraud and Crime investigation during the year under review.

The details in relation to the traings conducted for the officers of the National Audit Office pertaining to the local and foreign during the year under review are shown in the table 02.

	Details of the Programme	No.ofProgrammes	Officers involved in the Programme				No. of Training Hours
			Divisional Heads	Superintendent of Audit	Audit Examiners	Total	
	Local Training Programmes						
1	Financial Audit	06	-	79	267	346	2,650
2	Taxation	01	-	4	25	29	210
3	Foreign Funded Projects	01	05	29	82	116	841
	Total	**08**	**05**	**112**	**374**	**491**	**3,701**
	Foreign Training Programm						
1	Financial Fraud & Crime investigation	1	-	3	4	7	355

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

Providing Resource persons for external institutions

The officers of the National Audit Office have imparted their knowledge to improve the skills and knowledge of the officers in government sector organizations in relation to the National Audit Act as well as other related fields to subject of Auditing .

As a result of globally affected Covid 19 pandemic situation, both local and foreign training sessions were limited according to the instructions and guidelines introduced by the health sector authorities.

Deployment of Qualified Auditors

The deployment of qualified auditors was required to fill the resource gap created in view of the prevailing vacancies and in the meantime it is done due to the need of specialized services, especially in the case of State Bank Audits. The Auditor General is vested with the authority to deploy qualified auditors by Article 154(4)(a) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Sums amounting to Rs. 35.6 million and Rs. 42.64 million had been be paid for the years 2020 and 2019 respectively to the relevant Audit Firms for the audit services rendered. In obtaining the service of qualified auditors, the factors such as the quality of the services rendered by them in the past, the number of partners engaged in the firm concerned, and the number of audit trainees working with them had been considered. In addition, international affiliation of the firm serving as a factor to consider the standard of the Firm and the quality of professional services rendered by them had been included in the selection criteria. Generally a particular audit assignment is entrusted to a particular Audit Firm to continue only for a maximum period of five consecutive years.

Three Audit Firms engaged in Public Practice assisted me in the audit of 16 Companies out of 150 Companies with State Shareholding of 50 per cent or more brought under the scope of the Auditor General through the Twentieth Amendment to the Constitution. In addition 18 audit firms helped me to carry out the audit of the Central Bank of Sri Lanka, Sri Lanka Insurance Corporation Limited, Sri Lankan AirLines Ltd and 50 sport associations.

As a result of recruiting audit examiners, the few state banks were undertaken by me for the direct audit that had been audited by private audit firms and threr by the number of audit firms deployed had gradually been decreased.

Assistance to Parliament

As per Article 148 of the Constitution, the Parliament shall have full control over public finance. The Auditor General's Department makes a key contribution to the system of public accountability, serving as the external auditor of the Government with a duty to report directly to Parliament on the financial stewardship and the economy, efficiency and effectiveness of the operations of the public entities. Auditor General's reports tabled in Parliament are then taken up by two Parliament oversite committees setup under Standing Orders 119 and 120 named Committee on Public Accounts (COPA) and Committee on Public Enterprises (COPE). The role of these two Committees is to assist the legislature in holding the Executive to account for its use of public funds and resources through the examination of public accounts. As such, the two Committees have a critical role in ensuring public sector accountability and effective governance.

As per Standing Order 119, it shall be the duty of the COPA to examine the accounts showing the appropriation of sums granted by Parliament to meet the public expenditure and such other accounts laid before Parliament as the Committee may think fit, along with the reports of the Auditor General. The COPA shall time to time, report to the Parliament on the accounts examined, the finances, financial procedures, performance and management generally of any department, local authority and on any matter arising therefrom.

The duty of the COPE established under Standing Order 120 is to examine the accounts of public corporations and of any business or other undertaking vested under any written law in the Government laid before Parliament, along with the reports of the Auditor General thereon. The COPE shall, from time to time report to Parliament on the accounts examined, the budgets and annual estimates, the finances and management on such public corporations or of any business or other undertaking vested under any written law in the Government as the Committee may direct.

The COPA and COPE have the authority to appoint sub committees of its own members and also have the power to summon before them and question any person and call for and examine any paper, book, record or other document and to have access to stores and property.

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

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

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

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

During the year 2020, the COPA has held 03 secessions to examine 03 institutions, 02 sessions to examine 02 special audit reports and the COPE held 03 secessions to examine 03 institutions while taking 06 sessions to examine 06 special audit reports.

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

Surcharges imposed by the Auditor General

There are 341 Local Authorities in Sri Lanka comprising 24 Municipal Councils, 41 Urban Councils and 276 PradeshiyaSabhas. These Local Authorities are audited by the Auditor General in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka, the Audit Act No.19 of 2018 and the respective Ordinances and Acts.

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

In terms of the said power, 75 Surcharge Certificates valued at Rs.34080 million had been issued during a period of 10 years from the year 2011 up to 31 December 2020 on 490 parties related to the Local Authorities. Out of that, a sum of Rs.4.99 million or 14 per cent had only been recovered by 30 June 2021. Due attention had not been paid to the recovery proces of surcharges by the authorities concerned.

Public Representations received to the National Audit Office

Out of 1673 public representations received during the year, 661 are in relation to the policy matters of the Government or government organizations and 261 are related to the greewances of various parties. Another 681 are pertaining to the frauds and corruptions and 70 are personal issues of different parties. Such representations are being reffered for further examination.

According to the classification done in referring those public representations for further investigations, it was noted that 192 are related to the Education sector, 243 for Local Government, 166 for Health sector and 63, 73 and 45 for Road development, Agriculture and transportation respectively.Further, 894 Public representationshave been received in relation to large number of other government institutions.

Out of the public representations received during the year under review, 219 had been examined and the material observations had been entered in to the reports already tabled in Sri Lanka Parliament and some observations had been included in to the management audit reports. Further, 1454 public representations are being audited by 31 December 2020.

Performance and Environmental Audit conducted by the Auditor General

Outline

- Performance Audit
- Environment Audit

Performance and Environment Audit Reports Issued

- **Evaluation of the performancae of producing vegetable seeds locally**
- **Performance of the loan facilities provided to the small and medium scale rice mill owners**
- **Evaluation of the efficiency of the regulatorory process of the Department of Exercise over licenced liquar producers**
- **Performance of the maintaining of buffer stock of rice and the utilization of stores by the Food Commissiner**
- **Evaluation of production, operations and marketing process of tile factories of the Ceramic Corporation**
- **Evaluation of the trust property management of the Public Trustee**
- **Evaluation of the performance of the Threeposha program**
- **Evaluation of the performing the functions of the Human Rights Commission**
- **Evaluation of the activities are to be implemented for the development of the quality in the field of foreign employment**
- **Environment Audit report of managing the plastic importation, usage and post usage.**
- **Environment Audit report on the impact of weediside chemichals, usagea and their environment impact**
- **International Ramsa wet lands**

Performance and Environmental Audit conducted by the Auditor General

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

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

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

Performance in the process of producing vegetable seeds locally

Local production and imports of seeds have increased rapidly, when the private sector has begun to contribute to seed production and imports in Sri Lanka since 1984. The Seed Act No. 22 of 2003 was enacted with the objective of alleviating various problems that arose in the production and import of seeds. Even though “the State Policy on Seeds and Planting Materials” has been mentioned as the Seed Policy in 1997, it had not been gazetted as of 1 January 2021.

Accordingly, the Seed and Planting Material Development Center established under the Department of Agriculture, is the leading institute operating in Sri Lanka for seed-related activities and its objective is to provide quality seeds and planting materials to farmers at reasonable prices and convenient locations on time. The Horticultural Crops Research and Development Institute conducts research on the production of breeder seeds required for local cultivation and the introduction of new vegetable varieties.

Although the Government has spent a large amount of money annually on the promotion of the local seed industry, according to the research report published in 2018 by Hector Kobbekaduwa Agrarian Research and Training Institute, there is a 70 percent probability to choose imported hybridvarieties by local vegetable farmers. Various media had reported that farmers are not getting an adequate supply of local vegetable seeds, problems with their quality, and problems faced by farmers in using imported seeds. The National Seed Council, established to carry out the functions specified in the Seed Act, met for the first time on 29 November 2017 elapsed 14 years after the Seed Act Enactment, and then met only three times during the period up to 31 December 2019. Accordingly, the evaluation of the progress of local seed production, other relevant policy formulation, and necessary decision-making process had not been carried out actively.

Against such a background, this performance audit was conducted to evaluate the involvement of government agencies in providing farmers with quality vegetable seeds for cultivation at reasonable prices at right time.

The audit evaluated the seed production, storage, distribution and marketing carried out by the Seed and Planting Material Development Center and also evaluated the role played by the Seed Certification Service for the production of quality seeds.

Insufficient research on vegetable seeds, inaccurate forecasts of seed quantity required annually, failure to produce seeds as required, problems in seed storage procedures resulting in a loss of Rs.38 million worth of vegetable seeds during the period from the year 2014 to the year 2019 were to be discarded on weakening the germination were among the major observations made during this audit.

When seeds were sold, no computerized programs were used to quickly track the stock available in the company's entire sales network and the stores in the warehouse. There was no formal system for contacting Agrarian Service Centers for selling seeds. It was observed that only a small number of Agrarian Service Centers purchased seeds, from the Seeds and Planting Materials Development Center.

In such a situation a large number of vegetable seeds that can be locally produced as well as other vegetable seeds have to be imported. The cost of importing vegetable seeds which were Rs. 962.7 million in 2015 had increased by 35% to Rs. 1491.6 million in 2019 as compared to that year. Although it was expected to reduce the import of vegetables and other crops by 1/3, according to the budget estimates of the Ministry of Agriculture for the years 2016 and 2017, that objective was not achieved. Also, the Department of Agriculture had imposed maximum import restrictions only on bean seeds when issuing vegetable seed import licenses and in fact, the Sri Lanka Customs and the Department of Agriculture did not have data on the number of seeds imported from each vegetable.

To increase the amount of research being conducted on the introduction of local vegetable seeds that can compete with imported seeds, to determine and maintain seed stock levels keeping the minimum safe seed stocks on demand in the country by the Seed and Planting Material Development Center, to take action for the development of the unused land area in the 27 seed production farms belonging to the Seeds and Planting Material Development Center and use for seed production, to provide trained labour in a long term manner for the maintenance of the seed farms, to provide solutions to water problems, to expand the facilities available in the seed farm and to contact government agencies including Agrarian Service Centers in addition to the outlets at the Seed and Planting Material Center for seed sale are recommended in order to alleviate these problems.

Performance of the Programme for granting Concessionary Loans to Small and Medium Scale Rice Millers

Paddy crop which provides staple – diet of Sri Lankans is a foremost agricultural crop in Sri Lanka. The annual rice requirement of our country is estimated at 2.4 million metric tons approximately and it equals about 3.6 million metric tons of paddy. The drought prevailed during the 4 seasons prior to the maha season of 2018/ 2019, paddy production had dropped and as such it was adversely affected the farmer as well as the consumer. Similarly, the number of rice millers available by the year 2000 amounting to about 2000 had decreased to about 800 by now. Therefore, the rice production has been limited to a certain group of people, resulting that the rice market had built an oligopolistic situation.

As a remedy to this situation, the programme for granting concessionary loan facilities to small scale and middle scale rice millers very soon had been started by February 2019. This programme had been implemented in selected 8 Districts namely Anuradhapura, Polonnaruwa, Ampara, Kurunegala, Puttalam, Kandy, Hambantota and Batticallow and a sum of Rs.1 billion had been provided to this programme by the Government. The related institutions to implement this programme include the Ministry of Agriculture, non-cabinet Ministry of Economic Reforms and Common supplies, Treasury, District Secretaries of 8 Districts connected with the programme Department of Co-operative Development, Food Commissioner’s Department and District Rice producers Co-operative Societies.

The objective of this audit is to evaluate whether the multiplex objectives have been achieved by this programme commenced by the government which include fixing a fair price in the purchase of paddy, upliftment of Small and Medium scale rice millers and to give opportunity the consumers to buy rice at a reasonable price having being demolished the oligopoly of large scale businessmen.

Accordingly the observations mainly made in this audit include the required approval for the implementation of this programme had been requested after beginning the reap of harvest of the 2019 Maha Season and the receipt of provision therefore, existence of delays for releasing funds to the District Secretaries by the government and to District Societies by District Secretaries, for the purchase of paddy existence of problems in the selection of rice millers for the programme and in taking decision on working capital requirements, existence of problems in distributing funds given to district societies among their members, purchase of paddy from farmers whose names are not included in the fertilizer name list, certain millers had not taken action to handover the expected quantity of rice to the societies, existence of handing over delays and no attention was paid for the marketing methodology of rice at the beginning of the programme.

Moreover, it was also observed in audit that nonpayment of specific milling charges for rice produced by millers by the societies, nonpayment of loan instalments, payable to the banks until then by the member millers or the existence of the payment of loan instalments at a very lower level.

According to the guidelines issued for the Small and Medium scale rice millers programme, the function of the Sri Lanka Rice Producers Co-operative Society Ltd is to supply data to the computer programme prepared by the Food Commissioner but it was observed that this Society had not performed its functions properly. Similarly, it was observed that the sum of Rs.206 million the largest amount of money issued to the District Societies within this program up to now had been paid to the Polonnaruwa District Co-operative Society by which the Chairman of the Sri Lanka Rice Producers Co-operative Society Ltd had represented. The Chairman of the Polonnaruwa District Society had used the loan on his own and private discretion to each miller for the purchase of paddy. In addition, such issues as non-settlement of funds given to each district society by the government within the specific period and non-rendition of data by the member millers required for the data system maintains to monitor the programme reveal that the responsibility of each government institution which need to be contributed to this programme, implemented by incurring government funds as a government policy had been evaded or not sufficiently fulfilled. As a result benefits of the programme to the producers engage in that sector as well as the consumer could not be reached since the anticipated performance of the programme could not be attained.

As stated in this report purchase of paddy by the member societies, sale of rice, remittance of working capital money to the members bank accounts, intervention made by the Sri Lanka Rice producers Co-operative Society Ltd need to be subjected to full and regular supervision of the District Assistance

Commissioner of Co-operatives. In addition release of funds to the societies on time for the purchase of paddy, enabling to maximum utilization of capacity of Paddy Marketing Board stores and to issue them to the small scale and medium scale rice millers have to be carried out through the District Secretaries.

Instead of granting these provisions to the members as a loan, the money only on the quantity of rice produced needs to be given as per the agreement and the legal action needs to be taken against millers who had not re-settled the loans given to the District Societies at the end of the period of agreement. It is also recommended that rice needs to be marketed through each district level co-operative societies or Sathosa Regional Shops by district societies under the maximum retail price of rice determined by the Government and the market price of rice needs to be regularly followed up and taken remedial action accordingly.

It was observed that only 0.5 per cent of the annual rice requirement of Sri Lanka had been supplied through this programme. Simultaneously, the price of rice in the market had dropped by the last quarter of the year 2019 as compared with the previous price on the direct intervention of the government to reduce the price of rice, having being imposed a maximum retail price of rice by the government. Nevertheless this type of programmes need to be strengthened, enabling all parties to be benefited being uplifted small and medium scale rice millers sustainably by controlling the rice market.

Evaluation of monitoring efficiency of the Department of Excise on Licensed Distilleries

The Department of Excise, established in the year 1913 executes the Excise Ordinance No.8 of 1912 which is chapter 52 of the Legislative Enactments of Sri Lanka; in additions to the amended provisions made by various subsequent amendment Acts. Of the entities manage Government tax revenue, the Department of Excise acquired the third place by present. Duties comprising excise duties, late charges on excise duties, duties on transportation of spirits, license fees, License renewal fees etc. are collected by the Department of Excise. Liquor manufactories, warehouses, toddy taverns and vinegar manufactories are operated under the complete supervision of the Department of Excise. By now, 23 bottling manufactories, 14 distilleries and 8 ware houses are operated. Sprits are distributed to manufactories by distilleries. In addition, certain manufactories import spirits as well.

In choosing this topic underlie such matters which include; the introduction of 6 manufactory companies as very relish, which contribute least income to the government revenue out of 23 manufactories in the implementation of change of station transfer policy of the Department, a large number of officers prefer to serve in these manufactories, reporting problematical situation in respect of these distillery companies, non-reporting industrial crimes and the sole authority to manufactory of these 6 companies is the Department of Excise.

Spirits are received for manufactories from local distilleries or importation and the details of receipt of spirits are posted to the register of spirit receipts (D-33) maintained by manufactories. A permit needs to be obtained for the transportation of spirits herein as well and a levy of Rs.10 per litre of spirit transported is charged. After being entered these spirits into the relevant registers, they are issued to each Vats. Information in respect of issuing spirits to each Vats and the information in respect of production and spirit inputs is posted to the production register (D-7). The quantity of spirit issued to each Vat and transfers are posted to the D-8 register. At the end of the month, the total of this D-8 register are posted to the compilation register (D-9). Accordingly, all processes, comprising the production of spirits in the distilleries, transportation, receipts to the manufactory, storing spirits within the manufactory, issue of spirits to production, production of alcohol and the issue of products to the market are carried out under the strict supervision of the Excise officers. Here in, data included in each register needs to be adjusted as well. Since many mismatches were observed in the examination carried out in 6 manufactories, it is observed that no any supervision whatsoever of the Excise officers in this regard had been made. Such mismatches include, books and records of many manufactories being erased, tipexed and excised. Since mismatches, comprising non-reporting the production of arrack as compared with the quantity of spirits used for production, existence of material differences between the quantity transferred from the issuing Vat in transferring and the quantity received by the receiving Vat, existence of irregularities between the quantities stated in the spirit transport permits and the quantities recorded in books etc. Therefore it is problematical whether this process is monitored by Excise Officers.

Since the Liquor consumption in Sri Lanka stands at a very high level, statistics indicate that it considerably contributed to the government revenue but it was established in several research reports that the indirect cost incurs on unpleasant outturns from Liquor consumption is excessively very high.

Before issuing variety of liquor manufactured for consumption by using spirits, to the market various colorings and flavors are mixed up by manufactures. The responsibility for finding whether all these functions are fulfilled by the manufacturers in terms of Excise Orders rests with Excise Officers. It is also the responsibility of the excise officers for verifying whether Liquor is manufactured in accordance with volumes under the approved standards in the production of each variety of Liquor and the correctness of the information stated in the label. In distillation by separate lagers, samples are obtained and send them to the Government Analyst, get analysis report and examine whether they are in accordance with the specific standard.

Deficiencies observed in 8 distilleries/ manufactories subjected to audit include, non-obtaining reports within the prescribed time, samples obtained had referred to the Government Analyst with a delay, existence of differences of the volumes between the volume stated in the Analysis reports and the volume mentioned in the label etc. Therefore it was not observed that the responsibility of the Excise Officers had been fulfilled.

nce several occasions where violation of Excise Notices and Orders were observed, it was not observed that they have been supervised by Excise Officers. Moreover, it was not observed that sufficient supervision had been carried out by Superintends of Excise and Assistant Commissioners of Excise.

In addition the, police investigations and custom investigations carried out during the past period established that liquor, manufactured by using spirits imported without paying excise duties and custom duties and spirits illegally manufactured locally is available in the open market in plenty due to negligence of the responsible officers those engage in monitoring function of excise duties. Even though minimizing the social damage and the deprivation of government revenue cause therefrom is a prime responsibility of the authorized institutions, fulfillment of such responsibility is questionable as per issues observed by this audit.

A sound internal control system needs to be formulated for the attention of the Excise Officers on the process from obtaining permits for transportation, manufacture of spirits, posting receipts of spirits to registers maintain in the manufactory for the production of Liquor and upto the issue them for production process. Similarly, remedies comprising the analysis of correlation between the usage of raw materials which include, labels, lids and bottles and the production, taking steps to put up a laboratory within the Department to facilitate analytical functions, taking necessary steps to act in accordance with departmental orders, imposition of composition fees, relate to violations, taking stringent legal action having being raided crimes to minimize the adverse effects caused to health due to consumption of illicit drugs, in order to protect the government tax revenue recoverable from manufactories, relevant officers need to take leadership and taking action to get analysis report without delay etc. are recommended from this report.

Maintenance of Buffer Stocks by the Food Commissioner's Department and Performance of Warehouse Utilization

Department of Food Commissioner which was established in 1942 with the view of importing, storing and pricing food items to ensure food security, had carried out the primary functions of implementing the subsidized and ration schemes implemented in the country until the establishment of the Food Stamp System in 1987.Thereafter, the task of distributing wheat flour of Prima Company had been vested to the scope of the Food Commissioner's Department on behalf of the government until completely privatization of the wheat flour trade.

It had been decided to transfer the property and equipment belonging to the Food Commissioner’s Department to the Sri Lanka Agricultural Product Marketing Authority due to the gradual decline of the role of the Department as per the Decision of the Cabinet of Ministers No. අමප / 06/0238/218/010

dated 08 February 2006. However, Cabinet Memorandum No. TMCC / 2008/18 dated 11 August 2008 had been presented by the Minister of Trade, Marketing Development, Cooperatives and Consumer Affairs considering the international food crisis and the uncertainty of future food supply that may result from it. Accordingly, the Cabinet of Ministers had proposed to restructure the Decision of the Cabinet of Ministers dated 27 August 2008 No. අමප / 08/1481/342/016. In this, the approval of the Cabinet of Ministers had been given to cancel the decision taken to transfer the assets and liabilities of the Food Commissioner's Department to the Agricultural Product Marketing Authority of Sri Lanka, to hand over the control of the warehouses and other immovable property of the warehouses other than the food warehouses at Shravasthipura, Polonnaruwa, Ampara, Veyangoda, Narahenpita, Orugodawatta and Ratmalana owned by the Department to the District Secretaries until it is re-determined, to re-start the activities of the restructured Food Department to store 100,000 metric tons of rice per annum with the view of food security with a limited staff.

“Safe, sustainable, nutritious staple grain foods for every household” was the Vision of the Department and maintaining a rice reserve of 100,000 metric tons was a major 3 function of the Department. The capacity required to carry out that vision and role was 120 warehouses island wide valued at Rs.3,269,191,978 with a capacity of 286,946 metric tons and of that, 06 stores of 34,300 metric tons of capacity had been renovated to scientific warehouses incurring a sum of Rs.292,311,945 from 2012 to 31 December 2019 .Ability to safely maintain a stock of quality rice suitable for human consumption for a period of one year or more/less nearly that time , developing the ability to operate the stocks to the local market with the aim of controlling market price fluctuations thereby , maintaining a safety stock required for use in the event of an emergency in the country, contribute to maintaining consumer friendly rice prices had been stated as the purpose of the renovation of the warehouses.

Out of the warehouses owned by the Department, 46 to Government and private institutions with rent, 28 warehouses to Government Institutions without rent, 24 warehouses in the custody of the Department, 20 warehouses in the possession of the District Secretariat and 02 warehouses in an unusable condition had remained.

The primary objectives of this performance audit was the evaluation of the efficiency of maintaining safe rice stocks of 100,000 metric tons per year, evaluation of renovating of 06 scientific warehouses and of their utilization and evaluation of utilizing of other warehouses and examining of the actions taken to recover arrears of rent.

No safe stock of rice whatsoever owned by the Department was kept in the warehouses of the Department from 2012 to 31December 2019, besides the stock of 661.567 MT of rice stored in the year 2012 to evaluate the success of the Scientific Warehouses Pilot Project. A stock of 4267.93 metric tons of rice owned by the Department of Co-operative Commissioners in the year 2014, a stock of rice belonging to the Lanka Sathosa in 2014 and 13,054 metric tons owned by the Co-operative Wholesale Establishment in the year 2017 had been stored in Scientific Warehouses. As a result, instead of achieving the objectives of the Department, it had to work towards achieving the objectives of other public and private institutions. Therefore, due to the inability to achieve the objectives of renovating Scientific Warehouses and achieving productivity and efficiency of warehouses it had failed to control the price fluctuations by issuing of rice to increase the supply of rice to market during the times of shortage of rice in the market.

Failure to utilize the storage capacity due to non-availability of safe stocks of rice, warehouses remained in idle, non-utilization of infrastructure in Veyangoda premises, incurring of high monthly electricity cost for this premises, laboratory remained in idle, inadequate role for quality control officer and grain surveyor posts etc. can be stated as basic observations of this audit. A sum of Rs.111,161,637 was in receivable by 31 December 2019 from the warehouses owned by the Department which were handed over on lease basis and failure to take adequate action by the Department to recover that arrears can also be identified as an another observation.

Evaluation on the Production, Operation, and Sales Processes of the Tile Factories of the Ceylon Ceramics Corporation

The manufacture of clay roofing tiles had been commenced in Sri Lanka in the year 1955, and this industry had been incorporated as Ceylon Ceramics Corporation in accordance with the State Industrial Corporations Act, No. 49 of 1957. It is the vision of the Corporation to become the pioneer in the market for products of tiles, bricks and clay based items with excellence in Sri Lanka whilst the supply of products with higher quality at competitive prices ensuring the customer satisfaction thus bearing social responsibility thereon, is the mission of the Corporation.

With emphasis on vision and mission, 09 factories had been established throughout the country. The reasons attributable to this performance audit include: conserving a product which is harmless to the public health, securing a local industry owned by public sector, being an environmentally-friendly product, and saving the foreign exchange spent on alternative roofing materials.

The performance audit was planned and carried out during August – October, 2019. The techniques used in the audit comprised, collection of documentary evidence, field inspections, physical verifications, and questionnaires. The following matters are included in the summary of material audit findings. Observations are provided with respect to the analysis on products, utilization of machinery and other facilities, and marketing relating to the factory in Eragama which is the only tile factory still in operation.

Instances were observed in which the production had fallen into decline due to old machines in the tile factories often ending up in failures. As the trained employees of the factories had been removed after being compensated, there was a dearth of experienced employees. As such, production process had been continued with employees on contract basis, and the production is carried out on lease basis at the present day; thus, the damaged stocks of tiles are on the increase with quality of the products becoming poor. As stocks of tile with substandard quality had been sold by factories such as the one in Uswewa, such stocks had been rejected, and additional legal expenses had to be incurred to resolve the legal issues arisen in that connection.

Evaluation of real estate management assigned to the Public Trustee

The post of Public Trustee established under the Public Trustee Ordinance No. 01 of 1922 is entrusted with the function of acting as a General Trustee, acting as a Custodian Trustee acting as a Collector of Estates under an order to collect, acting as a Curator of the Estates of a Minor and acting as a manager of the estate of a person of unsound mind. The basis for this performance audit was the persistence of unresolved issues for years regarding the estates appointed by the parties to be the custodian or custodian of their property in order to achieve different aspirations.

Accordingly, an audit was carried out on 15 such estates in the Investigation Division, where the institutional background developed for the efficient and effective discharge of the responsibilities of the Public Trustee, the process of settling the estate and the management of the property and any issues arising thereon after the licensing of the property have been evaluated in this relation.There, the failure to anticipate and meet the resource requirements required for the effective implementation of corporate objectives, the lack of strategic planning, and the inadequacies of the organizational structure due to weaknesses in the organizational structure and administrative structure have not solved the problems that have existed for many years regarding these properties are the issues caused. Furthermore, the interest in identifying, settling, and protecting property assigned to the Public Trustee is diminished and abnormal, slow execution of court orders, unnecessary expenditure of resources and time on tasks contrary to the intentions of the estate, improper use of the property Problems with this property, have been unresolved for long period due to problems such as mismanagement. Due 2 to all these factors, the various economic, social and religious objectives expected by the transfer of their property to the Public Trustee by various parties were not adequately achieved.

Develop strategic plans to achieve the objectives of the heirs by overcoming these problems and weaknesses, correct the weaknesses of the administrative structure, evaluate the progress of the objectives of each estate in a timely manner, conclude cases expeditiously in consultation with lawyers and action to be taken for the conservation of historically valuable property, investment of funds in effective investment avenues, formal agreement between the two parties regarding property leased to other persons, surveying of estates with unauthorized constructions and taking legal action against unauthorized constructions are the recommendation for overcome these issues.

Evaluating the performance of the Thriposha program

Sri Lanka Thriposha Ltd was established with the vision of to create a non-malnutritious, prosperous, proud and healthy nation out of Sri Lankan general public to carry out mission of, to empower the supplier forces that strengthen the local farmer with the concurrence of the General Treasury and with the assistance and supervision of the Ministry of Health for the future of a prosperous, grand and quality Sri Lankan nation in our motherland, to produce the Thriposha supplementary food rich with high, proper and standard nutrients and pack and finish and to continuously supply.

Production of Thriposha was initiated with the assistance of CARE institution in Canada in 1973 with the objective of providing a nutritious additional food to people in our country with nutritious requirements. This entity was registered as a fully government owned Company belonging to the Ministry of Health by the name of Sri Lanka Thriposha Ltd., on 07.09.2010 under the Companies Act no. 07 of 2007. It was able to be established as a government owned Company under the Ministry of Health after submission of the Cabinet Paper no. 10./1236/415/039 dated 23/06/2010 to the Cabinet of Ministers and getting the same approved.

Maize and soya beans are the raw materials used in largest quantities for production of Thriposha, which amounts to 66% and 30% in order. These grains are purchased from local farmers through Farmer Associations under certified prices. In addition, the Thriposha additional food is produced mechanically in the Thriposha Manufactory by collecting the other materials such as milk powder, minerals and vitamins required for this purpose. While, the additional food Thriposha is full of the highest nutritious quality, this includes 61.9% of Carbohydrates, 20.0g of Protein and 7.8g of Fat. In addition, it also contains minerals, Vitamin, fiber etc. Thriposha is highly helpful to cater to the nutritional deficiencies that cannot be fulfilled by the main diet and a pregnant mother, or a breast-feeding mother or an infant with nutritional deficiencies will receive two 750g packets of Thriposha each per month free of charge.

This Thriposha additional food required for Thriposha beneficiaries amounting to approximately a million scattered throughout the island is produced in the

Thriposha Manufactory situated in Kapuwatta, Ja-ela and distributed to the Divisions of Medical Officers of Health all island. In addition, Thriposha additional food is also distributed to estate residents and 09 centers in the Department of Probation and Child Care. In addition to the subsidiary of Thriposha additional food, the entity is producing additional product named Suposha by targeting the market.

This Government Company in which around 190 employees are currently engaged in the service had earned a pre-tax loss of Rs. 0.41 in year 2015 and pre-tax profits of Rs. 0.46, 0.63 and 0.78 billion in 2016, 2017 and 2018 respectively.

Because of, Media and Internet discussion in the society about infant mortality due to malnutrition and reports of United Nations Food and Agriculture Organization reported that Sri Lanka is the second most malnourished country in the world, even though the government spend about Rs. 3 billion annually, carried out the performance audit for the evaluation of present operations of this government company.

The objectives of this performance audit were to evaluate whether the company economically, effectively and efficiently conducting the functions of preparing basic plans to get necessary funds, obtaining final raw material for production of Thriposha, quality control in the production and distribution as well as utilization of human and physical resources.

In the process of getting required allocations to production of Thriposa, The company had requested allocations form 2018 budget for the planned two silos with the capacity of 4000 metric tons each to store the raw material, the allocations were not received.

Loss of production due to delays in procurements, not preparing a detailed plan, not entering agreements with supplier and lack of follow up on whether supplier were providing locally produced raw material are the main issues in related to obtaining raw material to the Thriposha production.

At the verification of records of year 2017,2018 and up to June 2019, it was noted that the company did not achieved their production targets and shortage of raw material and shortage of man power were the main factors. Although Plan and layout of a food production company should be design in a way that protects the quality of the product, there were drawbacks to doing so.

When considering the nutritional composition of the product along with the relevant specifications, deficiencies and excesses of nutrients required to contain 100 g of Thriposha were observed. In controlling the quality manufacturing sector, product quality deterioration was observed during the raw material cleaning process, raw material mixing, packaging and storage.

It was further observed that, even though the company had been advised by the consulting firms on 14.02.2017 to obtain ISO 22000 and HACCP quality certifications for its products but no action has been taken to obtain those quality certificates after rectifying the deficiencies mentioned therein.

Distribution of Thriposha had not been done accordance with the demand but the company moved to the production of Suposha for external market. When there was a shortage of raw material for the production of Thriposha, it was not observed that, use of raw material for Thriposha production by stopping the production of Suposha. Both Thriposha and Suposha productions were made parallellywithout dominating Thriposha production. Furthermore, it was seen that there are instances of non-compliance with the regulations of the circulars (01-04/2016) regarding the distribution of Thriposha, deficiencies in the maintenance of records in clinics and deficiencies in the storage of Thriposha in a manner that protect the quality of the product in the offices of the Medical Officer of Health and in maternity and infant clinics.

The audit observed that there was no adequate monitoring system to maintain the overall performance of the Thriposha program, further it appears that the performance of this program is not at an optimum level due to non-supervision of processes such as purchase of raw material, production, distribution, storage and record keeping, non-delivery of products to the relevant parties on time. By overcoming deficiencies, the vision of the Institute to create a non-malnutritious, prosperous, proud and healthy nation out of Sri Lankan general public and the government's intentions can be made a reality.

Evaluation on the Performance of Fulfillment of the Functions of the Human Rights Commission of Sri Lanka

As mentioned in Chapter III of the Constitution of the Democratic Socialist Republic of Sri Lanka, the fundamental rights include: freedom of thought,conscience and religion; freedom from torture;right to equality before the law; freedom from arbitrary arrest,detention and punishment, and prohibition of retrospective penal legislation; freedom of speech, assembly, association,occupation,movement& etc.; and, right of access to information. The Human Rights Commission is the only institution established in Sri Lanka that the citizens of Sri Lanka may lodge complaints to when the aforementioned fundamental rights are violated or such violations are imminent. In order to give force to the commitment of Sri Lanka as a member of the United Nations in protecting human rights, and to perform the duties and obligations imposed on Sri Lanka by various international treaties at international level; as well as to maintain the standards set out under the Paris Principles in 1996 by the Government of Sri Lanka, the Human Rights Commission of Sri Lanka was established through the Act, No. 21 of 1996. The Human Rights Commission of Sri Lanka, established to promote and protect the fundamental rights in the country, functions as an independent entity.

Miscellaneous issues of unfavorable nature are resulted in due to people being deprived of equality in the society due to violation of fundamental rights. Persons being aware of the Human Rights Commission do lodge complaints when their rights are violated. Due to reasons such as, taking a longer period to provide recommendations for the complaints made, and the failure of the relevant institutions in implementing the recommendations made after inquiring the complaints, this performance audit was carried out in order to determine the reasons attributable thereto.

It is the objective of this audit to evaluate the performance of the methodology relating to the steps from the moment of receiving a complaint on the violation of fundamental rights up to the implementation of the recommendation given to the relevant party after inquiry of the complaint. During the audit, only the recommendations given to the Sri Lanka Police, Ministry of Education, and the Department of Pensions were taken into consideration.

Due to 98 posts fallen vacant out of the 118 posts approved for the Commission to perform the duties assigned thereto, it was the main audit observation that investigations of 3576, 5710, 10201, and 8812 files remained incomplete by the end of 4 the years 2015, 2016, 2017, and 2018 respectively whilst 2-6 years were taken to resolve the complaints.

Where any authority or person or persons to whom a recommendation under the preceding provisions of this section is addressed, fails to report to the Commission within the period specified in such recommendation or where such person reports to the Commission and the action taken, or proposed to be taken by him to give effect to the recommendation of the Commission, is in the view of the Commission, inadequate, the Commission shall make a full report of the facts to the President in terms of Section 15(8) of the Human Rights Commission of Sri Lanka Act, No. 21 of 1996. However, it was no so done. Although the inefficiencies of the Act had been mentioned in the strategic plan of the Commission, no action had been taken since the year 1996.

Although the inefficiencies of the Act had been mentioned in the strategic plan of the Commission, no action had been taken since the year 1996.

The 21 vacancies out of 22 posts of Legal Officer along with all 47 posts of Human Rights Officer remaining vacant at the Inquiry and Investigation Division of the Commission attributed to the delay in providing recommendations. According to Section 30 of the Act, No 21 of 1996, the Commission shall submit an annual report to Parliament of all its activities during the year to which the report relates. Such report shall contain a list of all matters referred to it, and the action taken in respect of them along with the recommendations of the Commission in respect of each matter; nevertheless, annual reports relating to the period, 2016-2018 were not submitted to the Parliament. Furthermore, instances were observed in which recommendations of the Commission had not been compatible with the laws and rules of other institutions whilst such recommendations had contradicted with that of the institutions conducting synonymous investigations.

Evaluation on the Role to be played for Ensuring the Qualitative Improvement in the Foreign Employment Sector

The foreign employment sector makes a remarkable contribution to the national income of Sri Lanka, and according to the statistics of the Central Bank of Sri Lanka, an income of Rs. 1,138,124 had been earned through that sector in the year 2018. The said amount is equivalent to 7.55 per cent of the national income that can be expended, and represented 96 per cent of the foreign exchange earnings. Furthermore, having contributed to decrease the unemployment in the country to 4.41 per cent, the foreign employment sector makes an enormous impact on the national economy of Sri Lanka.

The demand for unskilled workers in the job market had become limited due to reasons such as: the likely fluctuations in the foreign labour market with respect to the demand for labour in consequence of economic depression, political turmoil and clashes, changes in policies restricting migrant labour, automation and technological breakthroughs, and competition among countries providing labour exports. As such, measures required for the improvement of technical and vocational training process should be taken in accordance with international standards to strengthen the supply of skilled labour thereby paving way for the Sri Lankan workers to enter the semiskilled and skilled labour market thriving in difference areas thus discouraging the unskilled workers proceeding abroad. The plight of females migrating for foreign employment have given rise to certain unfavourable issues at present such as, social crisis, exploitation of labour, non-payment or underpayment, and violation of human rights, physical abuse, for instance.

The recruitment of female migrant workers in the foreign employment sector in the Middle East region has become decisive at the present day, and the crises, having arisen there from, have become a hindrance to the qualitative growth in this sector, are the facts on which careful attention was drawn in this audit. With a view to implementing the national policies and executing action plans relating to the sector so as to bring changes to the situation mentioned, it is the objective of this audit to evaluate the role being played for promoting the foreign employment sector by the 3 | P a g e Ministry of Foreign Employment, the main entity that regulates this sector together with the Bureau of Foreign Employment affiliated thereto along with the Ministry of Vocational Training , the key institution responsible for creating skilled workers and the vocational training institutions functioning there under. It is the scope of this audit to analyze current trends in the foreign employment sector, identification of factors necessary for a qualitative improvement in that sector, and elaboration on miscellaneous institutions related to the foreign employment.

Although the foreign employment sector has become a strengthening factor for the local economy, it is felt that the country needs a long-drawn-out strategy which should be able to ensure a powerful economy thereby retaining the labour of the youth within the country. As for such a strategy, it is necessary to consider the social impact caused by the foreign labourers migrated from countries such as, India, Maldives, and China due to scarcity of labour prevailing in several industries in Sri Lanka - specially the construction industry, whilst taking into account the long term effects.

The Environmental Audit Report on the Plastic Importing, Management of Usage and Post Usage in Sri Lanka

The meaning of plastic "to change shape without breaking" has been derived from the Greek word "Plastikos". The most commonly used plastic are classified under 07 categories in the present world.

The total quantity of plastic imported to Sri Lanka during the 07 years from 2012 to 2018 was 3,353.9 million kg and costing Rs.184,300.9 million. Plastic imports are imported under 04 main categories such as raw materials, finished products, furniture and toys. In 2018, 64% of the total plastic were imported as plastic raw materials.

Approximately 30 per cent of the quantity of plastic imported to Sri Lanka is recycled annually in systematical manner. Accordingly, 30% of the remaining 70% is dumped directly into the environment. The audit aims to evaluate the effectiveness of several plastic recycling programs currently being implemented, including the increasing use of plastic and even simultaneous post-plastic recycling programs not function at expected level and discharging the plastic waste in non-environmentally friendly manner. At the performance checking of 100 major centers in Sri Lanka in regard to the post usage plastic management process, there were 26 centers without an Environmental Protection License and the license had been expired in 28 centers, at the date of 31st August 2019.

Even though Rs. 452.7 million has been invested in a project aimed at developing some exemplary local authorities that perform optimally in plastic polythene waste management as at 31 December 2018.It was observed that the performance of the project was inadequately met with the responsibility by the parties concerned. It was also observed that the objectives expected to achieve by the CEA by issuing 06 Gazettes notifications in 2017 for achieving the eco-friendly nature of polythene plastic production, trade, minimization usage and post-usage management were not adequately addressed.

Although various programs have been implemented for the post usage of plastic, the success of these programs has been low and the performance has been low in implementing Cabinet decisions of the Ministry of Mahaweli Development and Environment regarding the post usage of plastic and polythene.

Reviewing the current legal status of plastic polythene and the necessary amendments and it was observed that important to focus on expeditious measures for the import, manufacture, trade, reduction of usage and taking immediate action for post usage management of plastic polythene. It was observed that the importation of plastic polythene should be discouraged and the usage of plastic polythene in the country should be reduced, support the implementation of post-management practices at rural level and further strengthen the market structure for the implementation of post-use management programs.

The Environmental Audit report on the Pesticides Importing, Usage and its' effect on Environment

Pesticides are types of chemical inputs including herbicides, fungicides and insecticides, which are used for agricultural purposes. Although the use of Pesticides for the control of living and plant species has begun in the past, it was observed that there is gradual improvement in the use of Pesticides in the present. The required regulations are provided under the Pesticides control Act No.33 of 1980 storing, processing compounds, selling, distributing for sale and controlling the use of pesticides, and the monitoring and preparing provision are conducted by the registrar office of pesticides. The objective of the performance audit was to assess whether the usage of Pesticides, is under the control of particular monitoring institutes of pesticides and it is applied according to the regulations, provision and standards to minimize the health and environmental matters.

The quantity of pesticides imported to Sri Lanka from the year 2013 to the year 2017 was 28,640 metric tons and Dollar million 225 has been expended for that. The total quantity of active ingredients included in the imported pesticides was 200 and at the same time there were 80 registered importers who has imported pesticides with the approval of registrar office of the pesticides as at 30 June 2019. It was observed that all the pesticides are not tested by the local laboratory testing the quality of the pesticides are certified in the present based on the quality certificated issued by the countries of which the pesticides are produced. Furthermore, it was observed that the process of laboratory testing and the quantity are conducted in the laboratories, under limited parameters using 18 ingredients out of 200 active ingredients with the prevailing equipment and human resources are not satisfactory.

Furthermore, it was observed neither the process of examining the issuing of the certificates for selling pesticides nor the monitoring of pesticide retailors are conducted qualitatively and regularly. It proved that they have recommended and decided the pre harvesting period and 219 maximum residual levels of pesticides used for agricultural activities, for 60 active ingredients of the 110; accordingly, the pre harvesting period and the maximum residual levels established in Sri Lanka was not decided for the other 50 active ingredients.

It was reviewed by the 30th of September 2019 the process of disposing expired pesticides were done successfully in an environment friendly manner. Furthermore, it was revealed that 2057 liters of liquid and 24153kg of solid pesticides have been stored in several places belong to 1 government sector without disposing up to 30th September 2019. At the same time, those have been stored insecurity without taking necessary steps to dispose them in an environmentally friendly manner.

Though imported pesticides are required to undergo a laboratory testing, there hasn't been done such laboratory testing due to lack of human and physical facilities installed in the custom. Then the imported pesticides are cleared in accordance with quality assurance reports submitted by the importers. Furthermore, it was observed that the human and physical resources have not been adequately installed to do the laboratory testing the samples of all the pesticides imported at the Registrar office of pesticides.

It was observed during the sample testing that the farmers are not using the pesticides in a favorable manner to environment and human health in cultivating the crops such as paddy, leafy vegetables, pineapple, mango, chilies, papaya and vegetables which are cultivated in Ampara , Kaluthara,matara , Gamphaha , Kurunagala , Puttalama and Nuwaraelliya areas of the country. At the same time, it was observed that it was not adequately carried out the process of regulate attached training and continuous updating of knowledge for the officers by the responsible agencies to monitor and control the usage and post usage of pesticides.

Despite the program GAP (Good Agricultural Practice) has been introduced to implement good agricultural practices that are environment friendly and appropriate for human health and the progress level of implementing the program was very low. It was observed that taking necessary steps to achieve the desired goals of this program lead the path to create more successful culture of agricultural.

Marketing of pesticides is primarily done by personal dealers; in the meantime, most of the dealers were not given a formal training regarding pesticides. At the same time farmers are used to get advice from the pesticides retailers who are not formally trained in dealing with pesticides. Although it is stated that the marketing of pesticides should be done under the certificate issued by the Registrar office of Pesticides, by the year 2018, only 1079 pesticide retailers had been obtained the particular certificate among 2294 pesticides retailers all over the island.

Accordingly the necessary steps should be taken urgently to accelerate the process of the responsible institutions in importing, usage and disposing of expired pesticides and used empty packing in a formal, efficient and environmental friendly way and also the potential and already happened harmful effects to human health and the natural environment can be minimized by implementing above mentioned steps.

Environment Audit Report on International Ramsar Wetland

Wetlands are unique and biodiversity ecosystems that form the background of human civilization in the world. Due to the uniqueness of ecosystems the international RAMSAR Wetland Convention was established in 1971 as an instrument for the protection and management of wetlands universally. As of 2018 there were 2,331 RAMSAR wetlands identified worldwide and Sri Lanka has claimed 06 Zones.

With the growth of population and urbanization, limited use of land was increased and also, it was observed that threats to the sustainability of wetlands have been increased. Those ecological important areas are facing a serious challenge due to human activities and lack of adequate attention by the institutions, which have the authorities concerned the wetlands are in danger of being destroyed. The purpose of this audit was to examine whether their duties have been accomplished by relevant institutions and to discuss regarding the related issues. Reclamation of marshlands, removal of forest cover, excessive availability of wetland resources and the rapid spread of invasive species and the biomass species are some of the problems. Bundala, Wilpattu, Kumana, Anavilundava, Vankalei, and Madu Ganga have been designated as national parks and sanctuaries of international importance as the main RAMSAR Wetlands in Sri Lanka. Although Sri Lanka is included as a member country under the International RAMSAR Wetlands Convention, no separate legal systems has been established in Sri Lanka for the implementation of the convention. It was observed that the RAMSAR Wetlands are regulated under the provisions of the Ordinance of Fauna and Flora protection. Since the declaration of the RAMSAR Wetlands, there has been insufficient research on the sustainability of biodiversity in these wetlands. It was also observed that, although the number of strategic and national plans have been prepared for the conservation of biodiversity, no specific plan has been prepared and implemented for performance evaluation and the effectiveness regarding the zones of RAMSAR Wetlands.

Although the boundaries relating to areas identified as RAMSAR Wetlands have been published in the Gazette at the date of audit, attention has not been adequately addressed to mark the boundaries and the streamlining of the ownership of some lands pertaining to the RAMSAR Wetlands. It was observed several illegal activities which are not environmental friendly, such as unauthorized building construction inside the RAMSAR wetland and reclamation of land in the inductive zone and also observed that, a great obstacle for the biodiversity in the conservative areas and system of lakes due to the spread of invasive species. It has been observed that the staffing and the basic facilities are not adequately provided for the conservation of RAMSAR Wetlands. And also, it was observed that a great attention should be paid for conserving of these wetlands which are of universally importance. Furthermore it is observed that further intervention of the government should be required to conserve these wetlands which are of higher value of biodiversity, historically and archaeologically important and provide many ecological services such as flood controlling, an area of water source which is a paradise for many endangered species of fauna and flora and many migratory birds species.

Investigation Audit

Observations

- Participating in foreign tours contrary to the provisions in the Circulars.
- Inactive of two LED Pannels installed for advertisements
- Non-reparing of Waste Vaccum Collector
- Building of an Information center and a Musium deviating from the plans and drawings
- Printed and Distribution of Text Books to children of the officers
- Not remitting the EPF Contributions deducted from the Employees and the ETF contributions
- Over payment in purchasing sand for the construction of dam of the Kudaoya tank
- Establishing a software system at Panadura Urban Council without proper approval
- Puchasing a CAB vehicle to the Panadura Urban Council without allocations
- Giving a foreign Training to a officer who had not been permanent in the post.
- Not remitting the VAT collected to the Inland Revenue Department
- Not working according to the instructions of the Election

Commissioner

- **Weaknesses in Contract Administration**
- **Shortcomings of construction of water channel of the Maha Galgamuwa**
- **Misplacing of vibrating the roller**

Investigation Audit

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

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

When the Special Investigation Unit focused its attention on the important and urgent matters that need to be addressed (Representations) during the year under review examined and significant observations relevant to the investigations conducted during the year 2020 are summarized below.

Participation in Special Training Programmes and Tours

A sum totallingRs. 18.08 million had been spent by the North Central Provincial Council on behalf of officers who have proceeded abroad for special training programmes in the years 2017 and 2018. Contrary to circular No. F.M.01/2015/01 of 15 May 2015 of the Ministry of Finance and to provisions of the Establishments Code, a sum of Rs.1.23 million equivalent to approximately US$7,980 had been paid and action had not been taken to recover the said irregular payments from relevant officers even by the end of the year under review.

Installation of Two LED Panels

Two LED panels had been installed on 20 March 2020 at the entrance and exit gates of the Haggala Botanic Garden with a view to displaying advertisements. Key functions had been identified according to the National Botanic Garden Development Plan of the Department of National Botanic Gardens and functions including preservation of plants of those key functions should have been further performed. Even though two LED Panels had been installed by spending Rs.6.48 million neither paying attention towards the said priorities, nor preparing accurate specifications and contrary to the Procurement Plan of the year 2019, those panels had remained idle even by 31 December 2020.

Waste Vaccum Collector

A waste vaccum collector had been purchased by spending Rs.2.24 million on 02 October 2018 for cleaning purposes of the Royal Botanic Garden, Peradeniya. The said machine had been inoperative before expiry of its guaranty period and the supply company had been made aware thereon in writing at several times. The relevant company had not responded therefor. However, the Department of National Botanic Gardens had not taken action even by the end of the year under review to repair the said machine or to recover the amount spent therefor from responsible parties.

Construction of an Information Centre and a Museum

A sum of Rs.25.2 million had been estimated for the construction of an information center and a museum with a view to improving the tourism service in the Royal Botanic Garden belonging to the Department of National Botanic Gardens. Even though those constructions should have been completed by 31 December 2019, the museum could not be opened even by 12 November 2020 due to failure to prepare the internal plan of the museum accurately.

Manufacture of Exercise Books

Exercise books had been manufactured by deploying officers of the Civil Security Department from the year 2015 to the year 2020 and a sum of Rs. 88.15 million had been spent therefor during the said period. Even though nearly 1,769 soldiers had been deployed in the manufacture of exercise books during the said period, salaries and allowances paid to them by the Government had not been added to the said cost. Exercise books manufactured in that manner had been distributed free of charge among children of members of the SevaVanitha Unit of the Civil Security Department.

Payment of Contributions to the Employees' Provident Fund and Employees' Trust Fund

A total sum of Rs.24.43 million for contributions payable to the Employees' Provident Fund and Employees' Trust Fund of labourers deployed in the deputy project office and residential engineering offices of the Uma Oya Downstream Development Project, had been paid in the years 2019 and 2020 to 06 institutions who had supplied labour service as above. According to statements obtained from a sample of labourers who serve at present, contributions to the *Employees'* Provident Fund and Employees' Trust Fund had been deducted from their salaries. However, those moneys had not been credited to the Employees' Provident Fund and Employees' Trust Fund. Those payments had been made without confirming that the contribution payable to the Employees' Provident Fund and Employees' Trust Fund are credited to those Funds in favour of labourers by relevant labour supply institutions.

Purchase of Sand for the construction of the Dam of the KudaOya Reservoir

- According to the estimate approved for the purchase of sand necessary for the construction of the dam of the KudaOya Reservoir under the *Uma Oya* Downstream *Development Project, price of 01 cube of sand* (Furnishings, Transporting, Piling, Placing and Compacting well grated sand for Toe filter haul 15km) had been Rs. 6,452. As sand had been purchased at a rate of Rs.10,100 exceeding the estimated price of one cube of sand by 56 per cent without proper approval, a sum of Rs.399.50 million had been overpaid.
- Supply of sand for the construction of the dam of the KudaOya reservoir had been carried out by the same supplier from the year 2017 to the year 2020 and sand had been purchased at the rates of Rs. 6,890, Rs. 9,500 and Rs.10,100in the years 2017, 2018 and 2019 respectively. Accordingly, the increase in the price within two years had been 46 per cent.
- In estimating the price of sand required for the construction of the dam of the KudaOya Reservoir in the year 2020, price of one cube of sand had been calculated as Rs.10,200 considering the distance of supply of sand as 20 km and the market price of one perch of land as Rs.28,000. Sand had been supplied and transported from the watershed of KudaOya, located 200 m away from the dam of the reservoir. Further, samples of sand supplied for the dam of the KudaOya Reservoir had been examined at four instances and two out of them had been substandard.
- According to Condition No.02 of newspaper advertisements published on 25 April 2019 and 20 September 2019 for the purpose of purchasing sand as per the National Competitive Bidding Procedure (NCB), it had been specified that in supplying sand, the supplier should have all licences such as mining licencesand transport permits. However, the necessity of transport permits for sand had not been informed in bidding documents issued to the supplier selected out of two suppliers who had submitted bids competitively while it had been mentioned in bidding documents issued to the supplier who had not been selected. The selected supplier had supplied 14,812 cubes of sand within the period of 4 years neglecting the necessity of transport permits. As the said supplier had not obtained permits which should be obtained in compliance with local laws, rules and regulations, permit charges of Rs. 4.85 million had been lost to the Government.
- In terms of Guideline 2.7.5 of the Government Procurement Guidelines, the limit of entering into agreements for the purchase of sand for the Uma Oya Downstream Development Project had been Rs.50 million and the Deputy Project Director had been made aware thereon by the letter dated 17 February 2016 of the Project Director. However, The Deputy

Director had entered into 02 agreements for supplying sand exceeding the said authorized limit.

Installation of a Software System in the Panadura Urban Council and its Operation

The cost estimate for the installation of a computerized network system in the Panadura Urban Council had not been submitted for approval of the Tender Board, Monetary Committee or the Council. A contract agreement had been entered into on 21 March 2016 for Rs.2.96 million for the installation of a software system with 09 accessories based on such unapproved estimate.

Only 04 out of 09 accessories of the software system had been installed and a sum of Rs.1.57 million had been paid by 22 November 2018. Even though a sum of Rs. 328,262 should have been paid by the end of the year 2020 as maintenance and service charges of those accessories, a sum of Rs.636,821 had been paid. Accordingly, a sum of Rs.308,559 had been overpaid. The Urban Council had not taken action even by the end of the year under review to recover the said overpaid amount. Systems such as accounts management, management of salaries and human resources and payment of stall rentals online, installed specifically in the software system had remained idle even by the end of the year 2020.

Raising Funds for the purchase of a Cab Vehicle to the Panadura Urban Council

Savings of provision made under Objects allocated from budget proposals in the years 2017, 2018 and 2019 without making provision by passing a budget proposal for the purchase of a Cab vehicle to Panadura Urban Council, had been brought to account as expenditure thus, resulting in a creditors balance. A sum of Rs. 12.50 million to be spent for welfare of people in the areahad not been utilized therefor thus, resulting in a creditors balance.

Providing a Foreign Training to an Officer not confirmed in the Service

The Assistant Director (Development) of the Institution had been made to participate in 40-day Course on Planning & Promotion of Agree & Food Enterprises held in India from 21 January to 01 March 2019 by the Director of the National Food Promotion Board. In terms of Section 3.1 of Chapter XV of the Establishments Code, an officer on probation should not be sent abroad for study or training except to obtain a qualification required for confirmation in terms of his appointment. However, the said officer had been made to participatein the above training during his probation periodand a sum of US$ 1,200 (Approximately Rs.217,980) had been incurred therefor by the institution.

In terms of Sections 4.1 and 4.2 of Chapter XV of the Establishments Code, a public officer sent abroad for study or training over one month, should be required to sign an agreement before he leaves the island, undertaking, to serve the Government for the period of obligatory service. Nevertheless, such agreement had not been entered into therefor.

Non-payment of Value Added Tax recovered from Clients to the Inland Revenue Department

The Value Added Tax recovered from the invoiced income for supply of services by a certain private institution had not been paid to the inland Revenue Department. A sum totalling Rs.67.51 million including the unpaid income tax along with the additional tax and penalties imposed therefor by the Inland Revenue Department was payable by the said company to the Inland Revenue Department. Out of the said payable amount, a sum of Rs.6.00 million had been paid by the said company to the Inland Revenue Department by cheque. The aforesaid private institution had been registered for Value Added Tax on 26 August 2019. Even though arrears of tax revenue remained, it had been notified by the Letter of the Commissioner of Inland Revenue, Dambulla dated 16 September 2019 that there was no objection of issuing a clearance certificate as cheques had been provided for the additional tax and penalties and the file had been activated,. The said private institution which had been registered for Value Added Tax, had not submitted tax returns for 35 quarters (except for second, third and fourth quarters of the year 2011) from the fourth quarter of 2009 up to the first quarter of 2019. However, the Inland Revenue Department had failed to take action against the said institution in terms of paragraph 21(10) of the Value Added Tax Act.

According to a request made by the owner of the said company during the period in which the Value Added Tax of that company had been inactive, based on completing blank tax forms on 5 September 2019 for 3 quarters of 2015 and from the second quarter of 2017 to the first quarter of 2019 by the Dambulla Regional Office, the Assistant Commissioner and the Commissioner of the Dambulla Regional Office had issued letters of confirmation on 17 September 2019 that there were no arrears and that the tax account was active.

The Government had sustained a loss of Rs.8.19 million that should have been recovered as Value Added Tax for invoices valued at Rs.54.68 million to 06 institutions which had supplied services to the Colombo Commercial Fertilizers Ltd. during a period in which the said private institution had not been registered for Value Added Tax.

The Colombo Commercial Fertilizers Ltd. had obtained services to an invoiced value of Rs.154.09 million during the period in which the registration of Value Added Tax of the said private institution was inactive. A sum of Rs.16.41 million had been paid by Colombo Commercial Fertilizers Ltd. to the said private institution during the period from June 2013 to March 2019 without ascertaining the activation of Value Added Tax. The Value Added Tax so paid, had not been paid to the Inland Revenue Department by the said private institution.

Before making payments to suppliers, the Ceylon Fertilizer Company Ltd. had made an illegal payment of Rs.5.94 million on Value Added Tax so as to validate the recovery of Value Added Tax as at the date of payment without ascertaining the activation from the Inland Revenue Department. Action had not been taken as well to provide information of the suppliers who had paid such tax.

Failure in taking action according to Instructions of the Commissioner General of Elections

It had been mentioned by letter No.EC/EDR/INFO/PF-2020 of 22 March 2020 of the Commissioner General of Elections that Heads and members of local authorities who contest at the Parliamentary Elections should obtain proper approval for leave until announcement of elections results are concluded and that if any responsibility is held by such a person, to assign it to another member of the relevant institution. Three members including the Chairman of the GalgamuwaPradeshiyaSabha had not taken leave in terms of circulars and had participated in meetings and obtained allowances totalling Rs.273,000 therefor. Furthermore, after the date of handing over of nominations for the election by the Chairman, he had entered into 25 contract agreements totalling Rs.12.87 million. Moreover, the Chairman of the RuwanwellaPradeshiyaSabha had participated in election activities without taking leave and obtained allowances totalling Rs.118,000 in March and April 2020 as monthly allowance, travelling expenses, telephone allowances and Corona relief loan which could not be obtained legally. Further, he had entered into 07 contract agreements after the date of handing over nominations for the election. The Cab vehicle of the PradeshiyaSabha had been used by the Chairman from 22 to 28 March after handing over nominations for the election and action had been taken to pay a sum of Rs.99,393 as fuel expenses for the relevant period, a sum of Rs.27,000 as travelling expenses up to the date of returning the Cab and a sum of Rs.8,886 as overtime for the Driver for serving on holidays. It was observed that the running charts of the Cab of the RuwanwellaPradeshiyaSabha had been faked and that 2,984.2 litres of fuel had not been pumped into the vehicle by faking such records and that 191 litres of fuel in February and 288 litres of fuel in March valued at Rs.49,816 had been pumped into the vehicle exceeding 750 litres of fuel approved for a month for the official vehicle of the Chairman. A quantity of 3,326 litres of fuel valued at Rs.345,904 had been used during 09 months in the year 2019 exceeding the approved limit.

Weaknesses in Contract Administration

An overpayment of Rs.8.14 million had been made relating to the year 2018 to two private companies which had been awarded with the contract of supplying raw food to the National Institute of Mental Health I,II of Angoda and the Apeksha Hospital, Maharagama. Out of the said overpayment, a sum of Rs.1.32 million had been recovered by the administration. Accordingly, a further sum of Rs.1.48 million had to be recovered. However, the said recovery had been suspended by the Procurement Committee.

Construction of Mahagalgamuwa Catchment Canal

The ten year project of restoration of the Mahagalgamuwa tank in the Kurunegala District had been implemented by the Irrigation Department and the project was planned to be completed by the end of the year 2019. According to the progress report prepared as at 31 August 2020 by the Department, the overall progress was revealed as 89 per cent even by 31 August 2021. Even though the project had been implemented throughout 03 years, a detailed plan had not been prepared therefor. Moreover, the canal relating to the project had been divided into 15 parts and a plan prepared thereon by including target dates. Further, a number of 93,605 machine hours had been estimated for 07 machines for earthwork in constructing the proposed canal. Nevertheless, agreements had been entered into for 137,892 machine hours. Accordingly, the estimated number of hours had exceeded by 44,287 machine hours and as such, the cost incurred therefor had been Rs.75.78 million. The request made by the Regional Irrigation Engineer of Galgamuwa that earthwork should be carried out by direct contribution of labour and entering into agreements for 44,287 machine hours, exceeding the plan without approval, was revealed as providing an opportunity for an improper action.

Misplacement of the Vibrating Roller

The vibrating roller bearing No.IDVR-86 valued at Rs.700,000 which was in the Galgamuwa Regional Office of the Irrigation

Department, had been misplaced. It had been revealed to the Board of Inquiry that this vibrating roller had been loaded into a lorry by an outside person who is not in the Irrigation Department and the Field Assistant who is serving on casual basis. Action had not been taken thereon by the Regional Engineer or the Director of Irrigation, Kurunegala. Moreover, the Regional Irrigation Engineer should have taken responsibility for all machinery in the custody of the Regional Engineer's Office. An adequate internal control system had not been established relating to issuing and handing over of machinery of the office and equipment in work sites.

Financial Statements of National Audit Office For The Year Ended of 31 December 2020

Subjects

Statement of Financial Position

As at 31 December 2020

	Actual	
	2020	**2019**
	Rs.	**Rs.**
Non Financial Assets		
Property, Plant & Equipment	525,720,485	391,745,228
Financial Assets		
Advance Accounts	228,179,389	226,919,272
Unsettled Impest Balance by other Head	-	6,802,571
Cash & Cash Equivalents	64,784	-
Total Assets	**753,964,658**	**625,467,071**
Net Assets / Equity		
Net Worth to Treasury	115,790,810	164,010,576
Property, Plant & Equipment Reserve	525,720,485	391,745,228
Rent work advance reserves	-	585,000
Current Liabilities		
Deposits Accounts	112,388,579	62,323,696
Imprest Balance	64,784	6,802,571
Total Liabilities	**753,964,658**	**625,467,071**

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

W.P.C.Wickramartne
Chief Accounting Officer
Auditor General
Februry 2021

G.S.Karunarathne

Chief Accountant
Februry 2021

Format of the Preparation of Financial Statements

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

Basis of Reporting

Reporting Period

The reporting period for these Financial Statements is from 01st January to 31st December 2020.

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 2020.

Statement of Financial Performance

For the Year Ended 31 December 2020

Budget		Actual		
2020		2020		2019
Rs.		Rs.		Rs.
	Revenue Receipts			
250,000,000	Non Tax Revenue & Others	302,494,749		276,697,315
250,000,000	**Total Revenue Receipts (A)**	302,494,749		276,697,315
	Non Revenue Receipts			
-	Treasury Impress	1,367,393,037		1,527,971,140
	Deposits	316,938,095		125,055,685
49,000,000	Advance Accounts	63,638,620		72,466,341
-	Other Receipts	72,347,403		74,656,439
-	VAT Receipts	17,382,954		50,146,355
49,000,000	**Total Non Revenue Receipts (B)**	1,837,700,109		1,850,295,960
299,000,000	**Total Revenue Receipts & Non Revenue Receipts C = (A)+(B)**	**2,140,194,858**		**2,126,993,275**
	Less: Expenditure			
	Recurrent Expenditure			
1,625,700,000	Wages, Salaries & Other Employment Benefits	1,451,777,938		1,453,700,074
302,500,000	Other Goods & Services	273,604,910		327,927,115
16,000,000	Subsidies, Grants and Transfers	14,628,903		13,622,630
-	Other Recurrent Expenditure	141,401		127,327
1,944,200,000	**Total Recurrent Expenditure (D)**	**1,740,153,152**		**1,795,377,146**
	Capital Expenditure			
38,500,000	Rehabilitation & Improvement of Capital Assets	21,285,201		26,759,417
20,000,000	Acquisition of Capital Assets	19,016,378		23,192,765
3,000,000	Capacity Building	323,300		61,959,414
61,500,000	**Total Capital Expenditure (E)**	**40,624,879**		**111,911,596**
	Main Ledger Expenditure (F)			
-	Deposit Payments	266,873,212		69,596,760
-	Advance Payments	65,483,738		82,113,840
-	VAT Payments	17,382,954		54,688,488
-	**Total Main Ledger Expenditure (F)**	**349,739,904**		**206,399,088**
2,005,700,000	**Total Expenditure G = (D+E+F)**	2,130,517,935		2,113,687,830
-	**Imprest Balance as at 31st December 2020 H = (C-G)**	**9,676,923**		**13,305,445**

Impresst Adjustment Account

Impresst Adjustment Account For the Year ended 31 December 2020		
	Rs.	Rs.
Imprest balance according to statement of financial performance as at 31.12.2020		9,676,923
(+) Add		
Adjustment of advance account receipts	1,621,393	
Debit of other heads	1,509,230	3,130,623
		12,807,546
(-) Less		
Expenditure for other heads	12,026,740	
Adjustment of advance accounts payments	780,806	12,807,546
Imprest Balance as at 31 December 2020		**-**

Statement of Cash Flows

For the Year ended 31 December 2020

	Actual	
	2020	2019
	Rs.	Rs.
Cash Flows from Operating Activities		
Total Tex Revenue		
Fees, Fines, Penalties and Licenses	302,494,749	276,697,315
Non Revenue Receipts	72,347,403	74,656,439
Imprest Receipts	1,420,650,000	1,588,600,000
VAT Receipts	17,382,954	50,146,355
Total Cash generated from Operations (a)	**1,812,875,106**	**1,990,100,109**
Less - Cash disbursed for:		
Personal Emoluments & Operating Payments	1,745,623,520	1,881,997,862
Subsidies & Transfer Payments	14,628,903	-
Expenditure on other heads	12,026,740	3,908,852
Imprest on other Heads	-	6,802,571
Imprest Settlement to Treasury	53,256,963	60,628,860
Tax Payments - VAT	17,382,954	54,688,488
Total Cash disbursed for Operations (b)	**1,842,919,080**	**2,008,026,633**
Net Cash Flow from Operating Activities (c)=(a)-(b)	(30,043,974)	(17,926,524)
Cash Flows from Investing Activities		
Recoveries from Advances	65,260,012	67,699,469
Total Cash generated from Investing Activities (d)	**65,260,012**	**67,699,469**
Less - Cash disbursed for:		
Purchase or Construction of Physical Assets & Acquisition of other Investment	19,016,378	23,192,765

Advance Payments	66,264,543	82,039,105
Total Cash disbursed for Investing Activities (e)	**85,280,921**	**105,231,870**
Net Cash Flow From Investing Activities (f)=(d)-(e)	(20,020,909)	(37,532,401)
NET CASH FLOWS FROM OPERATING & INVESTMENT ACTIVITIES (g)=(c) + (f)	(50,064,883)	(55,458,925)
Cash Flows from Fianacing Activities		
Deposits Received	316,938,095	125,055,685
Total Cash generated from Financing Activities (h)	316,938,095	125,055,685
Less - Cash disbursed for:		
Payment of Deposits	266,873,212	69,596,760
Total Cash disbursed for Financing Activities (i)	**266,873,212**	**69,596,760**
NET CASH FLOW FROM FINANCING ACTIVITIES (J)=(h)-(i)	50,064,883	55,458,925
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 Special Audit Reports published in the year 2020

Outline

- Special Audit Report on the Operations of the National Gem and Jewellery Authority
- Special Audit Report on the Renovation of Tanks in the North Western Province
- Special Audit Report on Evaluation of Optimum Utilization of the Eppawala Phosphate Deposit for the Development of Sri Lanka
- SpecialAudit Report on the PrivateBuildingLeased to the MinistryofAgriculture
- Special Audit Report pertaining to giving up Bio Gas unit of Municipal Council of Matara and Waste Management.
- Special Report on Charges and Facilities Provided for Tourists Visit to Sri Lanka
- Special Audit Report on the Delay in Commencement of the Quartz Mining Project in Kotikambokka Forest, Wellawaya and Examination on the Deposit Subjected for Unauthorized Mining.
- Special Audit Report on the KumbukkanOya Reservoir Project implementing under the Ministry of Irrigation and Water Resources Management
- Special Audit on the Role of the Department of Agrarian Development
- Special Audit Report on the Role of the National Child Protection Authority relating toChild Abuse in Sri Lanka
- Special Audit Report on Human Elephant Conflict in Sri Lanka
- Examination on the Failure to take Steps for the Recovery of Money pertaining to the DishonouredCheques
- Special Audit Report on the Taxes and Penalties in Default to be recovered from the Taxpayers.
- Special Audit Report on the Examination of the Restructure of Kantale Sugar

Industries Limited and Sale of Iron existed therein

- Special Audit Report for Examination of the Process carried out on the Emission Testing Programme and Issuance of Emission Certificates by the Vehicular Emission Test Trust Fund of the Department of Motor Traffic
- Special Audit Report to examine the Role of GovernmentInstitutions relating to the Value Added Tax.
- Special Audit Report on the Storage and Distribution of Petroleum in Sri Lanka
- Special Audit Report on the Process of Establishment and Maintenance of Private University College of Batticaloa

Special Audit Reports issued in the year 2020

Eighteen special audit reports were issued duringthe year 2020 in terms of Article154(1)of the Constitution of the Democratic Socialist Republic of Sri Lanka and Section 13 of the National Audit Act, No. 19 of 2018**.**These reports have been issued with respect to Ministries, Departments, Corporations, Boards, and other institutions being audited by the National Audit Office. In the issuance of the special audit reports, areaswillbe determined byvirtueofthe discretionary powers vested in me by taking in to consideration the notifications made by theCommittee on Public Enterprises, Committee on Public Accounts and requests madeby auditee entities, disclosures made by the media paying attention on the national andtimely importance or public complaints.

All the special audit reports issued in the year 2020 have been tabled in Parliament as shown below whilst taking action to upload them in three languages on the official website of the National Audit Office in order to be used by the interested parties.

Information on special audit reports issued in the year 2020 is shown in Table 03.

Serial No.	Name of the Report	Date of the Report	Background ofthe Report
01	Special Audit Report on the Operations of the National Gem and Jewellery Authority	14.01.2020	This report was compiled whilst taking into consideration the low progress level of the performance observed over several preceding years owing to the reasons such as experiencing administrative weaknesses due to attaching officers from time to time for the posts of Director General and the Chairman, the 2 highest ranks of the Authority, certain officers of the top management being subject to disciplinary inquiries, and failure to implement targets effectively introduced for each division of the Authority in accordance with the Strategic Plan 2016-2020.

02	Special Audit Report on the Renovation of Tanks in the North Western Province	17.01.2020	Renovation activities of tanks belonging to the North Western Provincial Council had been carried out with the participation of several Government Institutions. This report was issued with a view to paying special attention on Public complaints made regarding shortcomings of the said project and observations thereon made by Audit in various instances.
03	Special Audit Report on Evaluation of Optimum Utilization of the Eppawala Phosphate Deposit for the Development of Sri Lanka	20.01.2020	Therelevant parties have failed to take necessary steps even by the end of the year 2018 in utilizing this EppawalaPhosphate Deposit which was discovered in the year 1971, for the development of the country. As such, the expectation of this special report is to draw attention of the parties concerned, in utilizing this Phosphate Deposit in an economically effective manner so as to minimize environmental and social issues.
04	SpecialAudit Report on the Private Building Leased to the Ministry of Agriculture	21.01.2020	Aprivatebuildinghadbeenobtainedonleaseatthemonthly lease rentof Rs.21millionfrom08April2016under severalunfavorableconditions forthebuildingfacilitiesofthe Ministry ofAgriculture and discussionsinthat connectionwere heldinseveralinstancesattheCommittee onPublicAccountsofthe Parliament. As such, this reportwasissued by considering themattersmentionedaboveinthebackdropofthisissuebecoming thefocusof attentioninthe mediaandvariousparties inthe society.
05	Special Audit Report pertaining to giving up Bio Gas unit of	21.01.2020	The program which had been carried out by the Municipal Council of Matara to dispose garbage collected from 20

	Municipal Council of Matara and Waste Management.		divisions within the area of Municipal Council of Matara had failed resulting environmental and health issues. As a result of this, objections from the public arose and even court measures had been taken thereon. Further, according to examinations carried out by the Audit in various instances, that risky situation was identified and thus, this special report was issued.
06	Special Report on Charges and Facilities Provided for Tourists Visit to Sri Lanka	27.01.2020	A large number of foreigners visit every day to see cultural, religious, natural and economic value of places situated in Sri Lanka and foreign tourists visiting these sites are charged a fee by institutions that own or manage the heritage sites. However, it is not possible to determine the exact method of charging for such places and to consider whether the services provided to the tourists are adequate in relation to the rates charged, as the Sri Lanka Tourism Development Authority or any other specific authority is not in charge of regulating these charges and actions had been taken to carry out checks and report on the situation arisen.
07	Special Audit Report on the Delay in Commencement of the Quartz Mining Project in Kotikambokka Forest, Wellawaya and Examination on the Deposit Subjected for Unauthorized Mining	08.06.2020	This report was prepared to ensure whether action had been taken in accordance with the laws, rules, and regulations when dismantling of the Quartz Deposit in Kotikambokka Forest, Wellawaya, to identify the possibility of environmental impacts of mining, to ensure that the royalties receivable to the Government when mining and exporting quartz are properly recovered, whether the mining and exports were done in accordance with the approval of the Cabinet of Ministers and to identify whether the malfunctions occurred in

			relation with these processes and to reveal whether the action had been taken to identify the possibility of occurring social, economic and environmental impact of mining at the instance of removal of quartz from this Deposit .
08	Special Audit Report on the KumbukkanOya Reservoir Project implementing under the Ministry of Irrigation and Water Resources Management	09.06.2020	A public complaint (Annexure 1) had been received to the President regarding the deficiency in procurement process adopted in selecting a contractor for the KumbukkanOya and HedaOya Irrigation Projects expected to be implemented by the Irrigation Department. In response to a request made by him to me to conduct further examination into the said representation and due to the problematic situation arisen in respect of thetransparency of the procurement process, the objective of this report is to furtherexamination on the impact of the procurement process on the implementation of this Project.
09	Special Audit on the Role of the Department of Agrarian Development	09.06.2020	This report was issued after carrying out an examination on a selected sample for examining the extent of successful achievement of the activities in the implementation of provisions of the Agrarian Development Act and state policies relating to agriculture by the Department of Agrarian Development.
10	Special Audit Report on the Role of the National Child Protection Authority relating toChild Abuse in Sri Lanka	11.06.2020	This report was issued due to observations made on relative increase in child abuse day by day in the present Sri Lankan society revealed by the media reports, the increase in complaints received to the Child Protection Authority and the Police Department and the weakness in relation to the measures

			taken in resolving those complaints.
1	Special Audit Report on Human Elephant Conflict in Sri Lanka	20.07.2020	Even though, the provisions spent for the minimisation of human elephant conflict are increased annually, it was not observed that the number of deaths and loss of properties caused due to human elephant conflict had decreased. This human elephant conflict which had caused many social and economic problems in several areas, resulted in issuing this report.
12	Examination on the Failure to take Steps for the Recovery of Money pertaining to the Dishonoured Cheques	20.07.2020	A tendency of increasing in the cheques becoming dishonoured was observed and no favourable steps had been taken to minimize the cheques becoming dishonoured and to expedite the settlement process of the dishonoured cheques or introduce other payment method. Therefore, this report has been issued incorporating the said matters.
13	Special Audit Report on the Taxes and Penalties in Default to be recovered from the Taxpayers.	20.07.2020	Although provisions had been set out in the Acts to recover taxes and penalties in default to the Inland Revenue Department, a gradual increase in the tax balances to be so recovered, was observed. Therefore, this report was issued by me in accordance with the observations made in the audit examination carried out on the said matters.
14	Special Audit Report on the Examination of the Restructure of Kantale Sugar Industries Limited and Sale of Iron existed therein	23.07.2020	The restructure of Kantale Sugar Industries Limited has been started again in the year 2015 and as a result an investment agreement had been entered into with private companies by the Board of Investment of Sri Lanka. In order to examine the impact to Government of Sri

			Lanka on the changes made on the influence of various parties in various instances to the shareholders agreement entered into by the Secretary to the Treasury on behalf of the Government of Sri Lanka, to identify the problematic environment arisen in the sale of iron of the Factory on 19 September 2018 and inclusion of observations made after being examined the present position of the factory, this report has been prepared.
15	Special Audit Report for Examination of the Process carried out on the Emission Testing Programme and Issuance of Emission Certificates by the Vehicular Emission Test Trust Fund of the Department of Motor Traffic	23.07.2020	The "Vehicular Emission Test Trust Fund" has been established on 29 December 2009 by utilizing an initial capital of Rs.20 million from the Consolidated Fund for the requirement of issuing an emission certificate for motor vehicles. However, this report was issued based on the matters disclosed in Audit that the objectives could not be achieved from the Fund as expected.
16	Special Audit Report to examine the Role of GovernmentInstitutions relating to the Value Added Tax.	23.07.2020	An audit test check was conducted by comparing the information relating to the Value Added Tax paid to the suppliers by a majority of the Ministries and Departments of the Central Government and the Provincial Councils furnished to the Auditor General with the Value Added Tax schedules of the taxpayers maintained under the RAMIS by the Inland Revenue Department; and, instances were observed in which the Value Added Tax paid to the taxpayers by the Ministries and Departments of the Government had not properly been disclosed in the tax returns and the schedules and remitted by those taxpayers. Instances were also observed in which the Value Added Tax had been

			paid by certain Government institutions to the inactive taxpayers of Value Added Tax. This report is presented by including observations after reviewing those matter
17	Special Audit Report on the Storage andDistribution of Petroleum in Sri Lanka	28.08.2020	In the backdrop of the steady increase in demand for petroleum in the domestic market over the past few years, it is of utmost importance in particular to maintain proper and adequate fuel storage facilities in the country and to maintain the pipeline system and the transport system systematically within the country. Accordingly, this report is issued on the powers vested on me to issue a special report by focusing my attention on the development of infrastructure related to the petroleum industry in Sri Lanka and the effectiveness of the measures taken in this regard.
18	Special Audit Report on the Process of Establishment and Maintenance of Private University College of Batticaloa	24.09.2020	Having obtained a land from the Mahaweli Authority on long term lease basis, this project had been implemented therein as a project facilitated by the Board of Investment of Sri Lanka whilst obtaining Foreign Inward Remittance with higher value through a bank account opened in the Bank of Ceylon in favour of Batticaloa Campus Private Ltd. Further, it was observed that in providing facilities for the above project, the Mahaweli Authority and the Board of Investment of Sri Lankahad not adoptedproper methodologies and the Bank of Ceylon (the relevant banker) had not taken steps to act in accordance with the foreign exchange laws and rules in connection with the Foreign Inward Remittance. Accordingly, this report was compiled incorporating particulars

			identified in the examination of the operations of the above institutions which made contributions and recommendations in the implementation of the project.

Table 03 – Special Audit Reports published in the year 2020

Reports issued in the year 2020 have been summarized in the chapter below.

Special Audit Report on the Operations of the National Gem and Jewellery Authority

For the purpose of development, regulation and promotion of Gem and Jewellery Industry, the National Gem and Jewellery Authority was established under the Act, No.50 of 1993. Accordingly, it has been over 26 years since the establishment of the Authority and therefore an examination was carried out with regard to the extent of the achievement of the performance of functions executed by the Authority whilst separately taking into account various divisions of the Authority. Therein, it was come to light that the Authority was engaging in mining activities in contravention of the provisions of the Authority Act, intervention of the Authority to prevent unauthorized gem mining and environmental degradation was inadequate, there are various weaknesses in the process of exporting gems and jewellery and that the Authority's active contribution for the promotion of the gem industry locally and internationally was insufficient.

Due to the weaknesses in the administrative structure of the Authority, lack of better coordination with the other institutions that could be involved in the gem and jewellery industry and the lack of state-of-the-art technical equipment relevant to the researches in the field of gem and jewellery, the Authority had failed to achieve a satisfactory level of performance.

Special Audi Report on the Renovation of Tanks in the North Western Province

A constant water supply is needed for most of the farmers in Kurunegala and Puttalam districts belonging to the North Western Province who are engaged in paddy cultivation for the successful cultivation of paddy. As such obtaining water from tanks additionally the rainwater is essential for successful cultivation. Since farmers use rainwater to start their cultivation and a significant amount of money is spent on it, farmers of the Kurunegala and Puttalam district constantly face the threat of losing their investments and their harvest due to lack of enough rainfall. Therefore, the renovation and reuse of the tanks in the North Western Province has become a great need. There are 5,744 tanks in the North Western Province and most of small tanks from them have to be renovated. Accordingly, with the participation of several Government

Institutions, renovation activities of those tanks had been conducted. This report was issued after observations of those public complaints regarding the shortcomings of the project and the observations of the audit.

The main problem was identified in audit apart from the intention of renovation the tanks was that the contractors had dug up and sold mineral resources, it was identified that most of the tanks had been physically destroyed due to the excavations and the initial objectives of renovation the tanks were not done optimally. Accordingly, it has been identified that it is essential to regularize the renovation process of the tanks and provide the farmers with the expected benefits.

Special Audit Report on Evaluation of Optimum Utilization of the Eppawala Phosphate Deposit for the Development of Sri Lanka

Sri Lanka is endowed with two rock phosphate deposits and the Eppawala Phosphate Deposit which is economically more significant, is located in Eppawala in the Thalawa Divisional Secretariat in the District of Anuradhapura. This deposit which covers an area of about 06 square kilometers has been identified to be with a capacity of approximately 60 million metric tons. The deposit has been discovered by the Department of Geological Survey in 1971 and preparation of survey maps, earth boring, collection of samples etc. have been carried out related therewith during the period from 1971-1974. The District Development Council had commenced small scale mining in the year 1974 and the said task had been assigned to the State Mines and Minerals Development Corporation in the year 1978. After the incorporation of the Lanka Phosphate Ltd. (State Company) in the year 1992, the mining thereof is being carried out by the said Company. Even though 46 years had lapsed after the discovery of this deposit, it was observed that it had not been utilized at optimum level for the country’s development.

Many experts have revealed through researches that this deposit could be utilized for the purpose of producing Single Super Phosphate which can be substituted for imported Triple Super Phosphate. Further, Lanka Phosphate Ltd. (State Company), Ministry of Agriculture and the Cabinet of Ministers had decided to produce Single Super Phosphate. However, the said decisions have not been implemented even by 20 January 2020.

If Eppawala Single Super Phosphate is produced as a substitute for Triple Super Phosphate, the foreign currency incurred for importation of Triple Super Phosphate will be saved and furthermore, foreign currency could be earned by exporting the surplus production. As Eppawala Phosphate contains a trivial amount of Cadmium and Arsenic, it has been revealed that the chronic kidney disease which is a tragic situation at present, as well as cancer and heart disease, could be minimized. Further, it was observed that action should be taken to achieve the objectives of establishment of the Lanka Phosphate Ltd. (State Company) through production of Single Super Phosphate and diversification of products.

Special Audit Report on the Private Building Leased to the Ministry of Agriculture

The Ministry of Agriculture was established at a land in extent of 17.199 hectares located on Rajamalwatta Mawatha, Battaramulla in the year 2002. This premises existed in an environment peculiar to agriculture with necessary buildings, and cultivations together with a cafeteria offering indigenous foods.

However, as per the Cabinet Decision, No. 24, dated 08 October 2015 pursuant to the Cabinet Memorandum, No. 15/130/705/007 presented by the Hon. Prime Minister on 21 September 2015, approval was granted to acquire the said premises to conduct Parliamentary Sectorial Committee activities and provide additional office space whilst proposing that the Ministry of Agriculture be shifted to Sethsiripaya Building.

Accordingly, action was taken to examine the suitability of Sethsiripaya Building in that connection, but with emphasis on additional facilities not pivotal for the Ministry of Agriculture to function, the decision to use the Sethsiripaya Building to house the Ministry was rejected unjustly.

As such, in order to obtain the building with ample space located at No. 288, Rajagiriya after being examined by the Hon. Minister and his staff, a proposal including terms and conditions decided by the owner of the building himself, was presented to the Cabinet thereby taking action to obtain the said building.

Although it is observed that the said building had been planned so as to be suitable to house a shopping complex, it had been constructed with 3 storeys in excess of the number of storeys approved, and the height thereof was 33 feet above the approved height; as such, the building had been constructed in an illegal manner though, action was taken to obtain that building. Furthermore, except for the issues such as, lack of sufficient and undisturbed access, limited space for parking, and severe traffic congestion around the premises, the building remained incomplete with many a work still waiting to be carried out including partitioning.

The conditions presented by the owner of the building were accepted. The building was obtained under the conditions unfavorable to the Government such as, payment of an advance for 2 years computed on the cost per square foot exceeding the then market value, settlement of the relevant advance within the final two years, and increase in the lease rent by 15 per cent with effect from the third year.

Furthermore, from the date of paying advance to obtain the building, a period of 15 months had been spent on rectifying the defects of the building. Hence, it was observed that the lease rent totalling Rs. 315 million (including service charges) paid for that period had become an uneconomic expenditure. A sum of Rs. 342.7 million had also been paid to provide other facilities for the building.

Although the old building belonging to the Ministry, had been acquired to conduct Parliamentary Sectorial Committee activities, that building has not yet been used for that purpose. Moreover, provision had not been made through the annual budget for the building obtained newly on lease; instead, payments had been made by obtaining additional provision during the year. As such, this decision to obtain building facilities had been taken without following the planning process, thus observing that action had been taken by disregarding the transparency, economy and financial accountability in spending the public funds.

Special Audit Report pertaining to giving up Bio Gas unit of Municipal Council of Matara and Waste Management.

Municipal Council of Matara has been established under Chapter 252 of Municipal Council Ordinance and its land extent is about 12.8 sq. km. Present population amounts to 77,592. Within the area of Municipal Council of Matara there are 20,375 residences, 5,104 commercial and business places, 40 educational institutions, 93 religious places, 01 technical education institute, 03 public markets and 01 weekly fair.

About 35 – 40 tons of waste, are daily collected from the area of Municipal Council of Matara adding about 1,200 tons of waste to the environment per month. Responsibility of disposal of such waste is vested in Municipal Council of Matara as per Municipal Council Ordinance. For the purpose of collecting waste divisions within the area of Municipal Council of Matara 25 vehicles and a staff of 276 employees had been attached for 20 divisions under 02 zones.

A land containing in extent 13 acre in Kotawila had been taken over from Pradeshiya Sabha of Weligama for Pilisaru project and organic fertilizer had been manufactured from 2009 to 2012. This production of carbonic fertilizer had been stopped since the building constructed for this center with a cost of Rs. 7.96 million had been used for a project of generating electricity through bio gas in the year 2014.

In 2014, attention had been paid to produce bio gas by the aforesaid unit of bio gas and generate power of electricity with the use of such bio gas. The project concerned had been approved by Central Environment Authority and University of Moratuwa through discussions held from time to time.

Municipal Council of Matara and Central Environment Authority had entered into agreement with Biogreen Private Company on 08th August 2014 in order to implement the above project and the project had to be completed on 10th

March 2015. Nevertheless, the project had been stopped on 16th January 2015 and Central Environment Authority had released a sum of Rs. 64.36 million to that company as at 06th January 2015. Although the project had been started from time to time in the year 2016, it had not been completed even up to the date of this report.

Residents in the area have faced hazardous situation during a period of 04 years due to daily dumps of garbage as a result of stoppage of production of organic fertilizer and incompletion of above bio gas unit. In addition, it was also observed that 2,026 loads of tractor of unrecyclable garbage, 1,817 loads of recyclable garbage and a considerable quantity of e-waste had been disposed into the garbage site of Kotawila.

Even a court order had been issued prohibiting disposal of garbage into the site concerned with immediate effect with the intention of minimizing hazards for the public. Reconsidering the request made by Municipal Council, that prohibition order was temporarily suspended until 31st December 2019 and again suspended disposal of garbage thereafter.

Accordingly it was observed the fact that Municipal Council of Matara should take measures in order to select a suitable site for disposal of garbage, restart production of organic fertilizer and commence the bio gas project as agreed avoiding hazards to the environment and residents.

Special Report on Charges and Facilities Provided for Tourists Visit to Sri Lanka

Sri Lanka's scenic beaches, central hills, historical ruins, religious and cultural sites, and as well as the courtesy of Sri Lankans had attracted tourists. Under these circumstances, during the year 2018 alone, a total number of 2,333,796 tourists had been arrived to Sri Lanka and thereby Sri Lanka had been capable of earning foreign exchange approximately amounting to Rs 712,027 million. It had been identified that Wildlife Conservation Department, Forest Conservation Department, Department of National Zoological Gardens, Department of National Museum, Central Cultural Fund and Department of Botanical Gardens and local authorities at regional level (relating to local tourist attractions) charge fees from tourists who arrive Sri Lanka. However, this report was issued to examine and to report on the condition that had been occupied due to the powers not being entrusted either to the Sri Lanka Tourism Development Authority or to any other specific Institution relating to not being able to identify a specific procedure for determining the fees that is charged accordingly, to consider whether the services provided to those tourists are sufficient as compared with the fees charged and relating to the charging of fees and the regulation of the charging of those fees. In addition, it was noted in preparation of the report; when using safari jeeps it had been occurred many irregularities and violations of rules and regulations, and the significant shortcomings of the tickets issued by various places, and the Central Cultural Fund generates income from various places beyond the powers conferred by the Act of the Fund and the security system in places like Sigiriya where most tourists come every day is inadequate. In addition to the powers vested in the Sri Lanka Tourism Development Authority Act, No. 38 of 2005, measures should be taken to protect the standards of tourism and promote tourism in Sri Lanka. However, it is also observed that the relevant authorities have not taken steps to provide adequate service to the different fees and rates charged by the authorities for visiting them. Accordingly, this report highlights the necessity of the direct regulation of the Sri Lanka Tourism Development Authority on the charges levied when foreign tourists visiting various places in Sri Lanka.

Special Audit Report on the Delay in Commencement of the Quartz Mining Project in Kotikambokka Forest, Wellawaya and Examination on the Deposit Subjected for Unauthorized Mining

Kotikambokka Forest which is located in the Randeniya village, Kotikambokka Grama Niladhari Division in the Wellawaya Divisional Secretariat Division in Moneragala District of Uva Province was about 270 hectares in extent. This forest which is identified as the inter-zone forest and mixed with savannah grass land, is a unique forest of biological value, consisting of sand-mixed gravel soils, quartz, feldspar and other rock deposits.

Kotikambokka Forest has been identified as the upper catchment area of the Alikota Ara Reservoir which is already completed under the Uma Oya Multipurpose Development Project and removal of minerals such as quartz and pelspar had increased sharply since 2010 in the areas bordering this forest.

The approval of the Cabinet of Ministers was received to mine the Quartz Deposit located in Kotikambokka Forest and to export by adding the value and these activities had been entrusted to GSMB Technology Services (Pvt.) Company Limited which was established under the Ministry of Mahaweli Development and Environment. The Company has estimated that the final market value of the two quartz rocks, which are to be mined and removed, is around Rs. 26.67 billion. Even though the attention of the Cabinet of Ministers had drawn to the requirement of mining of the Quartz Deposit before filling the Alikota Ara Reservoir, actions had not been taken even by 31 December 2019, the date of the audit to commence the Project.

Further, even though the approval of the Director General of Irrigation had been granted for the relevant Project, it was shown in the reports of the Engineers of the Department of Irrigation that the Alikota Ara Reservoir could be affected as a result in case of explosions of the Quartz Deposit for the mining and the mining of the foresaid Deposit.

However, the actions have been taken to fill the Reservoir with water and the GSMB Technology Services Company had incurred an expenditure of Rs. 14.19 million for the Project as at 31 December 2019.

Mining works had been carried out from the Quartz Deposit located in the state-owned forest on the mining license obtained by a private party for private lands adjoining the foresaid Kotikambokka Forest and obtaining license from the Geological Survey and Mines Bureau without paying the prescribed fee to the Department of Forests Conservation. The Department of Forests Conservation had filed a case against the party who had mined in order to recover the loss occurred to the Government as a result of these unauthorized mining of quartz and pelspar amounting to Rs. 44.24 million.

Even though the Cabinet of Ministers had paid close attention on exporting of these minerals after the maximum value addition, those are being exported to foreign countries as a mineral raw material by splitting into pieces or crushing only with crusher machines without making finished or semi-finished products by the institutions who purchase quartz which were being mined by the private parties at present.

Special Audit Report on the Kumbukkan Oya Reservoir Project implementing under the Ministry of Irrigation and Water Resources Management

The Approval of the Cabinet of Ministers had been given at the Meeting held on 28 September 2011 for the construction of a reservoir with a capacity of 48 million cubic meters (48 mcm) of water above 13.4 km at the intersection of Buttala Moneragala A – 4 Road and Kumbukkan Oya over the Kumbukkan Oya Anicut. Accordingly, this Project had been handed over to the Chinese Company called China National Heavy Machinery Co-operation (CNHMC) on 30 March 2018 to implement under the Swiss Challenge System. A public complaint had also been received to His Excellency the President stating the transparency and informality of this handing over and this report was prepared considering of his request and also based on the information identified by the audit.

Even though the relevant contract to enter into a Memorandum Oof Understanding to carry out the feasibility study had been awarded on 30 March 2018 for the Kumbukkan Oya Reservoir Project and Heda Oya Reservoir Project to the above mentioned Company as per the Swiss Challenge System by ignoring the Expression on Interest (EOI) received from 04 foreign companies as per the inspections carried out accordingly, the Project works had not been commenced even by November 2019. Similarly, it had also been entered into agreements with private institutions incurring Government funds to prepare the Environment Report, Social

Responsibility Report and Feasibility Study Report to be obtained in respect of the Project and even though the deadline had expired, the reports had not been provided even by 31 December 2019.

Nearly an expense of Rs. 108 million had been incurred unproductively and improperly by 30 November 2019, even without carrying out the preliminary work on the Project. Similarly, it was observed in the physical examination conducted on 19 December 2019 the reconstruction works carried out in respect of the 02 tanks incurring a sum of Rs.86.09 million in line with this Project was lack of expected quality.

Accordingly, it is emphasized that the importance of commencing of construction works as soon as possible to meet the anticipated objectives of the Project conducting a proper study of the benefits receive from the construction of this Project and also the impacts of the Project .

Special Audit on the Role of the Department of Agrarian Development

The Ministry of Agriculture is the institute for implementing Parliamentary decisions related to agriculture and the Department of Agrarian Development under the purview of the Ministry is the main institute relating to agriculture being implemented at regional level. The Department of Agrarian Development had been established on 01 October 1957 with the intention of providing basic service supplies for agricultural programmes and presently it is controlled by the Agrarian Development Act, No.46 of 2000 as amended by Agrarian Development (Amendment) Act, No.46 of 2011.

More attention is currently focused on agriculture by the local farmer community. However, it was observed that an effective service could not be rendered thereon by the Department. Moreover, according to the audit examinations carried out on selected fields, including failure in taking action to establish Agrarian Development Councils, non-presentation of accounts of Agrarian Development Committees and Farmers Banks on the due date to the Auditor General, improper supervision of activities of Agrarian Committees. Improper recovery of acreage tax, non-registration and non-regulation of Farmers Banks under the supervision of the Department as financial institutions, non-recovery of outstanding balances of loans provided by Farmers Banks, improper management of physical and human resources, failure in recruitment of staff in compliance with the criteria of the Scheme of Recruitment, reclamation of paddy lands considering as non-paddy lands by the Department were several matters observed, which had attributed to the decline in the effectiveness thereof. As such, it was observed that the expected role of the Department of Agrarian Development had not been properly performed.

It is recommended to establish Agrarian Development Councils, presentation of accounts of Agrarian Development Committees and Farmers Banks on the due date to the Auditor General, proper supervision of activities of Agrarian Committees, registration of Farmers Banks under the supervision of the Department as financial institutions and regulation of financial control, speedy recovery of outstanding balances of loans provided by Farmers Banks, taking action to achieve expected objectives through various projects carried out by the Department and follow up action thereon, effective management of all physical and human resources of the Department and revise the powers cited in the Act for reclamation of existing real paddy lands, considering as non-paddy lands.

Special Audit Report on the Role of the National Child Protection Authority relating to Child Abuse in Sri Lanka

The National Child Protection Authority has been established in the year 1999 under the National Child Protection Authority Act, No.50 of 1998 for the purpose of formulating a policy on the prevention of child abuse and the protection and treatment of children who are victims of such abuse. The approval of the Board of Directors had been obtained for the said policy after a lapse of a period of 20 years from the said year. However, the Authority had failed to implement the said policy effectively even by the date of this report. Moreover, steps were taken to issue this report due to the situation of risk identified relating to the protection of children as a result of being revealed by the media and the increase in the number of relevant complaints received to the Police Department. As well as the delay in implementing the above mentioned policy, it was observed that the Authority had failed to effectively carry out identified measures to be taken for the protection of children including taking necessary steps for regularization of school transport service, regularization of measures to be taken relating to victims of abuse and proper implementation of programmes to empower the civil society in protecting children. Accordingly, it was confirmed by this report that a necessity of ensuring the protection of children had arisen through the failure in effective performance of the role assigned to the Authority.

Special Audit Report on Human Elephant Conflict in Sri Lanka

About 250 elephants and 50 human beings die annually due to human-elephant conflict and as a result of causing properties and cultivation damages annually at a grand scale many social and economic problems have arisen. Main reasons identified for the human elephant conflicts happened in few areas of the country at present include, population growth of people and elephants, habitats of elephants invaded by human beings, elephants attracted to human settlements due to agricultural activities. Furthermore, the people clear the jungle and cultivated the lands and as such those cultivated related lands become suitable places to inhabit elephants. Similarly, as they lose their natural habitats, coming the elephants towards cultivated lands is being further increased. As more nutritious foods are in plenty in cultivated areas and water sources built by the people for agricultural purposes, elephants use to come to cultivated lands in plenty. In order to identify the effect on the society in the continuous existence of the human elephant conflict and the objective of giving an optimum solution on this matter by paying attention of the responsible parties, this report has been issued.

Even though, a national policy on wild elephants conservation and management had been approved by the Department of Conservation of Forest as a solution to this problem, the Department had failed to implement the policy. As there are weaknesses in coordinating between the institutions which should take responsibility in this issue and the putting up and maintenance of elephant fence, mainly uses for the prevention of coming the elephants to settlements of the people are not carried out at an optimum level, including certain othe problems, there was no evidence to see whether a considerable solution was made on this issue even up to the date of this report.

Accordingly, it was recognized that it is foremost essential that the above mentioned national policy needs to be formally implemented expeditiously for resolving this problem which spreads daily, by taking action to prevent the wild elephants coming to villages.

Examination on the Failure to take Steps for the Recovery of Money pertaining to the Dishonoured Cheques

For the purpose of exempting from the tax liability, the tax payers remit funds to the Revenue Collection Account of the Commissioner General of Inland Revenue. The banks involved in the collection of money have been connected to the computer system of the Inland Revenue Department under the Revenue Management Administration Information System and once the details on the payments made by the taxpayers are furnished by the banks, the tax files of the relevant taxpayers will be updated.

Most taxpayers make their payments for tax liability by cheques and with the realization of the relevant cheques, such taxpayers are exempted from the tax liability. Provided, however, that the cheques so given to the Inland Revenue Departments by certain taxpayers become dishonoured and gradual increase in the number of dishonoured cheques and their total value was observed over the past few years. The value of 4,494 dishonoured cheques stood at Rs.1,093 million as at 31 December 2015 and that value had become at Rs.3,031 million by 30 June 2019 whilst increasing the number of dishonoured cheques up to 8,060. It was observed that the cheques which had become dishonoured as at 30 June 2019 included the cheques worth Rs.2,039 million that had been given in respect of Value Added Tax by the taxpayers after collecting them from a third party.

Similarly, it was revealed in certain instances that the collection of dishonoured cheques included several dishonoured chaeques of the same taxpayer. Further, it was observed in carrying out age analysis of the dishonoured cheques that there were some unsettled cheques which had been received by the Department during the period from 2009 to 2019. Accordingly, poor performance was observed relating to the settlement of dishonoured cheques on the part of the Department. As a result, failure in the settlement of outstanding taxes and not collecting a significant amount of Government revenue in time could be observed.

Special Audit Report on the Taxes and Penalties in Default to be recovered from the Taxpayers.

The administration of taxes collected by the Commissioner General of Inland Revenue had taken place with the Legacy software (Up to 31 December 2015) and RAMIS (From 01 January 2016). Information such as, tax reports of the taxpayers, payment of taxes, and additional assessments issued by the Department of Inland Revenue, is stored in the said software. Based on such information, details on the outstanding taxes relating to the taxpayers are reported.

Based on the information retrieved from those software, the Department of Inland Revenue presents reports on outstanding revenue to the Auditor General by including the balances of outstanding revenue and penalties as at 30 June and 31 December of each financial year in terms of Financial Regulation 128(2). According to the tax report presented as at 30 June 2019 in regard to the legacy software, the total of the taxes in default amounted to Rs. 309,934.57 million whereas the outstanding taxes of which the recovery process had been held over, represented 58.8 per cent of the overall deficit; furthermore, the recoverable taxes in default represented 41.2 per cent of the overall deficit. According to the tax report presented as at 30 June 2019 through the RAMIS software, the total of the taxes in default amounted to Rs. 3,861,623.48 million whilst the total taxes in default of which the recovery process had been held over, represented 96 per cent of the overall deficit. As such, the recoverable taxes in default represented about 4 per cent of the overall deficit.

It was also observed in accordance with the age analyses of the taxes in default that the recoverable taxes and the penalties had not been recovered in a timely manner. It was further observed that the Department had not taken timely measures to settle the settleable balances included in the outstanding balances of taxes and penalties of which the recovery process had been held over.

Furthermore, those balances of taxes in default included amounts totalling over Rs. 3,500 million that had been resulted in due to accounting errors. However, it was observed that no timely measures had been taken to recover such balances. It was not observed during the analysis of information relating to several years on the balances of taxes and penalties of which the recovery process had been held over, that the Department had taken timely measures to identify the reasons for holding over.

It was observed in the analysis carried out on the types of taxes that more than 90 per cent of the overall taxes in default comprised Value Added Tax and Income Tax, thus failing to observe that the Department of Inland Revenue had taken timely measures for the recovery / settlement of outstanding tax revenue.

Special Audit Report on the Examination of the Restructure of Kantale Sugar Industries Limited and sale of iron existed therein

The Kantale Sugar Factory extends in a land area of about 21,223 acres had been established in the year 1957 under the State Industrial Corporation Act No.49 of 1957. The contribution of the Government of Czechoslovakia was received for the commencement of the factory and it had been peopalised in the year 1960. This factory which had a grinding capacity of 1200 metric tons of sugar cane daily, 192,000 metric tons of sugar cane stalks were ground within 160 day turns and there had been a capacity of manufacturing 16,320 metric tons of sugar and 3.6 million litres of maturate spirits within 300 days. Even though, the ownership of this factory had been vested in the Lanka Agencies Company in the year 1993, the objective envisaged therefrom could not be achieved and as such the institute had been acquired again by the Government in the same year. Subsequently, having being retained about 230 employees only for the protection of plant and machinery of the factory and fully closed down by the middle of 1994.

However, the court case filed by the Lanka Agencies Company had finalised favourable to the Government in the year 2003. Since then the Government of Sri Lanka had made various attempts to open the factory operation in various occasions to bring down an investor but such attempts had failed due to non-selection of a suitable investor. Nevertheless, the approval of the Cabinet of Ministers had been obtained to restructure the factory again in the year 2015, and the approval for the selection of Sri Prabhulingashwar Sugar Group of companies Industries had also been granted.

Accordingly, this report has been prepared to identify the impact caused to Government as a result of changing the conditions of the agreement entered into with the above selected company from time to time and causes arisen in the sale of iron of the factory and to report the present position of the factory.

Accordingly, even after obtaining the Attorney General's observations on the shareholder agreement entered into in the restructure of the factory, the then legal advisor of the Department of Legal Affairs of the Ministry of Finance had added parts of conditions unfavourable to the Government. As a result, at the Singapore arbitration case, the court had

ordered the Sri Lankan Government to pay Singapore Dollars 894,516 and American Dollars
211,913 as compensation. Furthermore, the ownership of high value plant and machinery belonged to the factory had been deprived of by the Government and due to closure of the factory over a period of 25 years, it was observed that, a large quantity of assets with high value could not be used and being destructed. Therefore, it is recommended that, the relevant authorities need to take action to get the full contribution of this factory in order to minimize the quantity of imported sugar by increasing the local production which is the existing minimum level of 9 per cent at the time of issuing this report.

Special Audit Report for Examination of the Process carried out on the Emission Testing Programme and Issuance of Emission Certificates by the Vehicular Emission Test Trust Fund of the Department of Motor Traffic

The Vehicular Emission Test Trust Fund has been established on 29 December 2009 as a financial investment of Rs.20 million of the Consolidated Fund based on 07 key objectives relating to monitoring and minimizing of air pollution for supervision of the administrative affairs of the programme on obtaining Emission Test Certificates by the Minister in charge of Transport as per the Cabinet Paper No.අමප/08/1515/358/054 submitted to the Cabinet on 03 September 2008. Ten per cent of the fee charged from the public by private companies that issue emission test certificates, should be remitted monthly to the Vehicular Emission Test Trust Fund. Further, the Vehicular Emission Test Trust Fund had obtained Rs.1,516.30 million from the year 2009 up to 31 December 2018 as income. This report was issued on the matters revealed to Audit that the objectives of establishing this Fund had not been achieved in the expected manner.

The Commissioner General of Motor Traffic had entered into agreements on 01 November 2006 separately with the two suppliers, Laugfs Eco Sri (Pvt) Ltd. and Cleanco Lanka (Pvt) Ltd. for issuance of emission certificates. Accordingly, in terms of agreements, the task of issuing emission certificates for a period of 05 years had been assigned to the said companies. The said activity had been commenced in the Western Province from 17 November 2008 and after about 05 years from then the whole island including Northern Province had been finally covered by 03 June 2013. Subsequently, fees had been revised in 03 instances in the years 2010 and 2011 and accordingly, the percentage of increase in fees stands around 47 per cent as compared with the fees agreed in terms of the contract.

The period of the agreement entered into for issuance of the said emission certificates should expire in the year 2011 and the supplying company and the Commissioner General of Motor Traffic had failed to reach a final decision thereon. However, the date of termination of the agreement had been decided as 01 July 2016 by a committee appointed by the Minister in charge of the subject and from the date of expiry of the agreement up to 31 December 2018 alone, the said company had issued 11,713,456 emission certificates during the period of agreement up to 177 per cent, exceeding the expected number. Accordingly, it was observed that the relevant companies had earned income as before by receiving Cabinet approval for extending the period of the present suppliers.

Adequate funds were available with the Vehicular Emission Test Trust Fund for fulfilling the objectives and goals of this programme. However, it was observed as well that proper action had not been taken by the Board of Trustees of the Fund to prepare a long term Corporate Plan or Annual Action Plans so as to manage the funds for fulfilling the said objectives and goals. Moreover, neither adequate provisions had been made for improvement of internal control systems nor an adequate permanent staff with suitable qualifications recruited to the Fund up to now. As such, it was observed that the involvement of the Public Sector for management of the income earned by the Vehicular Emission Test Trust Fund for supervision and regulation of administration of the Emission Programme, was not in an adequate level for utilizing in public welfare.

Accordingly, it is further stressed by this report that this task should be regularized in case of extending the period in future contracts, action should be taken to introduce a new method of concessionary fees, providing the benefits gained by decreasing fees directly and fully to the public and carrying out this task by the Public Sector so as to receive contributions towards the betterment of the general public by minimizing air pollution.

Special Audit Report to examine the Role of Government Institutions relating to the Value Added Tax.

The Value Added Tax was introduced with effect from 01 August 2002 through the Act, No. 14 of 2002 in the wake of Goods and Services Tax being annulled. The Commissioner General of Inland Revenue administers that tax. The taxpayers should be registered in accordance with the provisions of the Act as for the collection of the Value Added Tax. When the registered taxpayers provide supplies and services, the tax is collected from the third party based on the rates mentioned in the Act in a timely manner. The input tax is deducted from the output tax so collected, and the balance is remitted to the Commissioner General of Inland Revenue whilst the tax returns are sent to the Inland Revenue Department either monthly or quarterly in terms of the provisions of the Act. The Inland Revenue Department introduced the Revenue Administration Management Information System (RAMIS) with effect from 01 January 2016 so that the schedules of output and input taxes along with the tax returns should be furnished to the Department in the form of softcopies, thus making it possible to examine and compare the output and input taxes of the taxpayers.

When services and supplies are obtained, the Government Ministries, Departments and Provincial Councils pay the Value Added Tax. As a majority of Government institutions have not been registered for the Value Added Tax, they do not furnish the tax returns and schedules to the Inland Revenue Department.

However, according to the Government Procurement Guidelines, a report on the Value Added Tax paid to the suppliers by the Government institutions within a period of one month, should be submitted to the Commissioner General of Inland Revenue on or before the 15th day of the ensuing month. Although 837 such reports had been furnished to the Inland Revenue Department by Government institutions during the year 2019, it was not observed by the Audit that those reports had been examined by the Department.

Accordingly, a sample of data relating to Value Added Tax paid by the Government Ministries and Departments to the taxpayers was compared by the Auditor General with the taxpayer information, reports and schedules maintained under the RAMIS. Matters observed therein included : collection of Value Added Tax from Government institutions by the inactive taxpayers of VAT, failure of the taxpayers in properly furnishing the tax returns and schedules in a timely manner, existence of around 59,000 tax returns relating to Value Added Tax that had not been input into the information system, and failure of the taxpayers to disclose a sum of around Rs.1031 million collected from the Government Ministries and Departments in the output tax schedules.

Special Audit Report on the Storage and Distribution of Petroleum in Sri Lanka

This report was issued to identify potential problems that may arise in the fuel sector if action is not taken to develop the infrastructure facilities associated with the petroleum industry in line with the gradual growth in the petroleum demand of Sri Lanka. Moreover, the storage and transportation of diesel, petrol, aviation fuel and kerosene, which contributes much for the entire production are only examined in detail in this report and information pertaining to petroleum products that are imported through the Port of Trincomalee and distributed by Lanka Indian Oil Company and the capacity of the existing refurbished fuel tanks in connection therewith are not included in this report.

The Ceylon Petroleum Corporation was incorporated by the Ceylon Petroleum Corporation Act No. 28 of 1961 to operate the petroleum business in Sri Lanka. Later, the Lanka Indian Oil Company (LIOC) joined the country's fuel supply in 2003 as a private party. The actual daily fuel demand has been steadily increasing during the period of

2011-2019, which had been examined and a continuous increase in the daily demand for fuel was observed during the period of 2020-2026, according to projections made in Least Squared Method based on the nature of the behaviour of the demand in the previous years. Accordingly, crude oil and refined products are being imported at present incurring expenditure over Rs. 650 billion annually for the accomplishment of this demand.

Storing and issuing of fuel are carried out through 14 island-wide bulk depots including the Kolonnawa and Muthurajawela main terminals owned by Ceylon Petroleum Storage Terminals Limited (CPSTL) while Ceylon Petroleum Corporation (CPC) stores and issues fuel through the Sapugaskanda New Terminal and Lanka Indian Oil Company stores and issues fuel through the Trincomalee Oil Tank Complex. Fuel transport in Sri Lanka is done through pipelines and land transport methods. Accordingly, four main pipelines are currently being used to transport fuel and bowsers and railway wagons are being used to transport fuel across the land.

There were occasions, where the amount of diesel, petrol, aviation fuel and kerosene that are currently in storage reduced up to 13 days, 08 days and 06 days respectively out of the requirement of the country, when each type of fuel is considered separately, at the time of commencement of unloading after the arrival of a fuel tanker to Sri Lanka. Furthermore, if the existing storage capacity remains unchanged, amount of diesel, petrol, aviation fuel and kerosene, which are currently in storage could be reduced up to 09 days, 06 days and 05 days respectively by 2026 as per the projected fuel demand or else, it is observed that there is a high risk of disrupting the existing fuel supply of the country in case a fuel tanker is delayed exceeding the said number of days under certain circumstances.

About seventy (70) percent of imported refined products are unloaded from the Port of Colombo to Kolonnawa terminal by the pipe system, which is older for about 48 to 75 years out of 04 major pipelines that currently exist and 02 out of 05 pipes in this system are inoperative and frequent leakages are reported from other pipes. Accordingly, it is observed that there may be prolonged unloading and as a result, delay charges have to be paid to ships since unloading of 70 per cent of total volume of refined fuel to Kolonnawa terminal is done using a very old and small pipe of 10 inches, which undergoes frequent leakages and in case a certain damage occurs to the pipeline, there is a high risk of occurring severe damages to persons as well as to properties. Moreover, it is also observed that there is no interchange pipe system between the terminals.

It is observed that there is a high tendency of transporting petroleum by bowsers even though the savings in the cost of transporting petroleum by rail instead of transporting fuel by bowsers during the land transportation of petroleum was of a higher value of 87 to 235 per cent when compared with the transportation by rail. It is also observed that it has led to increased environmental damage and increased risk of traffic congestion.

It is observed that extremely risky situations, such as, the inability of establishing a proper stock control system owing to the lack of adequate fuel storage system and infrastructure including transport facilities associated with it in the country, inability to resort to international fuel procurement agreements that are advantageous to the country, incurring high costs for emergency purchases as well as importing low quality products, managing of fuel warehouses has become more complicated, collapse in the entire economic process due to the disruption of the fuel supply of the country, inability in organizing maintenance activities properly, occurrence of severe environmental damages, causing heavy traffic congestion loss of international business opportunities such as marine oil trade that can be easily activated in accordance with the natural location of the country etc. have arisen in the Country.

Accordingly, it is observed that it is essential to upgrade the existing fuel storage capacity and to improve the existing pipe line system for improving the infrastructure in relation to the fuel supply, which is the major source of energy that determines the survival of the economy of the country and to give priority to the use of railway wagons for land transportation of fuel in order to reduce the cost and risk related thereto.

Although the fuel tank complex located adjacent to the Trincomalee port could have been easily utilized for the country's fuel refining process, they have failed to actively utilize the complex even by 28 August 2020. Accordingly, it is emphasized by this report that it is indispensable to do a methodical study on the future fuel requirement of the country to avoid the current situation of risk that has arisen in relation to the petroleum supply process in the country and to expand the international business opportunities that generate foreign exchange and to take measures to establish a legal framework and an independent institutional structure to actively regulate and control the overall subjective data and functioning related to activities such as importation, refining, distribution and selling of petroleum and to establish and to continue an updated national policy on the energy sector while rehabilitating and utilizing the fuel tank complex of Trincomalee, which has been idled and /or underutilized for a period of 9 decades, within a systematic legal framework in order to uplift the fuel storage capacity to suit the said requirements.

Special Audit Report on the Process of Establishment and Maintenance of Private University College of Batticaloa

In order to assist the investigations being conducted by the Committee on Public Enterprises on the establishment of University College of Batticaloa

(Batticaloa Campus Private Ltd.) that had become a common dialogue prevailed at national level in Sri Lanka, a request had been made to conduct a special audit in respect of this matter. Accordingly, audit examinations were carried out over several institutional aspects. Despite the revelation of the Ministry of Vocational Training and the Vocational Education Commission that this institution had not fulfilled fundamental requirements essential to maintain a higher education institution within the legal frameworks, a Memorandum of Understanding had been reached between the Ministry of Youth Affairs and the Private University College in a manner attributing a pseudo-legality to the University College of Batticaloa. This College had been established within a premises belonging to the Mahaweli Authority and no attention had been drawn on the requirements to be complied with in granting a Government owned land for the personal usage. Further, due to absence of a proper regulation, an evaluation on the environmental impact too had not been carried out. Even though the extent of land that had been legally leased out was 35 acres, it was revealed that the College had taken steps to unlawfully occupy that premises up to 55 acres. The Board of Investment of Sri Lanka had registered the above Private University College as a Board of Investment's project and granted import duty concession of Rs.71 million without being complied with the condition that the Board of Investment of Sri Lanka does not facilitate the projects initiated as an extension of a prevailing project. Without being adhered to the guidelines and laws and rules of the Central Bank of Sri Lanka, the Bank of Ceylon had recklessly taken action to release the foreign remittance receipts of about Rs.3,671 million.

The matters such as methodology and the legality relating to leasing out of Government lands for this project, the manner in which the relevant local government authority had granted approval for carrying out constructions, relevant environmental approvals, procedure and the legality regarding granting approval to maintain business activities within Sri Lanka as a higher education institution, methodology and the legality relating to registering the same as a project approved by the Board of Investment of Sri Lanka with the intention of receiving tax concessions, whether the relevant authorizing institutions had exercised an adequate supervision on the Foreign Inward Remittance and whether negative social impacts had resulted from this private institution, and the other similar matters were examined.

In an instance where a proper approval had not been obtained for the Government lands, the Board of Investment had granted approval for this project and the Central Bank of Sri Lanka and the Bank of Ceylon had not exercised due care on these massive scale Foreign Inward Remittance. Further, it was observed that the Government institutions which had granted approval in the establishment of this Private University College and regulated that process had acted with an exceptional tendency towards this institution that was not extended to the other institutions of similar standards. The presentation of recommendations on the institutional functions to be discharged in accordance with the disciplinary laws and rules and general laws and rules with respect to the matters such as deviating from the legality by each institutional framework in the involvement of activities connected to the above matter, taking steps without transparency and responsibility has been included in this report.

Consolidated Fund

Observations

- Public Revenue
- Tax Income
- Public revenue and Budget Deficit
- Shortage of income to recover Recurrent Expenditure
- Budget Deficit
- Financing the Budget Deficit
- Public Debt
- Obtaining Loans exceeding the Ceiling in the Apprpiation Act
- Exceeding the maximum ceiling of Liabilities
- Increase in Per Capita debt amount
- Obtaining Domestic and Foreign Loans, Payment of loan installments and interest and Public revenue

Consolidated Fund

Parliament shall have full control over public finance in terms of Article 148 in Chapter XVII of the Constitution of the Democratic Socialist Republic of Sri Lanka. The funds of the Republic shall form one Consolidated Fund into which shall be paid all the revenue of the Republic. Articles 150 and 152 of the Constitution state how withdrawals should be made from the Consolidated Fund.

The Appropriation Act, No. 06 of 2020 relating to incurring expenses of the Government for the financial year of 2020 was passed in Parliament on 20 November 2020. Until the Appropriation Bill was passed into law in terms of Article 150 of the Constitution, expenses of the Government relating to the supplies and services were incurred under the authorities given in Table 04 below.

Duration	Authorization
2020.01.01 – 2020.03.05	Vote on Account passed by Parliament on 2019.10.23
2020.03.06 – 2020.05.31	Authority given by the President on 2020.03.05 in terms of Pargraph 03 of Article 150 of the Constitution.
2020.06.01 – 2020.08.31	Authority given by the President on 2020.05.31 in terms of Section 03 of Article 150 of the Constitution.
2020.09.01 – 2020.11.20	Vote on Account passed by Parliament on 2020.08.28.

Table 04- The authorities under which the Government had incurred expenses until the Appropriation Bill was passed into law in the year 2020.

With the passing of Appropriation Act, No. 06 of 2020, the Vote on Account passed in Parliament on 2020.08.28 became annulled.

The structure of the Cabinet had changed in several instances in the year 2020. But, it was stated in Paragraph 06 of the Budget Circular , No. 06/2020, dated 30 November 2020 that the expenses incurred by various Ministries and Departments during the period from 01 January 2020 to 31 August 2020 had been brought under Items of Expenditure included in the Vote on Account passed in Parliament on 23 October 2019. Expenses had been incurred with provision made under the Vote on Account on 31 Ministries and 06 Non-cabinet Ministries. The Vote on Account which included the estimates on expenses for the period from 01 September 2020 to 31 December 2020, was passed in Parliament on 28 August 2020. The Ministries had been mentioned therein in accordance with the ones published in the Gazette, No. 2187/27 dated 09 August 2020. The structure of those Ministries had slightly been amended in terms of the notice published in the Gazette, No. 2196/27 dated 26 October 2020. The Appropriation Act, No. 06 of 2020 which included the said amendments along with estimates on expenses for the period from January 2020 to 31 December 2020, was passed in Parliament. The expenses brought under Items of Expenditure prior to passing the Appropriation Act, were adjusted to the Head of Expenditure under the Appropriation Act, No. 06 of 2020 and the estimates printed for the year 2020 in terms of the instructions given in the Budget Circular, No. 06/2020, thereby preparing the annual financial statements for the year 2020.

Provision totaling Rs. 4,718,158 had been made for expenses of the year under review in terms of the Appropriation Act, No. 06 of 2020. Detail are Table 05.

Source	Capital Provision Rs. Million	Recurrent Provision Rs. Million	Total Rs. Million
Provision for supplies and services through the Appropriation Act.	929,539	1,788,483	2,718,022
Provision for special legal services that had been a burden of expenditure on the Consolidated Fund, and for which approval was given through the existing laws.	982,189	1,017,944	2,000,133
Additional provision given on expenses of the special legal services.	-	3	3
Total	**1,911,728**	**2,806,430**	**4,718,158**

Table 05. Provision made on the supplies and services of the Government.
Source : Department of National Budget.

Additional provision amounting to Rs. 59,741 million had been made in terms of Section 06 of the Appropriation Act, No. 06 of 2020 for utilizing only on the activities given in Paragraph 2.4.1 of the annual budget relating to the supplementary assistance services and urgent requirements project implemented under the development programme of the Department of National Budget through Head 240. A sum of Rs. 44,544 million of the said provision, had been transferred to other Heads of Expenditure. As such, a sum amounting to Rs. 15,197 had been saved by the end of the year under review out of the provision made for that project. Particulars are given in Table 06.

Nature of Expenditure	Net Provision Rs. Million	Actual Amout of Provision Made on other Heads Rs. Million	Savings Rs. Million	Savings as a Percentage of Net Provision
Recurrent	31,741	19,743	11,998	38
Capital	28,000	24,801	3,199	26
Total	59,741	44,544	15,197	34

Table 06 : Provision made on supplementary assistance services and urgent requirements project, and transfer of provision.
Source : Department of National Budget.

Provision totaling Rs. 4,718,158 million had been made for the supplies and services of the Government in the year under review whereas the provision made for the preceding year amounted to Rs. 4,728,193 million. As such, a decrease of provision made for the year under review by Rs. 10,035 million was indicated representing 0.21 per cent as compared to the preceding year. As only a sum of Rs. 4,457,390 million had been utilized during the year out of the total provision made for the year 2020, a sum of Rs. 260,768 million equivalent to 6 per cent of the total provision, had saved. Some of the instances in which savings had occurred from the provision made on expenses of the Government through the budget of the year under review, are as follows.

- The total provision made on the recurrent expenses amounted to Rs. 2,804,651 million. As only a sum of Rs. 2,682,713 million had been utilized therefrom during the year under review, a saving of Rs. 121,938 million occurred representing 04 per cent of the total provision made on the recurrent expenses.
- The total provision made on the capital expenses amounted to Rs. 924,208 million. As only a sum of Rs. 811,773 million had been utilized therefrom during the year under review, a saving of Rs. 112,435 million occurred representing 12 per cent of the total provision made on the capital expenses.
- A provision totaling Rs. 989,298 million had been made for paying installments on local and foreign borrowings. As only a sum of Rs. 962,903 million had been utilized therefrom during the year under review, a saving of Rs. 26,395 million occurred representing 03 per cent of the total provision made for paying installments on borrowings .

The capital provision made for the year under review amounted to Rs. 924,208 million except for paying for borrowings. Of that, a sum of Rs. 811,773 million , or 88 per cent had been utilized, which was an increase by Rs. 174,554 million as compared to the utilization of capital provision in the preceding year amounting to Rs. 637,219 million. Moreover, the provision made on the recurrent expenses for the year under review amounted to Rs. 2,804,651 million, and a sum of Rs. 2,682,713 or 96 per cent of the provision made, had been utilized. That was an increase by Rs. 361,090 million as compared to the recurrent expenditure of Rs. 2,321,623 million in the preceding year. As such, the total expenditure of the preceding year amounting to Rs. 2,958,842 million (except for payment of loans), had increased to Rs. 3,494,486 million by a sum of Rs. 535,644 million in the year under review. Except for the repayment of loans, the total expenditure of the year under review represented 22 per cent of the estimated gross domestic product. Particulars on the expenditure of the Government and the gross domestic product relating to the year under review and 07 preceding years, are given in Figure 01 below.

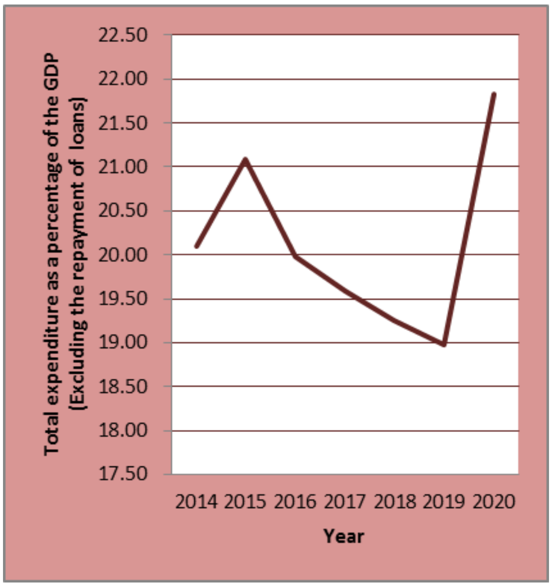


Figure 01 : Total expenditure as a percentage of the GDP (Excluding the repayment of loans)
Source : Financial statements of the Government , Report of the Central Bank of Sri Lanka.

Thirty six per cent of the total recurrent expenditure amounting to Rs. 975,434 million had been spent in the year under review with respect to the payment of interest on local and foreign borrowings, and the payment of commission on Treasury bills and Treasury bonds. This was an increase by Rs. 86,647 million or 10 per cent as compared with the preceding year. Additionally, sums of Rs. 578,607 million, Rs. 881,469 million and Rs. 221,067 million had also been incurred on personnel emoluments, grants & financial assistance, and other goods & services respectively. The total of the recurrent expenditure had mainly been attributed by the aforesaid expenses whilst the revenue collected during the year under review had not been sufficient for settling the total recurrent expenditure. As such, the recurrent expenditure in excess of the total of the state revenue, amounted to Rs. 1,303,826 million in the year under review indicating an increase by 215 per cent or Rs. 889,400 million as against the preceding year. Particulars relating to the recurrent expenditure, state revenue, and the recurrent expenditure in excess of the state revenue relating to the year under review and the preceding 05 years, are shown in Table 07 below.

	2015	2016	2017	2018	2019	2020
	Rs. million	Rs. million	Rs. million	Rs. million	Rs. million	Rs. million
State Revenue	1,394,245	1,698,755	1,845,017	1,935,095	1,907,196	1,378,887
Recurrent Expenditure	1,672,921	1,770,882	1,945,575	2,108,964	2,321,623	2,682,713
Recurrent expenditure in excess of the state revenue	278,676	72,127	100,558	173,869	414,427	1,303,826

Table 07: Recurrent expenditure, state revenue, and the recurrent expenditure in excess of the state revenue.
Source : Department of State Accounts /Financial statements of the Government.

Furthermore, a sum of Rs. 811,773 had also been spent on the capital expenses in the year under review. local and foreign borrowings; and, aids had to be obtained with respect to the payment of investments made by the Government, loan installments, and a part of the recurrent expenditure. Accordingly, an extensive amount had been spent on the payment of annual loan installments and interest, and that amount had become a cost increasing annually.

Recurrent and capital expenses, and the repayment of loans totaled Rs. 4,457,390 in the year under review. Twenty two per cent each for the repayment of loans and payment of interest on loans and commissions, had been spent from the total expenditure. Expenses made in the year under review with respect to 18 areas identified, are shown in Figure 02 below.

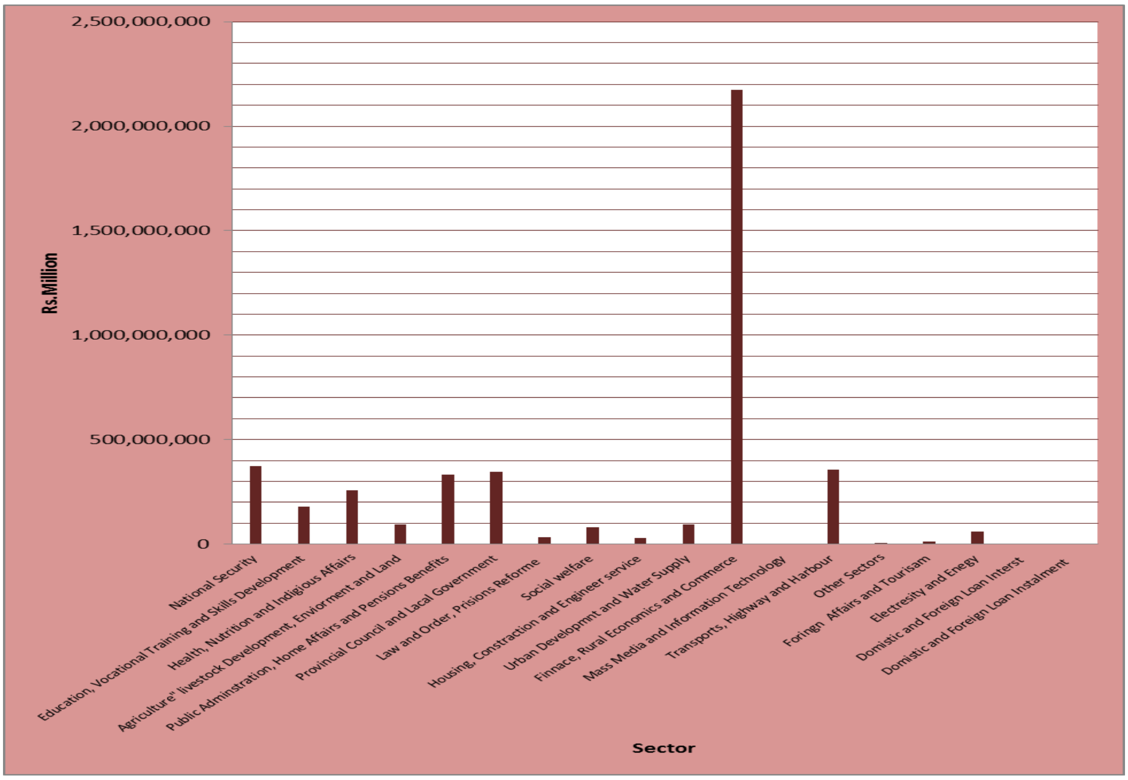


Figure .02 : Expenses made in the year 2020 on 18 main areas.
Source : Financial statements of the Republic.

Public Revenue

According to the budget estimate approved by Parliament of the Democratic Socialist Republic of Sri Lanka for the year 2020, a state revenue totaling Rs. 1,555,200 million had been estimated through tax and non-tax revenue (excluding the Provincial Council revenue). Comparing with the estimated revenue of Rs. 2,402,000 million for the preceding year, this indicated a decrease of Rs. 846,600 million or 35 per cent. As a revenue of Rs. 1,403,921 million had been collected in the year under review, the collected revenue was behind the estimated revenue by Rs. 151,279 million or 6 per cent. The revenue collected in the year under review had decreased by Rs. 535,441 million or 28 per cent as against the revenue collected in the preceding year amounting to Rs. 1,939,362 million. The state revenue indicated 12 per cent of the estimated GDP in the preceding year, but the same had dropped to 09 per cent in the year under review. Particulars are given in Figure 03. below.

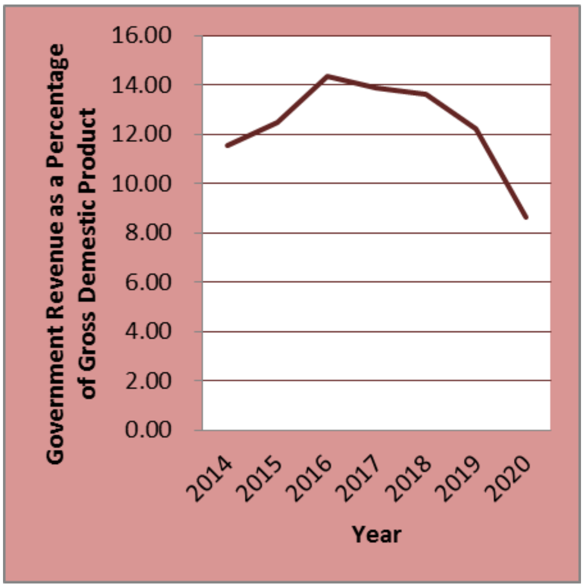


Figure 03 - Government Revenue as a Pecentage
of Gross Demestic Product
Source : Financial statements of the Republic

Clarification of State Revenue

State revenue was reported under two main categories of "tax revenue" and "non-tax revenue";and, the tax revenue was further categorized in to income tax, tax on local goods & services, and tax on international trade before being shown in the "financial statements of the Republic" of the Democratic Socialist Republic of Sri Lanka. Despite being expected to collect a sum of Rs. 324,000 million as income tax for the year under review, only a sum of Rs. 268,249 million had been collected. Furthermore, a sum of Rs. 629,290 million had been expected through the taxes levied on local goods and services, but only Rs. 584,528 million had been collected. It had been expected to collect a sum of Rs. 404,710 million from the taxes imposed on international trade, but only a sum of Rs. 363,765 million had been collected By the end of the year under review. As such, only a sum of Rs. 1,216,542 million or 90 per cent of the revenue totaling Rs. 1,358,000 million expected to be earned through tax, was collected. It was estimated in the year under review to collect a sum of Rs. 174,000 million through non-tax sources, but only a sum of Rs. 162,345 million had been collected. A description on the revenue estimated for the year under review and the actual revenue, is shown in Figure 04 below.

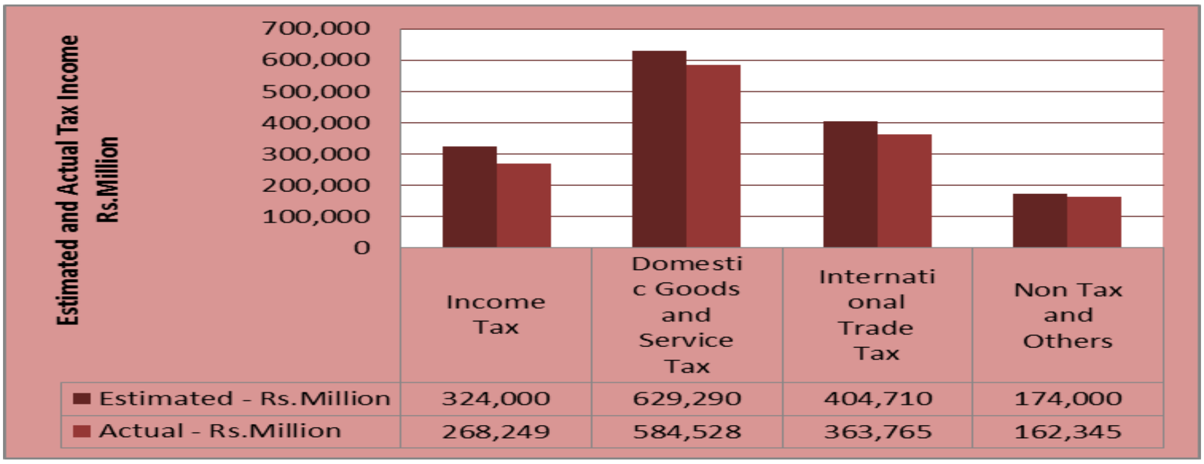


Figure ...... : Estimated and actual tax revenue.
Source : Financial statements of the Government.

Tax Revenue

According to the financial statements of the Government, the tax revenue of the year under review amounted to Rs. 1,216,542 representing 87 per cent of the total revenue of the Government. The tax revenue of the preceding year amounted to Rs. 1,734,925 million whereas the tax revenue of the year under review had decreased by Rs. 498,383 or 29 per cent.

Income Tax

The state revenue comprised income tax amounting to Rs. 268,249 million representing 22 per cent of the total tax revenue and 19 per cent of the total state revenue. Income tax amounting to Rs. 427,700 million had been collected in the preceding year, and in comparison therewith, the revenue had decreased by Rs. 159,451 million in the year under review. This decrease had been attributed by the decrease in incorporated tax income by Rs. 46,025 million and the non-incorporated tax income by Rs. 113,425 million.

Tax on Local Goods and Services

The tax revenue collected in the year under review comprised tax levied on local goods and services amounting to Rs. 584,528 million representing 48 per cent of the total tax revenue and 42 per cent of the total state revenue. As for the preceding year, that represented 56 per cent of the total tax revenue and 51 per cent of the total state revenue.

According to the financial statements of the Government for the year under review, over 18 per cent of the state revenue had been contributed by the Value Added Tax levied on the local goods and services, and the Telecommunication Levy. Taxes imposed on liquor and cigarettes (excise) had contributed 16 per cent of the total revenue. More than 23 per cent of the total revenue had been collected through taxes imposed on cigarettes and liquor, and motor vehicles and petroleum products.

Tax Imposed on International Trade

According to the financial statements of the Government for the year under review, a sum of Rs. 363,765 million had been collected through the tax imposed on international trade, and that represented 30 per cent of the total tax revenue and 26 per cent of the total revenue. As against the preceding year, revenue collected through the tax imposed on international trade, had increased by 9 per cent or Rs. 30,383 million in the year under review.

The following factors had significantly affected the decrease in direct and indirect taxes contributing to the state revenue.

- The economy of the country was not as active as expected at the beginning of the year owing to the spread of Covid 19 in March 2020.

- Direct impact of the policy introduced by the Government to reduce tax rates and omission of taxes.
- Restrictions on imports.
- Poor economic growth in tourism and local trade sectors which were pivotal in the economy.

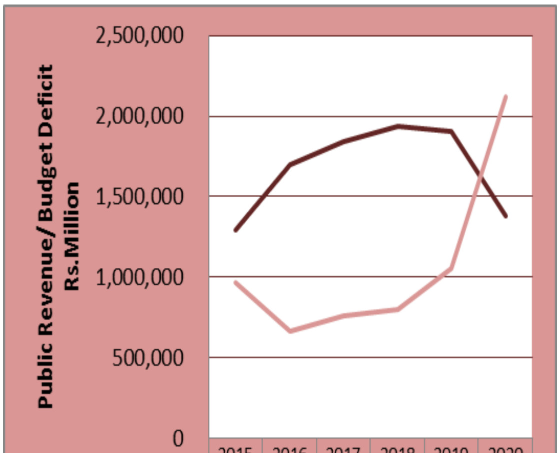
Moreover, comprehensive information relating to the impact on the state revenue due to omission, relief and exemption of taxes in the wake of foreign trade agreements and other laws, had not been taken into consideration when measuring the performance of relevant Departments.

Non-tax Revenue

The contribution made by the non-tax revenue to the state revenue remained as low as 12 per cent in the year under review whereas the same was 9 per cent in the preceding year. As compared with the preceding year, the non-tax revenue of the year under review decreased by Rs. 9,926 million or 6 per cent.

State Revenue and Budget Deficit

According to the financial statements of the Government for the year under review, the value of the budget deficit amounted to Rs. 2,198,289 million indicating an increase of 124 per cent or Rs. 1,218,889 million as against the budget deficit of the preceding year. As per the financial statements of the year under review, the actual budget deficit amounted to Rs. 2,115,599 million which indicated a decrease by Rs. 82,690 million or 3 per cent of the estimated budget deficit. Nevertheless, the actual budget deficit of the year under review had increased by 101 per cent or Rs. 1,063,954 million as compared with the preceding year. The budget deficit of the year under review represented 153 per cent in relation to the state revenue, and the same was 55 per cent in the preceding year. Accordingly, particulars on the budget deficit in relation to the state revenue since the year 2015, are shown in Figure 05 below.



	2015	2016	2017	2018	2019	2020
Public Revenue	1,294,	1,698,	1,845,	1,935,	1,907,	1,378,
Actual Budget Deficit	962,63	666,13	758,08	799,17	1,051,	2,115,

Figure 05. : State revenue and budget deficit.
Source : Financial statements of the Government.

Inadequacy of State Revenue to Settle Recurrent Expenditure

According to the financial statements of the Government, the recurrent expenditure and capital expenditure of the Government amounted to Rs. 2,682,713 million and Rs. 811,733 respectively in the year under review.

However, that revenue was insufficient for settling the recurrent expenditure of the year as only a revenue totaling Rs. 1,378,887 million had been earned by the Government. As such, recurrent expenses had been incurred exceeding the total state revenue by a sum of Rs. 1,303,826 million.

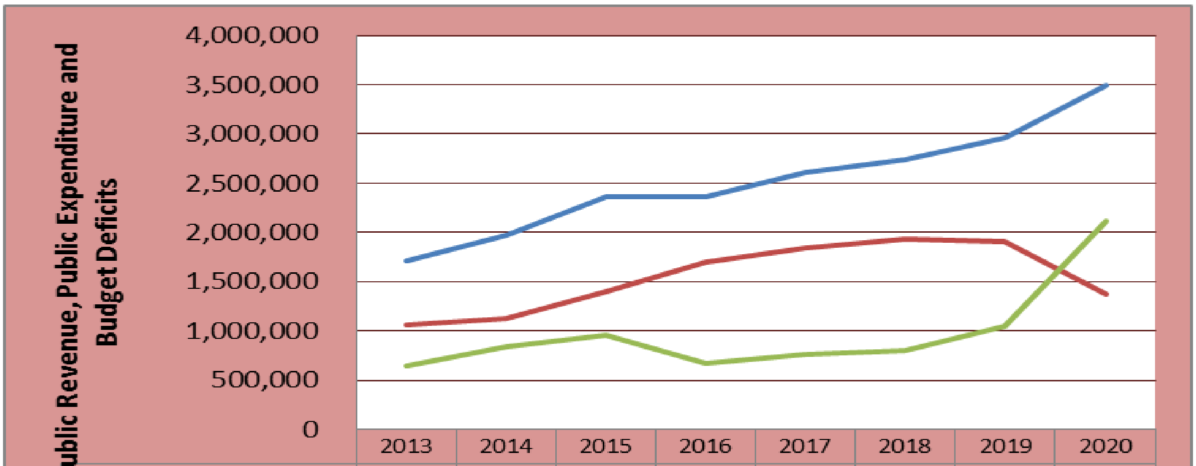
Budget Deficit

Section 3(a) of the Fiscal Management (Responsibility) Act, No. 3 of 2003, states that reduction of government debt to prudent levels, by ensuring that the budget deficit at the end of the year 2006, shall not exceed five per centum of the estimated gross domestic product and to ensure that such levels be maintained thereafter; nevertheless, the Ministry of Finance had been unable to do so with respect to the preceding year and the year under review. Accordingly, the estimated budget deficit shown 19.76 per cent of the GDP estimated for the year under review whereas the actual budget deficit indicated 13.20 per cent of the estimated GDP. Particulars on the budget deficit and GDP relating to the preceding year and the year under review, are shown in Table 08 below.

Year	Estimated GDP	Budget Deficit		Estimated Budget Deficit as a Percentage of the Estimated GDP	Actual Budget Deficit as a Percentage of the Estimated GDP
		Estimated	Actual		
	Rs. Billion	Rs. million	Rs. million		
2019	15,600	1,067,594	1,051,647	6.85	6.74
2020	16,003	3,162,958	2,115,599	19.76	13.204

Table 08. : Budget deficit as a percentage of the GDP.
Source : Financial statements of the Government and Annual Reports of the Central Bank of Sri Lanka.

The state revenue for the year under review totaled 1,378 Billion whereas the total expenditure amounted to Rs. 3,494 Billion (recurrent + investments of the Government), thus indicating a budget deficit of Rs. 2,116 Billion. Particulars on the state revenue, expenditure and budget deficit of the year under review and 07 preceding years, are as follows.



	2013	2014	2015	2016	2017	2018	2019	2020
Public Expenditure	1,709,0	1,966,7	2,356,8	2,364,8	2,603,1	2,734,2	2,958,8	3,494,4
Public Revenue	1,066,2	1,127,6	1,394,2	1,698,7	1,845,0	1,935,0	1,907,1	1,378,8
Budget Deficits	642,840	839,126	962,639	666,140	758,088	799,179	1,051,6	2,115,6

Figure 06. : State revenue, expenditure, and budget deficit.
Source : Financial statements of the Government, 2013-2020.

Financing the Budget Deficit

The budget deficit had increased by Rs. 1,063,954 million or 101 per cent in the year under review as against the preceding year. Accordingly, net value of foreign borrowings had decreased by Rs. 266,084 or 73 per cent from Rs. 362,763 million to Rs. 96,679 million. The net value of local debt had increased by Rs. 1,150,669 or 205 per cent from Rs. 561,010 million to Rs. 1,711,679 million.

Accordingly, local debt had contributed considerably in financing the budget deficit of the year under review, and that indicated 81 per cent of the total financing. Additionally, net foreign borrowings represented 5 per cent, recovery of sub-loans represented 1 per cent, and net changes in deposit accounts and liabilities represented 1 per cent of the overall financing.

Public Debt

According to Article 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka, Parliament shall have full control over public finance including public debt, and approval of the Parliament should be obtained on all the debts of the Republic. According to the Section 2.1(b) of the Appropriation Act, No. 06 of 2020, "the expenditure of the Government which is estimated to be rupees two thousand seven hundred eighteen billion twenty two million for the service of the period beginning on January 1, 2020 and ending on December 31, 2020, shall be met from borrowing made in the financial year 2020 which are hereby authorized in terms of relevant laws for moneys to be raised whether in or outside Sri Lanka, for and on behalf of the Government, provided that the balance outstanding of such borrowing at any given time during the financial year 2020 or at the end of the financial year 2020 shall not exceed Rs.2,830 billion and the details of such borrowings shall be incorporated in the Final Budget Position Report which is required to be tabled in Parliament under section 13 of the Fiscal Management (Responsibility) Act, No. 3 of 2003: Provided that, the difference between the total short-term borrowing raised during the financial year 2020 and the total settlement of short-term borrowing made during the financial year 2020 shall only be considered in deciding the volume of short-term borrowing for the purposes of calculating the borrowing made during the financial year 2020". Approval had been granted by Parliament to obtain borrowings subject to those provisions.

According to the financial statements of the Government, borrowings totaling Rs. 2,771,261 million had been obtained in the year under review comprising foreign borrowings amounting to Rs. 600,888 million and local non-bank borrowings amounting to Rs. 2,170,373 million (including net borrowings through Treasury bills). This indicated an increase by Rs. 730,502 million or 36 per cent as compared with the borrowings of Rs. 2,040,759 million obtained in the preceding year (including net borrowings through Treasury bills). The Government had been more interested in local borrowings during the year under review. The local borrowings obtained in the year under review, when compared with that of the preceding year (including net borrowings through Treasury bills) amounting to Rs. 1,105,658 million, had increased by Rs. 1,064,715 million or 96 per cent. A comparison of the borrowings obtained in the year under review and the preceding year, is shown in Table 09 below.

Description	2020	2019
	Rs. Million	Rs. Million
Foreign Borrowings	**600,888**	**935,101**
Local Borrowings		
Treasury Bills (net)	723,705	138,874
Treasury Bonds	1,332,069	768,000
Foregn Currency (non-project)	50,635	67,937
Development Bonds	93,679	61,857
Foreing Currency (non-project)	3,815	1,014
Treasury Bonds (***)	-	30,000
Advances of Central Bank of Sri Lanka	(83,530)	37,976
Domestic Loan Facility	50,000	-
Total Local Borrwoings	**2,170,373**	**1,105,658**
Total of the Borrowings Obtained in theYear	2,771,261	2,040,759

Table 09 : Local and foreign borrowings obtained by the Government.
Source : Financial statements of the Government.

According to the financial statements of the Government, the balance of the public debt payable as at 31 December 2020, totaled Rs. 14,845,571 million (excluding the overdraft), and comparing the said amount with the same existed as at 31 December 2019 amounting to Rs. 12,424,467 million (excluding the advance of the Central Bank of Sri Lanka and the overdraft), an increase by Rs. 2,421,104 million or 19 per cent, was indicated. A description on the total public debt existed at the end of the year under review and the preceding year, is given Table 10 .

Description	Balance as at 31 December	
	2020	2019
	Rs. million	Rs. million
Treasury Bills	1,621,375	897,670
Treasury Bonds	5,689,504	4,338,280
Rupee Loans	24,088	24,088
Sri Lanka Development Bonds	491,857	560,226
Local Borrowings in Foreign Currency	227,418	168,011
Foreign Currency Banking Unit (Project)	19,348	17,701
Suhurupaya Loan Account of Ministry of Defence	5,689	6,258
Treasury Bonds Account (Active Liability Management Act)	30,000	30,000
Retirement Gratuity Loan Account	57,065	61,136
Leased Creditors	732	2,881
Domestic Term Loan Facility	50,000	-
Advances of the Central Bank of Sri Lanka	153,079	236,609
Total Domestic Borrowings	**8,370,155**	**6,342,860**
Foreign (Projects)	3,576,769	3,105,824
Timely Loan Facilities through Foreign Currency	279,612	242,191
International Independent Bonds	2,619,035	2,733,592
Total Foreign Borrowings	**6,475,416**	**6,081,607**
Total Public Debt Balance	**14,845,571**	**12,424,467**
Estimated GDP	16,003,000	15,600,000
Total Public Debt Balance as a Percentage of the GDP	93	80

Table 10. : The debt balance in categories as at the end of the year.
Source : Department of State Accounts /Financial statements of the Government.

Borrowings Obtained in Excess of the Limits Given in the Appropriation Act

The balance of the borrowings obtained in the respective year through the Appropriation Acts approved by Parliament relating to each respective year, determined the debt ceiling that should have been maintained at the end of the respective year or in whatever instance during the respective year of finance. However, borrowings had been obtained in excess of the said limit as mentioned in Table 11 below.

Year	Limit Approved by Parliament Rs. billion	Actual Borrowings Rs. billion	Excess of the Limit Rs. billion
2019	2,079.0	2,158.0	79.0

Table 11. : Borrowings obtained in excess of the limit authorized by Parliament .
Source : Financial statements of the Republic and annual Appropriation Acts.

The balance resulted in from the borrowings obtained in the financial year of 2020 through the Appropriation Act, No. 06 of 2020, should not have exceeded the sum of Rs. 2,830 Billion in whatever instance or at the end of the year 2020. The sum of Rs. 210 Billion included as foreign borrowings relating to the year 2020, belonged to the year 2019 and the years prior; and hence, the Audit was informed by the Department of State Accounts that the said value had no effect on the debt ceiling for the year 2020.

Exceeding the Maximum Limit of liabilities

In terms of the Fiscal Management (Responsibility) Act, No. 03 of 2003 as amended by Fiscal Management. (Responsibility) (Amendment) Act, No. 15 of 2013, the maximum value of liabilities at the end of a certain year should not exceed 80 per cent of the GDP estimated for that year. However, considering the foreign borrowings unaccounted as at 31 December 2020, and the liabilities relating to miscellaneous public enterprises that had been brought to accounts external to the statement of financial position, it was observed that liabilities had been incurred in the year under review by exceeding the said limit. Particulars are given in Table 12. below.

Liability	Value of Liabilities as at 31 December 2020
Bank Draft	Rs. Billion
Public Debt (As per financial statements of the Government)	464
Liabilities Unaccounted in the Financial Statements.	14,845
- Foreign borrowings accounted external to the balance sheet.	
- Foreign borrowings not accounted.	323
Total Liabilities.	6
Estimated GDP	15,638
Total Liabilities as a Percentage of Estimated GDP.	16,003
	97.7

Table 12. : Exceeding the maximum limit of liabilities.
Source : Financial statements of the Government.

- The sum of Rs. 1,059 Billion being the value of bonds and letters of relief given to the banks on behalf of the loans obtained by public enterprises upon Treasury bonds, and the value of Rs. 153 Billion shown in the statement of liabilities included in the annual financial statements of the Ministries, Departments, and foreign expenses units, had not been included in the said liabilities.

Average Per Capita Debt

Balance of public debt, mean annual population, and average per capita debt, relating to the year under review and 8 preceding years, are shown in Figure 07.

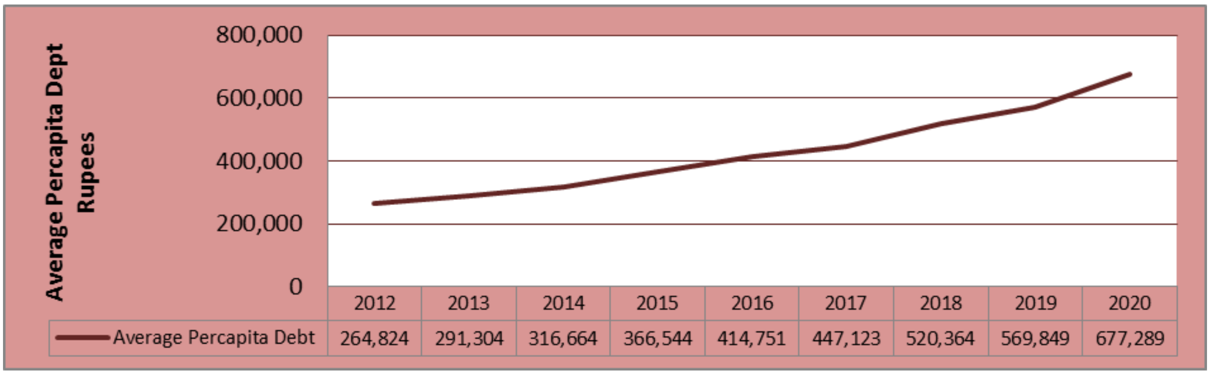


Figure 07 : Average per capita debt.
Source : Financial statements of the Government / Department of Census and Statistics.

When the value of total public debt is compared with the mean annual population as in the information given above, the average value of per capita debt amounted to Rs. 264,824 as at 31 December 2012, and that value had become Rs. 677,289 by 31 December 2019. When it is compared with the per capita debt of Rs. 569,849 existed as at 31 December 2019, an increase by Rs. 107,440 or 18.85 per cent was indicated.

Local and Foreign Borrowings, Payment of Installments and Interest on Borrowings, and Public Revenue

A comparison of local and foreign borrowings, payment of installments & interest on borrowings, and public revenue of the year 2020 with the 05 preceding years, is shown in Table 13 below.

Description	2015	2016	2017	2018	2019	2020
	Rs. million	Rs. million	Rs. million	Rs. million	Rs. million	Rs. million
Local borrowings of the year	2,793,434	2,517,778	2,548,628	2,718,430	2,686,111	4,037,206
Foreign borrowings of the year	556,370	574,249	601,306	771,608	935,101	600,888
Total of the local and foreign borrowings	3,349,804	3,092,027	3,149,934	3,490,038	3,621,212	4,638,094
Payment of local loan installments **	2,265,485	2,072,666	2,340,146	2,548,515	2,125,101	2,325,527
Payment of foreign loan installments	187,113	145,119	219,350	307,015	572,338	504,209
Payment of interest on local borrowings	450,053	509,819	597,020	667,657	654,818	708,755
Payment of interest on foreign borrowings	77,174	101,076	138,546	184,532	233,970	266,679
Total payments on loan installments and interest	2,979,825	2,828,680	3,295,062	3,707,719	3,586,227	3,805,170
Public revenue	1,394,245	1,698,755	1,845,017	1,935,095	1,907,196	1,378,887
Loan installments and interest paid in excess of the public revenue	1,585,580	1,129,925	1,450,045	1,772,624	1,679,031	2,426,283
Balance of public debt as at 31 December	7,684,954	8,793,959	9,588,101	11,276,281	12,424,467	14,845,571

Table 13 -Local and foreign borrowings, payment of loan installments & interest, and public revenue.
Source : Financial statements of the Government.

* The local borrowings obtained in the year comprised the amount received through the issue of Treasury bills [Value of Treasury bills issued in the year under review + (Local borrowings of the year under review as per Note 13 to the financial statements + Net borrowings through Treasury bills)] [e.g.:- as for the year under review; Rs. 2,590,538 million + (2,170,373 - 723,705) = 4,037,206

** Payment of installments on local borrowings comprised payments made in the year on Treasury bills. (Local borrowings repaid in the year under review as per Note 14 to the financial statements + Value of Treasury bills repaid in the year under review) (e.g. : As for the year under review, Rs. 458,694 million + 1,866,833 = 2,325,527)

Increase in the Payment of Installments & Interest on Borrowings Against the Decline in Public Revenue

The total of all the revenue had decreased by Rs. 528.31 Billion or 27.70 per cent in the year under review as against the preceding year whilst the collected revenue had decreased by 10 per cent or Rs. 153.11 Billion as against the estimated revenue. Moreover, the value of net borrowings (local and foreign) had increased by Rs. 884.59 Billion in the year under review as against the preceding year. Payments made on interest had increased by 86.65 Billion or 10 per cent in the year under review as against the preceding year. The collected revenue was not sufficient for paying the installments and interest on borrowings in the year under review as well as in the preceding years. Particulars are given in Figure 08 below.

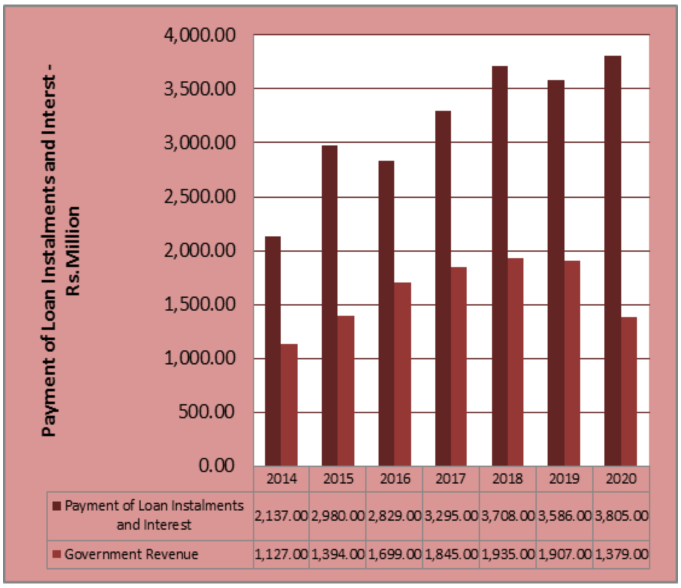


Figure 08. Inadequacy of collected revenue to pay the installments and interest on borrowings .
Source : Financial statements of the Government.

Public Enterprises

Observation

- Performance Evaluation
- Financial performance
- Sustainable development
- Opinion of the Auditor General regarding financial statements
- Unqualified Opinion
- Qualified Opinion (Subject to Opinion)
- Adverse Audit Opinion
- Disclaimer of Audit Opinion
- Maintenance of Fixed Asset Registers
- Preparation and Submission of Annual Financial Statements
- Lack of Autonomy to recruit and to retain Professional Staff

Public Enterprises

Public Enterprises are state-owned corporations, statutory boards or other undertakings vested in the Government under any written law and companies, registered under the Companies Act and conducting commercial or non-commercial activities and the Government has the majority ownership. Accordingly, a public enterprise is an entity with the power to contract in its own name, has been assigned the financial and operational authority to carry on a business, sells goods and services in the normal course of its business to other entities at a profit or full cost recovery and is controlled by a public sector entity.

Furthermore, state-owned business enterprises are state-owned businesses that engage in business activities through the sale of goods or services and thus generate revenue. Trade enterprises that provide utility services and financial enterprises, such as financial institutions, are included under the public business enterprises. Some state-owned enterprises are responsible for providing community service to certain individuals and communities, but generally operate to make a profit, even if they operate for the purpose of providing goods and services at a significantly lower cost or free of charge. Accordingly, earning a return on its assets is essential for future development. Regulatory, developmental and educational public enterprises are not traditionally owned by the commercial sector and are considered as non-profit oriented organizations, and their performance needs to be examined using differing criteria other than profitability. The Public Enterprises in Sri Lanka can be broadly categorized under the following headings.

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

The composition of 419 public enterprises audited under the National Audit Office by 31 December 2020 is shown in the following Figure 09

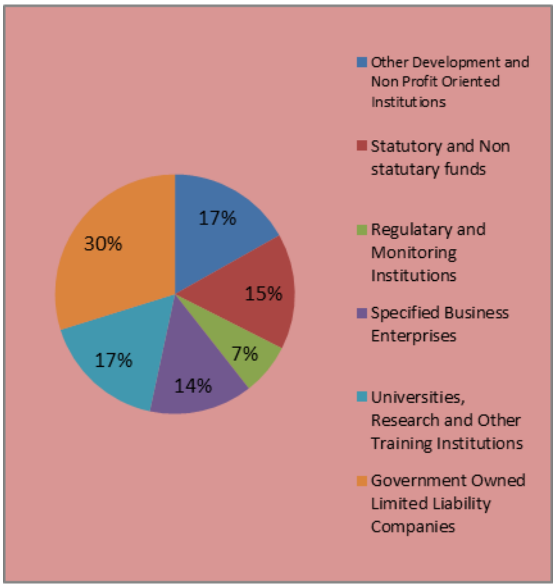


Figure 09- Composition of Public Enterprises in the Year 2020

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

Performance Evaluation

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

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

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

Performance audit is a timely requirement. In the financial audit, it certifies the financial controls and accuracy of the accounts. However, in the performance audit, it is expected to examine whether the resources have been economically, efficiently and effectively utilized.

Financial performance

In the analysis of the operational results of the public sector according to the information received, it is observed that many public enterprises, operate in sectors that are very critical to the economic development are operating at a loss. The analysis of the profit and loss status of 187 public enterprises as per the information received for the year ended 31 December 2020 is shown in Figure 10

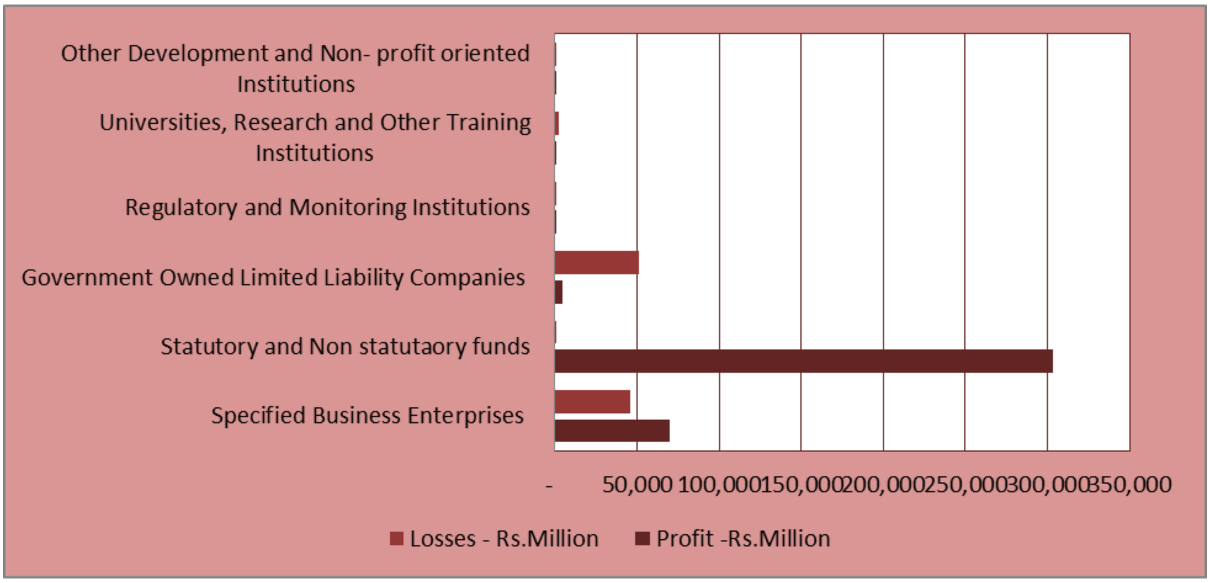


Figure 10- Analysis of Profit and Loss Status of Public Enterprises in 2020

According to the above information, the total loss of the public enterprises is Rs.103 billion and the total profit is Rs. 380 billion. Accordingly, the total net profit of public enterprises for the year 2020 is Rs. 277 billion. Out of 187 institutions that submitted financial information, financial result of 66 public enterprises was a deficit and financial result of 121 public enterprises was a surplus. Accordingly, 20 institutions including the, the Ceylon Electricity Board, Sri Lankan Airlines Limited, Airport and Aviation Services (Sri Lanka) Ltd, Ceylon Shipping Corporation, University of Peradeniya and Sri Lanka Bureau of Foreign Employment were among the institutions that showed a deficit of more than Rs.100 million in their financial result.

The total assets that remained under control of 187 public enterprises which submitted information as at 31 December 2010 was Rs. 7,199 billion and it is an increase of Rs. 540 billion compared with that of in the year 2019. The composition of the total assets of 187 public enterprises of each category as compared with that of at the end of the previous year is shown in Figure 11.

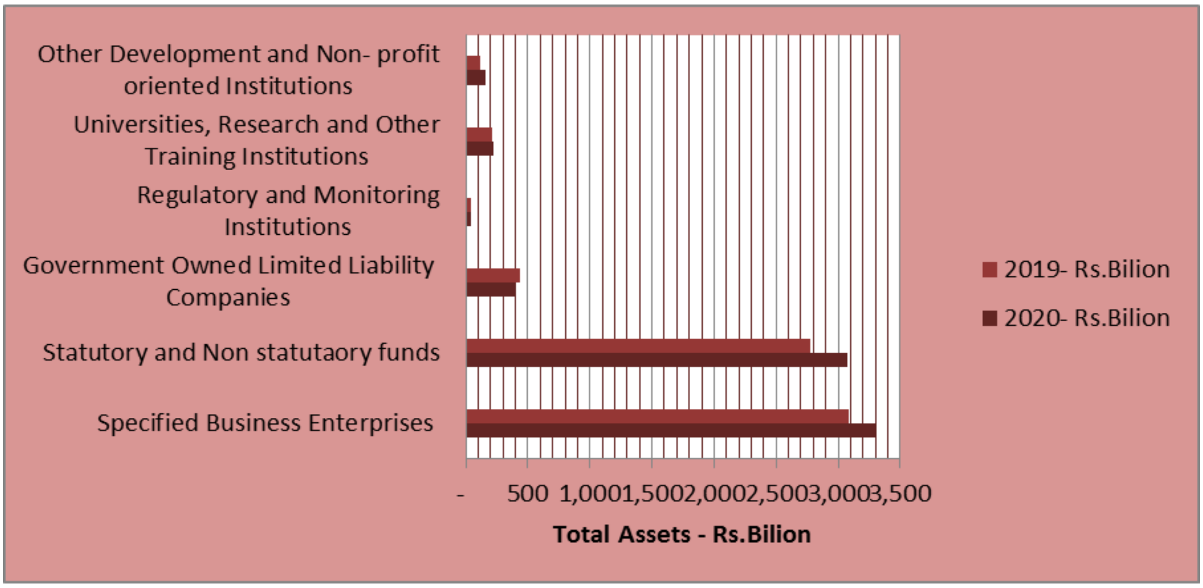


Figure 11 - Total Assets of Public Enterprises in the years 2019 and 2020

Sustainable development

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

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

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

Opinion of the Auditor General regarding financial statements

Public Enterprises prepare financial statements annually comprising statement of financial position as at the end of the year, statement of income, cash flow statement, statement of changes in equity for the year then ended, a summary of significant accounting policies and other explanatory information. The Auditor General provides independent assurance to Parliament as to whether the financial statements give a true and fair view of the state of affairs of the institutions. This assurance is provided in the form of expressing an opinion on the financial statements. The opinion simply states the Auditor General's conclusion as to whether a fair position is reflected by statement of financial position and statement of financial performance of public enterprises and whether the Financial Statements are in accordance with the Sri Lanka Public Sector Accounting Standards, which are in compliance with International Accounting Standards and to the Sri Lanka Financial Reporting Standards.

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

Unqualified Opinion

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

Qualified Opinion (Subject to Opinion)

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

Adverse Audit Opinion

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

Disclaimer of Audit Opinion

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

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

Table 14 shows the audit reports issued on the financial statements submitted in relation to 419 public enterprises for the year 2020 including the institutions which had not submitted information along with the comparison to the previous year.

Type of Audit Opinion	2020	2019
Unqualified	29	41
Qualified	93	141
Disclaimer	5	18
Adverse	0	7
Not yet decided	60	6
Not submitted Information	232	206

Table14- Information related to 419 Public Enterprises

Maintenance of Fixed Asset Registers

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

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

Preparation and Submission of Annual Financial Statements

The draft annual report and Financial Statements must be submitted to the Auditor General within 60 days subsequent to the end of the Accounting year as per Public Enterprises Circular No. PED/12 of 02 June 2003.

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

Lack of Autonomy to recruit and to retain Professional Staff

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

Limited liability companies owned by the government

State-owned limited liability companies had been established under the Companies Act as public enterprises, and these companies are fully state-owned companies or operating as a public private partnership with a certain percentage of the share capital owned by the government. Private sector intervention acts as a control mechanism to prevent many problems arising for fully state-owned enterprises. There are also state-owned companies created by state-owned enterprises and registered under the Companies Act as subsidiary or affiliated companies that invest capital by the relevant private enterprises without the intervention of the Treasury.
The government has the power to appoint directors to limited liability companies in which the government or state-owned enterprise owns 100 per cent of the shares and no individual can receive a share of the profits. It is, in fact, the equivalent of the transformation of a state-owned corporation into a simple "private sector" company by a simple sale of shares. The government also has the power to appoint company directors when selling less than 50 percent of the shares. Even with the sale of more than 50 per cent of the shares, the government is in a position strong enough to influence corporate policy. However, it was observed that many public corporations do not maintain their governing Authority over their

subsidiaries even though the majority of the members of the Board of Directors of the subsidiaries are comprised of their members.

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

Other Non-Profit Oriented Public Enterprises

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

Local Government

Number of Local Authorities

Type of Local Authority	Number
Municipal Councils	24
Urban Councils	41
Pradesiya Saba	276
Total	341

Local Government

As for the 341 Local Authorities established in Sri Lanka, 24 Municipal Councils function under the Municipal Councils Ordinance (Cap 252), whilst 41 Urban Councils function under the Urban Councils Ordinance (Cap 255), and 276 PradeshiyaSabhas function under the provisions set out in PradeshiyaSabhas Act, No. 15 of 1987. The financial statements of these Local Government Institutions for the year 2020 had been submitted for audit and they were audited and the reports were submitted to the relevant Local Government Institutions in terms of Section 11 of the National Audit Act No. 19 of 2018. Given below is a summary of some of the significant observations disclosed in the audit reports relating to the financial statements of the of the Local Governments Authorities.

- The Badulla Municipal Council had not recovered Rs. 2.18 million that remained in arrears relating to the receipts issued to the Badulla Regional Office of the Sri Lanka Transport Board for collection of charges from buses entering the bus stand during the period from 2014 to 2019.

- The KataragamaPradeshiya Sabha had not recovered rentals totallingRs. 5.86 million from the shops rented by the Sabha including 4.78 million for the year under review and Rs.1.08 million for the previous, even by the end of the year under review.

  - Arrears of tax of Rs. 2.16 million relating 06 properties including fish stalls, meat stalls, and weekly fairs of the ButtalaPradeshiya Sabha that had been leased under tender procedure from the year 1988 to 2019 had not been recovered even by the end of the year under review. Similarly, rentals totaling Rs. 8.35 million comprising Rs. 3.83 million for the year under review and Rs. 4.52 million for the preceding year relating to renting vehicles and machinery belonging to the ButtalaPradeshiya Sabha from the year 2010 had not been recovered even by the end of the year under review.

- The rent of Rs. 3.97 million due for the lease of shops belonging to the WellawayaPradeshiya Sabha for the previous years had not been recovered even by the end of the year under review.

- Nine shops in the Middeniya supermarket complex of KatuwanaPradeshiya Sabha had been leased to People's Bank for a period of 50 years subject to the renewal of agreement to revise the annual lease once every 10 years.Although the validity of the agreement signed on 04 December 2008 expired in 2018, the Sabha lost revenue due to non-renewal of the agreement and not revising the rent.

- TheThissamaharamayaPradeshiyasabha had entered into agreements with the contractors on a bid value of Rs.3.00 million to execute 03 works. The contractors had not carried out works as in the agreement and those had been abandoned by the end of the year under review. Due to failure of the contractors to complete the works in accordance with the agreements, expected public needs could not be achieved, whereas action had not been taken to blacklist those contractors as per Section 178 (5) of Pradeshiya Sabha Rules (Financial and Administration) of 1988 even by the end of the year under review. Similarly, the AlokaMawatha, Pannegamuwa had been paved with interlock paving blocks and the strength of those blocks should have been 25 (N/mm^2). Nevertheless, 61 per cent of the paving blocks was not in the prescribed strength as reveled by the test report on those paving blocks and therefore, cost of Rs.1.73 million had become a futile expenditure.

- There were 24 vacancies for Health Workers in the Ratnapura Municipal Council as at 30 June 2020. In terms of the letter of the Department of Management Services No. MS/ SG / 15 dated 4 May 2017, approval had been granted to recruit 82 Health Workers as personal to the holder of the post basis. Accordingly, approval had been so granted to recruit 82 workers exceeding the approve cadre of 58 employees and the total number of employees had been recruited accordingly. In addition, another 49 workers were had been recruited and employment on service agreements. No action had been taken to revise the approved cadre to include the excess number of workers even by the end of the year under review. Further, a sum of Rs. 11.94 million had been paid as salaries and allowances from January to August 2020 in excess of the approved staff.

- The Embilipitiya Urban Council had not entered into an agreement with the parties who had obtained 17 of the 40 shops at the Pallegama bus stand that had been leased by the Council. Even though the contracted period for the remaining 23 shops had expired, no action had been taken to renew the the relevant agreement.Although legal action has been taken against the lessees to recover the outstanding shop rent of Rs. 1.02 million for 4 shops which were leased out without agreement, action had not been taken to identify and recover the outstanding rent due from other shops even by 31 December 2020.

- Out of the 55 shops at the Pallegama Public Market owned by the Urban Council, Embilipitiya, agreements had not been reached for 27 shops and the contracted period of other 28 stalls had expired. The Council had not taken steps to enter into agreements for non-contracted shops and renew the agreements which had expired even by the end of the year under review.

- The Polonnaruwa Municipal Council had not taken action to be taken for failure to pay the rent due on a certain place within 14 days after the due date. Revenue amounting to Rs. 14.45 million for 195 shops at Kaduruwela bus stand and revenue of Rs. 7.76 million for 46 shops at the Polonnaruwa Public Market remained outstanding.
- Forty-eightshops in the public shopping complex belonging to the Polonnaruwa Municipal Council had been leased out for a period of 30 years from 21 January 2020 under an agreement. It had been stipulated that the non-refundable amount as per the agreement should be paid by the lessee to the lessor either in one lump sum or 50 per cent of it and the balance should be paid before 02 December 2020and action will be taken to cancel the agreement in case of failure to comply therewith.A sum of Rs. 18.09 million had not been recovered from 40 shops even by 09 March 2021 and no action had been taken to cancel the agreements in accordance with the agreements entered into with the lessees.

- The Rising Polonnaruwa Project had made provision of Rs. 22.6 million for the DimbulagalaPradeshiya Sabha for the Weheragala Water Project. The contracted cost of the project implemented by the Water Supply and Drainage Board was Rs. 28.10 million. Accordingly, agreements had been reached in excess of the provisions made and the project activities had been delayed for a period of 01 year and 02 months.

- A backhoe loader owned by the HingurakgodaPradeshiya Sabha which was in a suitable condition for repair and use had been parked in the car park since 2015 and a gully bowser trailer had been so parked since 2011 without any repairs. These vehicles had not been used for a period of 06 to 10 years and as such the spare parts had been worn out.

- A cab obtained on lease by the HingurakgodaPradeshiya Sabha had involved in an accident 2015 and Rs. 3.39 million received by the Uouncil as insurance claim had been retained idle in the current account of the Council.The balance of Rs. 3.00 million due as full insurance indemnity for the vehicle had not been obtained from the insurance company.

- Tender charges of Rs. 3.46 million to be recovered for 16 stalls constructed by the HingurakgodaPradeshiya Sabha in 2013 on the land of the Attorney-at- Law office premises at the Hingurakgoda Magistrate's Court premises and relevant monthly rent had not been recovered and action had not been taken to vest the relevant land in the Council even by the end of the year under review.

- In order to implement a project to construct a long route bus stand and shopping complex at ElaheraPradeshiya Sabha, a fruitless expenditure of 15.67 million had been incurred on the project to remove a rock without the approval of the Council and a feasibility study. The attention of the Pradeshiya Sabha had not been drawn to take action against those responsible for the above expenses and other contingent liabilities.

- Under the "National Program to Strengthen Pradeshiya Sabha - 2017" project of the NawagattegamaPradeshiya Sabha, a project had been implemented to modernize the shoping complex at the Nawagattegama bus stand which is being constructed with the provision of Rs. 2.15 million made by the Line Ministry.Work of the project had not been completed as at 31 December 2020 in accordance with the agreement and the completed section remained idle.

- Four buildings worth Rs. 3.21 million and a stock of body building equipment worth Rs. 2.81 million remained idle in the Pradeshiya Sabha, Wanathawilluwa.

- ArachchikattuwaPradeshiya Sabha had not taken steps to settle retention money of Rs. 1.09 million for 08 industries which had elapsed more than 02 years from completion and recommended to release by the Technical Officer and to settle a final payment of Rs. 3.46 million for 03 industries, by levying those amounts from the donor institutions (Divisional Secretariats and Ministries).

- The Neelabemma Holiday Resort, TabbowaWeely Fair and WeerapuraWeely Fair, constructed by the KaruwalagaswewaPradeshiya Sabha at a cost of Rs. 18.00 million in 2014 and 2018, remained idle even by the end of the year under review.

- The Puttalam Urban Council had not identified the debtor parties to recover the total amount of Rs. 21.46 million due on 05 occasions relevant to the years 2009 and 2015.

- As the PuttalamUrban Council had exempted the Municipal Council from value added tax with effect from 01 January 2020, necessary settlements had not been made with the advice of the Inland Revenue Department regarding the debit balance of Rs. 7.36 million existed in the Value Added Tax Account as at 31 December 2020 which could not be further offset.

- Due to the inability of the Puttalam Urban Council to verify the arrears of Rs. 19.45 million that remained unrecovered on the properties leased since before 2009 through the documents available in the Coucil, the recovery of that money was uncertain.

- In terms of Financial Regulations 104, the Puttalam Municipal Council had not conducted investigations and determine the responsible persons even as at 18 March 2021 for the stock loss of Rs.2.43 caused due to the fire broke out in the Stores on 31 December 2018.

- Necessary settlements had not been made on the instructions of the Inland Revenue Department relating to the debit balance of Rs. 2.88 million existed in the Value Added Tax Account of the Chilaw Urban Council as at 31 December 2020.

- Chilaw Urban Council had installed 21 air conditioners in January 2018 at a cost of Rs. 2.84 million.Due to insufficient electrical capacity to operate the machinery, it remained idle without being used and no proper action had been taken even though the warranty period had expired by the end of the year under review.

- Without any formal approval, the top management of the Kurunegala Municipal Council had taken action to demolish the building of a hotel which was of archaeological value and a public property that could generate revenue to the Municipal Council. Prior approval and recommendations of the Department of Archeology had not been obtained before the demolition of the building and the approval of the Municipal Council too had not been obtained. The building had been demolished on 14 July 2020. Sums totaling Rs.7.80 million comprising Rs. 5.15 million on 07 November 2020 and Rs. 2.65 million on 01 December 2020 of the Municipal Council funds had been paid as legal fees for lawyers who appeared in court to defend the officers who were named and issued warrants for being respondents for this incident.

- A sum of Rs.11.37 million had been paid for the purchase of 324,899 paving blocks for the projects for paving the road with interlock blocks in the WariyapolaPradeshiya Sabha area.The approval of the Sabha had not been obtained for the purchase of the paving blocks and the blocks had been purchased without calling for bids

- The Anuradhapura Municipal Council had incurred a financial loss of Rs. 47.17 million due to two irregularities committed in the Council during the period from 2012 to 2018. Necessary action had not been taken to cover the loss even by the end of the year under review.

- According to the report of the preliminary investigation into the burning of the excavator, PD-120 on 18 September 2014, which was used for the KeerikkulamPilisaru project, a loss of Rs.33 million had been identified. Although it was recommended to recover one fourth of the loss amounting to Rs.825,000 from the responsible officers, action had not been taken to recover that amount.

- An employee who served in the Anuradhapura Municipal Council and transferred to another institution in 2013 had been paid Rs. 1.82 million as salary and allowances for the period from the date of transfer to June 2018. The necessary action had not been taken even by the end of the year under review to offset the financial loss to the Council Fund.

- Without being obtained approval of the Minister in charge of the subject of the Municipal Council, Anuradhapura or the Governor, allowances amounting to Rs. 1.49 million had been paid during the period from May 2018 to December 2020 for miscellaneous matters as per the decisions of the Municipal Council.

- The Anuradhapura Municipal Council had not taken steps in accordance with the Municipal Council Ordinance (Cap. 252) to recover the arrears of Rates amounting to Rs. 96.82 million as at 31 December 2020.

- Anuradhapura Municipal Council had not taken action in accordance with the Municipal Council Ordinance (Cap. 252) to recover Rs. 40.06 million in arrears of shop rent and Rs.2.95 million remained in arrears from the stalls at the public market as at 31 December 2020.

- Anuradhapura Municipal Council had not taken action in accordance with the Municipal Council Ordinance (Cap. 252) to recover the trade license fee of Rs. 5.24 million that remained in arrears as at 31 December 2020.

- No action had been taken even in the year 2020 to recover Rs. 1,583,250 to be recovered from the parties responsible for the accident caused on 16 May 2019 to the cab worth Rs. 6.39 million belonging to RambewaPradeshiya Sabha.

- Even though the RambewaPradeshiya Sabha had received Rs. 1.73 million from the Local Government Department to carry out 03 projects in the year 2017 , those projects had not been implemented even in the year 2020.

- Four units of assets worth Rs. 6.87 million owned by the RambewaPradeshiya Sabha remained idle for a period of 03 to 26 years.

- The MihintalePradeshiya Sabha had obtained a loan of Rs. 12 million from the Local Loan and Development Fund in 2011 for the construction of the Mihintale Library and Auditorium.Even though the loan instalments for the loan were being paid from that day onwards, the construction of the auditorium had not been commenced.

- The outstanding rent of Rs. 1.21 million due for the period from 11 March 2020 to 31 December 2020 for the lease of 10 shops in the new shopping complex constructed by the Urban Development Authority and handed over to the MihintalePradeshiya Sabha had not been recovered even by the end of the year under review.

- Two projects proposed by the ThalawaPradeshiya Sabha in 2018 had not been implemented even in the year 2020 and a sum of Rs. 7.50 million received for those projects had been retained idle in the Industrial Current Account of the People's Bank.

- For the construction of the Karagahawewa Waste Yard in Thalawa, the Pradeshiya Sabha, Thalawa had received Rs. 3.45 million from the Central Environmental Authority during the period from 2012 to 2017.Due to the non-completion of the construction of the waste management center, the Sabhal had to incur an additional cost for transporting the garbage collected daily to the ThambuththegamaOrugalayaya Waste Center.

- ThalawaPradeshiya Sabha had sustain a loss of Rs. 4.33 million due to accidents involving its two vehicles worth Rs. 7.59 million in the year 2020. No action had been taken to recover the relevant loss from the responsible parties by taking steps in accordance with Financial Regulations 103,104 and 105 and the provisions of Part II of the Establishments Code.

- The buildings of theThambuththegama Weekly Fair of the ThalawaPradeshiya Sabha constructed at a cost of Rs. 9.50 million in the year 2017 remained idle without being used.

- Due to non-installation of the required furnaces, the crematorium constructed at a cost of Rs. 5,421,890 by the ThalawaPradeshiya Sabha remained unused as at 31 December 2018.

- The auditorium building constructed by the ThalawaPradeshiya Sabha in 2018 at a cost of Rs. 8.00 million had not been used for any purpose. The building was completely dilapidated and the surrounding area had been overgrown with weeds, causing damage to the toilet system and electrical fixtures outside the building.

- As at February 12, 2020, A sum of Rs. 2.51 million received for the PuraNeguma project had not been spent on the project and it had been retained idle in a current account of the Bank of Ceylon maintained in the name of the NuwaragamPalatha Central Pradeshiya Sabha.

- The Horowpathana Pradeshiya Sabha had constructed a building at a cost of Rs. 4.46 million for waste management process of the Pilisaru project in the year 2012 . The building had not been used since its construction and had been locked and closed until 23 November 2020. Accordingly, it remained idle without carrying out waste management process.

- In 2013,the Kebithigollewa Pradeshiya Sabha had planned to set up a Waste Management Center in a building valued at Rs. 9.17 million on a two acre land in the Kiriketuwewa area. Due to failure to attach required staff to the Solid Waste Management Center, was in a state of idle and dilapidated.

- Fifteen shops in the new shopping complex at Galnewa had been given on lease. Although rental of Rs. 4.89 million was outstanding as at 31 December 2020 as per the agreement, the GalnewaPradeshiya Sabha had not recovered the relevant rent. No action had been taken in terms of Section 159 (1) of the Pradeshiya Sabha Act No. 15 of 1987 to recover that outstanding income.

- Deposit of Rs. 6.80 million received for three years for leasing shops in the PuraNeguma new shopping complex of Medawachchiya Pradeshiya Sabha had remained idle in a bank current account for more than a period of 02 years.

- As per the judgment in the case regarding the pond project, the GalenbindunuwewaPradeshiya Sabha had to pay Rs. 4.25 million to an outside party . The above arrears had continued to exist for 8 years, by the year 2020.The management had not reached a formal legal agreement with the relevant parties regarding the arrears.

- The Nochchiyagama Pradeshiya Sabha had constructed a compost production center at a cost of Rs. 16.94 million in September 2019. As the composting process had not been systematically carried out even by the end of the year under review, the cost so incurred had become a fruitless expenditure.

- Although assessments of Rs. 1.75 million of the Kahatagasdigiliya Pradeshiya Sabha were in arrears as at 31 December 2020, action had not been taken in accordance with Section 158 of the Pradeshiya Sabha Act No. 15 of 1987 to recover the arrears.

- The Kahatagasdigiliya Pradeshiya Sabha had not taken action to recover the tender rent of Rs. 1.26 million continued to exist from the year 2004.

- A sum of Rs.5.75 million had been retained idle in the bank current account of the KekirawaPradeshiya Sabha for more than three years.

- Out of provision of Rs. 1 million received from the Ministry of Provincial Councils and Local Government under the Pradeshiya Sabha Strengthening Project,2016 the

KekirawaPradeshiya Sabha had spent Rs. 767,969 on the construction of the Kekirawa Ayurveda Building Project and the building had been abandoned even by 31 December 2020 without achieving the desired results.

- TheKekirawaPradeshiya Sabha had completed construction of the new Kekirawa shopping complex with 44 shops valued at Rs. 7.52 million in June 2019. Due to failure of the Sabha to lease them following tender process, the Sabha had lost the revenue that could have been earned from the shops.

- The KekirawaPradeshiya Sabha had constructed the Ambulgaswewa Waste Management Yard and 04 bio tanks in the years 2004 and 2005 at a cost of Rs. 2.50 million and those remained idle without being used even as at the end of the year under review.

- The new assessment rent as per the assessment of the Chief Assessor on 27 February 2003 and the assessment of the Central Provincial Assessor on 21 August 2019 had not been charged for the shops of NuwaraEliya Municipal Council.The NuwaraEliya Municipal Council had lost Rs. 254.79 million in rental revenue due from 2003 to 31 December 2020.

- The arrears of assessment of the NuwaraEliya Municipal Council was Rs. 77.16 million by the end of the year under review. That outstanding assessment balance was as high as 122 per cent compared to the billed revenue of Rs. 63.36 million for the year. Revenue collected from billing for the year was Rs. 31.02 million or 49 per centof billed assessments. The arrears of assessments at the beginning of the year under review were Rs. 60.82 million, of which Rs. 11.55 million had been collected during the year. Accordingly, the outstanding assessment balance of Rs. 49.27 million had been in existence for a period of 01 to 30 years.

- The Urban Council, Kadugannawa had paid a tax of Rs. 3.38 million by the year under review to the Railway Department for the land on which the old Municipal Urban building is located on the Colombo-Kandy Road. Those buildings remained remained idle without being used for any effective purpose.

- The owners of a private hotel in the KundasalePradeshiya Sabha area had paid a total of Rs. 2.36 million in taxes to the Pradeshiya Sabha in 2015, 2016 and 2017 on a set of forged accounts.Although it had been revealed according to the statement of accounts submitted to the Tourist Board that the revenue of Rs. 14.46 million had not been recovered for those years, the Council had not taken steps to recover that revenue. Relevant institutions had not submitted financial statements to the House for the years 2018 and 2019 as well.

- The rent in arrears of the MawanellaPradeshiya Sabha at the end of the year under review was Rs. 12.62 million and it included a balance of Rs. 4.81 million older than 05 years. No action had been taken to recover these balances in terms of Section 159 (1) of the Pradeshiya Sabha Act No. 15 of 1987.

- Since the MawanellaPradeshiya Sabha had not constructed the new weekly fair in an area that is easily accessible to the public, constructed buildings worthRs. 5.11 million remained idle.

- The compactor worth Rs. 17.65 million donated in 2015 to the BulathkohupitiyaPradeshiya Sabha to be used for waste management remained idle due to lack of access road to the waste yard.

- The contract for the construction of stalls at the Deraniyagala bus stand of the DeraniyagalaPradeshiya Sabha in parallel to the DeyataKirula National Program, 2014 had been awarded to the State Engineering Corporation on 26 December 2013 at an estimated cost of Rs. 44.80 million. However, relevant constructions had not been initiated even by the end of the year under review.

- The outstanding rates and tax balance of the DehiowitaPradeshiya Sabha was Rs. 3.66 million as at the end of the year under review and it included Rs. 432,674 that remained outstanding for over 03 years and Rs. 2.05 million continued to exist for more than 05 years. Nevertheless,the Sabha had not taken action to recover these arrears in terms of Sections 158 (1) and 159 of the Pradeshiya Sabha Act No. 15 of 1987.

Foreign Funded Projects

Audit Observations

- **Presentation of Financial Statements for Audit**
- **Water Secter**
- **Social Welfare Sector**
- **Agricultural Sector**
- **Programs facilitated to planning of projects**
- **Common deficiencies**

Foreign Funded Project

A repayment of net foreign loans amounting to Rs.1,750.9 billion from local sources and Rs.83.2 billion from foreign sources by the Government for the settlement of the total budget deficit of the year under review amounting to Rs.1,667.7 billion had been made, according to the Annual Report of the year 2020 of the Ministry of Finance. It had been a considerable deterioration in the foreign borrowings as compared with the net foreign loans amounting to Rs.542.6 billion obtained from foreign sources in the preceding year. Various actions had been taken with the objective of reducing the burden of loans with a Non- loan Project Financing Approach by the Government and as such, it had been able to decrease foreign loans by 40 per cent.

It had been able to enter into 18 New Foreign Financial Agreements by the Government with Foreign Development Parties and with Lending Agencies and, with that, it had been scheduled to obtain USD 1,352 million in the forthcoming years. A sum of USD 781.2 million is being is being financed in terms of the Official Development Cooperation Agreements for financing the development projects and, a sum of USD 70.9 million is being financed by grant Agreements. Moreover, it consists of a timely financial facility amounting to USD 500 million obtained from the Chinese Development Bank in addition to the Agreements made with Official Development Parties. It is intended to utilize these loans and assistance mainly for education and training, Small and Medium- level Enterprises Development and for the Disaster Management Sector.

Presentation of Financial Statements of the Foreign Projects to the Audit

Even though Annual Financial Statements of 123 projects under 12 key sectors of the country had been presented to the audit in the year under review, carrying out the audit activities of these projects had been problematic due to not taking action to include audit provisions in the financial statements of 33 projects, out of these projects. As such, action had to be taken by the Department of External Resources for including audit provisions into the agreements that had been entered into. A description on the Foreign Projects carried out by the Foreign Development Parties and by the Lending Agencies in the year 2020 appear in the Graph 12 below.

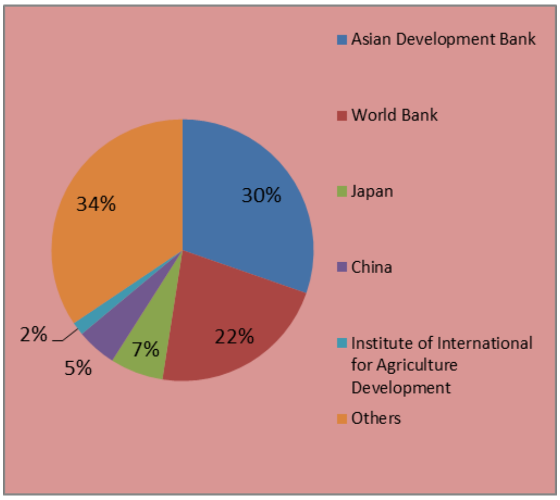


Figure 12- Foreign Funded projects presented to the audit

The important audit observations disclosed in the audit examinations carried out in the audit of the above projects that remained being implemented under each sector are summarized and given below.

Water Supply Sector

A sum of USD 198.95 million equal to Rs.26,032 million had been financed by the Asian Development Bank for the project implemented by the National Water Supply and Drainage Board including bringing the water supply of 49 per cent, the water supply that the revenue not being recovered, which remains from the year 2012, to 18 per cent by the year 2020, providing a quality water supply through 24 hours within the City of Colombo and taking action to strengthen the Institutional activities. It had been initially planned by this Project to establish new pipelines spanning 769,230 meters by removing the old pipelines laid in the City of Colombo and to alter 78,321 service meters.

A period of 07 years and 03 months had been exceeded after the initiation of the programme by 31 December 2020 and, 639,000 meters out of the estimated total laying of the pipeline of769,234 meters had been completed and the number of finished service meter transfers had been 44,694 out of the estimated total number of service meter transfers of 101,947. As such, even though 83 per cent of the laying of new pipelines and 44 per cent of the service meter transfers had been executed by the end of the year under review, it had not been able to reduce the water wastage that had been 49 per cent, to 18 per cent. The percentage of water supply that the revenue is not further generated in the City of Colombo remained at a level of 38.8 per cent by 31 March 2021.

Social Welfare Sector

It had been planned to initiate the “Social Network Security Project” in the year 2017 and to complete it in the year 2022. However, even though four years had lapsed since the initiation of the project by 31 December 2020, it had been able to execute only the function of the establishment of the Social Welfare Benefits Board out of the functions that were intended to be executed by the Project. It had not been able to pass the Social Welfare Benefits Act even by the end of the year under review. Moreover, even though the activities of the establishment of the Social Security Information System that stores information relating to the welfare programmes for the improvement of the procedure of the selection of beneficiaries for various welfare programmes, into an Electronic Data Storage and of its expansion up to a Consolidated Welfare Management System had been initiated, it had been failed by the Project to complete these activities as intended. Moreover, the Social Welfare Benefits Board had been inactive on not being able to appoint a Chairman for that Institution that was established under the Project, from December 2019 and even up to the end of the year under review.

Even though the significance of social security was raised with the covid- 19 pandemic which occurred in the year under review, the loan assistance amounting to Rs.10,027 million spent for the project had been a fruitless expenditure on not being able to properly execute the objectives of the project. As a result, the objectives of this Project, initiated for providing benefits entitled by the people living in poverty in the society with efficiency and transparency, had not been fully achieved.

Agricultural Sector

The Project for the Modification of the Agricultural Sector had been initiated in the year 2017 with the objective of the fulfillment of the factors of the improvement of agricultural income, improvement of productivity and diversification for uplifting the economy of the farmers and of the country. It had been initially planned to provide financial assistance as Capital Adjustment Allowance by the component established under the then Ministry of primary Industries for the establishment of 7 modern Agricultural Parks centered in the 7 districts of Jaffna, Mulletivu, Anuradhaura, Batticaloa, Monaragala, Matale, and Polonnaruwa, that had been identified as districts with high rates of poverty in Sri Lanka and to develop value chains of the agricultural products of the new agricultural organizations and agricultural movements that emerge surrounding the Parks, with the assistance of an international service provider, by the component established under the Ministry of Agriculture as per the Consolidated Memorandum of the Cabinet of Ministers, presented by the Ministry of Agriculture and by the Secretary to the then Ministry of Primary Industries, for the Project Assessment and for the initiation of the Project.

However, it had lapsed over 03 years after the initiation of the project for entering into an agreement with a suitable international service provide due to the delays in the procurement activities relating to the selection of an international service provider. Even though an Agreement had been entered into with the relevant international service provider by the latter part of the year 2019 by the Project, it had not been able to execute those activities in a planned manner as agreed with the Project due to the covid- 19 pandemic occurred in the year under review. The service of the foreigners also could not be obtained due to the imposing of travel restrictions. As such, it had been failed by the Project to establish Agricultural Parks as intended, even in the year under review. Moreover, even though it had been entered into Consultancy Agreements valued at Rs.69 million with 08 Consultancy Firms for obtaining the analytical and the consultancy assistance relating to the Agricultural Sector and related national policies under this component. A sum of Rs.3,119 million had been spent for providing the necessary infrastructure, agricultural equipment, saplings and training for making plantations such as red chili, bitter gourd, pineapple, moringa, passion fruit as pilot projects in the areas initially identified by the project on the delay on the establishment of the Agricultural Parks. However, it was observed in the field examinations carried out, that these pilot projects had been abandoned by the farmers due to reasons such as not properly assessing and monitoring these pilot projects, failure in introducing a market with a high price for the agrarian products, the project not being able t provide solutions for the practical difficulties faced by the farmers in their respective plantations. Even though it had been agreed to provide a Gran of Euro 25 million from the European Union by making an examination on the total performance of the Project and if the progress of the project s satisfactory, it had not been able to obtain that Grant on the weak performance of the Project.

Programmes that facilitate in the formulation of the Projects

A sum of USD 04 million provided as an Advance to the Government of Sri Lanka under the programmes that facilitate in formulating projects for the execution of the initial activities necessary of 09 projects intended to be initiated on the loan assistance of the International Development Association from the year 2018 to the year 2020. However, it had been entered into Agreements in only 03 projects out of these projects by 31 December 2020 and it was scheduled to initialize the Agreement of one project in the year 2021. Moreover, the initial activities relating to 05 other projects had been abandoned without being executed.as a result, only a sum of USD 0.39 million representing 9.75 per cent of the Advance had been utilized and the remainder of USD 3.61 million had been remitted to the International Development Association.

General Deficiencies

The loan funds had been deployed for the activities not related to the Project by including clauses into the contractual documents for covering the expenses of the Project Management Units. Further, the incurring of a percentage for the Profit Margin and for the General Operating Expenditure by the projects in addition to the amount agreed with the contractors were the general deficiencies observed in the audit. Moreover, a risk of not having the ownership of the relevant motor vehicles either to the Line Ministry or to Public Institutions as at the end of the period of the projects on it had been compelled to pay an excessive amount to the contractor to purchase motor vehicles directly by the project due to including that requirement as a subject in the Bill of Quantities of the Contractual Agreement instead of the purchase of motor vehicles by the projects and the ownership of the relevant motor vehicles being remained in the name of the Contractual Company.

Periods of Extension had been given on the physical progress of the projects being remained behind the intended targets due to the covid- 19 pandemic remained in the country in the year 2020, utilization of the loans being remained at a lower level and for the achievement of the targets of the projects. As such, a large expenditure had to be incurred by the Government of Sri Lanka as Binding Fees on the Non- performing Loans. Moreover, Financial Statements had been submitted on the basis of Going Concern by the Project Management Units even after the operative period of the Foreign Funded Projects due to proper instructions on the manner that the Financial Statements should be prepared in the year that the Project being completed, not being given by the Ministry of Finance.

Banking

Observations

- **Assets**
- **Non performing loans**
- **Liabilities and Capital**
- **Deposits**
- **Central Bank of Sri Lanka**
- **Licensed Commercial Banks**
- **Licensed Special Banks**
- **Major Audit Findings**

Banking

Banking

The banking sector comprised of 30 banks, including 24 Licensed Commercial Banks (LCBs) and 6 Licensed Specialized Banks (LSBs). Licensed Commercial Banks consists of 11 branches of foreign banks. Upon completion of the closure procedures, based on decisions taken by their head offices, the ICICI Bank Limited and Axis Bank Limited to operate in Sri Lanka were cancelled during the year 2020.

The banking sector supports for the economic growth and promote financial inclusion by enhancing banking services and expanding the banking network. During the year 2020 with the spread of Covid-19, some restrictions were imposed to physical accessing to the banks. Therefore banks introduced technology based products and services for the customers. Within the crisis situation in the country, 16 new bank branches and 382 ATMs were established during the year 2020.Total number of banking outlets were 7406 and ATMs increased up to 6176 at the end of 2020.

A summary of distribution of banks, bank branches and other banking outlets summarized in the table 15

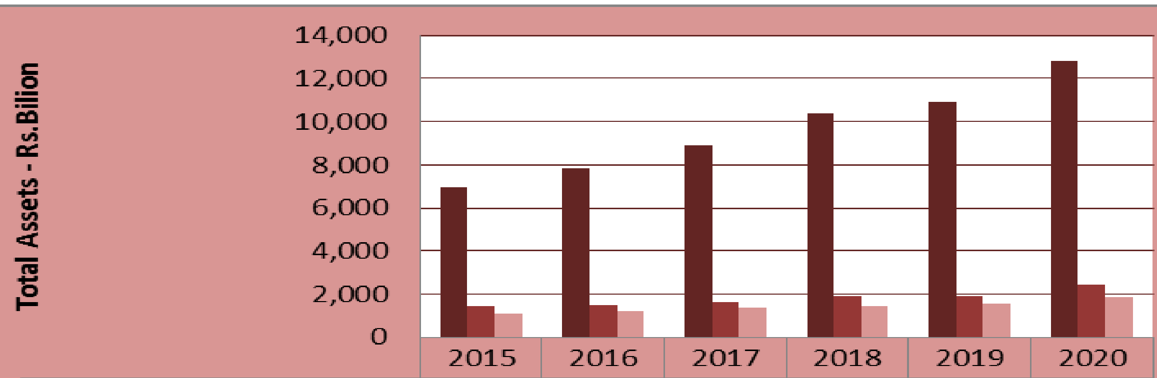
Category	Banks	Branches	Student Savings Unit	ATM's
LCBs			3,787	5,744
Domestic Banks	13	2,854		
Foreign Banks	11	47		
LSBs				432
National Level Savings Banks	1	265		
Housing Finance Institutions	2	64		
Other LSBs	3	374		

Table 15 - Distribution of Banks, Bank Branches and Other Banking Outlets.
Source: Central Bank of Sri Lanka (Revised or Provisional Data)

Assets

The asset base of the banking sector had been increased by Rs.2.1 trillion during the year as compared with the year 2019 and surpassed the value Rs. 14.6 trillion by end 2020 .The growth rate of year 2020 is 17.1 per cent as compared to the growth rate of 6.2 per cent of year 2019. Growth in investments and credit contributed to the assets growth of the banking sector with the challenging economic and the business environment of the country.

The composition of total assets of the banking sector is demonstrating in the Figure13



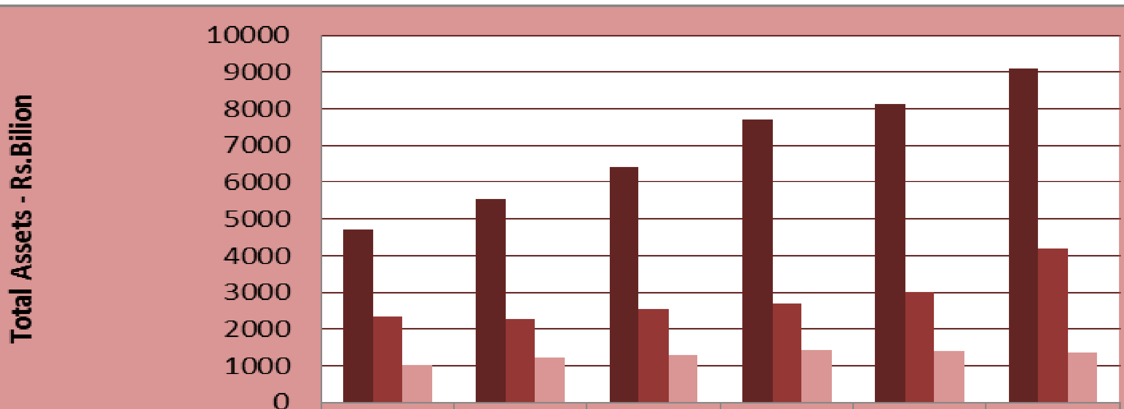
	2015	2016	2017	2018	2019	2020
Central Bank of Sri Lanka	6,974	7,843	8,926	10,372	10,944	12,829
Licensed Commercial Banks (LCBs)	1,426	1,529	1,605	1,914	1,919	2,422
Licensed Specialized Banks (LSBs)	1,103	1,203	1,366	1,422	1,578	1,837

Figure 13 -Composition of total assets of the banking sector
Source: Central Bank of Sri Lanka (Revised or Provisional Data)

The Licensed Commercial Banks granted loans and advances of Rs. 8,289.5 billion or 91 per cent from the total loans as at year ending of 2020.The balance Rs.802.1 billion or 9 per cent were granted by LSBs. During the year 2020, loans and advances had been increased by 11.9 per cent as compared with 5.6 per cent in 2019. Re-scheduled loans by 38 per cent, housing loans by 18 per cent and term loans by 14.1 per cent were main products which reported higher growth rates during the year 2020.

Growth in investments had exceeded the credit growth during the year 2020 and investments had been increased by 40 per cent as compared with year 2019. Held To Maturity (HTM) portfolio grew by 41.8 per cent during the year 2020 due to the Treasury Bonds and Treasury Bills increasing by Rs.804.7 billion and Rs.55.9 billion respectively.

The composition of assets of LCBs and LSBs are showing in Figure 14.

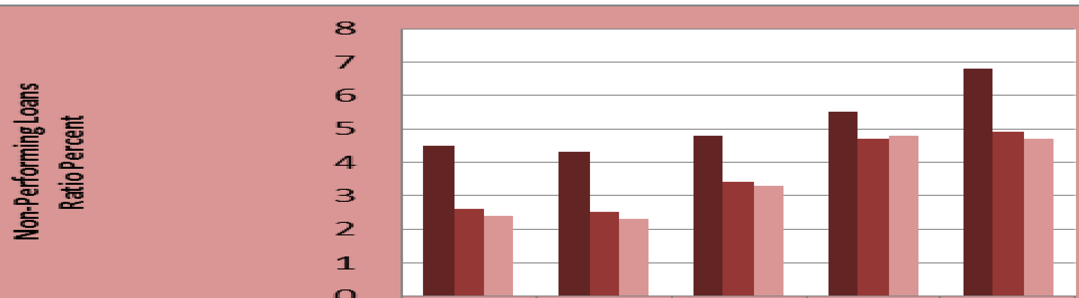


	2015	2016	2017	2018	2019	2020
Loan and Advances	4715	5540.8	6430.9	7693.4	8122.4	9091.7
Investments	2348	2270.5	2554.4	2671.6	2996.7	4195.8
Others	1014	1235.3	1307.1	1429	1403.6	1378.8

Figure 14 -Composition of Assets of LCBs & LSBs
Source: Central Bank of Sri Lanka (Revised or Provisional Data)

Non-Performing Loans (NPL)

NPL ratio of the banking sector had been increased up to 4.9 per cent as at end of the year 2020 as compared with 4.7 per cent during the year 2019.Non Performing Loans had been increased by Rs. 66.4 billion during 2020 compared to an increase of Rs.118.5 billion during 2019.Considering the difficulties faced by borrowers due to COVID-19 pandemic, moratorium was introduced and further extended considering the longer recovery period of those sectors. Thus, classifications of loans to non performing categories were frozen during the period of moratorium and normal classification rules are applied upon cessation of such moratorium. Therefore, actual NPL position will be reflected subsequent to cessation of the moratorium. Detail are Figure 15



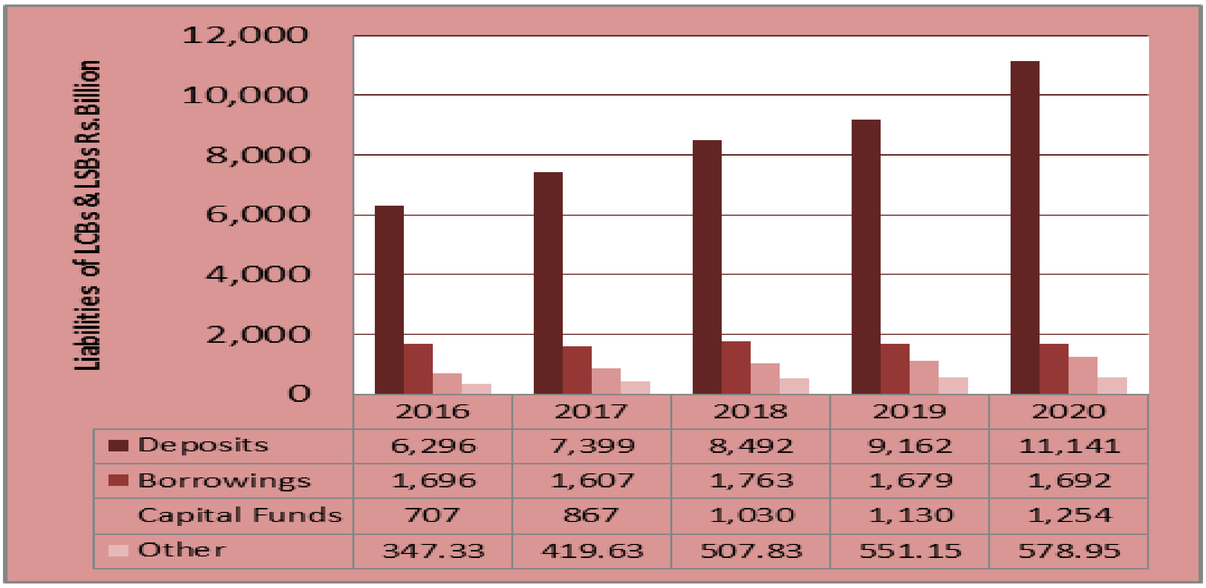
	2016	2017	2018	2019	2020
Licensed Specialized Banks (LSBs)	4.5	4.3	4.8	5.5	6.8
Banking Sector	2.6	2.5	3.4	4.7	4.9
Licensed Commercial Banks (LCBs)	2.4	2.3	3.3	4.8	4.7

Figure 15-Non Performing Loan Ratio
Source: Central bank of Sri Lanka (Revised or Provisional Data)

Liabilities and Capital

Liabilities of the Central Bank accounted Rs.2,421.6 billion and it included mainly Rs.857.4 billion deposits of international organizations, foreign governments and foreign banking institution and Rs.129.6 billion deposits of commercial banks as well as Rs.834.8 billion currencies issued as at the end of the year 2020. Deposits reached to Rs.11,140.9 billion as at the end of year 2020 with the increase of 22 per cent as compared with previous year.The deposits of LCBs and LSBs took 75.96 per cent of the total liabilities of the banking sector as at the year end of 2020.

Total borrowings of the banking sector increased by Rs.12.8 billion in 2020 compared to a decrease of Rs.84 billion in 2019. The increase was mainly due to the Sri Lankan rupee borrowings which reported a growth of 14.3 per cent (Rs .99.4 billion) in 2020, while foreign currency borrowings decreased by 11.1 per cent during 2020 along with the sovereign rating downgrades. Details are Figure 16



	2016	2017	2018	2019	2020
Deposits	6,296	7,399	8,492	9,162	11,141
Borrowings	1,696	1,607	1,763	1,679	1,692
Capital Funds	707	867	1,030	1,130	1,254
Other	347.33	419.63	507.83	551.15	578.95

Figure 16: Liabilities of LCBs & LSBs
Source-Central Bank of Sri Lanka (Revised or Provisional Data)

Deposits

The main source of the funding for the year 2020 was deposits and term deposits of LCBs and LSBs were Rs.7,022 billion and which accounted for 63 per cent of the total deposits at the year-end 2020 while savings and demand deposits accounted for 28.3 per cent and 6.2 per cent respectively. Details are Figure 17

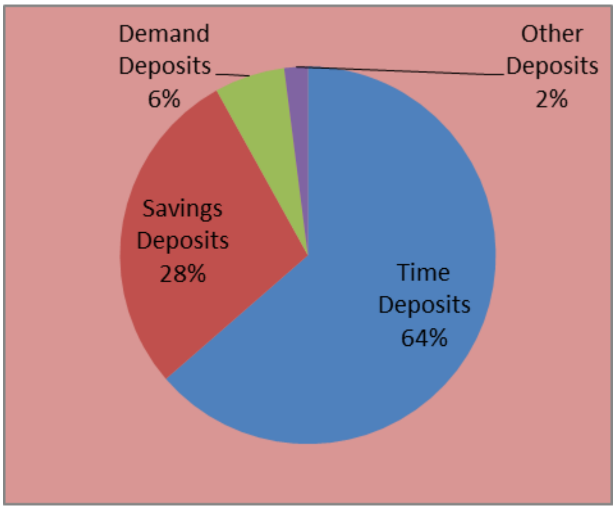


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Figure 17 :Composition of the deposits of LCBs and LSBs
Source-Central Bank of Sri Lanka (Revised or Provisional Data)

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 stabilization. The changes in money supply are a primary causal factor affecting price stability. Price stability is to be achieved by influencing changes in broad money supply which is linked to reserve money through a multiplier.

Reserve money is the operating target of monetary policy. The main monetary policy instruments currently used are policy interest rates, open market operations (OMO) and the statutory reserve requirement (SRR) on commercial bank deposit liabilities. The monetary easing cycle, which commenced in May 2019,continued through 2020 with a significant reduction in policy interest rates and the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of licensed commercial banks(LCBs).The Central Bank reduced the policy interest rates, namely, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by a total of 250 basis points to 4.50 per cent and 5.50 per cent respectively. The Central Bank reduced the SRR by 1 per cent point in March 2020, and again by 2 per centage points in June 2020.

Currency in circulation increased by Rs.156.8 billion during the year to Rs.834.8 billion by end 2020, compared to an expansion of Rs.37 billion during 2019.The impact of the substantial reduction in the SRR on reserve money was offset by the increase in currency in circulation during the year, resulting in an expansion of reserve money by 3.4 per cent, year-on-year, by end 2020, compared to the contraction of 3 per cent recorded at end 2019.

Assets side of the reserve money consist of Net Domestic Assets (NDA) and Net Foreign Assets (NFA) of the Central Bank. NDA of the Central Bank increased by Rs. 401.1 billion during 2020 to Rs.437.7 billion by end 2020,in comparison to the decline of Rs.173.9 billion in 2019.Meanwhile , NFA of the Central Bank declined by Rs.369.2 billion during 2020 due to the combined effect of the decrease in foreign currency assets and the increase in foreign currency liabilities of the Central Bank.

The Sri Lankan rupee depreciated significantly during the period from mid-March to mid-April 2020, reaching a peak of Rs.199.75 per US dollar on 09 April 2020.

Having identified the importance of reviving adversely affected sectors in the economy, the Central Bank implemented several extraordinary regulatory measures to provide flexibility to Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) in supporting businesses and individuals affected by the pandemic.

The Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector performance deteriorated during the year, with negative credit growth and high NPLs. At end -2020, the sector comprised 40 LFC s and SLC s. The Central Bank initiated several regulatory actions along with the introduction of the Financial Sector Consolidation Master Plan to avoid further deterioration of the financial position of LFCs, maintain the stability of the sector and safeguard the interest of depositors.

However, Licenses of The Finance Company PLC had been cancelled by the Monetary Board of the Central Bank of Sri Lanka with effect from 22 May 2020 .The Monetary Board of the Central Bank of Sri Lanka had suspended business of ETI Finance Ltd and Swarnamahal Financial Services PLC with effect from 13 July 2020.

The Monetary Board of the Central Bank of Sri Lanka had decided to increase the maximum compensation payment under Sri Lanka Deposit Insurance and Liquidity Support Scheme from Rs.600,000 to Rs.1,100,000, by Rs.500,000. Accordingly , the depositors of six(6) finance companies, namely ,Central Investment and Finance PLC(CIFL),The Standard Credit Finance Limited (TSCFL),TKS Finance Limited (TKSFL), The Finance Company Plc (TFC), ETI Finance Limited (ETIFL) and Swarnamahal Financial Services PLC (SFSP) whose licences have been cancelled or suspended by the Monetary Board are eligible to receive the revised compensation amount.

Licensed Commercial Banks

Bank of Ceylon (BoC)

Bank of Ceylon is a licensed commercial bank established under the Banking Act No. 30 of 1988 and duly incorporated on 1 August 1938 under the Bank of Ceylon Ordinance No. 53 of 1938. The mission of the Bank is to provide highly efficient, customer focused, technologically sophisticated, resilient and innovative financial services to the nation with global access, empowering employees and enhancing value to the stakeholders. To achieve above mission, the bank has distributed their services through 2001 customer contact points, 582 branches, 03 overseas branches, 64 limited-service branches, 633 smart zones, 1489 school "sansada", 15 SME centers and 991 mobile school saving units by the year 2020. In addition, 8,479 numbers of staff had been involved.

BOC is the largest systematically important bank in the country as reflected in terms of total assets, total loans and total deposits. The share of loans and advances (net) stood at 67 per cent from the total assets as at 31 December 2020. The deposit is the key funding source of the Bank and its share increased to 83 per cent of total assets as at 31 December 2020. The business of BOC is primarily driven by corporate lending and it represents a greater focus on lending to the government and state Owned Enterprises (SME) and other corporate customers. Remaining loans represents the Small and Medium Enterprises (SME) and other customers.

The Bank has a national long term rating of "AA-(lka)" outlook stable by Fitch Rating Lanka Limited and (SL) AAA (negative) from ICRA Lanka Limited.

People's 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 currently operates with 741 Branches Island wide as at the end of the year 2020. In addition, there were 765 ATMs, 274 CDMs, 221 Kiosks and 244 self banking units.

Total deposits base of the bank expanded by Rs. 343.7 billion during the year reaching to Rs. 1,835.1 billion by the end of the year 2020. Total assets base of the bank claiming Rs. 2,230.1 billion by end of December 2020. Bank reported the profit before tax of Rs. 21.2 billion which was 7.9 per cent increase against the previous year. However net interest income of the bank decreased by 0.4 per cent compared to year 2019. People's Bank raised Rs. 20.0 billion Tier II

Debentures and accordingly Total Tier I Capital Ratio and Total Capital Ratio stood at 9.5 per cent and 15.5 per cent respectively.

The success of the Bank's digital platform is demonstrated through the awards received nationally and internationally which includes 'The Best Digitised Bank 2020' at the prestigious Asiamoney Best Bank Awards 2020 (Sri Lanka), 'Best Digital Bank Award in Sri Lanka' at the International Business Magazine Awards 2020, 'Best Consumer Digital Bank in Sri Lanka for 2020' and 'Best Mobile Banking App 2020 in Sri Lanka' at the World Finance Digital Banking Awards 2020. Bank also received the highest international accreditation for information protection and security, the 'ISO/IEC 27001:2013 certification'. 'People's Pay QR' introduced by People's Bank in year 2020 to encourage small business to transit digitally and facilitates fast, secure and low cost digital payments to any merchant. Further the bank was recognized among the top 1000 Banks in the world 2020, 400 largest banks in Asia. Bank has a national long term rating of "AA-(lka)" by Fitch Rating Lanka Ltd.

Bank provided financial and non financial assistance for COVID-19 related innovators and investors at the early stage to develop them into successful entrepreneurs in the future. The COVID– 19 relief extended by the bank is the largest for any financial services group, which benefited over 460,000 retail customers and more than 21,000 businesses. People's Bank have supported the state & other state owned enterprises by granting over Rs. 320.0 billion facilities and Rs. 358.0 billion to the Government Treasury to maintain the Rupee interest rates at desired levels.

Licensed Specialized Banks

National Savings Bank(NSB)

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

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

To achieve above mission, the bank has distributed their services through 259 branches, 4063 post and sub-post offices and 361 numbers of CDM / ATM / CRM by utilizing machines. In addition, the 4641 number of staff inland wide.

The ICRA Sri Lanka Limited has reaffirmed the issuer rating of (SL)AAA with stable outlook to the National Savings Bank in the year 2020.

Group

Group has two subsidiaries, NSB Fund Management Company and Sri Lanka Savings Bank Ltd. As per the guidelines issued by the Monetary Board of the

Central Bank of Sri Lanka, NSB incorporated a separate company named as NSB Fund Management Company Limited on 16 November 1999. NSB Fund Management Company Limited had been appointed as a dedicated Primary Dealer by the Central Bank on 1 March 2000.

Sri Lanka Savings Bank is a public limited liability company incorporated under the provisions of the Companies Act No: 17 of 1982 and re-registered under the Companies Act No:7 of 2007. Further, it was established as a Licensed Specialized Bank under the Banking Act No.30 of 1988. NSB has fully acquired Sri Lanka Savings Bank Limited (SLSB) with effect from 11 October 2019 in alignment with the proposal made in Government Budget 2016.

Merchant Bank of Sri Lanka & Finance PLC (MBSL)

Merchant Bank of Sri Lanka & Finance PLC was incorporated in 1982 as Sri Lanka's first and only specialized merchant bank in the country at the time. In 1991, the Company was listed on the Colombo Stock Exchange and in the year 2000 secured the license to operate as a Leasing Company. In 2014 the Company was renamed Merchant Bank of Sri Lanka & Finance PLC and in 2015 registered under the Finance Business Act as a licensed finance company authorized to carry out finance business activities.

The vision of the Company is to be the most innovative business solution provider to the nation. Currently MBSL operates through a network of 48 branches across the island and company operates only within Sri Lanka.

State Mortgage and Investment Bank(SMIB)

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

The total deposits of the Bank as at 31 December 2020 was surpassed Rs.45.3 billion and it was an increase of 16.7 per cent compared with the previous year. Total assets of the Bank expanded by Rs.6 billion or 12.6 per cent and it was surpassed Rs.53 billion as at 31 December 2020. The increase in assets was mainly attributed due to placement with banks and loans and advances were increased by 4.7 billion and by Rs.one billion respectively compared to the preceding year.

The Bank reported the profit before tax of Rs.587 million which was 17.5 per cent increase against the previous year result. Further, net interest income of the Bank increased by 2.9 per cent compared with the previous year.

The total capital adequacy ratio of the Bank was increased by 1.6 per cent compared to the previous year and it was 20.9 per cent as at 31 December 2020. The non-performing loan ratio was increased by 2.99 per cent compared with the preceding year and it was 10.72 per cent as at 31 December 2020.

Housing Development Finance Corporation Bank

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

Housing Development Finance Corporation Bank had not established new branches in the year 2020 and accordingly total branches stood at 39 and having credit rating of BB+ (lka) at the end of the year 2020. In addition, Loans granted were expanded to Rs. 41.19 billion in 2020, compared to Rs.41.21 billion in 2019 which was 0.05 per cent decreased. Hence during the year interest income decreased by 2.94 per cent, reaching Rs.7.46 billion, from Rs. 7.68 billion in the previous financial year. Further the bank expanded its deposit base from Rs.42.50 billion to Rs. 47.95 billion during the year and it was 12.82 per cent increase.

Total assets of Rs.61.03 billion, increase from Rs. 55.95 billion in 2019 and Bank's total assets increased by Rs.5.08 billion. Nonperforming loan ratio of the bank had decreased from 25.26 per cent in year 2019 to 20.23 per cent in year 2020.

Bank reported the profit before tax of Rs.1,068 million in 2020 which was 38 per cent increase against the previous year. Further, net interest income of the bank increased by 81 million or 2.8 per cent compared to year 2019.

Capital adequacy and minimum capital requirement, value creation for shareholders was top priority and shareholder funds increased by 12.95 per cent in 2020, Asset value per share grew from Rs. 79.11 to Rs. 89.35 in 2020 which marks a 12.94 per cent increase. However, earning per share increased from Rs.7.35 to Rs.10.94 during the year 2020, due to increase profitability. Core Capital Ratio (Tier 1) and total Capital Ratio (Tier 2) remains above the minimum requirement at 20.20 per cent and 20.67 per cent, as against the regulatory requirements of 8.5 per cent and 12.50 per cent. However, as per the Central Bank (CBSL) direction No. 05 of 2017 dated 26 October 2017 section 02 Minimum Capital of the bank should Rs.7,500 million commencing from 31.12.2020. Due to pandemic situation CBSL revised the minimum regulatory capital requirement deadline to the end of 2022.

Pradeshiya Sanwardana Bank

Regional development bank is a state owned Licensed Specialized Bank established in Sri Lanka with the amalgamation of six provincial development banks in 2010 by Pradeshiya Sanwardana Bank Act No 41. of 2008.As a national level government owned Bank, the objectives of the bank is to provide facilities for the overall regional economic development activities such as agriculture, industry, trade, commerce, livestock, fisheries and empowerment of women mainly by granting financial assistance to micro financial institutions and small and medium scale enterprises.

As a financial institution targeted to development finance, Regional Development Bank continues to play a vital role in the upliftment of social and economic development activities in the country. The bank is engaging in empowering the customers of the bank and thereby developing the nation through its 276 island-wide branch network.The bank played an important role to support the businesses impacted by the Covid-19 pandemic through moratoriums. The Bank has a rating of A^- (negative) from ICRA Lanka Limited.

Bank reported a Profit Before Tax of Rs.1.01 billion and total assets of the bank for the year ended 2020 was Rs.221.1 billion or 11 per cent increase as compared with the total assets base of Rs. 199.9 billion in year 2019. Customer deposits of the bank for the year ended 2020 recorded as Rs.172 billion representing a growth of Rs.23 billion or 16 per cent increase as compared to the year end 2019.

Major Audit Findings

Bank of Ceylon

- According to the financial statements presented for the year 2020, total interest income of the bank had been increased up to Rs.226.3 billion by 2.6 per cent when compare with the preceding year. Interest income has been increased due to increase of gross loans and advances in the year under review when compare with the preceding year. Gross loans and Advances for the year under review have been increased by Rs.466.4 billion or 28 per cent when compare with the preceding year. Out of the total loan increase 59 per cent represents lending to direct government and SOEs and the balance 41 per cent represents lending to the private sector.

- Total interest expense of the Bank for the financial year 2020 had been increased up to Rs.151.5 billion by 4.3 per cent when compare with preceding year. It is mainly due to increase of deposit base of the Bank by Rs.469.6 billion or 23 per cent during the year under review when compare with the preceding year.
- The impairment Charges on loans and advances and other financial assets had been drastically increased by Rs.12.6 billion or 68 per cent in the year under review when compare with the preceding year. Increase in stage II and III loan exposure by Rs.61.1 billion, additional impairment of Rs.5.6 billion made on USD denominated GOSL and SOE

exposure, increase of impairment provision on risk elevated industries such as Tourism and Construction and increase of stage I impairment provision due to increase of loan portfolio by 405.3 billion were the main reasons for the increase of impairment expense during the year under review.

- The operating result of the year under review amounted to a profit of Rs.17.8 billion and the corresponding profit in the preceding year amounted to Rs.23 billion. Therefore an deterioration amounting to Rs.5.2 billion of the financial result was observed and it was mainly due to increase in impairment provision and interest income lost due to the moratorium.

- Impaired loans under stage III accounted for 9.8 per cent or Rs.207 billion of total loans as at 31 December 2020, which is much higher than the regulatory NPL ratio of 4.8 per cent. Therefore it is vital to implement a rigorous mechanism to reduce the high level of impaired loans to secure the liquidity needs, earning capacity, financial efficiency and capital buffer of the Bank.

- The Bank was able to maintain 11.3 per cent of Tier I Capital and 14.9 per cent of Total Capital which are marginally above the minimum regulatory capital adequacy requirements of 9 per cent and 13 per cent respectively. It is required to consider the bank's ability to generate internal capital through its core business lines to support the future growth of the Bank and to meet the capital adequacy requirement. The liquid assets ratio (Domestic) and Liquidity assets ratio (off shore banking unit) are recorded as 26.6 per cent and 29.5 per cent respectively during the year under review which is above the minimum requirement of 20 per cent.

- As per BOC Ordinance, the number of Directors permitted on the Board is 6 members which is not sufficient considering the size, complexity and risk profile of the Bank. However the board does not consist 6 numbers of directors throughout the year 2020. The Bank has already taken initiatives to amend the BOC Ordinance by submitting the proposed amendments to the Ministry of Finance in order to comply with the requirement stipulated in the Corporate Governance Direction. However the proposed amendments to the BOC Ordinance are still pending.

Group

Group reported a pre-tax net profit of Rs.27.6 billion for the year 2020 representing a 33.4 per cent decrease as compared with the previous year. Total assets base of the group had been increased up to Rs.3,024.7 billion as at the end of the year representing 22.8 per cent increase as compared with the previous year. Gross loans & advances and total deposits had been increased by

27.7 per cent and 23 per cent respectively compared with the year 2019.

People's Bank

- Management should implement a process for back testing the cash flow forecasts provided by Credit Officers on frequent basis at least on monthly/ quarterly/ annually/ bi-annually basis. Back testing is the comparison of forecasts to realized outcomes. Back testing is used to refer to any validation of a model that is based on the comparison of forecasts against realized values. In relation to the same, management may compare the cash flows provided in prior periods with the actual cash flows flown to the Bank. If there are deviations, adjustments should be made for 'error rate' in the cash flow forecasts provided by Credit Officers for the impairment calculation purposes.

- According to the Public Enterprise Circular No PED 03/2016 dated 29 April 2016 Paragraph (2), PAYE Tax of public officers including employees of state owned enterprises should be deducted from tax liable employee earnings as per the relevant regulations of the IRD. However, the collective agreement signed between the Bank and People's Bank's employee union directs to pay the income tax liability of the employees by the Bank without being deducted from the employees' salary. Based on that, the Bank has paid Rs. 36,861,068 as PAYE tax on behalf of employees for the year ended 31 December 2020, without deducting from employee's earnings.

- The Bank was able to maintain 9.53 per cent of Tier I Capital and 15.47 per cent of Total Capital which were marginally decreased by 10.77 per cent and improved by 5.52 per cent respectively while maintaining the minimum regulatory capital adequacy requirement marginally above.

National Savings Bank

- According to the financial statements presented, total interest income of the bank had been increased by 3 per cent or from Rs.118,730 million to Rs. 122,512 million during the year 2020. Loan and advances had been increased by 14 per cent or from Rs.454,395 million to Rs.516,795 million as at the end of the year under review compared with the previous year. However, Gross NPL ratio of the bank had been increased from 1.57 per cent to 2.79 per cent in the year under review. In addition, total deposit base of the bank had been increased by 22 per cent or from Rs.1,016,574 million to Rs1,237,124 million at the year end.

- The operation of the bank had recorded a pre-tax net profit of Rs.15,645 million for the year under review as compared with the corresponding pre-tax net profit of Rs.10,462 million for the preceding year, thus indicating an increase of Rs.5,183 million or 50 per cent in the financial results. Return on Average

Asset (ROAA) and Return on Average Equity (ROAE) had been increased by 0.29 and 6.42 per cent respectively when compared with the previous year.

- Total investment in equity and debt instruments of the bank had been increased by 22.9 per cent or from Rs. 620.9 billion to Rs. 758.7 billion during the year 2020. Debt and other instruments had been increased from 22.5 per cent or from Rs. 615.6 billion to 754.2 billion during the year 2020. Reason for above growth was the investment in Government Securities, Sri Lanka Development Bonds (SLDB), Corporate debt instruments and trust certificates during the year under review.

- Bank's Tier 1 Capital ratio had been increased from 13.49 per cent to 13.65 per cent in the year under review.Total Capital ratio of the bank had been increased from 15.82 per cent to 16.45 per cent in the year under review.

- Group reported a pre-tax net profit of Rs.16,791 million for the year 2020 representing a 28 per cent increase as compared with the previous year. Total assets base of the group had been increased up to Rs1,383,221 million as at the end of year representing 18 per cent increase as compared with the previous year. Gross loans & advances and total deposits had been increased by 13 per cent and 22 per cent respectively compared with the year 2019.

- The total Capital ratio for the group had been increased from 17.74 per cent to 18.3 per cent compared with the year 2019.

Merchant Bank of Sri Lanka & Finance PLC (MBSL)

- Total interest and similar income declined by Rs.1.58 billion reflecting a 24 per cent drop in the financial year 2020. Lower volumes in lending caused by COVID-19 pandemic, coupled with the debt moratoria directed by the Central Bank of Sri Lanka were the main reasons for this decline.

- Total interest and similar expenses also decreased by 18 per cent from Rs.4.33 billion to Rs.3.53 billion during the reporting year as the company's borrowings and public deposit liabilities reduced. Interest rates were also brought down by the Central Bank's Monetary Board in an initiative to manage liquidity and encourage borrowings to spur economic activities.

- Impairment chargers for loans and other losses increased by 101.5 per cent to Rs.563.4 million with compared to the previous year. Impairment charge of investment in subsidiary also increased by 271 per cent to Rs.462.5 million during 2020. After considering the financial position of the MBSL Insurance Company Limited (MBSLI) as at the reporting date and considering the future prospects of the Company, the directors had concluded that there is a reasonable expectation that the Company has adequate resources to continue in operations in foreseeable future.

- The company's profit after tax declined 1,180 percent to a loss of Rs.Rs.1,108 million during the reporting year against the profit of Rs.102.6 million reported in the corresponding period of the previous year. Retained earnings of the company for the year also recorded a loss of Rs.893.79 million against the retained profit of Rs.252.88 million reported in 2019.

- The Company's Tier 1 Capital and Total Capital ratios were 4.4 per cent and 5.6 per cent respectively for the year 2020 which are below the minimum regulatory requirement of 6.5 per cent and 10.5 per cent respectively. Hence Central Bank of Sri Lanka has imposed with caps of Rs.35 billion on loan and advances (net of interest in suspense) and Rs.23 billion on deposits with effect from April 2019 and May 2019 respectively.

- MBSL is taking proactive measures to raise capital to enable the Company to be capital compliant in consultation with its parent company the Bank of Ceylon and the approval of the regulators including CBSL. MBSL intends to make appropriate announcements to the market in terms of the Listing Rules of the Stock Exchange in this regard. Further, Bank of Ceylon has agreed to provide funding needed to meet regulatory requirements in case the Company fails to attract required additional funding on its own.

Group

Group reported a pre-tax net loss of Rs.947.8 million for the year 2020 representing a 4040 percent decrease as compared with the previous year. Total assets base of the group had been decreased up to Rs.34,307.6 million as at the end of the year representing 11 percent decrease as compared with the previous year. Gross loans & advances and total deposits had been decreased by 6 percent and 4.8 percent respectively compared with the year 2019.

State Mortgage and Investment Bank

- Top ten non-performing loans balance is totaling to Rs 138,068,917 as at 31 December 2020 and out of that one customer also included in the top ten customer of the bank at the same date.

- The minimum capital requirements have been enhanced to Rs. 7.5 billion with effect from 31.12.2022 by the central bank as per direction dated on 27.03.2020. Recorded shortfall of meeting with minimum regulatory capital as at 31.12.2020 was Rs. 1.698 billion. Bank expected to fulfil the recorded shortfalls through the internally generated funds. According to the Corporate Plan 2020-2024, the Bank will achieve Rs. 658 Mn from it's profit after tax. Thus, we have observed that the Bank cannot meet the regulatory requirement only through the internally generated funds.

- The credit division of the Bank during the period from 01 September 2016 to 31 March 2017 had granted loans amounting to Rs.66.34 million to forty 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. Out of the above loan Rs 61,528,617 was recorded as the balance payment outstanding as at 31 December 2020.

- Non-compliance with the Banking Act Direction No 12 of 2007 Section 3 (2) (i) related to the board's composition where the no of Directors of the Board shall not be less than 7 and no more than 13. However the board of directors of the Bank consists with only five directors as at 31 December 2020.

Housing Development Finance Corporation Bank

- Investment Property valued Rs. 759.5 million and owned by the HDFC bank which was located in the premises of the Building Material Corporation, Sri Sangaraja Mawatha, Colombo 13. Even though ownership of the property has been transferred to the bank on 31 December 2008 and vacant possession of the land was not handed over to the bank by the Building Material Corporation (BMC). In order to obtain the vacant possession of the land, the bank had decided to obtain the Writ order decision and accordingly Writ papers filled on 15.08.2017. As per the section 75 (i) (a) and (b) of the Cabinet Decision paper No 18/විවිධ/(019) dated 31 May 2018, all heads of institute under its purview to refrain from taking legal action against other government agencies for the purpose of resolving disputes between government agencies and should make every effort to resolve such disputes through negation procedures with the assistance of all other relevant authorities. But the bank had failed to obtain the vacant possession through negation procedures.

  Further, 52.2 perches land acquired for entrance to Investment Property of the HDFC bank located at BMC premises valued Rs.242 million. It was observed that people around the said land are using for dump their rubbish and debris to the land. Further observed that the key of the gate was also handed over to a person who is from Sangaraja Mawatha. The bank had not received any return on the said investment.

- Seven fraudulent loans were granted to by Ampara Branch and subsequently it had been transferred to non performing category. The outstanding balance as at 31 December 2020 was Rs.8, 250,131.

- Two fraudulent loans amounted to Rs. 1,000,000 for each bearing loan numbers 801650000504 and 801650000505 were approved by the Ampara Regional Manager on Sunday 30 September 2018. However, it was observed that Regional Manager had not reported to work in the above mentioned date as per the attendance records received from HR Division.

- It was observed that the Nikaweratiya branch had granted five leasing facilities valued Rs.12,950,000 during the period 2015 and 2016 without proper customer evaluation (Income) and delay in recovery process, it was led to fail the seizing attempt and total non-performing balance as at 31.12.2020 was Rs.22,989,757.

Pradeshiya Sanwardana Bank

- As per the financial statements presented, bank reported a gross income of Rs.24.35 billion for the year ended 2020 with 11 per cent decrease as compared with year 2019. Interest expenses also decreased by Rs. 1.6 billion or 11 per cent for the year 2020 as compared with previous year.The reported profit before tax of the bank for the year 2020 was Rs.1.01 billion and which was 17 per cent decline with compared to the previous year. Main reasons for deterioration are decrease of interest income, higher impairment charges and higher personnel expenses.

- Gross NPL ratio of the the bank had been increased up to 10.11 per cent which is higher than the Licensed Specialized Bank sector Ratio of 6.8 per cent. The above ratio stood at 9.63 per cent as at the end of year 2019. Classification of loans to non performing categories were frozen during the period of moratorium and therefore, actual position will be reflected after the cession of moratorium.Loans categorized under stage 3 had been increased up to Rs.22.2 billion from total gross loans as at 31 December 2020 representing an increase of 57 per cent as compared with previous year end.

- The staff cost to operating expenses of the bank for the year 2020 was 77.54 per cent as compared with the sector ratio of 55 per cent.Return on Assets ratio had been decreased from 0.26 per cent of 2019 to 0.19 per cent as at the end of year 2020. Return on Equity ratio also declined up to 2.67 per cent for the year 2020 as compared with the 16.7 per cent of Licensed Specialized Bank sector ratio. However, the bank has maintained minimum Capital Adequacy Ratio as at 31 December 2020.

- Contrary to the 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

Banking

Circular No. PED 03/2016 of 29 April 2016, the Bank had paid Pay As You Earn (PAYE) tax amounting to Rs.10,064,825 for the year 2020 out of its own funds on behalf of its employees instead of being deducted from the salaries of the respective employees. Further, Attorney General had expressed his opinion to deduct PAYE tax from the employees' earnings in compliance with the PED Circular No.PED/03/2016.

- Board approved Corporate Plan for the period 2016-2020 was in place. However, bank is in the process of preparing new Corporate Plan for the year 2021 as at the audited date on July 2021.

National Security

Observations

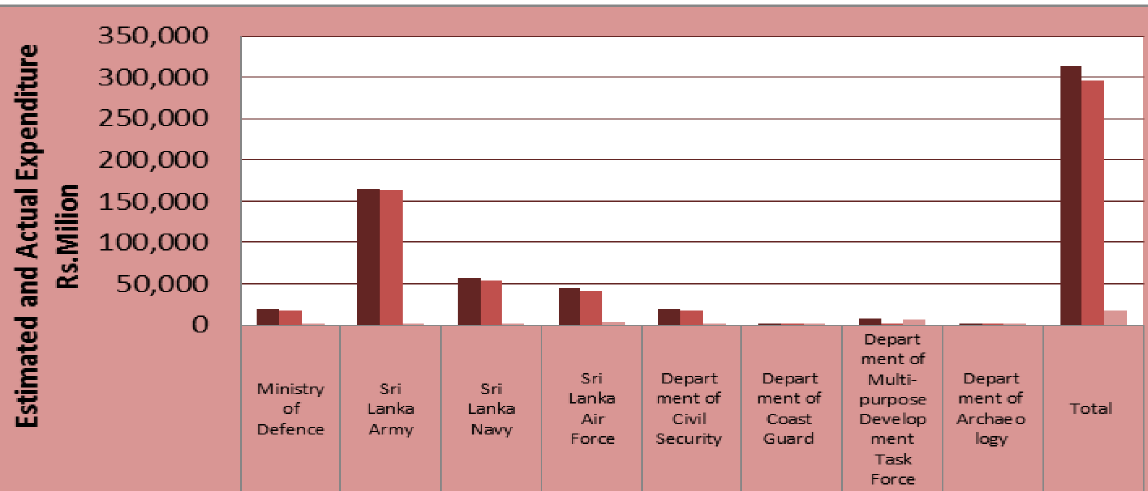
- Estimation and collection of Revenue
- Construction of Security Head Quarters
- Strategic security Comminication Network Project
- Nationla Defence Fund
- General Sir John Kothalawala defence University Amended Act
- Kothalawala State Defence University Hospital
- Asset Management
- Loans in arrears
- Losses and Damages
- Libilities and enter in to Liabilities
- Suspended Projects
- Prohibited narcotics, trollers and other materials taken in to custody
- Revenue in arrears
- Ranaviru Mapiya protection program
- Cash to be recovered from officers

National Security

The Ministry of Defense, and 07 Departments and 11 Statutory Boards/institutions functioning thereunder had been entrusted with the following duties and functions.

- Taking measures to ensure national security.
- To ensure public safety through an environment in which all the citizens live without fear.
- To create a secure environment in the country with which public and private economic processes as well as local and foreign investment opportunities are expanded.
- To work in combination with the Presidential Task Force for preventing the drugs getting into the country, controlling the drug menace, preventing the addiction to drugs, and rehabilitation of drug addicts in order to ensure a drug-free country.

The Ministry and 07 Departments had been provided with provision totalling Rs. 313,421 million by Parliament in the year 2020 for executing the said duties and functions; and, only a sum of Rs. 296,395 million therefrom had been utilized by the end of the year under review. Particulars are shown in Figure 18



	Ministry of Defence	Sri Lanka Army	Sri Lanka Navy	Sri Lanka Air Force	Department of Civil Security	Department of Coast Guard	Department of Multi-purpose Development Task Force	Department of Archaeology	Total
Provision Rs.Milion	18,378	165,605	56,379	44,237	19,183	224	8,212	1,203	313,421
Expenditure Rs.Milion	16,913	163,854	54,251	40,579	17,735	201	1,767	1,095	296,395
saving Rs.Milion	1,465	1,751	2,128	3,658	1,448	23	6,445	108	17,026

Figure 18 : Estimated and Actual Expenditure
Source : Annual Financial Statements-2020

A summary of significant audit observations made in the audit test checks conducted on execution of the said duties and functions, is given below.

Estimation and Collection of Revenue

According to Financial Regulations 85(1) & 85(2) and Public Finance Circular, No. 01/2015 dated 20 July 2015, revenue estimates should be prepared for projecting and forecasting revenue, and presented to the Department of Public Finance. The revenue estimate under the Revenue Code, 20.03.06.00 presented by the Ministry for the year 2020 with respect to the peacekeeping missions of the United Nations, did not contain the revenue estimate for Sri Lanka Army.

Furthermore, a sum of US $ 24,082,696 receivable in respect of the peacekeeping missions of the United Nations carried out by the Sri Lanka Army and Sri Lanka Airforce, had remained due as at 31 December 2020. Of that, a sum of US $ 13,024,132 remained due over a period of 01-04 years, but that sum could not be recovered even by the end of the year under review.

A revenue of Rs. 1,740 million had been estimated by the Sri Lanka Airforce for the year 2020 through peacekeeping missions of the United Nations, but only 7 per cent or Rs. 121.79 million therefrom had been collected in the year under review. Furthermore, the Sri Lanka Army had not presented a revenue estimate for the year under review.

Construction of the Security Forces Headquarters

It had been planned to construct the security forces headquarters under two phases. Constructions of building number 08, communications building, and the security building had been planned to be completed under phase one in the year under review. However, the constructions had not reached the scheduled targets by the end of the year under review. Under phase one, 96 main activities had been identified relating to the main building complex, communications building, security building, water supply, and water pump. Thirty one of those activities had not acquired any physical progress in the year 2020.

According to the Action Plan and Procurement Plan of the project to construct the Security Forces Headquarters, 25 and 356 contract works had been planned to be executed by the Project Management Unit and external contractors respectively utilizing a sum of Rs. 10,008.62 million under 08 priorities in the year under review. Only 146 works had been done in the year under review, whereas 210 contract works had not been executed.

Constructions worth Rs. 349.24 million had been estimated under Kinnadeniya Phase 01 in the Action Plan of the year under review, and provision amounting to Rs. 191.45

million had been made thereon in the year under review. Only a sum of Rs. 70.97 million form that provision had been utilized by the end of the year under review. The financial and physical progress thereof remained as low as 37 per cent and 14 per cent respectively. It was reported that the expected progress could not be achieved due to slow progress of the constructions following the Covid 19 pandemic in the year under review.

As the contract could not be completed within the scheduled period due to deficiencies such as, delays in constructions, and delay in opening letters of credit, 24 claims for EOT worth Rs. 1,008.55 million and US $ 4,445,076 had been presented at the end of the year under review by 05 contractors responsible for 07 contract works. Two of those contractors had been paid a sum of Rs. 8.64 million.

Strategic Communication Network

The strategic communication network project implemented for creating a common communication mechanism among the security forces had been scheduled to be completed during 2014-2016, but the project duration had been extended until 31 December 2020 following approval of the Cabinet granted on 11 November 2019. According to the Action Plan for the year 2020, the activities scheduled for a sum of Rs. 882.75 million included : construction of communication towers, installing and operating microwave receptors, laying optic fiber cables up to Akuregoda, and completion of secured communication network of Colombo; but, the project period had been further delayed due to delays in procurements, and hence, the objectives of the project could not be achieved in a timely manner. Furthermore, making use of the completed towers, accessory rooms, and equipment including 22 generators purchased in the years 2016-2017, had been further delayed.

National Security Fund

Granting financial aid worth Rs. 25,000 under the programme – “ViruSisuShishyathwaPradeepa” for each of the 150 students of the deceased or disabled personnel served in the tri forces and the Police who passed the year 05 scholarship examination in the year 2019 was scheduled to be held before the end of the second quarter of the year 2020. However, financial aid had not been granted to the students even by the end of the year under review. Results of the grade five scholarship examination had been released in September 2019. As a period of over one year and 03 months had elapsed since the release of results, students had been deprived of enjoying the benefits of financial aid in a timely manner.

Amendments to the Sir John Kotelawala Defence Academy Act

According to provisions of the Sir John Kotelawala Defence Academy Act, No. 68 of 1981 amended by the Act Nos, 27 of 1988 and 50 of 2007, the objectives of establishing the Academy included conducting courses for cadet officers, officers and public officers on public safety and management of armed forces, and providing instructions in that connection. Conferring degrees to the local and foreign students other than the cadet officers or public officers, had been commenced sine the year 2011 on fee-levying basis. Twenty one degree courses were in progress for 786 such students for the academic year 2019/2020. Despite being informed at the meeting of the Committee on Public Enterprises held on 21 March 2018 that the Sir John Kotelawala Defence Academy Act be amended by considering the enrollment of students and the validity of decisions taken by the governing council of the Academy, the Act had not been amended even by the end of the year under review.

Kotelawala Defence University Hospital

The Kotelawala Defence University Hospital had begun its operations in December 2017. Three wards and three units established in the hospital including the emergency treatment unit, could not be made use of even by 28 April 2021 due to lack of medical and other staff. However, only the emergency treatment unit and 02 wards had been used from April 2020 to provide treatments for patients affected with Corona.

The Teaching Hospital of the University and the Regimental Center – Sri Lanka Army Medical Corps had been established at a land owned by the Sri Lanka Transport Board in extent of 48 acres, 02 roods, and 16.2 perches located in the Grama Niladhari division of 577/A Werahara South of Kesbewa Divisional Secretariat, Colombo. It had been decided at the Cabinet meeting held on 25 April 2017 that additional provision totaling Rs. 5,054 million would be made for the acquisition of that land to the Ministry of Defence. The land had not been acquired even after 04 years since the decision had been taken. As such, the rights of the land where the Hospital had been established, had not been taken over by the University even by the end of the year under review.

A loan amounting to Rs. 3,165.82 million had been obtained from the National Savings Bank on Treasury bonds in the year 2013 along with a loan of US $ 177.33 million in 23 installments for construction of the Teaching Hospital of the University. The last installment of the loan amount of US $ 177.33 million had been obtained on 10 January 2017. A sum of US $ 35,687,996 (Rs. 6,661.15 million) therefrom had not been utilized on any specific purpose even by the year under review, but a sum of US $ 20,911,260 (Rs. 3,903.08 million) had been invested in 03 fixed deposit accounts whilst a sum of US $ 14,776,736 (Rs. 2,758.07 million) had also been invested in a savings account at the annual interest rates of 5.5 per cent and 1.02 per cent respectively. Nevertheless, Treasury provision equivalent to 12.5 per cent had been made for annual interest of the said loan.

Management of Assets

Miscellaneous instruments worth Rs. 07 Billion and 1,049 buildings worth Rs. 80 Billion belonging to the Sri Lanka Army had not been shown in the fixed asset registers whereas lands in extent of 11,293 acres relating to 258 plots , 8,123 buildings worth Rs. 113 Billion, and vehicles worth Rs. 14 Billion, had not been brought to accounts.

The extent of lands belonging to other Ministries and Departments but utilized by the Sri Lanka Navy over a period ranging from 08 to 22 years, was 437.2877 hectares. Those lands could not be acquired to the Sri Lanka Navy even by the end of the year under review.

Eighty items worth Rs. 44 million handed over to external institutions for repairs by the North Central, Southern, North Western, Eastern, and South Eastern Commands of the Sri Lanka Navy, had not been retrieved after being repaired even by the end of the year under review.

According to financial statements of the Rakna Arakshaka Lanka Limited, a sum of Rs. 739 million (without tax) had been spent for constructing the foundation of the column of the Head Office building. The constructions had been halted by 31 December 2016, and rights to the land where the building had been constructed, were not taken over by the Company. The said expenditure had not been brought to accounts under assets of the buildings in the financial statements of the Company.

During the period 2004-2019, the Sri Lanka Air Force had dispatched 945 parts of aircrafts to foreign countries for repairs in 132 instances. The Air Force had not received those parts even after a period of 01-17 years by the end of the year under review.

Outstanding Loan Installments

Loan balances pertaining to 4,020 army officers and 533 civil officers totaling Rs. 51 million had continued to exist over periods ranging from 01- 3 0 years by the end of the year under review. Those outstanding loan balance could not be recovered even by the end of the year under review.

Losses and Damages

Preliminary reports had not been prepared on 128 vehicle accidents involving vehicles of the Sri Lanka Army during the years 2017, 2018, and 2019. Furthermore, comprehensive reports had not been presented relating to 197 vehicle accidents in terms of Financial Regulation 104.

Incurring Liabilities and Commitments

The Sri Lanka Navy had incurred liabilities worth Rs. 1,122 million by the end of the year under review contrary to provisions of the Financial Regulations 94 and 214. Those liabilities included a value of Rs. 228 million relating to 1,520 items not relevant to the year under review.

Projects Abandoned Halfway

The Sri Lanka Coast Conservation Department , considering the timely and national significance, had estimated costs amounting to Rs. 102 million and Rs. 55 million to be incurred on the construction of advanced training & administration, and residential buildings respectively in the year 2016. A sum of Rs. 14 million had been spent in the year 2016 on the preliminary works of those plans. The two construction works had been abandoned by the end of the year under review.

Narcotics Apprehended, Vessels, and Other Items

Narcotics worth Rs. 723 million apprehended by the Sri Lanka Coast Conservation Department had been handed over to Sri Lanka Police whereas vessels and other items worth Rs. 2,487 million had been handed over to the Authority. The Department had not drawn attention to take follow-up action on such items after being handed over.

Outstanding Income

Aircraft rental totaling Rs. 12.67 million recoverable from 10 public institutions and 02 private institutions to the Sri Lanka Air Force, remained due by the end of the year under review. Those balances remained due over periods ranging from 02 to 17 years though, the balances could not be recovered even by the end of the year under review.

"Ranaviru Mapiya Rakawarana" Allowance Scheme

A sum of Rs. 5.94 million had improperly been paid to 02 account holders by the Ranviru Sewa Authority under the "Ranaviru Mapiya Rakawarana" allowance scheme during the 18 month period from June 2016 to November 2017. Rs. 4.98 million from that amount had not been recovered even by the end of the year under review.

Monies Recoverable from the Officers

A sum of Rs. 530,380 receivable from an officer resigned from the Ranaviru Sewa Authority had not been recovered by the Authority even by the end of the year under review. Furthermore, advances totaling Rs. 1.83 million granted to 02 officers of the Authority in the year 2014, had not been settled even by 31 December 2020.

Prison Reforms and Rehabilitation of Prisoners

Observations

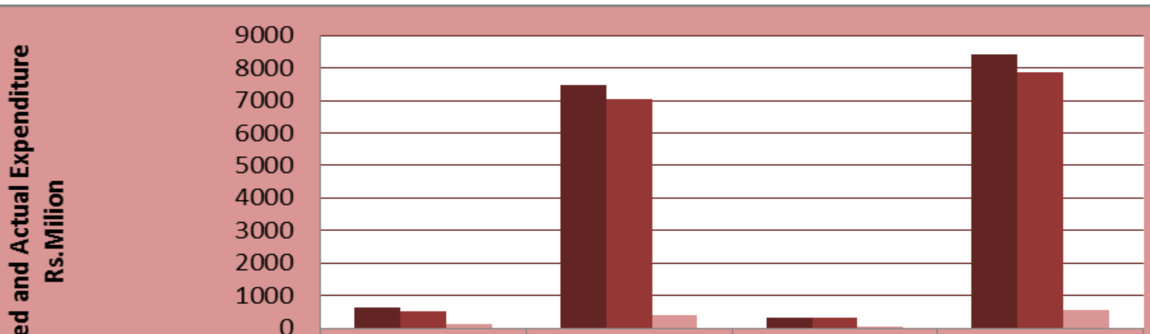
- **Revenue Management**
- **Procurement**
- **Assets Managaement**
- **Losses and Damages**
- **Deposits**
- **Advances in Arrears**
- **Human Resource Management**
- **Un inplimented Projects**

Prison Reforms and Rehabilitation of Prisoners

The following functions and roles should have been performed by the State Ministry of Prison Management and Prisoners Rehabilitation Affairs and two Departments and 02 Statutory Boards / Institutions under its purview.

- Taking steps to eradicate anti-social behaviour taken place in prisons in collaboration with the Presidential Task Force
- Taking necessary steps to develop infrastructure facilities in prisons in collaboration with the Presidential Task Force
- Establishment of modern technological methods for monitoring criminals in prisons
- Implementation of the Amnesty policy process to reduce overcrowding in prisons

Provision totaling Rs. 8,428 million had been allocated by Parliament to the State Ministry and to 02 Departments in the year 2020 for the accomplishment of the above role. Only Rs. 7,878 million, out of the provision made, had been utilized. Details are mentioned in Figure 19



	State Ministry of Prison Reforms and Prisoners Rehabilitation	Department of Prisons	Department of Community Based Corrections	Total
Provision Rs.Million	636	7,455	337	8,428
Expenditure Rs.Milion	500	7,059	319	7,878
Sarvings Rs.Milion	136	396	18	550

Figure .19- Estimated and Actual Cost
Source - Financial Statements for the Year 2020

Material and significant audit observations made during the audit test checks carried out in relation to the performance of the above functions and roles by the State Ministry and the 02 Departments and two Statutory Institutions under its purview are summarized and mentioned below.

Revenue Management

An amount of Rs. 3.71 million receivable for 02 months in the year under review for the provision of labour of prisoners for the project implemented with Avant-Garde Man Power Recruiting (Pvt.) Limited had not been received even by 01 April 2021. Moreover, the Department of Prisons had failed to recover the arrears of revenue, which were old for a period more than 20 years and amounted to Rs. 1.5 million receivable for sales done to the public and private sectors.

Procurements

Stationery worth Rs. 2.6 million had been procured for the Mahara Prison for the period of 2019 to 2021. Although a procurement plan should have been prepared at least for a period of 03 years according to Guideline 4.2 of the Government Procurement Guidelines, the Department of Prisons and the Department of Community Based Corrections had not taken action accordingly. The stationery purchased during the above period was procured by considering the stationery as essential items urgently needed without following regional procurement process as per Guideline 2.7.7 of the Government Procurement Guidelines.

Although the Department of Community Based Corrections had purchased office equipment worth Rs. 3.31 million during the year under review as per Guideline 8.9.1 (a) of the Government Procurement Guidelines, the Department had not entered into a formal contract agreement with the suppliers.

Management of Assets

Five (05) buses, 03 cars, a tractor, 04 fire extinguishers and 64 cameras of the security camera system available in three prisons and in one work camp were out of order. A bus, 03 lorries, a bowser, a car, a hand tractor, a motorcycle, a three-wheeler and a generator were underutilized for a period of 01 year to 10 years in 03 prisons and an open prison camp and juvenile detention centre.

Losses and Damages

The Department of Prisons had failed to take action in terms of the Financial Regulations pertaining to losses and damages of the Department of Prisons amounting to Rs. 57.84 million occurred due to 252 incidents of losses and damages including 228 vehicle accidents during the period of 1 year to 10 years and further the Department had failed to recover losses or to write off the losses from books even by the end of the year under review.

Deposits

Action had not been taken in terms of FR 571 in relation to deposit balances amounting to Rs. 1.01 million in 03 deposit accounts of the Department of Prisons for more than 02 years. An amount of Rs. 4.55 million that should be credited to the personal accounts of the prisoners was in the deposit account and the total balance outstanding for more than two years out of the amount was Rs. 1.39 million.

Advance Loans Outstanding

Although salary loans totalling Rs. 7.42 million had been outstanding for a period more than 05 years as per the Public Officers' Advance Account of the Department of Prisons, the Department was unable to recover the loan balances even by the end of the year under review.

Human Resource Management

There were 2,363 vacancies including 84 vacancies in the executive level, 36 vacancies in the tertiary level, 2,147 vacancies in the secondary level and 96 vacancies in the primary level by the end of the year under review as the Department of Prisons had not maintained a productive service level and had not carried out a timely review of the staff. The overall performance of the prisons had adversely affected due to not taking action by the Department to fill those vacancies.

Uninitiated Projects

Provision amounting to 1.6 million had been allocated for the improvement of the Pelmadulla and Kalutara Community Corrections Offices. The work had not been initiated even by the end of the year under review.

Treasury Affairs

Observations

- Supplementary Support Services and Emergency Needs Responsibilities
- Outstanding loan balances in advance accounts
- Activities of Public Deposit Accounts
- Supervision of advance accounts
- Lack of database development
- Receiving foreign grants from other institutions
- Obtaining Foreign Finance Loans for Development of Key Sectors
- Supervision of state-owned enterprises
- Controlling and monitoring of treasury imprests
- Accounting of Government Borrowings and credit services
- Release of funds to Expenditure Institutions
- Issuing of treasury guarantees
- Relief letters issued on behalf of the Mihin Lanka Company

Treasury Affairs

Following duties and functions had to be performed by the Ministry of Finance and the State Ministry of Money and Capital Market and State Enterprise Reforms functioning under it, State Minister of Samurdhi, Household Econo my, Micro Finance, Self Employment, Business Development, 23 Departments and 48 Statutory Boards/ Institutes.

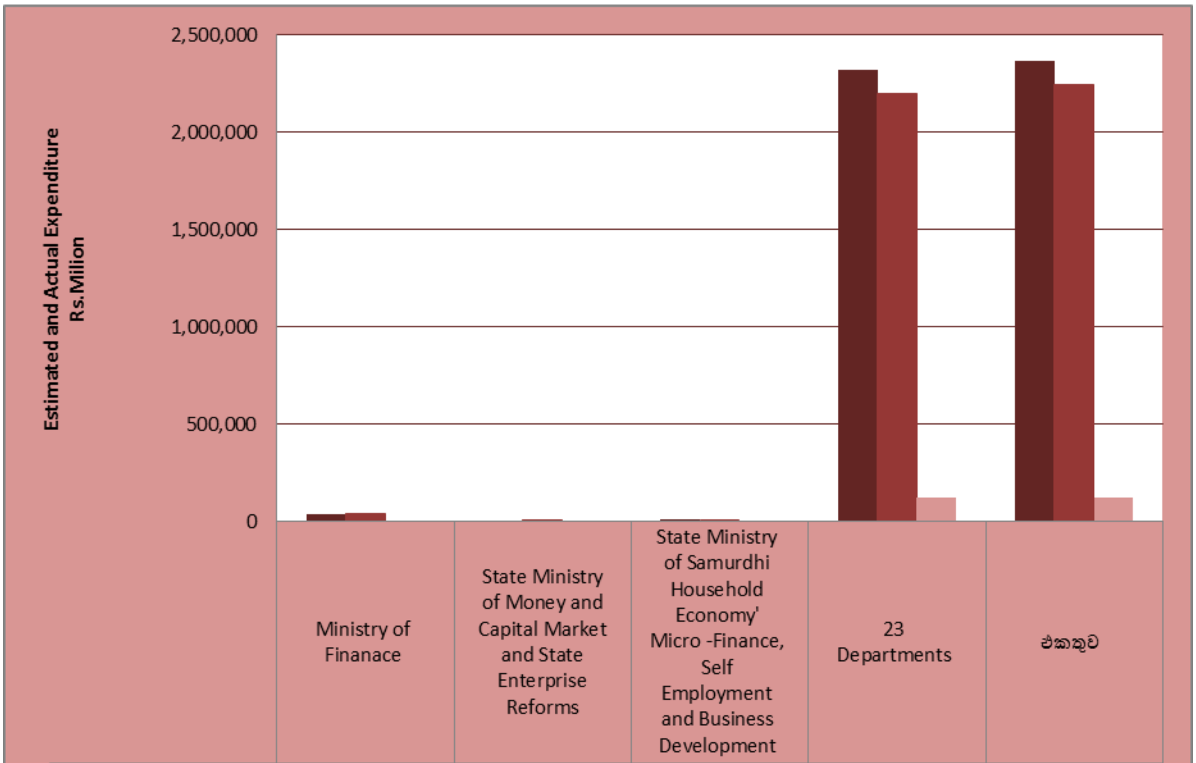
- Issuing policy guidelines to the relevant State Ministries to establish a "People Centric Economy" in line with the "Vision of Prosperity" manifesto and based on the national policies implemented by the government, directing the state mechanism and the private sector to formulate policies related to the subject of Finance in accordance with the prescribed laws and regulations, implementing the projects under the National Budget, the Public Investments and the National Development Programme, and formulating subjects and duties of departments and statutory boards functioning under the ministry and the state ministry, follow up and evaluation should be done by the Ministry of Finance.

- Facilitating to direct development activities by the National Task Force in charge of Economic Revival and Poverty Eradication in coordination with all Ministries.
- Accelerating sustainable high economic growth while minimizing income inequality covering all provinces that benefit to all.
- Reducing unemployment and increasing per capita income by giving priority to low income earners
- Establishing price stability, while maintaining a low annual average inflation rate.
- Reducing uncertainties of government revenue policies by reducing the budget deficit and public debt.
- Expanding the economic needs of financial resources by keeping loan interest rates low.
- Stabilizing monetary and balance of payments policies and interest rates to ensure rupee stability.
- Introduce necessary measures to promote local products, empower low income earners and encourage investments.
- Expanding the business environment required by the local business community for the benefit of the general public.
- Strengthening state enterprises.
- Strengthening the institutional structure required to make government revenue and expenditure management efficient.
- Implementing reforms to strengthen banks and financial institutions to encourage savings and investment.
- Implementing institutional reforms needed to revive broken financial institution businesses.
- Coordinating and expanding national development, finance and capital

market programmes for the development of agriculture, construction, IT industries, small and medium enterprises, and tourism and export sectors.

- Making the bond and stock market attractive.
- Strengthening the primary market reform and regulation of Treasury Bills and Bonds.
- Establishment of facilities required to locate the Head Offices of International Business Giants, Business Institutions in Colombo and Port City.
- Launching of the International Campaign to Promote the Vision for Prosperity new Economic Plan with the Support of the Private Sector in order to Attract Foreign Investors to Sri Lanka.
- Expansion of facilities required for large scale local investors to start High Technology Products.
- Regulation of foreign investment access to local entrepreneurs competitively and properly and implementation of special programmes to protect local entrepreneurs and empower them.
- Increase the financial strength of state enterprises by introducing necessary reforms to strengthen their economic and social contribution to the national economy.
- Home Economic Empowerment targeting Samurdhi recipients, community based programmes, strengthening of microfinance institutions and service facilities and expansion of self employment opportunities.
- Implementation of special programmes that facilitate long-term leasehold lands, credit facilities, business consulting, technical and infrastructure facilities for new entrepreneurs.
- Development of an all service delivery system by one institution for the small and medium scale industry sector and giving necessary incentives giving priority to commence value added industries in those sectors.
- Implementation of economical and social empowerment programmes for the disabled.

A total of Rs. 2,369,167 million had been allocated by Parliament for the Ministry of Finance and 02 State Ministries and 23 Departments under it to fulfill the above role in the year 2020,and only Rs. 2,246,594 million had been utilized at the end of the year under review. Detailed figure is shown in 20



	Ministry of Finanace	State Ministry of Money and Capital Market and State Enterprise Reforms	State Ministry of Samurdhi Household Economy' Micro -Finance, Self Employment and Business Development	23 Departments	එකතුව
Provision Rs.Milion	39,451	31	7,681	2,322,004	2,369,167
Expenditure Rs.Milion	37,848	19	7,433	2,201,294	2,246,594
Sarvings Rs.Milion	1,603	12	248	120,710	122,573

figure 20 – estimated and actual expenditure
Source – Financial Statement of the Year 2020

Following is a summary of the quantitative and important audit observations made during the sample audit of the above role performed by the Ministry of Finance and two State Ministries and 23 Departments under it.

Supplementary Support Services and Emergency Needs Responsibilities

The role of the Budge Department was to allocate provisions to the relevant institutions in the event of an urgent and unforeseen need from the provision made under the Supplementary Support Services and Emergency Liabilities Expenditure subject under the Project 240-2-2 in terms of Section 06 of the Appropriation Act No. 6 of 2020. However, the following deficiencies were revealed regarding the utilization of additional provisions issued for capital and recurrent expenditure made under the Supplementary Support Services and Emergency Liabilities subject at the Financial Statements Audit in year 2020.

- Even though it had been authorized the release of Rs. 31,740 million through 66 licenses for recurrent expenditure under the supplementary support services and emergency liability vote, Rs. 19,743 million had been released to institutions during the year. 38 percent of that allocation or Rs. 11,998 million had been left unutilized.

- Rs. 14,303 million of additional provision had been obtained by submitting a supplementary estimate to the Parliament considering the provisions made in the Annual Appropriation Act for Supplementary Support Services and Emergency Liabilities as insufficient. Those provisions had been left unutilized by the end of the year under review.

- The Ministries and Departments had requested for additional provisions for capital expenditure. Even though it had been authorized to release Rs. 28,000 million from the project after considering those requests, Rs. 24,801 million had been released. 26 percent out of these additional provisions that had been taken by that institute, or Rs. 3,199 million, had been left unutilized. 100 percent of the allocations out of the provisions that had been obtained by some institutes had not been utilized.

Outstanding loan balances in advance accounts

35 Ministries and Departments had failed to recover the arrears of Rs. 1,361.56 million by the end of the year under review also. Even lthough there were credit balances of Rs. 20.48 million in the advance accounts of 09 Ministries and Departments, no action had been taken to settle those balances.

Activities of Public Deposit Accounts

The main function of the department was to open public deposit accounts, advise on accounting and close them when not needed according to the action plan of the Department of Public Accounts for the year 2020. Even though the balances to be paid should be represented in the public deposit accounts, there were balances to be received in some Ministries and Departments. Taking measures to settle those debit balances had been outlined in the Annual Action Plan as a product of the Department. The following shortcomings had been revealed in this regard.

- According to the provisions of the circular issued by the Department of Public Accounts from time to time, the total of debit balances of 04 revoked Deposit Accounts under Account No. 6003 in District Secretariats and a Deposit Account under the Account No. 6000 of Ministries and Departments was Rs. 10.94 million. It had failed to settle those debit balances by the end of the year under review.
- In terms of Public Accounts Circular No. 243/2015 dated 24 June 2015, it had been expected to nullify 6003 category deposit accounts, and it had also been instructed to carry out such activities through the annual estimate from the year 2016. The total balance of the 2 deposit accounts under that account number for years was Rs.10.00 million without settlement of the deposit balance.

- It had been set out in the Financial Regulations on how to deal with deposits exceeding 02 years in terms of monetary regulations. Fulfillment of that requirement stated in the Financial Regulations by the Department of Public Accounts had been stated as a product of the Department. The total balance remaining for a period of more than 05 years from 02 years was Rs. 2,854.73 million during the examination of a sample of 125 deposit accounts of 46 Ministries and Departments obtained for audit.
- At the beginning of the year under review, the total balance of Rs. 1,937.81 million in 108 deposit accounts stood at stood as the same by the end of the year under review. The Department of Public Accounts had not issued the necessary guidelines to look into the activation or deactivation of those deposit accounts and take necessary action.

Supervision of advance accounts

According to the Action Plan for the year 2020, monitoring the advance accounts was a major function of the Public Accounts Department and it had been identified that creating an efficient payment and collection system as the expected result. However, the total arrears of advance accounts for retired, deceased, suspended, resigned and transferred officers held by 102 institutions over the years was Rs. 841.16 million as revealed in the sample audit. The relevant institutions had failed to settle the balances by the end of the year under review.

A net debt balance of Rs. 15,783.07 million had been shown in the advance accounts of the government departments under the financial assets of the financial statements of the Government in the year 2020. This total balance consist debit balance of Rs. 16,081.88 million and net debit balance of Rs. 1,353.07 million which remained unresolved for many years. The net balance had been consisting of an unsettled total of Rs. 19.94 million of credit balances relevant to 06 accounts for many years.

Lack of database development

Maintaining a database of government debt was a key function of the Department of External Resources. Due to the fact that the system had not been developed in such a way that the information contained in the system related to foreign borrowing, repayment and servicing, there were differences in information possessed by such parties.

Receiving foreign grants from other institutions

The main function of the Department of External Resources was to hold discussions with the relevant parties regarding obtaining and utilizing foreign aids efficiently. All transactions relating to foreign aid were to be carried out by the Director General of the External Resources Department of the Treasury in terms of the Public Accounts Circular No. 30/94 dated 20 April 1994 applicable for keeping foreign aid accounts. According to the information obtained on a sample audit, Rs. 2,026 million of foreign grants had been receivedfor 77 projects directly by 24 institutions in the year 2018 and 2019, without informing the General Treasury. Similarly, foreign grants totalling Rs. 1,266 million had been received by other Ministries / Departments without the knowledge of the Treasury during the year 2020 as per the information obtained on the sample basis.

Obtaining Foreign Finance Loans for Development of Key Sectors

Access to foreign borrowings at an affordable cost for leading sector development finances and to facilitate the efficient and effective use of foreign borrowings are among the main objectives of the Department of External Resources. The following observations are made in this regard.

- The value of foreign borrowings obtained under agreements in year 2020 was US $ 1,281.1 million, of which 39% was US $ 500 million of market borrowings obtained from the China Development Bank.
- During the year under review, debt service payments of US $ 4,057.9 million had been made, of which US $ 1,419.4 million, or about 35 per cent, had been paid as interest. It had outperformed the foreign borrowings obtained under the agreement during the year under review.
- In the case of obtaining foreign borrowing, a fee had to be paid in most cases for the unused value of the loan amount in terms of agreements. The government had spent a lot of money on those fees. Accordingly, payment of loan interest and installments ,through the benefits received from the project by obtaining and utilizing the loan for the relevant project during the prescribed period in terms of the agreement instead of paying such a fee for the unused loan balance due to delays in obtaining the loan, should done through an efficient loan management. Sample tests conducted on foreign borrowings revealed the following cases, were not so.

  – An agreements had been reached on 17 September 2015 to obtain a loan of US $ 76 million from the Asian Development Bank (ADB) for the implementation of the Mahaweli Water Security Investment Programme on a 26-year repayment basis with a grace period of 05 years. It had agreed to pay a liability fee of 0.15 percent for the unused loan balance of the said loan. Even though obtaining of loans should be completed by 20 June 2020 according to the information submitted to the audit, only US $ 31,973,267 out of the loan had been utilized by 31 December 2020. Accordingly, 58 percent of the loan amount or US $ 44,026,733 had not been utilized. A total of Rs. 14.41 million had been paid in the month of June and

December 2020 as 0.15% liability fee.

- Agreements had been reached on 14 august 2015 to obtain a loan of Euro 56,580,214, with a grace period of 03 years and a repayment period of 13 years under a consent fee of 0.5% per annum for the unused balance of the loan, from the HCBC Bank under the Export Credit Facility to finance the cost of the project of establishing the Badalgama Milk Supply Center , similarly to obtain a loan of Euro 9,975,863 with a grace period of 02 years and a repayment period of 06 years. According to the information submitted to the audit, Euro 59,190,497 out of the above amount had been utilized as at 31 December 2020, and the unutilized value as at the same day was Euro 7,365,580. Accordingly, an annual consent fee of Rs. 7.89 million ,0.5 per cent of had been paid during the year under review for that unused value in terms of the gareement.
- A semi-annual fee of 0.03 per cent had to be paid per annum on the unused loan balance for the loan amounting to US $ 92,405,459 for the project to provide wastewater treatment facilities in Ratmalana / Moratuwa and Ja-Ela / Ekala areas. Rs. 3.15 million had been paid for it during the year under review.
- An agreement had been reached on 30 October 2015 to obtain a loan of US $ 6 million i.e. SAR 225,000,000 from the Saudi Fund for the rehabilitation of the A-5 road from Badulla to Chenkaladi on a 25-year repayment basis with a grace period of 05 years and on utilized and outstanding amount subject to a 2 per cent interest rate annually. Even though the total amount required for the loan was US $ 45 million in year 2015, 2016 and 2017, the borrowing had been commenced in year 2018. Further, even though the loan had to be obtained in full by the end of the year 2018, SAR 157,246,745 or about 70 percent out of it had to be received by 31 December 2020.

- In accordance with a policy decision taken by the Government of Sri Lanka, Project Agreement "Light Rail Transit Systems" No. 2019011 had been completed, and the following observations are made in this regard.
    - No decision had been reached on measures to be taken on amount of (¥)60,080,000, which had already been spent as the Front End Fee relevant to the project, by the end of

the year under review as the relevant loan agreement had been ended. The audit had been informed that this would be discussed at the time of repayment of the loan obtained.

- Similarly, the consulting firm had claimed US$ 31,364,767 including US$ 23,657,761 for damages and losses due to the termination of the Consultative Contract Agreement with effect from 31 December 2020 ,and the recovery rate was 75 percent compared to the total claim.
- Japan (¥) 2,905,525 or Rs. 4,886.23 million out of the relevant loan had been utilized as at 19 January 2021,and No agreement had been reached on how the repayment of the utilized amount would be made, due to the decision of terminating the loan agreement, by the end of the year under review also.
- it was reported that the future work of the project including the closure of the project office had not been completed by January 2021 also,and according to the files, information about an alternative project and the consulting services already obtained were planned to be used efficiently for another project in parallel with the completion of this project. No details in this regard had been submitted to the audit.

Supervision of state-owned enterprises

It was stated under 1.1 of Chapter 01 of the performance report of the Department of Public Enterprises in the year 2019 and the introduction 1.1 of Chapter 01 of the draft Performance report 2020 that there are 396 state-owned enterprises out of which 280 are monitored by the Department. However, according to the information provided by the department to audit, there are 417 government-owned enterprises out of which 300 institutions are monitored by the department. However, 118 of those 300 state-owned enterprises were monitoring by the end of the year under review. The audit inquired into the nature of the intervention of the Department of Public Enterprises regarding being at loss of 33 enterprises out of those 118 state-owned enterprises by the end of the year under review. Commenting on this, the Department of Public Enterprises stated that it will provide necessary advice and create awareness to those institutions. However, the audit had not confirmed that a relevant follow-up would take place. 18 entities out of the 118 business entities monitored by the Department had not submitted their financial statements relevant to the year under review ,and some institutes had not submitted financial statements for audit for several years.

According to the performance report for the year 2019,the updated guidelines on dividend policy, bonus policy, and updated guideline on good governance, which had been scheduled to complete during the first and second quarters of the year 2019, had not been completed by the end of the year 2020.

Similarly, even though this guideline had to be issued in year 2002 for initially seven (07) Sri Lanka public enterprises (Ceylon Electricity Board, Ceylon Petroleum Corporation, Co-operative Wholesale Establishment, National Water Supply and Drainage Board, Sri Lanka Ports Authority, State Pharmaceuticals Corporation of Sri Lanka, State Timber Corporation) and to control statutory boards such as Bank of Ceylon. Peoples Bank, National savings Bank, State Mortgage and Investment Bank, Securities and Exchange Commission of Sri Lanka and Sri Lanka Investment Board based on the approval of the Cabinet of Ministers relevant to replacement of the department, relevant updated guideline had not been issued by the Department of Public Enterprises By the end of the year under review also.

Even though a database for performance monitoring of public enterprises had been developed and planned for use, The audit had been informed by the Department of Public Enterprises that development of the required web page has been completed by now, and 49 companies have been selected to enter data for the initial phase, and entering the data of those institutions have been completed, and 72 business entities have been selected and data are being entered for the second phase. Accordingly, only 40 percent of data entry work of 121 institutions out of the 300 institutions monitored by the Department of Public Enterprises had been completed.

According to 17.2 of Chapter 07 of the Draft Performance Report 2020, Facilitating the publication of praise/accusations by providing information about the institute through its website or through alternative channels is referred to as "compliance". As mentioned above, the preparation of the database relevant to the Department of Public Enterprises had not been completed by the end of the year under review and such facilities had not been provided.

The profit income and dividend income of state commercial enterprises in the year 2019 were Rs. 22,833 million and Rs. 5,024 million respectively, and it had been decreased by 36 percent and 44 percent till Rs. 14,708 million and Rs. 2,855 million respectively during the year 2020. The financial statements contained details of 33 entities under Revenue Code 20:02:03 (Profit) and 43 Institutions under Revenue Code 20:02:04 (Dividend). According to the information submitted for the audit, the number of government commercial enterprises is 206. Accordingly, the revenue / profit / loss of more than 150 state-owned enterprises had not been taken into account, and no reasons had been given.

The sharp decline in the level of performance of state enterprises was confirmed by the decline in profit income and dividends. Domestic and treasury agents had been trained on ordinances and circular provisions involved in decision-making in state enterprises relevant to monitoring the performance of them. A training workshop was conducted for 100 Treasury representatives on 30 January 2020. A training workshop had been conducted for another 100 representatives during the month of February 2020 as its' second phase. After the two training workshops, no other training workshops had been conducted during the year 2020.

Even though it had been planned to review the corporate plans and action plans of government entities in relation to performance monitoring of those institutes, According to the information provided for the audit, submission of corporate plans and action plans out of the 300 state-owned enterprises was also at a very minimum level during the year 2020. The details are shown in table 16

	Actual number of institutions according to the information submitted to the audit,	Number of corporate plans received	Number of action plans received
Agriculture division	11	05	08
Services Division	58	14	18
Industry Division	31	14	12
Policy Division	18	06	06
Total	118	39	44

Table 16 - Corporate plans and action plans submitted by the state enterprises to the Department of Public Enterprises

One session had been held in the year 2020 for institutions in the field of agriculture in order to resolve the major issues in the state enterprises, other than plantations and two rounds of discussions had been held for some of the enterprises. No meeting had been held in 2020 to address serious issues such as high staff costs in policy sector businesses, poor governance in institutions, and problems with dealing with an unmotivated staff.

Controlling and monitoring of treasury imprests

The main function of the Treasury Operations Department was to open, authorize to maintain and monitor the Treasury imprest accounts.

The balance of the imprest account No. 7002-0-0-035 / 13 as at 31 December 2020 was Rs.91.53 million and it was made up of unpaid advances for the year 2013 and earlier. Rs. 51.98 million out of those advances was consisted of 173 secured deposits for housing provided to staff, went abroad for missionary service. Rs. 4.28 million of that value had been in existence for 20 years. Even though Rs. 44.28 million had been going on for a period of 10 to 20 years and Rs. 3.41 million had been going on for a period of 07 years, the department had failed to settle the advance by the end of the year under review.

It had been revealed that Rs. 47.95 million relevant to 165 deposits of the 173 home guarantees and securities deposits are security deposits kept by the Foreign Mission staff for unused housing by the end of the year under review.

The outstanding advance was Rs. 355.08 million out of the balance of Rs. 787.71 million in the imprest account No. 7002-0-0-035 / 20. Rs. 327.20 million of that value had been formed by unpaid advances of the Diplomatic Missions. Rs. 303.91 million out of these advances was deposits secured for housing provided to staff that went abroad for missionary service, and Rs. 20.46 million out of it had been in existence for a period of 10 years, and Rs. 49.11 million had been in existence for a period of 05 to 10 years. The value of 56 deposits out of these secured deposits kept for the non-resident houses of the Mission staff was Rs. 21.28 million.

The outstanding ad hoc interim imprest balance of missions was Rs. 23.29 million by 31 December 2020. The said balance consisted of Rs.9.17 million issued before the year 2018, Rs. 813,741 issued in 2018, and Rs. 3.91 million issued in the year 2019. Even though the advances were to be written off as soon as the task for which adhoc interim imprest had been issued in terms of the financial regulation 371, the foreign mission had not taken action to settle such advances.

Accounting of Government Borrowings and credit services

Even though accounting for Government Borrowings and Credit Services is a major function of the Department of Treasury Operations, the following loans have not been accounted in such manner.

- On 04 August 2017, Approval of the Cabinet of Ministers had been received for the Cabinet Memorandum no. MPS/SEC/2017/32 dated 20 July 2017 and titled "HambSota Port Concession Agreement" submitted by the Ministry of Ports and Shipping on 04 August 2017. Accordingly, the General Treasury had assumed the responsibility of repaying the outstanding balance of the loans taken by the Government for construction of the Hambantota Port with effect from the effective date of the concession agreement.. The debit balance of Rs. 164,602 million as at 31 December 2020 had not been accounted in the Government Financial Statements or in the

Financial Statements of the Sri Lanka Ports Authority.

- A total amount of Rs. 6,124 million with regard to 19 realized foreign loan agreements entered into in the year 2020 and to 5 foreign loan agreements entered into during or before 2019 had not been accounted as foreign debt as at 31 December 2020.
- A total debt balance of Rs. 1,336.52 million relevant to 03 foreign loan numbers which included in the CS-DRMS 2000 + Report 854 – 1report of the Department of External Resources had not been entered into accounts.

The total debt balances of Rs. 4,399.42 million relevant to two foreign loan items included in the state financial statement of the year 2020 exceed debt balances mentioned in the CS-DRMS 2000+ Report 854 – 1 report of the Department of External Resources.

Release of funds to Expenditure Institutions

Recurrent and capital expenditure of Rs. 2,804.65 billion and Rs. 1,913.51 billion respectively, totaling to an amount of Rs. 4,718.16 billion, had been approved by the Parliament for the year 2020. According to the information submitted to the audit, a total imprest limit of Rs. 2,166.70 billion, as the recurrent expenditure of Rs. 1,708.36 billion and the capital expenditure of Rs. 458.34 billion, had been imposed. Institutions had applied for a total imprest of Rs. 2,640.63 billion as Rs. 1,777.39 billion for recurrent expenditure and Rs. 863.23 billion as capital expenditure exceeding that amount However, the total imprest of Rs. 1,948.31 billion ,as Rs. 1,622.54 billion for recurrent expenditure, and Rs. 325.77 billion as capital expenditure, which is less than the minimum imprest limit, had been released to the institutes by the Treasury without releasing the full amount requested. Accordingly, imprests of totaling Rs. 692.31 billion comprising Rs. 154.86 billion or 8.71% of the imprest for recurrent expenditure out of the imprest requested by the institute and Rs. 537.46 billion or 62.26% for capital expenditure out of the imprest requested by the institute had been released by the Treasury Operations Department.

Issuing of treasury guarantees

Rs. 1,340,612.19 million of bank guarantee/ relief letters had been issued to external institutes by the Treasury Operations Department on 230 occasions by 31 December 2020 and they had been expired by 31 December 2020 and the period relevant to treasury guarantees, valued Rs. 880 million, had not been extended.

Relief letters issued on behalf of the Mihin Lanka Company

4 relief letters for Peoples Bank and Bank of Ceylon as two relief letters for each bank valued US $ 2.5 million and one relief letter of Rs. 1,650 million had been issued for Mihin Lanka Airlines. The loan due had been expired on 31 March 2016, and relief letters had been issued extending the loan repayment

period. A period of one year since 31 December 2021 or the period until liquidation is completed, or whichever the earlier date had been given as the period for extension of the last day.

Even though the operations of the Mihin Lanka Company had been terminated from October 2016, Liquditation of the company had been commenced 09 March 2018. Accordingly, even though it had been pointed out under Cabinet Memorandum No. 18/1001/810/005 that the liquidation process should be completed within 06 months and extensions beyond that should not be approved, the liquidation had not been completed by the end of the year under review.

An interest of Rs. 831.40 million relevant to the loan of Rs. 1,650 million obtained from the Bank of Ceylon had been paid from 31 December 2020 to 30 October 2020, and Rs. 1,650 million borrowed from the Bank of Ceylon had to be repaid further.

According to the information submitted for audit, Peoples Bank informed the General Treasury that the tax value of Rs. 1 billion approved by the People's Bank for the year 2020, interest of Rs. 909.10 million issued for Mihin Lanka relevant to the relief letter of Rs. 1.650 million and Capital of Rs. 90.90 million had been used for settlement. Accordingly, that settlement had been adjusted to the accounts by a transfer form on 31 December 2020.

Agriculture

Observations

- **Implementation of Fertilizer Subsidy Programme**
- **Issuance of Imported Fertilizer Stocks to the Field Before Verifying Compliance with National Standards**
- **Subjecting Samples of Imported Fertilizer Stocks to Laboratory Tests**
- **Imported Fertilizers Not Conform to the Parameters**
- **Granting trade approval for a quality failed stock of fertilizer**
- **Encouraging Organic Farming**
- **Minor Irrigation Rehabilitation Project**
- **Pump and Drip Water Technology Project**
- **Unsettled Loan Balances**
- Sara Lanka Loan Project
- **Removal of Soil from Tanks and Sale to Expressway Projects**
- **Stock Misplacement**
- **Reinsurance Agreement**

- **Establishment of Agriculture Information System**
- **Index Based Insurance Scheme**
- **Fisheries Pension and Social Security Benefit Scheme**
- **Farmers' Pension and Social Security Scheme**
- **Updating the Bio-data Information System**
- **Payment of Allowances Without Formal Approval**
- **Unused Estates**

Agriculture

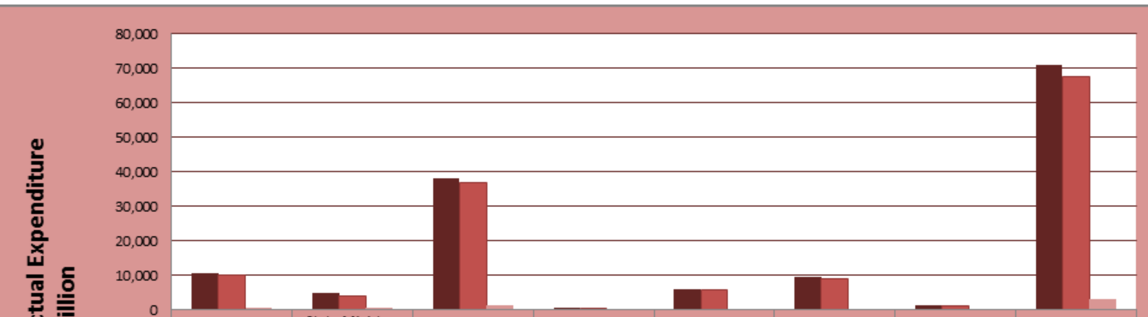
Establishment of an efficient, effective and powerful agricultural sector for food security and national prosperity through the realization of sustainable management of natural resources and entrepreneurial agriculture that would create a globally competitive product with a socially recognized commercial trend had been recognized as the main objective of this sector. In order to achieve the above objective, the Ministry of Agriculture, 03 State Ministries, 03 Departments and 14 Statutory Institutions had to perform the following functions:

- Broadening agro-technical knowhow so as to suit each target group to direct traditional farmers, youth and student community to educational opportunities with modern technology.
- Encouraging the building up of young agricultural entrepreneurs.
- Formation and implementation of an approach with a mechanism that integrates all relevant institutions for the enhancement of agriculture.
- Development of a methodology for the regulation of chemical pesticides and other chemical compounds used in agriculture according to a specific standard.
- Expansion of financial resources, crop insurance schemes and farmer retirement schemes as required for agricultural activities.
- Ensuring higher prices for farmers' productions by strengthening logistics chain between direct producers, processing companies, wholesale establishments and export companies.
- Implementation of a new strategic plan for product marketing facilities
- Planned interventions of the Government at harvest time to regulating the revenue decline of the producers.
- Minimization of natural disasters by communicating daily information on climate change and weather to the farming community.
- Implementation of strategy to provide quality seeds and plants to the farming community
- Implementation of water management ensuring water supply according to the cultivation needs of the farmers.
- Conduct of researches and encouraging medium scale farm development in order to introduce livestock to suit different geographical areas.
- Promoting livestock based production and encouraging their exports.
- Introduction of high quality grasses through the National Livestock Board.
- Providing necessary land and investment facilities in coordination with relevant institutions for the construction of medium and large scale cattle farms.
- Setting the programmes in motion to make maximum use of government animal farms.

- Expansion of poultry meat and egg production and encouragement of their export.
- Broadening local production and consumption opportunities by promoting small and medium scale producers.
- Introduction of international standards and effective monitoring systems for animal farms and production facilities.
- Facilitating small and medium scale farmers by expanding veterinary facilities.
- Implementation of a fair price policy and crop diversification programme in collaboration with the relevant institutions to the satisfaction of the local farmer and consumer.
- Implementation of programmes to encourage the use of organic fertilizers and non-toxic food production.
- Implementation of home gardening programme of Samurdhi and low income families to expand consumption of organic vegetables and fruits at domestic level.
- Increasing the production of crops such as dried chillies, maize, soya, green gram and cowpea, onions and potatoes and thereby minimizing the import of such products.
- Implementation of a programme to facilitate exports by storing surplus products and by value auditioning.
- Improvement of agricultural harvest collecting and processing centers for value added agricultural production and their export.
- Implementation of programmes for the promotion of vegetable and fruit related export manufacturing industries.
- Introduction of a local seed policy for the production of seed of international quality.
- Regulating the import of seeds within the standard certificates accepted by the Sri Lanka Standards Institution to ensure the quality of the imported seeds.
- Encouragement of the private sector to produce quality seeds and planting materials.
- Introduction of high-yielding seedlings with unique germination quality and resistance to diseases and climate change.
- Development of Government farms and seed production farms.
- Conducting comprehensive studies at regional level on ground water preparation, soil preparation, seed and plant selection, fertilizer application, pre- and post-harvest under new technological methods and making farmers aware of it.
- Directing towards the market value added industrial products by way of knowledge, technical equipment, land use, financial contribution required to move towards a technological agriculture.
- Implementing a programme in collaboration with the public and private sectors using new technologies to prevent wastage during harvesting, transportation and unloading.

- Maximizing the economic benefits of water consumption by introducing methods that increase
- yields through the use of water conservation.
- Formulation of methodologies for introduction of technical cultivation methods for major crops including paddy, grains, pepper, cloves, cocoa as well as vegetables, fruits and home gardens and for timely distribution of high quality seeds, plants and fertilizers.
- Production of organic fertilizers in accordance with international standards using local raw materials and encouraging the production of high quality fertilizers in the country.

A sum of Rs. 70,935 million had been made available by Parliament in the year 2020 to execute the above mentioned functions to the Ministry of Agriculture, 03 State Ministries and 03 Departments functioning thereunder and only Rs, 67,764 million of that provision had been utilized by the end of the year under review. Details are shown in Diagram 21



	Ministry of Agriculture	State Ministry of Paddy and Grains, Oganic Food, Vegetables, Fruits, Chilies, Onion and Potato Cultivation Promotion, Seed Production and Advanced Technology Agriculture	State Ministry of Production and Supply of Fertilizer and Regulation of Chimical Fertilizer and Insecticide Use	State Ministry of Livestock,Farm Promotion and Daily and Egg Related Industries	Department of Agriculture	Department of Agrarian Development	Department of Animal Production and Health	Total
Provision Rs.Million	10,665	4,805	38,210	520	5,946	9,536	1,253	70,935
Expenditure Rs.Milion	10,108	4,165	36,838	515	5,814	9,226	1,098	67,764
Sarvings Rs.Milion	557	640	1,372	5	132	310	155	3,171

Diagram 21 Estimated and Actual Expenditure
Source – Financial Statements, 2020.

The observations made during the course of audit on the performance of the above functions assigned to the statutory bodies representing the agricultural sector are summarized as follows.

Implementation of Fertilizer Subsidy Programme

In accordance with the decision of the Cabinet of Ministers dated 04 April 2018, all stocks of fertilizer (imported fertilizer owned by state and private companies) as at 06 April 2018 should have been formally verified with the full intervention of the Ministry of

Agriculture

Agriculture. Nevertheless, a formal fertilizer stock verification had not been carried out with the participation of officials from the Department of Agriculture or the National Fertilizer Secretariat. On the basis of a stock certificate obtained by the private chartered accountant firms for the stocks of fertilizers owned by each fertilizer company, the National Fertilizer Secretariat had taken action to calculate the stocks of fertilizers owned by private companies which should be subsidized.Analysis of the stock verification certificates issued by the Chartered Accountants' firms for stock verification had not confirmed accurate and formal stock verification due to the methods used by those firms and the limitations faced by the firms in the stock verification as well as due to not specifically establishing the stock values in those verification reports.The National Fertilizer Secretariat had taken action to pay fertilizer subsidy Rs. 4,084.68 million for initial stocksof 156,272.5 metric tons of fertilizer relating to 04 types of fertilizers to 11 fertilizer importing companies, taking into account the stock quantities given by the fertilizer companies as the available stocks on 06 April 2018, when the fertilizer subsidy had come into effect without verifying the correct stock quantity through a formal stock verification.

As per the Cabinet Memorandum VI, Recommendations (c) of the Ministry of Finance and Decisions I (2) of the Cabinet of Ministers, the Ministry of Agriculture had appointed a Pricing Committee comprising a representative of the General Treasury.The market value of each type of fertilizer should be determined using a price formula prepared on the recommendation of the Pricing Committee and subsidies should be paid to the importing companies based on that value.Without the use of such a common pricing formula, the subsidy had been paid using different prices for the stocks available by the imported companies as on the date of operation the subsidy scheme.As a result, the fertilizer subsidy of Rs. 959.23 million had been overpaid to the relevant companies for the initial stock. The Pricing Committee should have determined the prices in a manner that would be fair to both parties as well as protect the rights of the government to the least disadvantage of the government.However, fertilizer companies had imported fertilizer on 253 occasions during the last quarter of 2019 and the first two quarters of 2020 which were subject to audit test check.In 213 of those cases, the invoice price remained less than the price set by the Pricing Committee.However, due to the action taken by the National Fertilizer Secretariat to make payments for the above stocks imported at a lower price at the price determined by the Pricing Committee, an overpayment of US $ 2,466,355.4 (approximately Rs. 456.27 million) had been made.

Issuance of Imported Fertilizer Stocks to the Field Before Verifying Compliance with National Standards

As per the circular of the Director of the National Fertilizer Secretariat No. 4/5/6 Quality dated 26 June 2009, the fertilizer stocks imported by companies with the approval of the National Fertilizer Secretariat had to be stored safely in warehouses of the companies under the supervision of the National Fertilizer Secretariat until the trade approval is granted after laboratory tests confirm that the stocks of fertilizers imported by the companies are in compliance with the national standards. However, the 9 auditedcompanies that had imported the fertilizes had issued 43,761 metric tons of fertilizer of 05 types directly to farmers by 31 January 2020 without the approval of the National Fertilizer Secretariat and before conducting laboratory tests or obtaining approval for their sales.

Subjecting Samples of Imported Fertilizer Stocks to Laboratory Tests

After being referred one of the three samples obtained by the National Fertilizer Secretariat from a stock of fertilizer to a randomly selected laboratory, if the laboratory result is in accordance with the national parameters, the trade approval is granted based on that result and taking into account the fact that the laboratory test has been accurately done and the fertilizer stock has met the required criteria. However, in the event that another sample provided to the above laboratory for testing had not met the required criteria, it will be referred to another laboratory for testing without taking action on the results of that laboratory report.Accordingly, the reasons for relying on the said laboratory and its results when the result of the laboratory test conforms to the national parameters and the reasons for not relying on that laboratory test report and its results in cases where the result does not conform to the national parameters, were not clear at the audit.

Imported Fertilizers Not Conform to the Parameters

There were considerable differences in laboratory tests conducted on 6,500 metric tons of TSP imported by one fertilizer company on 12 occasions. Although the lead percentage contained therein was not conform to the approved parameters, trade approval had been granted for the stock.

For the stocks of 2,860 metric tons of fertilizer that had been imported on 05 occasions, three sample tests had been separately conducted for each of the consignment thus imported. Trade approval for those stocks had not been granted even as at 31 December 2020 due to non-compliance of the results of those sample tests with the national parameters. However, the fertilizer company had taken steps to release the stock of fertilizer to the field without the approval of the National Fertilizer Secretariat. In response to a request made by the Director of the National Fertilizer Secretariat to the Fertilizer

Advisory Committee to make recommendations regarding the stock of fertilizer, the Director General of Agriculture, who was the Chairman of the Committee, had instructed not to release that stock of fertilizer to the market.Nevertheless, the National Fertilizer Secretariat had neglected its responsibility to prevent the stock of fertilizer from being released to the market and to dispose of the stock of fertilizer as per the above recommendation. However, the above fertilizer company had forwarded files to the National Fertilizer Secretariat seeking a fertilizer subsidy of Rs. 179.44 million for the aforesaid stock of fertilizer which had been issued to farmers despite their inappropriateness for use.

Granting trade approval for a quality failed stock of fertilizer

The audit test checks revealed instances, where trade approval had been given for quality failed fertilizer stocks by misplacing accurate laboratory test reports and including fake laboratory reports instead.

Relating to 26 files maintained by the National Fertilizer Secretariat elevenfertilizer companies had imported 15,415.95 metric tons of TSP, 4,611 metric tons of MOP, 1,036 metric tons of Urea, 783 metric tons of SA, 367.5 metric tons of Keisarite, 150 metric tons of NPKand 270 metric tons of SES on 34 occasions. While removing the correct sample test reports thereon and from the files and preparing and incorporating fake laboratory test reports into the file, stocks of fertilizers unfit for use in the field had been released to the market in accordance with national standards. As a result, the government had incurred a loss due to fraudulently paying Rs. 1,072.76 million in fertilizer subsidies to fertilizer importing companies.

Encouraging Organic Farming

With the objective of cultivating 10,000 acres of paddy lands using toxic-free traditional paddy varieties and obtaining a yield of 18,000,000 kg of paddy, a sum of Rs.82.6 million had been granted to the Rajanganaya Left Bank Agrarian Services Center in the year 2020. Only 3152 acres had been cultivated under the project and due to the purchase of more seed paddy than the cultivated paddy lands a fruitless payment of Rs. 3.3 million had been made for 57,865 kilos of seed paddy.Provision of Rs. 13 million had been made for this project and the total harvest was 1,974,350 kilos. As a result, effective outcome had not been achieved from the project.

Minor Irrigation Rehabilitation Project

Under the World Food Program, 26 minor irrigation rehabilitation projects were proposed to be completed by the Department of Agrarian Development during the year 2020.Out of these projects, 17 projects with an allocation of Rs. 17.5 million had not been completed and handed over to the farmers' organizations as expected even by 31 March 2021.

Pump and Drip Water Technology Project

In order for the farmers in the dry zone of Sri Lanka to carry out their cultivations with minimal water during the dry season and as a solution to the current energy crisis, the Department of External Resources provided Rs. 2,327.2 million to the Ministry of Agriculture during the years 2005-2008 for the use of solar powered water pumps and drip irrigation technology. Out of these provisions, the Agrarian Services Department had provided 7,231 solar powered micro water systems to 19 Agrarian Service Centers. Although all payments for these systems should have been settled by the end of 2018, according to the letter dated 03 July 2020 addressed to the Commissioner General of the Department of Agrarian Development by the Director General of the Treasury Operations Department, Rs. 2,264.7 million remained recoverable by the end of the year under review.Ninety percent of the systems provided had been misplaced, disused, defunct and information of the farmer could not be found. Accordingly, it was observed during the audit test check that the expected objectives of the project had not been achieved.

Unsettled Loan Balances

For the cultivation of maize in the years 2015/16 and 2019/20, the Anuradhapura District Office had provided loans of Rs.80.7 million and Rs.46.2 million to 5386 farmers and 4200 farmers respectively using the provisions of the Farmers' Trust Fund on the basis of settling the loan in 06 months. However, a sum of Rs. Rs. 25.9 million and Rs. 1.8 million respectively remained recoverable as at 31 December 2020.

Sara Lanka Loan Project

Under the Sara Lanka Loan Project, loans of Rs. 14.8 million had been granted to 33 farmers in the Anuradhapura, Kurunegala, Puttalam, Colombo and NuwaraEliya District Offices. Of those loans, a sum of Rs. 11.2 million remained recoverable as at 31 December 2020 and the progress of the loan recovery was very poor. Although the intended purpose of project was to promote organic fertilizer production, 36 out of 286 farmers who had been provided loans had not implemented the project by the year 2020.The amount of fertilizer produced by 27 farmers per month had been less than 400 kg.

Removal of Soil from Tanks and Sale to Expressway Projects

The Sri Lanka National Freedom From Hunger Campaign Board had removed soil from tanks in 2017 and 2018 which was not an intended objective under the Sri Lanka National Freedom From Hunger Campaign Law No. 15 of 1973 and sold it to expressways. A sum of Rs.3.3million had been spent on soil removal and income of Rs. 81.1 million had been earned from the sale of soil to expressways.According to the report of the tank project, the Board should have obtained funds from the relevant farmers' organizations for the soil provided and used such money to develop the small tanks to the proper standard under the engineering guidance of the Department of Agrarian Development, with the government allocations. Nevertheless, without being taken action accordingly, a sum of Rs. 77.7 million out of the proceeds had been invested in a fixed deposit account.

Stock Misplacement

A stock of 37,223 kilograms of soybeans worth Rs. 4 million in the Anuradhapura Upuldeniya warehouse of the Sri Lanka National Freedom From Hunger Campaign Board had been misplaced in 2018. Nevertheless, no action had been taken to conduct investigations on that matter and recover the losses from the responsible parties even as at 31 December 2020.

Reinsurance Agreement

In accordance with the reinsurance agreement reached by the Agriculture and Agrarian Insurance Board with the Insurance Trust Fund, an arrears of Rs. 312 million had to be obtained from the Insurance Trust Fund for the first payment of Rs. 10,000 out of the total possible compensation value per farmer for the 2019 Yala season.Instead of recovering the arrears, only Rs. 148.3 million had been obtained by cancelling the agreements in the year 2020, thus incurring a loss of Rs.163.6 million to the Board.

Establishment of Agriculture Information System

The Agriculture and Agrarian Insurance Board lacked a complete information system including agricultural information. Therefore, the Ministry had allocated provision of Rs. 10 million providedto develop a software and mobile application containing agricultural data. As at 31 December 2020, the Board had spent Rs. 5 million to develop the above application and partially created the application.This application, which has been designed to be used only by the authorized officers, has partially completed the mapping of agricultural lands in the Gampaha and Hambantota districts. Due to the lack of internet facilities IT equipment etc. in other district offices, it had not been operated therein even by 31 December 2020. Awareness meetings related to the 2020/21 Maha season had been conducted only in the Hambantota and Anuradhapura districts. Accordingly, this function of national importance had not been executed at the expected level

Index Based Insurance Scheme

Obtaining meteorological data to determine the value of crop damage for the index based insurance scheme had been the foremost function of the Agricultural Agrarian Insurance Board As at 31 December 2020, the International Monetary Fund had paid Rs. 1.72 million to the Board to obtain meteorological data relating to the planned districts from 1980 to 2019.Although these data had been obtained from several districts, the index-based compensation calculation had been limited to Vavuniya, Hambantota and Gampaha districts even by the end of the year under review.Since the rain gauges in the above planned districts cover only the smallest radii associated with the data collected and although it was planned to install rain gauges as standardized under the Meteorological Department, they were installed in only three places in the Vavuniya District, the project works had not been successfully executed.

Fisheries Pension and Social Security Benefit Scheme

The Fisheries Pension and Social Security Benefit Scheme was established with the intention of fulfilling the objectives of providing social security to the fishermen in old age or disability, providing relief to the dependents of the fisherman in the event of death of the fisherman, encouraging the fishermen to continue their livelihood, directing the youth to the fishing industry, inculcating the habit of saving among the fishermen and improving thriftiness.The pension liability of the scheme amounted to Rs. 4,261.4 million by the end of the year under review and it was an increase of 8.83 per cent over the previous year.Similarly, the negative level of the accumulated fund had gone up to Rs. 3,675.9 million, that is, an increase of 11.76 per cent over the previous year and it had adversely affected the going concern of the scheme.Further, as this situation is likely to worsen in the coming years, the institute had not taken steps to restructure the scheme and implement it with financial viability by 31December 2020 taking into account the above situation. A contributor is entitled to a pension from the date of completion of 60 years of age but the scheme had been paid the pension from the date of preparation of the pension and the arrears of pension had not been paid.Accordingly, action had not been taken to pay arrears of Rs. 4.8 million to 176 fishermen who applied for pensions between January 2009 and December even by the end of the year under review.

Farmers' Pension and Social Security Scheme

The net assets of this pension scheme was a negative balance of Rs. 78,198.5 million by the end of the year under review and the current liabilities had exceeded the current assets by Rs. 5,028 million. Further, although the payment of pensions was made from 01 January 2014 according to the directions of the Farmers' Pension and Social Security Benefit Scheme published by the Extraordinary Gazette Notification No. 1853/49 dated 14 March 2014, the recovery of contributions had been done in the manner published by Gazette Notification 452 / 45 of 07 May 1987. Accordingly, the farmer contribution in 2019 and 2020 was Rs. 21.5 million and Rs. 19.3 million respectively while the pension payments were Rs. 3,217.3 million and Rs. 4,502.5 million respectively.The Treasury had provided Rs. 3,065 million and Rs. 4,450.9 million in 2019 and 2020 respectively due to the increase in pension payments and the scheme was likely to be impossible to continue without the contribution of the Treasury. Similarly, under this scheme, the pensions of the members should be paid from the date of completion of 60 years of age, but the payment was made not from the date of payment of the pension but from the date of preparation of the pension. Although provision has been made for arrears of pensions to be paid during that period, no action had been taken to pay arrears of pensions totaling Rs. 3,745.9 million for 125,828 farmers for the relevant 8 years from 2012 to 31 December 2020.

Updating the Bio-data Information System

With the aim of updating the system by including the bio-data information of the farmers who have been included in the new pension scheme which has been in operation since January 2014, surveys had been conducted in only 08 districts at a cost of Rs. 1.7 million.As the Board had not taken measures to conduct surveys in other districts and update the database, the cost spent thereon had become fruitless. The entry of bio-date information of farmer contributors to the new pension scheme had been discontinued during the last period of the year 2020.

Payment of Allowances Without Formal Approval

The staff required for the Janatha Estate Development Board had been approved by the letter of the Department of Management Services dated 03 August 2011.Officers had been recruited on a contract basis for six posts not included in that approved cadre and total of Rs. 7.8 million had been paid as salaries and allowances of those officers only in the years 2018 and 2019.

Unused Estates

The total area of land belonging to 16 tea estates controlled by the Janatha Estate Development Board was 10,165 hectares by the end of the year under review as stated in the document prepared by the Board (Hectarage Statement 2019). According to that document, only an extent of 4,895.79 hectares of land had been used for tea and other crop cultivations.When allocating 1,214 hectares of land for buildings, 4,055.21 hectares had not been used for tea cultivation.It is about 39.89 per cent of the total land area and the Board had not planned to use this area for tea cultivation.According to the statement (Hectarage Statement 2019) prepared by the Board relating to the area under rubber cultivation, the Board has 2,177 hectares for rubber cultivation but only 742 hectares had been used for rubber cultivation and 26 hectares for other crops. Accordingly, 1,409 hectares of land area had not been used for rubber plantations.Accordingly, 64.7 percent of the total land area had not been used for rubber cultivation and the Board had not planned to use that area for rubber cultivation.

Giving Estates on Lease

The Janatha Estate Development Board had started rubber cultivation on a 15 hectare land in the Paravila Division of the Kumarawatta Estate in Moneragala in the year 2015. A sum of Rs. 8.3 million had been spent thereon from the year 2015 to October 2019. The Board had leased that land for thirty years. According to the agreement between the board and the lessee, a sum of Rs..11.4 million had been expected as the lease rent for the period of 30 years. Accordingly, the Board had not taken measures to enter into an agreement to obtain benefits in commensurate with the expenditure incurred on the relevant cultivation by leasing this land.

Fisheries and Aquatic Resources Development

Observations

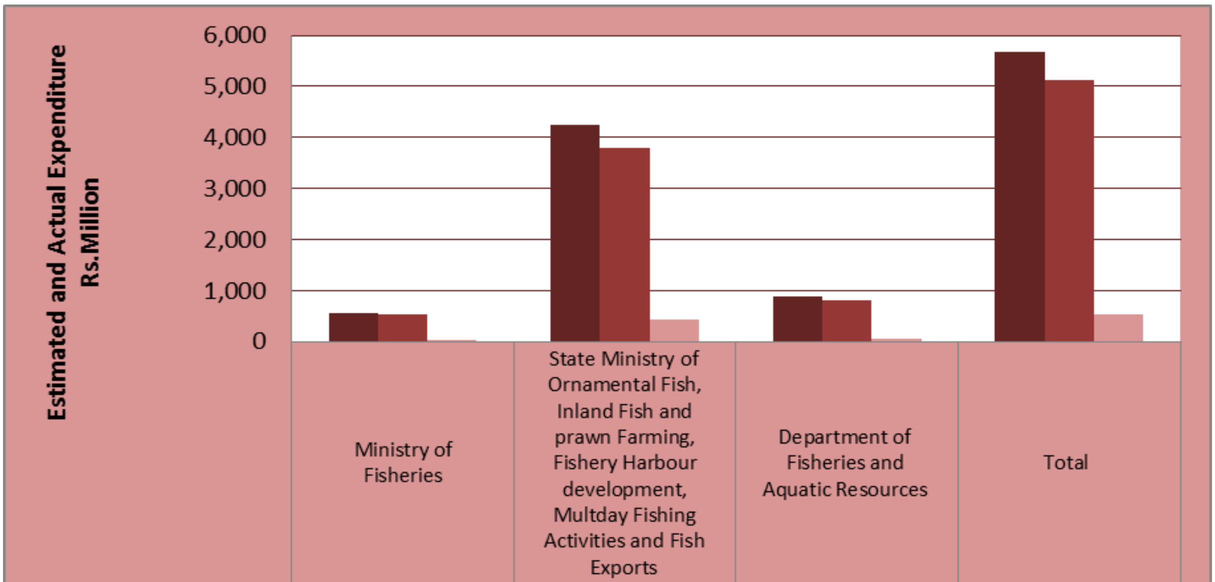
- **Empowering the Fisher Folks**
- **Quarantine of Shrimp and Sea Leech Village**
- **Enhancing the Fish Seed Production**
- **Coastal Conservation and Management of Resources**
- **Printing of the Newspaper, *Oruwella***
- **Outstanding Revenue**
- **Fees for the Registration of Multiday Fishing Trawlers**
- **Implementation of Projects**
- **Identified Losses**
- **Failure to Increase the Revenue**
- **Idle Assets**
- **Failure to Complete the Works of the Trawlers**

Fisheries and Aquatic Resources Development

The objectives expected from this sector included : to ensure nutritional enrichment of the people through increased consumption of fish; to earn higher foreign exchange; and uplift the livelihood of fisher folks by increasing the employment opportunities in the fishing industry. In order to achieve those objectives, the following functions should have been performed by the Ministry of Fisheries, State Ministry of Ornamental Fish, Fish water Fish and Shrimp Farming Development, Multi-day Fishing and Fish Export, and the Department of Fisheries and Aquatic Resources, along with 06 statutory Boards/ institutions.

- To introduce a scientific methodology for an increased fish population.
- Renovation of fishery harbors and construction of new fishery harbors upon requirements.
- To provide opportunities for the local companies in order to increase fishing in the international waters.
- To encourage private companies and investors to promote canned fish industry.
- To uplift sales ensuring fairness for both the manufacturer and the consumer.
- To eliminate unauthorized fishing off the Northern and Eastern seas; strengthen the naval and coastal guard units, and resolution of conflicts with India.
- To introduce an effective banking and insurance scheme for fisher folks.
- To implement technical and management training programs for the youth studying at the Ocean University.
- To enhance the welfare activities of the fisher folks.
- To facilitate the ornamental fish industry targeting the export market.
- To formulate strategies for promoting fresh water fish farming in tanks, backwaters, and lands.
- To improve fisher harbors for ensuring efficiency of the operations of the large scales trawlers.
- To encourage the use of solar power, and develop the refrigeration systems of multiday fishing trawlers by using sea water.
- To improve all the fishery harbors and anchorages with modern communication facilities, refrigeration facilities, supply of fuel and sanitary faculties.
- To implement programs in combination with fishermen's associations and National Aquaculture Development Authority with a view to increasing the breeding of sea and freshwater fish.
- To take measures for an enhanced fish harvest through environmentally-friendly and state-of-the-art technology.
- To improve the vocational training and knowledge of the fisher folks and those involved in the industry.

The Ministry of Fisheries, the State Ministry, and the Department had been provided with provision totaling Rs. 5,668 million by Parliament in the year 2020 for implementing those functions, and only a sum of Rs. 531 million had been utilized therefrom by the end of the year under review. Particulars are given in Figure 22 below.



	Ministry of Fisheries	State Ministry of Ornamental Fish, Inland Fish and prawn Farming, Fishery Harbour development, Multday Fishing Activities and Fish Exports	Department of Fisheries and Aquatic Resources	Total
Provision Rs.Million	556	4,235	877	5,668
Expenditure Rs.Million	526	3,793	818	5,137
Servings Rs.Million	30	442	59	531

Figure 22: Estimated and actual expenditure.
Source : Annual financial statements.

A summary of audit observations made in the audit test check conducted on the discharge of above functions by the Ministry of Fisheries, the State Ministry, the Department, and the Statutory Institutions, is shown below.

Empowering the Fisher Folks

Provision amounting to Rs. 23.87 million had been made for the year 2020 to empower the fisher folks, and a sum of Rs. 23.79 million therefrom had been utilized by 31 December 2020. Of that, a sum of Rs. 22.29 million had been spent for settling the bills of the preceding year whereas only a sum of Rs. 1.5 million had been spent for empowering the fisher folks in the year under review.

Quarantine of Shrimp and Sea Leech Village

The National Aquaculture Development Authority of Sri Lanka expected through the Action Plan for the year 2020 to facilitate quarantine of shrimps (preliminary activities) and conduct surveys for the sea leeches village, thus allocating provision amounting to Rs. 2.7 million. Those provision had not been made use of even by 31 December 2020.

Enhancing the Fish Seed Production

In order to enhance the production of fish seed, a sum of Rs. 31.96 million out of the provision amounting to Rs. 33.63 made for the Ministry of Fisheries relating to the National Food Production Programme (53-2506) in the year 2020, had been provided for the National Aquaculture Development Authority. No follow-up action had been taken as to whether the targets set on the production of fish, seed had been achieved.

Coastal Conservation and Management of Resources

Provision amounting to Rs. 44.5 million had been allocated to the Ministry relating to the constructions under the programme for conservation of coast and management of resources in the year 2020. In accordance with the Action Plan for the year 2020, the National Aquaculture Development Authority of Sri Lanka had utilized a sum of Rs. 27.29 million from that provision in the year under review with respect to the activities such as, construction of breeding centers for sea leeches in Mannar district, construction of breeding centers for ornamental fish in Puttalam district, and improvement of breeding centers for freshwater shrimps in Pambala. The financial progress of those constructions remained 61 per cent whilst information on the output of the project had not been mentioned in the progress report, and no follow-up action had been taken in that connection as well.

Printing of the Newspaper, Oruwella

A sum of Rs. 7.29 million had been paid in the year 2020 for printing the *Oruwella* tabloid that had been presented by the Ministry to be published in *Dinamina* and *Thinakaran* newspapers. Although such tabloids had been printed over several years with payments made, no information was revealed as to whether an operating review had been made or follow up action had been taken with respect to the objectives of publishing that tabloid and the targets achieved.

Outstanding Revenue

A revenue of Rs. 4.44 million remained outstanding as at 31 December 2020 in accordance with the financial statements of the Department of Fisheries and Aquatic Resources for the year 2020. Performance in the collection of outstanding revenue remained poor.

Fees for the Registration of Multiday Fishing Trawlers

A number of 988 multiday fishing trawlers had been registered for the year 2020. As for the trawlers in the lengths of 13.5-15 meters, 15-24 meters, and over 24 meters, registration fees amounting to Rs. 5,000, Rs. 50,000, and Rs. 500,000 were charged respectively. Accordingly, the revenue earned through the registration of multiday fishing trawlers should have been Rs. 25.51 million for the year under review, but that amount was Rs. 23.01 million as per the registers maintained by the financial division. Accordingly, a difference of Rs. 2.50 million was revealed though, the management of the Department of Fisheries and Aquatic Resources did not draw their attention thereon.

Licenses for fishing had not been obtained by 17 multiday fishing trawlers in length of over 13.5 meters, and one of those trawlers had not obtained the operating license for several years. A methodology had not been put in place through the district fisheries offices to determine as to whether those multiday fishing trawlers were involved in fishing activities, and the reasons for failing to obtain the licenses.

Implementation of Projects

A sum of Rs. 260.1 million equivalent to 97 per cent of the provision made for the State Ministry of Ornamental Fish, Fish water Fish and Shrimp Farming Development, Multi-day Fishing and Fish Export, had been spent on 05 development projects implemented by the National Aquaculture Development Authority (NAQDA). The State Ministry had not taken follow up action on those funds being utilized on the intended purposes. In addition to the said provision, a sum of Rs. 204.0 million had been granted in the year under review to the National Aquaculture Development Authority by the State Ministry as capital provision. According to the progress report presented, a sum of Rs. 196.2 million therefrom had been spent on 29 projects. Information relating to the activities executed through those projects and the beneficiaries, had not been made available. No follow up action had also been taken relating to the utilization of those provision on the development activities.

Identified Losses

Following the requests made by the buyers, the Cey-Nor Foundation Ltd had taken action to manufacture and supply a boat ambulance, a ferry and fishing gear during the period 2015-2018 without entering into any agreement. A loss totaling Rs. 25.03 million had been identified in the wake of those buyers refusing to accept those items. Action had not been taken even by 31 December 2020 to identify the parties responsible and recover the loss.

Failure to Increase the Revenue

The actual production and revenue of the Cey-Nor Foundation Ltd for the year under review lagged behind the budget whilst the production cost, administrative expenses and other expenses had increased by 107 per cent, 13.35 per cent and 473 per cent respectively whereas the expenditure on sales and distribution had decreased by 16.7 per cent. No measures had been taken by the management to control the increase of expenses thereby failing to increase the revenue.

Idle Assets

A lathe machine purchased by the Cey-Nor Foundation Ltd on 01 January 2009 at a cost of Rs. 0.94 million could not be made use of at its maximum capacity due to lack of staff. A similar machine, having been purchased in the year 2012 by spending a sum of Rs. 1.66 million, had been kept idle without being made use of, but no action whatsoever had been taken over a period of 10 years against the officers responsible therefor.

- A Gelcoat Spraygun purchased by the Cey-Nor Foundation Ltd on 20 August 2020 at an expenditure of Rs. 5.4 million, remained idle for over 07 years without being made use of.
- A Plasma Cutter purchased by the Cey-Nor Foundation Ltd on 05 March 2013 at an expenditure of Rs. 4.2 million, remained idle and unprotected for over 06 years without being made use of.
- The Cey-Nor Foundation Ltd had prepared a procedural manual through a private institution in the year 2016 by paying a sum of Rs. 0.32 million , and due to failure in obtaining approval thereon even after 04 years, the manual could not be made use of.

Failure to Complete the Works of the Trawlers

- The Cey-Nor Foundation Ltd had made a payment of Rs. 3.3 million in favor of the trawler bearing the number IMUL-A-0061-KMN in excess of the amount that should have been paid in terms of the agreement. Although a payment of Rs. 0.6 million had been made for the generator of the trawler, that generator had not been installed in the trawler even by 31 December 2020. According to Condition, No. 02 of the agreement, the trawler should have been completed and handed over to the beneficiary on or before 15 December 2016, but only the hull of the trawler had been designed even after a delay of 03 years indicating 18 per cent of the overall value of the works. Furthermore, no action had been taken to formally extend the contract period.
- The manufacturing process of the last one of the five multiday fishing trawlers in length of 55 feet commenced by the Cey-Nor Foundation Ltd in the year 2017 under assistance from the Ministry of Fisheries, had not been completed even by 31 December 2020.
- The manufacturing process of the trawler commenced by the Cey-Nor Foundation Ltd in the year 2017 for Mauritius, had not been completed even by 31 December 2020.

Industrial Sector

Observations

- **Industrial Estates**
- **Nanwamu Lanka' National Programme**
- **Centre of Excellence in Robotic *Applications* (CERA)**
- **Industrial Estates**
- **Sale of scrap metal**
- **Idle Assets**
- **Sale of Mineral Sands**
- **Mineral Sand Mining**
- **Not Starting Up Factories**
- **Leasing theLimestone Deposit**
- **Not Investingthe property productively**
- **Non-collection of rent**

Industrial Sector

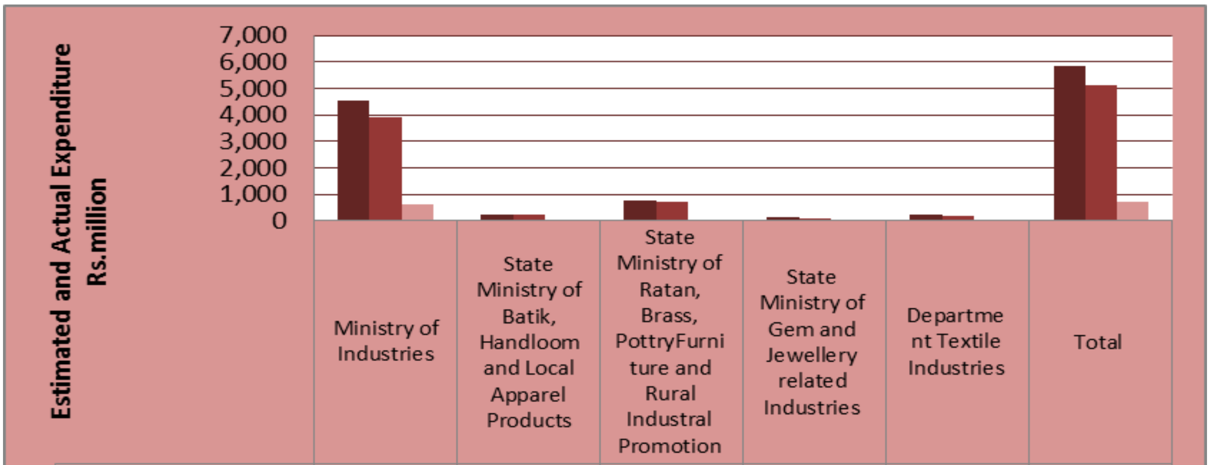
The desired outcome of this sector is to strengthen and promote the local industry through innovative strategies to achieve relative profits in the face of global competition by connecting with the local, regional and international supply chain through industrial diversification. The Ministry of Industries and 03 State Ministries, one Department and 23 Statutory Boards / Institutions under its purview had to perform the following functionsin order to achieve those results.

- Implementation of a programme to resolve the issues confronted by all industrialists in collaboration with the relevant institutions.
- Establishment of a "single integrated mechanism" to ensure smooth and efficient operation of the importation and exportationprocess.
- Formulation and implementation of policy programmes and projects covering all the Provinces to strengthen the export related manufacturing process.
- Development and implementation of strategies to strengthen existing industries economically and to expand investment opportunities and therebyto create access to new industries.
- Introduction and implementation of policies, programmes and projects required to revive the declined businesses and industries.
- Development of a programme to protect and strengthen local entrepreneurs and businessmen.
- Providing all the necessary infrastructure facilities for the establishment of the Garment Industrial Estate in Eravul, which is already planned to be established in collaboration with the Board of Investment of Sri Lanka and the Land Reforms Commission.
- Exploration of mineral resources, which are at present deemed to be available underground and in the deepest parts of the *ocean*using modern high technology and using the mineral resources to strengthen the production process of the country.
- Development of tourist market for local apparel by expanding apparel production and supply in the local market of Sri Lanka.
- Development of a programme to meet the needs of other high-quality raw materials including dyes required for the batik industry.
- Implementation of a special programme to popularize the batik and handloom industry locally and internationally.
- Establishment of a city for marketing textiles.
- Operating the textile products market as an open and competitive one.
- Preparation and implementation of a programme to provide necessary facilities to large scale local investors to manufacture new high-tech products.
- Giving necessary incentives by giving priority for the promotion of rural industries including cane, brass,

clay, furniture as value-adding industries.

- Providing opportunity and incentives to cultivate the raw materials related to the carpentry, rattanand reed industries under a long-term lease basis on underutilized state lands under a cultivation cooperative system as a solution to the issue relating to the said raw materials.
- Granting permission to import duty free bark logs as a solution to the crisis of supplying raw materials faced by timber and furniture manufacturers.
- Assisting in resolving raw material and market issues related to traditional industries such as casting and smithing industry.
- Innovating the gem related industriesin competitive levels with the private sector through a creative approach.
- Taking necessary measures to limit the exportation of gemswithout adding value to them and to convert gems into value added export products for earning a higher export income from industries related to gem exportation.
- Exemption of import duties that are levied in the importation of modern high-tech equipment required for the manufacture of finished jewellery instead of exporting cut and polished gemstones.
- Reviewing and simplifying the process of obtaining environmental and other permits connected with the gem and mineral resources industries and facilitating the provision of such services to the industrialists.

A total of Rs. 5,867 million had been grantedby Parliament to the Ministry of Industries, 03 State Ministries and a Department to fulfil the above role in the year 2020. Only a sum of Rs. 5,139 million had been utilized by the end of the year under review. Details are given in Figure 23



	Ministry of Industries	State Ministry of Batik, Handloom and Local Apparel Products	State Ministry of Ratan, Brass, PottryFurniture and Rural Industral Promotion	State Ministry of Gem and Jewellery related Industries	Department Textile Industries	Total
Provision Rs.Million	4,515	247	769	130	206	5,867
Expenditure Rs.Million	3,905	221	725	99	189	5,139
Savings Rs.Million	610	26	44	31	17	728

Figure 23 - Estimated and Actual Expenditure
Source - Financial Statements for the Year 2020

Audit observations made at the audit test checks carried out on the performance of the above functions by the Ministry and Institutions under its purview are summarized and mentioned below.

Industrial Estates

There were 913 plots of land in 32 industrial estates, which were under the Ministry of Industries and 627 plots out of that extent of lands were allocated for various investor industries and 104 plots of land were allocated for public utilities and 66 plots of land were proposed to be allocated for investors by 31 December 2020. Thirteen (13) percent of the total number of plots or 116 plots of land remained idle without being handed over to industrialists. Moreover, 14 administrative buildings constructed in these industrial estates by incurring a cost of Rs. 105,878 million starting from the year 1997 had not been brought to accounts as assets by the Ministry or by the relevant Divisional Secretariats.

'Nanwamu Lanka' National Programme

The beneficiaries had to be selected covering all the districts of the country based on the appropriate criteria such as unemployment and poverty and training programmes had to be conducted.Goods and machinery required for their businesses should be purchased by the District Secretariats and handed over to the District Deputy Director ofthe Industrial Development Board of Ceylon.Subsequently, those goods had to be distributed to beneficiaries in coordination with the other institutions connected to this programme. Goods worth Rs. 55.8million had been purchased using provision of the Ministry of Industries by 2019and March 2020and it was revealed by an internal memorandum dated 18August 2020that the goods had beencarried to the Head Office of the Industrial Development Board and stacked unsafely without distributing them to the beneficiaries in Badulla, Matale and Kandy districts. Although training programmes had been conducted incurring an amount of Rs. 16.77million under this programme, the goods had not been distributed to the beneficiaries even by 31 December 2020and the goodshad been stored idly in several warehouses even with the expiration ofthe warranty periods of goods.

Centre of Excellence in Robotic Applications (*CERA*)

The approval had been granted by the Cabinet decision dated 17 August 2016 to modernize the building of the Industrial Development Board of Ceylon and to purchase machinery required to establish the Centre of Excellence *in Robotic* Applications. Accordingly, a sum of about Rs. 40 million had been spent to modernize the building of the Industrial Development Board of Ceylon. Furthermore, 04 robots, CNC lathes and 02 milling machines and related equipment were purchased by incurring an amount of Rs. 80 million. Other equipment other than CNC lathes and milling machines were installed by March 2018. An executive officer had been recruited to operate the machines and he was paid a total of about Rs. 11

million as salaries and allowances comprised of Rs. 725,000 per month for the period from September 2017 to October 2018. The Centre had not been registered as a company and had not recruited the necessary staff and had not commenced its operationseven by the end of the year under review. This Centre, which had beenunder the purview of the Ministry of Industrieswastransferred to the Ministry of Science and Technology by a notification published in the Gazette No. 2013/14 dated 28 December 2018owing to the failure of this Centre and it was transferred back to the Ministry of Industries with effect from August 2020. It had been decided to move the machinery, which was at this Centre, to Trace City of Colombo 10 as per the Cabinet decision dated 16 November 2020.

These robots and related devices remained idle without utilizing them from the date of purchase of the items up to 30 August 2021 and as a result, theinner parts of the items were corroded and some software could not be activated due to the insertion of passwords. Although the Centre of Excellence in Robotic Applications (*CERA*) had been established with the aim of encouraging, improving and developing Sri Lankan industries,the Centre had not been completed even by 30 August 2021.

Industrial Zone

The Industrial Development Board of Ceylon had been incorporated under the Industrial Development Act No. 36 of 1969 for the accomplishment of the mission of providing the strategic, technological and commercial basis required for the encouragement, promotion and development of all industries throughout Sri Lanka. There were 761 plots of land in 18 industrial estates owned by the Board and 90 plots of land had not been allotted to the industrialistseven by 31 December 2020and therefore, those plots remained idle. Moreover, 47 plots of land in 14 industrial estateswere closed down without operating industries in the plots and 11 plots out of the 43 plots allotted for industries in 03 industrial estates had been used for residential purposes.

Sale of scrap metal

It had been mentioned that scrap metal should be distributed among small and medium scale industrialists under a fair basis as per the Guidelines on Scrap Metal Management prepared by the Industrial Development Board of Ceylon in the year 2013. In 2020, the Board had sold the scrap transformers to industrialists for Rs. 43.38 million and scrap transformers, sold for Rs. 22.45 million or 52 per cent of that sale value had been provided to three industrialists and scrap transformers worth Rs. 20.93 million or remaining 48 per cent had been provided to nine industrialists.Furthermore, 15,000 litres, which is 37 percent out of 40,150 litres of transformer oil purchased, had been provided to one person. Accordingly, the above-mentioned material had not been distributed fairly among the industrialists.

Although 1,040,146 kilograms of 10 types of aluminiumhad been sold, 42 industrialists, who had applied for 292,200 kilograms out of the 171 manufacturersapplied for aluminium had not received any of the aluminium scrap. Although 1,062,816 kilograms of scrap iron of 06 types had been sold, 14 industrialists, who had applied for 1,462,200 kilograms out of the 61 industrialists, who had applied for scrap iron had not received any of the scrap iron and 21 industrialists who had not applied for the item had been given 35,755 kilograms of scrap iron. Although 14,970 litres of Furnace Oil had been sold, only 12 out of 40 manufacturers, who had applied for Furnace Oil had been provided with thatscrap itemand 44 out of the total of 296 industrialists, who had been registered for scrap metal had not been provided with any of the scrap items.

Idle Assets

Although equipment worth Rs. 6.20 million was purchased in the year 2019 for the microbiology laboratory located on the first floor of the food laboratory of the Industrial Development Board of Ceylon, the equipment remained idle owing to non-construction of the building even by 31 December 2020. Even though training activities had not been commenced at the Bamboo Training and Development Centre even by 31 December 2020, the machinery valued at 101,130 US Dollars and acquired for its training activities in May 2020 remained idle even by the end of the year under review. Twenty-five (25) rubber related machinery at the Peliyagoda Rubber Products Development and Services Centre remained idle for a period of 1 year to 36 years.

A dryer machine worth Rs. 62.37 million imported by the Mineral Sands Company on 30 June 2016 and a new Hydrozisermachine worth Rs. 15.432 million purchasedin January 2016 for wet sand plant considering it as an essential purchase had been remained idle without making arrangements to use it for production activities even by the end of the year under review. Moreover, the tugs and barges at the Cod Bay fishery harbourhad not been used after the tsunami disaster that occurred in the year 2004 and they had been decaying for a period over 16 years.

Sale of Mineral Sands

It had been expected to sell 113,996 metric tons of minerals of Lanka Mineral Sands Limited at a sum of Rs. 4,660.52 million by 2020. However, 14,955 metric tons of minerals had been sold at a sum of Rs. 696.59 million during the year under review. The financial position of the Company had deteriorated since expected sales had not taken place owing to reasons such as limited number of buyers submited bids under international competitive bidding, cancellation of tenders owing to various reasons and trying to sell large quantities at once.

The total capacity of the two warehouses of the Company, where 60,000 metric tons of Ilmenite could be stored, had run out of space as 85,000 metric tons of Ilmenite sold in October 2020 by the

Company had not been removed by the buyer after paying the due amounts.Ilmenite production was suspended for a significant number of days from January to May 2021 and production at the plant “Block B” had been stopped from 01 June 2020 until 18 March 2021, the date of the audit. Moreover, other plants including Block C as well as all the resources remained idle during that period.

Mineral Sand Mining

Although the Lanka Mineral Sands Limited had obtained licenses for a period of 10 years from 15 August 2018 to mine mineral sands in the deposit in extent of 4.5 hectares located in *Thevikkallu area*, action had not been taken to commence mining activities even by March 2021.

In 2012, the Company acquired 17.6 hectares of land in the mineral-rich Kokilai area and purchased machinery worth Rs. 39.34 million for the Kokilai project in the same year. However, any excavation work had not been carried out in the area even by the end of the year under review as the required excavation permit had not been obtained. Further, all the assets purchased for the project were installed elsewhere in the Pulmuday plant and remained idle and some machineries had been stacked idly in the warehouse.

Not Starting Up Factories

The approval of the Cabinet had been granted on 09 July 2020 to reopen the Oddusudan factory under the administration of the Ceylon Ceramics Corporation. Accordingly, the Corporation was unable to commence production activities of the factory even by May 2021 although an amount of Rs. 3.27 million had been incurred during the year under review for starting up the factory. An assessment had not been prepared in relation to fixed assets including lands owned by the factory even by the end of the year under review. Although any production activity had not been carried out at Bangadeniya, Weuda, *Elayapaththuwa* and Bingiriya factories, a sum of Rs. 2.65 million had been spent as administrative and overheadexpenses. Although the lands, buildings and machinery of the Weauda factory in Bangadeniyahad been valued at Rs.173.720 million in 2019, the Corporation had not taken action to make productive investment out of them.

Leasing theLimestone Deposit

An agreement was signed with Puttalam Cement Company (at presentSiam City Cement (Lanka) Limited) on 29 December 1993 for a period of 50 yearsas per the Cabinet approval dated 21 August 1996 to lease out the land in extent of 5,140 acres, where the Aruwakkalulimestone deposit owned by Sri Lanka Cement Corporation was located.Conditions had not been specified in the relevant Agreement to increase the annual rent and the Corporation had lost a large amount of revenue from 1993 to 2018 as the annual instalmenthad beendecided on a fixed amount of Rs. 11.50 million. Althoughit had been stated in the additional agreement bearing No. 268 signed on 07 November2019 that the percentage increase in rent would be 12 percent,agreement had not been reached on the increase in the rent for the period of 1993 to 2018. Even though the Agreement had been signed by considering the rent from the year 2019 as319,118USD, the approval of the Attorney General had not been obtained for that additional lease agreement even by the end of the year under review.

Not Investingthe property productively

Earning a higher income by utilizing the land in extent of 89.7 perches located in Kollupitiyaand owned by Sri Lanka Cement Corporation for a development project by valuing the land for an amount of Rs. 735 million in 2017 as per the notice published in the Gazette No. 14,756 / 7 dated 12 July 1967had been a major objective.The land had been used for parking vehicleswithout using it for the aforesaid purpose.In the selection of buyers, 7 different institutions were awarded subsequent to bidding outside the Guideline 1.2 of the Government Procurement Guidelines and without entering in to agreements. In 2017, the land was mortgaged to a state bank and a loan amounting to Rs.97.70 million was obtained. An amount of Rs. 67.70 million had to be paid even by 31 December 2020 and an interest amounting to Rs. 47.87 million had been paid for this amount of loan by the end of the year under review. Although the annual interest paid for 2020 was Rs.7.45 million, the annual rental income earned from parking vehicles was Rs.4.42 million only. The Corporation had not used the property worth Rs.735 million located in an area of very high commercial value for a productive investment.

Non-collection of rent

Two oil tanks and pipelines belonging to the Cement Corporation located at Kankesanthurai were transferred to the state company namedCeylon Petroleum Storage Terminals Limited without entering into a written agreement. It had been estimated thata sum of Rs. 168.00 million should be paid for the period of 2010 to 2020to the Cement Corporation based on the assessment report dated 22 December 2015 prepared in this regard by the Government Valuation Department. Even thoughthe Corporation had informed the line Ministry pertaining to the collection of rent by letters No. HO/1/5dated24 January 2020 and No. HO/1/5dated30 June 2020, the rent had not been collected even by the end of the year under review.

Land Affairs

Observations

- Bimsaviya Programme
- Acquisition of Lands
- Amendment of Land Policy
- Maintaining a Land Register
- Information System for the Management of Government Lands
- Management of Revenue Earned through Taxes on Lands
- Failure to Achieve the Targets
- Weakness in Performance
- Implementation of the Land Use
- Complaints on the Professional Misconduct of Surveyors

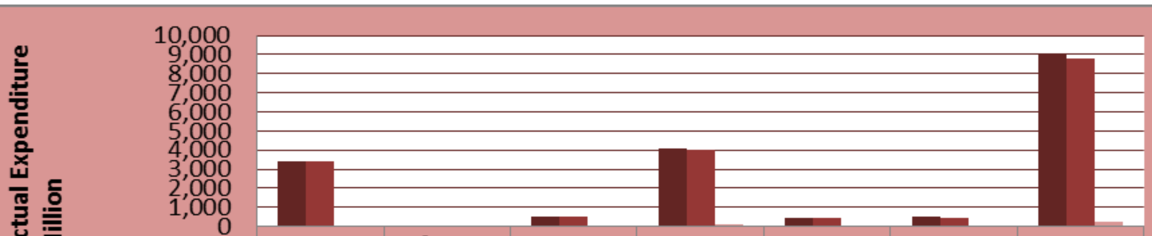
Land Affairs

It was the objective expected from the land sector to ensure optimum use of land resources in view of sustainable development. The following duties and functions had to be discharged by the Ministry of Lands along with State Ministry of Land Management, State Enterprises Land and Property Development, 04 Departments, and 02 Statutory Boards / institutions functioning thereunder.

- As a remedy to the problems on raw materials relating to the carpentry, cane industry, and bulrush industry, to provide opportunities and encourage the cultivation of such plants at underutilized Government lands on long term lease under a cultivation cooperative mechanism.
- To make proper assessments on persons, houses and other properties, lands, and agricultural lands affected by the large scale irrigation projects such as, Mahaweli, Uma Oya, Moragahakanda, thereby coordinating the with the relevant institutions for providing compensation expeditiously.
- Government lands and the lands acquired for general projects, be provided under lease basis. Implementation of mechanisms for farmers to cultivate.
- To use lands, not in use currently after being allocated for estate companies and Government farms, for cultivation of flowers with demand from foreign countries and organic farming. Promoting additional crops suitable for the climate.
- To formulate a national land use policy considering historical and archaeological factors, natural resources, urbanization, and future demands.
- To establish and maintain an up to date land information system.
- To prepare an efficient methodology through an Information Technology based approach for expediting surveying and mapping of lands, and providing land information & other services.
- To review the processes of land acquisition and granting of lands thereby preparing a methodology to expeditiously release lands to low income persons without lands for productive utilization or development activities and investment projects.
- To expedite the Bimsaviya programme to verify land rights, to prevent a community without lands due to sale of lands, and make a legal and policy framework with respect to obtaining banking, financial, and insurance facilities based on land rights.
- To implement a clear policy on the utilization of remaining lands.
- To ensure the prompt and proper release of lands for the development of the country.

- To prepare an efficient mechanism for resolving issues relating to the Government lands granted to the public.
- To implement an efficient methodology to issue land grants with accurate survey details for the verification of land rights of the beneficiaries of the Government lands under the Bimsaviya programme.
- To implement a programme for providing the youth with 100, 000 land plots by coordinating banks and other relevant institutions thereby allowing them to invest in the Government lands as a project to encourage the young entrepreneurship.
- To expedite the granting of alternative lands and compensation to those who had lost their lands due to natural disasters or development activities of the Government.
- To implement development programs for public enterprises, lands and properties.

In order to execute the said activities, provision totaling Rs. 9,043 million had been granted by Parliament in the year 2020 to the Ministry of Lands, and the State Ministry and 04 Departments functioning thereunder. A sum of Rs. 8,802 million had been spent therefrom by the end of the year under review. particulars are given in Figure 24



	Ministry of Lands	State Ministry of Land Management, State Enterprises Land and Property Development	Department of Land Commissioner General	Department of Surveyor General of Sri Lanka	Department of Land Use Policy Planning	Department of Land Settlement	Total
Provision Rs.Million	3,434	50	494	4,114	471	480	9,043
Expenditure Rs.Million	3,376	22	478	3,998	454	474	8,802
Savings Rs.Million	58	28	16	116	17	6	241

Figure 24 : Estimated and actual expenditure.
Source : Financial statements , 2020.

A summary of audit observations made in the audit test checks conducted on the execution of the said activities, is given below.

Bimsaviya Programme

With the objective of conserving lands for future generations through land title settlement, the Bimsaviya programme had been implemented by the Ministry of

Lands with the involvement of the Department of Land Title Settlement, Department of Land Commissioner General, Survey Department, and Registrar General's Department. A sum of Rs. 5,396 million had been spent out of the provision granted by Parliament to the Ministry to discharge the said functions from the year 2007 up to the end of the year under review. The Survey Department had completed surveying 1,665,087 land plots by utilizing those provision, but the Department of Land Title Settlement had settled 48 per cent or 801,256 land plots therefrom. The Registrar General's Department had issued title certificates for 669,484 land plots representing 40 per cent. Accordingly, a period of over 23 years had elapsed by the end of the year under review since the inception of this programme though, achievement of the expected objectives remained poor.

Plans had been underway to issue title certificates for 70,560 land plots by utilizing the provision totaling Rs. 87.93 million made by Parliament on the Bimsaviya programme for the year under review. However, the said provision had been utilized in full by the end of the year under review, but title certificates had been issued only for 23,411 land plots.

As such, the expenditure estimated on the issue of a title certificate amounted to Rs. 1,246 though, a sum of Rs. 3,756 had been spent thereon in the year under review.

Due to problems that had occurred during the process of land title settlement, processing of 505,959 files had been withheld from the year 2015 up to the year under review whereas only 52,092 files had been settled representing 10 per cent. Due to lack of coordination between various stages of the process, the issue of title certificate, being the objective of Bimsaviya programme, had become delayed.

This project had been implemented only in 58 Divisional Secretariats of 18 districts by the end of the year under review, and no plans had been made to implement the programme in the rest of the 273 Divisional Secretariats.

Acquisition of Lands

Compensation amounting to Rs. 2,033.71 million and Rs. 2,410.37 million had been paid to the land owners for the acquisition of lands in the year under review and the preceding year respectively. Due to delay in paying compensation, sums of Rs. 1,261.90 million and Rs. 920.54 million had been paid as interest. Although lands had been acquired over a period ranging from 23 to 40 years, 38 per cent or Rs. 479.52 million out of the interest paid in the year under review, had been paid as interest on those land plots. As such, an extensive interest had been paid in addition to the compensation due to delays of the land acquisition process carried out by the Ministry.

The proposal for acquisition of the land named “Wellampitiya Watta” in extent of 21 acres for the Urban Development Authority had been made to the Ministry by the Secretary to the Ministry of Local

Government, Housing and Constructions in the year 1980. Prior to the proposal being made, 13 acres from the land had been disbursed among people by the District Secretary of Colombo under the land grants special provisions Act. Having been paid a sum of Rs. 4.07 million for the rest of the land, the land had been taken over for use of the Urban Development Authority. Sums of Rs. 323.37 million and Rs. 779.85 million had been assessed as compensation and interest respectively relating to the acquisition of land in extent of 13 acres disbursed among people. The compensation and the interest totaling Rs. 673.85 million had been paid to the initial owner by the Ministry. As such, a sum of Rs. 1,103.22 million had to be paid for taking over 13 acres of land due to inefficient land acquisition process of the Ministry.

Amendment of Land Policy

By coordinating the relevant institutions, and seeking observations from the Department of Legal Draftsman and the Attorney General, the Land Policy Division of the Ministry, had made plans in the years 2019 and 2020 to amend the Land Development Ordinance, Title Settlement Act, and Condominium Property Act, thus publishing them through Gazette notifications. However, it had not been so done even by the end of the year under review.

Maintaining a Land Register

The Land Commissioner General's Department is entrusted with the responsibility for Government owned lands equivalent to 20 per cent of the entire area of Sri Lanka. Since the date of inception of that Department in the year 1931, no land register had been maintained entering the acquisitions and release of lands.

Information System for the Management of Government Lands

The information management system had been established in the year 2013 by the Land Commissioner General's Department in the year 2013 in order to ensure efficiency in the management of Government lands. A sum of Rs. 142.33 million had been spent thereon by the end of the year under review. Although the project had been in progress over a period of 07 years, data relating to 1,128,249 land plots had been recorded in the system, and information on all the lands given on lease had not been entered into the system even by the end of the year under review, thus making it not possible to retrieve information on the recovery of taxes from the system.

Management of Revenue Earned through Taxes on Lands

Five lands belonging to the Government located in the division of the Divisional Secretariat, Thimbirigasyaya, had been given on annual lease to 03 private parties and 02 Government institutions.A tax revenue of Rs. 106.36 million had remained due from those lessees by the end of the year under review, but the Land Commissioner General's Department had failed to recover that revenue.

The Commissioner General of Lands collects land tax revenue from the inter-provincial farmers' communities in accordance with the Land Development Ordinance, and a tax revenue of Rs. 58 million remained due by the end of the year under review. A sum of Rs. 34.77 million representing 60 per cent of that arrears, remained due over a period of 02 years. The Department had not been taken action for the recovery of that revenue.

Legal measures to be taken for the recovery of outstanding revenue had been mentioned in the annual performance report prepared by the Land Commissioner General's Department for the year under review. Such measures included : identification of 235 tax defaulters, apprising 167 lessees and recovery of taxes, cancellation of 08 lease agreements, and filing 04 cases. Except for cancelling 04 lease agreements, no other action had been taken even by the end of the year under review, thus observed that the process of recovering the outstanding taxes remained weak.

Failure to Achieve the Targets

Despite being planned to give 10,000 grants through the information system implemented by the Land Commissioner General's Department in the year under review, only 115 grants or 1 per cent had been given.

In order for the Department of Land Title Settlement to issue title certificates under the Bimsaviya programme, all the activities such as; conducting field inspections, obtaining boundary maps for the Head Office in order to publish in the Gazette under Section 12, distribution of title applications, inspecting folios maintained at the Registrar General's Department, obtaining approval for publishing in the Gazette under Section 14, and forwarding information on the land plots to the Registrar General's Department to be gazetted in accordance with Section 14, should have been completed. But, even after amendment of the targets set for the year under review, on 28 August, progress of the other stages, except for stages one and two, ranged between 52 per cent and 67 per cent.

Weakness in Performance

Over a period of 36 years, a norm of 20 land plots had been set by the Department of Survey for a surveyor to survey per month. That norm had not been revised by considering the technical advancement of the measuring equipment and techniques of the present day.

To be the pioneer in providing land information, is the vision of the Department whilst the mission is to provide qualitative geographical information. The Department should have published the updated maps showing changes occurred on the ground of Sri Lanka during the past decade, but the collection of national maps of Sri Lanka, had not been updated and published after the year 2008.

Implementation of the Land Use

The Land Use Policy Planning Department had been established through a notice published in the Gazette Extraordinary, No. 1654/21 dated 20 May 2010. Optimum and sustainable use of land resources of Sri Lanka is the vision of the Department, and the mission is to formulate policies, preparation of plans and facilitating their implementation to achieve the optimum utilization of land resources while maintaining sustainability and environmental balance. The Department could not pass the National Land Use Act even up to the end of the year under review in order to achieve the said vision and mission.

Complaints on the Professional Misconduct of Surveyors

The Land Survey Council had been established in terms of Land Survey Act, No. 17 of 2002 with the objective of ensuring the integrity of the surveying profession while maintaining the highest standards thereof . The public had made 113 complaints in the year under review relating to the professional misconduct of surveyors, but the Council had resolved only 33 complaints or only 29 per cent. No substantial measures had been taken to look into the persons doing surveying without being registered with the Council.

Transportation

Observations

- Project of the Construction of Matara -Kataragama Railway Line
- **Construction of New Railway Line from Kurunegala to Habarana via Dambulla**
- **Colombo City Based Railway Efficiency Improvement Project**
- **Colombo Suburb Railway Project**
- **Bus Operations**
- **Investment of Excess Funds**
- **Repair of Busses**
- **Purchase of Buses on Credit Basis**
- **Abnormal Fuel Combustion**
- **Obtaining Emission Test Certificate**
- **Failure to Utilize Maximum Capacity**
- **Unused Machinery**
- **Dysfunctional Milometers**
- **Obtaining Vehicles on Lease Basis**
- **Failure to Run up to the Standard Mileage**
- **Security of the Tire Factory**
- **Lands owned by the Sri Lanka Transport Board**
- **Construction of Filling Station**
- **Construction of Vehicle Emission Centers**
- **Discontinuation of the Construction of the Lecture Hall**
- **Failure to Recover the Revenue in Arrears**
- **Non-utilization of Foreign Loans**

- **Failure to Increase Revenue from Flour Transportation**
- **Cement Transport Income**
- **Revenue from Coal Transportation**
- **Purchase of TenM11 Locomotives**
- **Installation of Water Filters at Railway Stations**
- **Installation of Closed-Circuit Television System (CCTV)**
- **Installation of Event Recorder and Vigilance Systems for Locomotives**
- **Transportation of Sand by Train**
- **Unauthorized Construction and Unauthorized Activities in the Railway Reserve**
- **Removal of Wooden Sleepers**
- **Sale of Discarded Items**
- Idle Assets
- **Payment for Unsupplied Goods**
- **Unsettled Letters of Credit**
- **Purchase of spare parts for S 10 - Class Power Caches**
- **Failure to Fill Cadre Vacancies**

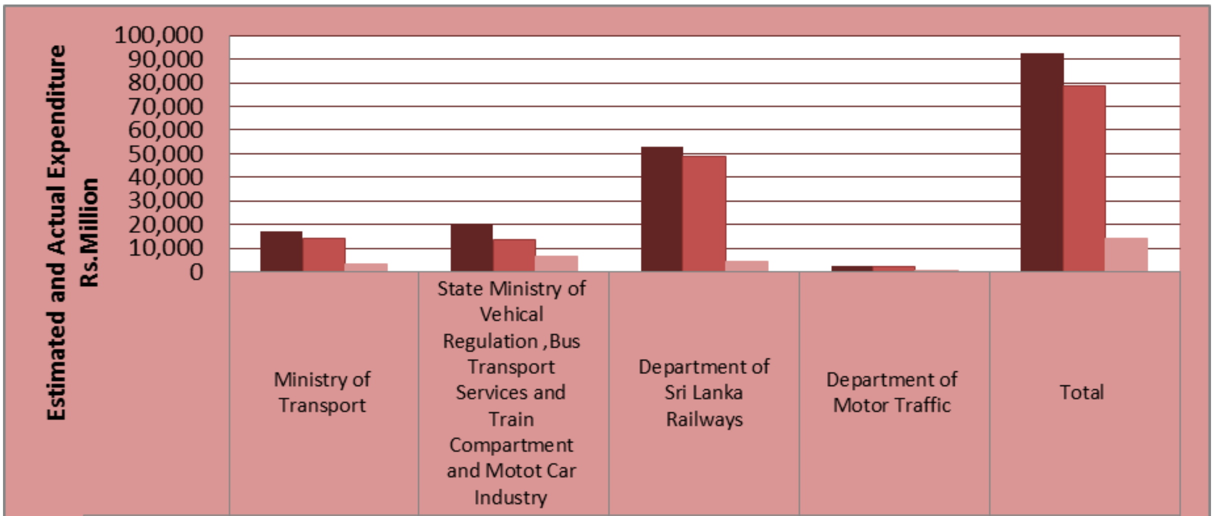
Transport

Implementation, development and sustainable maintenance of higher standard transport infrastructure facilities with the use of futuristic technology strategies for the amelioration of living standard of the people had been the mission of this Sector. In order to accomplish the above mission, the following functions had to be discharged by the Ministry of Transport and two Departments and 05 statutory bodies functioning under the Ministry.

- Formulation of policies, rules and regulations required to ensure an eco-friendly transport system.
- Taking necessary steps to establish a high standard road facility to build the public trust on the public transport system.
- Introduction of guidelines, laws and rules to be followed to reduce traffic congestion and road accidents
- Introduction of a futuristic e-ticketing system for public and private transport services and rail services to operate as a single mode of transport under a common format.
- Development of infrastructure facilities required to ensure common amenities and security associated with railway and bus stands.
- Maintenance of trains and buses required for train and bus service.
- Introduction of procurement systems essential to build a local industrial system relevant to the field of bus production and transportation.
- Establishment and expansion of facilities necessary for transporting goods by trains to Colombo, Hambantota, Kankesanthurai and Trincomalee ports.
- Making motor vehicle registration a people friendly, efficient and corruption free process through the application of information technology.
- Modernization of the Sri Lanka Transport Board into a profit generating institution and development of common facilities at the major bus stands.
- Rehabilitation of existing bus fleet and thereby introduction of new eco-friendly buses for operation in Colombo and major city limits and formulation and implementation of programmes to comply the private passenger transport with green transport concept.
- Establishment of a transport service that encourages investors to manufacture, repair and upgrade locomotives, buses, and motor vehicles locally.
- Strengthening school bus services and student safety under the proper standards.
- Direction of the Sri Lanka Transport Board towards the transportation of passengers and goods to formalize the provision of public transport facilities to rural areas.
- Regulating the transport services to a high standard to ensure the safety of passengers and transport services.
- Eradication of various malpractices being committed in the issuance of

driving licenses and registration of motor vehicles and providing an efficient service.

Provisions amounting to Rs. 92,520 million had been made for the Ministry of Transport, the State Ministry and two Departments by Parliament during the year under review in order to perform the aforesaid function and out of that, provisions of Rs. 78,518 million 48 had been utilized. Accordingly, 15.13 per cent or Rs. 14,002 million out of the provision made by Parliament had not been utilized. Details are given in Diagram 25



	Ministry of Transport	State Ministry of Vehical Regulation ,Bus Transport Services and Train Compartment and Motot Car Industry	Department of Sri Lanka Railways	Department of Motor Traffic	Total
Provision	16,969	19,832	53,056	2,663	92,520
Expenditure	13,888	13,559	48,737	2,334	78,518
Savings	3,081	6,273	4,319	329	14,002

Diagram 25- Provision made by Parliament and Utilization and Savings
Source - Financial Statement, 2020.

The audit observations revealed relating to performing the above function are summarized below.

Project of the Construction of Matara -Kataragama Railway Line

The Ministry of Transport had commenced the Project of the Construction of Matara -Kataragama Railway Line on 01 August 2013 at an estimated cost of Rs.36,166 million. Although the project should have been completed by 31 July 2016, the said period had been extended up to 31 December 2018. The railway line had been opened to run trains up to Beliatta in the year 2019 and a sum of Rs.45,122 million had been spent therefor by the end of the year under review. The acquisition of lands required for this line should have been done with the mediation of Divisional Secretariats based on the valuation of the Government Valuer. On the contrary, lands had been acquired with the intervention of Project Officers in an irregular manner, thus resulting in legal issues.

Construction of New Railway Line from Kurunegala to Habarana via Dambulla

The Ministry of Transport conducted a feasibility study on the new railway lines from Kurunegala to Habarana via Dambulla in 2009 and started the project in 2010 with the objective of promoting freight trains centered around the Dambulla Economic Center. Provisions of Rs. 1,332.76 million had been made for the construction of this railway line from 2010 to the end of 2020 out of which only Rs. 144.43 million or 13.08 per cent of the provision had been spent.

Colombo City Based Railway Efficiency Improvement Project

The Ministry of Transport had initiated this project giving priority to five objectives to improve the efficiency of the railway service.For the implementation of the project, a loan agreement of US $ 160 million had been entered into with the Asian Development Bank, the lender on 20 August 2019. The project had been launched on 06 September 2019. Out of the loan amount for this project, Rs. 63.50 million had been transferred to the Colombo Suburban Railway Project, another Asian Development Bank project. Although provisions of Rs. 2,207.21 million had been allocated during the year under review, only Rs. 414.87 million had been utilized. Accordingly, Rs. 1,792.34 million or 81.20 per cent of the provision had not been utilized. In evaluating the performance of project purchases, only the procurement process required for the island-wide communications project under the project had beencommenced by the end of the year under review. Due to improper management of project funds,a sum of Rs. 34.35 million had to be paid to the Asian Development Bank as Commitment Chages during the year under review.

Colombo Suburb Railway Project

The Ministry of Transport had launched this project at an estimated total cost of Rs. 1,853million equivalent to US $ 11.36million with the objectives to develop feasibility studies of the Colombo Suburban Railway Project, prepare detailed engineering plans for transport projects and make provisions to support transport projects. Although the planned feasibility study reports were to be submitted to the project by the consulting firm (Dhowa) in a timely manner, those reports were submitted after a delay.Three draft final reports on the performance of the project and the final report had not been submitted even by the end of the year under review.Although plans had been drawn to resettle unauthorized occupants in 2,036housing units through the resettlement and land acquisition process by the end of the year 2020, resettlement had been done only in 386housing units. An order had been issued for only 223plots of land under Section 04of the Land Acquisition Ordinance.According to Cabinet decisions, the resettlement of unauthorized occupants should have been completed by the end of 2020, but it could not be completed by that time. No action had been taken to obtain the approval of the Cabinet of Ministers to the extension of the period.

Bus Operations

For the maintenance of the GPS system used for bus operations, the National Transport Commission had spent Rs. 6.64 million in the year 2020.However, Rs. 2.05 million only had been recovered during the year under review as service income.Accordingly, the Commission had to incur an additional expenditure of Rs. 4.59 million for the maintenance of the GPS system.The service charge recovered for a bus was Rs. 3,000 and it had been reduced by 50 per cent to Rs. 1,500 during the year under review.

Investment of Excess Funds

In terms of Section 11 of the Finance Act No. 38 of 1971 and Paragraph 8.2.2 of the Public Enterprise Circular No. 12 of 02 June 2003, the approval of the Minister of Finance should have been obtained with the consent of the Minister of Transport to invest the surplus money. Nevertheless, without obtaining that approval,Rs. 42.05 million had been invested in fixed deposits and Rs. 14.94 million in treasury bills as at 31 December 2020 with the approval of the Board of Directors of the National Transport Commission.Further, a sum of Rs.516.31 million had been invested in the short term by that date.

Repair of Busses

A number of 106 buses had been handed over to the work site of Lakdiva Engineering Pvt. Ltd. for repairs in the year 2020. Twenty-seven of these buses had not been repaired as of 18 March 2021. The buses had been parked at the site for a period of 03 to 09 months.

Further, although 79 buses have been repaired, it had taken a very long period from 02 months to 01 year for that purpose.In the repair of these buses, the body making is done by the private sector on a contract basis and it had taken a long time to complete the repairs beyond the allotted time.No late fees whatsoever had been recovered from the contractors during the year under review for the above delay.

Eighteen buses that were given for repairs in 2020 and prior to that year had been parked at the site for a long time until 18 March 2021 without completing the repairs. It had taken a long time from 03 months to 06 months to start the repairs from the date of handing over them for repairs. Due to such a long delay in repairs, the delivery of buses to the Transport Board continued to be delayed.

Spare parts required for bus repairs had been purchased at a cost of Rs. 74.93 million from private companies during the year under review. Although a contractor relating to those purchases should have been selected by calling for completive bids and evaluating them in accordance with Guideline 3.2 of the Government Procurement Guidelines, it had not been so done.

Purchase of Buses on Credit Basis

The Sri Lanka Transport Board (SLTB) had entered into an agreement with India Ashok Leyland Limited on 26 May 2014 to purchase 2,200 buses on a five year credit basis.According to the agreement, the payments for the buses should have been made within a period of 05 years. That payments had been made until March 2020. Due to exceeding the loan period and non-payment of installments on a quarterly basis, an interest of Rs. 419.24 million had to be paid. Similarly, due to payment of US $ 72.62 millionfor those 2,200 buses over a period of 5 years and due to devaluation of the Rupee, the Board had incurred a loss of Rs. 1,788.76 million. The total loss incurredin the purchase of 2,200 busses as per the conditions of this loan agreement was Rs,2,207 million and accordingly, the average loss per bus was around onemillion rupees.

Abnormal Fuel Consumption

It was observed during the audit test check conducted on 13 buses of Akkaraipattu and Kalmunai depots of the Sri Lanka Transport Board that the running mileage per one liter of fuel had ranged from 1 km to 2.5 km in 3 days.The attention of the management had not been focused on the significant variation in fuel combustion within three days.

Obtaining Emission Test Certificate

The Sri Lanka Transport Board had a fleet of 7,339 busses as at 31 December 2019. In the registration of these buses, the relevant registration is done with the engine number corresponding to the chassis number of the bus.However, when the engines are repaired by the deports of the Board, the engine corresponding to the chassis number of the bus is removed and another engine is replaced.Although approval of the Department of Motor Traffic is required for such replacement of another engine, there were instances where the depots had not followed that procedure.Accordingly, due to the mismatch of the chassis number and engine number, it was not possible to obtain emission test certificates for the buses of the Board and issues had arisen in obtaining insurance claims as well.

Failure to Utilize Maximum Capacity

The Medawachchiya Regional Workshop of the Sri Lanka Transport Board repairs engines and makes bodies of buses. According to previous inspection reports, the repair capacity of this workshop was about 60 engines per month., Only 15 engines had been repaired by the end of the year, resulting in only 25 per cent of the work capacity being used.It was further observed that the body making process was not functioning properly and that only one bus body was being made per month.Accordingly, the management's attention had not been drawn to carry out the work of the regional workplaces at full capacity and as annual or monthly targets had not been set for the workshop, it had not been possible to make an accurate assessment of the work done in the payment of incentives.

Unused Machinery

The Sri Lanka Transport Board had purchased 9 tools and machinery required to repair the engines at a cost of

Rs. 12.74 million and provided them to the Kurunegala Regional Workshop on 03 June 2017. It was observed during the physical audit test check conducted on 13 January 2021 that only the Cylinder block head surface grinding machine worth Rs. 3.66 million was being used for repairs and the other machinery worth totallingRs. 9.07 million was not in use.The equipment and the surroundings were littered with dust and spider webs. There were no records on the repairs carried out with the use of those machinery.

Disfunctioning Milometers

It was revealed during the audit test check conducted on 23 depots belonging to the Sri Lanka Transport Board that milometers were in operation only in 167 buses. The milometers remained dysfunctional in 846 or 83 per cent buses of the total number of buses in the sample. As the milometer is considered to be the main control factor in the operation of the buses, the control of the bus fleet had become weakened due to the failure of the milometer.

Obtaining Vehicles on Lease Basis

Although the Sri Lanka Transport Board had obtained 24 vehicles on lease basis, approval of the General Treasury had not been obtained for that purpose. A sum of Rs.8.14 million had been spent on vehicle rental for those vehicles obtained on lease basis without the approval of the Treasury.

Failure to Run up to the Standard Mileage

It had been determined that a reinforced tyre of a bus could be used for running about 15,000 km and a retread tyre could cover a distance of about 11,000 km. It was revealed that the tyres had been removed from the buses which had run less than the above distance. The audit observed 34 instances where reinforced tyres had been removed and the average running mileage of atyre was only 8,441 miles in these cases. Further, the audit observed 34 instances of removal of retread tyres and the average mileage covered on those occasions was only 7,402 km. Accordingly, it had been failed to cover the average mileage to be covered by the reinforced tyres and the retread tyres.

Security of the Tire Factory

The security officers of the Sri Lanka Transport Board and security officers of the private sector had been recruited and deployed in the security service of the Ampara Tire Factory.A sum of Rs. 4.73 million had been spent on security service during the year under review, including Rs.2.45 million for the salaries and overtime of the officers of the Board and Rs. 2.28 million for the private sector .The security expenditure was about 6.6 per cent as compared with the revenue of the Factory.

Lands owned by the Sri Lanka Transport Board

The Sri Lanka Transport Board maintainsits regional offices, depots, driving schools and regional workshops established in various areas in the country.The Board had not maintained an updated record of all lands owned by the Board, including the lands with legal ownership, leased by the Board, transferred or otherwise acquired, on which those institutions are located. The identification, settling ownership and valuation of those lands owned by the Board had not been carried out even by the end of the year under review. The lands owned by the Board remained unsecured and overgrown.

Construction of Filling Station

The Sri Lanka Transport Board had entered into an agreement with a private company on 20 March 2018for the construction of a filling station at a cost of Rs. 61.01 million at Orugodawatta. Although, the work was scheduled to be completed by 20 June 2018 according to the agreement, the constructions had not been completed even by 19 August 2020. The Board had incurred a financial loss of Rs. 2.10 million due to non-compliance with Government Procurement Guidelines in connection with this construction.Further, due to failure of the contractor to complete the construction as per the agreement, the Board had lost the revenue that could have been earned from the operation of the filling station. At the time of audit, 07 diesel and petrol pumps worth Rs. 12.61 million had been dumped in the area without any safety measures and the lids of the fuel tanks had been removed by the contractor.

Construction of Vehicle Emission Centers

For the construction of 09 Vehicle Emission Centers in 9 Provinces, the Sri Lanka Transport Board had taken over the relevant kits from the Vehicle Emission Trust Fund of the Department of Motor Traffic on 26 April 2018. The construction of the centers had been done without conducting feasibility studies. Among these emission centers, the Kurunegala and Medawachchiya centers were closed due to a legal issue, although they had been completed and opened.Machinery worth of Rs. 18.75 million remained idle in those centers.Out of the estimated amount of Rs. 89.84 million for the construction of the relevant civil works as suitable for the use of those assets, only Rs. 22.48 million had been spent as at 30 September 2019, the date of the audit.

Discontinuation of the Construction of the Lecture Hall

For the construction of a lecture hall at Udahamulla Driving Training College, an agreement had been signed with a private company in 2018 at a cost of Rs. 2.75 million.An advance of Rs. 824,922 had been paid in 2018 and Rs. 108,767 had been paid in January 2020. The constructions had been halted and the hall remained idle by August 2020.

Failure to Recover the Revenue in Arrears

The arrears of revenue from the railway warrants of the Sri Lanka Department of Railways was Rs. 848.33 million as at the end of the year under review.Fifty-five per cent of that outstanding income continued to exist as balances for more than five years.Furthermore, a total of Rs. 118.93 million was outstanding from 31 institutions at the end of the year under review in respect of transporting goods by trains and Rs. 20.31 million out of 16 of the above institutions were in outstanding for more than 20 years. The arrears of commuter revenue due from railway stations were Rs. 10.88 million and the arrears of parcels and freight revenue were Rs. 4.99 million.The Department had not taken the necessary steps to settle commuter revenue and prevent from occurring arrears relating to the parcels even by the end of the year under review.

Non-utilization of Foreign Loans

According to the annual budget estimate for the year 2020, provisions of Rs. 29,338.10 million had been made for capital expenditure of the Sri Lanka Railways under foreign loan financing and out of that Rs. 25,450.53 million had been utilized by the end of the year under review. Accordingly, Rs. 3,887.47 million or 13.25 per cent of the provision made had not been utilized.

Failure to Increase Revenue from Flour Transportation

The Sri Lanka Railways had entered into an agreement to purchase a container handling machine with 15 container flat beds and 30 containers to cover the cost thereof from the charges recovered from Prima Company for flour transportation. According to the said agreement, the Railway Department was required to make 20 to 22 trips a month from Trincomalee to SeeduwaPrima's warehouse.During the period from 06 Januaryto 15 February 2021, it had made 05 trips each and earned an income of Rs. 2.65 million.The quantity of flour that Prima Company transports to warehouses in each district is 18,100 metric tons per month and if that quantity is transported by train, the Department could have earned revenue of Rs. 19.35 millionper month.Accordingly, the annual income that could have been earned from flour transport alone was Rs. 232.20 million. However, the Department had not paid due attention in this regard and had not taken action to increase the revenue of flour transport

Cement Transport Income

The Sri Lanka Railways had generated about Rs. 8 million income in the 2020 from the transport of cement. It shows comparatively significant decrease in the revenue with that of the preceding year.According to the information provided by the Cement Company, income of Rs. 2.02 million could have been earned by the Department if their productions were distributed by trains to their island wide distribution network. Accordingly, the annual income that can be earned by transporting the cement of that cement company alone is around Rs. 24 million.However, the Department had not put in place a formal plan to increase that revenue even by the end of the year under review.

Revenue from Coal Transportation

The Sri Lanka Railways had entered into an agreement with a company to transport coal by train from Trincomalee Port to Puttalam.According to the above agreement, a railway yard had been constructed adjacent to the Mahawa Railway Station and an access road was constructed to facilitate the transportation of coal. Although an income of Rs. 28 million could have been earned from coal transport per annum, the company had withdrawn from the contract due to the failure of the Department to deliver adequate trains and wagons on time.

Purchase of TenM11 Locomotives

TenM11 locomotives had been purchased at a cost of about Rs. 850 million under the Indian loan assistance. Although the procurement should have been executed through open bidding in India, this procurement had been carried out as a Single Source Procurement.Further, there observed 20 instances where the bidder's specifications had not matched with the specifications submitted by the Sri Lanka Railways and 17 of the 46 conditions contained in the technical specification had not been evaluated properly.Of the conditions presented, 17 conditions, or 37 per cent of the conditions, had conformed to the technical specification. Accordingly, without being taken action to cancel the procurement in accordance with Guideline 2.4 of the Government Procurement Guidelines, further action had been taken.Further, in terms of Clause 3.2 of the Agreement relevant to the purchase of Indian Locomotives, after rectifying the discovered technical deficiencies within 3 months, the other shipments should have been made, but shipments had been made irrespective of that requirement. When considering the condition of the railway tracks in Sri Lanka, these engines could have caused running problems due to the length of those engines, and 3 out of 10 locomotives were not in operation due to various faults by the end of April 2021.Further, the purchase of Indian engines amidst the confirmation of the Department of External Resources to the effect that American engines are more economically viable than Indian engines had resulted in a total loss of US $ 10.5 million or Rs.1,905.23million to the Government.

Installation of Water Filters at Railway Stations

In the implementation of the project relating to the installation of water filters at railway stations in the year 2017, the relevant contractor had delayed the completion of the work as per the agreement. According to the agreement reached, a late fee should be recovered from the contractor for the relevant delays. Accordingly, a sum of Rs. 1.64 million should have been recovered as late fee from the contractor, whereas the Sri Lanka Railways had not recovered that money even by the end of the year under review.Further, 17 water filters installed at 17 railway stations in the Anuradhapura Division were out of order and the value of those filters was Rs. 10.21 million.

Installation of Closed-Circuit Television System (CCTV)

A sum of Rs.35.58 million had been spent on the installation of the Closed-Circuit Television System (CCTV) between Fort and Maradana.The system was scheduled to be installed on 17 November 2013 and before the expiry of warranty period, 31 cameras at the Colombo Fort Railway Station and 17 cameras at the Maradana Railway Station had become defunct due to lightning struck on 12 June 2014. Although the warranty period is two years as per the terms of the technical agreement, the supplier had not steps to repair the system even by 31 December 2020. This hazard was caused due to the fact that these were installed without prior consideration of the possible damage by lightning. Further, this supply company had entered into the contract by falsely stating that it was an institution affiliated to the University of Moratuwa and this matter could not be identified at the initial stager.Subsequently, it had failed to take legal action against that company even by 31 December 2020.

Installation of Event Recorder and Vigilance Systems for Locomotives

A sum of Rs.96.93 million had been spent on the installation of Event Recorder and Vigilance Systems for 6 M-Class locomotives and W-3 Class locomotives. This purchase had been made without being fulfilled the requirements of submitting a specific proposal for the project, or conducting a study thereon, or prior identification on which engines they will be fitted.The types of engines that were used to install the devices had been changed from time to time and due to the effect of the exchange rate change resulted from delays caused by the irregularity of the project, a sum of Rs.1.92 million had been overpaid as at 05 March 2020.

Transportation of Sand by Train

Withoutbeingpublished an advertisement indicating that sand could be transported by train so that other traders in the field would be aware of it, one private institute had been given the opportunity to transport sand by train.The relevant transport task had been carried outon reaching a concurrence without entering into an agreement. In this case, as the charges had been fixed without considering the fact that each journey had to be done with an empty train trip and the train warehouses used, the revenue due to the Department of Railways had been lost.

Unauthorized Construction and Unauthorized Activities in the Railway Reserve

Although the Railway Security Service had informed the Legal Division through 51 files regarding unauthorized constructions and unauthorized activities in the railway reserve in the year 2019, those had not been reacquired. There was no note or record even as at 31 December 2020 on any action taken against illegal activities perpetrated in the railway reserve which had been reported by the officers supervising the Peradeniya - Matale road on 108 occasions from 2017 to 05 December 2019, the date of inspection.

Removal of Wooden Sleepers

When replacing new concrete and wooden sleepers for the maintenance and repair of the existing railway track, there was no introduced formal internal control system or control inspection system to classify the removed wooden sleepers as reusable and non-reusable with the intervention of a responsible officer after proper inspection and to handover those balances to the relevant places with the due approval of another higher-ranking official.

Sale of Discarded Items

The administration had not focused its attention on selling of DOGSPIKES (old sleeper nails), Bearing Plates and Fish Plates (pairs), by auction or through tenders at the market prices.The Department of Railways had not taken steps to earn the revenue of Rs. 27.64 million which could have been obtained from the sale of scrap metal.

Idle Assets

Under the Japanese Non-Project Grant Aid Program to supply local products, 40Track Gauges, Hand Tie Tamper sets and Trolleys Tracks were received for road maintenance. Two of them had been issued to the Anuradhapura Permanent Road Inspection Office on 05 January 2020 and those had not been used due to lack of adequate amount of ballast..

Payment for Unsupplied Goods

The Authorizing Officer should ensure that the goods were received in the due standard and in the correct quantities, and after certification made by the certifying officer that the goods have been received in the relevant documents, payment should be made for stores supplies. However, a sum of Rs. 80.19 million had been paid to the supplier without proper approval and certification.

A total of Rs. 80.19 million had been paid for goods not supplied each year from 1980 to 2020. Forty-two (42)per cent or Rs. 33.68 million of the total payments had been made before 2010. The remaining 58 per cent or Rs. 46.51 million had been paid after 2010. Forty (40)per cent of those payments representing Rs. 31.90 million was the payments applicable for the period of 05 years from 2016 to 2020. The Department of Railways had not taken adequate steps to recover the payments so made and to identify the non-supplied goods and to make payments only for the supplied goods.

Unsettled Letters of Credit

The value of unsettled letters of credit as at the end of the year under review was Rs. 594.38 million, of which 35 per cent or Rs. 207.56 millions worth letters of credit remained outstanding for a period of 03 to 22 years.A large sum of money had to be paid as late fees and interest annually due to not carrying out the clearance work efficiently when the goods were imported after the lapse of more than 03 years from the payment money. A sum of Rs. 18.52 million had been so paid during the year under review. Payment of late fees and interest has become a common scenario of the institution and adequate measures have not been taken to minimize such unnecessary expenses.

Purchase of spare parts for S 10 - Class Power Caches

Bids had been invited for the purchase of 663 units of spare parts required for S 10 - Class Power Caches under 09 categories.Five hundred and forty (540)spare parts of 4 types had been removed from the assessment stating that they are not required at present. Further, despite the availability of required amount of units, 04 types of spare parts had been purchased. Accordingly, the requirement to purchase spare parts for the Department had not been determined in a proper manner on a proper study and therefore, Rs. 19.51 million had been spent to purchase unnecessary stocks.

Failure to Fill Cadre Vacancies

According to the cadre information submitted to the Audit by the Sri Lanka Railway Department, the total number vacancies in the of approved cadre as at 31 December 2020 was 7,335 and it represented 37 per cent of the approved cadre. Without being taken action to fill those vacancies, staff with 335 members had been recruited on casual and contract basis without formal approval.Accordingly, although the total staff shortage had been stated as 8,419, information on staff employed on contract and casual basis during this year had not been included in the cadre information.

Ports and Shipping

Observation

- Implementation of major development projects
- Importation of Public Sector Cargo
- Market share of the Ports Authority in relation to container operations
- Cargo Operations
- Vessels Arrived at the Port of Colombo (Arrival)
- Decline in the Terminal Operations
- Underutilization of the Eastern Container Terminal
- Foreign Loans Obtained for the Construction of the Hambantota Port
- Guarantee Made for Loans Obtained by a Subsidiary Company
- Not installing a CCTV Camera System
- Penalty Imposed by the Custom
- Receivables from the General Treasury
- Review of Assets
- Gains in Foreign Exchange Conversions
- Non-compliance with the Finance Act
- Non-Transferring of Lands Formally
- Related Party Transactions
- Uneconomical Expenditure
- Compensation

Ports and Shipping

The following functions and roles should have been performed by the Ministry of Ports and Shipping and the State Ministry of Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development and the 03 Statutory Boards which operate with the vision of providing a high quality and user-friendly shipping service by developing Sri Lanka as the most competitive hub of maritime activities in the South Asian region.

- Development and expansion of Colombo and Hambantota seaports as commercial and passenger ports.
- Development of Hambantota Port as an industrial and service port and facilitating local businesses to provide services such as ship maintenance, repair and supply of goods for ships.
- Development of container yards based on road and rail connectivity in Peliyagoda, Veyangoda and Ratmalana areas with the participation of the private sector.
- Improving reshipping handling capacity, warehousing container yards, supply facilities and boat and shipping industry development.
- Development of Galle, Kankesanthurai and Trincomalee Ports as per regional needs and national economic needs.
- Promoting the production of boats required for fishing, shipping and tourism sectors as a national industry.
- Expansion and encouragement of ship and boat maintenance, repair and manufacturing activities for exportation targeting the needs of foreign markets.
- Engineering and technical facilities required for ship and boat production, development of docks and infrastructure facilities required for those products
- Coordinating with Sri Lanka Ports Authority and Sri Lanka Customs

The Parliament has allocated provision totaling Rs. 3,531 million to the Ministry of Ports and Shipping and to the State Ministry of Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development to fulfill the above role by the year 2020 and only Rs.2,270 million out of the provision allocated had been utilized. Details are given in the figure 26

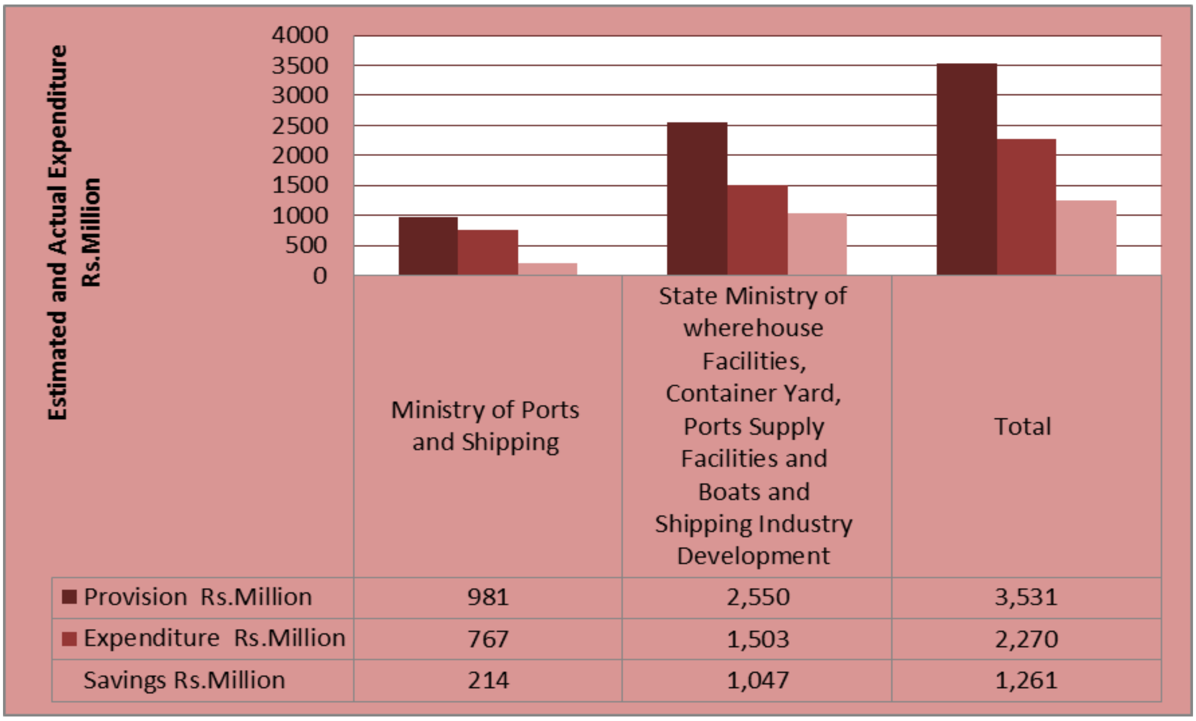


Figure 26 - Estimated and actual cost
Source - Financial Statements for the Year 2020

Material and significant audit observations made during the audit test checks carried out in relation to the performance of the above functions and roles by the Ministry of Ports and Shipping and the State Ministry and the 03 Statutory Boards under its purview are summarized and mentioned below.

Implementation of major development projects

Grants amounting to Rs. 963.60 million had been saved as foreign aid amounting to Rs. 1,671 million (Japanese Yen 1000 million) received from Japan in 2019 for the Trincomalee Port Development Project had not been properly calculated and allocated during the year under review.

Importation of Public Sector Cargo

As per the decision taken at the meeting of the Cabinet of Ministers held on 13 January 2016, all the public institutions, including foreign aided projects should have imported public sector cargo through the Ceylon Shipping Corporation Limited in accordance with the provisions of Public Finance Circular bearing No. 415 of 06 May 2005. Moreover, it had been stated that the importation of public sector goods should be carried out through the Ceylon Shipping Corporation Limited as per the Public Finance Circular Letter bearing No. 03 of 18 February 2016 and the instructions issued by the Central Bank of Sri Lanka to the commercial banks dated 11 August 2016.

The number of government institutions seeking services of the Company had been limited and the government institutions engaged in large scale importation activities had not availed the services of the Company. Moreover, it was also revealed that some government institutions had made requests from other foreign shipping companies to carry out importation. The Company had issued waivers for more than 700 such requests in 2017, 538 in 2018 and 492 in 2020. Accordingly, it was observed that a suitable system had not been implemented by the Company to obtain business opportunities related to the importation of goods by state institutions. The Ceylon Shipping Corporation Ltd. had not taken action to optimize the use of the state sponsorship provided by the above Circulars to expand the market share of the Company.

Market share of the Ports Authority in relation to container operations

According to the Alphaliner Report on container operations of the Ports in the World for the year 2020, the Port of Colombo operated 6,854,000 Twenty Equivalent Units (TEU) and was able to secure the ranking of 22nd in the world during the previous year as well as during the year under review. According to the reports, there was a 5.2 percent decline in those activities at the Port of Colombo, while the decrease at the terminals owned by the Sri Lanka Ports Authority was 8.1 percent as compared with that of in the year 2019.

Cargo Operations

Although the number of ships arrived at the main ports of Colombo, Galle, Hambantota and Trincomalee was 5,023 in 2016, it had dropped to 4,337 by the year 2020. The number of Twenty Equivalent Units (TEUs) handled had increased from 4.9 million in 2014 to 7.2 million in 2019. However, it had decreased to 6.8 million by 2020. The volume of conventional cargo handled had decreased from 7.81 million MT in 2016 to 6.7 million MT by 2020. The details are shown in Table 17

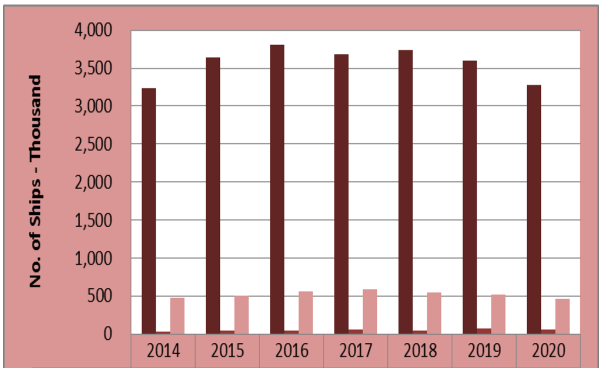
Details	2014	2015	2016	2017	2018	2019	2020
Nomber of ships arrived	4,298	4,760	5,023	4,942	4,933	4,708	4,337
Number of Twenty Equivalent Units (TEUs) handled (000 Units)	4,908	5,185	5,735	6,209	7,047	7,228	6,854
Volume of traditional cargo shipping handled (000, M.Tons)	6,339	7,156	7,811	7,735	7,438	6,673	6,748

Table 17 - Container Units handled at Major Ports and Conventional Cargo Volume

Source: - Performance Review Report of the Sri Lanka Ports Authority

Vessels Arrived at the Port of Colombo (Arrival)

The number of container vessels arrived at the Port of Colombo during the year under review had decreased by 323 vessels or 8.9 percent compared to that of in the previous year. The Port of Colombo had the highest number of container vessel arrivals in 2016, after the year 2014 and there was a relative decrease in the number of container vessels arrived in the year 2020. Details are given in Figure 27



	2014	2015	2016	2017	2018	2019	2020
Handled	3,239	3,643	3,804	3,683	3,739	3,604	3,281
Traditional	28	45	40	56	51	77	64
Others	475	509	561	590	541	517	461

Figure 27 – Arrival of Vessels at the Port of Colombo

Source - Performance Review Report of the Sri Lanka Ports Authority

Decline in the Terminal Operations

During container operations at the Port of Colombo, the market share of the Sri Lanka Ports Authority fell from 81 percent to 32 percent during the 20-year period from 2001 to the end of 2020. However, of the two private companies competing at two other terminals in the Port of Colombo, the company, which commenced operations in 2013, had a 42 percent market share and the company, which commenced operations in 2001, had a market share of 27 percent by 2020. details of the behaviour of containers over the past nineteen years are shown in Figure 28

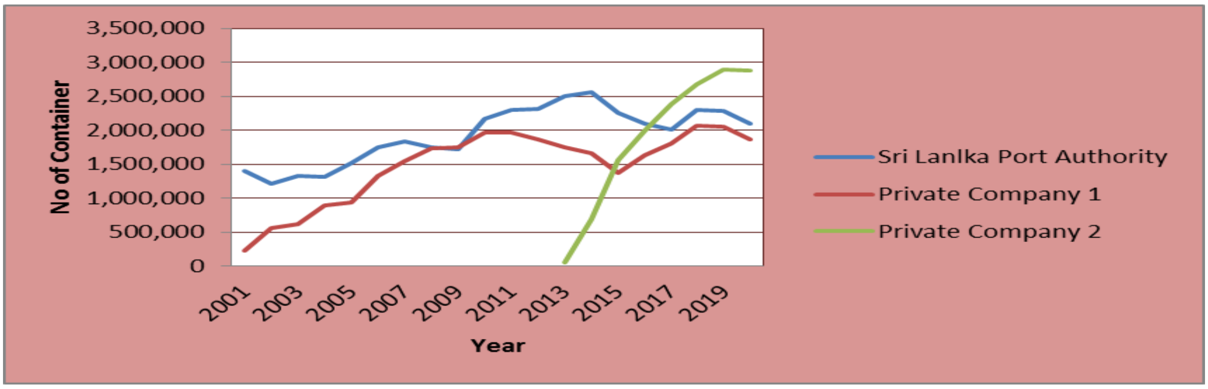


Figure 28. - Terminal Operations of the Sri Lanka Ports Authority

Source - Performance Review Report of the Sri Lanka Ports Authority – 2020

According to the above data, the market share secured by the Sri Lanka Ports Authority in handling containers was gradually being transferred to the private sector. It was 65 percent, 70 percent and 72 percent in 2018, 2019 and 2020 respectively when the Terminal Occupancy Ratio of the container operations of the Authority is taken in to consideration. Accordingly, the terminal utilization rate of the Authority had gradually increased. Meanwhile, it is observed that the utilization of one terminal operated by the private sector was 120 percent and the capacity utilization of the other terminal was 96 percent by the year 2020.

Underutilization of the Eastern Container Terminal

The Colombo International Container Terminal (C.I.C.T) and the Eastern Terminal are only two terminals currently in operation for container handling at the Port of Colombo with a depth of more than 14.25 m and the access to the arrival of colossal ships. The capacity of the Colombo International Container Terminal is 2.4 million Twenty-Foot Equivalent Units (TEUs) per annum. By 2020, 401 such container vessels had arrived at the terminal and handled a total of more than 2.8 million container units. It had also exceeded its maximum capacity. It had been pointed out by a study carried out by Scott & Wilson in 2011 that the existing terminal capacity at the Port of Colombo would reach its maximum capacity by 2015, and the Eastern Container Terminal would need to be activated to meet the growing demand.

Meanwhile, the construction activities of phase 1 (with an annual capacity of 800,000 container units) of 18 m deep and 440 m long eastern container terminal the construction cost of which was Rs. 11,168 million and related to the Colombo Port Expansion Project and funded by the Bank of Ceylon had been finalized in April 2016. Three cranes capable of operating from the vessel purchased for the Jaya Container Terminal to the mainland were installed and they had commenced operations at the Eastern Container Terminal (ECT) as per the decision of the Board of Directors bearing No. PA/HD/25 dated 07 February 2020. Later, the Cabinet approval was obtained for that purpose. Thereafter, the approval had been granted by the Cabinet Decision No. 09/21/0198/328/005/TBR dated 09 February 2021 for the development of the Eastern Container Terminal, the purchase of operating equipment and the operation of the Container Terminal as a wholly owned container terminal of the Sri Lanka Ports Authority. According to the information submitted to the audit, 26 container vessels had arrived at the terminal between September to December 2020 and had handled 41,741 containers. However, large-scale cranes capable of operating from ship to land had to be procured in order to maximize the utilization of the operational capacity of the terminal.

Foreign Loans Obtained for the Construction of the Hambantota Port

The balance of loans and interest amounting to Rs. 147,746 million, out of the foreign loans obtained for the construction of the Hambantota Port, saved in the accounts of the Authority as at 30 November 2017 had been eliminated from the financial statements for the year 2017 by the Authority without the consent of the General Treasury or the approval of the Cabinet of Ministers and since then, the amount of loan had not been included in any government account. However, the General Treasury was responsible for repaying the above loans and interest as per the approval of the Cabinet dated 04 August 2017 granted to the Cabinet Memorandum No. MPS/SEC/2017/32 dated 20 July 2017 submitted under the heading of "Hambantota Port Concession Agreement". Accordingly, the External Resources Department of the General Treasury had paid the loan instalments and interest since 2017 and according to the documents, the outstanding loan balance as at 31 December 2020 was Rs. 169,566 million. Further, the cumulative loss of foreign exchange conversion amounting to Rs. 31,545 million calculated up to 30 November 2017 in respect of the above loan amount had been eliminated from the accounts of the Authority with the elimination of the loan. The cumulative loss of foreign exchange conversion amounting to Rs. 65,618 million as at 31 December 2020, including the cumulative loss of foreign exchange conversion amounting to Rs. 34,072 million from 30 November 2017 to 31 December 2020 had not been included in the accounts of the General Treasury or the Authority.

As per the letter of the Secretary of the Ministry of Finance dated 06 July 2020, the Minister of Finance had ordered to include the relevant assets and loans in the books of the Sri Lanka Ports Authority in terms of Section 12 of the Finance Act No. 38 of 1971 and accordingly, the Chairman of the Authority had been informed to make the necessary adjustments in the Financial Statements for the year 2019. Furthermore, it had been informed by the letter No. PED/S/SLPA/2/8 (i) dated 31 December 2020 and by the letters of the Secretary of the Ministry of Finance to include the above loan amount in the books of the Sri Lanka Ports Authority. However, neither the Sri Lanka Ports Authority nor the General Treasury had taken action to account the loan balance including the foreign exchange conversion loss even by the end of the year under review.

Guarantee Made for Loans Obtained by a Subsidiary Company

Magampura Port Management Company (private) Limited, a subsidiary of the Colombo Ports Authority and which had ceased operations from November 2017, had obtained a loan amounting to USD 24 million from a private bank in 2014. A sum of USD 22.3 million, out of that amount, had not been repaid even by the end of the year under review and the

Company had no sufficient assets to repay the loan. Meanwhile, the relevant bank had filed two cases in the Colombo District Court in the year 2020 against the Subsidiary and the Authority to recover the loan. However, Sri Lanka Ports Authority, as the guarantor of the loan and as the parent company, had not made any provision for contingent liabilities for this purpose and the filing of a case had not disclosed even in the financial statements.

Not installing a CCTV Camera System

A sum of Rs. 60 million had been allocated in 2017 and Rs. 150 million in 2018 and 2019 from the capital budget to install a CCTV camera system for all gates and bonded warehouses to ensure the security of the port premises, which has been designated as a High Security Zone.

Although it had been informed by the letter of the Managing Director of the Authority bearing No. PA/MD/46 dated 09 March 2021 that a CCTV camera system would be installed, the work had not been commenced as expected even by 31 July 2021. Due to this, the risk of not being able to obtain the required information could not be ruled out in the event of a security issue at the Colombo Ports Authority, which is a high security zone.

Penalty Imposed by the Custom

An appeal could have been made to the Minister of Finance against the decision made after the Customs investigation in terms of Section 165 of the Customs Ordinance to ease the Customs penalty of Rs. 1,580 million imposed by the Customs on 27 cranes imported without informing the Sri Lanka Customs in 2011. The Sri Lanka Ports Authority had not made such an appeal to the Minister. However, contingent liabilities amounting to Rs. 957.9 million had been allocated in the accounts for this purpose. The case filed by the Authority in the Court of Appeal in this connection had been dismissed and the Authority had filed a motion in the Supreme Court in 2018 against the order of the Court of Appeal.

Receivables from the General Treasury

Although a sum of Rs. 5,156 million had been stated as receivables from the General Treasury as at 31 December 2020, including Rs. 4,777 million paid in instalments in 2017 by Colombo Ports Authority for loans obtained for the Hambantota Port Construction Project and stamp duty amounting to Rs. 372 million, the amount had not been received by the Authority even by the end of the year under review. Furthermore, the General Treasury had not confirmed the balance and this balance had not been included in the balance payable in the Financial Statements of the Republic for the year 2020 although the balance confirmation in this connection had been requested by the Authority. Due to this, there was an uncertainty in the receipt of this amount.

Review of Assets

- According to the facts revealed by the review of Assets carried out by the Sri Lanka Ports Authority by 31 December 2020, the existence of operating buildings and structures was uncertain due to the inability of physically identifying those assets, of which the carrying value was Rs. 171.12 million as at 31 December 2020.

- Even though the useful life and scrap value of fixed assets should be reviewed annually in accordance with paragraph 51 of Sri Lanka Accounting Standards No. 16 and if there is a difference, it has to be adjusted in the accounts in accordance with Sri Lanka Accounting Standards No. 8, assets belonging to 10 categories and the carrying value of which was Rs. 15,488 million, existed in the ports of Galle and Trincomalee owned by the Authority as at 31 December 2020 had not been reviewed by Sri Lanka Ports Authority.

Gains in Foreign Exchange Conversions

In contrary to Section 23 (a) of Sri Lanka Accounting Standards No. 21, the value of the fixed deposit and foreign exchange gains had been over calculated by Rs. 1,237.5 million due to using the selling rate of the United States Dollar existed on the date of the conversion instead of using the buying rate of the United States Dollar in the conversion of the fixed deposit value of USD 244.5 million owned by Sri Lanka Ports Authority as at 31 December 2020 in to Sri Lankan Rupees for the presentation of the value of the fixed deposit in the Statement of Financial Position.

Non-compliance with the Finance Act

In case there is a surplus in a public corporation for a given year, the balance after making deductions stipulated in the Act should be credited to the Consolidated Fund in pursuant to Section 10 (5) of the Finance Act No. 38 of 1971. However, only an amount of Rs. 600 million, out of the net profit totaling Rs. 48,991 million received by Sri Lanka Ports Authority during the years from 2016 to 2020, had been credited to the Consolidated Fund. The rent totaling Rs. 10,615 million, levied by the Authority for the period of 2016 to 2020 from the two companies operating at the South Asian Gateway Terminal (SAGT) and the Colombo International Container Terminal (CICT), which were leased to the private sector on long-term basis, and the amount totaling Rs. 15,164 million, charged as royalty for the period, had been included in the aforementioned profits.

Non-Transferring of Lands Formally

- Although the possession of land in extent of 2 acres, 3 Roods and 9.61 perches located at D.R. Wijewardena Mawatha of Colombo bearing Plan No. CO/COL/2012/1047 had been handed over to the Urban Development Authority for the construction of the Lotus Tower, the Sri Lanka Ports Authority had not writen off the value from the books by adhering to formal procedures and the land had not been transferred by a title deed.

- Although the land bearing Plan No. L/S/MIS/344 and bound by Main Street of Colombo 01 and Olcott Mawatha had been handed over to the Department of Customs for the construction of a building, action had not been taken by the Sri Lanka Ports Authority to assess and legally transfer the land and to write off the value from the books even by 30 April 2021.

Related Party Transactions

According to Sections 18, 19 and 21 of Sri Lanka Accounting Standards No. 24, information related to the transactions with the related parties pertaining to the financial year should be disclosed under the related party transactions to enable the users to understand their nature, balances and impact on the financial statements. The Authority had received Rs. 164,339 million from Hambantota International Port Services (HIPS) and Hambantota International Ports Group (HIPG) by transferring the assets of the Hambantota Port on a long term lease basis. Annual deferred rent revenue related to the above balances credited in the income statement in the calculation of the net profit for the year under review had been Rs. 1,713 million. The annual deferred rent revenue and the information pertaining to the related party transactions of providing Rs. 42.14 million to the Authority in the year 2020 by Jaya Container Terminals Ltd. to pay the mobilization advance for the construction of a new oil tank had not been disclosed in the notes to the financial statements.

Uneconomical Expenditure

Although it had been agreed to construct a Multipurpose Terminal at the Port of Galle with the objective of developing the Southern Territory under the loan agreement entered into on 28 March 2006 with the Government of Sri Lanka and the Japan Bank for International Cooperation (JBIC), the approval of the UNESCO had to be obtained for carrying out this construction in the vicinity of the Galle Fort, which has been declared as a World Heritage Site. It was decided to suspend this project due to non-extension of the loan period by the lender due to the delay of more than 3 years for obtaining the approval. The consultation fee amounting to Rs. 418 million incurred in this regard had become an uneconomical expenditure. The amount paid as consultation fees had been stated as work in progress in the financial statements of the Authority for the year 2020.

Indeminity

A ship had collided with the Jaya Container Terminal at the Port of Colombo on 04 December 2019 by damaging the Caisson, Feeders and Quay wall of Jaya Container Terminal. The damage was estimated at Rs. 315.90

million. Although the Authority had received Rs. 384.42 million on 30 December 2019 for the above damage, repair work had not been carried out even by the end of the year under review.

Highways

Observations

- Rural Bridge project
- Rescheduling of unsettled Loans
- Capitalization of Roads owned by the Authority
- Non-adoption of a Scheme of Recruitment
- Over Payment of Salaries
- Under-utilization of Foreign Loans
- Land Acquisition of HighwayProjects
- Construction of National and Rural Roads
- Second Integrated Road Investment Programme
- Extension ofSouthern ExpresswayProject
- Extension ofSouthern ExpresswayProject- Phase-01
- Extension ofSouthern ExpresswayProject- Phase-02
- Extension ofSouthern ExpresswayProject- Phase-04
- Central Expressway Project- Phase-03
- Central Expressway Project- Phase--04

Highways

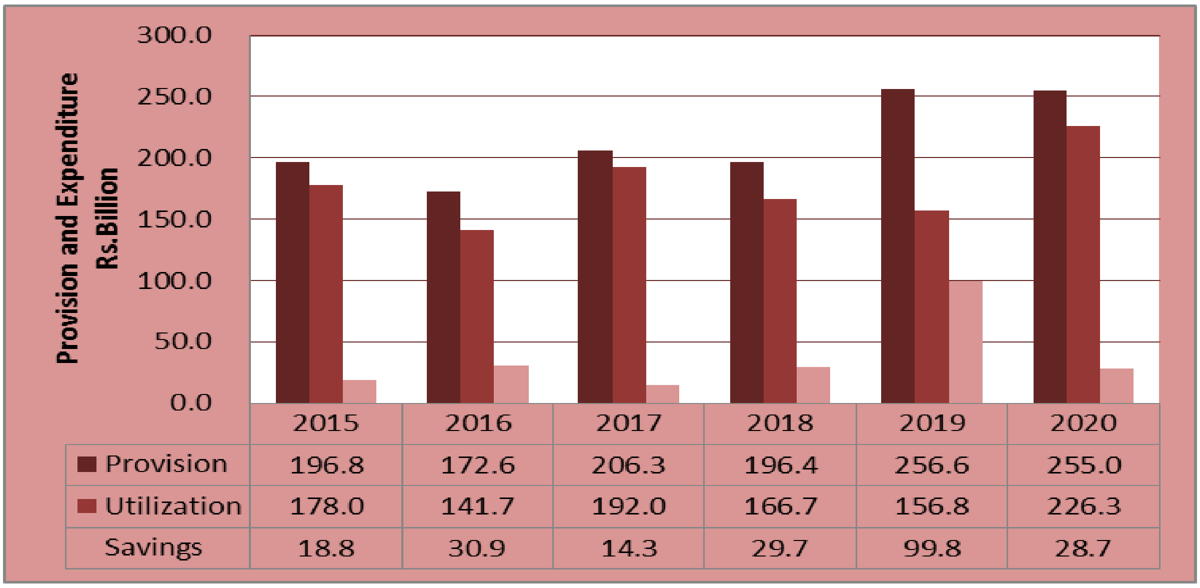
The road network is considered as the most valuable and specific social asset of a country and it has been recognized as a very important component in social welfare economically, socially, culturally, as well as environmentally. Accordingly, the Government of Sri Lanka expects to maintain the economic growth at a higher rate and it has been identified that maintaining the road network in a proper condition is vital in achieving these development targets. In spite of the heavy investment on uplifting the living standards of the people all over the country, the Government has allocated a substantial amount of provisions to this sector to cater to the increase in demands within the transport needs of the country as a whole.

Further, it has been observed that the investment made in the Highway Sector generates a high economic value due to reasons such as passengers can easily access their destinations, saving of fuel, minimizing the travelling cost and traffic volume. In order to fulfill the said objective, the following functions should have been performed by the Ministry of Highways, State Ministry of Rural Roads and other Infrastructure, Road Development Authority and the State Development and Construction Corporation as per the Annual Budget Estimate 2020.

- Rehabilitation of undeveloped roads connecting relevant economic and investment zones and rural and urban roads and maintenance of road systems
- Completion of Colombo Kandy Port Access Elevated Highway, Northern Expressway, Ruwanpura Expressway, Expressway from New Kelani Bridge to Athurugiriya
- Developing a mechanism to reduce the traffic volume by implementing an efficient road plan with necessary infrastructure facilities and establishment of automated vertical vehicle parks in every city
- Improvement and modernization of rural road network
- Construction of an alternative road system for providing high level access to highways and expressways
- Modernization of bridge system connected with the road network

The total length of the national road network of Sri Lanka is approximately 12,496 km by the end of the year 2020 and it consists of approximately 4,217 km of "A" class roads, 8,007 km of "B" class roads, 272 km of Expressways and 4,254 bridges. Many nationally important development projects had contributed to the social and economic development of the country in the year 2020 through facilitating a wide approach to the national road and expressway network as well as through the development of all internal and rural access roads.

In order to carry out the said function, provision totalling Rs.261,226 million had been made by Parliament in the year 2020 to the Ministry of Highways and the State Ministry functioning under the Ministry and out of that, only a sum of Rs.231,199 million had been utilized by the end of the year under review. Particulars on provision made to the Highway Sector in the year under review and 05 preceding years and utilization thereof are given in Figure 28



	2015	2016	2017	2018	2019	2020
Provision	196.8	172.6	206.3	196.4	256.6	255.0
Utilization	178.0	141.7	192.0	166.7	156.8	226.3
Savings	18.8	30.9	14.3	29.7	99.8	28.7

Figure 28. – Provision made during 06 preceding years and utilization thereof
Source – Final financial statements of the Treasury

The summary of audit observations made during the audit test checks carried out pertaining to aforesaid functions, is given below.

Rural Bridge project

The State Ministry of Rural Roads and other Infrastructure had identified 53 rural bridge projects to implement under road development programmes in the year 2020. Provision had been made therefor by estimating a cost totalling Rs. 814 million and out of that, only a sum of Rs. 279 million representing 34 per cent of the estimated provision had been spent therefor.

Contracts of 36 out of 59 rural bridges identified by the State Ministry had been awarded by 31 December 2020 and the physical progress of 07 contracts of those projects had ranged between 50 per cent and 80 per cent, whilst other 13 contracts had reported a progress less than 50 per cent.

Rescheduling of unsettled Loans

There was an unsettled loan balance of Rs.289,533 million obtained by the Road Development Authority for road construction works, by 31 December 2020. Out of those loans, sums of Rs.168,582 million, Rs.69,366 million and Rs.51,585 million had been obtained from state commercial banks, National Savings Bank and from private licensed banks respectively. Debentures to be matured in the year 2030 had been issued for Rs. 112,724 million of those loans. Furthermore, sums of Rs. 21,273 million, Rs. 59,366 million and Rs. 32,085 million obtained from state commercial banks, National Bank and from private banks had been rescheduled.

Capitalization of Roads owned by the Authority

Only a length of 2,236 km out of 12,193 km of A and B class roads owned by the Road Development Authority had been capitalized by 31 December 2020. Accordingly, the length of roads capitalized had been 18 per cent of the total length of roads.

Non-adoption of a Scheme of Recruitment

Even though the staff employed in the service of the Road Development Authority had been over 13,000, they have been attached island wide. A Scheme of Recruitment approved by the Department of Management Services had not been followed for recruitments, promotions and transfers of the said staff.

Over Payment of Salaries

A sum of Rs. 172 million had been over paid in the year 2020 to 174 Senior Officers of the Authority alone due to payment of salaries by placing them on high salary steps contrary to rules of the Department of Management Services.

Under-utilization of Foreign Loans

Construction works valued at Rs.1,417 million of constructions planned by the Outer Circular Highway Project had not been completed. Moreover, constructions of 19 out of 37 bridges planned to be constructed by a project had not been carried out. As such, a sum of Rs. 10,445 million of the loan amount granted to the said project, could not be utilized. Further, commitment fees of Rs. 431 million and an exchange loss of Rs. 9,841million had to be sustained by 05 projects due to non-utilization of loans during the project period as per agreements entered into.

Land Acquisition of Highway Projects

A sum of Rs. 35,023 million had been paid as compensation on behalf of 14,040 plots of land of 06 projects and out of those, only 486 plots of land had been taken over to the Road Development Authority.

Even though Orders for acquisition of lands had been issued for road construction projects, those payments had been delayed due to non-receipt of provision required to pay relevant compensation. As such, an additional interest of Rs.3,623 million had to be paid for 09 projects. Moreover, an additional cost of Rs. 221 million had to be incurred due to failure in taking action to complete at least 50 per cent of acquisition of lands at the time of awarding contracts relating to road construction projects.

Construction of National and Rural Roads

The Integrated Road Investment Programme has been initiated with a view to rehabilitate 218 km of national roads and 3,106 km of rural roads in Southern, Central, Sabaragamuwa, Wayamba, North Central Provinces and in the Kalutara District, Western Province. However, no contracts relating to rural roads whatsoever and 114 km of national roads had been awarded by 31 December 2020.

Even though contracts had been awarded by 31 December 2020 to rehabilitate 1,000 km of rural roads in Southern, Sabaragamuwa, Central, North Central, Wayamba Provinces and in the Kalutara District, Western Province, the said selected contractors had abandoned those roads without carrying out rehabilitation works thereon. However, contracts had been re-awarded to carry on remaining works on roads abandoned in such a way and the value of contracts had increased by Rs. 5,007 million as compared with the value of original contract.

Contracts had been re-awarded to complete remaining works on 04 contracts abandoned in the year under review under the programme of development of 100,000 km of rural roads, to same contractors who had abandoned constructions. The value of contracts re-awarded so had increased by Rs.580 million as compared with the value of original contract. Further, the said procedure was observed as a process of providing undue financial benefits to contractors who had abandoned constructions.

Action had not been taken even by the end of the year under review to recover mobilization advances paid to contractors through performance bonds valued at Rs. 2,668 million relating to 12 abandoned contract packages.

A sum of Rs.291 million had been paid uneconomically to the lending agency as commitment fees on unutilized loan amount in the year under review and the accumulated commitment fees paid accordingly had been Rs. 1,471 million by 31 December 2020.

Even though the lending agency had directed to recover mobilization advances relating to abandoned contracts and to repay it to them, the project had failed even by the end of the year under review to recover mobilization advances of Rs. 2,793 million receivable relating to 08 contract packages.

A sum of Rs.158 million had been paid to other contractors by 31 December 2020 for making the roads passable, which were abandoned in the Wayamba Province in the year 2019.

Second Integrated Road Investment Programme

According to the original plan, the project had planned to rehabilitate 340 km of 27 national roads and 3,400 km of 1,405 rural roads in Northern, Eastern, Uva and Western Provinces under 53 packages. However, contracts relating to rehabilitation works on 20 km of national roads and 87 km of rural roads had not been awarded by 31 December 2020.

Rehabilitation works of only 40 km of national roads and 732 km of rural roads had been completed amongst roads under rehabilitation works. As such, the progress of national and rural roads awarded stood at 22 per cent of roads awarded for rehabilitation works.

A sum of Rs.243 million had been paid uneconomically to the lending agency as commitment fees on unutilized loan amount in the year under review and the accumulated commitment fees paid accordingly had been Rs. 450 million by 31 December 2020.

A sum of Rs.86 million had been paid to contractors involved in road constructions in the Uva Province for performance bonds by including the cost incurred for performance bonds which should be obtained through expenses of contractors, in bills of quantities of the contract as an item of payment.

There were anomalies in fees among engineering estimates, bidding documents and bills of quantities due to erroneous definition of items of payment, thus incurring a loss of Rs. 48 million by 31 December 2020 relating to two contract packages.

According to Conditions of the Contract, all laboratories, furniture and measuring equipment had been scheduled to be handed over to the contractor himself at the end of the project. Nevertheless, a sum of Rs. 609 million had been paid as a lump sum and as such, undue benefits had been provided to contractors due to unusual Conditions of the Contract.

Extension of Southern Expressway Project

Even though two lands had been acquired for the construction of service centers, constructions had not been carried out thereon. Accordingly, providing service facilities to the public using the expressway up to a distance of 176 km from Velipenna to Hambanthota was problematic due to lack of service area beyond Velipenna, located on the 46th kilometer on the Southern Expressway.

It was observed at the physical inspection carried out in Phases 3 and 4 of the Extension of Southern Expressway Project that the road smoothness at certain stretches of the expressway was not sufficient to maintain the good running condition of motor vehicles.

Extension of Southern Expressway Project - Phase-01

Despite having expired the defects notification period and the loan period, it had been decided to construct a semi interchange centre on the expressway at Kapuduwa area at a cost of Rs. 460 million and in case the said interchange had been identified at the planning stage, the cost thereof could have been minimized.

The project had to pay an additional payment of Rs.129 million to the contractor for piling and non-piling structural works due to unclear definitions made in contract documents and engineering instructions provided to contractors

Even though an expenditure of Rs.185 million had been incurred for the construction of buildings on permanent basis with a view to providing facilities, intended utilization of those buildings had not been planned.

Even though equipment, machinery, motor vehicles, materials, accessories and all other unused consumables imported for the project on duty free basis should be re-exported at the end of the project, the process of re-exportation of goods valued at US$ 35 million had not been completed.

Extension of Southern Expressway Project - Phase-02

Equipment valued at US$10 million to be re-exported at the end of the project had been re-exported or retained with them without paying tax, thus gaining unusual benefits by the contractor.

Extension of Southern Expressway Project - Phase-04

Even though the Project Director had proposed to use permanent buildings valued at Rs. 106 million as a capacity building centre of the Road Development Authority, the approval of the Road Development Authority had not been received therefor.

Despite having lapsed 06 months after expiry of the warranty period of the project, resolution of three disputes pertaining to claim to the title, valued at Rs.509 million could not be concluded.

Even though a sum of Rs. 3,000 million had been allocated for the construction of buses and railway transit terminal, that proposal had been cancelled without taking any action whatsoever to construct the said terminal. Moreover, those savings had been included in a revised bill of quantity as well with a view to utilizing for another activity of the project.

Central Expressway Project-Phase-03

Even though contracts for civil works of the Central Expressway Project had not been awarded even by the end of the year under review from the year 2013, a sum of Rs.834 million had been spent for the project management unit.

Central Expressway Project-Phase—04

A sum of Rs.353 million had been spent for the project management unit from the year 2016 up to now without a funding agency for the project and without awarding contracts for civil works of the project.

Electricty

Observation

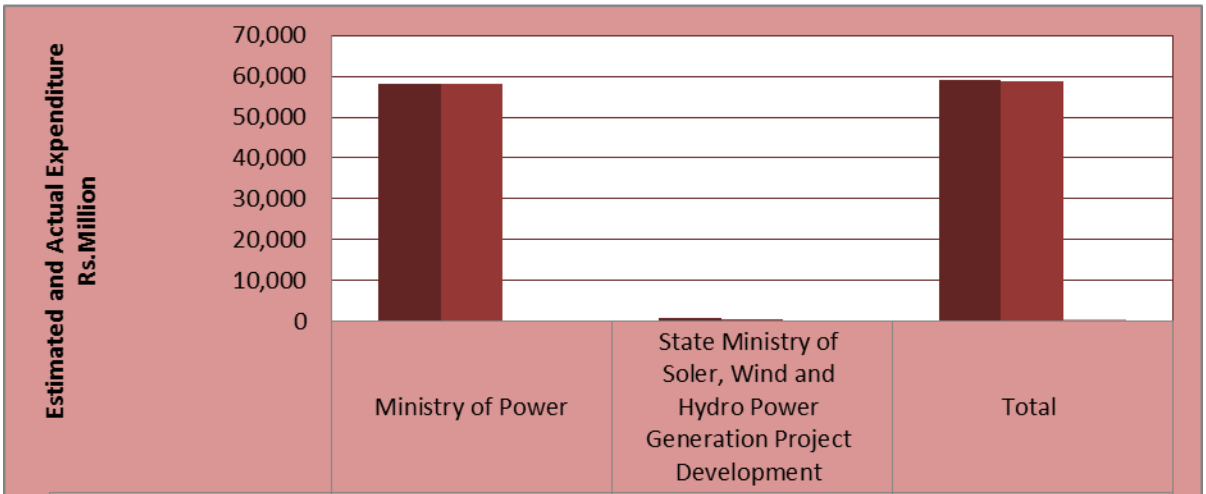
- Construction of the Moragolla Hydro Power Station with the Capacity of 31 MW
- National Transmission and Distribution Network Development and Efficiency Improvement Project
- Broadlands Hydro Power Project
- Performance of Foreign Aid Projects
- Non-vesting of Assets
- Low Supply of Coal
- Purchase of Electricity from Producers without Generation Licences
- Release of Employees to other Institutions
- Payment of Holiday Pay
- Non-payment of Interests on Deposits owned by Consumers
- Non-commencement of Power Plants
- Long Term Generation Expansion Plan
- Determination of Standardized Charges for Solar Power Plants
- Maximum Demand to be met from Power Plants belonging to the Ceylon Electricity Board

Electricity

The following duties and functions should have been performed by the Ministry of Power and a State Ministry of Solar, Wind and Hydro Power Generation Projects and 07 statutory boards/institutions functioning under the Ministry.

- Developing a Smart Grid to ensure maximum efficiency and utility of the power generated
- Expanding investments to increase the power generation capacity of the Lak Vijaya coal power plant
- Implementing the power generation plan based on long-term requirements
- Making the power transmission and distribution processes efficient
- Minimizing the cost of power in order to maintain the international competitiveness of the industrial production process
- Equilibrating the mix of renewable energy power plants, thermal power plants and natural power plants, and thereby reducing the cost of power generation and eliminate uncertainties that may occur
- Transforming the Kelanitissa Power Plant into a power plant associated with natural gas turbines and expanding the Kerewalapitiya Power Plant
- Developing a Smart Grid to ensure maximum efficiency and utilization of the power generated
- Encouraging the use of solar power systems to ensure the availability of low-cost energy for households, office and factories
- Transforming all the power plants located in Colombo into power plants with natural gas turbines
- Encouraging the use of solar power systems set up at roofs to ensure the availability of low-cost energy for households and small enterprises
- Encouraging the private sector and entrepreneurs to undertake renewable energy projects
- Taking measures to add the Broadland hydropower station by 2020, Uma Oya by 2021, Moragolla by 2023, Talapitigala and Seethawaka by 2024 to the national grid
- Adding 100MW of energy generated in the Mannar wind power plant by 2021
- Adding 100MW of energy generated in the Mannar wind power plant by 2021 and 800MW of solar energy to the national grid by executing a wind and solar power project in Mannar, Poonaryn and Monaragala

In order to carry out the said functions, provision totalling Rs. 59,018 million had been made by Parliament in the year 2020 to the Ministry of Power and the State Ministry functioning under the said Ministry and out of that, only a sum of Rs. 58,614 million had been utilized by the end of the year under review. Details appear in Figure 29



	Ministry of Power	State Ministry of Soler, Wind and Hydro Power Generation Project Development	Total
Provision Rs.Million	58,278	740	59,018
Expenditure Rs.Million	58,079	535	58,614
Savings Rs.Million	199	205	404

Figure 29. – Estimated and Actual Expenditure
Source – Financial Statements of the year 2020

Audit observations made during the audit test checks carried out on the performance of the said duties and functions by the Ministry of Power and a State Ministry and statutory boards/institutions under purview of the Ministry, are summarized below.

Construction of the Moragolla Hydro Power Station with the Capacity of 31 MW

It had been planned to commence the project relating to the construction of the Moragolla Hydro Power Station in the year 2014 with the objective of adding a capacity of 31 MW to the National Power Grid. However, this project was commenced in the year 2017 after a delay of 3 years. The estimated cost of the project had been Rs.16,780 million and a sum of Rs.14,851million of that had been received from the Asian Development Bank. The physical progress thereof had been 27 per cent by the end of the year 2020. The project could not be commenced on due date due to delay in awarding the contract on consultancy services of the project. As such, a sum of approximately Rs.28 million or US$ 177,931 had to be paid as Commitment Charges for loans obtained.

National Transmission and Distribution Network Development and Efficiency Improvement Project

The estimated cost of this project which was executed with a view to enhancing the capacity of national transmission and distribution network located in sub-stations in Western, Central and North Central Provinces and to reducing the transmission loss, had been Rs. 23,720 million and it had been scheduled to be commenced in January 2015 and completed in January 2018. The project could not be completed as scheduled, due to reasons such as delay in entering into an agreement by holding discussions with the Japan International Cooperation Agency (JICA Institute) relating to the scope of consultancy service of the project, delay in obtaining approval of JICA for the pre-qualifications (PQ) of contractors and for procurement documents. As such, the physical progress thereof had been 33 per cent by December 2020.

Broadlands Hydro Power Project

The estimated cost for the construction of Broadlands Hydro Power Project with a capacity of 35MW, had been Rs. 9,424 million and it had been planned to be commenced in August 2013 and completed in August 2017. The delay in acquisition of land for the project and social issues arisen thereon had contributed to the delay in completion of the project. The physical progress of this project had been 86 per cent by the end of the year under review.

Performance of Foreign Aid Projects

The estimated cost for the Project of Establishment of Hybrid Renewable Energy Systems in three small islands namely Nainativu, Analaitivu and Delft with a view to generating renewable energy through power generation, had been Rs. 2,172 million. Even though it had been planned to be commenced in the year 2019 and completed in the year 2022, procurement activities thereof was in progress even by 31 December 2020 and thus, no physical progress of the project had been reported.

Non-vesting of Assets

The Sri Lanka Energies (Pvt) Ltd. and the Group had invested a sum of Rs. 7.36 million for the construction of a factory to sell a cement related product manufactured by using fly ash and bottom slag as a joint venture with a private company. However, the joint venture agreement had been suspended and the assets had remained idle due to lack of a business partner. Even though the Board of Directors of the Company had decided to hand over the assets to the Ceylon Electricity Board and informed the General Manager thereon on 10 November 2016, the said assets had not been taken over by the Ceylon Electricity Board even by 05 August 2020.

Low Supply of Coal

An outstanding balance of Rs.539.19 million relating to a supply made by a coal company, remained over a period of six years, had not been recovered even by the end of the year under review by the Lanka Coal Company (Private) Limited under a arbitrating procedure.

Purchase of Electricity from Producers without Generation Licences

Contrary to provisions in Sections 43(1) and 7(1) of Sri Lanka Electricity Act, No. 20 of 2009 and without the approval of the Commission, the Ceylon Electricity Board had spent a sum of Rs. 18.91 billion to purchase electricity of 732.192 GW-Hours from three independent power producers who had not obtained generation licences.
Contrary to Sections 7 (1), 43(2) and 43(7) of Sri Lanka Electricity Act, No. 20 of 2009 and without approval for power purchase agreements, excess electricity of 100MW had been purchased for six months of the year

2019 from power producers who had not obtained generation licences. Moreover, electricity of 78.669 GW had been again purchased by extending the period up to 6 months from February 2020 and a sum of Rs.3.26 billion had been spent therefor by the Ceylon Electricity Board.

Release of Employees to other Institutions

Contrary to Section 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003, fifty six employees had been released to the Line Ministry and to the Provident Fund of the Ceylon Electricity Board in the year under review by the Ceylon Electricity Board and a sum of Rs.79.13 million had been paid for them as salaries and other payments.

Payment of Holiday Pay

Contrary to Public Enterprises Circular No.95 of 14 June 1994 and to the decision taken by the Audit Committee of the Ministry held on 25 September 2020, the Ceylon Electricity Board had spent a sum of Rs.1.2 billion for payment of holiday pay in the year under review.

Non-payment of Interests on Deposits owned by Consumers

In terms of Section 28(3) of the Sri Lanka Electricity Act, No.20 of 2009, interests had not been paid on deposits owned by consumers of the Ceylon Electricity Board. According to computations made by the Audit based on the rate reported by the Sri Lanka Public Utilities Commission, an interest of Rs. 1,613 million should have been paid for the year under review. As such, the accumulated interest payable by the end of the year under review had been Rs. 6,731.90 million.

Non-commencement of Power Plants

Action had been taken on 20 February 2017 to obtain proposals for the purchase of 60 solar power plants with the capacity of one MW and 65 bids had been received for 38 power plants. Among them, letters had been issued on calling for consent from 36 qualified bidders with a capacity ranging between Rs.12.73 KW and Rs.18.37 KW per hour, for 35 power plants. Even though dates had been extended that power plants should be commenced on or before 31 December 2020, only the works of 20 power plants had been commenced even by 31 December 2020.

Long Term Generation Expansion Plan

According to the Long Term Generation Expansion Plan 2018-2037, it had been planned to implement new generations totalling 1587 MW comprising 500 MW, 657 MW and 430 MW in the years 2018, 2019 and 2020 respectively. However, only power plants with the capacity of 275.8 MW had been implemented. As such, the progress of implementation of new generating power plants had significantly reduced and the objective of the said Plan which is to generate electricity at a minimum cost, could not be accomplished. As a result, urgent purchases of electricity of 811 GW-Hours valued at Rs.22.2 billion had been made in the year under review.

Determination of Standardized Charges for Solar Power Plants

The Cabinet of Ministers had approved a standard rate of Rs.23.10 as standardized charges for solar power plants on 07 March 2014. According to Sri Lanka Electricity (Amendment) Act, No.20 of 2009, charges determined as per procurement procedures instead of standardized charges should have been adopted for non-conventional renewable energy projects after 06 August 2013. However, 05 solar power plants with a capacity of 10 MW each commenced in the years 2016 and 2017 was implemented at standardized charges instead of a rate determined through the procurement procedure. Charges for new solar power plants (1MWx60) had been determined through the procurement procedure at a rate ranging from Rs.12.73 to Rs.18.37 per unit in the year 2017. Accordingly, standardized rates had been unfavorable to the Ceylon Electricity Board.

Maximum Demand to be met from Power Plants belonging to the Ceylon Electricity Board

According to power purchase agreements entered into with the Ace *Power Embilipitiya* (Pvt) Ltd, the minimum certified amount of power per year had been 697,674,432 KW-Hours. Nevertheless, electricity of 475,831,835 KW-Hours had been purchased at a rate of Rs.24.42 per unit during the year under review. Accordingly, payments had been made for unpurchased electricity of 221,842,597 W-Hours. Further, power purchase agreements had been entered into for supplying electricity to the Southern Province on short term basis as 20 MW, 24 MW and 24 MW for Matara, Hambanthota and Galle respectively. Accordingly, electricity of 130,526,364 KW Hours at the value totalling Rs.4.07 billion had been purchased from these power plants. The cost per unit of a power plant had been Rs. 28.30, Rs. 36.84 and Rs.39.52 respectively while the average selling price amounts to Rs.16.72. As such, there was a possibility of minimizing the high cost incurred for electricity purchased from these power plants by supplying electricity from the Ace *Power Embilipitiya* (Pvt) Ltd. Accordingly; the maximum demand for electricity should be met from power plants belonging to the Ceylon Electricity Board instead of making urgent purchases at high prices.

Energy

Observations

- **Local Petroleum Market**
- **Financial Results and the Position of Net Assets of the Ceylon Petroleum Corporation**
- **Hedging Deals**
- **Storage and Distribution of Petroleum in Sri Lanka**
- **Establishment of a New Fuel Storage Facility in the Northern Province**
- **Inter-company Transaction Balances and Agreements**

Energy

The following duties and functions should have been performed by the Ministry of Energy and Statutory Boards/ 04 institutions functioning under the said Ministry.

- Developing policy and strategic framework to ensure energy security and self-sufficiency in Sri Lanka
- Expediting natural gas exploration
- Modernizing and expanding petroleum refinery capacity
- Rehabilitation and development of oil storage tank in Trincomalee
- Encouraging private sector and entrepreneurs to undertake renewable energy projects
- Encouraging efficient energy generation utilizing industrial waste
- Maximizing energy utilization in construction industry by formulation of new policies and laws

In order to carry out the said functions, provision of Rs.170 million had been made by Parliament in the year 2020 to the Ministry of Energy and out of that, only a sum of Rs.166 million had been utilized by the end of the year under review. Details appear in Figure 30

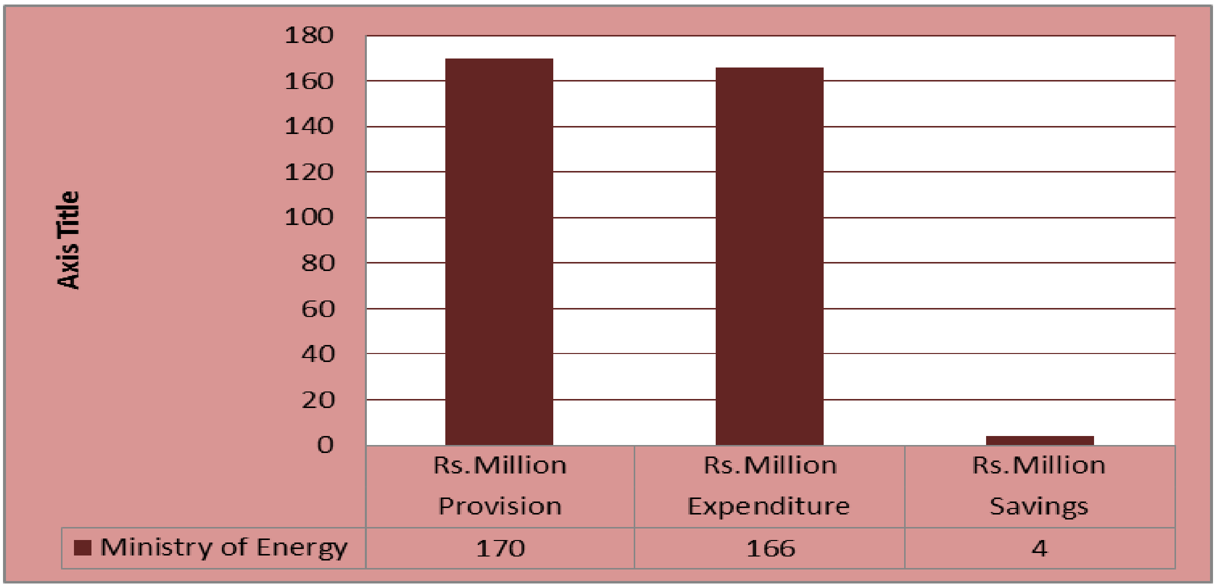


Figure 30 – Estimated and Actual Expenditure
Source - Annual Financial Statements

Significant and material audit observations made during the audit test checks carried out on the performance of the said duties and functions by the Ministry of Energy and Statutory

Institutions under purview of the Ministry, are summarized below.

Local Petroleum Market

The Ceylon Petroleum Corporation had met over 85 per cent of the demand for petroleum at the local market in the year 2020. A sum of US $ 2,325 million had been spent for overall importation of petroleum in the year under review. As a result of fluctuations in the overall petroleum market , the average price of a barrel of crude oil in the year 2020 had decreased up to US $ 45.57 by 33.76 per cent as compared with the price of the preceding year amounting to US $ 68.80. The refinery product of the Ceylon Petroleum Corporation had dropped by 7.7 per cent in the year 2020 whilst the imported refinery output as well had decreased by 22 per cent in the same year.

Financial Results and the Position of Net Assets of the Ceylon Petroleum Corporation

According to the financial statements presented to Audit, the Corporation had reported a gross profit of Rs. 55,250.87 million in the year under review while the said profit was an improvement of Rs. 50,990.21million as compared with the gross profit of Rs. 4,260.66 million reported in the preceding year. Furthermore, a before-tax net profit of Rs. 2,370.96 million had been reported in the year under review whilst a loss of Rs. 11,835.60 million had been sustained in the preceding year. The before- tax profit of the Corporation had increased by Rs.14,206.56 million as compared with the preceding year while the favorable situation caused by the fluctuations in the exchange rates of Rs. 8,397.55 million prevailed during the preceding year had become an unfavorable situation of Rs. 21,840.76 million.

According to the financial statements of the year under review presented to Audit, the value of trade debtors totalled Rs. 141,104.47 million as at 31 December 2020 indicating a decrease of 7.9 per cent as compared with the value of trade debtors for the preceding year amounting to Rs. 153,221.95 million and the decrease in the balance receivable from the Ceylon Electricity Board had mainly attributed to the said decline. The debtors balance of the year under review comprised of debtors from public sector totalling Rs. 126,907.38 million and debtors from the private sector totalling Rs. 14,197.09 million. Of that, the sums recoverable to the Corporation from the Ceylon Electricity Board and Sri Lankan Airlines, amounted to Rs. 72,679.63 million and Rs. 53,037.16 million respectively.

The negative net assets of the Corporation which was Rs. 296,123.27 million (Revised) in the preceding year, had decreased up to Rs. 275,561.15 million by Rs. 20,562.12 million at the end of the year under review. Net assets of the Corporation had further become a negative value due to heavy losses sustained in preceding years, continuous impact of fluctuations in exchange rates, inappropriate pricing policy and negative impact of heavy losses sustained by the

Corporation due to hedging deals made in preceding years. As such, the going concern of the Corporation without the financial assistance of the Government, remained questionable. The Financial Result of the Corporation for the year under review and 05 preceding years (After Tax Profit) appear in Figure 31

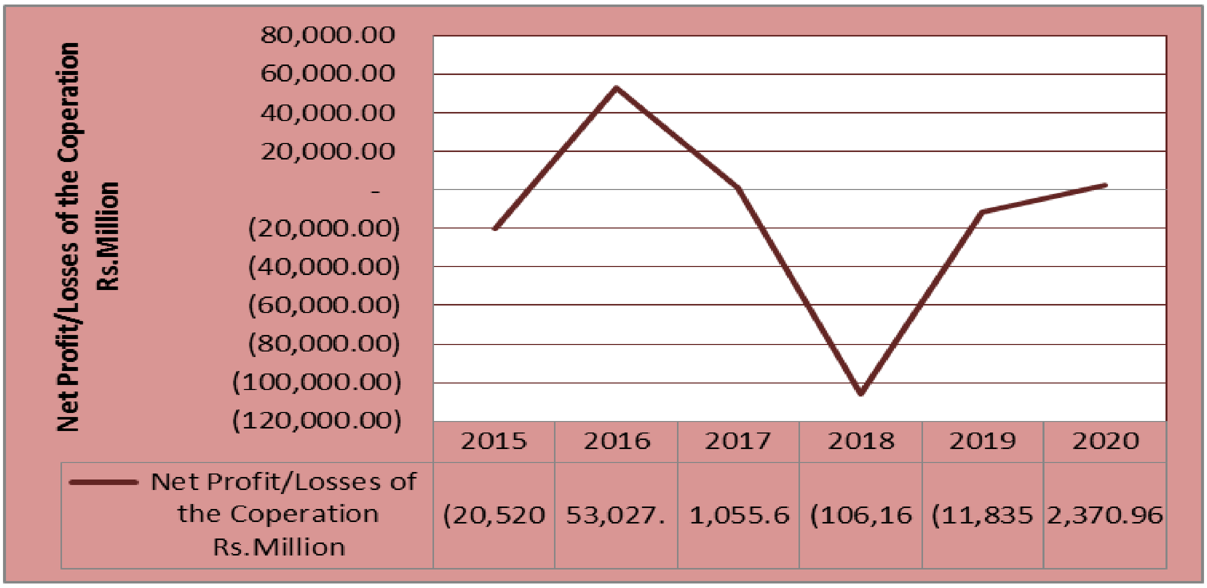


Figure 31 - Financial Results of the Ceylon Petroleum Corporation -2015-2020

Source - Audited Financial Statements of the Ceylon Petroleum Corporation -2015-2020

Hedging Deals

The Corporation had been summoned as a party in the arbitration process with respect to Hedging agreements entered into by the Ceylon Petroleum Corporation with several commercial banks. As per the arbitration deeds agreed upon by the parties, a sum of US $ 60 million (Rs.7,613 million) had been paid to the Standard Charted Bank (SCB) on 03 June 2013 whilst a sum of US $ 27 million (Rs.3,881 million) had been paid to the Deutsche Bank on 04 August 2016. According to the information received, the Corporation had sustained a loss of Rs. 14,028 million by the year 2020 due to those transactions. The Central Bank of Sri Lanka had spent a sum of Rs.941.2 million as legal fees relating to Hedging Deals of the Corporation, and Rs.370.6 million therefrom had been incurred by the Central Bank of Sri Lanka whereas a sum of Rs.567 million had not been reimbursed by the Corporation to the Central Bank of Sri Lanka during the period from 2011 to 2014. However, a sum of Rs. 3.1 million had not been reimbursed by the Corporation even by the end of the year under review. Furthermore, a case had been filed by the Commercial Bank at the Commercial High Court of Colombo against the Ceylon Petroleum Corporation with respect to a right of US $ 8.6 million. That case was in progress even by the end of the year 2020.

Storage and Distribution of Petroleum in Sri Lanka

A special audit had been carried out to identify potential problems that may arise in the fuel sector if action is not taken to develop the infrastructure facilities associated with the petroleum industry in line with the gradual growth in the petroleum demand of Sri Lanka and the said report (Special Audit Report on the Storage and Distribution of Petroleum in Sri Lanka) had been presented in Parliament on 28 August 2020. Storing and issuing of fuel are carried out through 14 island-wide bulk depots including the Kolonnawa and Muthurajawela main terminals owned by *Ceylon Petroleum Storage Terminals* Limited (CPSTL) while Ceylon Petroleum Corporation (CPC) stores and issues fuel through the Sapugaskanda New Terminal and Ceylon Indian Oil Company stores and issues fuel through the Trincomalee Oil Tank Complex. Fuel transport in Sri Lanka is done through pipelines and land transport methods. Accordingly, four main pipelines are currently being used to transport fuel and bowsers and railway wagons are being used to transport fuel across the land.

According to this report, there were occasions, where the amount of diesel, petrol, aviation fuel and kerosene that are currently in storage reduced up to 13 days, 08 days and 06 days respectively out of the requirement of the country, when each type of fuel is considered separately, at the time of commencement of unloading after the arrival of a fuel tanker to Sri Lanka. Furthermore, if the existing storage capacity remains unchanged, amount of diesel, petrol, aviation fuel and kerosene, which are currently in storage could be reduced up to 09 days, 06 days and 05 days respectively by 2026 as per the projected fuel demand or else, it was observed that there is a high risk of disrupting the existing fuel supply of the country in case a fuel tanker is delayed exceeding the said number of days under certain circumstances.

About seventy (70) per cent of imported refined products are unloaded from the Port of Colombo to Kolonnawa terminal by the pipe system, which is older for about 48 to 75 years out of 04 major pipelines that currently exist and 02 out of 05 pipes in this system are inoperative and frequent leakages are reported from other pipes. Accordingly, it was observed that there may be prolonged unloading and as a result, delay charges have to be paid to ships since unloading of 70 per cent of total volume of refined fuel to Kolonnawa terminal is done using a very old and small pipe of 10 inches, which undergoes frequent leakages and in case a certain damage occurs to the pipeline, there is a high risk of occurring severe damages to persons as well as to properties. Moreover, it was also observed that there is no interchange pipe system between the terminals.

It was observed that there is a high tendency of transporting petroleum by bowsers even though the savings in the cost of transporting petroleum by rail instead of transporting fuel by bowsers during the land transportation of petroleum was of a higher value of 87 to 235 per cent when compared with the transportation by rail. It was also observed that it has led to increased environmental damage and increased risk of traffic congestion.

It was revealed that extremely risky situations, such as, the inability of establishing a proper stock control system owing to the lack of adequate fuel storage system and infrastructure including transport facilities associated with it in the country, inability to resort to international fuel procurement agreements that are advantageous to the country, incurring high costs for emergency purchases as well as importing low quality products, managing of fuel warehouses has become more complicated, collapse in the entire economic process due to the disruption of the fuel supply of the country, inability in organizing maintenance activities properly, occurrence of severe environmental damages, causing heavy traffic congestion, loss of international business opportunities such as marine oil trade that can be easily activated in accordance with the natural location of the country etc. have arisen in the Country.

Accordingly, it was emphasized that it is essential to upgrade the existing fuel storage capacity and to improve the existing pipe line system for improving the infrastructure in relation to the fuel supply, which is the major source of energy that determines the survival of the economy of the country and to give priority to the use of railway wagons for land transportation of fuel in order to reduce the cost and risk related thereto.

Although the fuel tank complex located adjacent to the Trincomalee port could have been easily utilized for the country's fuel refining process, they have failed to actively utilize the complex even by the end of the year under review. Accordingly, it was emphasized by this report that it is indispensable to do a methodical study on the future fuel requirement of the country to avoid the current situation of risk that has arisen in relation to the petroleum supply process in the country and to expand the international business opportunities that generate foreign exchange and to take measures to establish a legal framework and an independent institutional structure to actively regulate and control the overall subjective data and functioning related to activities such as importation, refining, distribution and selling of petroleum and to establish and to continue an updated national policy on the energy sector while rehabilitating and utilizing the fuel tank complex of Trincomalee, which has been idled and /or underutilized for a period of 9 decades, within a systematic legal framework in order to uplift the fuel storage capacity to suit the said requirements.

Establishment of a New Fuel Storage Facility in the Northern Province

The fuel requirement of the security forces and the people in the North which increased rapidly in the post war era, was fulfilled by the storage facility maintained by the Ceylon Petroleum Storage Terminals Limited. The said oil storage facility was established at the premises of the Cement Corporation in Kankasanthurai. The Ceylon Petroleum Storage Terminals Limited was informed by the Cement Corporation in the year 2011 that the oil storage facility be shifted from that location.

At the present day, the oil storage facility is maintained at the same location after being renovated and enhanced. It had been decided as per the Cabinet Decision taken on 19 October 2016 that the storage facility be maintained after entering into a formal lease agreement by settling the ownership of the land and pay the outstanding lease rents , if any, to the Cement Corporation. However, no action was taken in accordance with that decision even by the end of the year under review.

Inter-company Transaction Balances and Agreements

It is a task of utmost importance for a State Corporation to guide and properly supervise the sub-companies established for a specific purpose. However, the Ceylon Petroleum Corporation had not properly reviewed the activities of its subsidiary company - the Ceylon Petroleum Storage Terminals Limited. According to Section 4.2.3 (b) of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the Board of Directors of the parent company should review the performance of sub-companies at least half yearly, prepare a performance report, and present that report to the Department of Public Enterprises. However, it had not been so done. Furthermore, the Corporation was not properly aware of the decisions taken by the Board of Directors of the said Company. For example, supplying fuel to the vessels, a main business activity of the Corporation, had been executed in accordance with a decision taken by the Board of Directors of the said sub-company. However, the Corporation was not aware of that. Moreover, due to lack of proper coordination between the two institutions relating to inter- company transactions, considerable differences were observed in current accounts of the two parties over a long period. It was observed that the said difference was Rs. 993.862 million as at the end of the year under review.

Irrigation

Observations

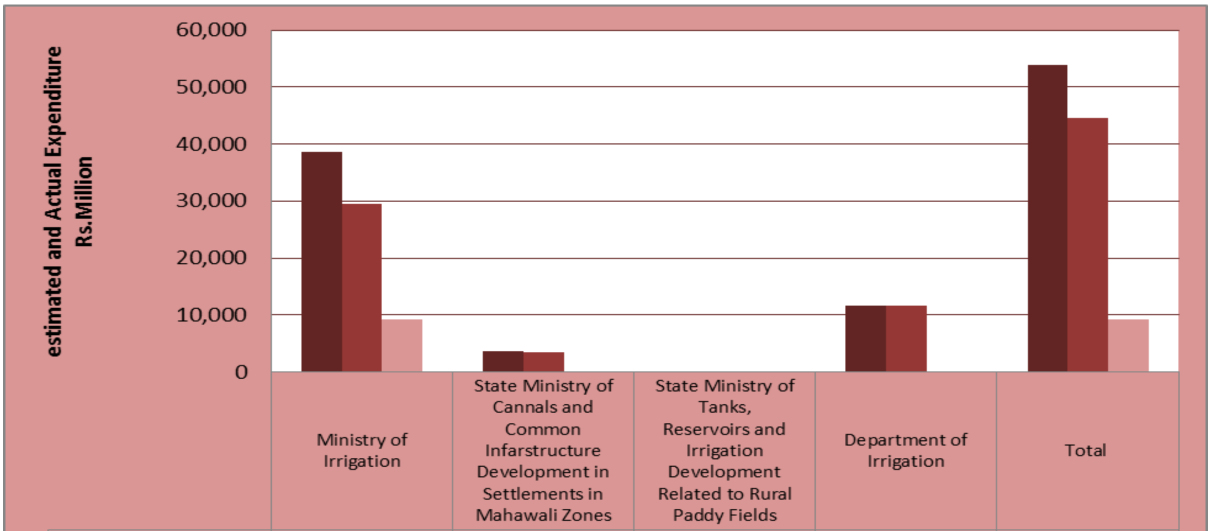
- Yan Oya Reservoir Project
- Delay in project Commencement
- Staff Management
- Local Office Payment Process
- Failure to obtain membership of the Public Service Provident Fund
- Non-frugal transactions
- Construction of a Central Data Center
- Construction of the Laboratory
- Financial Outcome of the Mahaweli Authority of Sri Lanka
- Allocation of Lands for investment projects
- Acting in violation of the State Land Ordinance
- Underutilized assets
- Mahaweli Water Security Investment Programme

Irrigation

The following functions and duties had to be performed by the Ministry of Irrigation and the institutes under its' purview i.e. State Ministry of canals and Common Infrastructure development in settlements in Mahaweli Zones, State Ministry of Tanks, Reservoirs and Irrigation Development Related to Rural Paddy Fields, Department of Irrigation and 03 Statutory Board.

- Completion of the Uma Oya, Multiple Irrigation Scheme and Hydro Power Plant expeditiously.
- Expansion of Irrigation and Water Supply in North Central and North Western Provinces by expanding the irrigation system associated with Moragahakanda, Kalu Ganga.
- Implementation of major water supply schemes including Gin, Nilwala and Malwathu Oya in an expeditious programme.
- Expansion of professional services in the field of irrigation while protecting the local Irrigation Engineering Service.
- Paddy, Grain, Fruit and Vegetable Cultivation, Freshwater Fisheries and Animal Production Promotion in Mahaweli Zones.
- Education, Health, Transport Market and Community Infrastructure Development in Mahaweli Zonal Settlements.
- Expansion of land use and investment for maximumagricultural production in the Mahaweli Zones.
- Renovation of paddy lands and reconstruction of small tanks through community building programmes required to cultivate paddy fields.
- Rehabilitation and maintenance of rural and other tanks and reservoirs in accordance with scientific standards to increase the capacity of existing tanks and reservoirs for rainwater harvesting.
- Commencement of programme to clean the river basins, canal banks, river banks and to conserve the water of the tanks.
- Coordinating with the Department of Agrarian Development, Water Resources Board and the Department of Irrigation under a joint system with the relevant divisions of those institutions.

A total of Rs. 53,905 million had been provided by the Parliament to the Ministry of Irrigation, two State Ministries and the Department to fulfill the above role in the year 2020, out of which only Rs. 44,640 million had been utilized by the end of the year under review. Detailed diagram is shown in 32



	Ministry of Irrigation	State Ministry of Cannals and Common Infarstructure Development in Settlements in Mahawali Zones	State Ministry of Tanks, Reservoirs and Irrigation Development Related to Rural Paddy Fields	Department of Irrigation	Total
Provision Rs.Million	38,604	3,543	117	11,641	53,905
Expenditure Rs.Million	29,454	3,514	76	11,596	44,640
Savings Rs.Million	9,150	29	41	45	9,265

figure 32 –estimated and actual expenditure
Source–Financial Statement of the Year 2020

The following is a summary of the important and quantitative audit observations made during the sample audit of the above functions and duties.

Yan Oya Reservoir Project

Rs. 36,855 million had been allocated for the construction of the Yan Oya Reservoir Project as per the decision of the Cabinet of Ministers dated 31 May 2013. Rs. 33,424 million had been spent on it as at 31 December 2020. It was revealed that the expenditure had exceeded the provision made for certain purposes without getting approval of the Cabinet of Ministers. Even though some of the work had exceeded the provisions made for two years, it was not possible to complete the work by the end of the year under review. Details are given below.

- Even though Rs. 25 million had been allocated for the surveying and survey work of the lower valleys without proper approval, that provision had exceeded Rs. 6.8 million and Rs. 31.8 million had been spent.
- Rs. 3,623 million had been spent in excess of the Rs. 2,750 millionallocated for the construction of the left bank canal.
- Rs. 2,215 million had been spent in excess of the Rs. 1,500 million allocated for land acquisition and resettlement.
- Even though the construction work on the left bank of the Yan Oya had not been completed due to modifications in the preliminary plans of the tasks mentioned in the BOQ under the contract agreement valued US $ 39.5 million given by Sewcretary of the Ministry of Irrigation on 12th December 2017.

Even though Rs. 4,530 million had been allocated for construction of access roads and bridges on the right bank canal, rehabilitation of existing irrigation systems and environmental management, only Rs. 1,270 million was spent for the same. Rs. 3,260 millionout of the remaining provisionshad been spent on other work without approval.

Delay in project Commencement

The Director General of Irrigation had entered into a Memorandum of Understanding (MoU) on 21 March 2016to provide Rs. 3,800 million required for the construction of the Basnagoda Reservoir under the Gampaha Attanagalla and Minuwangoda Joint Water Supply Project functioning underthe National Water Supply and Drainage Board.Accordingly, more than three years was elapsed since the agreement had reached, but construction of the project had not been commenced by the end of the year under review.27 staff members had been approved for the project and 18 out of them had been recruited.Even though construction work of the reservoir had been outsourced to a Chinese company in June 2019,the project office had been continued to operate without a reviewing the staffing requirement.The project had been implemented by the National Water Supply and Drainage Board at an estimated cost of Rs. 29,670 million, and about 33 percent of plumbing and other work ofthe project had been completed.The project was not able to reap the expected benefits by April 2021 due to delays in the construction of water sources.

Staff Management

There were 63 vacancies in the approved Divisional Assistant posts in the Irrigation Department. For this purpose, 59 Engineering Assistant Officers had been appointed to do acting on 03 February 2020. No formal procedure had been followed to select the officers to give the relevant acting appointments. The criteria for the appointment of 23 Grade II officers and one Grade III officer in the Engineering Assistant Service were not clear.

302persons over the45years of age were given permanent appointments in the Irrigation Department in year 2014**,** despite the fact that granting appointments beyond the age of 45 years is not a formal appointment and not receiving a pension in terms of the Public Administration Circular No**.** 23/94dated 14 June 1994.

Local Office Payment Process

The Committee on Public Accounts assembled in 2011 had discussed that the payment process in the Regional Offices of the Irrigation Department was not in compliance with the basic regulations. Even though the Committee had directed to rectify the payment process, the Divisional Manager appointed on the basis of acting had also been given the power to certify the payments to be made by the Accountantby the end of the year under review also without implementing the instructions given.

Failure to obtain membership of the Public Service Provident Fund

Even though the public servants who are not entitled to daily pay or monthly salary are required to pay the membership of the Public Service Provident Fund as per the Circular No. 07/2015 of the Director General of the Department of Pensions dated 23 July 2015, the circular hadnot been applied to 302 casual employees of the Irrigation Department.

Non-frugal transactions

As per the decision of the Cabinet of Ministers dated 06 December 2016, a policy decision had been taken to transfer 40 perches of land at Denzil Kobbekaduwa Mawatha, Battaramulla belonging to the Urban Development Authority to the Water Resources Board for a period of 30 years on the basis of a nominal rent determined by the Chief Government Assessor.The Chief Assessor had fixed the annual lease rent of Rs. 2.70 million for the land on 20 October 2020. However, the Water Resources Board had decided to pay the annual lease rental value despite the opportunity arose to pay less than the annual lease rent as a nominal lease rent according to the decision taken by the Cabinet of Ministers.

Construction of a Central Data Center

The Cabinet of Ministers had given a policy decision in 2016 to construct a Central Data Center under the Groundwater Survey Project, which is being implemented with special loan assistance from the Netherlands.Accordingly, it was delayed to enter into a lease agreement to lease a land located in Baththaramulla owned by the Urban Development Authority for construction of buildings.The construction of the building could not be completed in year 2022 as per the contract agreement of the projectdue to the said delay.However, there was a risk of having to pay Rs. 95 million, which had been agreed as the cost of constructing the laboratory, without constructing the building, as the payments had to be made as stipulated in the contract (Trunkey contract).

Construction of the Laboratory

Lack of equipment for Heavy Metal Analysis and Agrochemical testing of groundwater owned by the Water Resources Board and a laboratory had been constructed in year 2018 at a cost of Rs. 13.26 million and equipment worth Rs. 95.09 had been provided for it by the Dam Safety and Water Resources Planning Project in order to conduct detailed analysis of water for unidentified long term kidney problems in North Central zone.The GC-MS / ms instrument had been purchased at a cost of Rs.32.55million to analyze the agrochemical content of groundwater using such equipment, and it had been in inactive state since the date that it had been provided.The supplier had not been informed in this regard and no action had been taken to repair it during the warranty period. No investigation had been carried out to identify the parties responsible.

The nature and maximum and minimum capacities of laboratory tests that could be performed had not been predicted. Similarly, no action had been taken to inform the concerned parties about the laboratory facilities provided by the laboratory. Only 950 tests have been carried out to investigate heavy metals in groundwaterduring the last 18 months.

Financial Outcome of the Mahaweli Authority of Sri Lanka

The Mahaweli Authority of Sri Lanka was established under the Sri Lanka Mahaweli Authority Act No. 23 of 1979 to implement the Mahaweli Development Multipurpose Development Scheme. According to the Mahaweli Master Plan, the main objective was to use about 6900 million cubic meters of water from the water resources of the Mahaweli River for power generation and irrigation.

The operating deficit of the Authority in year 2020 was Rs. 588.40 million and the corresponding deficit during the last year was Rs. 267.79 million. Accordingly, a decline of Rs. 320.620 million was revealed in the financial outcome. This decline was mainly caused by the decline in government fractional revenues and the receipt of government capital.

Allocation of Lands for investment projects

The extent of land allotted for investment projects in 05 Mahaweli zones was 5,755 acres, of which 2,120 acres were undeveloped, 496 acres were being developed and 3,137 acres were fully developed. Accordingly, 37 percent of the total land allotted was undeveloped land. However, those lands had not been taken over by the Authority and handed over to suitable investors. A tax of Rs. 58.57 million was due from 115 investors who provided land in the 7 zones of Rambakenoya, Welioya, Bakamuna, Dehiattakandiya, Thambuttegama, Victoria and Walawa by 31 December 2020.

Acting in violation of the State Land Ordinance

Pursuant to Section 199 (3) of the State Land Ordinance No. 8 of 1947, all preferential leases on state lands had to obtain the prior written approval of the Minister under Regulation 21 (1) imposed under the State Land Ordinance. Approval of the Board of Directors had been given to transfer of 3,750 acres of land in the Rambaken Oya Zone to seven investors without a prior written approval.Similarly, no environmental impact assessment had been carried out prior to the handing over of the lands..Further, applications for these lands had been received from investors byreferring to the National Food Production Performance Committee without competitive and transparentcalling of applications.Even though an notification should have been published in the Gazette under Government Land Regulation no. 21 (2)whenever it is intended to issue a Preferential Grant or leasehold unless otherwise ordered by Minister in terms of the Section 199(4) of the State Land

Ordinance No. 8 of 1947, it had not been done.Investment projects also could not be implemented as court actions have been taken by outside parties against the land disposal.

Underutilized assets

Even though the Polgolla Reservoir Management Center building, which was constructed at a cost of Rs. 339.58 million and handed over to the Authority in year 2019 by the dam safety and water resources planning project, consists of 02 reservoirs, the building remained underutilized due to inadequate staffing.

Even though 43 warehouses owned by the Authority have been used by the Paddy Marketing Board since year 2009, no rent had been charged for those warehouses as at 31 December 2020. The Chairman of the Paddy Marketing Board had requested the Director General of the Mahaweli Authority to transfer the ownership of the warehouses to the Paddy Marketing Board as there is a need to repair the warehouses in accordance with the standards. However, it had already been failed to transfer those lands or to levy taxes by31 December 2020.

Mahaweli Water Security Investment Programme

The programme, which had been planned to be implemented from year 2015 to 2024 under 3 loan phases, is being implemented through 3 sub projects namely Upper Elahera Canal, North Western Provincial Canal and Minipe Left Bank Canal Rehabilitation.

Even though the Elahera Canal, North Western Provincial Canal and Minipe Left Bank Rehabilitation Projects are expected to progress by 87, 81 and 100 percent respectivelyby 31 December 2020, the progress achieved was 55, 47 and 71 percent. Further, the third phase of the loan is scheduled to run from year 2018 to 2024, but the third phase of the loan had not been approved by the Asian Development Bank by 31 December 2020.

It had been predicted that the initial cost estimate of the US $ 675 million programmewill be increasedonshortcomings in the process of preparing estimates and delays in constructions, and it had been informed that an additional fund nearly US $ 400 million is required. Contracts worth over 41 percent, or US $ 126 million, had been awarded, exceeding the approved provisions in the loan agreements reached in the original estimates by entering into relevant agreementswithout reaching final consents on obtaining additional funds. Accordingly, it was observed that there may be a shortage of funds required to implement the entire programme as plannedin the future.

Water Supply

Observations

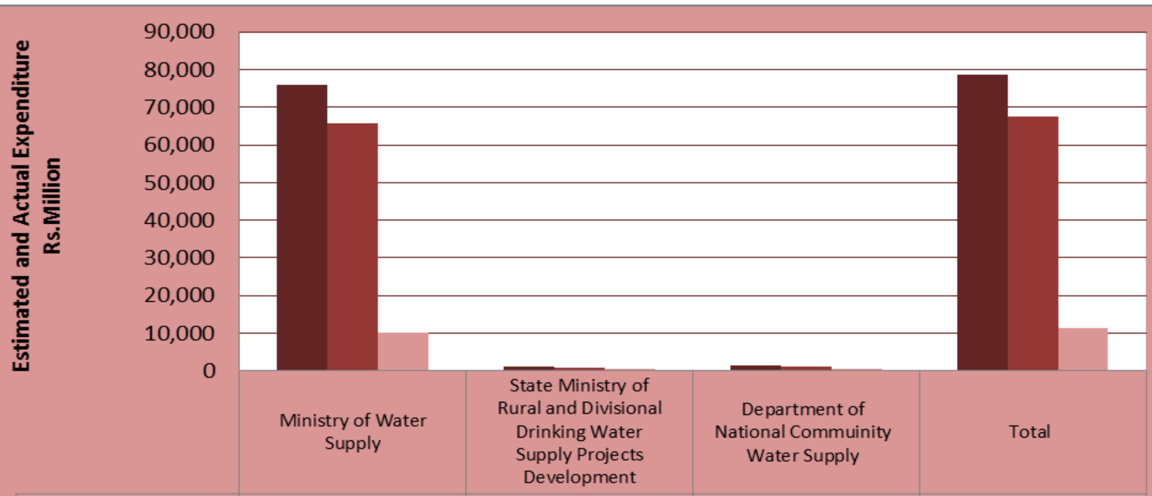
- Supply of Water and Sanitation Facilities
- Coverage of Facilities for Pipe-borne Water and Sewerage
- Financial Results of the National Water Supply and Drainage Board
- Jaffna Kilinochchi Water Supply and Sanitation Project
- Matara Stage (iv) Water Supply Project
- Aluthgama, Mathugama, Agalawatta integrated Water Supply Project
- Gampaha, Attanagalla and Minuwangoda integrated Water Supply Scheme
- Avissawella and Kosgama Integrated Water Supply Project
- Ambatale Energy Saving Project
- Water Supply and Sanitation Services Improvement Project
- Water Supply Projects of the Community based Organizations
- Projects implemented by the Ministry of Water Supply

Water Supply

Providing all people with purified drinking water and improved sanitation facilities within the period of three ensuing years by expanding and enhancing the efficiency of large scale drinking water supply projects and community water projects which are in progress, implemented under the National Water Supply and Drainage Board and the Department of National Community Water Supply respectively with the theme of "water for all" in accordance with the policy statement "Vistas of Prosperity and Splendour", had been the objective of this sector. In order to fulfill the said objective, the following duties and functions should have been performed by the Ministry of Water Supply and the State Ministry of Rural and Divisional Drinking Water Supply Projects Development, a department and 02 statutory boards functioning under the Ministry.

- Implement expeditiously new water supply and drainage projects to provide water for all
- Developing rural and urban water supply schemes by integrating rural tanks, reservoirs and irrigations systems that come under the purview of Ministry of Agriculture and Ministry of Irrigation
- Preventing the wastage of water in pipe-borne water supply and in the distribution of water
- Taking measures to carry out community water supply projects in an efficient and proper manner
- Improving and maintaining community water supply projects to ensure the supply of safe drinking water for the rural population
- Stabilizing the drinking water supply in rural areas, developing reservoirs and feeder canals and conserving water
- Expediting water distribution projects associated with water supply projects implemented at rural and regional levels through national irrigation system

In order to carry out the said function, provision totalling Rs.78,761 million had been made by Parliament in the year 2020 to the Ministry of Water Supply, the State Ministry and the Department and out of that, only a sum of Rs.67,523 million had been utilized by the end of the year under review. Details appear in Figure 33



	Ministry of Water Supply	State Ministry of Rural and Divisional Drinking Water Supply Projects Development	Department of National Community Water Supply	Total
Provision Rs.Million	75,980	1,285	1,496	78,761
Expenditure Rs.Million	65,697	753	1,073	67,523
Saving Rs.Million	10,283	532	423	11,238

Figure 33 - Estimated and Actual Expenditure
Source- Financial Statements of the year 2020

Significant and material audit observations made during the audit test checks carried out pertaining to the performance of said functions, by the Ministry Water Supply and the State Ministry and statutory institutions functioning under the Ministry are summarized below.

Supply of Water and Sanitation Facilities

The National Water Supply and Drainage Board had implemented 24 foreign funded large scale water supply projects and 03 sewerage projects and 20 domestic funded water supply projects in the year under review under the direct supervision of the Ministry with the target of supplying water and sanitation facilities. However, the progress of 20 out of those projects, expected as at the end of the year under review had not been achieved. Even though it had been expected to complete the Water Supply and Sanitation Improvement Project as at the end of the year under review, implemented in 07 Districts such as Ratnapura, Kegalle, Badulla, Monaragala, Nuwara Eliya, Kilinochchi and Mullaitivu funded by the World Bank under the direct supervision of the Ministry of Water Supply, the project period had been extended up to 31 March 2022 due to failure in achieving the progress expected as at that date through the project.

Thirty Five projects costing Rs.597 million of 123 projects costing Rs.1,778 million had been failed to be completed by the end of the year under review, implemented under the "*Jathika Praja Jala Sepaum Jalabimani Viyapruthiya*" commenced in the year 2019 by the Department of National Community Water Supply, with the initial objective of supplying water to people in rural areas which are not covered by projects implemented by the National Water Supply and Drainage Board.

Coverage of Facilities for Pipe-borne Water and Sewerage

According to the Corporate Plan prepared by the National Water Supply and Drainage Board so as to cover the years from 2020 to 2025, it had been expected to increase the pipe - borne water and sewerage facility coverage up to 55 per cent and 3 per cent respectively by the end of the year 2020 while according to the Action Plan relating to the year 2020, it had been targeted to increase the said coverage up to 55 per cent and 2.25 per cent respectively. However, the actual pipe - borne water and sewerage facility coverage reached as at the end of the year under review had been 53.1 per cent and 2.05 per cent respectively. Further, according to the Corporate Plan, it had been planned to increase the total pipe-borne water coverage up to 78 per cent by the year 2025. However, in considering the annual growth rate of supplying new water connections, there is a considerable uncertainty about the possibility of achieving the expected target.

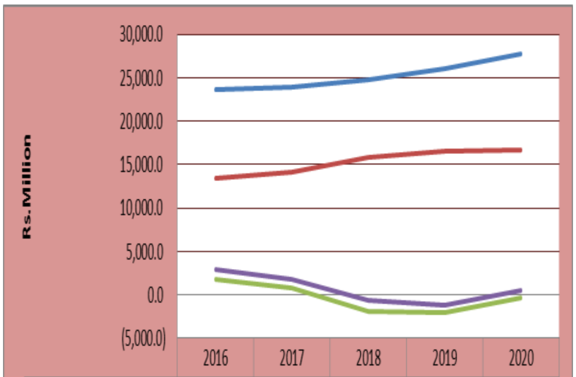
Even though it had been expected to supply a number of 125,000 new water connections during the year under review, only 122,733 new connections had been supplied. Even though it had been expected to reduce the non-revenue water ratio out of the total purified water production up to 23.56 per cent as a whole, it had decreased up to 24.63 per cent by the end of the year under review. Out of that, the non-revenue water ratio in the city of Colombo had been 39 per cent while the percentage of non-water revenue in regions such as Kotte, Dehiwala, Galle, Kandy, Kegalle, Bandarawela and Trincomalee had been of a higher value than 25 per cent. Sectoral details on targets set out as at the end of the year under review and the actual progress thereof appear in Table 18

	Performance Indicator	Unit	2020	
			Targets	Achieved
1	Safe pipe-borne drinking water coverage	Of the Population%	91.7	93.2
2	Safe pipe-borne water coverage	Of the Population%	55.0	53.14
3	New water supply connections	Number	143,503	122,733
4	Safe pipe-borne sewerage facilities	Of the Population%	2.25	2.06
5	Non-revenue water supply			
	Colombo City	Of the Population%	41.0	39.21
	Throughout the island	Of the Population%	25.3	24.63

Table 18 – Targeted and Actual Progress – 2020
Source- National Water Supply and Drainage Board

Financial Results of the National Water Supply and Drainage Board

Even though the growth rate of sales income from the year 2016 to the year 2020 had increased from 1.17 per cent to 6.45 per cent, the growth rate of the cost of sales had decreased from 5.27 per cent to 0.84 per cent. As such, the gross profit margin which was 36 per cent in the years 2018 and 2019 had increased up to 40 per cent in the year 2020. However, the Board had reported an operating loss continuously from the year 2018 to the year 2020. Further, after tax loss of Rs.1,176.5 million had been reported in the year 2019 during 05 preceding years and it had increased up to after tax profit of Rs.529 million in the year under review. Details appear in Figure 34



	2016	2017	2018	2019	2020
Sales Income	23,584.7	23,859.7	24,806.5	26,079.5	27,761.8
Cost of Sales	13,485.7	14,196.3	15,821.0	16,614.4	16,754.6
Operating Profit/(Losses	1,758.9	738.0	(1,828.7)	(2,099.7)	(365.0)
After Tax Profit	2,928.7	1,816.7	(580.3)	(1,176.5)	529.0

Figure 34 – Sales Income, Cost of Sales and Operating Loss
Source- National Water Supply and Drainage Board

Jaffna Kilinochchi Water Supply and Sanitation Project

Activities of the Jaffna Kilinochchi Water Supply and Sanitation Project were commenced on 15 February 2011 and due to be completed on 14 August 2017. Afterwards, the contract period had been extended up to 30 June 2026. Even though the building of Sea Water Reverse Osmosis Desalination Plant had been planned to be completed in October 2021, the contract thereof had not been awarded even by 31 December 2020. Moreover, constructions of the desalination plant for supplying water to the Jaffna Kilinochchi area under this Project was due to be completed in the year 2023. Accordingly, construction of 15 water towers on an expenditure of Rs.1,140 million and laying of treated transmission mains on an expenditure of Rs.5,536 million had been completed on 31 December 2018. However, all the said constructions had remained idle due to the unavailability of a water source even by the end of the year under review.

Matara Stage (iv) Water Supply Project

The Matara Stage (iv) Water Supply Project which had been commenced in October 2017 with a view to supplying drinking water to 321,954 families by the year 2030 was expected to be completed on 10 October 2020. An extension up to 02 October 2021 had been granted again due to matters such as poor performance of the contractor, delay in approving drawings, delay in acquisition of lands etc. The progress of the Project as at 31 December 2020 had been at a low level of 69 per cent. Even though it had been expected to lay transmission mains up to a distance of 200 kilometres according to original plans, it had been reduced to 105 kilometres by 50 per cent according to the extension granted by 01 July 2020 and as such, there had been an uncertainty in the possibility of covering expected areas by the Project. The distance of distribution mains laid had been about 42 kilometres even by 30 April 2021.

Aluthgama, Mathugama, Agalawatte integrated Water Supply Project

The Aluthgama, Mathugama, Agalawatte integrated Water Supply Project commenced on 15 May 2017 was due to be completed on 24 May 2020. It had been extended up to 14 December 2020 due to poor performance of the contractor. In terms of the agreement, a total distance of 318,842 metres comprising 59,199 metres and 259,643 metres of transmission mains and distribution mains respectively were to be laid. Nevertheless, only 158,707 metres representing 50 per cent had been laid even by 20 September 2020. Out of them, the distance relating to temporary reinstatements and pressure testing had been only 152,522 metres and 18,383 metres respectively. Nevertheless, no permanent road reinstatements whatsoever had been carried out as at that date.

According to the detailed design of the National Water Supply and Drainage Board, even though the breadth of the trench to be laid with PVC water pipes of 160 mm was 0.60 metres (24 inches), in measuring the trench relating to laying of pipes of the 2,488.47 kilometres section of the Dodamgoda Kalutara Road, the breadth thereof was found to be 15 inches, which was 09 inches less than the specified breadth. Moreover, in laying water pipes in the Nagoda Kalawellawa section, the covering of the water pipe should be subjected to pressure testing by mixing with water after spreading with raw dust or sand. However, such a method was not applied. Further, the road had been severely damaged due to collapse of the sides, cracking and sinking of the road as a result of digging trenches without embankment supports in laying water pipes on the Nebada Kalutara main road.

According to the detailed design, in temporary reinstatement of carpeted or tarred roads, even though a layer of tar should be spread on the surface so as to prevent ABC fragments from coming off by subjecting ABC to pressure testing, in temporary reinstatement, ABC fragments had come off in several places of the road near Panthiya Vidyalaya on the Mathugama Colombo main road due to failure in laying with tar. Moreover, complaints relating to flooding of houses including business places nearby were observed during the physical examination as a result of obstructions to travelling on the road due to scattering of parts of granite on the road and deposit of parts of the road removed in breaking the road, including the said parts of granite so as to prevent flowing of water in the drainage system of the road.

Gampaha, Attanagalla and Minuwangoda integrated Water Supply Scheme

The Gampaha, Attanagalla and Minuwangoda integrated Water Supply Scheme was commenced on 20 February 2017 and due to be completed on 19 February 2020. Project activities had been extended in two instances up to 18 February 2022 due to matters such as poor performance of the main contractor, issues in acquisition of lands and delays in awarding the contract for functions assigned to the Board in terms of the sub-contract agreement. The progress thereof by the end of June 2021 had been only 68 per cent. The construction contract of the Basnagoda Reservoir which is a part of the sub-contract agreement of the said Project was commenced on 12 June 2019 and due to be completed in two years. The progress thereof was as low as 26 per cent even by 21 June 2021. The contracts of laying pipes and construction of water towers in Nittambuwa and Gampaha areas had not been awarded even by 31 December 2020. Moreover, despite the physical progress being only 30 per cent, the management had not taken steps even by 30 April 2021 to re-award the contracts of laying pipes and construction of water towers in the Pasyala area, suspended due to poor performance of the contractor.

Avissawella and Kosgama Integrated Water Supply Project

The Avissawella and Kosgama Integrated Water Supply Project was one of the flagship water supply projects funded by local banks. It is a project proposed to construct a new embankment and lay 50 km and 25 km of water pipes in Avissawella and Kosgama areas respectively to provide drinking water to approximately 97,345 people in this area. Only one bid was submitted at the time of awarding the contract, and it is an increase of 37% over the estimated cost. However, the Board had missed the opportunity to gain the maximum advantage by creating competition as the contract was awarded to the same bidder without calling Expression of Interest by re-publishing a newspaper advertisement. Furthermore, contrary to Guideline 6.2.2 of the Procurement Guidelines, the time allowed for submission of bid documents was as short as 14 days.

Pipe layings had been reduced by 35.99 percent due to revealing that some of the essential items with a cost of Rs. 501.11 million had been missed by mistake in preparing the BOQ document relevant to the project. Further, the Board had to pay Rs. 44.93 million as the late fee to the Contractor and Rs. 1.57 million as the professional fee of the members of the Dispute Tribunal and Arbitration, respectively due to the suspension of contract payments, instead of acting in accordance with Article 3.7 of the Contract Agreement and the exception 0.14 for the section 8.13.4 of the Procurement Guideline by the Committee appointed to inquire into these discrepancies.

Ambatale Energy Saving Project

The main objective of the Ambatale Energy Saving Project was to reduce the energy consumption of the Ambatale Water Treatment Plant due to the fact that the existing pumps in the pumping stations are more than 30 years old and the energy consumption for the operation of the pumps is high. However, even though the project had been scheduled to be completed by 31 December 2019, none of the major contracts under the project had been completed by 31 December 2020, and the average monthly electricity tariff of the Ambatale Water Treatment Plant was Rs. 67.52 million by the end of the year.

According to the loan facility agreement, even though a sum of US $ 70 million, equivalent to Rs. 9,100 million, had been allocated by the loan agency, only US $ 16.68 million, equivalent to Rs. 2762 million had been utilized even by 6 years and 3 months after commencement of the project by 31 December 2020. Therefore, the Government had to pay US $ 1.93 million, equivalent to Rs. 308.27 million, as the liability fee for the Non-performing loan amount by the end of the year under review. Even though 53 months had elapsed since the commencement of the project as at 31 December 2020, the progress of the project was 53 percent and 10 disputes had arisen during the contract period due to conflicts and ambiguities in the contract agreement had affected the slow execution of the project. The contractor claimed a substantial amount for non-owning losses and late fees from time to time.

Water Supply and Sanitation Services Improvement Project

The objective of the Supply and Sanitation Improvement Project was to increase access to piped water services and improved sanitation services in seven selected districts under the direct supervision of the Ministry of Water Supply. The project period had been extended to 31 March 2022 due to the inability to achieve the expected results of this project by 31 December 2020. There was a significant delay in the progress of 36 Rehabilitation and Improvement Schemes for Urban, Rural and Estate Water Supply and Sanitation, of which samples had been audited due to poor performance of contractors, inaccuracy of estimation of project duration, delay in settlement of lands, community protests, etc., for a period from 32 days to 1064 days as at 31 December 2020. Further, the contractors involved in eleven water supply projects had been given two to five extensions for the same project, exceeding the original contract period, leaving the contractors to hold the movement advance of Rs. 512.12 million without utilizing the same for the project work. Similarly, only 14,662 latrines out of 20,878 latrines, to be constructed in the aforesaid 07 districts during the project period, had been completed by the end of the year under review.

Water Supply Projects of the Community based Organizations

329 water projects of community-based organizations in 22 districts registered under the National Community Water

Supply Department had been inactive from 2005 to the end of the year under review. Furthermore, the progress of 25 projects with the cost of Rs. 50.4 million and should be completed by 31 December 2020 out of the water projects initiated in years 2018, 2019, and 2020 under the departmental provisions was at a level less than 50 percent. Further, funds had been paid for the non-performing works of the Pananwela Mee Ella community-based organizations' water supply project and the Lenabatuwa Sapugoda Shakthi community-based water supply project implemented in the Matara District under the Prija Jala Abhimani program, and accordingly, Rs. 3.37 million had been overpaid to those community-based organizations for 5,896 m and 7,926 m respectively, where pipe laying was not done.

Projects implemented by the Ministry of Water Supply

The target was to provide 650 water connections through the Monaragala District Water Supply Project under the Kidney Disease Prevention Programme, Only 165 new water connections had been provided by the end of the year under review. Therefore, the amount of Rs.1,03 million received for the relevant project in the year 2019 had been credited to the revenue of the Government in the year 2020 without utilizing it for the relevant purpose Furthermore, even though the Andaragasyaya project, a small-scale project, had been scheduled to commence in the year 2017 and to be completed in April 2020, it was failed to complete the project after a delay of 245 days also by 31 December 2020. Similarly, the Tissamaharama Water Supply Project and the Trincomalee Water Supply Project, which were to be completed by 31 December 2020, implemented by the Ministry, could not be completed as expected.

Education

Observations

- National Education Policy
- Delays in the Implementation of Projects
- Asset Management
- Teacher Vacancies in Non-Formal and Special Education Units
- Procurement
- Sustainable Development Goals
- Delay in the Enrolment of Trainees to the Colleges of Education
- UNESCO National Commission of Sri Lanka
- Activities Contradictory to the Examinations Act
- Performance
- Administration of the Staff
- Printing and Distribution of Text Books
- Supplementary Books and Teachers' Guides
- Foreign loan projects

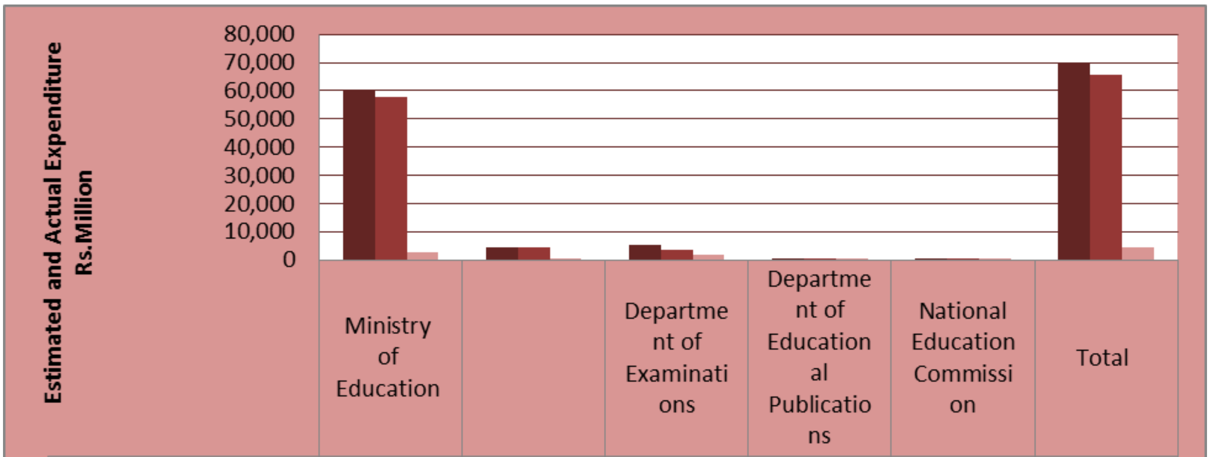
Education

The Ministry of Education, State Ministry of Education, 02 Departments and 03 Statutory Institutions should have accomplished the following roles as the pioneering entity responsible for the effective implementation of education by redesigning it to best fit the changing world in order to achieve the national common goals within the national education policy framework.

- Provision of policy guidelines for the preparation of a clear roadmap from pre-school education up to the completion of higher education.
- Establishment of a policy framework for making a comprehensive reform required to establish a quality education system, which offers equitable access to education for every child.
- Reviewing and updating the existing and related circular provisions, rules, regulations in order to immediately resolve administrative issues of school teachers and working through a special monitoring unit to implement the existing institutional structure efficiently.
- Re-surveying of the school requirements and replacement of school system accordingly.
- Providing a policy solution for the placement of teachers as and when required.
- Implementation of programmes with the Ministry of Sports and Youth Affairs to popularize extra-curricular activities in schools.
- Transforming rural schools in to child friendly schools.
- Implementation of a special programme to upgrade classrooms and sanitary equipment, restrooms of teachers and students, health facilities and infrastructure facilities in all schools.
- Taking steps to publish school textbooks, syllabuses, teachers' guides etc. through an information technology methodology.
- Establishment of a cluster school system.
- Utilization of information technology and expansion of infrastructure to expand distance education opportunities in coordination with Information Technology Institutions.
- Preparation and implementation of a new educational programme to improve the knowledge of young monks in English language, computer and technology.
- Preparation of a special programme to uplift Pirivena education.
- Facilitating the higher education activities of the monks.
- Introduction of a monthly sponsorship scheme to reimburse the education expenses of student monks.
- Resolving the unresolved issues pertaining to appointments, salaries and allowances of Parivenadhipati monks and Pirivena teachers.
- Making necessary arrangements to expand the activities of Dhamma

schools belonging to all religions in coordination with the institutions.

Provision totalling Rs. 70,159 million had been provided by Parliament to the Ministry of Education, State Ministry and two Departments to fulfil the above role in the year 2020 and only a sum of Rs. 65,792 million had been utilized out of the provision made by the Parliament by the end of the year under review. Details are given in Figure 35



	Ministry of Education		Department of Examinations	Department of Educational Publications	National Education Commission	Total
Provision Rs.Million	60,096	4,572	5,360	89	42	70,159
Expenditure Rs.Million	57,568	4,529	3,583	73	39	65,792
Sarvings Rs.Million	2,528	43	1,777	16	3	4,367

Figure 35 - Estimated and Actual Expenditure
Source - Financial Statements for the Year 2020

Material and significant audit observations revealed during the audit test checks carried out in relation to the functions and tasks performed during the year under review by the Ministry of Education and the State Ministry, 03 Departments and 02 Statutory Institutions, which are under the purview of the Ministry of Education are summarized and mentioned below.

National Education Policy

The National Education Commission had issued recommendations in the years 1992, 2003 and 2016 in accordance with the provisions of the National Education Commission Act No. 19 of 1991 for the purpose of creating a national education system that enables the Ministry of Education to enter the competition of the World with self-confidence and confidence on success. A definite and consistent national education policy had not been formulated even by the end of the year 2020.

Although the formulation of a National Policy for Supervision and Management of Pre-Schools in accordance with Article 2 of Chapter III of the Thirteenth Amendment to the Constitution that is related to education had been identified as a major function of the Ministry of Education, the function had not been accomplished.

Supervision of international schools in accordance with the National Education Policy had been a major objective of the

Ministry. Even though private schools should not be started to provide education to children between the age limits of 5 to 14 years according to Section 25 of the Assisted Schools and Training Colleges (Supplementary Provisions) Act, No. 8 of 1961, international and private schools had been started in contrary to the Act and they had not been subject to the supervision of the Ministry of Education.

Delays in the Implementation of Projects

The Cabinet of Ministers had granted approval to construct a National College of Education on 18 January 2017 based on the matters such as the minimization of the shortage in technology teachers in the GCE (Ordinary Level) and GCE (Advanced Level) classes, providing opportunities for students studying technology to pursue higher education as teacher technologists, to provide teacher training to technology teachers in the subject of technology for their professional development. The land in Narangolla area belonging to the Kuliyapitiya West Divisional Secretary's Division had been transferred to the Secretary of Education for the relevant construction by the notice stipulated in Order No. 93 of 2017 published in the Gazette Extraordinary dated 19 April 2017.

The Nearest School - the Best School project had incurred an amount of Rs. 15.37 million for the expenditure including the laying of the foundation stone in the years of 2019 and 2020 on behalf of the project planned to be built with the assistance of the Korean government. The work of the project had been suspended by the end of the year under review.

Asset Management

Action had not been taken even by the end of the year under review to transfer 11 vehicles, which are being used by the Ministry of Education and for which there had been no originals of the motor vehicle registration certificates, or to hand over the vehicles to the institutions with the legal ownership of those vehicles.

Teacher Vacancies in Non-Formal and Special Education Units

Teachers, who had obtained appointments in the field of special education, should have been employed in the field to provide inclusive education for all the students including the provision of educational facilities for children with special educational needs and special needs as per the Circular of the Ministry of Education bearing No. 37/2020 dated 03 December 2020 and Chapter 12 of the Instructions Manual. Two hundred and seven (207) teachers, who had been appointed to the field of special education in the island, had not engaged in teaching activities in that field.

Since the Provincial Secretary of Education had not obtained the approval from the Department of Management Services for the academic staff required for provincial schools in terms of paragraph 7.3 of the Circular of the Ministry of Education bearing No.

01/2016 dated 07 January 2016, there were 651 teacher vacancies in Non-formal and Special Education Units as per the register on vacancies of teachers in the Provincial Ministry of Education.

Procurement

- According to the agreement entered into with the supplier for the procurement of smart classroom equipment for National Colleges of Education and Teachers' Centres, the equipment should have been supplied to the relevant Teacher Centres and National Colleges of Education before 10 March 2020. The supplier had delayed the supply of goods for more than 20 weeks and a sum of Rs. 3.84 million, which had been 10 percent of the contract value should have been charged as late fees in accordance with the agreement. However, the supplier had been paid without charging late fees from him.

- A digital turnkey printer had been purchased by incurring a sum of Rs. 546 million with the objective of enhancing the credibility and confidentiality of the candidates by obtaining a good finish on the question papers. Only 346,180 question papers of the GCE (Advanced Level) Examination had been printed by using this machine during the year 2020. It was a small amount such as 5 percent of the total question papers.

- An initial payment of Rs. 03 million had been allocated to the Housing Development Authority in the year 2020 for the purchase of 03 official quarters for the Department of Examinations. Although Rs. 17.8 million and Rs. 13.9 million were to be paid to the Housing Development Authority in the years 2020 and 2021 respectively, the payments had not been made even by June 2021. It was also mentioned that a late fee determined by the Housing Development Authority in terms of Condition 1.1 (B) of the Agreement and 12 percent annual late fee would be charged on it, or else, 25 per cent or Rs. 750,000 of the initial payment would be retained and allocations would be cancelled. The Department of Examinations had not focused attention on those Conditions and taken necessary action even by June 2021.

Sustainable Development Goals

Although the National Education Commission had been aware of the United Nations 2030 Agenda for Sustainable Development, action had not been taken to identify the sustainable development goals and targets related to its functions and the milestones to be achieved in the accomplishment of targets by including the programme for reaching those targets in the plans and the indicators to measure the achievement of targets.

Delay in the Enrolment of Trainees to the Colleges of Education

Nineteen (19) Colleges of Education had been established to train the teacher trainees and a sum over Rs. 2,500 million had been incurred annually for that purpose from the Consolidated Fund. Trainees had to be annually admitted to the Colleges of Education from those who had passed the GCE (Advanced Level) Examination. Although a period of about 3 years or 2 years have elapsed subsequent to the conduct of the Advance Level Examination in 2018 and 2019 respectively, the recruitments had not been made even by 31 August 2021.

UNESCO National Commission of Sri Lanka

UNESCO National Commission of Sri Lanka had been established as per the decision of the Cabinet of Ministers dated 24 September 2008 and although the draft Act prepared to provide for matters connected therewith and incidental thereto had been submitted to the Legal Draftsman's Department, the work of the Act had not been completed even by the end of the year under review.

Even though appointing staff for the Commission and making payments for them should have been carried out by an Act of Parliament, staff of the Commission had been appointed and payments had been made to them with the approval of the Cabinet of Ministers dated 24 September 2008 even before the Act had been passed in the Parliament. A Coordinating Officer had been attached to the Office of the UNESCO Permanent Representative in Paris of France. Provision totalling to Rs. 53.83 million had been released by the Ministry of Education to the Ministry of Foreign Affairs as the remuneration of that officer for the period of 2007 up to the end of 2020.

Activities Contradictory to the Examinations Act

The GCE (O / L) Examination and the GCE (A / L) Examination will be conducted island wide according to a time table approved by the Department of Examinations of Sri Lanka. All the activities required to conduct the examinations are organized according to a single timetable with the same time periods during day time throughout the island with the objective of protecting the confidentiality of those examinations up to the maximum level.

As per the request made by the Ceylon Seventh Day Adventist Council from the Commissioner General of Examinations, the students were given the opportunity to sit the examination after passing 9 hours from the normal time of conducting the examination subsequent to giving the opportunity for a small number of students belonging to one of the religious institutions in Sri Lanka to engage in religious activities during the day. Furthermore, the Department of Examinations of Sri Lanka had made all the arrangements with the awareness of the Commissioner of Examinations for the students of this religious sect to annually and uninterruptedly sit during the night time since 1970/71 up to the date of the Audit for the same question papers of the subjects prescribed for the GCE (O / L) and GCE (A / L) examinations, held on Saturdays which are known as Sabbath days and answered by all the other students in the country during the day time. Commissioner General of Examinations, Honourable Minister in charge of the Subject or the Secretary to the Line Ministry appointed from time to time had not been made aware in relation to the conduct of this Examination during the night time as per the request of Sri Lanka Mission of Seventh-day Adventists, which was an external party and the process of conducting this Examination, for which there was no legal provision, had been conducted uninterruptedly for a period of 50 years. While all the candidates in the country sit very crucial National Examinations during the same time, a limited number of candidates are allowed to sit the same question paper after passing about 9 hours from the time of commencement of the General Examination in contrary to the rules and regulations of the Department. Conducting the Examinations on the Sabbath Days after passing 9 hours from the time of conducting general examinations had become a problem in protecting the confidentiality of the question paper of the examination in terms of Section 6.1 of the Public Examinations Act, No. 25 of 1968.

Performance

- The Department of Examinations had failed until 31 March 2021 to release results of the General Information Technology (GIT) Examination conducted online by the Department in the year 2018 with the objective of evaluate the practical experience and activities of the students. Moreover, a sum of Rs. 128.3 million had been incurred in the years 2018, 2020 and 2021.

- The Certificate Branch of the Department of Examinations had entered the results of the examinations held since 1992 into the computer system and issued the results through that process. Since the results of the examinations conducted by the Department prior to 1992 had not been entered into the computer system, it was difficult to verify or re-issue the results easily and expeditiously.

Administration of the Staff

Eighty-two (82) persons who had worked on casual basis in the Department of Examinations had been given permanent appointments to Grade III of the Office Assistants' Service on 20 February 2020. Those employees had been given salaries entitled to the permanent post for a period of 06 months and the appointments had not been confirmed even by 31 December 2020. Five (05) employees out of those employees had left the service and action had not been taken to recover an amount of Rs. 90,000 paid to them even by the end of the year under review.

The Department of Examinations had recruited 14 employees in excess to the approved cadre. Fifteen (15) more employees had been recruited on casual basis in the year 2021 without taking action to confirm those employees in the service. Accordingly, 29 employees had been recruited in excess to the total approved cadre.

There were 152 vacancies in the Department of Examinations by the end of the year under review. Although there were 12 vacancies at the senior level and 12 vacancies at the tertiary level, action had not been taken to fill the vacancies even by 31 December 2020.

Printing and Distribution of Text Books

The Educational Publications Department had charged Rs. 17.1 million for the decrease in pages and Rs. 16.6 million for the increase in the number of pages in the text books in making payments for printed text books for the year under review. A sum of Rs. 62.7 million had been paid as fines for reasons such as delays and changes in the GSM value. The embarrassing situation that might be experienced by the students due to the change in the content of the textbooks as a result of increasing or decreasing the number of pages had not been considered in making payments and in planning.

- The stock of books worth Rs. 2.8 million available in 04 warehouses, out of the books that could not be used by 31 December 2020 and valued at Rs. 8.5 million, had not been physically verified. The accuracy of the value of the stock could not be ascertained at the time of the audit and the Educational Publications Department had not functioned in terms of the Financial Regulations in relation to books that were unsuitable for use and unusable books.

- The Educational Publications Department had fully completed the distribution of textbooks for the year 2020. However, 4,761,461 textbooks belonging to 128 types had been stored in the warehouses by 31 December 2020 and the value of the stock was Rs. 593.83 million.

- The Educational Publications Department had printed text books without correctly identifying the text book requirement for the year and as a result, 412,632 books worth Rs. 48.24 million belonging to 07 types with a stock balance exceeding 25,000 books remained at the warehouse by 31 January 2021, even after issuing the printed books for 02 years.

Supplementary Books and Teachers' Guides

There were 1,584,066 of supplementary books worth Rs. 333.95 million printed in the previous years, 23,742 supplementary books, of which the value could not be identified, 605,369 teachers' guides valued at Rs. 96.9 million, 158,775 teachers' guides, of which the value could not be identified had not been distributed and remained in warehouses even by 31 December 2020.

Foreign loan projects

A loan amounting to Rs. 35 million had been provided under World Bank loan assistance to promote English and Mathematics subjects under the General Education Modernization Project implemented by the Ministry of Education for the years 2019 and 2020. A sum of Rs. 20.47 million out of the amount had been spent for the functions such as improving the capacity of the officers of the Department, designing a children's story book in Sinhala and Tamil mediums, conducting Grade 5 textbook review workshops and purchasing equipment.

A sum of Rs. 5.76 million had been incurred under this to design a story book by a writer with the aim of inculcating good attitudes in the minds of the children and 155,475 Sinhala versions and 73,475 Tamil versions were printed. Out of these books, there were 82,900 books worth Rs.2.07 million that were stored in warehouses even by 20 May 2021without distributing them.

Higher Education

Observations

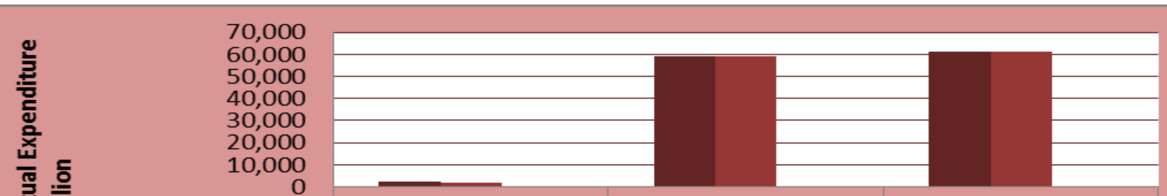
- Establishment of a Professor Unit at Karapitiya Hospital
- Construction Project of the Medical Faculty Building of the University of Ruhuna
- Urban Development Project of the Wayamba University
- Non-receipt of Benefits
- Students Who Lost the Opportunity to sit the G.C.E A / L, 2020
- Low Level of the Achievement of the Objectives of Higher Education Institutions
- Low Progress of the Projects
- Proposals for Education Policy
- Failure to Complete Postgraduate Courses
- Failure to Utilize the building
- Non-utilization of Solar Power System
- Failure to Settle the Advance
- Payment of Value Added Tax
- Failure to Utilize Funds for Relevant Objectives
- Decline in the Enrolment of Students for Courses
- Money Due on the Breach of Bonds
- Expenditure Incurred on Consultancy Services and Preparation of plans
- Delay in the Acquisition of Lands
- Delay in Completion of Researches

Higher Education

The State Ministry of Education Reforms, Open Universities and Distance Education Promotion, and the University Grants Commission, 17 Universities and 18 Statutory Boards / Institutions under it had to discharge and perform the following duties and functions.

- Development of strategies to reduce the time taken for university admissions.
- Taking measures to improve facilities in universities and hostels
- Revision of the curriculum in the overall education reform policies to produce graduates aiming at the local and foreign job market.
- Providing IT facilities to universities
- Selecting to the Mahapola and Bursaries under a formal methodology and expansion of its facilities
- Taking measures to expand the Ocean University.
- Taking steps to place all state universities at the top of the world rankings.
- Provision of facilitates to encourage the researches and innovations in university education
- Taking action to eradicate the ragging culture from all universities and higher education institutions.
- Taking measures to establish smart educational universities.

For the discharge of above functions, Parliament had made provision of Rs.61,284 million to the State Ministry and the University Grants Commission in the year 2020 and out of that, Rs.61,111 million only had been used by the end of the year under review. Details appear in the Diagram 36



	State Ministry of Education Reforms, Open Universities and Distance Learning Promotion	University Grants Commission	Total
Provision Rs.Million	2,243	59,041	61,284
Expenditure Rs.Million	2,110	59,001	61,111
Savings Rs.Million	133	40	173

Diagram 36- Estimated and Actual Expenditure
Source– Financial Statements, 2020

The audit observations made during the audit test checks carried out on the discharge of above functions are summarized below.

Establishment of a Professor Unit at Karapitiya Hospital

The project for the construction of the Professor Unit of Karapitiya Hospital, which is being implemented at an estimated cost of Rs. 1300 million with the main objective of social development, capacity building and institutional strengthening, was scheduled to commence in 2018 and be completed by 31 May 2022. An advance of Rs.131.7 million had been paid to the contractor and only the structural work of the project had been initiated by the end of 2020.

Construction Project of the Medical Faculty Building of the University of Ruhuna

The project for the construction of 12 storied Medical Faculty building of the University of Ruhuna at a cost estimate of Rs. 1,180 million was scheduled to be completed by 10 January 2020. The contract agreement had been cancelled due to the delay of the contractor and the balance of mobilization advance Rs.155.3 million paid to the contractor had not been recovered even 31 by December 2020.

Urban Development Project of the Wayamba University

Although nearly 04 years had elapsed by the end of the year under review since entering into an agreement with the Saudi Fund in the year 2017 for this project, which is being implemented with the assistance of the Saudi Government, the Cabinet approval required to award the contract had not been obtained even by 31 December 2020. Provisions of Rs. 65 million had been allocated for the initial activities of the project by the end of the year under review, of which only Rs. 11 million had been utilized.

Non-receipt of Benefits

The University Grants Commission had spent Rs. 452 million as membership fees of the University of South Asia for the period from 2010 to June 2020. It had not contributed to the enhancement of the skills and knowledge of the Sri Lankan students and thereby to the production of students with leadership qualities.

Students Who Lost the Opportunity to sit the G.C.E A / L, 2020 Examination

The results of the G.C.E (Advanced Level) Examination held in 2019 had been released on 27 December 2019. The calling for online applications for university admission had been delayed for more than two months and commenced on 05 March 2020. Although the GCE (Advanced Level) examination 2020 had been commenced on 12 October 2020, the students who had lost their university admissions again missed the opportunity to prepare and sit the G.C.E.(A / L) examination, 2020 due to the failure of the University Grants Commission to issue the cut off marks before that date.

Low Level of the Achievement of the Objectives of Higher Education Institutions

The University Grants Commission had intended to achieve the objectives of reviewing and updating the Universities Act No.16 of 1978 under strengthening the governance and management of the Higher Education Institutions, restructuring them for expansion of enrolment and to review and update higher education institutions to suit current and future higher education needs through secure firm systems and mutually beneficial stakeholder relationships.About 25 per cent progress of these objectives had been achieved by the end of the year under review.Although it had been expected to achieve the objectives of increasing academic access opportunities of the Sri Lanka Institute of Advanced Technological Education, improving the quality of diplomas, employment, entrepreneurship and improving the efficiency and productivity of the advanced technological institutions, the physical progress of the activities carried out for those purposes remained very low.

Low Progress of the Projects

Although a period of one year to 13 years had elapsed from the grant of Cabinet approval for the implementation of 20 project proposals related to 12universities and institutes of higher education, the relevant institutes of higher education institutions had failed to commence work on the relevant projects even by the end of the year under review.

A period of 1 year to 11 years had elapsed from granting the Cabinet approval for the project proposals of 10 universities and institutes of higher institutions.Due to delays in bidding for these projects, the start of work, and the extension of the scheduled timeline for completion of the project, the physical progress of 18 projects remained at a poor level ranging from 8 per cent to 50 per cent.

Proposals for Education Policy

Based on the Education Policy Resolution submitted by the National Education Commission in 1992, His Excellency the President had declared an Education Policy in the year 1997**.** Subsequent proposals made for the proposed education policies had not been declared as policies**.**

Failure to Complete Postgraduate Courses

The National Centre for Higher Studies in Humanities and Social Sciences had provided Rs. 42.34 million to 24 recipients for following postgraduate courses from 2005 to 2014.Although a period of 07 to 15 years has elapsed since the awarding of the above grants by the end of the year under review, there were instances where the relevant beneficiaries had not submitted progress reports, commenced academic activities and completed courses**.**

Failure to Utilize the building

The Leadership Quality Development Centre building of the Advanced Technological Institute, Dehiwala was scheduled to be constructed at an estimated cost of Rs. 512 million under the Higher Education Project for the Twenty First century (HETC).Out of the 5 floors to be constructed, only 3 floors had been handed over to the Institute by 21 February 2017 spending a cost of Rs. 113.8 million.As the work of the remaining two floors had not been completed, the building remained idle for nearly four years. Similarly, the warranty period of the equipment installed inside and outside the building had expired without utilizing.

Non-utilization of Solar Power System

With the objective of minimizing the cost of electricity in the Advanced Technological Institute, Dehiwala, a solar power system had been constructed at a cost of Rs. 19.8 million and the relevant work had been completed on 07 June 2019. However, the Institute had failed to obtain bulk electrical connection to activate the system even by 31 December 2020. As a result, the Institute had spent an additional Rs. 2.51 million on electricity from June 2019 to December 2020..

Failure to Settle the Advance

The Institute of Advanced Technological Education, Jaffna had paid a mobilization advance of Rs. 36.99 million to a private construction contractor on 10 November 2016 for the construction of a four-storey building and relevant constructions had been carried out .A case has been filed by a private party in the Jaffna District Court seeking ownership of the land on which the building was constructed. The decision in the case had been delivered prohibiting the Institution from entering to the land from 09 March 2017. No action had been taken to recover the advance paid from that day even by the end of the year under review.

Payment of Value Added Tax

Payments for carrying out various contracts relating to 8 institutions under the Institute of Advanced Technology during the period from 2014 to 2018 had been paid to a private contractor who had not registered with the Inland Revenue Department for the payment of Value Added Tax**.** A sum of Rs.7.03 million had been paid to the contractor as value added tax in respect of those payments.

Failure to Utilize Funds for Relevant Objectives

A sum of Rs.24.21 million and Rs. 3.38 million had been deposited in fixed deposits in saving deposits respectively relating to 05 Funds of the Buddhist and Pali University. The above money had not yet been utilized to achieve the objectives of those Funds even by the end of the year under review.

The total balance in 35 Funds established by various faculties of the University of Colombo was Rs. Rs. 97 million by the end of the year under review. No action had been taken to utilize that money for the intended purposes of those Funds.

Although a total of Rs. 1.2 million had been in existence for a period of 2 to 25 years in 11 Funds established by the Science Faculty for awarding scholarship by the end of the year under review, the funds had not been utilized for awarding scholarships.

By the end of the year under review, a balance of Rs. 3.6 million had been in existence from the year 2018 in the PGIM Research & Publication Fund of the Postgraduate Institute of Medicine. The Institute had not taken steps to utilize the money in keeping with a formal plan to achieve the objectives of the Fund even by the end of the year under review.

There was a total balance of Rs. 35.53 million under 102 Prize and Scholarship Funds of the University of Sri Jayewardenepura as at the end of the year under review .Out of those funds, a total of Rs. 32.84 million under 98 funds remained idle without being utilized for the relevant purpose.

As at the end of the year under review, a balance of Rs. 36.66 million remained unused for over 5 years in 28 research fund accounts of the University of Sri Jayewardenepura. A total of Rs. 22.50 million in 47 fund accounts and balance of Rs. 347.59 million relating to 28 special funds had not been utilized during the year under review.

A total of Rs. 3.61 million in three existing funds of the National Centre for Higher Studies in Humanities and Sociology remained idle without being utilized for the relevant purposes by the end of the year under review.

Decline in the Enrolment of Students for Courses

The number of students enrolled for postgraduate studies at the Buddhist and Pali University was 439 in the year 2018. Due to the high course fees charged by the University for the postgraduate courses and the establishment of other postgraduate institutions in the country, the number of registered students had been continuously declining to 180 by the year 2020.

Money Due on the Breach of Bonds

Thirty four academic staff members and two non-academic staff members of the University of Sri Jayewardenepura who had proceeded abroad for academic purposes had not reported for duty. In accordance with the bonds signed by the said staff at their traveling abroad, a sum of Rs.19.71 million was due to the University as at 31 December 2020 for the breach of bonds.

Eighteen lecturers of the University of Colombo who had been on paid study leave to complete their postgraduate studies had not reported for duty without completing the relevant qualifications.A total of Rs. 78.2 million should have been recovered from those lecturers for breaching of the bonds they signed.Although Rs. 20.2 million remained recoverable over a period from 02 to 18 years from 12 lecturers out of those 18 lecturers, the management had not taken action to recover the dues even by 31December 2020

Expenditure Incurred on Consultancy Services and Preparation of plans

The University of Sri Jayewardenepura had not determined the feasibility of implementing the auditorium construction project by conducting a formal feasibility study. A sum of Rs.5.79 million had been spent on consultation fees and preparation of plans of the project on 22 June 2016. As the project had not been completed by the end of the year under review, the expenditure incurred thereon had become uneconomic.

Delay in the Acquisition of Lands

For taking over of 6.5 acres of land from Meth Sevana land for the Medical Faculty of the University of Sri Jayewardenepura according to the decision of the Cabinet of Ministers on 29 June 1994, sums totalling Rs. 74 million had been paid to the Western Provincial Council including Rs. 24 million on three occasions from 1998 to 2010 and Rs. 50 million in the year 2019. The acquisition of the land had not been completed even by the end of the year under review.

Delay in Completion of Researches.

The University Research and Publication Committee had granted approval to pay an estimated cost of Rs. 669 million to the lecturers of the University of Sri Jayewardenepura in respect of 366 various researches during the period of 06 years up to the end of the year under review. Thirty one of those researches had been discontinued due to withdrawal and non-receipt of funds. A number of 173 researches had not been completed by the end of the year under review.Similarly, 31 lecturers who had been approved provisions of Rs. 14.89 million during the year under review had not commenced relevant researches even as at 31 December 2020.Accordingly, it had deprived another lecturer of the opportunity to conduct those researches.

Skills Development, Vocational Education, Research and Innovations

Observations

- Non-utilization of Provision
- Participation of Students in Courses
- Non-achievement of expected Level of Output
- Delays in the Execution of Projects
- Projects without Progress despite the Release of Money
- Assets Management
- Idle or Underutilized Assets
- Uneconomic Transactions

Skills Development, Vocational Education, Research and Innovations

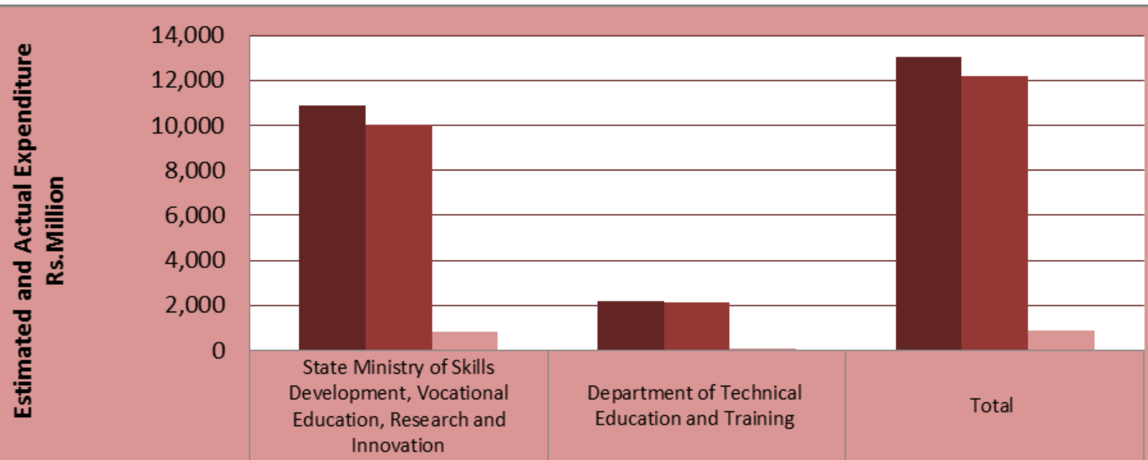
The following functions should have been performed by a department and 19 statutory institutions under the purview of the State Ministry of Skills Development, Vocational Education, Research and Innovations for creating a digital, future-fit citizenry by heralding the 2021-2030 Decade of Skills Development in line with the Government's national policy framework, "Vistas of Prosperity and Splendour" with the mission to create an epicenter for human resource development compatible with global trends by providing quality vocational training of a skilled workforce as the vision.

- Commencing a new programme to give technology and advanced vocational education disregarding educational qualifications
- Subject all vocational training institutions to a systemic evaluation and effect a complete physical and curriculum modification to suitable institutions, and network them under "One TVET" concept and transfer them with Technology Degree Awarding institutions
- Establishing a new network of technical and Technical University Colleges island wide
- Expanding the Ceylon German Technical Training Institute
- Increasing the present scheme of 7 levels of National Vocational Qualification (NVQ) to 10 and amending the Sri Lanka Qualification Framework (SLQF) accordingly
- Providing education opportunities to pursue vocational education up to Postgraduate levels
- Amending the curricula related to vocational education to integrate vocational education and entrepreneurship by including Information Technology, English and other languages
- Taking measures to provide vocational education focused on domestic and foreign job markets by coordinating with the Ministry of Foreign Employment Promotion and Market Diversification
- Establishing Information Technology (IT) Entrepreneurship
- Establishing Sri Lanka as an Innovation Hub by maximizing the use of Internet of Things, Artificial Intelligence, Biotechnology, Robotics, Augmented Reality, Cloud Computing, Nanotechnology and 3D printing
- Making efficient the system to issue patents to researchers for their

innovations and to secure ownership to their research designs

- Providing facilities to local research institutions to collaborate with the international research institutions
- Providing tax relief to private enterprises contributing to research
- Introducing domestic or foreign investors required for manufacturing under a domestic brand with innovation products
- Formulating an efficient mechanism to channel innovations and research results to investors and relevant users

Provision totalling Rs.13,047 million had been made by Parliament in the year under review to the State Ministry and the Department for performing the above functions and a sum of Rs.12,175 million of that had been utilized. Accordingly, a sum of Rs.872 million representing 6.6 per cent of provision made by Parliament, had not been utilized. Details are given in Figure 37



	State Ministry of Skills Development, Vocational Education, Research and Innovation	Department of Technical Education and Training	Total
Provision Rs.Million	10,862	2,185	13,047
Expenditure Rs.Million	10,036	2,139	12,175
Savrings Rs.Million	826	46	872

Figure 37 - Estimated and Actual Expenditure
Source – Financial Statements -2020

Audit observations made during the audit test checks carried out relating to performance of above functions are summarized below.

Non-utilization of Provision

Total provision of Rs.184.85 million made for 10 Objects by the annual budget estimate had been saved without being utilized for any purpose whatsoever.

Even though additional provision of Rs.12.26 million had been made by supplementary estimates under 03 Objects for performing the functions of the Research and Innovations Division, the said total provision had been saved without being utilized.

Participation of Students in Courses

Formulation and implementation of strategies for promotion of inclination towards vocational education had been a function of the State Ministry. The participation of students was at a minimum level as a formal procedure was unavailable for attracting students for certain courses conducted in vocational training centres under the purview of the State Ministry. Accordingly, despite having provided adequate capacity and all necessary facilities for enrolment of more students, enrolment of a maximum number of students required for effective and efficient utilization of relevant resources had failed.

The focus of students towards fields with demand in the job market was at a minimum level due to lack of students' interest in certain courses, a significant percentage in drop out of students enrolled for courses and more inclination of students towards only a few widespread courses.

Career guidance performs a major role in providing proper guidance to the youth of various areas island wide for vocational and technical education in eradicating unemployment. Two hundred and fifty nine Assistant Skills Development Officers under the State Ministry had been attached to 331 District Secretariats located island wide to perform the said role. It was revealed during the performance audit carried out in this respect that the progress of functions to be performed by those officers was at a weak level.

In providing a quality vocational training, an academic staff with adequate knowledge should have been recruited while providing opportunities for them to participate in adequate training programmes relating to the subject area for improving their quality in teaching. A dearth of experienced instructors existed as action had not been taken accordingly.

Non-achievement of expected Level of Output

Fourteen projects valued at a total of Rs.784.36 million had been planned to be commenced and completed according to the progress report of the Research and Innovations Division relating to the year under review. The progress of those projects had been ranging from 34 per cent to 89 per cent by the end of the year under review and there were 11 projects of which a progress less than 75 per cent was reported.

The progress of Social Innovation Lab Project costing Rs.80 million and 02 Improving Degraded Soil Projects costing Rs.70 million which were due to be commenced in January 2018 and completed by the end of that year, had been 70 per cent and 64 per cent respectively even by the end of the year under review.

Delays in the Execution of Projects

Provision of Rs.111 million had been made for 03 projects in the year 2020 relating to the Research and Innovations Division. However, the total provision had been saved as the said projects were not implemented even by the end of the year under review.

The Korea International Cooperation Agency (KOICA) has agreed to provide credit facilities for development of new university premises with a view to facilitating more spacious premises for conducting quality Degree courses in the Ocean University. However, the said project had not been implemented even by the end of the year under review due to failure in acquiring a suitable land therefor since the year 2017.

Projects without Progress despite the Release of Money

A Cabinet Memorandum had been submitted on 10 August 2017 for establishment of the Social Innovation Lab and Cabinet approval therefor had been granted on 12 September 2017. Even though the Ministry had spent Rs.35 million therefor, adequate written evidence and progress reports in respect of those expenses had not been made available to Audit.

Assets Management

The Urban Development Authority had been selected for constructing a fence around the land of 10 acres in extent belonging to the Arthur C. Clarke Institute for Modern Technologies, deviating from the procurement process. The total contract value had been Rs.3.5million. The total contract value of Rs.3.5 million had been paid to the contractor as advance without a security bond for commencement of constructions of the fence. However, the said fence had not been constructed even by 31 December 2020. The said project had been discontinued and the Institute had failed to recover the relevant monies as well.

Agreements had been entered into for providing the telecommunication tower belonging to the Arthur C. Clarke Institute for Modern Technologies on hire basis to the Telecommunication Regulatory Commissions for a period of 05 years from 01 August 2017 to 31 July 2022. In terms of the said agreement, the income of Rs.2.2 million receivable relating to the period up to August 2019 had been outstanding even by the end of the year under review. The Institute had failed to recover the said outstanding income. This tower is currently falling into decay as a result of non-implementation of a proper maintenance plan.

Idle or Underutilized Assets

A sum of approximately Rs.50 million had been granted for one research to the Target -Oriented Multi-Disciplinary Research Grants of the National Research Council. The said total sum had been deposited in the current account for a period of about 05 years. Accordingly, a sum of Rs.463.6 million so received as at the end of the year under review, had been deposited in current accounts. The Council opens current accounts and deposits the expenditure to be incurred for each research in those accounts after selecting researches. As such, grants of Rs.180.4 million received for 40 researches during the period from the year 2017 to the year 2019 had been deposited in the respective current accounts opened for those researches after which a delay of a period ranging from 03 to 15 months had taken place for commencement of researches. Funds of the Council had remained idle in current accounts during that period of delay.

According to bank accounts statements of the National Research Council, it was observed that the average of percentages in the manner of incurring expenditure relating to 10 projects under the Target-Oriented Multi-Disciplinary Research Grants had been 10 per cent. Accordingly, a sum representing approximately 90 per cent of the total sum of Rs.463.6 million of the project, had been saved in the first year without being spent.

Out of Investigator Driven Research Grants provided by the National Research Council, only an amount representing 7 to 61 per cent had been utilized even by the conclusion of the research. It was observed at the audit test check that a sum of Rs.12.6 million of Rs.17.9 million granted for 06 researches had remained in current accounts without being utilized.

The Rack Mountable Server System worth Rs.2.5 million procured on 05 September 2019 for the Computer Unit for installing the LIMS Computer System in the Industrial Technology Institute had not been made use of even by 23 June 2020.

Eleven motor vehicles valued at Rs.39.6 million of the Research and Innovations Division had remained idle and underutilized from a period less than one year.

Uneconomic Transactions

The National Research Council had conducted Investigator Driven Researches (ID) to address major gaps in knowledge and the country's development through identifying and solving problems which impede or present a challenge to the nation. Out of 384 researches conducted from the year 2010 to the year 2018, two hundred and twenty seven had been completed and they had been concluded by publishing in scientific magazines and getting an opportunity to participate in conferences. However, no methodology had been arranged to use the results of those researches for the country's development.

Only applications of highest scientific skills and national significance had been called for and selected at research programmes by the National Research Council. In the evaluation of weaknesses of technical committees, it was observed that 15 researches out of researches worth Rs.47.3 million conducted from the year 2011 to the year 2016, had been failures due to matters such as poor coordination with the researcher through communication, achievement of research progress and review. Seven more researches had been abandoned half way.

Buddhasasana, Religious and Cultural Affairs

Observations

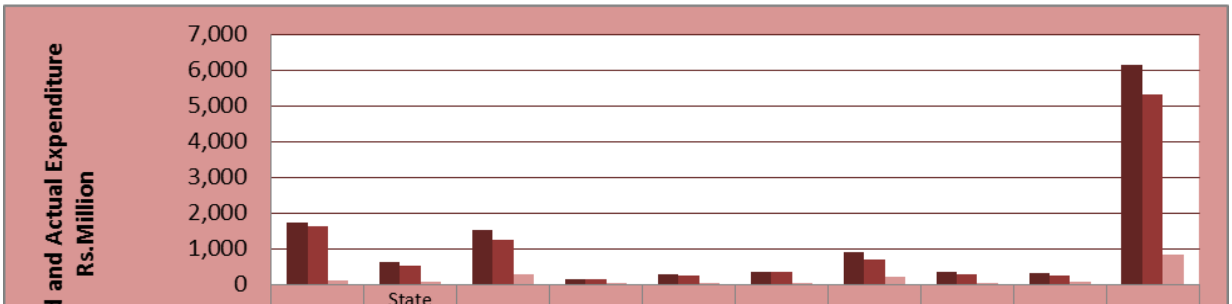
- **Failure to Achieve the Expected Benefits**
- **Failure to Discharge Functions**
- **Delays in Implementing Projects**
- **Projects without Progress Despite the Release of Funds**
- **Assets Management**
- **Management Inefficiencies**

Buddhasasana, Religious and Cultural Affairs

The Ministry of Buddhasasana, Religious and Cultural Affairs, and the State Ministry, 07 Departments, and 11 statutory Boards/institutions functioning thereunder , had been entrusted with the following duties and functions.

- Implementation of the "Sasun Udawa" national programme to develop infrastructure facilities for the temples located in difficult areas.
- To suitably amend the laws and Acts in view of protecting national heritage.
- To formulate a policy for complete restructure of Central Cultural Fund following a comprehensive study.
- To formulate a policy and legal background required for the management of archaeological heritage together with the Presidential Task Force.
- To make a digital encyclopedia on archaeology relating to all the religions.
- Implementation of programs to enhance the productivity of institutions that protect national heritage.
- To facilitate the promotion of printed books, dramas, cinemas, arts and models, music, and dancing.
- To introduce a formal mechanism on par with international standards for the payment of royalty based on indigenization.
- To formulate an institutional framework to establish a methodology for ensuring the professional security of artists, and establishing a comprehensive niche for dramas-"Natya Nikethanaya"
- To provide specific facilities for editing and displaying of creative arts.
- Coordination with the Ministry of Tourism to facilitate the performance of conventional and modern dancers and allowing the modeling artists to sell their creations at tourist hotels and places with tourist attraction.

Provision totaling Rs. 5,829 million had been granted by Parliament in the year 2020 to the Ministry, and the State Ministry and 07 Departments functioning thereunder to discharge the said functions. Only a sum of Rs. 5,079 million had been utilized therefrom by the end of the year under review, thus saving provision amounting to Rs. 750 million without being utilized. Particulars are given in Figure 38 below.



	Ministry of Buddha Sasana, Religious and Cultural Affairs	State Ministry of National Heritage, Performing Arts and Rural Arts Promotion	Department of Buddhist Affairs	Department of Muslim Religious and Cultural Affairs	Department of Christian Religious Affairs	Department of Hindu Religious and Cultural Affairs	Department of Cultural Affairs	Department National Museums	Department of National Archives	Total
Provision Rs.Milion	1,730	617	1,503	143	264	350	883	339	297	6,126
Expenditure Rs.Million	1,608	530	1,237	140	247	339	686	292	230	5,309
Savings Rs.Million	122	87	266	3	17	11	197	47	66	816

Figure 38 : Estimated and actual expenditure.
Source : Financial statements for the year 2020.

Failure to Achieve the Expected Benefits

Constructions of the Cultural Academy affiliated to Sri Dalada Maligawa had been commenced in Pallekele on 16 September 2016 on an estimate of Rs. 145 Million by the Buddhasasana Division of the Ministry of Buddhasasana, Religious and Cultural Affairs. Although the constructions should have been completed by 30 September 2020, it had not been so done even by 31 December 2020. The period of construction had exceeded by one year, but the financial progress of the project stood at 41 per cent whereas the physical progress remained 56 per cent.

The physical and financial progress of the research project relating to indigenous knowledge and cultural values implemented by the Cultural Division of the Ministry, remained at 100 per cent and 14 per cent respectively. The said project had printed 1000 copies of a research book relating to folk arts in Puttlam district, but only 17 copies had been provided for various Divisions of the Ministry whilst the other copies had been retained at the stores without being used for the intended purpose even by 31 May 2021.

Failure to Discharge Functions

As for the projects mentioned in the Action Plan prepared by the Cultural Division for the year 2020 relating to competition of creative arts for the public service and the construction of cultural center in Jaffna, estimates valued at Rs. 3.50 million and Rs. 28.00 million had respectively been prepared. The relevant activities had not been executed during the year. It was shown in the performance report that the physical and financial progress of the activities relating to the competition of creative arts for the public service remained at 37 per cent. Of the sum amounting to Rs. 28 million allocated on the construction of cultural center in Jaffna, Rs. 27.96 million had been given to the Ministry of Rural Housing and Construction & Building Materials Industries Promotion thereby failing to do the constructions.

Delays in Implementing Projects

Cost estimates valued at Rs. 21.38 million had been prepared for the construction of Uhana cultural center relating to the Cultural Division of the Ministry. Provision totaling Rs. 21.85 million had been granted to the District Secretary, Ampara during the period 2015-2018. No follow up action had been taken by the Ministry on the constructions and the constructions of the building had not been completed even by the end of the year under review.

Construction of the Vidyalankara International Buddhist Conference Hall had been commenced in the year 2005 relating to the Buddhasasana Division of the Ministry. A sum of Rs. 1,204.33 million had been spent up to stage 5 of those constructions that had been completed in the year 2019. Action had not been taken to commence the constructions of stage 6 even by 31 December 2020.

A period of over 06 years elapsed since the constructions of training center and *Dasasil Matha* center in Eriyawatiya, Kelaniya had been completed and handed over to the Department after being spent a sum of Rs. 74.96 million by the Department of Buddhist Affairs, but action had not been taken to conduct training programs. A period of more than 08 years elapsed since the Buddhist monk who had donated the land where the center was established, had given his consent in the year 2012 to the Divisional Secretariat for handing over the land to the Department; however, even by the end of the year under review, the acquisition of the land had not been completed thereby failing to reserve the legal rights.

Projects without Progress Despite the Release of Funds

According to the progress report of the Cultural Division of the Ministry for the year 2020, the value estimated for repairing and modification of 15 cultural centers, amounted to Rs. 7.93 million. The said project had not been completed by the end of the year under review, and the financial progress and physical progress thereof remained 96 per cent and 64 per cent respectively.

Assets Management

Although 12 vehicles belonging to the Cultural Division of the Ministry, had been released to other Ministries and Departments, action had not been taken even by the end of the year under review to transfer the rights and ownership of those vehicles.

Management Inefficiencies

The building that housed the Department of Muslim Religious and Cultural Affairs, had been constructed by spending a sum of Rs. 312.49 million. A floor area of 33,547 square feet in that building had remained unused and idle though, the Department Of Christian Religious Affairs and the Department of Hindu Religious and Cultural Affairs functioning under purview of the Ministry, had been maintained in privately-owned buildings paying annual lease rents of Rs. 4.20 million and Rs. 6.82 million respectively.

Labour Sector

Observations

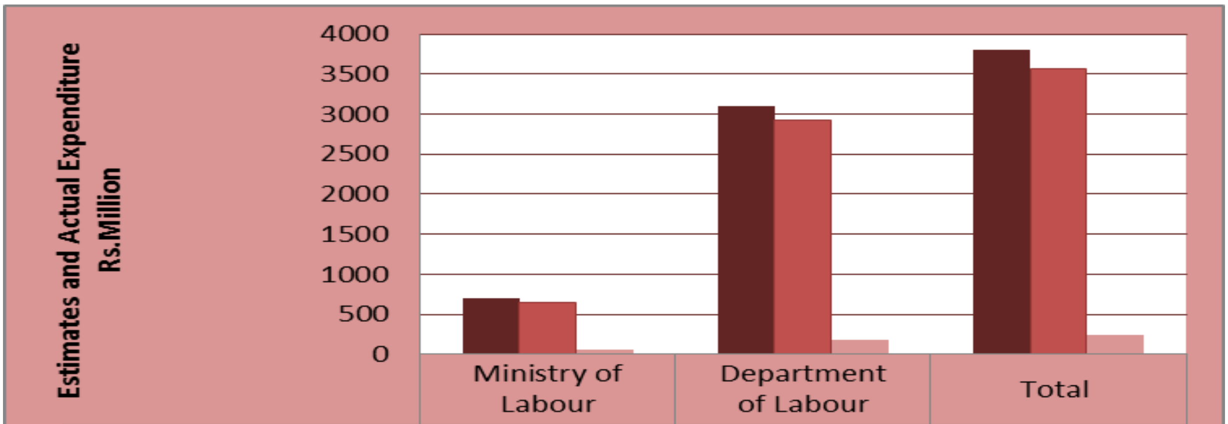
- Composition of the Sri Lankan Labour Force
- Compensation recovered by the Office of the Commissioner for Workmen's Compensation
- Compensation Recoverable
- Failure to find Actual Dependents
- Accounts not released Benefits when reaching Maturity
- Implementation of Proposals for providing relief to July Strikers
- Implementation of Mobile Service Programmes
- Constructions and Developments
- Constructions of the "MehewaraPiyasa" Building
- Failure in taking Follow up Action on Institutions presented with Awards
- Formulation of National Standards
- Idle Cash Balances
- Drop in Rate of Benefits
- Decrease in Investment Benefits
- Monies collected from Lawsuits against Employers
- Internal Audit – Employees' Provident Fund

Labour Sector

The following duties and functions should have been performed by the Ministry of Labour and the Department and 05 statutory boards functioning under the Ministry with a view to achieving objectives such as enforcing and strengthening the tripartite relationship, guarantee of universal standard of work rights and conditions, prevention of child labor, protection and empowerment of employed women and gender equality and equality, accelerate the relevant labor law reform process andinitiation of work to formulate a comprehensive social security strategy with the vision of "Satisfactory Effective Sri Lankan Manpower".

- Reviewing all circulars, laws, ordinances, rules and regulations pertaining to the scope of labour sector and effecting necessary amendments in order to suit needs of the present and to safeguard labour rights
- Introducing a contributory pension scheme in addition to the Employee's Provident Fund (EPF) whichwill ensure their security in the later stages of their lives
- Encourage productive programmes based on employer-employee cordial relationships, while improvingcompetencies and skills of workers, and maintaining high standard sanitary and security mechanisms atworking places

Inordertocarry outthe said functions, provision totallingRs.3,808million hadbeenmade byParliament in the year 2020 to the Ministry of Labour and the Department and out of that, only a sum of Rs.3,571 million had been utilized by the end of the year under review. Details are given in Figure 39



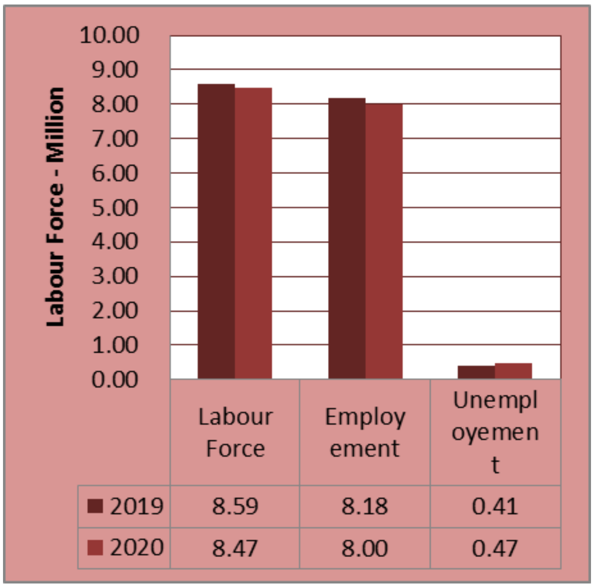
	Ministry of Labour	Department of Labour	Total
Provision Rs.Million	702	3,106	3,808
Expenditure Rs.Million	648	2,923	3,571
Savings Rs.Million	54	183	237

Figure 39 –Estimated and Actual Expenditure
Source–Annual Financial Statements 2020

The summary of material and significant audit observations made during the audit test checks carried out by the Ministry and the Department and statutory institutions functioning under Ministry pertaining to aforesaid duties and functions, is given below.

Composition of the Sri Lankan Labour Force

The total workforce of Sri Lanka for the year under review had been 8.47 million and of which, a number of 7.99 million employees had been reported. Out of the total workforce, an unemployment of 0.47 million representing 5.5 per cent had been reported. The unemployment which was 0.41 million in the year 2019 had increased up to 0.47 million by the year 2020. Details appear in Figure 40



	Labour Force	Employ ement	Unempl oyemen t
2019	8.59	8.18	0.41
2020	8.47	8.00	0.47

Figure 40 – Workforce, Employment and Unemployment
Source–Department of Census and Statistics

Compensation recovered by the Office of the Commissioner for Workmen's Compensation

There was a balance of Rs.6.8 million unsettled by 31 December 2020 out of compensation recovered by the Office of the Commissioner for Workmen's Compensation from employers due to fatal and non-fatal accidents occurred to workmen while at work. The compensation could not be paid due to reasons such as lack of accurate information on employees and their dependents, shortcomings in documents relating to payment of compensation of beneficiaries and failure in submitting those documents to the office. The unsettled compensation had been brought forward over a period ranging from 05 months to 04 years.

Compensation Recoverable

When considering the date of reporting on accident occurred to employees, to the Office of the Commissioner for Workmen's Compensation as the date of commencement, the compensation recoverable over a period ranging from 04 years to 24 years had beenRs.12.99 million by 31 December 2020. There were 48 files on lawsuits in 08 courts as warrants in respect of non-payment of compensation.

Failure to find Actual Dependents

Even though compensation had been deposited in the Office of the Commissioner for Workmen's Compensation, the said compensation had been deposited in separate accounts in the National Savings Bank under the trusteeship of the Commissioner for Workmen's compensation without distributing due to failure to find actual dependents.The amount so deposited by 31 December 2020 had been Rs. 2.02 million.

Accounts not released Benefits when reaching Maturity

The compensation due to under aged dependents of deceased workmen due to fatal accidents while at work, had been deposited in separate accounts in the National Savings Bank under the trusteeship of the Commissioner for Workmen's Compensation. After reaching the maturity, they should have been granted the relevant moneys. Despite having reached the age of maturity by 31 December 2020, there was a balances totalling Rs.20.86 million in 534 accounts not released benefits. The said balance included a sum totallingRs. 11.78 million in 459 accounts and Rs.8.56 million in 66 accounts of under aged dependents who reached the maturity in the years 2016 and 2020 respectively.

Implementation of Proposals for providing relief to July Strikers

Instructions had been given by the letter No. BD/GPS/JS/2/14-2015 of 18 August 2016 of the Director General of National Budget for the implementation of proposals for providing relief to July strikers under the budget proposal 2016. According to instructions cited therein, the Department of Labour had not taken action to prepare a proper procedure for recommendation of applications. As such, Rs.one million had been overpaid to 04 persons due to the recommendation made in the application of the same person twice.

Implementation of Mobile Service Programmes

All institutions attached to the Ministry had expected to implement mobile service programmes with a view to providing more efficient service to the employer-employee community in one district at the same time. In analyzing information in 05 preceding years, it was observed that the Department of Labour had implemented only 08 programmes comprising 04 in Badulla, 03 in Ratnapura and one programme in Colombo District during the said 05 preceding years.

Constructions and Developments

A sum totallingRs. 320.11 million had been paid by the Department of Labour to the Department of Buildings to carry out 25 construction and development activities during the period from the year 2013 to the year 2020. The physical progress of those activitiesby 31 March 2021 had ranged between 90 per cent and 100 per cent. Savings out of provision made for projects by which 100 per cent physical progress had been reported, amounted to Rs.41.52 million representing 13 per cent. The Department of Labour had not taken action either to recover those savings or to utilize those moneys to perform another approved purpose.

Constructions of the "MehewaraPiyasa" Building

The contract of constructing the "MehewaraPiyasa" building commenced in the year 2013 had been awarded to a private company and an agreement therefor had been entered into on 03 October 2013. According to the said agreement, it had been agreed to complete constructions thereof within a period of 36 months. However, the contractor had failed to complete the said constructions by the due date. The Cabinet approval had been granted on 26 June 2019 for extending the period of contract up to 30 June 2019 subject to recovery of liquidated damages. Works of the contract had not been completed even by 31 December 2020 and action had not been taken as well to recover liquidated damages as per the relevant agreement.

Failure in taking Follow up Action on Institutions presented with Awards

The National Productivity Secretariat had held the productivity competition and 03 award ceremonies during the period from the year 2014 to the year 2018 by spending Rs.59.1 million. The National Productivity Secretariat had not taken follow up action even by 31 December 2020 on continuous update and maintenance of productivity in institutions which were presented with awards at the said competition.

Formulation of National Standards

The National Institute of Occupational Safety and Health should have taken action to establish national standards in the field of occupational safety and health in terms of Sub-section 3(1) (n) of the National Institute of Occupational Safety and Health Act, No. 38 of 2009. Nevertheless, those standards had not been established even by the end of the year under review.

Idle Cash Balances

Balances of bank current accounts as at the end of every month of the year under review of the National Institute of Occupational Safety and Health had remained within the range of Rs.4.6 million and Rs.19.3 million. The Institute had not taken action to identify the bank balance to be retained for successful maintenance of operations and effective investment of surplus monies, thereby earning an interest income.

Drop in Rate of Benefits

The rate of benefits paid on contributions of members of the Employees' Provident Fund had been 11 per cent in the year 2013. It had dropped to 10.5 per cent by the year 2014. It had remained at the rate of 10.5 per cent from the year 2014 to the year 2017 and had gradually decreased from the year 2018 and dropped to 9 per cent in the year under review.

Decrease in Investment Benefits

The Employees' Provident Fund had invested 83,463 million in 83 listed companies. However, the market value of the said investments had dropped by Rs.12,656 million representing 15 per cent to Rs.70,807 million. A sum of Rs.205 million had been deprived of to the Fund due to cancellation of the licence of a company which had invested in the year under review. Moreover, a sum of Rs.5,000 million representing 56 per cent from investing shares in unlisted companies, had been invested in constructions of the Canwill Holdings Hotel Complex in the year 2013. No benefits whatsoever had been reaped from the said investments as business transactions thereof had not been commenced even by the end of the year under review. Moreover, only dividends of Rs.466 million had been received in the year under review from two companies out of investments of unlisted companies. It had decreased by 87 per cent as compared with the preceding year.

Monies collected from Lawsuits against Employers

A sum of Rs.10,486 million recovered by instituting lawsuits against employers in the account under the trusteeship of the Commissioner of Labour in the members' fund of the Employees' Provident Fund as and a sum of Rs.453 million in the General Deposit Account had been retained at 31 December 2020 without taking action to credit to accounts of each member. Moreover, action had not been taken to settle the balance of Rs.65,865 million which remained in the "Contributions of Current Year – No.01" Account as at 31 December 2020 maintained individually in favour of employers, by identifying relevant members. Further, a sum of Rs.925 million as benefits retained and benefits unclaimed as at 31 December 2020, a sum of Rs.1,984 million as deficit/surplus contributions, a sum of Rs.682 million as payment of deficit/surplus benefits had been shown in accounts under the members' fund. However, action had not been taken to identify and settle the said balances. The Committee on Public Accounts as well had directed in the years 2013, 2016 and 2017 to take prompt action to settle monies remaining in accounts without crediting to members' accounts as mentioned above.

Internal Audit – Employees' Provident Fund

An independent internal audit unit had not been established for the Employees' Provident Fund and relevant functions are executed by the Internal Audit Unit of the Central Bank of Sri Lanka. Even though the approved cadre of the Internal Audit Unit of the Department of Labour which carries out the administration of the Fund stands at 14, the actual cadre had been limited to 09. As the Fund manages approximately Rs.2.8 trillion members' funds, the Internal Audit Unit should have been strengthened. Moreover, the Committee on Public Accounts had directed continuously from the year 2013 that the internal audit of the Department of Labour should be strengthened. However, action had not been taken to carry out an audit by attaching adequate staff.

Issuance of Identity Cards to Members of the Employees' Provident Fund

Five machines had been purchased by spending a sum of Rs. 2.75 million in the year 2008 under stage 1 of the Project of installing machines for Issuance of Identity Cards to Members of the Employees' Provident Fund and Checking Balances in Accounts. The machines had remained underutilized from the date of receipt. Two machines out of those had been disposed of on 17 September 2020. No decision had been taken even by 31 December 2020 with regard to the remaining machines. A number of 15,000 cards prepared by spending a sum of Rs.12.61 million in the year 2008 for issuing identity cards to members had remained idle in the Computer Division. Even though about 12 years had lapsed after storing cards, they had not been made use of and the said total expenditure had been aloss to the Fund. Moreover, 30 machines had been purchased in the year 2015 by spending a sum of Rs.14.92 million for checking the balance using the fingerprint of the member instead of the identity card and the member's fingerprint should have been computerized under the Programme of re-registration of member's fingerprint for checking the balance from the said machine. However, the number of members so registered had been only 1,053,342 as at 31 December 2020. It had been decided to dispose of machines due to successful non-implementation of the said project and inactivity of 13 machines by 01 March 2019. Even though it had been decided to dispose of machines in such a way, the respective machines had not been brought down to the Head Office even by the date of audit in April 2021. As such, the entire cost of the project had been a loss to the Fund due to failure in successful completion thereof.

Health

Observations

- Progress in the Implementation of Development Projects in the Health Sector
- Construction of a Building for the Ministry
- Improvement of Health Facilities in Selected Hospitals
- Strengthening the Medical Laboratory Services
- Implementation of Electronic Medical Reports in Government Hospitals of Sri Lanka
- Making Payments for Overtime and Holidays
- Approved Cadre and Actual Cadre
- Removal and Interment of Unclaimed Corpses, Organs, Stillborn Babies, and Corpses of Infants
- Failure to Obtain the Expected Outcome from the Mine Portable Digital X-Ray Machine
- Payments Made to the Janitorial Service
- Payment of Extra Allowances to the Nursing Staff without Formal Approval
- Providing Medical Supplies without being Recommended by the Formulary Revision Committee
- Payment of Extra Allowances to the Nursing Staff without Formal Approval
- Providing Medical Supplies without being Recommended by the Formulary Revision Committee
- Drugs to be Stored below 30 Degrees of Celsius
- Premises Used for Storing Drugs
- Prevention of Shortages in Medical Supplies

- **Quality Failed Medical Supplies**
- **Drugs Lost and Damaged without Proper Action**
- **Shortages in Medical Supplies**
- **Funds Spent on the Clearance of Donations**
- **The Possibility of Expiring the Medical Supplies**
- **Medical Supplies without Government Emblem**
- **Storing Drugs Insecurely**
- **Lack of Storage Facilities**
- **Dearth of Drugs for Cancer Clinic**
- **Non-recovery of Loans**
- **Installation of a Computer System for the Medical Supplies Division**
- **Project to Strengthen the Storage Facilities for Drugs**
- **Delays in the Procurement of Medical Supplies**
- **Purchase of PCR Kits for Detecting COVID-19 Virus**
- **Encroachment of Certain Areas of the Land belonging to the Hospital**

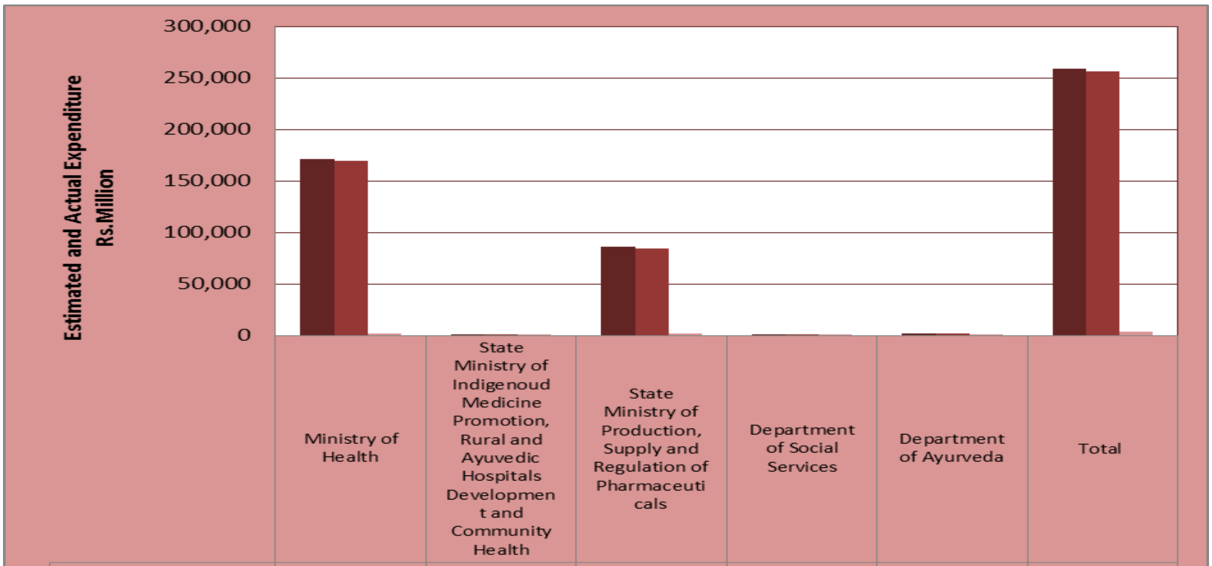
Health Sector

With the vision of making a healthy citizenry that contributes to the economic, social, mental, and spiritual development of the nation, the following duties and functions had been entrusted to the Ministry of Health, and 02 Ministries, 02 Departments and 10 statutory Boards/institutions functioning thereunder.

- To enhance the life expectancy of people through the prevention of endemic and non-endemic diseases, thereby establishing a health service targeting the minimization of infant and maternal mortality rates.
- To regulate the private medical services and laboratory services through a national policy, and preparation of a methodology to provide a proper service.
- To improve the National Hospital to be on par with international standards.
- To improve one hospital in each district to be on par with the National Hospital, and improve the facilities of other divisional and primary hospitals in the district.
- To equip all the hospitals with physical and human resources thus introducing a methodology through which the patients are referred to the specific hospitals.
- To improve the professional facilities in view of retaining the doctors and medical professionals in the country.
- To introduce ISO certification for all the Government and private health institutions to ensure a secure environment for everyone.
- To register a national council for indigenous medicine and Sri Lanka Ayurvedic Medical Council, and prepare a methodology to register indigenous doctors.
- To elevate the Institute of Ayurveda to the University level.
- To update the list of national Ayurvedic drugs.
- To implement a methodology under the coordination and regulation of Tourist Board with priority given to indigenous, traditional, and Ayurvedic medicine to treat tourists.
- To promote researches on drugs and treatment methods used in indigenous medicine.
- To facilitate indigenous doctors and the entrepreneurs of this sector for cultivating herbal plants locally in order to be used in manufacturing Ayurvedic drugs.
- To enhance programs relating to Samurdhi and domestic economy with a view to promoting non-toxic foods among all age groups.
- To implement programs island wide for the prevention of endemic diseases and early identification of non-endemic diseases.
- To enhance laboratory facilities in accordance with recommendations of the World Health Organization to ensure quality of drugs.
- To prepare a regulatory mechanism for promoting pharmacies.

- To make strategies for encouraging local entrepreneurs to manufacture drugs.

Provision totaling Rs. 259,339 million had been made by Parliament in the year 2020 for the Ministry of Health, and the 02State Ministries and 02 Departments functioning thereunder in order to execute the said duties and functions. By the end of the year under review, only a sum of Rs. 255,844 had been utilized therefrom. Particulars are given in Figure 41



	Ministry of Health	State Ministry of Indigenoud Medicine Promotion, Rural and Ayuvedic Hospitals Development and Community Health	State Ministry of Production, Supply and Regulation of Pharmaceuticals	Department of Social Services	Department of Ayurveda	Total
Provision Rs.Million	170,797	158	85,950	639	1,795	259,339
Expenditure Rs.million	169,088	148	84,262	617	1,729	255,844
Savings Rs.Million	1,709	10	1,688	22	66	3,495

Figure 41 : Estimated and actual expenditure.
Source : Annual financial statements for the year 2020.

A summary of significant audit observations made in audit test checks conducted on execution of the said duties and functions, is given below.

Progress in the Implementation of Development Projects in the Health Sector

Construction of a Building for the Ministry

The project to construct a 10-storied building within 24 months for the Ministry was awarded to the Central Engineering Consultancy Bureau on 27 October 2014 at a contract value of Rs. 3,896.55 million. The number of floors in this building had been increased to 16 and the contract value had been revised to Rs. 5,979.29 million on 30 January 2018. According to the contract agreement entered into on 22 June 2018, the overall constructions should have been completed within a period of 36 months. During the two years of 2013 and 2014, preliminary provision of Rs. 45 million had been made under a combined project implemented by the Government of Sri Lanka and JICA, whilst preliminary provision amounting to Rs. 3,675.97 million had been made during the period 2015-2020. As only a sum of Rs. 1,861 million therefrom had been spent as at 31 December 2020, financial progress of the project remained 50 per cent whereas the physical progress was 45 per cent as per the information made available to the Audit. The 24 month contract period mentioned in the letter for awarding the contract dated 27 October 2014, had been further extended by 67 months until 11 May 2022, and a sum of Rs. 201.5 million had been paid in the wake of price variations.

Improvement of Health Facilities in Selected Hospitals

Having accepted a project proposal voluntarily submitted by the CETC International Co Ltd of China, the project had been implemented under a loan of US $ 85 million comprising sums of US $ 72.25 million and US $ 12.75 million obtained from the Hong Kong and Shanghai Banking Corporation Limited and People's Bank respectively. Approval had been given by the Cabinet on 22 July 2010 that the Director General of the Department of External Resources be entrusted to enter into a Memorandum of Understanding subject to obtain a non-commercial loan from the Government of China for financing the project, appoint a Project Committee and a Negotiation Committee for evaluating the scope of the project, and obtain financial facilities under acceptable conditions. Furthermore, approval for the scope of the project had been granted by the Cabinet Appointed Negotiation Committee on 07 November 2013. However, considering the Cabinet Memorandum presented by the Minister of Health on 10 January 2014 relating to the procurement activities of this project, the Minister of Finance had recommended that the project proposal be abandoned due to reasons such as, the project proposal had been presented by CETC International Co Ltd independently; the project was not in the priority list to be financed by the Government of China under concessional terms; projects being already financed by the Government of China with grants of US $ 300 million had already been identified for the same sector; and, the Ministry of Finance and Planning was taking action to properly provide capital through middle term budget for the overall requirements of hospitals identified in due course. Although the Cabinet had informed the Secretary to the Ministry of Health on 21 March 2014 that the recommendation of the Minister of Finance be implemented, a Cabinet Memorandum relating to the same project had again been presented on 20 November 2015.

It was the observation of the Ministry of National Policies and Economic Affairs that the project proposals presented voluntarily should not be accepted; Government Procurement Guidelines should be followed for all the project proposals; and the Cabinet Sub-committee on Economic Management be requested to take further action on this proposal.

The Secretary to the Ministry had not taken action to call for bids from the parties interested in the project contrary to recommendations mentioned in the letter sent by the Secretary to the Prime

Minister on 05 February 2016 to the Secretary to the Ministry of Health in order to implement the recommendations given by the Cabinet Sub-committee on Economic Management on 02 February 2016; instead, a Cabinet Memorandum had again been presented on 19 April 2016 thereby obtaining Cabinet approval to award the contract for the project to CETC International Co Ltd of China.

Following the recommendations given by the Minister of Finance with respect to the Cabinet Memorandum presented by the Minister of Health on 19 April 2016, and the recommendations made by the Cabinet Sub-committee on Economic Management, it had been informed that instructions be sought from the National Procurement Commission in order to follow the Swiss Challenge Procurement Procedure during the procurement process for awarding the contract. Nevertheless, the Ministry had not sought instructions from that Commission, but apprised the Cabinet, thus taking action to obtain approval for awarding the contract to CETC International Co Ltd. As such, fair, equal and maximum opportunities had not been given to the qualified parties interested in taking part in the procurement.

The Department of External Resources had informed the Secretary to the Ministry of Health on 07 November 2016 that the Exim Bank of China would evaluate new proposals only after completion of the prioritized projects already evaluated, a considerable time would be spent for evaluating the new proposal due to that reason, and assistance would not be obtained from the Government of China due to the provision agreed between the Ministry and the Company. However, the Ministry had entered into a contract agreement on 06 May 2017 with the CETC International Co Ltd. Hence, a decision had not been reached on the financing for the project prior to entering into a contract agreement.

According to the contract agreement, the contractor should give his consent for a proper assessment on the current market prices through surveys conducted on the market and previous technical specifications of each equipment to be supplied under the project. However, the following deficiencies had occurred as such an agreement had not been entered into.

- Twenty nine High Pressure Sterilizers each costing US $ 88,445.56, had been purchased under this project in October 2019. However, a bid worth US $ 67,685.79 had been received for the same item during a procurement made by the Bio Medical Engineering Services Division in the year 2020. Following the purchase of 29 High Pressure Sterilizers in the project, the Government had sustained a loss of US $ 602,033 or Rs. 109.19 million.
- Under this project, 154 ECG Recorders, each costing US $ 955.79, had been purchased in November 2019. However, a bid worth US $ 620.64 had been received for the same item during a procurement made by the Bio Medical

Engineering Services Division in the year 2020. Following the purchase of 154 ECG Recorders in the project, the Government had sustained a loss of US $ 51,613.10 or Rs. 9.36 million.

- In addition to the types and quantities of medical equipment agreed to be purchased in the contract agreement, 36 units of such equipment belonging to 06 items, had been purchased by incurring an additional expense of US $ 1,713,017. Nevertheless, the requirement of such a purchase and the authority to do so , had not been verified.
- A number of 732 units of medical equipment under 11 items worth US $ 10,341,390.57 the technical specifications of which had not matched that of the ones mentioned in the contract agreement, had been purchased.
- Contrary to the contract agreement, service and maintenance agreements had not been entered into with the manufacturers and their local agents to provide service for 07 years after the expiration of the warranty period relating to 18 medical equipment, and 01 year from the date of issuing the certificates of installation for the other medical equipment.
- Twenty five Mortuary Coolers costing US $ 448,957.25 had been purchased from a contractor who had not obtained the import license and registration certificate for the equipment issued by the National Medicines Regulatory Authority whilst 436 Pulse Oximeters costing US $ 414,173.84 had also been purchased from a contractor whose import license had expired.
- It was not verified that 1,681 units under 22 items of medical equipment costing US $ 20,858,277.81 distributed to hospitals during the period from 01 November 2019 to 28 December 2020, had been properly installed. It had not been verified through the receipt orders that 517 units under 17 items of medical equipment costing US $ 3,653,709.83 distributed to hospitals during 09 January 2020 and 18 January 2021, had been received by the hospitals. Furthermore, 155 units of medical equipment costing US $ 9,244,757.86 had been distributed to hospitals without issuing issue orders.
- The management of the hospital verified that the standard of the Echo Cardiograph costing US $ 75,027.91 provided for the Cardiology Unit of the Teaching Hospital of Kurunegala, was unsatisfactory.
- It was observed in the audit test checks that the equipment worth US $ 1,211,948.14 issued to the hospitals after being purchased under the project, remained idle without being used even by 31 May 2021.

Strengthening the Medical Laboratory Services

The Fleming Fund of the United Kingdom had agreed to provide a grant of 4 4,639,805 Sterling Pounds for a project to strengthen medical laboratory services proposed to be implemented between 2018 and 2021. The Cabinet had given approval to enter into the Memorandum of Understanding for the project on 29 October 2019. Although discussions had been held on the project since 2018, the Memorandum of Understanding could not be signed even up to 15 March 2021, nor had the agreement proposed to be entered into with the Department of Health and Social Care of the UK, been signed. Implementation of the project had continuously been delayed due to lack of interest shown therein, hence losing the foreign grants.

Implementation of Electronic Medical Reports in Government Hospitals of Sri Lanka

Cabinet approval had been given on 05 October 2016 for the project to implement electronic medical records in the Government hospitals proposed by the Information and Communication Technology Agency of Sri Lanka – ICTA in the year 2016 at a value of Rs. 1,805 million. It had been planned to improve quality and efficiency of health service through the implementation of this project at 300 hospitals covering all the categories of hospitals in Sri Lanka by 31 December 2018. While the installation process of the Hospital Health Information Management System (HHIMS) at 41 of 300 hospitals was in progress as at 31 December 2017, the Ministry of Finance took action to hand over the project to the Ministry of Health with effect from the year 2018.

Provision amounting to Rs. 355 million had been provided by the Ministry of Telecommunication and Digital Infrastructure for the ICTA in the year 2016 relating to this project. According to the information made available, a sum of Rs. 147.61 million had been spent therefrom on hardware, but particulars on the monies spent on software, human resources, maintenance services and other accessories, were not furnished to the Audit.

An agreement had not been reached between the Ministry of Health and the Ministry of Telecommunication and Digital Infrastructure as to how the project should progress and installed systems be maintained in the wake of the project being handed over to the Ministry of Health since the year 2018and the responsibilities of each Ministry had not been determined as well. Furthermore, due to failure of the Ministry of Health in securing the rights to the source code and system administration of the HHIMS software installed by the ICTA, the HHIMS software had not been installed at the intended hospitals; instead, time had been spent on the development and installation of the Health Information Management System-HIMS. Although installation of the HIMS software had been commenced at 63 selected hospitals since the year 2018, the project could not be completed as planned.

A sum totaling Rs. 245.21 million had been spent by the Ministry of Health on this project during the years 2018, 2019, and 2020; and, 384 laptops costing Rs. 23.68 million, 32 printers of the brand "Brother" costing Rs. 1.25 million, 80 Bixolon POS Printers & Bixolon Sticker Printers costing Rs. 4.52 million, and 395 Barcode Readers costing Rs. 1.57 million given to 15 selected hospitals and included in the said expenditure, had remained idle without being used as at 10 May 2021. Moreover, 900 laptops costing Rs. 55.51 million, 86 "Brother" Printers costing Rs. 3.36 million, 215 Bixolon POS Printers & Bixolon Sticker Printers costing Rs. 6.20 million, and 1,045 Barcode Readers costing Rs. 4.17 million provided for 63 hospitals after being purchased under the said project, remained underutilized due to lack of Server facilities.

The Procurement Committee of the Ministry had called for bids on 06 September 2018 to supply, deliver, and install the Servers for this project. A period of 47 days had been spent to inform the Committee Decision dated 28 November 2018 relating to the award of contract at a value of Rs. 147.94 million, to the relevant Division, and as such, the contract had been awarded on 25 February 2019 after a delay of 172 days from the date of calling for bids. The items should have been supplied before 30 July 2019 as per the agreement, but it had not been so done even as at 25 December 2019 - the date of expiration of the performance bond. However, action had not been taken either to extend the validity period of the performance bond or encash the performance bond. The Procurement Committee of the Ministry had decided on 10 September 2020 to terminate this procurement and take action against the contractor, but no action whatsoever had been taken in that connection even by 15 March 2021.

Making Payments for Overtime and Holidays

Departure and arrival of all the officers should have been recorded by using finger scanners in terms of Public Administration Circular, No. 03/2017, dated 19 April 2017. The Letter, No. DMS/0016 of the Secretary of the Treasury dated 12 May 2017 and addressed to the Secretary to the Ministry of Health, stated that no overtime payments should be made based on the present salary had finger scanners not been installed with effect from 01 July 2017 in order to verify the arrival and departure of health staff. However, 213 finger scanners installed by spending a sum of Rs. 31.08 million by the Ministry at the locations of the Ministry itself, and hospitals and other institutions functioning thereunder, had not been made use of. Nevertheless, based on the present salary, sums of Rs. 34,868.54 million and Rs. 27,703.08 million had been paid as salaries, and allowances for overtime and holidays respectively during the year under review. Furthermore, the total amount spent on holiday and overtime payments represented 79 per cent of the cost on salaries.

Approved Cadre and Actual Cadre

A number of 2,454 vacancies existed in 33 posts with 49 excess employees in 03 posts of the senior executive level. As for the tertiary level, 446 vacancies existed in 67 posts and there were 02 excess employees in one post. A number of 6,010 vacancies and 134 excess employees existed in 78 and 14 posts respectively in the secondary level. Forty five posts had 8,899 vacancies with 3,371 excess employees in 06 posts of the primary level. Those vacancies included the posts exclusive to the health sector, such as, 2,268 Medical Officers, 44 Dental Surgeons, 2,668 Male Nurses, 626 Sisters, 129 Pharmacists, 249 Radiologists, 526 Family Health Service Officers, and 150 Electro cardiographers. Furthermore, 663 employees had been recruited on casual basis to the post of Health Service Assistant without following the Scheme of Recruitment for the non-technical posts of the primary level.

Removal and Interment of Unclaimed Corpses, Organs, Stillborn Babies, and Corpses of Infants

The captioned activities relating to the National Hospital of Kandy should have been performed by the contractor under supervision of the Public Health Inspector in terms of the contract agreement. However, the PHI had not supervised any of such instances.

As a scale supplied by the contractor had been used to measure the weight of masses stored in the refrigerator, no proper supervision had been carried out on the accuracy of the weight of the masses being removed.

Taking into consideration the number of relevant mothers, an average weight of 979 grams was observed with the uteruses mixed with ice stored in the refrigerators on 14 September 2020. However, when considered the amount of weight and the number of mothers that fees had been charged by the contractor on during the period from 01 January 2019 to 30 April 2020, the average weight ranged as high as 1.7-4.7 kg.

According to the medical reports and information available on the Internet, the weight of a uterus ranged from 500 to 800 grams. Based thereon and considering that the average weight of 979 grams of the uteruses mixed with ice observed on the date of audit on 14 September 2020 would be approximated to a maximum of 01 kg, it was observed, by taking into account the number of mothers relating to the period 01 January 2019- 30 April 2020, that 24,877 kg of uteruses had been recorded in excess.As such, an overpayment of Rs. 9.36 million had made as at that date for 22,246 uteruses.

Failure to Obtain the Expected Outcome from the Mine Portable Digital X-Ray Machine

Following a written request made by the Director of the Polonnaruwa district hospital, a Mine Portable Digital X-Ray machine had been purchased at a value of Rs. 9.96 million on 05 November 2020 by following the limited tendering process to be used at the Covid 19 special treatment center in Polonnaruwa. A Radiological Technologist had not been appointed for technical evaluation, and the Government Radiological Technologists' Association informed that there existed a risk to the operators and the patients, thus the machine could not be used and the funds incurred thereon had been wasted. Confirming the claim, the machine remained idle even by 19 February 2021.

Payments Made to the Janitorial Service

Four institutions providing janitorial services for the National Hospital of Colombo had been paid a sum of Rs.204.60 million for the period, January-September 2016 as salaries and overtime based on the rates increased by the Government on 24 March 2016 for the janitors.

The Procurement Committee of the Ministry had decided and informed the relevant parties that the facts such as, the increased salaries had been paid to the employees, and the contributions to the Employees' Provident Fund and Employees' Trust Fund had been settled, should be verified before making payments. However, a sum of Rs. 26.57 million paid as salaries in arrears and overtime payments paid in that period without doing so, had been included in the said amount.

Salaries amounting to Rs. 677,160 and Rs. 202,500 had been paid by the contractor to 63 laborers with respect to 1,254 work shifts and 375 days respectively. However, the contractor had not paid those salaries and allowances to the laborers, but an overpayment of Rs. 131,949 had been made to the contractor in favor of contributions to the Employees' Provident Fund and Employees' Trust Fund. A sum totaling Rs. 25.31 million had been paid to the contractor based on the new overtime rates relating to that period, but a sum of Rs. 7.15 million therefrom had not been paid to the laborers by the contractor.

For this period, the contractor had been overpaid a sum of Rs. 1.92 million as salaries and overtime payments for 24 supervisors; Value Added Tax totaling Rs. 714,983 had been overpaid to 03 contractors, and, based on the new rates, a sum of Rs. 81,320 had been paid to a certain contractor on cleaning materials that had not been actually used.

Due to failure of the hospital to obtain payrolls for the period, January-September 2016 from 03 contractors, the accuracy of the payments made to those contractors, could not be verified.

Payment of Extra Allowances to the Nursing Staff without Formal Approval

The general Circular, No. 2009/19/02 dated 27 March 2009 had been issued with respect to the Secretary of the Ministry of Health allowing the nursing staff to work outside normal duty hours and on their days off thus making payments thereon without a Cabinet approval or any other formal approval by disregarding the provisions in various Circulars and Establishments Code relating to the additional shifts and days off of the Government officers. This Circular had been put into effect for over a period of 02 years, and the Minister of Health had presented a Cabinet Memorandum on 05 April 2011 with a view to obtaining a covering approval for the Circular. The Cabinet had granted approval on 14 September 2011 that the said Cabinet Memorandum be forwarded to the Director General of Management Services, Director General of the Institution, and the Public Services Commission thereby obtaining their recommendations before being implemented subject to the following amendments.

- Each of the institutions in Health sector should ensure that the relevant category of nursing officers perform the duties entrusted to them within the assigned duty hours.
- The said institution should maintain records on the normal and additional duty hours during which each nursing officer perform their duties.
- The Format annexed to the Report, No. NSCC/4/13/CM of the National Salaries and Cadre Commission, dated 11 July 2011 should be introduced with effect from 01 November 2011 in order to apply for and compute the payments to be made with respect to additional duty hours relating to each officer; and,
- Guidelines mentioned in the report of the National Salaries and Cadre Commission, should be followed, and overtime payments should be made to the nursing officers with effect from that date.
- According to Sub-section 04(vi) of the General Circular, No. 2009/19/02 issued by the then Ministry of Health and Nutrition, dated 27 March 2009, the duties performed by a nursing officer on a public holiday, should be limited to paying salaries for a holiday; and Sub-section 04(x) thereof should not be amended.

Following the Cabinet approval dated 14 September 2011, the general Circular, No. 02/19/2009(1)/2009/19/02(1) had been issued by the Secretary to the Ministry of Health on 02 January 2012. However, through the Letter, No. 01(11)/16/20 issued by the Secretary to the Ministry of Health on 13 January 2012, that Circular had been suspended until a further decision is taken. As such, extra allowances had been paid to the nursing staff without formal approval for a period of over 12 years from 01 April 2009 up to the date of audit, 15 August 2021. As such, the responsible officers of the Ministry of Health had paved way for making payments improperly and illegally.

Providing Medical Supplies without being Recommended by the Formulary Revision Committee

Meetings of the Formulary Revision Committee should be held annually in terms of the Cabinet Decision. But, it had been decided to conduct the review once per three years. As per the directive of the meeting of the Committee on Public Accounts held on 06 June 2019, Cabinet approval should have been obtained to conduct that meeting once per three years if not it was possible for the meeting to be conducted annually. Nevertheless, such an approval had not been obtained even by 10 May 2021.

Due to reasons such as, members and sub-committee members for the Formulary Revision Committee for the period 2019/2020 had been appointed until the end of the year 2020; only 10 sub-committee meetings had been conducted until the first quarter of the year 2021; final report of the meeting of the Formulary Revision Committee held for 2016/2017 had been issued on 17 January 2019; and failure to specifically mention the durations for implementing the recommendations thereof, action had not been taken to appoint the Formulary Revision Committee and issue the reports within a specific timeframe.

According to the Cabinet Decision, monthly meetings of the Therapeutic Committees should be held at each hospital in order to ensure proper management of drugs and promote the use of drugs. However, it had not been done so even by 31 December 2020.

Out of the 20,850 items of medical supplies being in use even in the year under review, 35 per cent equivalent to 7,394 items had not been recommended by the Formulary Revision Committee whereas certain drugs removed by the Formulary Revision Committee, had still been in use.

Orders had been placed by the Medical Supplies Division on 29 June 2020 to purchase 258 items of drugs worth Rs. 3,507.29 million that had not been approved by the Formulary Revision Committee for the year under review. Seven including 03 items of drugs costing Rs. 285 million stored in the computer system as being unapproved by the Formulary Revision Committee, had been purchased by the Medical Supplies Division for the year 2020.

Forty nine items of drugs worth Rs. 9.07 million, and 06 liters of Uirusolve + EDS costing Rs. 200,400 not approved by the Formulary Revision Committee, had been purchased by the Lady Ridgway Children's Hospital and the Teaching Hospital of Peradeniya respectively from the local market during the year under review.

Drugs to be Stored below 30 Degrees of Celsius

An area of over 1/3 of the Head Office space where the Medical Supplies Division had been located had been made use for official works, and hence space for stores and infrastructure facilities were not sufficient. Fifteen items of medical supplies including 09 items costing Rs. 284.27 million that had not been accepted by the store keeper, had been kept outside the store premises for periods ranging from 03 days to 71 days. It was observed in the physical audit inspection carried out at the Medical Supplies Division on 17 March 2021 that 05 items of drugs costing Rs. 120.29 million which should have been stored under 30 degrees of Celsius had been kept at the stores and the corridor in temperatures over 30 degrees. Those drugs, not kept under the desired temperature over periods of 02-71 days, included medicines and antibiotics used for allergies and diabetics.

Premises Used for Storing Drugs

Fire extinguishers kept in the store premises for drugs, and surgical and chemical items had become expired since the year 2018. Furthermore, the contract for installation and maintenance of air conditioning system awarded in the year 2013 at a value of Rs. 119.3 million, should have been completed by 31 October 2016 as per the agreement. A sum of Rs. 119.03 million representing 99.78 per cent of the contract value had been paid to the contractor by 17 March 2021, but the contractor had not completed works even by 30 June 2021.

Prevention of Shortages in Medical Supplies

In order to prevent the shortages in medical supplies that occurred due to reasons such as, delays in the procurement process, supplies getting delayed , and other reasons, the Medical Supplies Division identified that an additional sum of Rs. 5,166 million had been incurred during the 10 year period of 2007-2016. However, the same had been identified as Rs. 4,941 million by the State Pharmaceuticals Corporation, thus failing to identify reasons for the difference of Rs. 225 million. The State Pharmaceuticals Corporation had identified an additional cost of Rs. 320 million to be recoverable by the end of the year under review whereas no action whatsoever had been taken either by the Medical Supplies Division or the State Pharmaceuticals Corporation for recovery of the balance of Rs. 4,621 million incurred as an additional cost.

Only a sum of Rs. 83 million had been recovered out the sum of Rs. 194 million that the suppliers had been directly responsible for and included in the total additional cost identified by the State Pharmaceuticals Corporation by the end of the year under review. The parties responsible for the sum of Rs. 104 million incurred due to deficiencies in the processes of procurements and placing orders to which the supplier had not been responsible for, along with another sum of Rs. 21.8 million, had not been identified even by the end of the year under review.

An additional cost of Rs. 558 million incurred during 57 instances in which the State Pharmaceuticals Corporation had made purchases locally in view of averting the shortage in medical supplies that had occurred due to delays in procurement process, was not recovered even by 31 August 2021.

A mechanism had not been identified to recover the additional cost, incurred on the medical supplies purchased by each hospital from the local market, from the suppliers. Medical supplies costing Rs. 2,219.15 million had been purchased in the year under review from the local market by 35 Government hospitals and health institutions functioning under the Line Ministry, but the additional cost relating thereto had not been either computed or recovered.

The price of the medical supplies purchased by the Lady Ridgway Children’s Hospital from the local market in the year under review, had been considerably higher than that of the State Pharmaceuticals Corporation’s, and that included 16 items of drugs costing Rs. 1.37 million and having an active period as short as 03-11 months. When comparing the prices of items purchased in urgency by the Teaching Hospital of Peradeniya with the average price at which the Medical Supplies Division of the Ministry of Health had purchased the same items, the variation reached as higher as 26 per cent -2016 per cent.

Quality Failed Medical Supplies

Of the medical supplies provided for the Government hospitals by the Medical Supplies Division, supplies costing Rs. 1,136.64 million had failed in quality assurance tests. At the time of informing the hospitals on quality failure, the amount of the rest of the medical supplies had not been identified.

Many of the quality-failed medical supplies had been withdrawn from being used or the use had been suspended due to reasons such as, existence of pieces of glass, existence of visible particles, a dead cockroach, tablets getting broken, changes in color, non-conformity to the BP Specification, occurrence of 03 deaths due to reactions, and microbial contamination. The medical supplies withdrawn from being used in the year under review after being quality failed, included antibiotics (Meropenem/ Flucloxacillin/ Vancomycin), and drugs used for allergies, asthma and cancers.

matters such as, drugs found quality failed after being issued to the hospitals; 100 per cent of the quality failed drugs are either issued to the patients or fully used at the time of issuing the Circulars; withheld items becoming expired before being withdrawn or revoked after further tests; and losing the possibility of recovering the loss from the suppliers with respect to the items becoming expired due to delays in tests, had continuously been pointed out in the audit reports. Nevertheless, even by 31 August 2021, a mechanism had not been put in place to examine the quality of drugs before being issued to the hospitals thus failing to avoid the said situation.

With the objective of preventing the quality failed drugs from being issued to the patients due to delay in issuing the Circulars on such drugs, the Audit had been informed that suspension orders on medical supplies would be given to the relevant hospitals and institutions through the computer system with effect from the year 2020. Nonetheless, it could not be so done as the computer system had not been installed at 1,381 out of 1,521 total number of hospitals.

A number of 609,561 units of 13 quality failed drugs costing Rs. 14.38 million had been received by the General Hospital of Polonnaruwa in the year under review, and 529,443 units therefrom equivalent to 86.85 per cent had been issued to the patients. However, the patients whom those drugs had been issued to were not looked into, and the Circulars only informed as to the measures to be taken on the quality failed drugs remaining at the stores.

A number of 7,100 units of Peritoneal Dialysis Solution 1.5 % used for kidney patients under 05 batches costing Rs. 6.47 million, had been found remaining at the stores during the inspection. Complaints were received that the drug had leaked from 08 packages, and the drugs had often leaked through the packages after being issued to the patients as well.

Action had not been in terms of Circular, No. WMS-01/13/2009 of the Secretary to the Ministry of Health dated 21 May 2009 on 34 quality failed surgical and laboratory items kept in the stores of the Peradeniya Teaching Hospital over extended durations, thus failing to remove those items from the stores even by 04 September 2020.

The cost of medical supplies that had failed quality during 2011-2020 totaling Rs. 2,364.69 million, had not been recovered from the relevant suppliers. The said value included purchases worth Rs. 2,111.46 million made from the State Pharmaceuticals Corporation; purchases made locally to the value of Rs. 60.61 million purchasing non local manufacturing Rs.109.96 purchases worth Rs. 81.95 million made from the State Pharmaceuticals Manufacturing Corporation; and purchases of surgical gauze to the value of Rs. 732,330. As certain items had already become expired at the time of issuing the Circular informing that those items were quality failed, the loss sustained due to quality failure could not be recovered. For example, 108,000 units of Cefuroxime sodium for injection BP 750 mg costing Rs. 5.79 million had become expired on 30 September 2017 and 31 January 2018 prior to the issue of Circular informing on the quality failure.

Drugs Lost and Damaged without Proper Action

The loss sustained within a period of less than 05 years in 60 incidents relating to drugs worth Rs. 253.39 million, the loss sustained within a period of 05-10 years in 209 incidents relating to drugs worth Rs. 162.83 million, and the loss involving drugs worth Rs. 813,400 sustained over a period of 10 years relating to one incident, had not either been recovered from the relevant party or written off as at the end of the year under review by the Ministry.

According to the Manual on the Management of Drugs issued in the year 2008 by the Ministry of Health and Nutrition, the unusable drugs pertaining to a District general hospital should be properly disposed of quarterly. Nevertheless, it had not been so done at the District General Hospital of Polonnaruwa during the period 2016-2021. Eighty four drugs costing Rs. 10.19 million at the Anuradhapura Teaching Hospital that had become expired on 31 December 2015, had not been disposed of even by 31 January 2021.

Shortages in Medical Supplies

A shortage to the value of Rs. 10 million relating to medical supplies handed over to the Medical Supplies Division by the State Pharmaceuticals Corporation during the years 2004 and 2005 had been revealed in the reports of the Auditor General. As per Recommendation, No. 4.2 of the Committee appointed in that connection, action should have been either to recover a sum of Rs. 9.37 million from the parties responsible for the loss or reimburse the loss. Even after a lapse of 08 years since the report of the investigation had been issued, only a sum of Rs. 3.18 million out of Rs. 9.23

million had been recovered from the relevant parties by the State Pharmaceuticals Corporation whereas the sum of Rs. 6.06 million representing 65 per cent of the total loss, had not been recovered even by the end of the year under review; of the said sum, Rs. 3.20 million could not be recovered from the transport contractor due to expiration of the cause of action, the sum of Rs. 1.71 million could not be recovered from the local agent as the relevant stock could not be provided by the supplier, and the losses totaling Rs. 1.05 million could not be recovered due to reasons such as, delays occurred in the Medical Supplies Division, destruction & misplacement of files, and negligence of the officers.

Funds Spent on the Clearance of Donations

The Medical Supplies Division had spent Rs. 294.86 million during the year under review in 152 instances for the clearance of donations received from foreign countries for hospitals and health institutions functioning under the Ministry of Health. Due to reasons such as, delay of the Ministry of Health in granting approval, delay in furnishing documents, delay of the National Medicines Regulatory Authority in granting approval, delay in receiving financial provision, and the delay of the Department of Import and Export Control, a sum of Rs. 16.98 million had been paid as demurrages relating to the clearance of those donations. Demurrages totaling Rs. 8.10 million included therein under 04 instances due to failure in properly planning the clearance procedure.

The Possibility of Expiring the Medical Supplies

In order to avoid shortage of medical supplies provided for the Government hospitals and ensure continuity in the supply of drugs, it had been decided at the review committee meetings held under patronage of the Minister of Health on 09, 17 April 2020 that the total annual requirement of medical supplies including buffer stocks should be ordered from the State Pharmaceuticals Corporation for the year 2021, and the stocks scheduled to be received in the preceding years should not be deducted from each order. In the wake of this decision, all the orders placed for the year 2021 had been revised on 20 April 2020 and thereabouts. Owing to those revisions, the orders placed for the year 2021 had increased by 25-112 per cent as compared with the year 2020. Requirements of each medical supply should have been properly analyzed before being forecasted, but action had been taken in accordance with the said decision, thus giving rise to the possibility that a excess of medical supplies would occur thereby resulting in expiration in the future.

Medical Supplies without Government Emblem

The necessity to print the Government emblem on medical supplies provided by the State Pharmaceuticals Corporation, was a requirement and a method of internal control introduced to prevent misuse. However, 03 items without Government emblem printed and costing Rs. 156.28 million existed at the stores of the Medical Supplies Division on 17 March 2021.

Storing Drugs Insecurely

The General Hospital of Polonnaruwa maintained 06 stores for storing drugs. Due to reasons such as, failure in improving storage facilities in relation to the hospital being expanded, and lack of space in the stores for the existing drugs, 2,062,522 units of 82 drugs items worth Rs. 44.18 million had been insecurely kept stacked outside the drug stores. A large number of boxes containing Disposable Gloves had insecurely and improperly been kept on the staircase and surrounding area of the main stores. As drugs had been stored without considering desired space thus preventing circulation of air, the drugs remained at higher temperatures in the air conditioned stores.

Lack of Storage Facilities

Although Cabinet approval had been received in the year 2017 to construct a drug store at the Teaching Hospital of Peradeniya at an estimated value of Rs. 463 million, no further action could not be taken as provision had not been received. Due to lack of storage facilities, 44 items of drugs and surgical items had been kept at locations such as, corridors of the hospital, quarters of the Director, and kitchen and first floor of the Medical Officers' hostel. Fourteen items of drugs included therein should have been stored in the temperatures ranging from 25-30 degrees of Celsius.

Dearth of Drugs for Cancer Clinic

Four hundred patients had registered at the cancer clinic of the Polonnaruwa hospital as at 31 January 2021. Many of the drugs required for this clinic remained in scarcity over considerable periods. As for the 05 year period from 01 January 2016 to 18 February 2021, twelve items of drugs remained in scarcity for over 50 per cent of the days in that period; 25 items of drugs remained in scarcity for 25-50 per cent of the days; and 49 drugs remained so over 0-25 per cent of the days during the same period. Action had not been taken to prioritize the supply of drugs prescribed to patients with life-threatening diseases such as cancer.

Non-recovery of Loans

Action had not been taken even by the end of the year under review for the recovery of loans totaling Rs. 395.50 million remained due over 05 years from other Government institutions and hospitals in regard of the drugs issued by the Medical Supplies Division.

Installation of a Computer System for the Medical Supplies Division

Prior to the year 2012, medical supplies had been managed by the Medical Supplies Division using the Oracle software, and in the year 2012, the first stage of the Medical Supply Management Information System(MSMIS) had been installed by interlinking 82 institutions functioning under the Ministry of Health. Following a Cabinet Decision, the MSMIS Expansion Project to link the divisional hospitals had been scheduled to be commenced in the year 2017 and completed by the year 2020 at an estimated cost of Rs. 954 million. As the actual expenditure remained Rs. 309.88 million as at 31 March 2021, the financial progress was as low as 32 per cent.

This information system had been planned to be installed at 571 health institutions though, the installation had been completed only at 140 institutions as at 31 March 2021, whereas the installation was still in progress at 337 other institutions. As such, the installation process of the system was not commenced at 94 institutions.

A number of 1,550 computers had been estimated for the system, but only 863 computers had been supplied by 31 March 2021.

A specific procedure had not been identified for training programs required for maintaining the system. No prior identification had also been made with respect to the information, reports and formats required by the management. Although assistance of a programmer had been obtained in regard of those requirements, no long term solutions had been identified in that connection.

According to the Letter, No. MSD/ICT/MSMIS-LP/2019 of the Deputy Director General of the Medical Supplies Division, dated 08 July 2019, the institutions linked to the MSMIS should make their divisional purchases only through that system with effect from 06 June 2019. However, granting approval for the LP Request made by the Teaching Hospital of Peradeniya through the system to the Medical Supplies Division, had been delayed due to miscellaneous reasons. Until the approval was received, orders were placed to the supplier who had been selected by manually calling for bids, and once the approval was received, the manual process was being integrated into the system. As such, it was observed that transactions relating to the medical supplies for which approval had not been received, were not recorded in the computer system.

Project to Strengthen the Storage Facilities for Drugs

Approval of the Cabinet had been received on 29 March 2017 for the project to strengthen the storage facilities for drugs at Government hospitals and health institutions at an estimated cost of Rs. 712.08 million. The objectives of the project included : to enhance the storage space for drugs at 866 hospitals, regional medical supplies divisions, base hospitals, regional hospitals, and primary treatments units functioning under the Ministry of Health; renovation of old pharmacies; to provide storage racks and necessary items; and improvement of communication, cold storage and transport facilities. The Medical Supplies Division had been provided with provision totaling Rs. 391.23 million in this connection comprising a sum of Rs. 86.23 million provisioned in the year 2020 and a sum of Rs. 305 million provided in the year 2021. The Medical Supplies Division had given a sum of Rs. 315 million therefrom only to 91 institutions. Those 91 hospitals had been given the total amount of provision requested though, the renovation process had not become completed even by May 2021.

Delays in the Procurement of Medical Supplies

It was the procedure followed by the Medical Supplies Division to issue orders to the State Pharmaceuticals Corporation under a supply period of 11 months for purchasing medical supplies. Nevertheless, the State Pharmaceuticals Corporation had become unable to provide medical supplies without delay. About 80 per cent of the orders placed for the State Pharmaceuticals Corporation relating to the year 2020 had not been supplied on time. Procurement activities commenced in the year 2019 for 09 items of drugs had been continued for 09-21 months by the State Pharmaceuticals Corporation. A duration of 01-13 months had been spent to give the decision of the Procurement Committee on procuring 16 items of drugs that the Procurement Committee of the Ministry had been informed on after commencing the procurement in 2019. Reasons such as, spending time at various phases longer than planned for the procurement process, and the delay of the supplier, had attributed to the delay in providing medicals supplies, but no suitable measures had been taken to properly identify such reasons and minimize delays. As such, medical supplies had been purchased in every year from the local market at exorbitant costs owing to this delay. The total cost of the medical supplies purchased from local market in the year under review alone, amounted to Rs. 6,265 million.

Purchase of PCR Kits for Detecting COVID-19 Virus

Twenty one institutions including hospitals and universities had conducted PCR tests for detecting COVID-19 virus. A sum of Rs. 762.96 million had been spent on purchasing PCR Kits by the Medical Supplies Division, State Pharmaceuticals Corporation on behalf of the Medical Supplies Division, hospitals, and health institutions.

Specifications should have been prepared accurately by analyzing the type of PCR machine used by each hospital and health institution, and the type of PCR Kit compliant to those machines. Nevertheless, due to failure in doing so with respect to the procurement made in April 2020, bids had been called without considering the essential features of "*approved CE IVD or equivalent, should have 2 SARS CoV 2 RNA targets, should have an extraction control preferably an endogenous human gene target, compatible with a wide range of thermal cyclers*"

Having put notes that the PCR Kits proposed by the lowest bidders had not been compliant to the existing PCR machines, and tests could not be done in parallel, the technical evaluation had been done in a manner favorable to a certain company based on the facts such as, urgency in the requirement, past experiences, and the type of machine used by the Medical Research Institute (MRI). Furthermore, the special Procurement Committee of the Ministry, having justified that the PCR Kits offered by the bidder recommended at the technical evaluation were used by the institutions functioning under the Ministry of Health, took the decision to award the contract to the bidder who had presented a higher bid per PCR Kit.

As the Medical Supplies Division and the State Pharmaceuticals Corporation on behalf of the Medical Supplies Division had purchased 328 PCR Kits in 03 instances at higher prices by disregarding the average market price of Rs. 1,850 per Kit, a financial loss of Rs. 125 million had been sustained.

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Encroachment of Certain Areas of the Land belonging to the Hospital

According to the deed of the land at which the Sri Jayawardanapura General Hospital is established, an extent of 10.0229 hectares belonged to the land, but it was identified that an area of 0.2182 hectares had been encroached. Nevertheless, the Ministry of Health had not been informed in that connection and no legal action had been taken.

Youth and Sports Affairs

Observations

- **International Achievements made by Sri Lankan Athletes**
- **Incurring Commitements and Liabilities**
- **Construction of Nuwara Eliya High Elevation Sports Complex**
- **Construction of Provincial and District Sports Comflexes**
- **Development of Hettipola Stadium**
- **Designiing Light System of the Hockey Cour Designiing Light System of the Hockey Court**
- **Accounts Receivable and Payable**
- **Unsettled Advances**
- **Failure to Recover the Withholding Tax**
- **Vehicle Utilization**

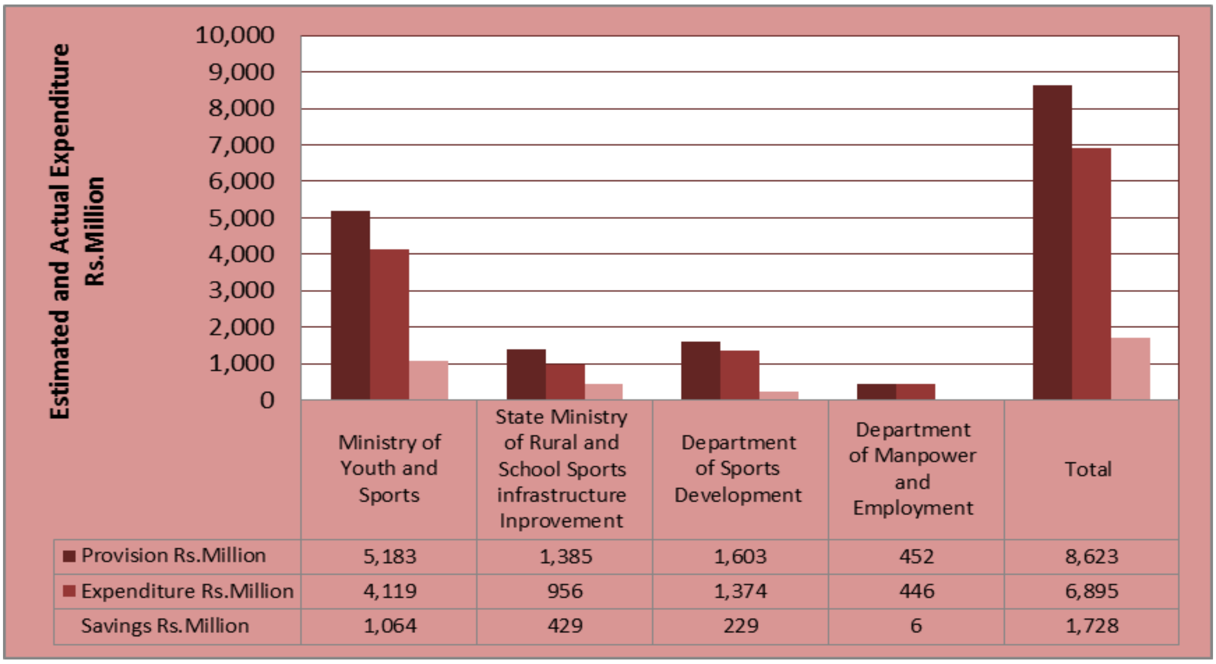
Youth and Sports Affairs

The establishment of a consolidated and prosperous land by grooming every citizen to be an energetic, healthy disciplined and dignified person through formulation and implementation of National policies had been the mission of the Ministry of Youth and Sports. In order to achieve that result, the following functions had to be performed by the Ministry of Youth and Sports and the State Ministry of Rural and School Sports Infrastructure Promotion, the Department of Sports Development, the Department of Manpower and Employment, 10 statutory bodies and 68 sports associations functioning thereunder.

- Formulation of necessary procedures to gain the active participation of the youth in the social, economic, political, and cultural advancement of the country.
- Formulation and implementation of strategies to trigger the necessary motivations and unveil new opportunities to ensure maximum opportunities to young entrepreneurs in the economic sphere.
- Establishment of "Youth Human Resource Database" to facilitate the precise identification of Sri Lankan youth suitable for public, private and foreign employment opportunities.
- Broadening the skills development for activities at international, national and local level.
- Establishment of a sports economy in Sri Lanka that builds sports infrastructure development and tourism, urban activities, international relations.
- Creation of an international sports environment by developing a multi-talented sports community among Sri Lankan youth.
- Encouraging the sports associations and the business community to involve in sport events.
- Providing necessary guidelines and encouragements to improve the facilities required for physical exercise to enhance the healthiness.
- Preparation of a programme to introduce sports activities to the youth from school education as an extra-curricular activity and through youth clubs and sports clubs, by preventing the energy of the youth from being diverted to anti-social activities.
- To set a programme in motion to bring forth healthy child generation by attracting school children for physical education and sports in addition to education.
- Implementation of a programme to identify children who excel in sports from an early age in rural schools island wide and to provide facilitates to bring their skills up to international standards, including proper nutrition and training.
- Implementation of a special programme to generate resource persons such as sports instructors, coaches and physiotherapists required for the development of the sport.

- Standardization of stadiums and playgrounds throughout the island and development of them to suit those standards.
- Formulation of a programme for the promotion of local traditional sports.
- Expansion of sports education in keeping with international standards.

Provisions of Rs. 8,623 million had been made available by Parliament to the Ministry of Youth and Sports, State Ministry, and 02 Departments in the year 2020 to execute the above-mentioned functions, and out of that, a sum of Rs. 6,895 million only had been utilized by the end of the year under review. Details are shown in Diagram 42.



	Ministry of Youth and Sports	State Ministry of Rural and School Sports infrastructure Inprovement	Department of Sports Development	Department of Manpower and Employment	Total
Provision Rs.Million	5,183	1,385	1,603	452	8,623
Expenditure Rs.Million	4,119	956	1,374	446	6,895
Savings Rs.Million	1,064	429	229	6	1,728

Diagram 42– Estimated and Actual Expenditure
Source – Financial Statements ,2020

The audit observations made during the sample audit test checks on the performance of above functions by the Ministry, State Ministry, Departments and Statutory bodies under it are summarized as follows.

International Achievements made by Sri Lankan Athletes

Sri Lankan athletes had participated in 12 international tournaments and won 331 medals as 64 gold, 106 silver and 161 bronze medals in 2019. Similarly, they had won the bronze medal at the Asian Youth Netball Championship, the runner-up position in the Under-19 Basketball Championship and the Championship of Asian Netball tournament. Although Sri Lankan athletes participated in several international competitions between January and April 2020 amidst the Covid 19 pandemic, due to the inability continue their trainings properly in the face of the Covid disaster, the athletes could not make substantial international achievements in the year 2020.

Incurring Commitements and Liabilities

The State Ministry had incurred commitments of Rs.2.27 million exceeding the savings after the utilization of the net provisions made for 09 Objects in the year 2020.

Construction of Nuwara Eliya High Elevation Sports Complex

The project for the construction of High Elevation Sports Complex had been initiated with the aim of increasing the endurance capacity of the athletes who are engaged in training in an elevated environment for outdoor and indoor sports activities such as athletics, kabaddi, netball, hockey, cycling, rugby, and volleyball. Measures had been taken to construct the aforesaid sports complex on a 34.5 hectare land belonging to the Ministry of Sports in Nuwara Eliya town located at an altitude of 1895 meters above sea level. The contract value of the project was, € 75,528,700 and it was proposed to be completed it in 03 years. The loan agreements had been reached to obtain 70% of the contract value from the UK Export Finance Corporation and the remaining 30% from People's Banks. As the loan plan fee for the project, € 264,492.34 or Rs. 51.05 million had been paid to the lending bank. A sum of Rs.53.55 million had been spent on salaries and wages, and office equipment for this project in the year 2019. Even though the said project was expected to be opened to the public in the first quarter of 2019, it had been discontinued year 2020. Accordingly, the total cost spent on this project had become a fruitless expenditure.

Construction of Provincial and District Sports Comflexes

Plans had been drawn to improve the sports skills of the rural youths aiming at the upcoming international tournaments by providing sports facilities covering all provinces and districts. According to the Cabinet Decision in the year 2011 decisions had been reached to construct fully equipped 07 provincial sports complexes during the period 2011-2015 and 14 medium scale district sports complexes during 2012-2015. Even though the provincial sports complex should have included the facilities required to set up a cricket ground, a sports medicine unit, a cafeteria, a restaurant and residential facilities, the Department of Sports Development had not been able to build such a provincial sports complex. A training running track, a cafeteria and a restaurant had not been constructed in a completed district sports complex and a 25-meter swimming pool had been built instead of a 50-meter swimming pool. Five out of 14 district sports complexes had been completed and constructions of 09 complexes had not been completed.

Development of Hettipola Stadium

The estimated cost for the construction of Pavilion of the stadium belonging to the Hettiola Pradeshiya Sabha was Rs.41.16 million. The relevant constructions should have been completed by 13 July 2018 commencing from 10 January 2017. According to the progress report, the constructions had been completed by 31 December 2021 and a sum of Rs.42.17 had been spent thereon. Nevertheless, the pavilion had not been handed over even by 31 December 2020. Even though 04 years had elapsed from the development of the playground of this one and only public stadium of the Hittipola town by the Sri Lanka Cricket, works had not been completed. Accordingly, it was not possible to use this playground for sports activities.

Designiing Light System of the Hockey Court

For designing, supply, installation and testing of the lighting system of the artificial hockey court at Reed Avenue, owned by the Department of Sports Development, a Rs 31.84 million (without tax) had been paid to a private construction company to carry out the construction of the project. It had been stated that a light system for this artificial hockey court should be set up to make it a first class stadium suitable for national and international competitions in accordance with international specifications and in keeping with the training requirements of the junior players and the need for sports club competitions. It had also been stated that the hockey court should be designed and constructed in a manner that it could be used for evening training and local competitions as well as international competitions. It had been stated in the specifications of the project that the lighting system of the hockey court should be in place so that the games could be seen better by the spectators and could be applied to television, whereas the height of a mounted pole had not been specified. Although the height of a pole should have been 20 meters according to the specifications of the International Hockey Federation, the height of a pole thus mounted had been 16 meters. Accordingly, as the requirement had not been precisely fulfilled, it was not possible to convert it into a first class artificial hockey court. As a result, the court was could not be used at night due to the lack of proper lighting capacity.

Accounts Receivable and Payable

For the sponsorship rights for Sri Lanka's tour of South Africa in 2018, US $ 187.085 or Rs. 34.94 million remained receivable to the Sri Lanka Cricket. The recovery of this amount was uncertain due to the suspicion and informal intervention that had taken place in this transaction.

A total of Rs. 16.23 million remained payable to various parties by the Sri Lanka Cricket. Although those balances remained payable over a period ranging from 2 years to 3 years, no action had been taken to settle them even by the end of the year under review.

Unsettled Advances

Sri Lanka Cricket had paid a tournament advance of Rs. 10.29 million to the cricket associations from 2015 to 2019. However, it had been failed to settle those advances even by the end of the year under review.

Failure to Recover the Withholding Tax

The withholding tax totalling Rs.38.23 million older than 05 years had not been either recovered or adjusted in the financial statements even by the end of the year under review.

Vehicle Utilization

Sixteen vehicles received from the Ministry of Youth and Sports and other Ministries had been utilized by the State Ministry as at 31 December 2020. No action had been taken to take over relevant vehicles to the State Ministry.

In addition, the cost of 03 vehicles that had been taken over by the State Ministry as at 31 December 2020 had not been identified and included in the financial statements. Although a van belonging to the Department of Sports Development had been temporarily released to the Media Unit of the Ministry of Youth and Sports on 21 January 2019, no action had been taken to obtain it to the Department or taken it over to the Ministry of Youth and Sports even by 05 July 2021.

Foreign Affairs

Observations

- Non-settlement of Balance of the Imprest Account
- Lapsed Deposits
- Idle and Underutilized Assets
- Losses and Damages

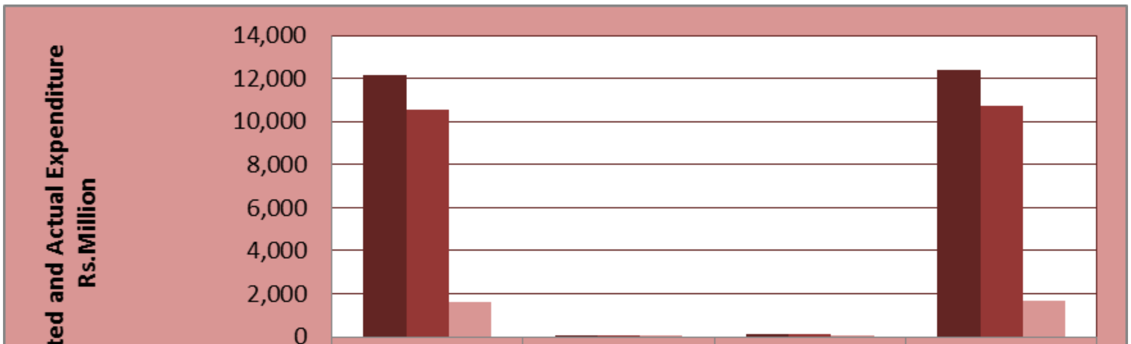
Foreign Affairs

The achievement of objectives of promotion, projection and protection of Sri Lanka's national interests internationally, in accordance with the foreign policy of the Government and to advise the Government on managing foreign relations in keeping with Sri Lanka's national interests while being a responsible nation with the international community and maintain friendly relations with all countries has been expected from this sector. The following functions should have been performed in the achievement of the said objectives.

- Maintaining friendly relations on equal terms with other countries ensuring the country's independence
- Reviewing bilateral agreements that have been entered into, and re-examine terms that are detrimental to the interests of the country, and create background that is not harmful to domestic economy in concluding agreements
- In the selection of overseas Missions, make a continuous evaluation of whether the criteria that contribute to executing the President's constitutional role in accordance with the country's foreign policy are being followed and that the desired objectives of Missions are being achieved.
- Expanding strong economic and trade bonds with Asian countries
- Strengthening close relations with SAARC and BIMSTEC countries
- Establishing relations with the Middle-East and South East Asian countries related to trade, tourism and investment and job market
- Taking action to create foreign market opportunities for local industrialists and for traditional cultural creations and local products
- Directly contributing to eliminate the various obstacles existing for Sri Lankan entrepreneurs to access goods and services markets in foreign countries, and obtaining the participation of those countries to promote investment and tourism in Sri Lanka

The above functions should have been executed by the Foreign Ministry anda State Ministry, a Department, 02 statutory boards/institutions, 37 Embassies, 13 High Commissions, 13 Consulate General Offices, 02 permanent Missions to the United Nations, 01 Deputy High Commission and a Sri Lankan agencyfunctioning under the Ministry.

Provision totalling Rs.12,398 million had been made by Parliament in the year 2020 to the Foreign Ministry, the State Ministry and the Department under its purview for performing the above functions and only a sum of Rs.10,755 million had been utilizedby the end of the year under review. Details are given in Figure 43



	Foreign Ministry	State Ministry of Regional Cooperation	Department of Commerce	Total
Provision Rs.Million	12,173	81	144	12,398
Expenditure Rs.Million	10,576	48	131	10,755
Savings Rs.Million	1,597	33	13	1,643

Figure 43 –Estimated and Actual Expenditure
Source–Financial Statements of year 2020

Significant audit observations revealed in performing the above functions by the Ministry, the State Ministry, Department and statutory boards under its purview are summarized below.

Non-settlement of Balance of the Imprest Account

Balances totalling Rs.446.62 million comprising Rs.91.53 million and Rs.355.09 million remained respectively in two imprest accounts of the Foreign Ministry by the end of the year under review.

The said unsettled balances comprised 173 security deposits amounting to Rs.51.98 million made for obtaining quarters provided for the staff of Missions abroad. Out of those unsettled security deposits, a sum of Rs.4.29 million had remained unsettled over a period of 20 years. Settlement of the saidsecurity deposits of Rs.44.28 million and Rs.3.41 million for a period ranging from 10 to 20 years and over 7 years respectively, had failed even by the end of the year under review. The 165 deposits made for quarters which were not occupied by the staffs of Missions abroad, had totalled Rs.47.95 million.

The imprest balance of Rs.355.09 million as at the end of the year under review in the other imprest account comprised security deposits of Rs. 20.46 million and Rs.49.11 millionmade for quarters provided to staffs of Missions abroad,remaining for over 10 years and for a period ranging from5 to 10 years respectively. Moreover, out of these deposits, a sum of Rs.21.28 million had been made as security deposits for quarters not occupied by the staffs of Missions abroad.

A sum of Rs.23.29million had been issuedto officers as ad-hoc sub-imprests by the Missions and those sub-imprests had not been settled even by the end of the year under review. A sum of Rs.9.17 million out of those sub-imprests had been issued prior to the year 2018 and they had been Rs.0.81 million in the year 2018 and Rs.3.91 million in the year 2019. In terms of Financial Regulation 371, ad-hoc sub- imprests should be settled immediately after the completion of the purpose for which it is granted. However, the Ministry had failed to settle the said sub-imprests despite a long lapse after issuing.

Lapsed Deposits

The unclaimed deposits of the Ministry, lapsed over a period of 2 years amounted to Rs.16.79 million.Nevertheless, action had not been taken in terms of Financial Regulation 571 relating to the said deposits and to credit it to the Government revenue even by the end of the year under review.

Idle and Underutilized Assets

The building of official residence of Sri Lanka's Ambassador to Sweden purchased in the year 1972 had been disposed of since the year 2011.As action had not been taken to restore the building or to construct a new building, a sum of Rs.20.83 million had been paid in the year 2020 as building rent.

Two buildings belonging to the Sri Lanka High Commission located in Canberra, Australia, had been disposed of in the years 2007 and 2012 respectively. As action had not been taken to restore the buildings, a sum of Rs.6.61 million had been paid in the year 2020 as building rent.

The building used as the official residence of the Sri Lankan High Commissioner to Kenya purchased in the year 1976, had been disposed of since the year 2014. As action had not been taken to restore the building, a sum of Rs.3.36 million had been paid in the year 2020 as building rent.

Losses and Damages

The post of High Commissioner of the office of the Sri Lankan Mission in Seychelles had remained vacant from 15 January 2020 to 08 April 2021, the date of audit. The said official residence had not been occupied during the period from 15 January 2020 to 31 May 2020. An expenditure of Rs.3.82 million had been incurred as rent of the official residencefor the period in which it was not occupied.

A building with three units of flats had been obtained after entering into a lease agreement relating to the period from 30 August 2017 to 31 August 2022 for maintaining the office of the Mission, official residence and attached houselocated in Palestine. Only one officer of this Mission is employed in the service from 18 April 2019 and sums of Rs.1.43 million and Rs.50,000 had been spent as building rent and electricity and water charges from May 2019 to February 2021 and from May 2019 to January 2020 respectively for a unit not used by the said Mission. Accordingly, a fruitless expenditure totalling Rs.1.47 million had been incurred for premises not used.

Promotion of Foreign Employment

Observation

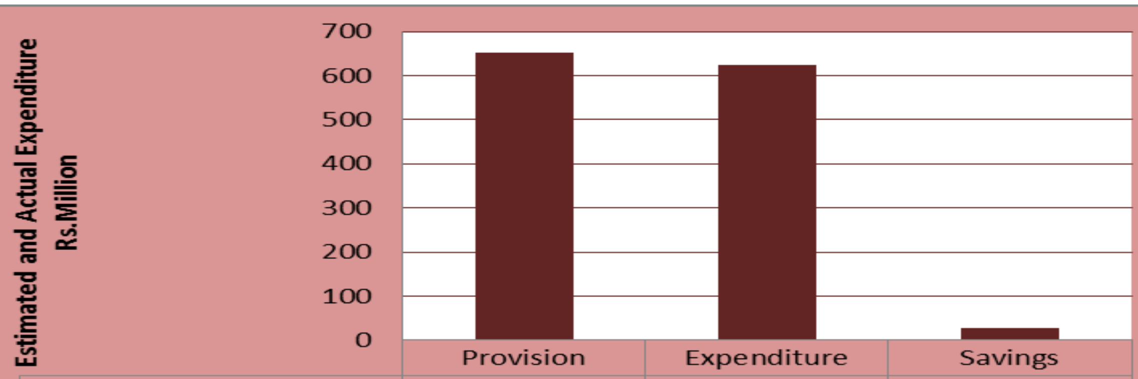
- Earnings through Foreign Remittances
- Gradual Decline in the Number of Foreign Employees
- Amendments to the Sri Lanka Bureau of Foreign Employment Act
- Scheme of Recruitment for the Overseas Missions
- Failure to Settle the Monies Payable
- Fraud Committed in Purchasing Air tickets
- Purchasing Uniforms for the Staff of the Bureau
- Lack of a Proper Methodology for Recruitment of Staff
- Lack of Disciplinary Inquiries in the Bureau

Promotion of Foreign Employment

The State Ministry of Foreign Employment Promotions and Market Diversification and 02 statutory institutions functioning thereunder had been entrusted with the following duties and functions.

- To secure foreign employment opportunities for skilled labor rather than an unskilled labor force with an approach to market diversification.
- To encourage the banking system in view of facilitating the workers proceeded abroad and Sri Lankan expatriates for investing and saving their earnings productively in Sri Lanka.
- To implement special projects in coordination with the Ministry relevant to the enterprises so as for the persons returning to Sri Lanka after completion of their foreign employment to establish their own businesses.
- To implement a methodology for ensuring welfare and protection of the female domestic workers employed in the Middle Eastern and other countries.
- To introduce legal reforms for strengthening the process through which compensation is granted to the persons affected by accidents in foreign countries.
- To properly regulate the private foreign employment agencies.

Provision totaling Rs. 652 million had been made by Parliament in the year 2020 for the State Ministry of Foreign Employment Promotions and Market Diversification to execute the said duties and functions; and, by the end of the year under review, only a sum of Rs.624 million had been utilized therefrom. Particulars are shown in Figure 43.



	Provision	Expenditure	Savings
State Ministry of Foreign Employment Promotion and Market Deversification	652	624	28

Figure 43- Estimated and Actual expenditure.
Source: Financial statements for the year 2020.

A summary of significant audit observations made in the audit test check conducted on the execution of above duties and functions by the State Ministry and the two Statutory Institutions functioning thereunder, is shown below.

Earnings through Foreign Remittances

The foreign employment sector contributes significantly to the national income of Sri Lanka. According to statistics of the Central Bank of Sri Lanka, the national economy had received a sum US $ 7,104 million in the year 2020 as remittances from foreign employees, indicating a growth of 5.8 per cent as compared to the remittances received in the year 2019 totaling US $ 6,717 million. The national economy has been heavily contributed by the foreign employment sector in spite of the pandemic spread around the world. Particulars are given in Figure 45

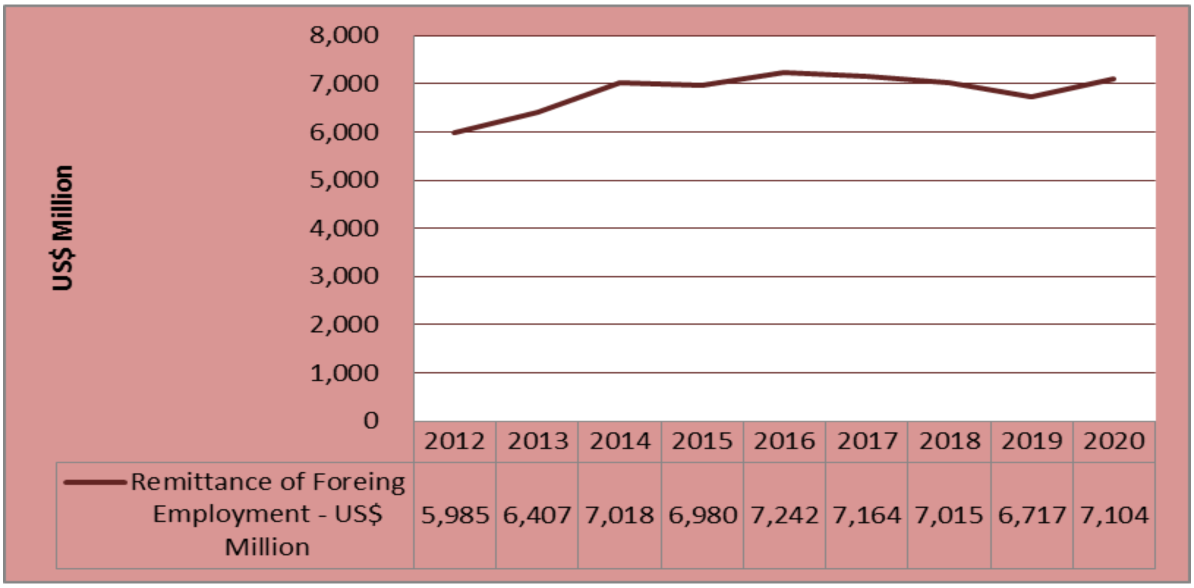


Figure 45 - Remittances received from foreign employees.
Source : Annual reports of the Central Bank of Sri Lanka and the Ministry of Finance-2020.

Gradual Decline in the Number of Foreign Employees.

The number of foreign employees had gradually decreased during the 05 preceding years thus showing a significant decline in the year 2020 that had mainly been attributable to the Covid pandemic spread throughout the world. According to the Sri Lanka Bureau of Foreign Employment Act, No. 21 of 1985, every Sri Lankan seeking foreign employment should be registered with the Sri Lanka Bureau of Foreign Employment prior to proceeding abroad. The registration ensures safety and rights for the foreign employees in the foreign countries through a valid employment agreement. Furthermore, action had also been taken to provide an insurance scheme for the registered Sri Lankan workers proceeding abroad, covering their period of foreign employment.

Nevertheless, as per the data relating to the 05 preceding years, a decline was observed in the number of foreign employees proceeding abroad after being registered with the Bureau, or registered with the Bureau through foreign employment agencies. Particulars are given in Figure 46 However, the information system of the Bureau did not contain accurate data relating to the number of overall foreign employees including those who had proceeded abroad informally without being registered with the Bureau.

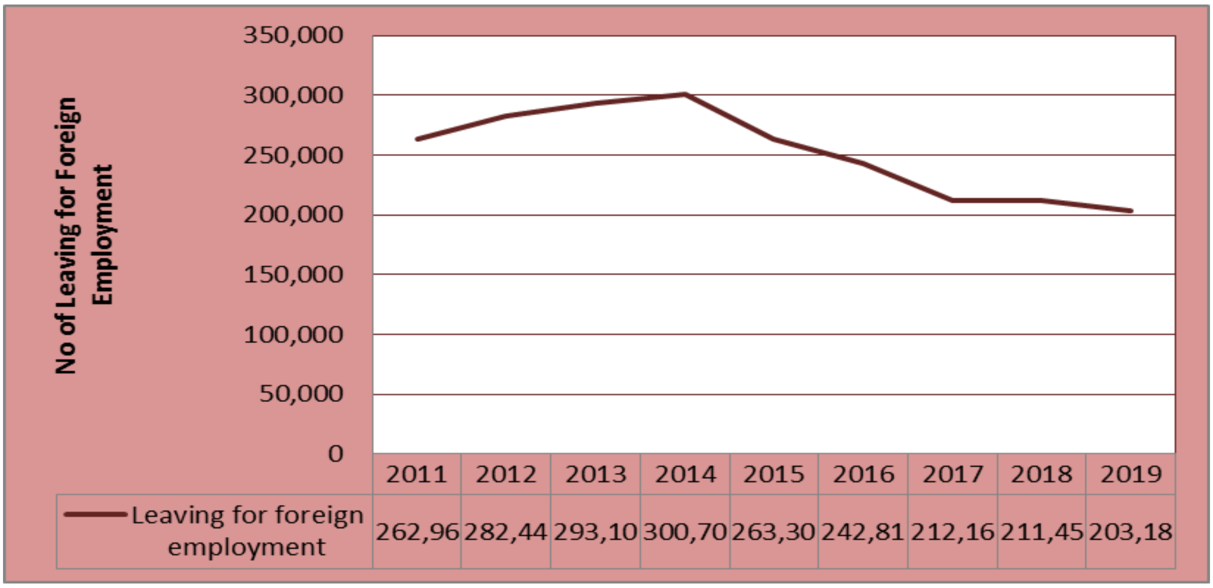


Figure 46- Departures for foreign employment.
Source : Annual report of the Ministry of Finance 2020.

Amendments to the Sri Lanka Bureau of Foreign Employment Act

It had been pointed out through the audit reports that certain Sections of the Sri Lanka Bureau of Foreign Employment Act, No. 21 of 1985 be revised in a manner suitable for ensuring the safety of foreign employees and improving the foreign employment sector. Although preliminary measures had been taken in that connection by the Ministry of Foreign Employment, the intended amendments had not been made even by the end of the year 2020.

Scheme of Recruitment for the Overseas Missions

Welfare divisions for migrant workers had been established at 16 Overseas Missions relating to affairs of the foreign employment sector, and a staff of 150 cadre had been attached. As of 31 December 2020, only 33 of the approved staff had been employed. As a remedy to the financial crisis faced by the Sri Lanka Bureau of Foreign Employment, the Cabinet had decided to re-summon the officers of the Foreign Employment Bureau attached to the welfare divisions of the Overseas Missions. Due to the measures taken in the wake of that decision, vacancies had resulted in the staff. Furthermore, a Scheme of Recruitment for recruiting staff to those offices had not been prepared and approved even by the end of the year 2020.

Failure to Settle the Monies Payable

According to the financial statements presented to the Audit, a refundable sum totaling Rs. 685.50 million retained on miscellaneous reasons from the workers proceeding abroad for employment, a sum of Rs. 51.23 million received as insurance indemnities of the migrant workers, and a sum of Rs. 281.34 million to be settled to the employment agencies, had existed as at 31 December 2020. Those monies had been retained by the Bureau over an extensive period without being paid due to miscellaneous reasons.

Fraud Committed in Purchasing Air tickets

According to the Memorandum of Understanding between the Government of Sri Lanka and the Government of South Korea, the Bureau was responsible to make reservations for air tickets of workers proceeding to Korea for employment. This was done by the Air Ticket Unit of the Bureau following approval of the Cabinet. A revenue totaling Rs. 13.37 million had been earned during the period from 2011 to 2018. As a financial fraud committed by an officer in charge of that Unit had been revealed, he had been interdicted and the Unit had been closed by the Bureau in the year 2019. No disciplinary action whatsoever had been taken against that officer, whereas he had been reinstated in the service on 16 July 2020 considering an appeal made by him.

Purchasing Uniforms for the Staff of the Bureau

A number of 2,670 shirts and 3,478 sarees each at Rs. 2,285 and Rs. 5,425 respectively had been purchased to be used as uniforms of the Bureau's staff for the year 2020. The following deficiencies were observed in that connection.

- Technical specifications had not been prepared for shirts whereas specifications had not been prepared for sarees in a manner that purchases would not be made through competitive bidding process.
- The Technical Evaluation Committee comprising 06 officers of the Bureau without a member with expertise in textile industry contrary to Guideline 2.8.1 (b) of the Government Procurement Guidelines, had recommended to purchase low quality uniforms from the highest bidder.
- Bids had been opened contrary to provisions of the Government Procurement Guidelines. The relevant report remained incomplete without being signed for accuracy by the officers of the bids opening committee. Nonetheless, the Procurement Committee had accepted that report.
- Despite being mentioned in the report of the meeting to call for bids that the final product of uniforms should comply with the specimen presented, and changes to be made later would not be allowed, the Bureau had accepted uniforms without a proper inspection. The uniforms returned by

the employees due to poor quality, had been exchanged from the suppliers without being recorded in the inventory books.

- According to the written statement obtained by the Audit from 200 female officers and 137 male officers who had received uniforms, 164 male and 114 female officers stated that the uniforms were of substandard quality whilst 58 officers refused to express their opinion.

- It was verified in the physical audit inspection that the textile used in the shirts were of substandard quality, measures had not been taken properly, and the fashion and quality of sarees were not suitable for a uniform. The laboratory test conducted by the Audit verified that 100 per cent of the shirts and 42 per cent of the sarees had been sewed using polyester threads. Furthermore, 83 per cent of the officers had given their consent for the sarees sewed with cotton threads.

- The difference between the lowest and highest bid relating to this supply totaled Rs. 14.94 million. No justifiable reasons had been given for the refusal of suppliers with lowest bids.

Lack of a Proper Methodology for Recruitment of Staff

Applications had been called through a notice published on the website of the Bureau for 25 posts of Management Assistant, and 25 posts of KKS that had fallen vacant in the year 2019 and, 2763 and 1672 qualified applicants had respectively been selected through the applications received. Without a proper basis, 963 and 659 applicants had been summoned for interviews for the posts of Management Assistant and KKS respectively. According to the provisions stated in Section 5.4.2 of Chapter 11 of the Establishments Code, five times the number of vacant posts out of the qualified applicants, equivalent to 250, should have been summoned for interview. However, without doing so, a number of applicants more than 30 times of the vacant posts, had been interviewed over 13 days by 03 boards of interview. Despite being decided that allowances of Rs. 2,000 and Rs. 650 be paid to the members of the boards of interview and assisting staff respectively, sums of Rs. 4,000 and Rs. 1,000 had been paid respectively, thus spending a total of Rs. 585,750.

Lack of Disciplinary Inquiries in the Bureau

It was revealed in the audit test checks and other investigations that funds of the Bureau had been misappropriated through transactions performed by the officers of the Bureau in a negligent and fraudulent manner contrary to objectives. The following deficiencies were observed in inspecting the current progress of inquiries conducted by the Bureau relating to 20 such incidents.

- Due to failure in concluding the disciplinary inquiries relating to 07 incidents within a specific duration in terms of Section 13.2 of Volume II of the Establishments Code, no disciplinary action whatsoever could be taken against the officers alleged to have been involved in financial frauds and other irregularities. A sum of Rs. 13.76 million that remained recoverable with respect to 02 incidents relating to misappropriation of funds, could not be recovered.

- The parties reported to have been responsible for misappropriation of funds of the Bureau totaling Rs. 33.32 million relating to 06 incidents, could not be identified thereby failing to recover the loss.
- Officers whom charge sheets had been issued to after being found guilty in the preliminary inquiries held with respect to 06 incidents, had later become innocent as per formal disciplinary inquiries. Acton was not taken to ascertain who the parties actually responsible were, and misappropriation of funds of the Bureau totaling Rs. 12.55 million relating to 03 incidents, had been neglected.
- An officer found guilty in a formal disciplinary inquiry relating to improper use of Rs. 1.5 million, had been acquitted by the Chairman of the Bureau.

Aviation and Export Zone Development

Observation

- Failure to collect arrears
- Failure to take over assets properly
- Project for the Expansion of the Katunayaka International Airport
- Under utilization of foreign debt
- Non-compliance with the Civil Aviation Act
- Failure to value Assets
- Going Concern of the Sri Lankan Airlines
- Additional Investment to the SriLankan Airlines by the Government of Sri Lanka
- Non-payment of LoanInstallments
- Pre-deliverypaymentsand Recovery of Loss for Purchase of 350-900 Aircrafts
- Underutilization of the Aircraft 4R-ALS of Type A 330-200
- Officers who earn a monthly salary more than one million rupees

Aviation and Export Zone Development

The following duties and functions had to be performed by the State Ministry of Aviation and Export Zone Development and 03 statutory boards / institutions under it.

- Utilizing the existing Free Trade Zones and Industrial Estates with maximum efficiency and upgrading and modernizing the required infrastructure without delay.
- Development of Second Runway and Passenger Terminal of the Katunayake Airport.
- Development of domestic airports including Nuwara Eliya Airport.
- Commencement of Commercial Operations and Improvement of Facilities at Mattala Airport.
- Taking measures to upgrade SriLankan Airlines to a high international standard.
- Expansion of cargo exports

Parliament had provided allocations totaling Rs.287 million to the State Ministry of Aviation and Export Zone Development in the year 2020 to carry out the above functions and only Rs.275 million out of the above amount had been utilized. Details are shown in the figure 47 bellow.

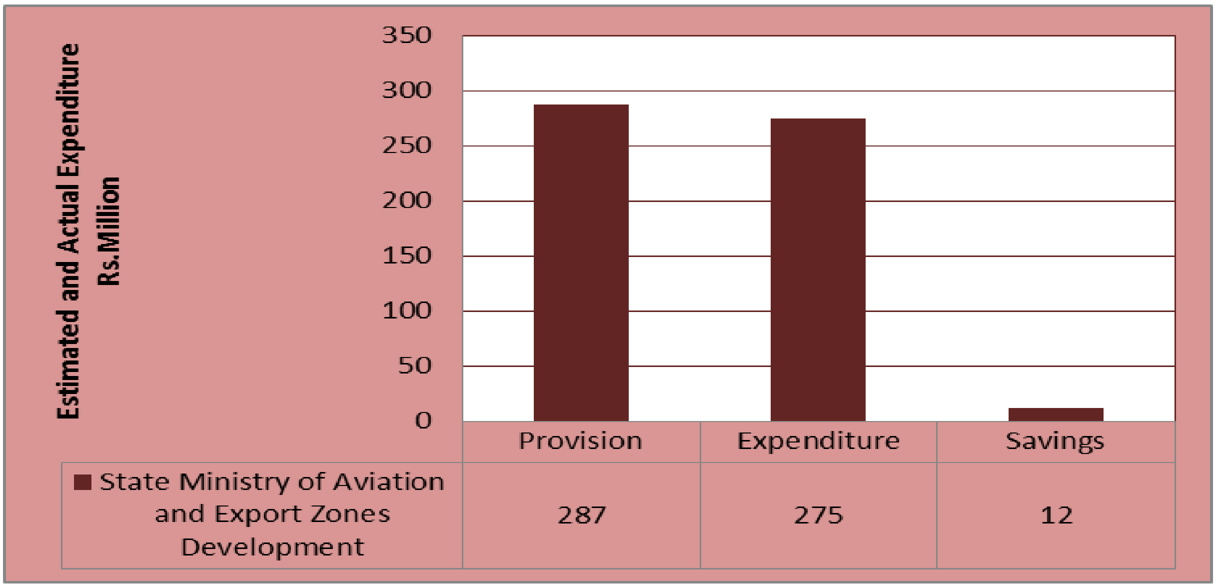


Figure 47 - Estimated and actualRevenue and Expenditure
Source–Financial Statements of the Year 2020

Following is a summary of the quantitative and important audit observations made in the sample audit inspections on performance of duties and functions by the Sate Ministry and the 03 statutory bodies.

Failure to collect arrears

According to the financial statements of the State Ministry, the revenue arrear as at 31 December 2020 was Rs. 430.72 million. Rs.180.89 million out of it had not yet been recovered by 30 April 2021.

Failure to take over assets properly

11 vehicles used by the State Ministry had not been duly acquired as at 31 December 2020 in accordance with paragraph 02 (ii) of the Assets Management Circular No. 02/2017 dated 21 December 2017.Similarly, the cost or value of 31 assets given to the State Ministry by the Ministry of Tourism had not been assessed and had not been acquired properly and taken into account.

Project for the Expansion of the Katunayaka International Airport

The Airport and Aviation Services(Sri Lanka) Limited had planned to implement the Project for the Expansion of Katunayaka International Airport in order to fulfill the requirements of air passengers increased due to the favourable environment created in the country after the year 2009. Under this Project, two parts had been identified as Package A- "New Terminal building and associated construction " and Package B "Construction of New Apron and Solid Waste Management System". This project had been commenced in the year 2012 and scheduled to be completed within 3 years that is, in the year 2015. However, award of contract had been delayed due to various reasons. Accordingly, the contract had been awarded for Package "B"at first and it was scheduled to be commenced on 25 April 2017 and completed by 29 February 2020. The progress of project as at 21 June 2020 had been only 92.29 per cent,and could not be finished.

Even though the Airport and Aviation Services(Sri Lanka)(Pvt) Limited had entered in to an agreement with the contractor on 12 March 2020 in respect of Package "A" which includes the main constructions representing 82 per cent of the estimated cost of the said contract, constructions had been commenced on 15 December 2020 due to Covid pandemic. Its progress had been only 0.06 percent by 14 February 2021.

Under utilization of foreign debt

A foreign loan totaling 74,397 million Japanese Yen had been obtained from the Japan International Cooperation Agency (JICA) by the Airports and Aviation (Sri Lanka) (Pvt) Ltdfor the implementation of the new passenger terminal building and related constructions under the Package "A" of the Katunayake International Airport Expansion Project..Two agreements had been entered into on 28 March 2012and 24 March 2016to obtain such loans. A sum of Rs. 328 million had to be paid as liability fee to the Japan International Cooperation Agency (JICA) by 20 April 2021due to the project had not been implemented on time.

Non-compliance with the Civil Aviation Act

In terms of Section 14 of the Civil Aviation Services Act, No. 14 of 2010, a master plan should have been prepared for the establishment and development of Aerodromes and the approval of the Sri Lanka Civil Aviation Services Authority should have been obtained by the Airport and Aviation Services(Sri Lanka) Limited. The said approval had not been obtained even by the end of the year under review.

Failure to value Assets

Even though the Airport and Aviation Services (Sri Lanka) Limited had acquired only the liabilities withoutassessing the lands, buildings and other movable and immovable assets owned by the Government in year 2006 no shares had been issued to the Government of Sri Lanka for transferring net assets according to the letter No.PE/GOCO/1/1 dated 09 February 2016 issued by the Secretary of Treasury,

Going Concern of the Sri Lankan Airlines

The loss of Sri Lankan Airlines amounted to Rs.47,197.86million and the accumulated loss had been Rs.326,341.48 million for the year ended 31 March 2020. The current liabilities exceeding the current assets of the company amounted to Rs.211,645.13 million and the total liabilities exceeding the total assets had been Rs.273,369.08 million as at that date. Accordingly, even though a considerable uncertainty was observed regarding the going concern of the Sri Lankan Airlines, the financial statements had been prepared on the assumption of going concern as per the letter dated 29June 2020 of the Secretary of Treasury, assuring the support of Government of Sri Lanka to the Sri Lankan Airlines on the approval of Cabinet of Ministers dated 17 June 2020.

Additional Investment to the SriLankan Airlines by the Government of Sri Lanka

The government of Sri Lanka had decided to invest US $ 500 million in the company in terms of the Cabinet decision dated 26 October 2020.Accordingly, the Government of Sri Lanka had invested in the company by issuing Treasury Bonds with a face value of Rs. 26.89 billion (US $ 150 million) in November 2020 and Rs. 17.85 billion (US $ 90 million) on 07 April 2021.The issuance of shares pertaining to the above additional investment by the Government of Sri Lanka had taken place after obtaining the approval of the Additional General Meeting of Shareholders conducted in the year 2021.Accordingly, the entire direct share investment of the government with the face value of the bonds issued was Rs. 95,897.42 million. as at 30 June 2021. i.e. it was 99 percent.

Non-payment of LoanInstallments

The Sri Lankan Airlines had obtained USD 200 million (approximately Rs. 31,115 million) during year 2016/2017 and rupee loan facilities amounting to Rs.29,439 million during year 2017/2018 from 02 State banks for short term financial requirements on the guarantee of General Treasury. None of those basic loans had been repaid as of 31 March 2021.

Pre-deliverypaymentsand Recovery of Loss for Purchase of 350-900 Aircrafts

- Even though it had been decided not to purchase 04 Aircrafts of type A 350-900 to be received in the years 2020 and 2021 as per the agreement reached, no action had been taken to settle Rs.2,528.12 million (USD 19.21 million) of Pre-deliverypayments,paid under the said agreement,by 31 March 2021.

- As stated in the judgment given by the Crown Court in the UK approving the Deferred Prosecution Agreement between the Office of Serious Fraud and SAS Airbus company, employees of the Airbus company had agreed to pay US $ 1 million for A330-300 aircraft, US $ 1.16 million for A350-900 aircraft and US $ 0.3 million of operation lease for A 350-900 aircraft to a company owned by the wife of the former CEO of SriLankan Airlinesto influence the purchase of 6 A330-300 aircrafts and 4 A350-300 aircrafts and the lease of 4 A350-900 aircrafts for SriLankan Airlines.
  Only US $ 2 million out of that agreed amounthad been paid on 27 December 2013. On the advice of the Attorney General, a letter was sent to Airbus on 29 September 2020regarding conclusion of the agreementfor purchasing these A350-900 aircraftsand recovery of thedown payment with a compensation, and SriLankan Airlines has informed that it intends to pursue Arbitrationin case of it fails.

Underutilization of the Aircraft 4R-ALS of Type A 330-200

Type A 330-200 aircraft had been obtained on lease basis according to a Condition agreed by the company in terminating the operating lease agreements due to not obtaining 04 aircrafts of type A350-900 as per the agreement entered into. Its seating arrangement has been underutilized since year 2018 due to non-compliance with SriLankan Airlines, and its monthly lease premium was US $ 585,000.Accordingly, approval of the Board of Directors received to modernize the seating arrangement at a cost of US $ 4.5 million through the leaseholderon 08 November 2019. However, the implementation of that decision was temporarily postponed due to the Covid crisis, and this aircraft was temporarily converted into an air cargo aircraft at a cost of US $ 30,000by removing the existing seating arrangement on this aircraft as per the decision of the Board of Directors dated 01 June 2020.Even though the approval of the Board of Directors had been receivedto upgrade the seating arrangement of this aircraft again on 29 November 2020, the work had not been completed by 31 December 2020.

Officers who earn a monthly salary more than one million rupees

It was revealed that a top management Officer,Employed by SriLankan Airlines as on 31st March 2021, earns a monthly salary of Rs. 3.1 million, while 82 Pilots earn a monthly salary of over Rs. 2 million, and 142 other Pilots, 12 Aeronautical Engineers,09 Engineering Managers and 03 top management officers earn a monthly salary ranging from Rs. one million to Rs. two million. However, it had been decided by the Board of Directors to reduce the salaries of all officers earn over Rs.100,000by an amount ranging from 2.5 percent to 25 percentbased on their monthly fixed salary amount.

Tourism Affairs

Observation

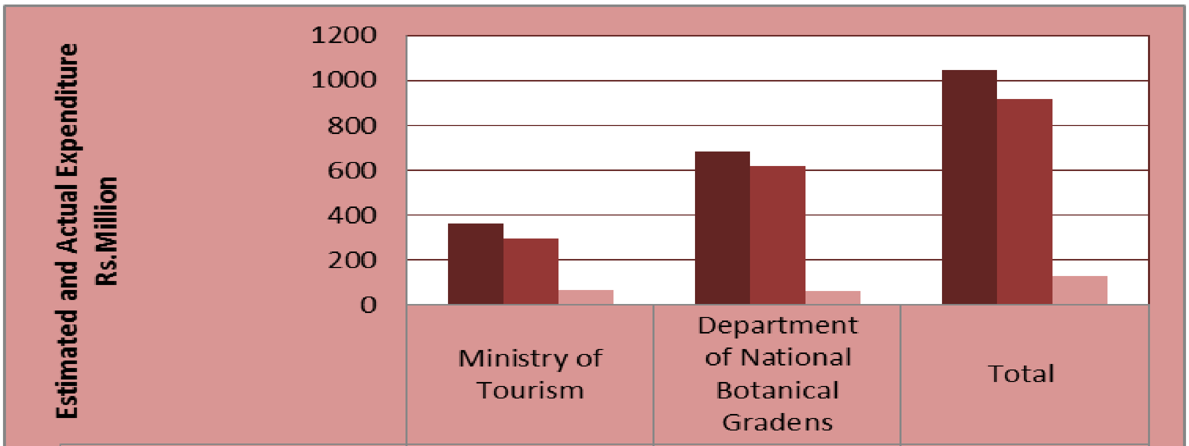
- **Decrease in the Tourist Arrivals and the Earnings**
- **Failure to Settle Advances Granted to the Foreign Missions**
- **Failure to Perform the Activities in the Action Plan**
- **Operations of National Holiday Resorts**
- **Underutilized Assets**

Tourism Affairs

For the promotion of tourism industry in Sri Lanka, the Ministry of Tourism, Department of National Botanical Gardens, Sri Lanka Tourism Promotion Bureau, Sri Lanka Tourism Development Authority, Sri Lanka Institute of Tourism and Hotel Management and Sri Lanka Convention Bureau should have performed the following functions.

- Formulation of a programme to develop tourism industry as an eco-friendly and local cultural friendly industry with a broad participation of individuals.
- Setting up of a special programme for the safety of tourists.
- Identification of new attractions for foreign tourists.
- Facilitation for holding business seminars, festivals, exhibitions and conferences to attract tourists.
- Providing investment and other facilities to the private sector to develop the tourism industry.
- Establishment of Tourism Service Centers at road junctions connecting major tourist cities.
- Formalizing the process of approving tourism facilities through the establishment of regional offices.
- Establishment of tourism training schools in major tourist cities and introduction of attractive skills development courses.
- Development of home based and community based tourism industry.
- Registration and training of all tour guides and drivers and making arrangements to certify their identity.
- Introduction of a special programme to create tourism related entrepreneurs.
- Facilitating tourists through information technology
- Implementation of a one-stop coordination system under the One Stop concept.
- Establishment of high quality tourist hotels and to double the number of existing hotel rooms.
- Establishment of a system to impart accurate knowledge and information to tour guides to disseminate accurate information on national heritage and archeological sites among tourists.

Provision of Rs. 1,047 million had been made by Parliament to the Ministry of Tourism and the Department of National Botanical Gardens for performing aforesaid functions and out of that, a sum of Rs. 915 million had been utilized by the end of the year under review. Accordingly, provisions ofRs 132 million had not been utilized. Details are given in Figure 48



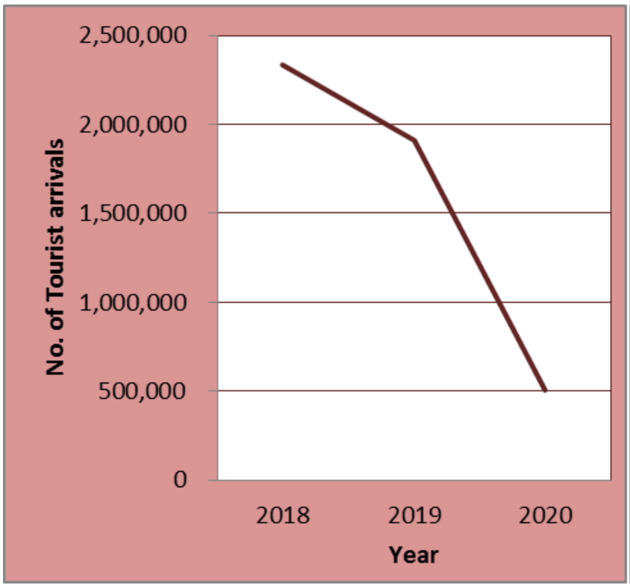
	Ministry of Tourism	Department of National Botanical Gradens	Total
Provision Rs.Million	364	683	1,047
Expenditure Rs.Million	295	620	915
Savings Rs.Million	69	63	132

Figure 48- Provision made by Parliament, Expenditure and Savings
Source – Annual Financial Statements

The audit observations revealed at the audit test checks carried out with regard to this Sector, are summarized below.

Decrease in the Tourist Arrivals and the Earnings

A number of 1,913,702tourists had arrived in Sri Lanka during the preceding year and it had declined by 73.5 per cent with the arrival of 507,704 tourists during the year under review. This situation was mainly due to the closure of the Port and the AirPort for tourists from 18 March to 27 December 2020 for the Covid pandemic. The reduction in the number of tourist arrivals had resulted in some restrictions on the duties and functions of the Ministry of Tourism and other institutions operating thereunder. The tourist arrival during the year under review in comparison with the two preceding years is shown in Figure 49. Even though revenue amounting to Rs. 712,027.3 million had been collected from the tourism industry in the year 2018, it had decreased by Rs. 65,665 million representing 9.22 per cent in the year 2019 and it had further decreased by 80.37 per cent or Rs. 518,238.8 million and turned out to be Rs. 126,608.1 million in the year 2020. According to the foreign exchange, it had decreased up to USD 3,606.9 million in the year 2019. According to the foreign exchange, it had decreased up to USD 3,606.9 million in the year 2019 as compared with USD 4,380.6 in the year 2018. Further, that income had declined up to USD 682.5 million in the year 2020, thus representing a decrease by USD 2,924.4 million or 81.08 per cent in 2020 as compared with the year 2019. The revenue earned from the tourism industry had gradually increased from the year 2015 to the year 2018 and had drastically dropped by the end of the year 2020 from 2019.The said position appears in Figure 50.



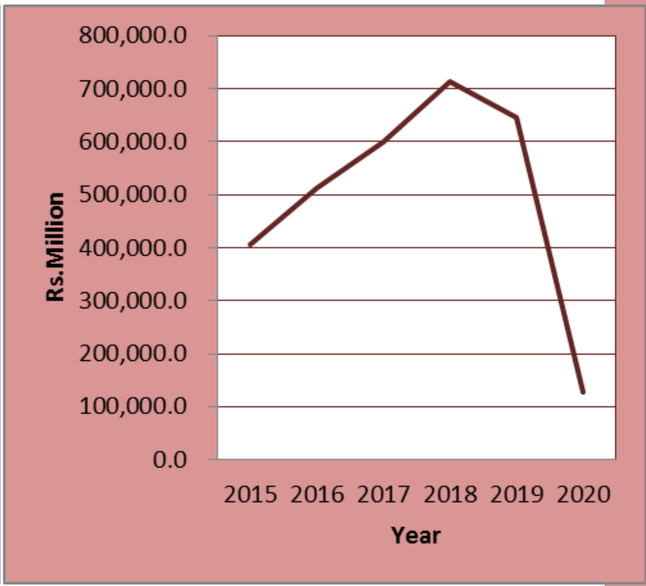
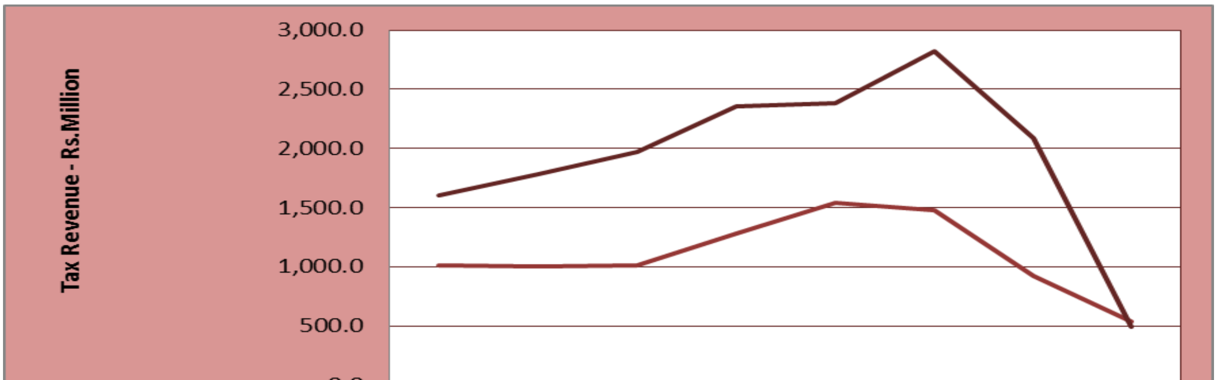


Figure 49– Arrival of tourists in the year under review and 2018
Source – Sri Lanka Tourism Development Authority.

Figure 50 – Revenue from the Tourism
Source – Sri Lanka Tourism Development Authority

Revenue from tourism development levy had gradually increased from the year 2013 and it had been Rs. 1,482.1 million in the year 2018. Thereafter, the revenue from said tourism development levy had gradually decreased from 2018 to 2019 and it had rapidly declined up to Rs.537.3 million or 41.81 per cent in the year 2020 as compared with the preceding year. Similarly, the Embarkation Levy on foreign tourists which had gradually increased from the year 2013 had become Rs. 2,824.9 million in the year 2018 and it had rapidly decreased up to Rs.489.5 million in the year 2020 from the year 2019. Details appear in the Figuer 51.



	2013	2014	2015	2016	2017	2018	2019	2020
Tourism Development Levy	1,014.2	1,005.6	1,014.8	1,276.8	1,541.5	1,482.1	924.2	537.8
Tourism Embarkation Levy	1604.9	1779.8	1968.5	2355.4	2378.8	2824.9	2089.2	489.5

Figuer 51 -Tourism Development Levy and Embarkation Levy
Source – Sri Lanka Tourism Development Authority

The closure of the port and airport to tourists from 18 March 2020 to 27 December 2020 due to the Covid pandemic had led to a decline in tourist arrivals and it had severely affected the revenue collection.

Failure to Settle Advances Granted to the Foreign Missions

The Sri Lanka Tourism Promotion Bureau had remitted Rs. 36 million in foreign currency during the year under review for the payment of advances for tourism promotion activities in foreign countries. The advances had not been settled even by the end of the year under review and the balance too had not been confirmed.Out of that advance balance, Rs. 11 million had continued to exist as unsettled advances for a period of 17 months to 37 months.

Failure to Perform the Activities in the Action Plan

According to the Action Plan prepared by the Sri Lanka Institute of Tourism and Hotel Management for the year 2020, provisions totaling Rs. 17.1 million had been made to perform 09 activates contained in the Action Plan.None of those activities had been executed during the year under review. Provisions of Rs. 7 million had also been made for the establishment of a Stores Management System and a Fixed Asset Management System included in those actives. Further, less than 50 percent of the provisions had been utilized for 4 activities included in the Action Plan during the year under review.

Operations of National Holiday Resorts

For the various development activities of the four national resorts of the Tourism Development Authority of Sri Lanka, provisions of Rs. 254.7 million had been made for the year 2020, whereas it had been reduced by 68 percent and provisions had been revised up to Rs. 81.7 million. Although 26 development activities had been planned for the year under review, only 11 of them were implemented and only 8 of them had achieved physical progress of more than 75 per cent.Further, the total loss of those four resorts in the previous years was Rs. 27 million and the total loss for the year under review was Rs. 46 million.Losses in the year under review showed an increase of 70 compared to the previous year.Out of the 37 rest houses owned by the Authority, six rest houses remained underutilized due to non-lease of them for a period of two to ten years.

Underutilized Assets

- Although the Department of National Botanic Gardens had made provision of Rs. 6.7 million and Rs 26.6 million respectively for the construction of the restaurant and research center at the Mirijjawila Botanic Gardens, the provisions had not been utilized even by the end of the year under review.Three of the 10 golf cars in the garden had been removed for nearly a year due to technical faults.

- With the objective of inspiring visitors, an orchid house had been built in the Gampaha Botanic Gardens in 2017 at a cost of Rs. 23.76 million.Due to the location of the house, its structure, and the discoloured glass, the orchids were less likely to receive clear morning sunlight, which is an essential element for flowering.As a result, the intended purpose of the house had not been achieved due to the failure in bloom orchids.

- An area of 20250 Sq.Ft. related to the trade stalls at the Hambantota Dry Zone Botanic Gardens, Royal Botanic Gardens Museum, Peradeniya and the MeegalewaHarithaPiyasa Training Center Hostel remained underutilized even as at 31 December 2020.

- A machinethat is capable ofmechanically sweeping and collectinggarbage at the Peradeniya Botanic Gardens had been purchased at costs Rs. 2.2 million. The machine had become inoperable during the warranty period due to the inability to sweep and collect garbage on that uneven ground.

Trade Affairs

Observation

- **Maintenance of Rice Buffer Stock**
- **Companies closed down and remained inoperative**
- **Accrued Lease Rental**
- **Inability of using the Project Report in Future Activities**
- **Payment of Transport Allowances**
- **Improvement of the Current Accounting System**
- **Accounts receivable**

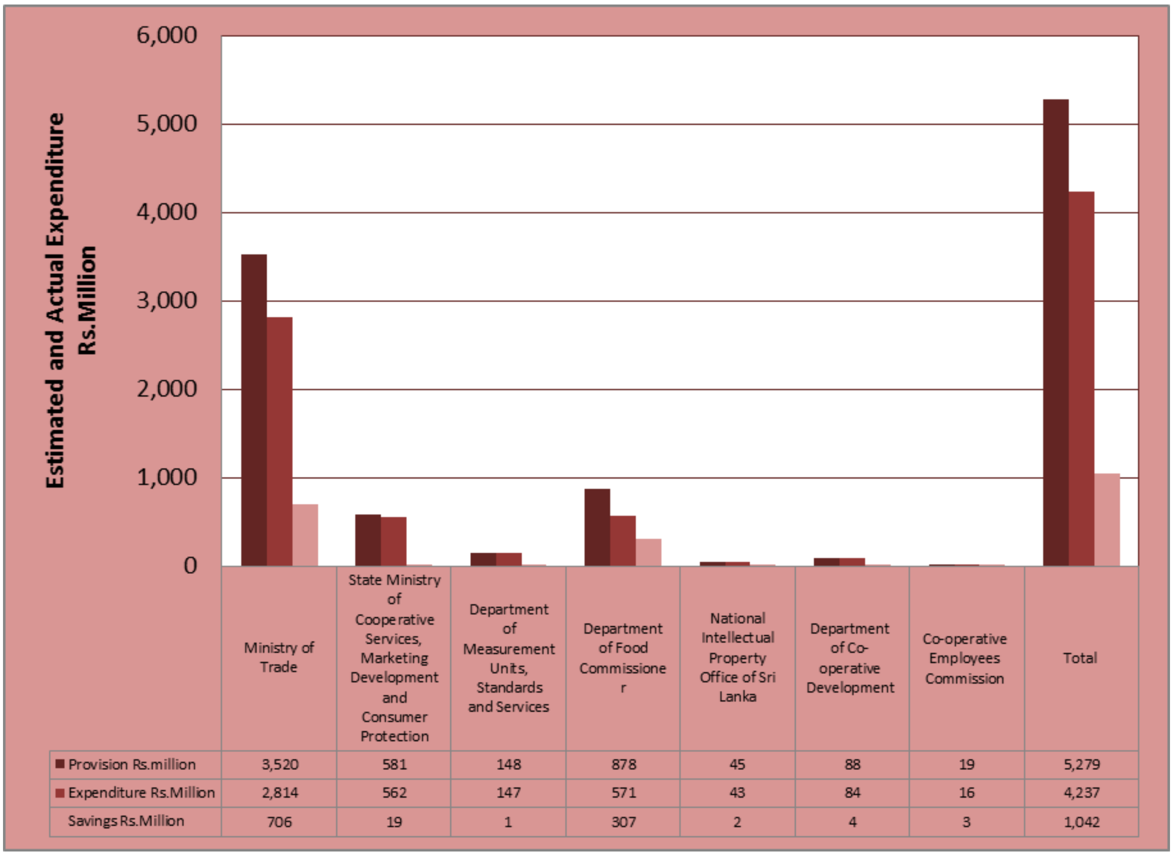
Trade Affairs

Trade Affairs

The following duties and functions should have been performed in respect of trade affairs by the Ministry and the State Ministry of Cooperative Services, Marketing Development and Consumer Protection, 05 departments and 07 statutory boards/institutions functioning under the Ministry.

- Preventing shortages of goods and price volatility arising from market imbalances and broadening the market for local farm products
- Expanding the supply of quality goods in the market through imports and local productions
- Formulating and institutionalizing policies to expand cooperative sales outlet network and expand people centric goods and services distribution centres
- Transforming the cooperative service centers into a profit earning establishment network under a diversified business model
- Initiating a broad based, improved and robust production cooperative system related to sectors such as local farm productions including agriculture, dairy production, fisheries and creating a direct market via cooperative and Sathosa outlets network
- Providing and developing export based value added businesses to develop youth and women entrepreneurship by production cooperative system
- Delegating the responsibility of introducing capital, market, raw materials for products related with traditional industries to cooperatives
- Strengthening the cooperative development banking network with the contribution of all cooperative societies to provide capital and taking measures to prevent the influx of unhealthy consumer goods into the market
- Establishing a prescribed standardization for consumer goods including health safeguards

Inordertocarry outthe said functions, provision totalling Rs.5,279 million had been made by Parliament in the year 2020 to the Ministry of Trade and the State Ministry and 05 departments functioning under the Ministry and out of that, only a sum of Rs.4,237 million had been utilized by the end of the year under review. Details appear in Figure 52.



	Ministry of Trade	State Ministry of Cooperative Services, Marketing Development and Consumer Protection	Department of Measurement Units, Standards and Services	Department of Food Commissioner	National Intellectual Property Office of Sri Lanka	Department of Co-operative Development	Co-operative Employees Commission	Total
Provision Rs.million	3,520	581	148	878	45	88	19	5,279
Expenditure Rs.Million	2,814	562	147	571	43	84	16	4,237
Savings Rs.Million	706	19	1	307	2	4	3	1,042

Figure 52 - .Provision made by Parliament and utilization thereof
Source - Annual Financial Statements

Audit observations made during the audit test checks carried out relating to the performance of the said functions are summarized below.

Maintenance of Rice Buffer Stocks

"Safe, sustainable, nutritious staple grain foods for every household" is the vision of the Food Commissioner's Department. The Department is functioning accordingly and maintenance of a special rice buffer stock of 8,000 metric tons of rice as per the Colombo Declaration and 16th Conference of South Asian Association for Regional Co-operation (SAARC) and maintenance of 100,000 metric tons of rice buffer stock at the island wide Food Department warehouses as per the Cabinet Decision dated 27 April 2008, had been identified as key functions. No rice buffer stocks whatsoever had been maintained by the Department in the year 2020. Accordingly, the Food Commissioner's Department had not paid attention towards the achievement of main objectives.

Companies closed down and remained inoperative

Sri Lanka Export Development Board had invested sums of Rs. 105.12 million and Rs. 56.33 million in preference shares and ordinary shares of 29 and 34 companies respectively, which had been closed down and remained inoperative as at 31 December 2020. Those are the companies of which names were struck off from the Register of Registration of Companies in terms of Section 487(3) of the Companies Act andproperties held by such companies can be vested in the Government in terms of Section 487(5) of the Act.However, the Attorney General had informed that as a procedure for vesting properties was not stipulated therein, the Companies Act should be amended. However, legal action could not be taken thereon as those companies could not be found.

Accrued Lease Rental

Forty one per cent of the shares of DHPL Company is held by the Sri Lanka Export Development Board. The Head Office of the Sri Lanka Export Development Board operates in an area of 44,990 square feet in five storeys of the building of the said Company. The Board had paid an annual lease rental of Rs.74.46 million at the rate of Rs.1,655 per square foot for the said area. The lease agreement is revised once in two years and the increase in the annual rental had been Rs.6.960 million in the years 2019/2020 more than in the year 2018 and the increase in the years 2021/2022 had been Rs.8.214 million more than in the year 2020. As the Board does not receive an income which would suffice to pay such an annual lease rental, an accrued lease rental of Rs.74.46 million had been indicated in the financial statements by 31 December 2020. Moreover, other institutions which operate in this building had purchased those storeys for a favourable price. However, the Board had not focused on such a favourable option. Even though a profit amounting to Rs.109.36 million was shared in the year under review for investments of the associated Company, 64 per cent of that had to be paid as lease rentals to that Company.

Inability of using the Project Report in Future Activities

The National Intellectual Property Office had planned to prepare the Project Report and to hold 03 workshops on access to the Hague System which facilitates international registration of industrial designs. Nevertheless,as the agreement and the legal requirements should be further studied, the Project Report prepared, could not be used in future activities.

Payment of Transport Allowances

A sum totalling Rs.3.65 million had been paid by the Sri Lanka State Trading (General) Corporation as transport allowances to forty seven (47) officers not entitled to use official vehicles contrary to provisions in Public Enterprises Circular No.PED 2015/1of 25 May 2015.As per Section 9.10 of Public Enterprises Circular No.PED/12 of 02 June 2003,a sum of Rs.2.97 million had been paid as transport allowances to officers recruited on contract basis without the Treasury approval.

Improvement of the Current Accounting System

The total contract value for improvement of the current accounting system of the Sri Lanka State Trading (General) Corporation, had been Rs.9.03 million. Advances of Rs.1.81 million had been paid on 18 December 2017 for executing the said contract. However, only one activity of the 12 activities agreed in the letter of acceptance had been completed even by 31 August 2021.

Accounts receivable

A sum of Rs.791 million was receivable from a private company relating to the online lottery of the Mahapola Higher Education Scholarship Trust Fund, which was cancelled on 15 September 2016. A lawsuit is in progress in the Supreme Court in this regard and a sum of Rs.2.34 million had been paid in the year under review as legal consultancy fees.

Women & Child Affairs Development

Observation

- Non-implementation of the National Child Protection Policy
- Delay in Resolving Complaints
- Non-formulation of Laws on Rights of the Child
- Implementation of Protection Plans for Children at Risk
- Procurement Weaknesses of the Early Childhood Development Project
- Non-execution of Activities of the Early Childhood Development Project
- Procurement Weaknesses in purchasing Tablets for Advanced Level Teachers and Students
- Incompletion of Digital Marketing Platform
- Inadequate Accomplishment of the Main Objective of the Sri Lanka Thriposha Ltd.

Women & Child Affairs Development

The followingduties and functions should have been performed by the State Ministry of Women and Child Development,Pre-Schools & Primary Education, School Infrastructure & Education Services and a Department and 04 Statutory Boards/Institutions functioning under the Ministry.

- Implementing a program to ensure the security of women
- Providing relief to rural women victimized by unregulated microfinance schemes
- Implementing permanent mechanisms to provide protection and minimize adversities to persons subject to regular vulnerabilities, especially women and children
- Introducing special child nutrition programs to address malnutrition among all children
- Taking necessary measures to ensure the rights of the children in accordance with the International Convention on Rights of the Child, with the integration of all the relevant institutions.
- Establishing a section in each District Court dedicated to resolving backlog of all court cases pertaining to children
- Establishing a national programme to introduce a "Foster Family System" for all children in child care centres.
- Expanding the concept of "Child Friendly School"
- Expansion of pre-school education based on National Preschool Policy under state supervision
- Transforming rural schools into schools that are attractive to students
- Implementing a special programme to develop class rooms and sanitary equipment, teachers' and students' restrooms, health facilities and infrastructure facilities in all schools
- Taking measures to launch school textbooks, syllabi, teachers' guides via digital mode

Inordertocarry outthe said function, provision totallingRs. 36,352 million hadbeenmade by Parliament in the year 2020 to the State Ministry of Women and Child Development, Pre-Schools & Primary Education, School Infrastructure & Education Services and a Department and only a sum of Rs. 34,082 million of the said provision had been utilized by the end of the year under review. Details appear in Figure 53.

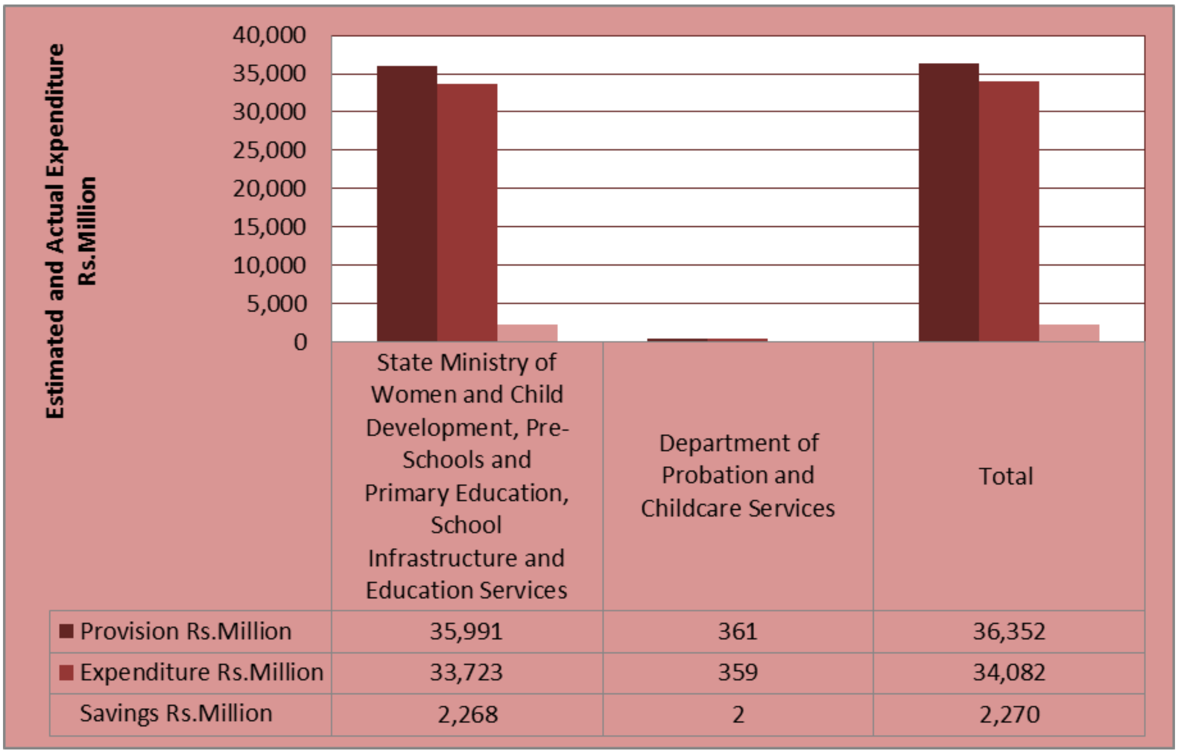


Figure 53 .–Estimated and Actual Expenditure
Source–Financial Statements of the year 2020

Significant and material audit observations made during the audit test checks carried out on the performance of the said duties and functions, are summarized below.

Non-implementation of the National Child Protection Policy

After lapse of 20 years since the establishment of the National Child Protection Authority, approval for National Child Protection Policies had been received on 29 October 2019. Those policies had not been implemented even by the end of the year under review.

Delay in Resolving Complaints

A number of 40,668 of 89,405 complaints received to the National Child Protection Authority from the year 2011 to the year 2020had not been resolved even by the end of the year under review.

Non-formulation of Laws on Rights of the Child

Despite having lapsed over a period of 65 years since the establishment of the Department of Probation and Child Care Services in the year 1956, a national policy had not been formulated even by the end of the year under review in a manner of protecting rights of children in compliance with the International Convention on the Rights of the Child.

Implementation of Protection Plans for Children at Risk

Provision of Rs.5.5 million had been made in the year under review for protection plans on behalf of 167 children and out of that, provision of Rs 5.5 Million had been utilized by the end of the year under review. Moreover, there were weaknesses such as improper recording of requests made for protection plans, non-preparation of specific procedure for selecting children, lack of follow up action to check whether provision granted to Divisional Secretariats, are utilized for the relevant purpose within the due period, etc.

Procurement Weaknesses of the Early Childhood Development Project

The Early Childhood Development Project had been commenced under World Bank loans amounting to US $ 50 million with a view to developing early childhood in Sri Lanka in a qualitative manner. The approval of the World Bank had been sought for the purchase of 1,400 thermal sensing thermometers under the said Project in the year under review. A number of 4,500thermal sensing thermometers had been purchased by spending Rs.76.36 million at a rate of Rs.16,400 per unit on emergency procurement needs. Even though these procurements had been made under emergency procurement in a situation where pre-schools had been closed down island wide due to Corona epidemic, there were delays in receiving and distributing of goods. Moreover, competitive bids had been invited to purchase other 3,000 thermal sensing thermometers by the end of the year under review. After evaluation of bids submitted, the bid of Rs.6,250 per unit submitted by the contractor who had supplied thermal sensing thermometers previously had been accepted and 3,000 thermal sensing thermometers had been purchased by spendingRs.18.75million under the said rate. Purchases had been made at a cost of Rs.16,400 per unit considering as an emergency need without adopting competitive bidding procedure, thus sustaining a financial loss of Rs.45.67 million.

Non-execution of Activities of the Early Childhood Development Project

- Provision of Rs. 2,747 million had been made during the period from the year 2017 to 2020 to improve facilities of 6,477 pre-schools. Only a sum of Rs. 1,588 million had been utilized for 4,634 pre-schools by the end of the year under review. However, development activities of 1,312 pre-schools had not been completed even by the end of the year under review.
- Provision of Rs.351 million had been made for the construction of 45 Early Childhood Development Centres in areas with low benefits and in areas not benefitted. No constructions in any centre whatsoever had been completed even by the end of the year under review.
- Provision of Rs.37.95 million had been made in the year under review for the development of 09 provincial resources centres. However, only one out of those centres had been developed by spending Rs.1.94 million by the end of the year under review.

Procurement Weaknesses in purchasing Tablets for Advanced Level Teachers and Students

Provision of Rs. 5,000 million had been allocated without a proper plan for providing 195,148 Tablets free of charge to Advanced Level Teachers and students by the Procurement Plan -2017 of the Ministry of Education and quotations had been called therefor as per the National Competitive Bidding Procedure. The date of opening of bids was 28 June 2017 and opening of bids had been postponed in three instances without proper procedure. The said procurement had been delayed due to weaknesses of the Technical Evaluation Committee and in evaluating bids and agreements had been entered into on 30 September 2019 for Rs.3,008 million with the intention of providing 96,919 Tablets to schools under the first stage. Nevertheless, action had not been taken accordingly even by the year 2021.

Incompletion of Digital Marketing Platform

A digital marketing platform had been installedby spending Rs.3.5 million for women entrepreneurs by the State Ministry. However, it had not been completed even by the end of the year under review in a manner of executing the said Project.

Inadequate Accomplishment of the Main Objective of the Sri Lanka Thriposha Ltd.

The main objective of the Sri Lanka Thriposha Ltd. was to provide Thriposha additional food free of charge to infants with low birth weight, pregnant mothers and all breast feeding mothers (Up to completion of 06 months for the infant). The estimated Thriposha requirement for 12,569,846 beneficiaries in the year under review had been 18,854 metric tons.However, of the said requirement, only 5,987metric tons had been met on behalf of 3,935,325beneficiaries. A number of 2,051 metric tons of Suposha introduced to the market for commercial purposes, had been produced during the year under review using limited raw materials available for production of Thriposha under a situation where the main objective could not be accomplished.

Mass Media

Observation

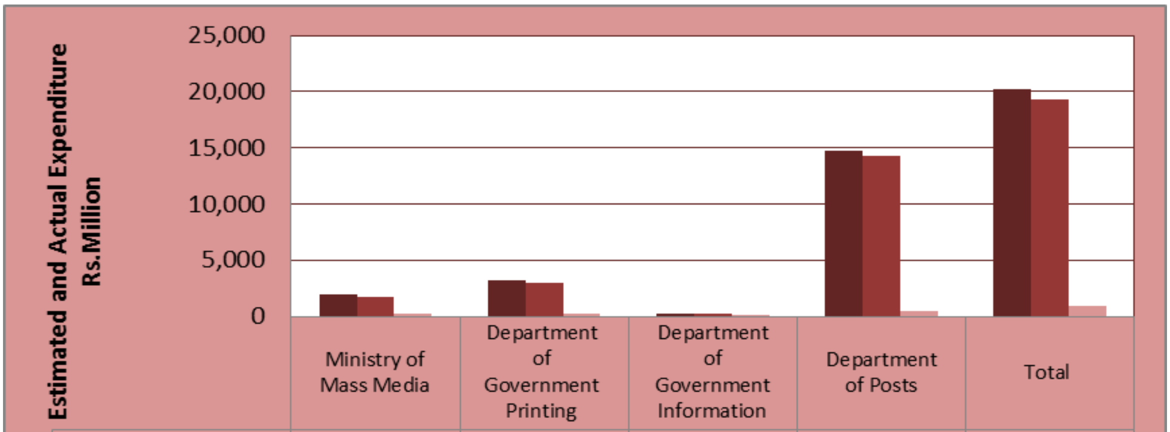
- **Construction of a Studio Complex for FM service**
- **Non-maintenance of Building**
- **Issue of Unregistered Newspapers to the Market**
- **Delay in Resolving Complaints**
- **Release of Staff to Other Institutions**
- **Outstanding Amount in the Subscription Account**
- **Providing Publications, Free of Charge**
- **Independent Television Network Limited**
- Revenue Management SLRC
- Shortage of Stamp Stock
- Surplus of Income
- Creation of Television Commercials
- Overpayment of Allowances
- Payment of Allowances Without Formal Approval

Mass Media

The Ministry of Mass with the scope of developing a desirable media culture for the delivery of balanced communication of information, knowledge, and ideology ensuring the right of the people to access accurate information including freedom of speech and expression as well as developing the professional skills of journalists, had to perform the following duties and functions together with 03 statutory boards/institutions functioning under the Ministry.

- Introduction of media policies assuring transparency
- Establishment of media standards in conformity with national and international legal regulation
- Facilitating journalists and media institutions to work within the framework of sociocultural and social values.
- Restructuring of the Press Council of Sri Lanka.
- Expansion of media activities at the provincial level to ensure facilitates to journalists.
- Expansion of the Sri Lanka Postal Service for the needs of the people.
- Introduction of a social education system to impart professional knowledge and understanding of new media use and behavior, including social media.
- Ensuringopportunities for the promotion of Media Higher Education and professional skills in accordance with International Standards.
- Introduction and implementation of necessary methodologies for efficient and innovative people-centered digital mail and allied services based on new technology

For the discharge of above functions, Parliament had made provision of Rs. 20,238 million to the Ministry and 03 Departments in the year 2020 and out of that, Rs.19,314 million only had been used by the end of the year under review. Details appear in the Diagram 54.



	Ministry of Mass Media	Department of Government Printing	Department of Government Information	Department of Posts	Total
Provision Rs.Million	1,946	3,242	269	14,781	20,238
Expenditure Rs.Million	1,748	3,034	265	14,267	19,314
Savings Rs.Million	198	208	4	514	924

Diagram 54- Estimated and Actual Expenditure
Source– Financial Statements, 2020

The audit observations made during the audit test checks carried out on the discharge of above functions by the Ministry and the Departments and statutory bodies under it are summarized below.

Construction of a Studio Complex for FM service

Provision of Rs. 42.50 million had been made in 2018 for the construction of a studio complex for the Jaffna Yal (FM) FM service of the Sri Lanka Broadcasting Corporation. The above allocation had been revised to Rs. 28 million by the year 2019.The land relating to the construction of the building had not been settled even by the end of 2019. As a result, the construction work had not been initiated even by the year under review and more than two years had elapsed since the preparation of the relevant BOQQ and cost estimates for the building contract by 15 September 2020.

Non-maintenance of Building

The floor area of the idled buildings of the Sri Lanka Broadcasting Corporation was 1,126.45 square meters. Despite the capability of developing and putting into effective use of those buildings, the relevant buildings were in a state of being ruined due to their long existence without proper maintenance by the Corporation.

Issue of Unregistered Newspapers to the Market

In terms of Section 30 of the Press Council Act, the function of the Press Council of Sri Lanka was to formulate the necessary rules and regulations regarding newspapers issued to the market without getting registration.Nevertheless, the relevant rules and regulations had not been compiled even by the end of the year under review.

Delay in Resolving Complaints

Although a total of 133 complaints had to be resolved in the year under review, including 71 complaints made by the public and various institutions against newspapers in the year under review according to Section 09 of the Press Council Act and 62 complaints continued unresolved in the year 2019, no action had not yet been resolved them even by the end of the year under review.

Release of Staff to Other Institutions

Contrary to paragraph 9.4 of Public Enterprises Circular No. PED 12 of 02 June 2003, the Associated Newspapers of Ceylon Ltd. had released 17 officers including nine journalists, four editors, an assistant manager, a photographer, a senior executive officer and a cashier for the service in other government institutions during the year under review. The company had paid Rs5.48 million in salaries, wages and allowances of those officers. Further, despite being released nine journalists and four editors during the year under review, twenty sixjournalists and twenty threeeditors had been recruited afresh on a contract basis.

Outstanding Amount in the Subscription Account

The Associated Newspapers of Ceylon Ltd.. had allowed government ministries, departments, corporations and the general public to subscribe to its publications. Accordingly, the arrears in the subscription account as at 31 December 2020 had been Rs. 14.9 million.Of this, a sum of Rs. 2.17 million had continued to exist in arrears from 2011 to 2020. The company had not taken any action to recover the arrears even by the end of the year under review.

Providing Publications, Free of Charge

As a practice of Associated Newspapers of Ceylon Ltd., copies of the publications had been continuously issued free of charge to the members of the company's management, some executive employees, the President, the Prime Minister, the Minister of Media, the Secretary to the Ministry, former management members, employees with more than 20 years of service and the retired employees who have completed 25 years of service. Accordingly, 1,005,525 copies of the seven major newspapers and 78,285 copies of 14 periodicals had been issued free of charge during the year under review. Of the printed copies, the Dinamina newspaper accounted for the largest number of free issued copies and it had represented 16 per cent of the total number of printed copies.

Independent Television Network Limited

The equity capital of the media network had continuously declined from 2015 to 2020 and continued to suffer losses from 2016 to 2020. The loss of the Independent Television Network in the year under review amounted to Rs. 210.62 million and the losses suffered by the ITN FM and Wasantham FM functioning thereunder amounted to Rs. 52.56 million and Rs. 13.18 million respectively. The loss of Wasantham TV was Rs. 62.38 million. Accordingly, the total loss of the company for the year 2020 is Rs. 213.98 million. Compared to the previous year, the loss for the year under review had decreased by 63% or Rs. 357.91 million.The government grant of Rs. 280 million provided for the recurrent expenditure had given rise to decline in this loss.If the government had not provided a grant of Rs. 280 million to the media network to cover the recurrent expenditure, the total loss for the year under review would have been Rs. 493.98 million.

The net assets of the Sri Lanka Rupawahini Corporation had continued to decline from 2015 to 2017 and had increased again in 2018 and thereafter, the net assets had again decreased in 2019 and 2020. Despite the continuous losses from 2015 to 2017, the profit gained in the year 2018 was Rs. 188.8 million due to providing government grant of Rs. 479 million in 2018. Losses had been incurred again in the year 2019. The loss of the Corporation had been dropped to Rs. 234.3 million due to the government grant of Rs. 310 million provided in the year 2020.The bank overdraft which was Rs. 244.65 million by the end of 2015 had increased to Rs. 482.72 million as at 31 December 2019 and the bank overdraft had declined to Rs. 258.73 million as at 31 December 2020.This continuous loss of the Corporation had adversely affected net assets and equity, thus posing uncertainty on the going concern of the corporation without any financial support from the Treasury or the other financial assistance from the government. The corporation's net assets had dropped by 84 per cent from 2015 to 2020.

Revenue Management

The Postal Department had an outstanding revenue of Rs. 454.16 million continued to exist for a period of more than 1 year to 2 years as at 31 December 2020. The department had failed to recover that revenue even by the end of the year under review

Shortage of Stamp Stock

In the verification of the physical stock of postal and revenue stamps with the Stamp Control Ledger, there observed a shortage of stamps worth Rs. 2.48 million. A stock of unused printed stamps stationery worth Rs1.78 million which is inappropriate for sale had been in kept in storage of the Stamp Division (Narahenpita) in the custody of the Post Master General over a long period.

Surplus of Income

The revenue surplus of Selacine Television Institute for the year 2019 was Rs. 8.3 million. Although the surplus income of each year should be remitted to the Treasury as per Section 8.2.1 of Public Enterprise Circular No. PED 12 dated 02 June 2003, the Institute had not taken steps accordingly.

Creation of Television Commercials

The Selacine Television Institute had charged Rs. 4.11 million from the Sustainable Energy Authority for creating two TV commercials in the year 2019 and the Selacine Television Institutehad paid Rs.3.43 million to a private institute for creating the commercials. In selecting that service provider, the Selacine Television Institute had not followed the provisions of the Government Procurement Guidelines. An advance of 50 per cent of the contracted value had been paid contrary to Government Procurement Guidelines and a security had not been obtained for that purpose. No liquidated damages of 5 per cent of the contract value or Rs.171,407 had been recovered in respect of the delay in execution of contract as required by Clause 2 of the contract agreement.

Overpayment of Allowances

Parliament had made provisions of Rs. 3,240 million to the Department of Government Printing for all expenses for the printing activities.The invoice value of the printing of ballot papers and forms relevant to the Parliamentary elections held during the year under review had been increased by Rs. 75.72 million without giving any acceptable reason. Out of the amount thus increased, Rs. 2.07 million had been over paid to 25 staff officers of the Department as the Commercial Printing Allowance in August 2020.

Payment of Allowances Without Formal Approval

Taking into consideration the recommendation of the National Salaries and Cadres Commission and subject to the conditions stipulated in the letter dated 04 October 2017 that granted the last approval of the allowances, approval had been granted for the payment of allowances to the staff of the Department of Government Printing only up to 31 December 2018 by the letter of the Director General of Establishments No. EST / 7 / ALLOW / 03/0120 dated 02 July 2018. Nevertheless, a sum of Rs. 436.78 million had been paid as allowances on piece rate basis without obtaining such approval in the year 2020.

Environment

Observation

- Smart Climate Change City Project
- National Climate Change Adaptation Plan for Sri Lanka
- Solid Waste Disposal Facilities Project
- Test for Harmful Dioxins in Breast Milk
- Climate Change Mitigation Partnership Project
- Non-amending the National Environmental Act
- Amendment of Noise Pollution Regulations
- Emission Testing Centres
- Idle Assets / Underutilized Assets
- Issuing Mining Permits to Bogala Graphite Company
- Rehabilitation of the Sand Mined Site
- Releasing an accused officer from charges without a disciplinary order
- Formulation of a National Policy on Mineral Resources
- Recovery of Royalty
- Conducting Mining in Violation of Orders
- Not Adhering to the Procurement Guidelines
- Adding Value to Minerals
- Manampitiya Sand Project
- Kantale Sand Project
- Kotikambokka Quartz Deposit Mining Project

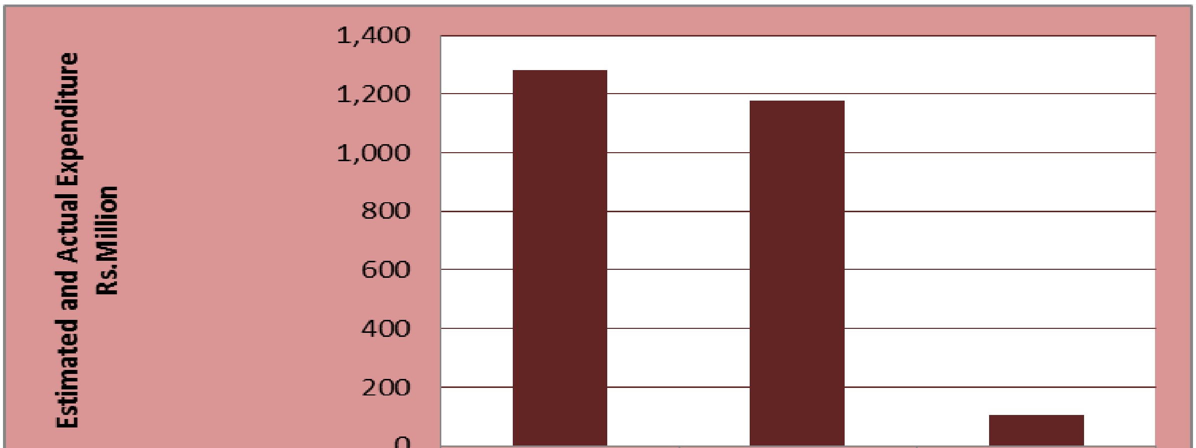
Environment

The mission of the field of Environment is to provide leadership for sustainable environmental management by ensuring environmental protection through the vision of "Sustainably Developed Sri Lanka" and sustainable natural resource management.

In order to carry out that mission, the Ministry of Environment and the four statutory boards / institutions under its purview had to perform the following duties and functions.

- Taking necessary steps to establish the concept of sustainable environment in the community starting from the school education.
- Reviewing the procedure of issuing environmental, wildlife and forest conservation permits and simplifying the operation of that process in an environmentally friendly and people friendly manner.
- Business and development needs in the operation of eco-friendly products, distribution, transportation services, infrastructure facilities, urban development and investment and economic zoning.
- Introduction of modern advanced technologies for environmental conservation.

A total of Rs. 1,283 million had been allocated by Parliament to the Ministry of Environment to accomplish the above role in the year 2020 and only Rs. 1,178 million out of that amount had been utilized. Details are shown in Figure 55.



	Rs.Million Provision	Rs.Million Expenditure	Rs.Million Savings
Ministry of Environment	1,283	1,178	105

Figure 55 - Estimated and actual cost
Source - Financial Statements for the Year 2020

The significant and material audit observations made during the audit test checks carried out in relation to the performance of the above duties and functions are summarized and mentioned below.

Smart Climate Change City Project

The Smart Climate Change City Project had been implemented in 2019 based on the *Climate Change* Vulnerability *Data Book* issued by the Ministry of Environment in 2011. In the selection of cities for the project, the selection was done based on data older than 8 years and the adaptation and mitigation work of the project had not been completed even by 2020.

National Climate Change Adaptation Plan for Sri Lanka

Action had not been taken to implement the National Climate Change Adaptation Plan for Sri Lanka anticipated to be implemented during the period of 2016 to 2025 to mitigate adverse effects of climate change in the country and to establish the National Adaptation Fund, through which it is anticipated to provide funds for that purpose.

Although a proposal had been made in 2019 to draft a new Act to prevent the entry of harmful invasive plant species and animal species into the country and to destroy those plants and animals, a new Act had not been legislated even by 31 December 2020.

Solid Waste Disposal Facilities Project

An amount of Rs. 466 million had been spent by 31 October 2020 on Solid Waste Disposal Facilities Project implemented under the Objectives of Korean Economic Development Cooperation. The Project was implemented and then halted midway with the intention of restarting under a new scope. The new scope had not been identified and the necessary steps had not been taken to implement the project even by the end of the year under review.

Test for Harmful Dioxins in Breast Milk

An agreement had been entered in to between the Ministry of Environment and the University of Peradeniya to test whether breast milk contains harmful levels of dioxins *and dioxin-like compounds*. The project had not yet been implemented to achieve its intended objectives even by the end of the year under review.

Climate Change Mitigation Partnership Project

Although a grant of Rs. 315 million had been provided to the Ministry for the implementation of the Climate Change Mitigation Partnership Project, the progress of the project had remained at a low level of 12.45% even by the end of the year under review.

Non-amending the National Environmental Act

Although the need has arisen to amend the National Environmental Act No. 47 of 1980 in a manner that it is appropriate for the management of the present environmental conditions as the Act is old for nearly twenty years, it was not possible to amend the act even by the end of the year under review

Amendment of Noise Pollution Regulations

Although the need to amend the Noise Pollution Regulations issued in 1996, 1997 and 2011 under Section 23 (j) (2) of the National Environmental Act No. 47 of 1980 to control noise pollution had been discussed at the National Environmental Council, the Regulations had not been amended even by the end of the year under review.

Emission Testing Centres

Eighty three (83) Emission Testing Centres, established in 18 districts of Sri Lanka were still being operated without a valid Environmental Protection License even by the end of the year under review.

Idle Assets / Underutilized Assets

- Even though the Pethiyagoda compost yard had been constructed at a cost of Rs. 154 million, it had not been used even by the end of the year under review.
- Even though Dompe Sanitary Landfill had been constructed at a cost of Rs. 600 million, it had been operated under a minimum capacity in the years 2018, 2019 and 2020.
- The Vibration Analyser, which was purchased in 2017 at a cost of Rs. 8 million was idling for 4 years due to non-calibration of the machine.

Issuing Mining Permits to Bogala Graphite Company

The foreign ownership of a mining company in Sri Lanka should be up to 40% of the total shareholding in terms of the Foreign Exchange Regulations published in the Gazettes Extraordinary No. 1232/14 dated 19 April 2002 and No. 2045/56 dated 17 November 2017 and if the foreign ownership is beyond that limit, a special approval should have been obtained from the Board of Investment of Sri Lanka. However, 89.91% of the total shares of Bogala Graphite Company, which conducts graphite mining in Sri Lanka, were owned by 02 foreign companies and the company had not obtained such an approval from the BOI or entered into an investment agreement with that Board. Despite that, the Geological Survey and Mines Bureau had issued 02 mining permits to the Company for graphite mining.

It was stated in the book named "Sri Lankan mineral resources that can sustain the economy" released by the Gem and Jewellery Research and Training Institute in 2018 that nanotechnology has now been introduced to Sri Lanka and that nanotechnology can add immense value to graphite. Moreover, 01 gram of graphene processed using nanotechnology is priced as high as Rs. 150,000 (The value of one kilogram is Rs. 150 million). Sri Lanka was losing a large amount of revenue due to the export of graphite as a raw material without converting it into a finished or semi-finished product.

Revenue amounting to 1,747.21 million had been earned by exporting 6,460.68 metric tons of Graphite mined by the company during the period of August 2017-2019. Accordingly, 1 kg of graphite had been exported at a very low price of Rs. 270 as raw material without adding value to graphite and royalty had been paid based on it.

The Central Environmental Authority had issued an environmental protection license to the relevant company for a period of one year and it will be extended annually. In addition, the Department of Archaeology submits its recommendations to the Galigamuwa Divisional Secretary on an annual renewal basis for carrying out excavation activities by the relevant company. The Divisional Secretary had also submitted his recommendations to the Geological Survey and Mines Bureau to extend the excavation permit by one year. Even though the excavation permit should be renewed annually, the extension of the validity period of the excavation permit at the request of the Company for a period of 10 years from 02 November 2018 to 01 November 2028 had become a matter of controversy.

Rehabilitation of the Sand Mined Site

Although it had been observed during the inspection conducted by the Director (Mines Safety) of the Geological Survey and Mines Bureau on the issuance of 13 permits for sand mining in the Hambantota District that the excavated areas mentioned in all the licenses had been excavated beyond the depth and the Bureau had under-recovered the royalty and the bank guarantees collected for licenses should be increased as they were not sufficient, appropriate action had not been taken in that regard. Sand mining sites in the Hambantota and Ratnapura districts had not been rehabilitated and unprotected pits were filled with water. The excavators had left the sand excavated lands without rehabilitating them by making the bank guarantee retained at the Bureau as it would cost more than the bank guarantee received by the Bureau to rehabilitate the excavated land.

Releasing an accused officer from charges without a disciplinary order

Disciplinary inquiries were initiated against an excavation engineer who had been suspended from 17 August 2017 on criminal charges under Sections 31.11 and 31.15 of Chapter XLVIII of the Establishments Code. A half salary amounting to Rs. 954,521 and incentive and bonus amounting to Rs. 369,171 had been paid for him for the period of suspension. The officer was reinstated in service with effect from 15 August 2019 with the approval of the Board of Directors even without obtaining a disciplinary order.

Formulation of a National Policy on Mineral Resources

Action had not been taken even by the end of the year under review to formulate a National Policy on Mineral Resources and to get it approved as per the notification issued by the Cabinet of Ministers on 22 May 2017.

Recovery of Royalty

Scientific methodology had not been followed to identify the quantity of stones quarried even by the end of the year under review and royalty was being charged considering the number of cubes of stones quarried was equal to two times of the quantity of explosives used for quarrying. The Geological Survey and Mines Bureau had not credited royalty income amounting to Rs. 8,488 million related to the period of 2014 to 2020 to the Consolidated Fund.

The Royalty amounting to a total of Rs. 27.42 million comprised of Rs. 26.88 million and Rs. 543,490 each to be received for 1,343,810 soil cubes and 3397 cubes of sand respectively used for the construction of the Yan Oya Reservoir Project had not been recovered from the Contracting company even by the end of the year under review.

Conducting Mining in Violation of Orders

Surface mining should not have been done exceeding 10 hectares of the cumulative area in mining and mineral extraction as per the notification of the Gazette Extraordinary bearing No. 772/22 dated 24 June 1993 issued by the Minister of Environment in terms of Section 23 V of the National Environmental Act No. 47 of 1980 as amended by Act No. 56 of 1988. In contrary to that, the mining license bearing No. IML/A/HO/1623 had been issued for the mining of mineral sands in an area of 18 hectares.

Not Adhering to the Procurement Guidelines

The construction of the 2nd floor of the Anuradhapura Regional Office had been assigned to the Sri Lanka Navy at a cost of Rs. 11.54 million on the approval of the Board of Directors of the Geological Survey and Mines Bureau without obtaining the Cabinet approval and without following a competitive procurement process as per the Guideline 3.2 of the Government Procurement Guidelines. A consultant had been appointed for the construction work without following any procurement process and had paid Rs. 579,995 to the consultant and the relevant consultant had been appointed as the Chairman of the Technical Evaluation Committee appointed for this purpose in contrary to the provisions stipulated in Guideline 7.3.1 (b) of the Government Procurement Guidelines.

Adding Value to Minerals

The Geological Survey and Mines Bureau had not introduced the steps to be taken to add value to minerals under Section 2 (e) of the Mines and Minerals (Amendment) Act No. 66 of 2009. As a result, graphite, mineral sands and silica quartz that had been mined were being exported as raw materials without adding value.

Manampitiya Sand Project

The Manampitiya Sand Project implemented by GSMB Technology Services (Pvt) Ltd. had not introduced a fair and specific method for sand release. About 75 percent of the sand excavated by the project was released to lorries belonging to one association in Polonnaruwa and 10 percent of the sand excavated was released to other lorries in the Polonnaruwa district while 15 percent of excavated sand was released to lorries outside the district. In addition, daily sand releases were made on a list of priority, including political demands, requests for public and religious matters and other requests. The police report, in relation to the fire broke out at the Manampitiya project office in 2019, was released in 2020. Although it had been reported according to that report that the fire is a deliberate arson by putting petrol to the documents in the containers and not merely an accident, responsible officers had not been identified and action had not been taken.

Kantale Sand Project

The GSMB Technology Services (Pvt) Ltd. is removing and selling sand along the Mahaweli River in Kantale and the Company had also constructed three flood protection dams with the proceeds from the sale of the sand. For this purpose, an amateur engineer without a proper experience in the construction of dams was employed for a short period of time and the work done during his tenure had only been recommended. A sum of Rs.47.79 million had been paid without certifying the work done during the period that he had not been in the service. When paying for these constructions, the payment documents had not been certified by the engineers of the Mahaweli Authority and the Irrigation Department that the work had been carried out in accordance with the prescribed standards.

Kotikambokka Quartz Deposit Mining Project

The project had been initiated to mine, to add value and to export the Kotikambokka Quartz Deposit and to carry out an *Initial Environmental* Examination (*IEE*) instead of an Environmental Impact Assessment (EIA) for that purpose. The GSMB Technology Services (Pvt) Ltd. was assigned in the year 2017 with the task of implementing this project with the approval of the Cabinet of Ministers. It took a long time to get the approval of the Forest Conservation Department and the Irrigation Department for the *Initial Environmental* Examination (*IEE*) conducted by the Company. Therefore, the Cabinet of Ministers had again decided to first seek the consent of the Central Environmental Authority and the Forest Department as to whether it would be sufficient to conduct an *Initial Environmental* Examination (*IEE*) in 2019 instead of an Environment Impact Assessment (EIA). Due to this situation, the project had not been started and Rs. 20.94 million had been spent on the operational activities of the project during the period of 2017-2020.

Wildlife and Forest Conservation

Observations

- **Human- Elephant Conflict**
- **Muthurajawela Wetlands Sanctuary**
- **Biodiversity Survey carried out on Shipwrecks**
- **Erection and Maintenance of the Electric Fence**
- **Arrival of Tourists and the Decrease of Income**
- **Buildings that remained Idle**
- **Purchase of Foreign Birds**

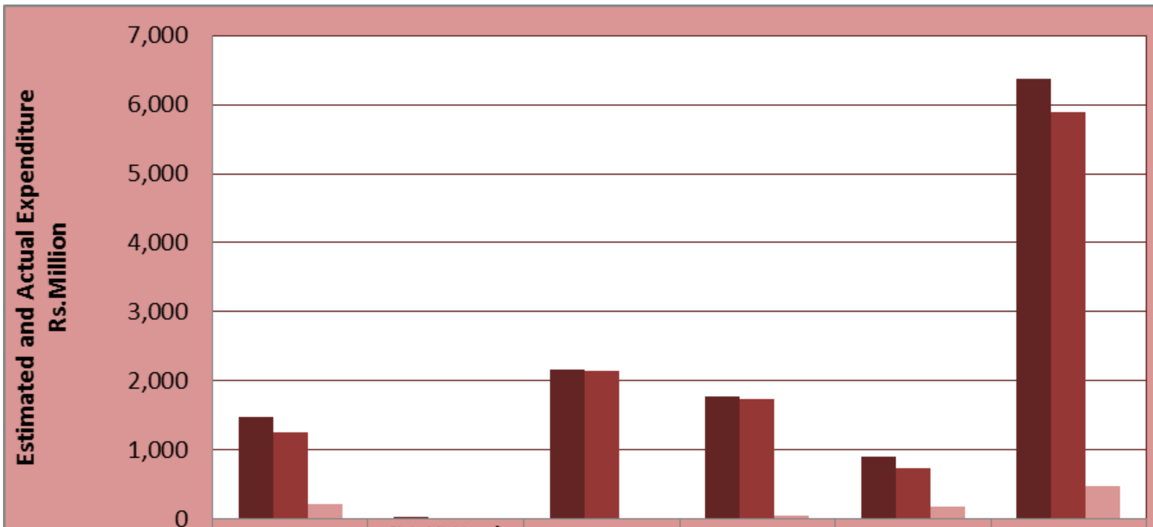
Wildlife and Forest Conservation

The following functions are performed by the Ministry of Wildlife and Forest Conservation and the State Ministry of Wildlife Protection, Adoption of Safety Measures including the Construction of Electrical Fences and Trenches and Reforestation and Forest Resource Development, 03 Departments and a Statutory Board.

- Broadening of the Wildlife Parks, Reservoirs and the food plantations of the protection of wild animals, for ensuring the protection of the wildlife.
- Implementation of modern procedures in minimizing the damages caused by wild animals to the houses, property and plantations in the rural areas.
- Implementation of community- based security procedures in parallel with the security procedures including electric fence, trenches in a manner that the elephant- human conflict is prevented, in the high risk areas.
- The introduction and the broadening of forest plantations in the level of domestic gardens and in the areas where schools, hospitals, offices, workshops and roads are minimum as well as in the urban parks, for bringing the forest density to a higher level by broadening forest plantation.
- Implementation of programmes for the broadening of the Green Covers.
- Controlling the human behaviors that destroy Wetlands and Mangrove Systems by conservation.
- Taking steps into the implementation of Rough Forest Plantation Parks by identifying washed and infertile lands.
- Plantation of trees beside roads including highways and roads, Forest Plantation Strips surrounding factories, urban tree clusters encouraging the plantation of tress in lands surrounding Government Offices and Apartments, Green Gardens and Domestic Agricultural Forest Plantations.
- Implementation of projects for reforestation.
- The establishment of specific sand mining strips surrounding rivers and lands and the development of river valleys.
- The establishment and the promotion of the concept of Green and Smart Cities and Dwellings and the compilation and the implementation of programmes and projects for generating an environmentally sensitive public.
- Implementation of the security procedures including the electric fence, trenches for the safety of the villages and settlements, with the contribution of the rural community, in a manner that elephant- human conflicts could be prevented.
- The preservation of the lands that are confined for wild animals for their

protection, the development of tanks, rivers and forests in those areas and the establishment of the plantations necessary for the promotion of food of the wild animals.

Provisions totalling Rs.6,373 million had been provided by the Parliament to the Ministry of Wildlife and Forest Conservation, to the State Ministry and to 03 Departments and, only a sum of Rs.5,888 million of it had been utilized by the end of the year under review. Details appear in the Figure 56 below.



	Ministry of Wildlife and Forest Conservation	State Ministry of Wildlife Protection, Adoption of Safty Measures Including the Constraction of Electrical fencses and Trenches and Reforestation and Forest Resource Development	Department of Forests	Department of Wildlife Conservation	Department of National Zoological Gardens	Total
Provision Rs.Million	1,470	41	2165	1,784	913	6,373
Expenditure Rs.Million	1,254	20	2149	1,731	734	5,888
Savings Rs.Million	216	21	16	53	179	485

Figure 56 Estimated and Actual Expenditure
Source: Financial Statements of the year 2020

Human- Elephant Conflict

Sums of Rs.275.45 million and Rs.221.51 million respectively had been spent for the erection and maintenance of the electric fence in the years 2019 and 2020. The length of the complete electric fence by 31 December 2020 had been 4,756km. however, it was observed that a minimization of the conflict between human and the elephants had not been occurred despite the electric fence had been erected in considering the deaths of elephants, deaths of humans and the damage to property occurred in the 05 preceding years. The accidents occurred due to the elephant- human conflict from the year 2016 to the year 2020 appear in the Figure 57 below.

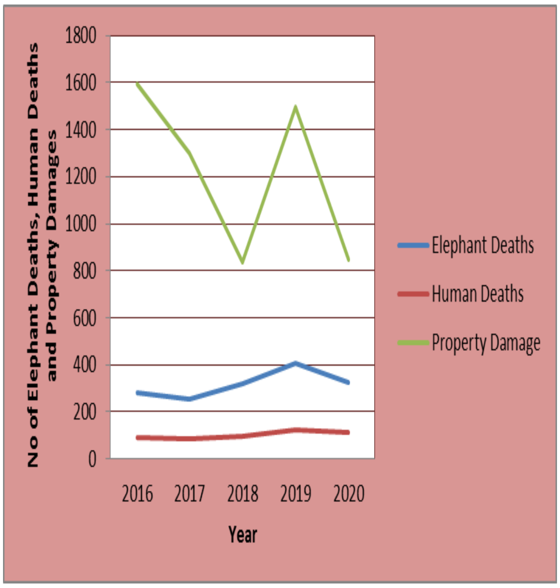


Figure 57 Number of accidents occurred due to the Elephant- Human Conflict

Muthurajawela Wetlands Sanctuary

A land 1285 hectares in extent belonging to the Muthurajawela Ecological System had been gazette as a sanctuary by an advertisement published in the Gazette Notification No.947/13 of 1996. The Department of Wildlife Conservation had been failed to demarcate the boundaries of that sanctuary even by the end of the year under review.

Biodiversity Survey carried out on Shipwrecks

A sum of Rs.2.96 ,million had been estimated to implement the Biodiversity Survey and the Declaration of Shipwrecks- 2019 Project, carried out on shipwrecks, that was planned in the year 2018 and, all the swimming equipment planned for the Project had been purchased by 31 March 2019. However, the Project had not been implemented even by the end of the year under review.

Erection and Maintenance of the Electric Fence

The soldiers of the Civil Security Department had been deployed to maintain the electric fence erected for minimizing the damages made by the wild elephants as per the Decision of the Cabinet of Ministers of 06 January 2012. Even though it had been entered into an Agreement specifically agreed between the Civil Security Department and the Department of Wildlife Conservation for obtaining that service efficiently and for the proper management of the expenditure incurred for the maintenance of the electric fence, action had not been taken accordingly. As such, a payment procedure formulated on a specific basis did not exist for the expenses incurred for the maintenance of the electric fence.

Arrival of Tourists and the Decrease of Income

One million, nine hundred and thirty- four thousand and seventy- two tourists had arrived in the year 2019 to visit the National Zoo, Pinnawala Elephant Orphanage and Zoo and Hambantota Safari park and, their arrival had been decreased to 892,654 in the year 2020. The Income from Tourism had been Rs.766.13 million in the year 2019 with the decrease of the arrival of tourists and, it had been further decreased to Rs.211.78 million in the year 2020, as compared with the preceding year. This condition had been occurred due to the impact of the coronavirus, spread in the year 2020. A description on the arrival of tourists and of the income received in the preceding year and in the year under review appear in the Figure 58 and in 59 below.

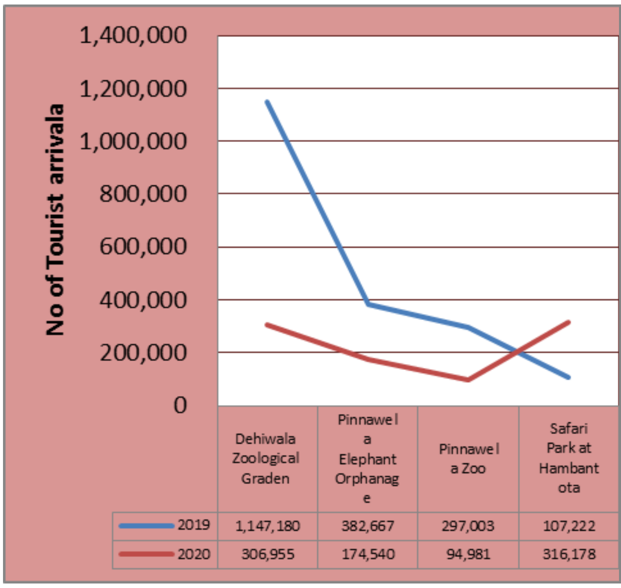


Figure 58- Arrival of Tourists in the years 2019 2020

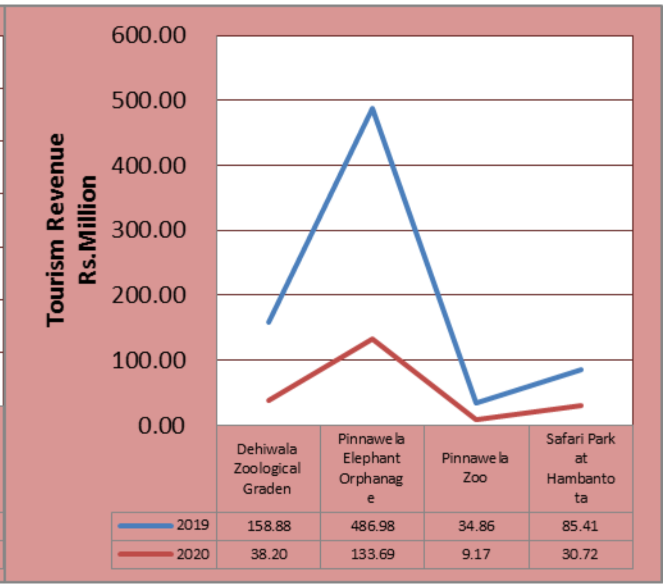


Figure 59 - Income from Tourism

Buildings that remained Idle

Even though work of 12 Rural Sales Centres constructed by incurring an expenditure amounting to Rs.7.2 million in the Ridiyagama Safari Park had been completed on 22 March 2018, they remained idle without being utilized even by the end of the year under review.

Purchase of Foreign Birds

The bids had been rejected on they being forwarded only for few birds by the two suppliers out of the three suppliers who had forwarded bids due to narrowing down specifications by imposed a condition as "all 32 types of birds should be supplied by a single supplier" in the procurement of purchasing foreign bids. Fifty three birds had been purchased from selected bidders on prices higher than those presented by the rejected bidders and as such, a loss of Rs.17.86 million had been incurred to the Government.

The constructions of the Birds Sanctuary, which had been initiated on 08 October 2019 was scheduled to be completed on 05 May 2020, in terms of the Agreement. Its work had not been completed even by 26 February 2021. Even though the importing of birds had been carried out within a period of about 2 ½ years from the year 2018 to the year 2020, 57 birds had been retained in other cages of the Safari Park without being displayed.

Introduction to Provincial Councils

Provincial Councils were established in Sri Lanka by the 13th Amendment to the Constitution and the Provincial Councils Act No. 42 of 1987 with the objective of devolving the powers of the government to the Provinces. Accordingly, 09 Provincial Councils were established in Sri Lanka and delegated provincial level powers in a number of areas including agriculture, education, health, housing, local government and social services. A provincial council is under the control of the Governor and its legislature is headed by the Chief Minister and consists of 04 ministers including the Chief Minister. The chief secretary acts as the administrative authority and each provincial council consists of the Provincial Council Fund and the emergency needs fund. This provincial council fund, which is very similar to the government consolidated fund, receives funding from government grants, tax collection and other sources, and incurs recurrent and capital expenditure from the fund. Further, the financial statements including the Appropriation Accounts and Revenue Accounts are prepared annually by the Provincial Ministries, Departments under the Provincial Ministries and the special expenditure units not coming under the Ministries of the Provincial Council.

Each Provincial Council is required to prepare final financial statements demonstrating financial performance and financial position of the Provincial Council Fund and submit to the Auditor General.

The Auditor General shall audit the accounts of the provincial council fund in accordance with article 154 (3) of the Constitution and section 23 (1) of the Provincial Council Act No. 42 of 1987.

Accordingly, this chapter presents an analysis of the audited financial statements for the years 2019 and 2020 in the Western, North Central, Sabaragamuwa, North Western, Central, Northern, Eastern, Central and Uva Provinces.

Further, as the Central Government does not have quantitative control over the financial and operational functions of the Provincial Councils, the Provincial Councils have not been involved in stating the revenue and expenditure in respect of Government Financial Statements to be submitted to the Auditor General under Section 15 of the National Audit Act No. 18 of 2018.

Submission of Provincial Council Accounts

In the years of 2017 and 2018, the provincial councils followed a very similar procedure in preparing and presenting the financial statements. Therefore, although a hypothetical financial statement was prepared consolidating the financial statements of all the provincial councils for those years, the audit was not able to prepare the consolidated financial statements for the year 2019 as in the previous year due to the preparation of financial statements by the Provincial Councils following various methods.

Therein, several provincial councils had prepared financial statements on an accrual basis and other provincial councils on a cash basis or modified cash basis. It was also observed that different formats had been used in the preparation of the financial statements. Accordingly, there was a lack of coherence in the financial statements and it was observed that the decision making parties could be inconvenienced by the comparative use of the financial statements. The following components were analyzed considering the manner in which the financial statements were submitted by the Provincial Councils.

Provincial Council Revenue

The revenue of a provincial council consists of various sources, mainly government grants, tax revenue and nontax revenue. The income of the provincial councils and those comparisons were made subject to the fact that the accrual basis and the cash basis were used alternately in the calculation of revenue on certain provincial councils and all the provincial councils had not used the same sources of revenue calculation.

Government Grants

The government grant provided for 09 provincial councils in the year 2020 was Rs. 282 billion and a sum of Rs. 218 billion had been granted in the preceding year. In the year 2020, the highest percentage of grants,17 per cent was given to the Western Provincial Council and it was Rs. 47 billion. Furthermore, the lowest grant to the North Central Provincial Council was Rs. 21 billion, which is 7 per cent of the total grant. According to the government financial statements, the total government expenditure of Rs. 3,495 billion in 2020 included the grant of Rs. 282 provided for the provincial councils. It is 8 per cent of the total expenditure.

Tax Income

Tax revenue of all provincial councils in 2020 was Rs. 41 billion, and it is a decrease of about 47 per cent compared to the year 2019. The highest tax revenue is reported from the Western Provincial Council in the year 2020 and it is Rs. 21 billion. That accounts for about 52 per cent of total provincial tax revenue. However, compared to the total tax revenue of Rs1,217 billion earned by the Government and included in the Government Financial Statements for the year 2020, the tax revenue earned by the Provincial Councils was only 3.37 per cent.

Non-tax Income

Non-tax revenue earned in the year of 2020 was Rs. 10 billion and in the year 2019 it was Rs. 12 billion. Non-tax revenue earned during the year 2020 included Rs. 3 billion earned by the Western Provincial Council, which is 32 per cent of the non-tax revenue earned by all provincial councils. Further, that revenue is only 6 percent of non-tax revenue according to the government financial statements.

Government grants and tax revenue & non-tax revenue earned by the Provincial Councils

In the year 2020, the government had given a grant of Rs. 282 billion to the Provincial Councils and in comparison the total tax and non-tax revenue that could be earned for the Provincial Councils was only Rs. 51 billion. It was 18 percent in relation to the grants.

Expenditure of Provincial Councils

Each provincial council incurs annual recurrent expenditure including personal emoluments, other goods and services, maintenance costs, and development expenditure in the form of capital. Accordingly, the total expenditure incurred by the Provincial Councils in the year 2020 was Rs. 338 billion as per the financial statements presented by the Provincial Councils and it was Rs.314 billion in the preceding year.

Recurring Expenditure

The total recurrent expenditure of the 09 provincial councils for the year 2020 was Rs. 320 billion and the recurrent expenditure for the preceding year was Rs.289 billion. Furthermore, the highest recurrent expenditure of the year 2020 had been incurred by the Western Provincial Council and it was 21 per cent of the recurrent expenditure incurred by all provincial councils.

As compared with the total tax and non-tax revenue of Rs.51 billion earned by the provincial councils for the year 2020, a sum of Rs.320 billion had been incurred on recurrent expenditure in the year under review, thus exceeding the above revenue by Rs.269 billion or 525 per cent. The Northern Province had incurred recurrent expenditure exceeding the revenue by 1,77 per cent earned, while the Uva Province by 1,328 per cent, Eastern Province by 1,247 per cent, and the Sabaragamuwa Province by 926 per cent. Further, the total grant given to the provincial councils by the government in the year 2020 was Rs. 282 billion, whereas recurrent expenditure of Rs. 320 had been incurred exceeding the above grant by Rs.38 billion.

Development Expenditures

The 09 provincial councils had borne Rs. 18 billion as development expenditure in the year 2020 and it was Rs. 25 billion in the preceding year. Accordingly, the expenditure on development expenditure had decreased by Rs. 7 billion compared to the preceding year. The highest development expenditure of Rs. 7 billion was borne by the Western Provincial Council while the Eastern Province had incurred the lowest development expenditure of Rs. 308 million.

Development costs in relation to the recurrent expenditure

In the year 2020, the 9 Provincial Councils had spent a total of Rs. 338 billion of which recurrent expenditure of

Rs. 320 billion and development expenditure of Rs. 18 billion had been incurred. Accordingly, 95 per cent of the total expenditure of the Provincial Councils was spent on recurrent expenditure and 5 per cent on development expenditure. Expenditure incurred by the Provincial Councils for the development of the Province was a very small percentage compared to the total expenditure. The Western Province had spent Rs. 67 billion on recurrent expenditure but only Rs. 3 billion had been incurred as development expenditure.

Assets of the Provincial Councils

The total assets of the Provincial Councils identified as Rs. 230 billion in the year 2019 have been identified as Rs. 287 billion in the year 2020. Accordingly, an increase of 25 per cent was observed compared to the total assets identified in the preceding year. Further, According to the government financial statements, the total assets in 2020 were Rs. 2,671 billion. According to the financial statements of the Provincial Councils and the financial statements of the Government, the total assets of the country in the year 2019 were Rs. 2,199 billion and by the year 2020 the total assets had been Rs. 2,958 billion, thus showing an increase of 35 per cent.

Non- current Assets

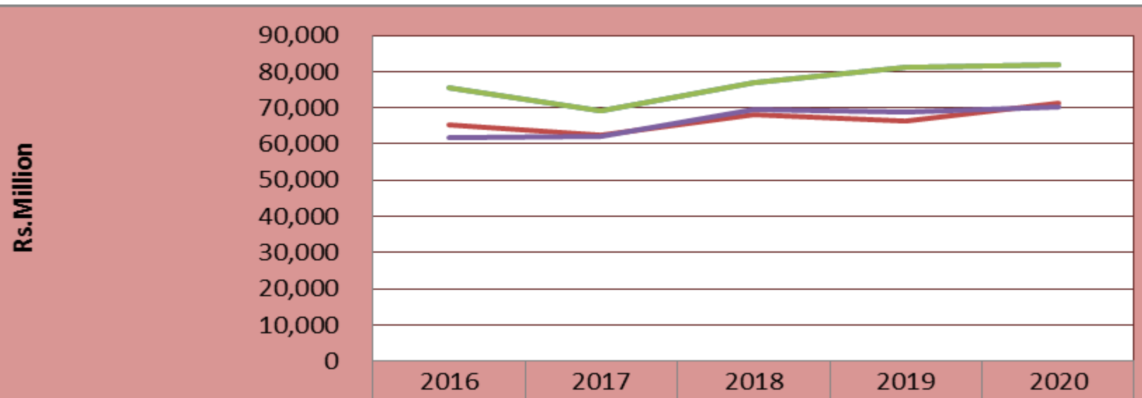
Non-current assets of Rs. 190 billion had been recorded in all Provincial Councils by the end of 2019 and that value had increased by Rs. 57 billion up to Rs. 247 billion by the end of 2020. These non-current assets include property, plants and equipment valued at Rs 201 billion. Further, the value of non-current assets in government financial statements for the year 2020 was Rs. 1,776 billion and the total value of non-current assets as per Government Financial Statements and Provincial Council Accounts was Rs. 2,023 billion by the end of the year under review.

Current Assets

The value of current assets, which stood at Rs. 42 billion in the year 2019, had dropped to Rs. 39 billion. The total value of the current assets of the provincial councils and government financial statements had been Rs. 937 billion by the end of the year under review.

Western Provincial Council

A revenue totaling Rs. 82,058 million had been estimated by the Western Provincial Council for the year 2020 comprising Government grants amounting to Rs. 49,484 million, and a sum of Rs. 32,574 million through internal sources. A sum totaling Rs. 82,058 million inclusive of recurrent expenditure amounting to Rs. 74,926 million and capital expenditure amounting to Rs. 7,132 million, had been estimated. During the year 2020, a revenue totaling Rs. 71,471 million, comprising a sum of Rs. 47,024 million through Government grants, and a sum of Rs. 24,447 million through internal sources, had been earned. Sums of Rs. 66,843 million and Rs. 3,457 million being the recurrent expenditure and capital expenditure respectively, totaling Rs. 70,300 million had been utilized. Particulars on the estimated and actual revenue & expenditure relating to the year under review and 04 preceding years, are shown in Figure 60 below.



	2016	2017	2018	2019	2020
Estimated Revenue	75,394	69,135	76,984	81,281	82,058
Actual Revenue	65,305	62,584	68,132	66,530	71,471
Estimated Expenditure	75,394	69,135	76,984	81,281	82,058
Actual Expenditure	61,708	62,181	69,454	68,971	70,300

Figure 60. : Estimated and actual revenue and expenditure.
Source-financial statements of the Western Provincial Council 2016-2020.

A summary of significant audit observations made in the audit conducted in the year 2020 on the Western Provincial Council, is given below.

Transactions of Contentious Nature

A sum of Rs. 115 million had been spent for procuring a system of equipment to be used in the auditorium of the Western Provincial Council. The two envelope bidding system had been followed in that procurement, and 03 bids had been submitted by 03 institutions in that connection. The bid submitted by a bidder who had not furnished the joint venture agreement, had not been technically evaluated, whereas the bid valued at Rs. 72 million presented by a certain institution in a manner closely complied with the specifications had not been technically evaluated. Although 145 delegate units had been procured as per the bill of quantity that had been prepared, only 110 units had been installed. As such, 35 units had been procured in excess, thus a fruitless expenditure of Rs. 17.43 million had been incurred at Rs. 498,031 per unit. As for the proposals of the Council, 104 members should have voted. A fruitless expenditure of Rs. 3.32 million had been incurred on 40 voting units at Rs. 83,105 per unit. Furthermore, 1058 items of other equipment had been purchased in excess of the requirements, and their warranty and period of using up-to-date had been elapsing. Those equipment remained idle without being used.

Payment of Allowances for Official Quarters

Officers are not entitled to a monthly allowance for official quarters in terms of Chapter XIX of the Establishments Code. However, as for the period from November 2017 to December 2020, allowances for official quarters had been paid to 19 officers of the Provincial Council in a manner that an officer had been paid a monthly allowance of Rs. 50, 000 whilst 18 officers had been paid a monthly allowance of Rs. 30,000 each.

Uneconomic Transactions

Six LED display boards had been purchased spending Rs. 14.03 million in 03 instances by the Department of Local Government – Western Province, during the period 2015-2017. Three of those displays had been purchased on 30 December 2016 incurring a sum of Rs. 4.33 million without following the Financial Rule 416.1 of the Provincial Council and the Procurement procedure in terms of the Government Procurement Guidelines. Of the 06 displays purchased, 03 displays remained non-functional even as at 31 December 2020 whilst the other 03 were still not in use. As no agreements had been entered into with the contractors contrary to Financial Rule 431 of the Provincial Council, action could not be taken to repair the non-functional displays.

Implementation of Projects

The Agro Service Authority had launched a project valued at Rs. 2,000,000 in view of packaging agricultural products , value addition, and conducting training sessions in the Western Province. It was stated in the project report that the equipment purchased would be allowed to be used by the Associations through agreements and installed at the Agrarian Services Centers and community service centers thus providing such equipment for the selected groups. Contrary to that , those equipment had been handed over to the Aquaculture Development Center, Pitipana. As miscellaneous issues had occurred in those equipment, the Center had returned them to the Authority.

"Nearest School is the Best School" Project

Under the concept of "the nearest school is the best school" relating to the zonal educational office of Negambo, a sum of Rs. 6.93 million had been spent in the year 2017 for constructing the dining hall and teachers' hostel of the Holy Rosery Maha Vidyalaya in Jaela up to the roof level. The constructions had been abandoned by 31 December 2020, thus making the expenditure futile. Furthermore, there were two more half-completed buildings in the said school, and due to lack of building facilities for maintaining the Primary Section of the school, that Section is being maintained in a Catholic church 800 meters away from the school.

Constructions of the two-storied technical laboratory of the St. Sebastian Maha Vidyalaya, Negambo had been commenced on 06 March 2017 under this project, and having spent a sum of Rs. 22.86 million, half of the building had been completed. The constructions had been abandoned on 04 August 2018. Although a period of over 02 years had elapsed since that day up to the date of audit on 28 September 2020, the works could not be completed. Furthermore, the metal wires used in the building remained decaying due to rust at the date of audit.

Underutilized Assets

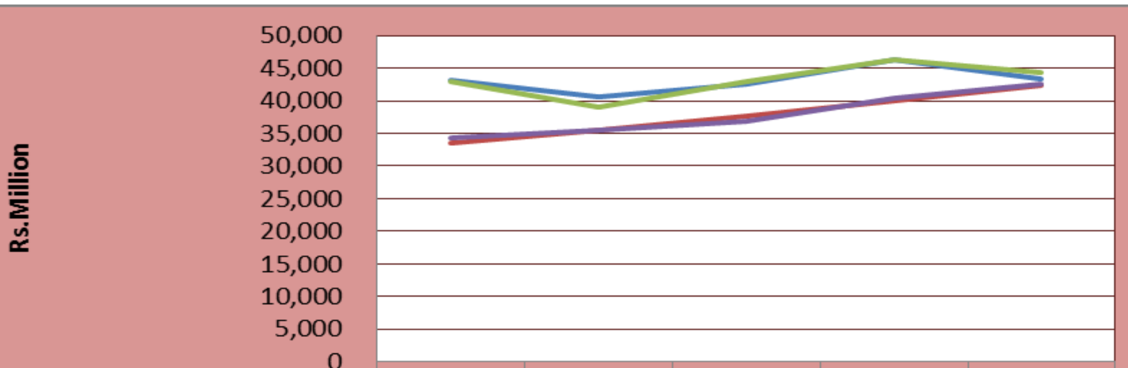
Minu/Hunumulla Maha Vidyalaya is a school where classes for the Advanced Level are not conducted. However, this school was provided with a Type 01 Mahindodaya technical laboratory which were provided only for schools with AL classes. The ground floor of this laborarator allocated for the chemistry and physics lab, is used to house the mathematical lab at present for 6-11 grades. The upper floor was allocated for the language lab and the Information Technology lab. As 216 items including 60 computer chairs, and 62 computers scheduled to be given, had not been provided even by 31 December 2020, the upper floor could not be made use of for academic purposes.

Supervision of the Local Authorities

According to the information furnished as at 31 December 2020, revenue totaling Rs. 7,295.16 million remained due from 49 Local Governments in the area of authority of the Western Provincial Council.

Central Provincial Council

The Central Provincial Council had estimated total revenue of Rs. 43,409 million for the year 2020 including government grants of Rs. 39,579 million and from internal roads to Rs.3,830. Recurrent expenditure in 2020 was estimated at Rs. 39,842 million and capital expenditure at Rs. 4,439 million for a total of Rs. 44,281 million had been estimated as uses of funds. Accordingly, total revenue of Rs. 42,304 million had been collected by the year 2020 from Government grants amounting to Rs. 37,862 million and Rs. 4,442 million from internal roads. In 2020, recurrent expenditure was Rs. 39,806 million and capital expenditure was Rs. 2,732 million totaling to Rs. 42,538 million was utilized. The details of the estimated and actual revenue and expenditure for the year under review and for the last 04 years are given in Figure 61.



	2016	2017	2018	2019	2020
Estimated Revenue	43,129	40,620	42,610	46,256	43,409
Actual Revenue	33,577	35,538	37,664	40,066	42,304
Estimated Expenditure	43,019	38,972	42,918	46,335	44,281
Actual Expenditure	34,397	35,519	36,941	40,312	42,538

Figure 61. : Estimated and actual revenue and expenditure.
Source-financial statements of the Central Provincial Council 2016-2020.

Following are the important audit observations made during the audit of the Central Provincial Council in the year 2020.

Overpayments

Contrary to the National Salaries and Cadres Commission Chairman's letter No. NSCC / 3/01 / AII / 10WOVNCES and the provisions of the letter dated 05 December 2006 The monthly allowance of the Chairman of the Public Service Commission from August 2010 to January 2021 was Rs. 1.2 million had been overpaid

Failure to settle the loan balance

An un-settled inter provincial loan balance of Rs. 7.6 million even by the end of the year under review had been shown under the current liabilities in the financial statements of the year 2020.

Further, it includes a balance of Rs. 1.1 million belongs to the inter provincial general account.

As at 31st December 2020, actions had not been taken to settle the approved advances of the Provincial Health Department and the Provincial Co-operative Employees Commission totaling to Rs.17 million and failed to provide the age analysis of the loan balances.

Depository Advance Account

The Central Provincial Council was intended to distribute seed paddy, potato seeds, and vegetable seeds and fruit seedlings to farmers on a timely basis through advance work. Considering its progress in the year under review and in the last two years, it has failed to achieve its objectives due to lack of proper methodology for distribution of seeds and planting material to farmers and non-compliance with the criteria for calculating the target. Letter of the Secretary to the Governor No. GCP / 15/17 dated 26 November 2020 informed to close the agro planting material advance work and no action had been taken to do so.

Delay in resolving critical issues

The Central Provincial Co-operative Development Department had handed over more than Rs. 5 million worth of critical issues to the officers to resolve. There were 17 screen issues worth over Rs. 52.8 million over one year, one issue Rs. 5.9 million over more than two years, 4 issues worth Rs.16 million over3 years and 3 issues worth 6.2 million over 5 years. However, no solutions had been taken even by the end of the year under review.

Failure to charge surcharges

The Ordinances and Acts relating to Local Government Institutions empower the Auditor General to impose surcharges on matters subject to payment, negligence or misconduct that should be noted in the House accounts but not specified. According the Provincial Council had not taken prompt action on 10 surcharge certificates issued to the parties of the provincial council amounting to Rs. 3.6 million issued by the Auditor General from the year 1996 up to the year under review.

Damage to fruit plants

Under the Fruit Villages Program implemented by the Central Provincial Department of Agriculture from 2016 to 2019, 26,125 fruit plants worth Rs. 3.7 million were distributed in 16 Agrarian Consultancy Divisions. By the end of the year under review, 13,770 of the distributed fruit plants had been successfully maintained. Accordingly, 47 percent of the fruit plants distributed and Rs. 1.7 million worth 12,655 plants were damaged.

Failure to recover false payments

The Kandy District Health Services Director's Office had falsely stated that it had painted health equipment and paid Rs. 3 million. On May 9, 2019, the Chief Secretary of the Central Provincial Council had recommended to recover the amount from 14 relevant officials in connection with the payment. As of 30 April 2021, that amount had not yet been recovered.

Losses and damages

The ambulance of the Teldeniya Base Hospital had suffered a loss of Rs. 5.7 million on 19 November 2018 due to an accident at Bogambara. The police report and the motor vehicle inspector's report stated that there was no mechanical fault in the vehicle and that the accident was caused due to the driver's inability to control his speed. According to the preliminary investigation report dated 14 February 2019, the administrative officer of the Kandy District Health Services Director's Office had recommended that Rs. 7.4 million be recovered from the driver's salary, including damage to the vehicle, towing fees and departmental fees. According to the investigation report in accordance with Financial Regulation 104 (4) on 13 August 2020, the loss was written off from the books stating that it was not an accident caused by negligent or reckless driving.

The Central Provincial Department of Education on the 193 occasions from a period of 5 years amounting to Rs. 19 million, 45 cases over 10 years amounting to Rs. 3 million and 100 cases from the year 2002 to 2020 amounting to Rs. 31.2 million of the provincial health services department had not been recovered as per the Financial Regulations.

Acting out of objectives

Seven projects worth Rs. 3.65 million included in the Review Year Action Plan prepared and submitted by the Central Provincial Ministry of Agriculture in terms of Public Finance Circular No. 2014/01 dated 17 February 2014 had failed to be implemented.

The National Savings Bank considers as its host program for the success and effectiveness of the series of seminars on science and mathematics in the 2018 GCE (O / L) examination under the Nanoda Education Development Program in the Central Province, a Rs. 2.6 million had been granted on 21 June 2018. The money had been kept in the deposit account for nearly 03 years without being utilized for the relevant purpose.

The Central Provincial Ministry of Youth Affairs, Women's Affairs, Rural Development, Cooperative Development and Industries has purchased 1760 sewing machines at a cost of Rs. 45.6 million. The sewing machines were distributed to women in the province with the aim of promoting self-employment. Follow-up of 864 beneficiaries of the project in 2019 revealed that 302 beneficiaries were not self-employed in tailoring. Accordingly, the intended purpose of the project had not been fully achieved.

The Central Provincial Ministry of Road Development, Transport, Power and Energy and Housing and Construction has allocated Rs. 104.4 million and Rs. 4.72 million respectively for specific developments and continuous basis developments. For 4 road development projects not included in the action plan under Provincial Specific Development Grants, Rs. 15.25 million had been spent.

Idle / underutilized assets

The drug store of the Matale District General Hospital had stocks of expired drugs worth Rs. 5.6 million from 2006 to May 2020.

The Ministry of Fisheries and Aquatic Resources Development had constructed 13 ponds in 2017 at a cost of Rs.4.4 million. By 25 September 2020, the project had come to a complete halt due to placement errors and the failure to release fingernails into the ponds. Expenditure incurred by the government had been completely wasted and no action had been taken to take over the legal ownership of the land prior to construction.

On 18 June 2018, the Ministry of Health allocated Rs. 1.5 million for the networking of the Dambulla Base Hospital. Utilizing those provisions, 20 laptops and 2 printers were purchased, stored and kept idle. By 18 September 2020, the projects had been halted.

Due to the lack of trained staff, non-installation of emergency treatment units, non-provision of necessary equipment and vacancies in the nursing staff at, Uduwela, Moragaha,Delthota and Dolosbage hospitals, 04 Defibrillators costing Rs. 3.9 million had been idling by December 2020.

Out of the allocation of the Ministry of Health for the year 2018, Rs. 10.8 million had been incurred to buy A mobile C-arm X-ray machine from a private company in 2019 for the Nawalapitiya Base Hospital. Due to the lack of infrastructure to install the machine and the lack of a permit from the Atomic Energy Regulatory Authority of Sri Lanka, it remained inactive until 25 February 2021.

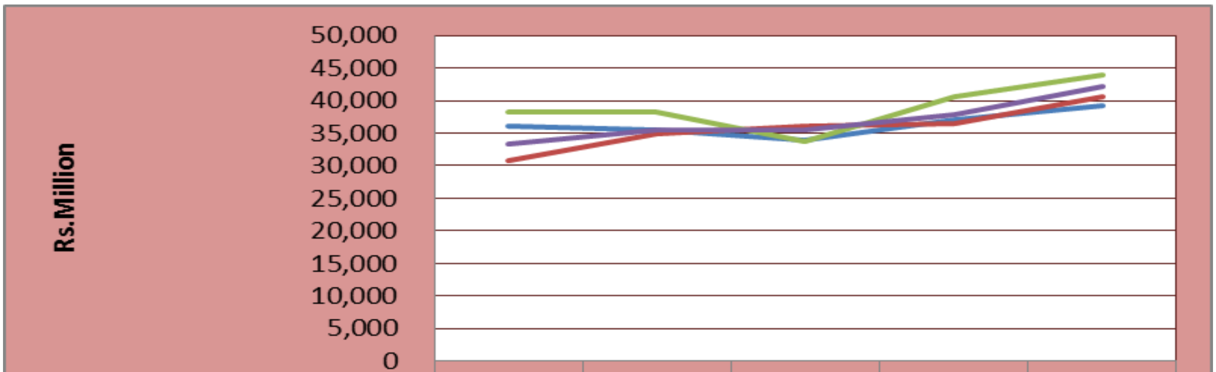
Payment of workmanship

According to Section 12.5.4 of Chapter VII of the Establishments Code, the Acting Allowance can be obtained only if an officer is acting in another post while holding a permanent post, but the Zonal Directors of Education who have been appointed to act in the Naula and Gallewela Zonal Education Offices have been permanently appointed to that post. The allowances of Rs. 1.6 million and Rs. 8 million, with a total of Rs. 2.4 million in acting salaries had been paid contrary to the above provisions.

While there were 61 principal grades in excess of the approved number of 35 schools in the Kandy Education Zone, Grade I, II and III officers of the Sri Lanka Teachers' Service were appointed to act as principals in 28 schools in the zone.

Southern Provincial Council

A revenue totalling Rs.39,286 million, comprising a sum of Rs.34,002 million from Government grants and a sum of Rs.5,284 million from internal sources had been estimated by the Southern Provincial Council for the year 2020. A total sum of Rs.43,964 million comprising Rs.40,394 million as recurrent expenditure and Rs.3,570 million as capital expenditure had been estimated. Moreover, the revenue totalling Rs.40,599 million comprising a sum of Rs.35,087 million from Government grants and Rs.5,512 million from internal sources had been collected in the year 2020. A total sum of Rs.42,254 million comprising a sum of Rs.39,414 million as recurrent expenditure and Rs.2,840 million as capital expenditure had been utilized. Details on estimated and actual revenue and expenditure for the year under review and 04 preceding years, are given in Figure 62.



	2016	2017	2018	2019	2020
Estimated Revenue	36,141	35,585	33,911	37,107	39,286
Actual Revenue	30,869	34,970	36,061	36,492	40,599
Estimated Expenditure	38,296	38,296	33,711	40,561	43,964
Actual Expenditure	33,293	35,548	35,475	37,772	42,254

Figure 62 – Estimated and Actual Revenue and Expenditure of the Southern Provincial Council
Source- Financial Statements of the Southern Provincial Council 2016 -2020

Significant audit observations made during the audit carried out in the year 2020 relating to the Southern Provincial Council are summarized below.

Non-disclosure of Assets in the Financial Statements

Lands and buildings assessed at values of Rs.65 million and Rs.35.8 million respectively being used by the Southern Provincial Road Development Authority since the year 1993 and the closing stock of Rs.1.4 million remained as at 31 December 2020 in the precast yards and the precast finished stock of Rs.0.45 million remained as at that date had not been included in the financial statements.

Pension Scheme

A pension scheme had been introduced by the Gazette Extraordinary No. 2118/42 of 09 April 2019 for establishment of a pension scheme for the co-operative employees of the Southern Provincial Council. A sum totalling Rs.106 million comprising Rs.100 million and Rs.6 million from the Co-operative Fund and unsettled court fines, had been received respectively. The said monies had been invested in two state banks by the Fund and no other action whatsoever had been taken for the said scheme. The Fund had been deprived of an interest income of Rs.1.5 million as the aforesaid monies received to the Fund were invested after the drop in the interest rate instead of investing during the period in which the interest rate was high.

Project on Coir related Products

A sum of Rs.4 million had been spent to purchase 259 coir spinning machines, 28 coir cutting machines, 28 wire cutting machines and 06 trimming machines for a project on manufacturing coir related products by the Southern Provincial Industrial Development Authority and a sum of Rs.2 million had been spent to distribute them. No information had been made available thereon to Audit.

Profit recoverable to the Co-operative Fund

The profit earned by co-operative societies should be contributed to the Co-operative Fund in terms of the Co-operative Societies Act, No.05 of 1972. Even though a sum of Rs.194 million of the profit of 229 co-operative societies of the Southern Provincial Council should have been contributed to the Co-operative Fund, the Assistant Commissioner of Co-operative Development of Matara had not taken action to contribute the said sum.

Delay in Remittance of Contributions to Widowers' and Orphans' Pension Scheme

Remittance of contributions of Rs.221 million to the Widowers' and Orphans' Pension Scheme relating to 08 months recovered from the salaries of employees of the Southern Provincial Council, had been delayed. Further contributions of Rs.221 million to the Widowers' and Orphans' Pension Scheme had not been remitted even by 31 December 2020.

Projects on Road Constructions

- The period of agreement of constructing the Derangala -Banagala Highway had been extended in several occasions and a sum of Rs.7 million had been spent for the said project. The relevant expenditure had become fruitless as it had not been tarred after laying properly with mixed stones.

- Even though an advance of Rs.2 million had been paid to concrete the Dampahala - Udugama Highway, the constructions had not been carried out according to the agreement. As such, action had not been taken to recover the said advance from the performance bond.

Project on constructing Toilets

A sum of Rs.9 million had been spent in the year 2019 for constructing toilets for 493 families comprising 11,246 persons without toilet facilities residing in the Southern Provincial Council. However, only one recipient had constructed a toilet utilizing the said provision. Even though a sum of Rs.17 million had been spent in the year 2020 for 206 recipients, only 27 recipients had constructed toilets.

Projects not completed

A sum of Rs.1.2 million had been paid to the Water Supply Board in the years 2019 and 2020 by the Provincial Specific Development Grant to construct a tube well for activities related to animal production of the Kekunadura Poultry Farm. Nevertheless, the works of the relevant project had not been completed even by 31 December 2020.

Losses and Damages

Losses of Rs.16 million had been sustained by the Provincial Council due to damages occurred to its vehicles and property in 14 and 15 instances respectively.

Non-recovery of outstanding Loan Instalments

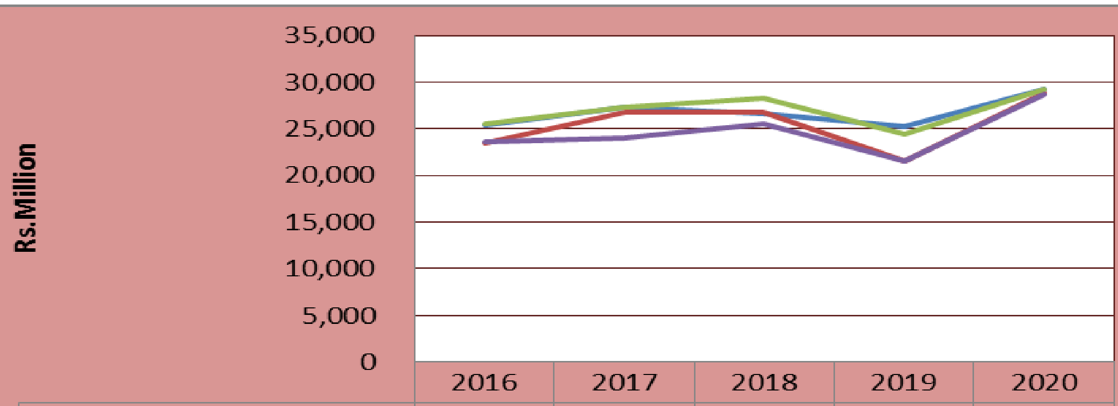
A sum totalling Rs.23 million was recoverable from 282 loan recipients relating to a loan project implemented by the Southern Provincial Development Authority. A total of Rs.10 million out of that loan balance recoverable from 60 loan recipients had been outstanding over a period of 01 year.

Idle Assets

The canteen, rest room and restaurant constructed in the year 2017 by spending Rs.41.5 million, the village marketplace constructed in the year 2007 by spending Rs.1.3 million, 4 circuit bungalows constructed in the year 2008 by spending Rs.2.7 million and the foot massage building constructed in the year 2010 by spending Rs.2 million Fourteen road carpet machines provided by the Ministry of Economic Development to the Southern Provincial Road Development Authority from the year 2011 to the year 2015, a van belonging to the Akuressa Zonal Education Office, a coconut oil extraction machine belonging to the Telijjawila Training Centre, a lorry provided to the Commissioner of Co-operative Development and a semi-automatic winding machine of the Department of Industrial Development - Southern Province, had remained idle from the years 2018, 2019, 2018, 2017 and 2017 respectively even by 31 December 2020.

Northern Provincial Council

Revenue totalling Rs.29,222 million, comprising a sum of Rs.27,602 million from Government grants and a sum of Rs.1,620 million from internal sources had been estimated by the Northern Provincial Council for the year 2020. A total sum of Rs. 29,242 million comprising Rs.26,942 million as recurrent expenditure and Rs.2,300 million as capital expenditure had been estimated. Moreover, the revenue totalling Rs.28,878 million comprising a sum of Rs. 27,458 million from Government grants and Rs. 1,420 million from internal sources had been collected in the year 2020. A total sum of Rs. 28,710 million comprising a sum of Rs. 26,628 million as recurrent expenditure and Rs. 2,082 million as capital expenditure had been utilized. Details on estimated and actual revenue and expenditure for the year under review and 04 preceding years, are given in Figure 63



	2016	2017	2018	2019	2020
Estimated Revenue	25,342	27,331	26,669	25,200	29,222
Actual Revenue	23,530	26,713	26,744	21,558	28,878
Extimated Expenditure	25,551	27,351	28,289	24,445	29,242
Actual Expenditure	23,553	24,044	25,572	21,599	28,710

Figure 63. – Estimated and Actual Revenue and Expenditure
Source- Financial Statements of the Northern Provincial Council 2016 -2020

Significant audit observations made during the audit test checks carried out in the year 2020 relating to the Northern Provincial Council are summarized below.

Over payment of Overtime

Overtime of Rs.3.60 million had been overpaid by the Regional Department of Health, Jaffna in the year under review and the preceding year, without assessing the actual position of overtime of 10 officers.

Fraudulent Receipt of Salaries

A sum of Rs. 22.00 million had been fraudulently paid as teachers' salaries and other allowances from the year 2013 to the end of the year under review in Vavuniya North Education Zone.

Idle/Underutilized Assets

Three super markets, organic fertilizer manufacturing centre, parks and orphanages constructed by spending Rs.25.79 million by Poonakari *and Karachchi Pradeshiya Sabhas functioning under the Department of Local Government, Northern Province, had remained idle over a period ranging from 03 years to 04 years*.

Assets Management

The ambulance purchased at a cost of Rs. 8.50 million by the Northern Provincial Council in the year 2011 had met with an accident after covering the distance of 9,000 km. However, the said ambulance had been written off from registers on assets of the Mullaitivu District Hospital without proper authority in the year 2019, without being repaired after the accident.

Management Inefficiencies

A motor vehicle valued at Rs.9.00 million, assigned to the Medical Superintendent, Poonakari had been extensively damaged due to an accident occurred on 08 April 2018, which was operated by an unofficial party without proper approval. A preliminary inquiry had been conducted thereon and a charge sheet had been issued to responsible parties. However, no action whatsoever had been taken thereon even by 31 December 2020.

Non-remittance of Revenue belonging to Local Authorities

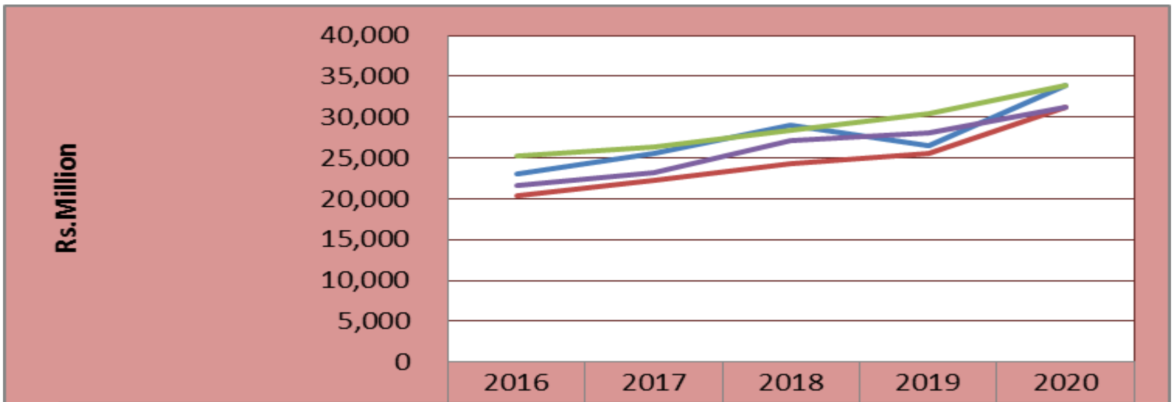
Stamp fees and court fines collected relating to local authorities should have been remitted by the Provincial Council to those local authorities themselves for carrying out development activities and social services in the areas within the authority of local authorities. However, stamp fees of Rs. 82.05 million collected had been retained over a period of 02 years by the Provincial Council without remitting to relevant local authorities. As the relevant local authorities had not made requests therefor, the said revenue had been transferred to the revenue of the Provincial Council in the year under review.

Failure to provide Transfers for Teachers and to confirm in their posts

Teachers, who had completed their 08-year service period in the same school, should have been transferred in terms of Circular No. 20/2007 of 13 December 2007 of the Ministry of Education. However, 490 Teachers in 12 zones in the Department of Education, Northern Province, had served in the same school over a period ranging from 08 years to 32 years without being transferred. The due period relating to confirmation of appointments of 21 Teachers who serve under the Vavuniya *South Zonal Education Office had lapsed by a period ranging from 04 years to 32 years. Measures relating to their confirmation had not been taken even by the end of the year under review in terms of Chapter VIII of the Establishments Regulation Code for the Northern Provincial public service.*

Eastern Provincial Council

Revenue totalling Rs. 33,838 million comprising a sum of Rs. 31,448 million from Government Grants and a sum of Rs. 2,390 million from internal sources had been estimated for the year 2020 by the Eastern Provincial Council. Out of the said revenue, a total sum of Rs. 33,838 million comprising Rs. 31,739 million for recurrent expenditure and Rs. 2,099 million for capital expenditure had been estimated to be utilized. Accordingly, revenue totalling Rs. 31,225 million comprising Rs. 29,058 million from Government Grants and Rs.2,167 million from internal sources had been collected in the year 2020. A total sum of Rs.31,282 million comprising Rs. 29,193 million for recurrent expenditure and Rs.2,089 million for capital expenditure had been utilized in the year 2020. Particulars on the revenue collected and utilized by the Provincial Council in the year under review and 04 preceding years, are shown in Figure 64



	2016	2017	2018	2019	2020
Estimated Revenue	23,121	25,629	29,022	26,442	33,838
Actual Revenue	20,333	22,281	24,320	25,533	31,225
Estimated Expenditure	25,233	26,295	28,355	30,371	33,838
Actual Expenditure	21,584	23,209	27,143	28,008	31,282

Figure 64 - Estimated and Actual Revenue and Expenditure
Source – Financial Statements of the Eastern Provincial Council

Material and significant audit observations made during the audit test checks carried out in the year 2020 relating to the Eastern Provincial Council are summarized below.

Arrears of Revenue from Tax on Lands

A revenue of Rs. 328.89 million from State lands relating to 09 Divisional Secretariats in the Eastern Province had been in arrears over a period ranging from 01 year to 04 years. The Department of Land Administration, Eastern Province had failed to recover the said arrears of tax revenue even by the end of the year under review.

Non-execution of Rehabilitation and Repairing Activities

Contracts totalling Rs. 24.41million had been awarded to two Pradeshiya Sabhas and 13 Community Based Organizations in the Eastern Province for carrying out 12 rehabilitation and repairing activities by the Isolated and Underserved Village Development Programme (IUVDP) and the Provincial Specific Development Grant Programme(PSDG). Even though over a period of one year had lapsed to complete the said activities, those had not been completed even by the end of the year under review.

Outstanding Loan Balances

Even though loan balances of Rs. 32.6 million had been outstanding over a period of 05 years in the Advances to Public Officers Account relating to 07 Departments in the Eastern Provincial Council, recovery of those loan balances had failed even by the end of the year under review.

Overpayment of Value Added Tax

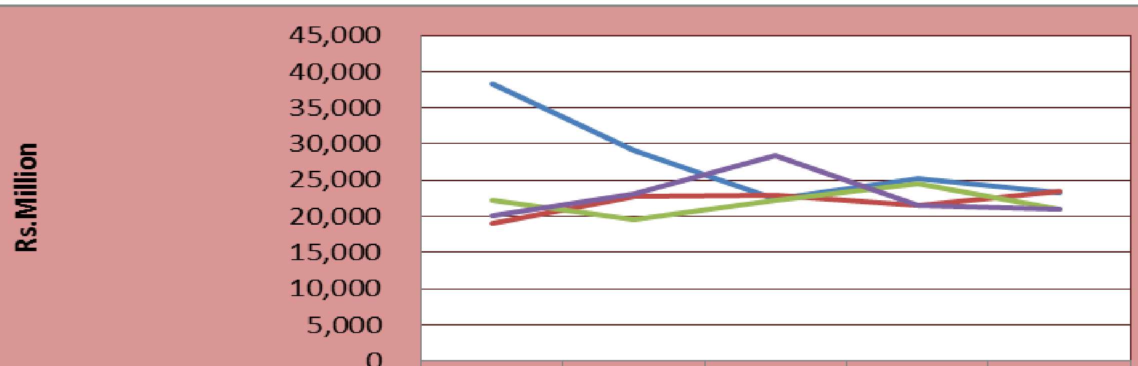
In making payments to contractors, Value Added Tax totalling Rs. 5.55 million should have been paid by computing at a rate of 08 per cent. Nevertheless, a sum of Rs. 10.42 million had been paid by the Regional Director of Health Services in the Eastern Provincial Council by computing at a rate of 15 per cent. Accordingly, a sum of Rs. 4.87 million had been over paid to contractors during the period from 01 December 2019 to 31 December 2020 contrary to Section 03 of the Notification published in the Gazette Extraordinary No.2151/52 dated 29 November 2019.

Non-approval of Schemes of Recruitment for Employees

A sum of Rs.11 million had been paid as employees' remuneration in the year under review to 34 persons of the staff in two institutions established by the Eastern Provincial Council as per the Ordinance. Even though 04 and 07 years had lapsed after establishment of the said two institutions respectively, the Scheme of Recruitment and the cadre had not been approved even by the end of the year under review.

North Central Provincial Council

A revenue totalling Rs.23,353.2 million, comprising a sum of Rs.20,966 million from Government grants and a sum of Rs.2,387.2 million from internal sources had been estimated by the North Central Provincial Council for the year 2020. Out of the said revenue, a total sum of Rs.20,966 million comprising Rs.19,329 million and Rs.1,637 million as recurrent expenditure and capital expenditure had been estimated respectively to be utilized. Accordingly, a revenue totalling Rs.23,469.9 million comprising a sum of Rs.20,963.12 million from Government grants and Rs.2,506.79 million from internal sources had been collected in the year 2020. A total sum of Rs.20,963.12 million comprising a sum of Rs.19,329 million as recurrent expenditure and Rs.1,634.12 million as capital expenditure had been utilized in the year 2020. Details on the revenue collected by the Provincial Council and utilization for the year under review and 04 preceding years, are given in Figure 65.



	2016	2017	2018	2019	2020
Estimated Revenue	38,385	29,131	22,440	25,200	23,353
Actual Reveneu	19,113	22,827	22,974	21,558	23,470
Estimated Expenditure	22,297	19,606	22,236	24,445	20,966
Actual Expenditure	20,093	23,083	28,401	21,599	20,963

Figure 65 - Estimated and Actual Revenue and Expenditure
Source – Financial Statements of the North Central Provincial Council - 2016 -2020

Significant and material audit observations made during the audit test checks carried out in the year 2020 relating to the North Central Provincial Council are summarized below.

Provincial Chief Minster's Fund

The administration, management and capital of the Fund had been vested in its Governing Board in terms of Section 3(1) of the Chief Minister's Fund Statute No.5 of 1992. The Governing Board of the Fund comprised of 06 members including the Chief Minister and two Members of Parliament of the Opposition and the procedure in maintaining the Fund after dissolving the Provincial Council, had not been cited in the Statute. As such, the said Fund had become inactive from the date of dissolving the Fund.

Provincial Development Plan

Provision of Rs.1,651.93 million had been made by the Provincial Council in the year under review for implementation of 721 proposals as new work proposals and continuous work proposals. Activities of 651 proposals had been completed by utilizing a sum of Rs.1,634.12 million out of provision made in the year under review. Activities of 25 of those work proposals had not been commenced even by the end of the year under review and provision of Rs.318.26 million made therefor had remained underutilized. Provision of Rs.110.65 million had been made for completion of 19 work proposals. However, out of those work proposals, the percentage of implementation had been less than 50 per cent. The progress of work proposals appear in Table 19

Description	Number of new Work Proposals	Number of Continuous Work Proposals	Total Number of Work Proposals	Total Estimated Value of Works
				Rs.Millions
Fully completed	197	454	651	1,057.44
Completed over 50 per cent	14	12	26	165.58
Completed below 50 per cent	12	07	19	110.65
Not commenced	25	-	25	318.26
Total	**248**	**473**	**721**	**1,651.93**

Table 19 – Progress of Work Proposals
Source – Performance Report - North Central Provincial Council

Management Inefficiencies

- It had been mentioned in Preliminary Reports that a loss totalling Rs.2.49 million had been sustained in the years 2019 and 2020 due to accidents occurred in 05 instances relating to 03 motor vehicles belonging to the Department of Local Government. Action had not been taken even by the end of the year under review to identify the parties responsible for losses occurred from those accidents and recover those losses or to write them off from books.

- According to financial statements, the balances of deposit accounts had totalled Rs.454.11 million as at 31 December 2020 and action had not been taken even by the end of the year under review in terms of Financial Regulations relating to deposits of Rs.186.80 million remained over a period of 02 years which was included in the said balances.

- The outstanding loan balance in the Advances to Provincial Council Officers' Account of the Provincial Department of Education had been Rs.22.27 million by the end of the year under review. Out of the said outstanding loan balance, a sum of Rs.2.9 million recoverable from 22 deceased officers had remained outstanding from a period ranging between 03 months and 24 years. Moreover, the outstanding loan balance of Rs.16.5 million recoverable from 193 retired officers of the same Department had remained outstanding from a period ranging between 03 months and 17 years after retirement of the said officers. However, the recovery of the said outstanding loan balances had failed even by the end of the year under review. Moreover, outstanding loan balances of Rs.1.79 million and Rs.1.08 million remained relating to 20 interdicted officers of the Department and 19 officers who left the service respectively. The Department had failed to recover the said outstanding loan balances even by the end of the year under review.

- Despite the saving of Rs.4.17 million from the amount provided for qualitative inputs supplied to 53 schools in the Galenbindunuwewa Educational Zone in the year 2019, a further sum of Rs.13.77 million had been provided for the year 2020 as well.

Promotion of Tourism in the North Central Province

An agreement had been entered into by the Chief Secretary on 23 March 2016 with a supplier for Rs.15.79 million for creating a video programme of technological standard, publishing a book of standard with attractive pictures and designing a web page with proper information for the promotion of tourism in the North Central Province. The following deficiencies were revealed on the performance of the said function.

- The supplier had been selected without obtaining information on his eligibility in designing a web site with tourist attractions, which is a main component of the project and/or information on web sites designed previously and without inviting open bids. It had not even been examined whether the web page indicated to have been designed by the respective supplier, was active.
- A sum of Rs.12.14 million had been paid out of the agreed amount by 26 December 2016. However, the respective supplier had not completed this project and handed it over to the Provincial Council even by 10 May 2021 to enable its use for the promotion of tourism in the North Central Province.
- There were various shortcomings in the agreement including failure in indicating the date of completion of the project and in signing by the two parties for the conditions in the agreement. As such, legal action could not be taken against the supplier as well.

Deficiencies in Contract Administration

- **Construction of a Canteen and a Teachers' Hostel in a School**

  The Chief Ministry had spent sums of Rs.11.84 million and Rs.8.70 million in the years 2017 and 2018 respectively for constructing the canteen and the teachers' hostel in the A/Kekirawa Thirappane Mahanama Vidyalaya. The following defectss were revealed relating to the said constructions.

- The works of the aforesaid contract had remained idle over a period of 03 years due to failure in completing and proper handing over of the works. As a result of remaining idle, the teachers' hostel could not be accessed as it was overgrown with weeds and inhabited by animals while 75 ceiling sheets of 2 feet in length and 2 feet in width fixed for the ceiling and 04 large sheets of tempered glass of 10 feet and 3 inches in length and 9 feet in width fixed outside, had come off.

- Instead of implementing 32 items of work to an agreed estimated value of Rs.2.77 million relating to construction of the canteen, a sum totalling Rs.5.54 million had been paid for 13 items under additional works not approved by authorities of agreements. Accordingly, a payment totalling Rs.2.52 million had been made exceeding the amount entered for constructing the canteen. It represented an increase of 27 per cent over the original estimated expenditure.

- Forty six items of work totalling Rs.3.92 million representing 32 per cent of the estimated expenditure of Rs.12.18 million entered into for by the Chief Ministry on 02 December 2016 for the purpose of constructing the teachers' hostel, had not been implemented.

- **Construction of a Drainage System round a School Playground**

The following defects were revealed in constructions of the drainage system round the playground of the A/Kekirawa Thirappane Mahanama Vidyalaya, spending a sum of Rs.13.79 million by the Chief Ministry.

- In addition to the estimated purposes for construction of the drainage system round the playground, additional jobs of work valued at Rs.1.81 million had been executed. The estimated value of the contract agreement had been Rs.11.98 million and the Chief Ministry had made payments for the said jobs of work exceeding the aforesaid value by 15 per cent without proper approval.

– In constructing the drainage system, it had been carried out only on two sides so that the naturally located boulder remains protruded. The water flowing down from private lands located above the playground had collected in the playground and certain places had become bogs. The recommendations made in this connection by the Project Engineer of the "Nearest School is the Best School" Programme had not been implemented as well by the Chief Ministry. In constructing the drainage system, a sum of Rs.2.77 million had been paid for shuttering. However, large cracks and protruding parts of concrete could be seen on the sides of drains. The said cracks and protruding concrete parts had been covered by plastering with cement. Moreover, water from outside had been leaking into the drains from the bottom of sides and cracked places.

- **Construction of the Fence and Gate of the Playground**

The construction of the fence and gate of the playground of the A/Kekirawa Thirappane Mahanama Vidyalaya had been implemented by the Chief Ministry on a contractual value of Rs.4.86 million under provision of World Bank Projects. The following defects were revealed in that connection.

– Bidding documents submitted by the selected bidder and other bidders had been prepared for Items of Work different from each other. Recommendations had been made to award the contract to the bidder who submitted the lowest quotation, considering only the total value of bidding documents without a detailed bid evaluation of the said documents.

– In constructing the wired fence, the payment made for 826.2 square metres of Gauge 10 chain link mesh of height 1.52 m at the rate of Rs.767 per square metre, totalled Rs.633,695. Nevertheless, according to the quality control certificate, it was confirmed that the mesh used for the above purpose was of Gauge 12. As the market price of Gauge 12 mesh was less than nearly 40 per cent of the price of Gauge 10 mesh, an overpayment of Rs.253,478 had been made therefor. Moreover, as this mesh was not of estimated quality, it had been torn and damaged to a large extent in many places. Accordingly, the whole fence should have been repaired using a recommended Gauge 10 mesh.

- In laying concrete for this fence which was constructed on the outer concrete wall of the drainage system round the playground of about 06 inches in width, many instances were observed in which GI pipes had not been fitted at the exact centre of the outer wall of that drainage system. There was not even an inch gap between the GI pipe of one side in certain places and the outer edge of the wall. As such, a large length of the fence had been fully slanted due to cracks in places where pipes were fitted in the said concrete wall.

- Even though a sum of Rs.581,625 had been paid for 705 metres (826m / 15m x 12.8m) in length of 50mm GI pipes for constructing the mesh fence round the playground, it was observed during the audit examination that the length of 50mm GI pipe in the whole fence had been only 675 metres in length. As such, an overpayment of Rs.24,750 had been made.

- **Construction of an Auditorium in a School**

The Secretary of the Chief Ministry had enterd into agreements with a contractor on 05 April 2017 for designing and building of the auditorium of the Palugasdamana Maha Vidyalaya for Rs.542.02 million. The following deficiencies were revealed in this connection.

- In terms of North Central Provincial Financial Rules 418.2 and Guidelines 2.5.1(a) and 4.1.1(c) of the Government Procurement Guidelines, a procurement action should not be commenced without a firm commitment of funds. However, this procurement had been commenced without provision by publishing newspaper advertisements on 23 September 2016.The procurement requirement or request, approval granted therefor and feasibility study reports etc. relating to implementation of the project, had not been made available to Audit.

- The Cabinet had granted approval for deviating from provisions in Provincial Financial Rules 418.2 by Cabinet Memorandum No.2017/35.The Procurement Committee had decided to award the said contract to a bidder for implementation by entering into agreements in stages, based on the aforesaid approval. Agreements had been entered into with the selected bidder on 05 April 2017 in a single instance to implement the whole project for Rs.542.02 million without agreeing to carry out constructions in stages. Agreements had been entered into on 05 April 2017 and mobilization advances of Rs.100 million as well had been paid on 28 April 2017.

– The main objectives of this project had been mentioned as to use this auditorium as the main assembly hall of the school and to earn monies paid to other assembly halls by nearby schools for holding meetings, dramas, musical shows and dancing events etc. However, satisfactory evidence had not been made available to confirm the requirement of constructing an auditorium with a seating capacity over 4000 by spending a sum of Rs.542 million for this school as only about 850 students learn in the Palugasdamana Maha Vidyalaya and as 04 auditoriums with a seating capacity between 800 and 4200 is available within an extent of 03 kilometres within the Polonnaruwa city.

– The said building which had been cosntructed halfway by spending a sum of Rs.100 million that could have been utilized for public welfare, could not be made use of. Deficiencies such as financial loss, environmental and social issues and legal action taken due to breach of the contract agreement risen therefrom, had been revealed.

- Nearest School is the Best School Programme

Even though a sum of Rs.7.66 million was payable to the contractor relating to construction of the multipurpose building of the Negama Muslim Vidyalaya under the "Nearest School is the Best School Programme", a sum of Rs.9.69 million had been paid, thus making an overpayment of Rs.2.03 million. Furthermore, payments had been made through second and final bills by over computation of Rs.320,731 as Value Added Tax.

– The Secretary of the Chief Ministry had entered into agreements on 28 August 2017 with a contractor for a value of Rs.10.29 million (excluding Value Added Tax) for constructing a canteen in the school. Accordingly, mobilization advances of Rs.3.09 million representing 30 per cent of the contractual value had been paid on 31 August 2017. Even though constructions should have been completed and handed over on 28 December 2017 in terms of the agreement, action had not been taken even by 10 May 2021 to commence constructions of the building. However, action had not been taken even to encash the advance bond for recovery of the said sum which had been retained by the contractor for over a period of 03 years without utilizing for the relevant purpose.

– Agreements had been entered into with a contractor for a value of Rs.4.94 million for repairing 04 buildings of the Nallachchiya Primary School under the "Nearest School is the Best School Programme". Repairs of the teachers' quarters and another building had been commenced and abandoned halfway thereafter. The repairs of those two buildings had not been resumed even by 10 May 2021. Nevertheless, no legal action whatsoever had been taken against the said contractor.

Non-recovery of Penalties and Delay Charges

A sum of Rs.5.37 million had been recoverable during the period from the year 2016 to the year 2018 for 62 penalty papers issued for buses with inter-provincial roads and provincial road licences. The Road Passenger Transport Authority had not taken action to recover the said penalties and delay charges.

Projects abandoned

- Agreements had been entered into with a contractor on 13 March 2017 for a contractual value of Rs.41.45 million for constructing a three storeyed bulding and a Primary Learning Resource Centre in the A/Kekirawa Thirappane Mahanama Vidyalaya. Mobilization advances of Rs.14.51 million (inclusive of Value Added Tax) had been paid to the contractor. The contractor had only dug a few base pits in the construction site and had abandoned works without any notification. Even though the contractor had submitted an advance guarantee of Rs.12.44 million and a performance surety of Rs.2.07 million for a validity period up to 31 March 2018 and abandoned the contract before expiry of the period of the said guarantees, the relevant responsible officers had not taken action to encash those guarantees.

- Agreements had been entered into for a value of Rs.4.54 million for constructing a sports pavilion in the A/Kekirawa Thirappane Mahanama Vidyalaya implemented by the Chief Ministry under the "Nearest School is the Best School Programme". The contractor had commenced the works thereof in the year 2017 and abandoned the project after completing only works of Rs.1.09 million. As such, the sum of Rs.1.09 million spent therefor had become a fruitless expenditure.

- The Secretary of the Chief Ministry had entered into agreements with a contractor on 15 May 2017 for a value of Rs.5.06 million for developing the land with playground of the A/Kekirawa Thirappane Mahanama Vidyalaya. A sum totalling Rs.7.12 million had been paid to the contractor for the said contract in 3 instances. The contract had been abandoned without completing works of the playground even by 07 April 2021, the date of audit and the children of the school had been deprived of the opportunity of engaging in sports over a period of 05 years. Moreover, the sum of Rs.7.12 million paid for constructing this playground had become a fruitless expenditure.

Failure in Maintenance and Repairs

Out of teachers' quarters located in schools belonging to Thambuththegama and Galenbindunuwewa Zonal Education Offices, 135 and 65 teachers' quarters of 117,373 and 62,432 square feet in extent respectively, were of unusable condition and had to be repaired. Government Quarters totalling 567 belonging to Hingurakgoda, Kekirawa, Polonnaruwa and Dimbulagala Zonal Offices were in a state needing repairs while Government Quarters totalling 42 belonging to Hingurakgoda, and Polonnaruwa Zonal Offices were in a state of demolition.

Revenue receivable from Assets

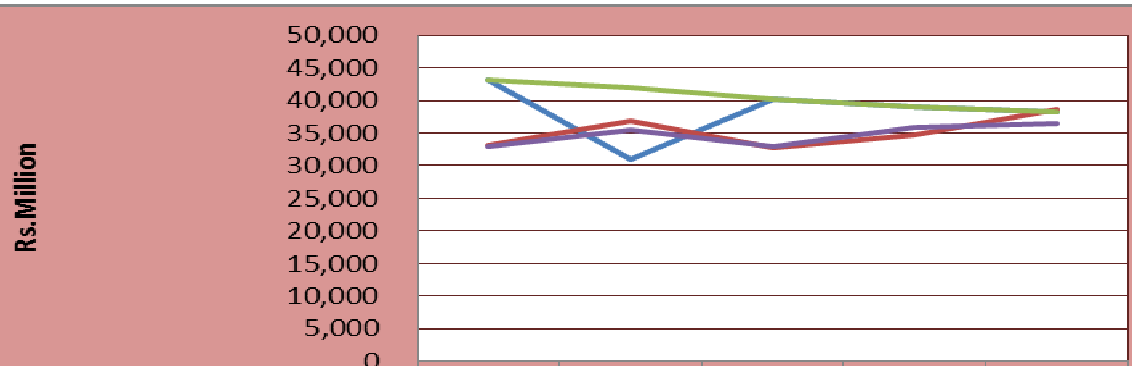
Revenue from rent totalling Rs.1.11 million recoverable since the year 2016 from 22 display stalls maintained in the Viskam Piyasa building of the Department of Industrial Development, had been in arrears and adeqaute measures had not been taken to recover the said stall rent.

Idle/Underutilized Assets

- A stock of sports travelling bags and shoes valued at Rs.661,344 relating to the years 2018 and 2019 and sports garments valued at Rs.266,785 relating to the year 2019 purchased by the Provincial Sports Department and 68 T- shirts provided by the Department of Sports Development in the years 2018 and 2019, a stock of sports garments purchased in the year 2018 of unidentified value and 14 travelling bags purchased in the year 2015 had been stacked in a corner of the stores even by 10 May 2021 without being made use of.
- The circuit bungalow of the Provincial Department of Ayurveda had not been fully utilized over several years and the Department had not planned and implemented a specific programme to attract external parties.

North Western Provincial Council

A revenue totalling Rs.38,278 million, comprising a sum of Rs.32,848 million from Government grants and a sum of Rs.5,430 million from internal sources had been estimated by the North Western Provincial Council for the year 2020. A total sum of Rs.38,277 million comprising Rs.36,273 million and Rs.2,004 million as recurrent expenditure and capital expenditure had been estimated respectively in the year 2020. Moreover, a revenue totalling Rs.38,675 million comprising a sum of Rs.32,996 million from Government grants and Rs.5,679 million from internal sources had been collected in the year under review. A total sum of Rs.36,474 million comprising a sum of Rs.35,433 million as recurrent expenditure and Rs.1,041 million as capital expenditure had been utilized. Details on estimated and actual revenue and expenditure for the year under review and 04 preceding years, are given in Figure 66



	2016	2017	2018	2019	2020
Estimated Revenue	43,057	30,918	40,227	38,999	38,278
Actual Revenue	33,219	36,863	32,669	34,791	38,675
Estimated Expenditure	43,056	41,889	40,227	38,999	38,277
Actual Expenditure	33,002	35,456	32,944	35,818	36,474

Figure 66. – Estimated and Actual Revenue and Expenditure of the North Western Provincial Council
Source- Financial Statements of the North Western Provincial Council 2016 -2020

Significant audit observations made during the audit test checks carried out relating to functions executed in the year under review by the North Western Provincial Council are summarized below.

Arrears in Revenue

The revenue recoverable by the Chief Secretariat, Provincial Revenue Department and the Land Commissioner's Department as at 31 December 2020 relating to 06 Revenue Codes was Rs.290.8 million. A sum of Rs.176.3 million of that had been in arrears over a period of 3 years.

Exemption of Tax Revenue

The Provincial Revenue Department has released arrears of turnover tax of Rs.117.0 million of 785 files relating to the period from the year 1991 to the year 2010, stamp duty relating to the period from the year 2011 to the year 2019, taxes and fines relating to 498 files amounting to Rs.38.0 million and Rs.41.6 million respectively and additional stamp duty of Rs.79.7 million had been released during the period from the year 2016 to the year 2020, thus depriving of Rs.276.3 million to the Provincial Council Fund.

Construction of a six storeyed Building

The following observations are made during the audit test checks carried out relating to construction of a six storeyed building by the Chief Ministry in collaboration with the North Western Provincial Council and the Kurunegala Municipal Council.

- The Procurement Method in Design and Building had been selected despite the availability of qualified staff equipped with engineering technology and ability of obtaining their services in designing and preparing estimates in the North Western Province Engineering Department. The Procurement Method in Design and Building had been selected as the construction of this building is a key function of the Provincial Council and as a long period is taken therefor if designs are prepared by the Provincial Engineering Department. The Procurement Method in Design and Building is selected only for large and complex constructions and the main criterion in selecting this Procurement Method is completion of works in a short period and it had been using criteria deviating from the method of selecting Procurement Methods.

- Bids should not be evaluated considering the use of insufficient bid security declaration forms as a major deviation in the evaluation of bids as per Guideline 7.8.4 (b) of the Government Procurement Guidelines. Despite having the above deviation, instead of rejecting the bidder in Stage 1 itself, the opinion of the National Procurement Commission, which is the supreme institution thereon, had been asked in ascertaining in respect of awarding the procurement to the said bidder. The National Procurement Committee is of the opinion that insufficient bid security is a major deviation and as such, the procurement decision is erroneous. The Chief Ministry had not taken action to find out the ability of repeating procurement activities by cancelling this agreement so as to achieve more benefits to the Government even after having awarded such erroneous procurements by the Chief Ministry.

- The agreement should be cancelled under failure in handing over documents relevant to the contract and commencement of works by the contractor even by 10 September 2020 as per contract condition 8.1 included in 15.2.C.1 of ICTAD/SBD/04. Even though the North Western Province Engineering Department had forwarded a letter to the Chief Ministry, making relevant recommendations through letter No.NWP/CS/Tender/2019/01 of 17 August 2020 to cancel the contract, the Ministry had not taken action thereon

- It had been notified by paragraph 4(a) of National Budget Circular No.05/2020 of 03 September 2020 that projects of which agreements have been signed but suspended or not commenced, should be reviewed. However, the said project had not been subjected to any review whatsoever by the Chief Ministry as per the aforesaid circular.

- The payments of first advance of Rs.106.4 million inclusive of Value Added Tax (VAT), advance II of Rs.99.9 million inclusive of Value Added Tax (VAT) and Rs.39.7 million as an interim payment inclusive of Value Added Tax (VAT) had been made on 06 November 2019, 17 December 2020 and 22 April 2021 respectively, which totalled Rs.246.00 million paid by 30 April 2021, the date of audit for this project which entered into agreements on 06 November 2019. However, even the foundation of the building relating to the constructions of this project had not been laid even by the said date.

Financial Performance of Funds and Authorities of the Provincial Council

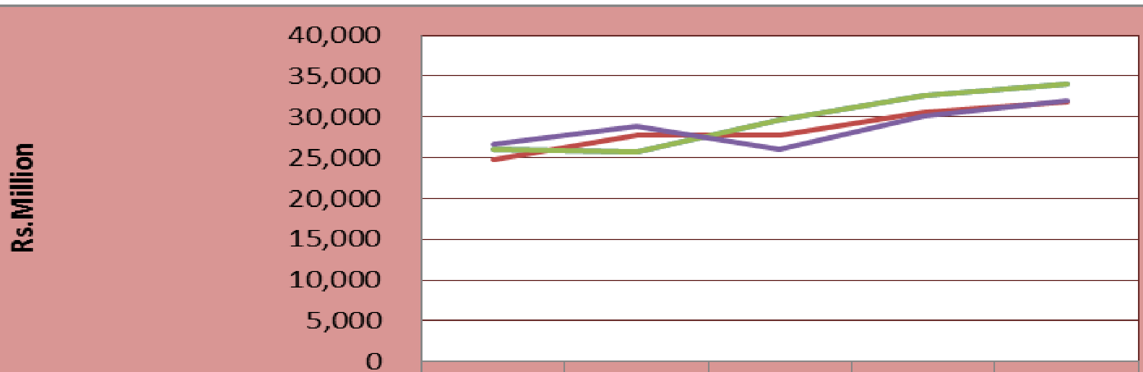
Nine authorities and 06 Funds had been established in the North Western Provincial Council and only 05 authorities had earned an excess of Rs.59.5 million in the year under review. Provincial Council grants of Rs.22.6 million had been provided for the said institutions. A deficit of Rs.31.3 million had been run in the year under review in 04 other authorities and Provincial Council grants of Rs.28 million had been provided to those institutions. The total deficit of those authorities without Provincial Council grants amounted to Rs.59.3 million. A deficit of Rs.18.6 million had been run in 02 out of 06 Funds implemented in the Provincial Council and an excess of Rs.170.1 million had been earned relating to the remaining 04 Funds. Provincial Council grants of Rs.9.4 million had been provided in the year under review for the said Funds.

Implementation of the Provincial Development Plan

A total of 57 work proposals comprising 39 new work proposals and 18 continuous work proposals at a total estimated value of Rs.113 million in the year under review, had not been implemented. The progress of completing a total of 15 work proposals comprising 13 new work proposals and 02 continuous work proposals at a total estimated value of Rs.57 million, was less than 50 per cent.

Sabaragamuwa Provincial Council

Sabaragamuwa Provincial Council has estimated a revenue totalling to Rs 34,083 million comprised of Rs. 30,708 million from government grants and Rs. 3,375 million from internal sources for the year 2020. It was estimated to utilize a total of Rs. 34,083 million comprised of recurrent expenditure amounted to Rs. 30,370 million and capital expenditure amounted to Rs. 3,713 million in the year 2020. Accordingly, revenue totalling to Rs. 31,836 million had been collected in the year 2020 comprised of government grants amounting to Rs. 28,889 million and internal sources amounting to Rs. 2,947 million. A sum of Rs. 32,039 million had been utilized in the year 2020 comprised of recurrent expenditure amounting to Rs. 30,047 million and capital expenditure amounting to Rs. 1,992 million. A details of the estimated and actual revenue and expenditure for the year under review and for the last 04 years is given in Figure 67



	2016	2017	2018	2019	2020
Estimated Revenue	26,014	25,709	29,636	32,683	34,083
Actual Revenue	24,856	27,821	27,774	30,622	31,836
Estimated Expenditure	26,014	25,709	29,636	32,683	34,083
Actual Expenditure	26,673	28,931	26,062	30,071	32,039

Figure 67 - Estimated and actual income and expenditure for the year under review and for the last 4 years
Source - Financial Statements of the Pabaragamuwa Provincial Council - 2016 – 2020

Significant audit observations revealed during the audit carried out in the year 2020 in relation to Sabaragamuwa Provincial Council are summarized and stated below.

Underutilization of Funds

According to Regulation 06 of the Sabaragamuwa Provincial Council Statute No. 04 of 1994, the Fund had to provide nutritional and educational assistance to helpless and disabled children. Although the Fund had a cash balance of Rs. 77.94 million by the end of the year under review, the Fund had not functioned in compliance with that Regulation.

Arrears of Revenue

The arrears of revenue at the beginning of the year under review were Rs. 75.69 million and only an amount of Rs. 14.06

million or 19 per cent had been collected during the year under review.

According to paragraph 6.1 of the Land Commissioner's Circular No. 96/5 dated 01 August 1996, the annual land tax should be collected on or before 01 of January in a given year. Action had not been taken to recover the annual taxes totalling to Rs. 35.43 million and the total fines amounting to Rs. 8.27 million in an updated manner as at 31 December 2020 in 17 Divisional Secretariats in the Ratnapura District. Measures were not taken to take back the possession of the land in instances, where the payment of taxes had been defaulted as per paragraph 7 (i) of the said Circular. Furthermore, action had not been taken in compliance with paragraph 6.11 of the above Circular to recover the long outstanding arrears of taxes totalling to Rs. 7.53 million and fines as at 31 December 2020 of 03 Divisional Secretariats in Ratnapura District and 03 Divisional Secretariats in Kegalle District in an updated manner.

Not obtaining the Expected Benefits

- In the year 2015, the Development Construction and Machinery Authority received two pre-cast carpet making machines purchased at a cost of Rs. 29.90 million by the Ministry of Provincial Roads under the JICA Provincial Road Development Project. The machines had not been utilized for their intended purpose and the machines were being destroyed by 09 April 2021 due to improper maintenance.

- The lavatory system constructed in 03 schools in the Mawanella and Nivithigala Education Zones at a total cost of Rs. 4.98 million under the Nearest School - the Best School Programme had not been utilized and remained idle.

- The Chief Ministry had constructed the upper floor of the Kegalle Textile Building in the year 2017 by incurring a cost of Rs. 9.22 million with the objective of expanding the production of handloom textiles and creating employment opportunities for the rural women. Although the building had been handed over to the Kegalle Textile Weavers Co-Operative Society Ltd. on 25 December 2017, the building had not been used for its intended purpose.

- The Medical Supplies Management Information System was established by the Medical Supplies Division of the Ministry of Health, Nutrition and Indigenous Medicine with the objective of enhancing the efficiency and effectiveness of medical supply management in regional health services that is being implemented by the Medical Supply Division. The Medical Supplies Division had provided 118 computers and 37 printers to 33 health institutions in the Sabaragamuwa Province by the end of 2019 under the initial phase of that information system. However, required software for the aforesaid management information system had not been installed in 86 computers provided to 24 health institutions and as a result, the staff had not been trained. Therefore, the computers could not be utilized for the intended purpose even by February 2021.

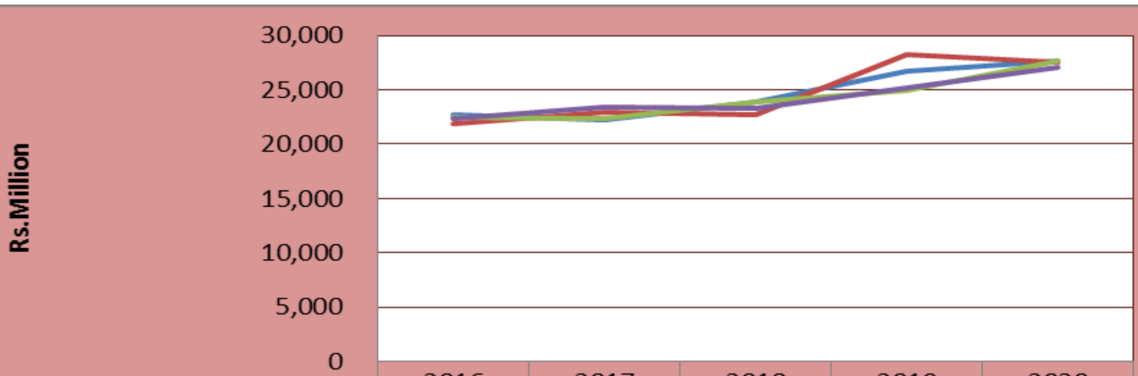
Contract Management

- The work of constructing the technical building of Ke/Ambepussa Maha Vidyalaya with a contract value of Rs. 20.83 million implemented by the Ministry of Education of Sabaragamuwa Province should have been finalized by 15 October 2017. The work had not been completed even by the end of the year under review and the performance guarantee amounting to Rs.1.04 million had expired by 18 October 2019. Moreover, a sum of Rs. 6.25 million had been paid as advances and Rs. 4.07 million out of that amount had not been settled. However, the advance guarantee had also expired on 31 March 2020.

- A sum of Rs. 32.78 million had been spent for providing and installing a solar power system for the Sabaragamuwa Provincial Council Complex during the year under review. Fifteen (15) of the specifications submitted for the 02 devices related to that installation had not been evaluated.

Uva Provincial Council

A revenue totalling Rs. 27,607 million comprising a sum of Rs. 25,290 million from Government grants and a sum of Rs. 2,317 million from internal sources had been estimated for the year 2020 by the Uva Provincial Council. Out of the said revenue, a sum of Rs. 25,665 million for recurrent expenditure and Rs. 1,942 million for capital expenditure had been estimated to be utilized. Accordingly, a sum of Rs. 25,471 million from Government grants and Rs. 2,037 million from internal sources had been collected in the year under review. Out of the said revenue collected, a sum of Rs. 25,157 million for recurrent expenditure and a sum of Rs. 1,858 million for capital expenditure had been utilized. Details on estimated and actual revenue and expenditure for the year under review as compared with 04 preceding years, are given in Figure 68



	2016	2017	2018	2019	2020
Estimated Revenue	22,676	22,261	23,887	26,732	27,607
Actual Revenue	21,884	22,944	22,761	28,202	27,508
Estimated Expenditure	22,505	22,333	23,887	24,926	27,607
Actual Expenditure	22,384	23,460	23,244	25,134	27,015

Figure 68 - Estimated and Actual Revenue and Expenditure
Source – Financial Statements of the Uva Provincial Council

Significant audit observations made during the audit test checks carried out in the year 2020 relating to the Uva Provincial Council are summarized below.

Revenue Management

The revenue estimated to be collected from internal sources was Rs. 1,605 million in the year under review and the revenue collected had been Rs. 1,423 million. The accumulated arrears of revenue relating to 04 Revenue Codes as at 31 December 2020 had been Rs. 143.6 million and it represented 10 per cent of the estimated revenue of the year 2020.

Tax revenue of Rs. 22.4 million had been in arrears by 31 December 2020 from lands leased out on long term basis to 06 lessees on commercial basis by the Land Commissioner General. The Uva Provincial Land Commissioner had failed to recover the said arrears of revenue even by the end of the year under review.

Rural Bridge Project

Provision of Rs. 956.7 million had been granted to the Uva Provincial Council by the *Ministry of Public Administration, Home Affairs, Provincial Councils* and *Local Government for construction activities of the Rural Bridge Project*. The Uva Provincial Council had entrusted the execution of the said Project to the Provincial Road Development Department- Uva Province. The Provincial Department of Road Development had carried out constructions of the said Project and an audit test check had been conducted pertaining to 05 bridges constructed by spending Rs. 153 million of those constructions and the following observations are made in that connection.

- Galkandawatta Bridge No.1125 had been constructed by spending Rs.32.8 million in the Bandarawela Divisional Secretariat Division in Badulla District. The road connecting to the said bridge from Bandarawela, sloped gently. As the bridge had been constructed without paying attention to that condition, it could not be used for travel of vehicles on the said road.
- A sum of Rs.25.5 million had been spent for the construction of Kurukudegama-Banduwatta Bridge No.2243 in the Hali-Ela Divisional Secretariat Division in Badulla district. Even though the access road from Kurukudegama had been connected to the said bridge, it could not be used for travel of vehicles due to failure in widening the said road.
- Uduthurai Pitapola Bridge No.1843 had been constructed by spending Rs.33.4 million in Balleketuwa Nawalagama village in the Ella Divisional Secretariat Division in Badulla District. The said bridge could not be used for travel of vehicles due to failure to rehabilitate the road on the right side of the bridge.
- Hettipolawatta Bridge No. 1130 had been constructed by spending Rs.33.1 million in Kumbalwela village in the Ella Divisional Secretariat Division in Badulla District. The said bridge had been connected to the Badulla-Bandarawela main road on the left and to a Tea estate on the right, where transport facilities were not available. Moreover, the said bridge had been constructed in a place where there was no space to connect a road suitable for travel of vehicles.
- Galtennahena Weliarawa Bridge No.1844 had been constructed by spending Rs.28.1 million in the Yahalaarawa village in the Ella Divisional Secretariat Division in Badulla District. The right side of the bridge had been connected to a paddy field and as a result, an access road had not been connected to the bridge in a proper manner, thus the expenditure incurred therefor had become fruitless.

Construction of the Exit of Karammada Wewa

The exit of Karammada Wewa , Siyambalanduwa had been constructed by spending Rs.4.9 million using financial provision granted to the District Secretary, Monaragala by the Department of Irrigation, Uva Province. As the said exit had been constructed at a low height than the standard height, it was observed that rain water in the tank had receded and as a result, the said reconstructed tank was overgrown with weeds and the expenditure incurred therefor had become fruitless. Even though according to the project proposal, the objective of the project was to cultivate paddy lands of about 50 acres in extent on behalf of 20 farmer families, it had not been fulfilled accordingly. A sum of Rs.0.013 million had been overpaid for 7.133 cubic meters of concrete for the construction of the exit relating to the Project of Reconstruction of Karammada Wewa, Siyambalanduwa.