ANNUAL REPORT OF THE

AUDITOR GENERAL

2021

NATIONAL AUDIT OFFICE

Our Vision

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

Our Mission

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

Our Objective

1. To carry out an independent examination whether the managements of the institutions to which the custody of the resources are entrusted have discharged the public accountability devolved on them and report to Parliament.

2. Assist two oversight Committees of the Parliament namely Committee on Public Accounts (COPA) and Committee on Public Enterprises (COPE) to examine the performance of the public entities.

3. Assist the auditee institutions to improve their accountability by making recommendations through issuing management reports.

Our Values

- Excellence
- Innovation
- Leadership

Official Emblem of the National Audit Office

Symbols used in this Official Emblem reflect the following.

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

Note of the Auditor General

The duties and functions devolved on the Auditor General in pursuance of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka are the direction of the independent examinations on the effective and efficient maintenance of the parliamentary control on the Public Finance devolved on Parliament and reporting thereon to Parliament in pursuance of provisions in Article 148 of the Constitution. I am pleased to present my report for the financial year 2021 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 ten installments.

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

The National Audit Act, No. 19 of 2018 was envisaged to provide for the powers, duties and functions of the Audit Service Commission and to make provisions for matters connected therewith or incidental thereto. Although the Audit Act had been implemented with effect from 01 August 2018, the State Audit Service Minute relating to the Audit Staff which is essential to perform the functions of the National Audit Office had not been established yet. As a result, it had been hindered to perform audit duties 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.

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

Performing audit activities in the year 2021 was hindered in consideration of the inability of filling vacant posts in the staff by appointment and promotion in accordance with expectations of the Cabinet as mentioned above, difficulty in engaging the staff on duty as a result of the Covid -19 pandemic which prevailed in the year 2021 and simultaneous restrictions in calling the staff in the year 2021 by the Government. As the said restrictions were in effect in auditee entities as well, difficulties arose in obtaining necessary information for audit, which were particularly challenging in the performance of our role. However, due to the commitment and maximum effort of my staff, we were able to complete audit activities and submit relevant reports within the targeted periods. As far as considering the significant role of the National Audit Office, it has launched several activities to enable assurance of understanding the major issues faced by the public sector. The National Audit Office is committed to improve and review the performance of the Office continuously for the efficient and effective distribution of audit reports. Finally, the independence of audit vested by the Constitution is clearly identified as a key factor of the productivity of the Office.

It is an 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 the Chairpersons and members of the Committee on Public Accounts, Committee on Public Enterprises, and the Committee on Public Finance, Institutions consisting of Chartered Accountants who generally practice audits in the public sector, the Institute of Chartered Accountants of Sri Lanka, Auditee Institutions, Staff including the Secretary to the President, Staff including the Secretary to the Ministry of Finance, Public Service Commission, National 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 the Parliament during this challenging period.

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

W.P.C. Wickramaratne
Auditor General

18 October 2022

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Prison Management and Prisoners' Rehabilitation	205	Western Provincial Council	591
		Central Provincial Council	597
Treasury Affairs	213	Southern Provincial Council	607
Agriculture	229	Northern Provincial Council	613
Fisheries and Aquatic Resources Development	241	Eastern Provincial Council	619
		North Central Provincial Council	625
Industrial Sector	251	North West Provincial Council	637
Land Affairs	267	Sabaragamuwa Provincial Council	645
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Our Organization

Our History

The beginning of the Auditor General's post of Sri Lanka then known as Ceylon can be traced to early British times. From the records available it would appear that there had been an Accountant and Auditor General by the name of Cecil Smith as far back as the early 1799 just three years after the British occupation of the Island in 1796. Since then, the existence of the Auditor General's Department continues to function as an independent organization under 41 Auditors Generals until year 2018 and from year 2018 continues as National Audit Office.

Our Audit Mandate

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

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

"The Auditor General shall audit all Departments of Government, the Office of the Secretary to the President, the Office of the Secretary to the Prime Minister, the Offices of the Cabinet of Ministers the office of the Ministers appointed under Article 44 or 45, the Judicial Service Commission, the Constitutional Council, the Commissions referred to in the schedule to Article 41A, the Parliamentary Commissioner for Administration, the Secretary General of Parliament, Local Authorities, Public Corporations, business and other undertakings vested in the Government under any written law and Companies registered or deemed to be registered under the Companies Act, No, 7 of 2007 in which the Government or a public corporation or local authority holds fifty per centum or more of the shares of that company including the accounts thereof."

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

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

General and provisions for related matters in respect of Pubic Finance

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

And also, the Article 154(3) of the Constitution is states that the Auditor General to carry out any other duties as specified in any law passed by the Parliament as required. In the performance and discharge of his duties and functions, the Auditor General has been given powers under the Constitution to engage the services of qualified auditors to assist him in his work.

Also he has the power to obtain the examination of any technical, professional or scientific problems relevant to the audit.

In Article 154(5) of the Constitution empowers the Auditor General to have access to all books and records, to stores and other property of Public Institutions or Entities as stated above, conduct audits and furnish with information and explanations as may be necessary, for the performance and discharge of his duties and functions.

Our Clients

The scope of the Auditor General is defined in the Constitution itself which is further expanded by the nineteenth Amendment to the Constitution by inclusion of Companies. Table 01 shows our Client base at present.

Clients	No of Institutions
Ministries	30
State Ministries	40
Departments	105
District Secretariats	25
Government Corporations, Boards, Authorities and Business Undertakings Vested by Government	204
Government Owned Companies	125
State Banks	09
Statutory and Other Funds	64
Foreign Funded Projects	123
Other Independent Institutions	11
Provincial Councils	09
Local Authorities	341
Agrarian Service Centers	565
Sport Associations	66
Provincial Councils Ministry, Department and Special Expenditure Units	269
Institute Established under the Provincial Councils Ordinance	77
Total	**2,063**

Table 01 – Our Client base

Our Audit Scope

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

- Auditor General Should,
  - audit all income received to the consolidated fund and all expenditure from the Consolidated fund.
  - ascertain whether the money shown in the accounts of auditee entities as having been disbursed were legally available to, the services or purposes to which they have been applied for or charged with;
  - determine whether the expenditure conforms to the authority which governs it; and

- In each audit, examine income, expenditure, transactions and events.

- The scope of an audit carried out by the Auditor General includes examining the accounts, finances, financial position and prudent management of public finance and properties of auditee entities.
- The Auditor General shall be responsible to parliament in carrying out the provisions of this Act.
- Subject to the provisions in section 3 f the National Audit Act No. 19 of 2018, the Auditor General may examine any matter relating to an auditee entity brought to his notice by any member of the public in writing along with the substantial proof of the matters asserted, and report thereon to Parliament.

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 by the Audit Service Commission in the Gazette, specify the provisions of the International Standards of the Supreme Audit Institutions which shall apply to such audits, with necessary amendments to suit local requirements.

Our Independence

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

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

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

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

Limitations on the Financial and Administrative Independence of the Auditor General

Though the functional independence of the Auditor General has been safeguarded by the Constitution, financial and administrative independence of the Auditor General had been constrained by the Executive due to Constitutional and legislative provisions on the subject. However, those constraints have been obstructed from 01 August 2018 by the provisions of the National Audit Act, No.19 of 2018.

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

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

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

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

In the year 1977, the "Lima Declaration" of the International Organization of Supreme Audit Institutions (INTOSAI) also determined the principle of independence of the Government Auditing in methodological and professional terms. In the "mexico Declaration" after 30 years, the XIX Congress of INTOSAI (2007 in Mexico) defined these requirements in more concrete terms and identified following eight major requirements for the independence of the Supreme Audit Institution to carry out a proper audit.

Principle 1

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

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

Principle 2

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

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

- Appointed, re-appointed, or removed by a process that ensures their independence from the Executive (see ISSAI 11 Guidelines and Good Practices Related to SAI Independence);
- Given appointments with sufficiently long and fixed terms, to allow them to carry out their mandates without fear of retaliation; and

- Immune to any prosecution for any act, past or present, that results from the normal discharge of their duties as the case may be.

Principle 3

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

SAIs should be empowered to audit the

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

Except, where specifically the laws enacted by the Legislation, SAIs do not audit government or policies of public entities and restrict them to the audit of policy implementation.

While respecting the laws enacted by the Legislature pertaining to SAIs and such SAIs are free from the following direction or interference from the Legislature or the Executive in the;

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

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

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

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

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

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

Principle 4

Unrestricted access to Information

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

Principle 5

The right and obligation to report on their work

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

Principle 6

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

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

Principle 7

The existence of effective follow-up mechanisms on SAI recommendations

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

- SAIs have their own internal follow-up system to ensure that the audited entities properly address their observations and recommendations as well as those made by the Legislature, one of its commissions or the auditee's governing board, as appropriate.
- SAIs submit their follow-up reports to the Legislature, one of its commissions, or the auditee's governing board, as appropriate, for consideration and action, even when SAIs have their own statutory power for follow-up and sanctions.

Principle 8

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

- SAIs should have available necessary and reasonable human, material, and monetary resources the Executive should not control or direct the access to these resources. SAIs manage their own budget and allocates it appropriately.
- Legislature or one commission of it should take the responsibility of providing required resources unanimously in order to fulfill the mandate of Supreme Audit Institutions.
- Such audit institution has the right to appeal to the legislature if the resources provided by them are not adequate to fulfill the mandate of the Supreme Audit Institution.

The Constitution refers only the Auditor General and not his staff and therefore the requirement of the authority and function of the staff of the Auditor General has been fulfilled like other countries by the Audit Act No. 19 of 2018 with effect from 1 August 2018.

National Audit Act, No.19 of 2018

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

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

- Expansion of the scope of an audit carried out by the Auditor General in a manner to enable examining the accounts, finances, financial position and financial control of public finance and properties of auditee entities, a performance audit, an environmental audit, a technical audit and any other special audits.

- The Auditor General will be given the discretion to inquire into any matter relating to an audited entity brought to his notice in writing by any member of the public with adequate evidence to prove that matter, and report thereon to Parliament.

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

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

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

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

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

hold 50 per cent or more of the shares of that company.

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

- All auditee entities shall cooperate with the Auditor General and any officer deployed by him and shall provide a safe and secure working environment to facilitate the carrying out of an effective audit.
- The annual budget estimate of the National Audit Office should be prepared within the period as specified by the Minister assigned the subject of Finance. The said estimates shall be submitted to the Speaker on such date as may be decided by the Speaker. Comments of the Minister of Finance should be taken within 10 days by the Speaker and should be tabled in the Parliament. The estimate approved by the Parliament should be submitted to the Minister of Finance to be included in to the National Budget.
- The Speaker shall appoint an independent qualified auditor to carry out the audit of the financial statements, accounts and other information relating to the financial year of the National Audit Office and for this purpose the Audit Office shall be deemed an auditee entity under the said Act.
- The responsibilities of Chief Accounting Officer or the Accounting Officer shall be cited.
- An Audit and Management Committee shall be appointed by the Chief Accounting Officer or Accounting Officer or the respective Governing Officer.
- Failure to assist the Auditor General or any person authorized by him to be an offence.
- Auditor General's authority had been expanded enable to access to written or electronic records, books, documents or information without considering the confidentiality.
- Auditor General had been given the power to charge the cost of audit and to determine the auditfee of any person or any institution after been audited.
- Deadlines for tabling the reports in the Parliament had been specified.
- Security of the persons who provide information the Auditor General had been secured.
- Reports should be made available in the official website of the National Audit Office after tabling the report in

the parliament to enable general public to make use of them.

- The Auditor General or any officer of his staff are free from any legal action taken against any action or pre-legal action under the Constitution done in good faith and honesty by those officers.

With effect of the twentieth amendment to the Constitution, the audit service commission was abolished and the main activity of that commission of being activate the state audit service had been shifted to the Public Service Commission. 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 such authority to the Auditor General by amending the Audit Act as Audit Service 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 Commission 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. However, with effect of the twentieth amendment to the Constitution, the audit service commission was abolished and the above activities have been inactive at present.
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. However, with effect of the twentieth amendment to the Constitution, the audit service commission was abolished and the above activities have been inactive at present.
Section 34	The Audit Service Commission shall prepare the annual budget estimate of the Audit Office within the period as specified by the Minister assigned the subject of Finance. However, with effect of the twentieth amendment to the Constitution, the audit service commission was abolished and the annual budget estimate is submitted to the Speaker which prepared by the Auditor General with the consent of the Speaker.

Our Organizational Structure

The Auditor General is the Head of the National Audit Office and he functions as a Chief Accounting Officer as well in terms of the Financial Regulation 124(2) in respect of financial activities of the Department. The present organizational structure of the National Audit Office comprises five (5) levels in its hierarchy with specified numbers of officials in each level, in conformity with the cadre as approved by the Department of Management Services of the General Treasury.

The first layer comprises of three Senior Deputy Auditor Generals. The second level comprises of 15 Deputy Auditor Generals who is attending policy matters and overall supervision of the Government Audit.

Seventy two divisions are established under the Deputy Auditor Generals and the Senior Assistant Auditor Generals headed by such divisions represents the third layer. They carry out the Government and Provincial audits. Audit branches coming under the divisional heads are headed by an Assistant Auditor General or a Superintendent of Audit and represent fourth level. They are charged with the responsibility for execution of the audits of Public Institutions assigned to them by deploying Assistant Superintendent of Audit and Audit officers assigned to them, efficiently and effectively. Accordingly, the fifth level comprises those officers who assist branch heads by conducting audit of the affairs of Public Institutions assigned to them through carrying out examinations, making field visits, etc., in conformity with Sri Lanka Auditing Standards, statutory and other regulatory requirements and best practices as programmed. The above mentioned third level comprises 72 divisions and 24 out of them are in charge of Regional audit at district level and they are supervised by three Deputy Auditor General.

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

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

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

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

Organizational Structure of the NAOSL

AUDITOR GENERAL

Additional Auditors General / Senior Deputy Auditor General	Deputy Auditors General	Senior 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)
		Fisharies & 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)

Assistant Auditors General / Superintendents of Audit

Assistant Superintendents of Audit / Audit Officer

According to the cadre approved on 13 September 2021 by the Department of Management Services after an evaluation of the responsibility and role of the National Audit Office, the total number of officers in the Sri Lanka Audit Service stands at 545 and the officers in the Audit Examiners' Service stand at 1,450. The 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 2022 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 2021, as at the end of year 2021 and as at 30 June 2022 under such circumstances are given in the Table 02 below.

Post	As at 01 January 2021			As at 31 December 2021			As at 30 June 2022			
	Approved Cadre	Actual	Vacancies	Approved Cadre	Actual	Vacancies	Approved Cadre	Actual	Vacancies	Excess
Audit Staff										
Auditor General	1	1	0	1	1	0	1	1	0	0
Additional Auditor General	3	0	3	3	3	0	3	3	0	0
Deputy Auditor General	15	10	5	15	10	5	15	10	5	0
Senior Assistant Auditor General	0	0	0	72	0	72	72	23	49	0
Assistant Auditor General	44	22	22	455	24	254	455	57	278	0
Superintendent of Audit	288	199	89		177			120		0
Superintendent of Audit	0	0	0	360	353	7	360	350	10	0
Audit Examiner	1200	992	208	0	0	0	0	0	0	0
Audit Officer	0	0	0	1090	787	303	1090	783	307	0
Total	**1551**	**1224**	**327**	**1996**	**1355**	**641**	**1996**	**1347**	**649**	**0**
Non-Audit Staff										
Executive and Staff Grade Officers										
Director (Admin)	1	1	0	1	1	0	1	1	0	0
Chief Accountant	1	1	0	1	1	0	1	1	0	0
Chief Internal Auditor	1	1	0	1	1	0	1	1	0	0
Assistant Director (Admin)	1	0	1	1	0	1	1	1	0	0
Accountant	1	1	0	1	1	0	1	1	0	0

Administrative Officer	3	2	1	3	2	1	3	2	1	0
Information and Communication Officer	1	1	0	1	1	0	1	1	0	0
Technical Officer - Special	1	0	1	1	0	1	1	0	1	0
Translator	10	8	2	10	8	2	10	8	2	0
Legal Officer	0	0	0	1	0	1	1	0	1	0
Total	**20**	**15**	**5**	**21**	**15**	**6**	**21**	**16**	**5**	**0**
Non-Staff Grade Officers										
Development Officer	3	2	1	3	3	0	3	55	0	52
Librarian	1	1	0	1	1	0	1	1	0	0
Technical Officer - I	1	0	1	1	0	1	1	0	1	0
Management Service Officer	121	108	13	121	106	15	121	112	9	0
Information and Communication Assistant	1	1	0	1	1	0	1	1	0	0
Offset Printer Operator	0	0	0	1	0	1	1	0	1	0
Report Processor	41	41	0	41	41	0	41	41	0	0
Total	**168**	**153**	**15**	**169**	**152**	**17**	**169**	**210**	**11**	**52**
Junior Employees										
Driver	48	47	1	48	46	2	48	47	1	0
Circuit Keeper	13	7	6	13	7	6	13	7	6	0
Electrician	1	1	0	1	1	0	1	1	0	0
Plumber	1	1	0	1	1	0	1	1	0	0
Office Assistant	148	135	13	148	137	11	148	138	10	0
Department Labor	2	2	0	2	2	0	2	2	0	0
Total	**213**	**193**	**20**	**213**	**194**	**19**	**213**	**196**	**17**	**0**
Net Total	**1952**	**1585**	**367**	**2399**	**1716**	**683**	**2399**	**1769**	**682**	**52**

Table 02 – Cadre Position as at 01 January 2021, 31 December 2021 and 30June 2022

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

Service Minute of the State Audit Service

The audit staff of the Auditor General's Department consists of officers of the Sri Lanka Audit Service and Audit

Examiner's Service. Under the circumstances at that time, even though separate Service Minutes were formulated in respect of these two Services in terms of Public Administration Circular No.6/2006, a Committee was appointed by the Secretary to the President to look into the 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 Auditor 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 four years after the implementation of the Audit Act by 31 August 2022, it was unable to get approved the new service minute. However, after the Twentieth Amendments to the Constitution, the Cabinet had reinforced the Cabinet decision taken d on 23 December 2014, with effect from 13 September 2021 by ordering to the National Pay Commission to prepare a new salary scales by considering the significant re of the state audit by resolving the legal barriers in functioning the activities of the National Audit Office.

The drafting process of the Service Minute for state audit service has been delayed, due to the main two unions who represent the audit officers were not agreed with the salary structures given by the Pay Commission in several occasions and the discussions were continued without agreement. Therefore, a separate committee has been appointed by the Auditor General to draft the Service Minute for state audit service. The committee members are represent from the senior management and the two unions which chaired by a Senior Deputy Auditor General. The committee is in the process of drafting the Service Minute for State Audit Service.

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 1355 audit officers and 363 offices in supporting services to fulfill this statutory role.

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

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

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

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

Accordingly, to get the service in relation to,

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

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

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

Local Training

The country was shut-down due to the Covid 19 pandemic prevails in the country during year 2020 and 2021. Therefore, limited number of training sessions was conducted in year 2021, due to the difficulties faced in gathering officers.

In achieving the above objectives, during year 2021, the training division of the National Audit Office has conducted 7 training sessions under 2 topics for the audit officers and 3 training sessions for the newly recruited audit officers to the National Audit office in year 2021, while training the non-audit staff too.

Foreign Training

An officer had been participated for the on-line training session conducted by the Association for the Supreme Audit Institution (ASOSAI) during year 2021.

The details in relation to the trainings conducted for the officers of the National Audit Office pertaining to the local and foreign during the year 2021 are shown in the table 03.

	Details of the Programme	No.ofProgrammes	Officers involved in the Programme: Divisional Heads	Superintendent of Audit	Audit Examiners	Total	No. of Training Hours
	Local Training Programmes						
1	Financial Audit	6	38	101	149	288	2,088
2	Taxation	3	-	-	134	134	4,857
3	Foreign Funded Projects	1	6	28	30	64	464
Total		**08**	**8**				**486**
Foreign Training Program							
1	Financial Fraud & Crime investigation	1	-	1	0	1	22.5

Table 03- Number of Local and Foreign Trainings sessions

Source- Training Division of the National Audit Office

Providing Resource persons for external institutions

During year 2021, seven 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.

However, 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.

Accordingly, sums amounting to Rs.31.4 million and Rs.35.6 million had been paid for the years 2021 and 2020 respectively to the relevant Audit Firms for the audit services rendered. In obtaining the service of qualified auditors, the factors such as the quality of the services rendered by them in the past, the number of partners engaged in the firm concerned, and the number of audit trainees working with them had been considered. In addition, international affiliation of the firm serving as a factor to consider the standard of the Firm and the quality of professional services rendered by them had been included in the selection criteria. Generally a particular audit assignment is entrusted to a particular Audit Firm to continue only for a maximum period of five consecutive years.

Two Audit Firms engaged in Public Practice assisted me in the audit of 17 Companies out of 125 Companies with State Shareholding of 50 per cent or more brought under the scope of the Auditor General through the Nineteenth Amendment to the Constitution. In addition 15 audit firms helped me to carry out the audit of the Central Bank of Sri Lanka ad 35 Sport Associations.

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

Assistance to Parliament

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

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

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

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

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

The Auditor General and/ or his representatives are assisted to those two Committees. Auditor General performs an important role in the work of the Committees and help to ensure that the Committees have before them all necessary information and opinion on the matters under review.

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

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

Accordingly, twenty (20) institutions have summoned by the Committee on Public Accounts (COPA) to examine their performances and the Auditor General has assisted for 31 committee sessions. Out of that 19 sessions had been held to examine the 154(6) reports table in parliament as per the constitution, 08 sessions to examine special reports and 04 sessions to examine their performance. And also, twenty six (26) institutions have summoned by the Committee on Public Enterprise (COPE) to examine their performance and the Auditor General has assisted for 36 committee sessions. Out of that 30 sessions had been held to examine the 154(6) reports table in parliament as per the constitution, 06 sessions to examine special report. Accordingly, the two committees had been held 67 sessions during the year 2021.

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

Other than the statutory role of the Auditor General, he has assisted to finance committee and budget committee of the parliament by representing his representatives during the year 2021.

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

Surcharges imposed by the Auditor General

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

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

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

In that situation, the surcharge process introduced by the Audit Act could not be implemented.

Despite this, with the abolition of independent commissions by the 20th Constitutional Amendment, the Audit Service Commission was also abolished, and due to the absence of alternative methods for performing the duties of the Audit Service Commission, including the surcharge process, the surcharge process introduced by the Audit Act had to be stopped to the National Audit Office at now.

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

Accordingly, it is emphasized the need to activate this surcharge process and for that purpose, it is recommended that after the Auditor General completes the basic measures of imposition of surcharges and recommends it to the Audit Service Commission, it is preferable to entrust the process of approving the imposition of surcharges and issuing surcharge certificates to the Audit Services Commission, which will enforce with the 22nd Constitutional Amendment expected to be passed in the future. An appropriate amendments should be made to paragraph 19 of the National Audit Act No. 19 of 2018 for this.

Levy of surcharges from local authorities

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

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

In terms of the said power, 64 Surcharge Certificates valued at Rs.33.37 million had been issued in respect of 388 parties related to the Local Authorities during 10 years period commencing from 01 January 2012 to 31 December 2021.

Out of that, surcharge certificates valued at Rs.9.82 million had been issued by the Ministry of Local Government and recovered Rs. 912,513.

Out of remaining surcharge certificates, only Rs.3.86 million or 16 percent had been recovered as at 30 June 2022, hence it was revealed that the relevant officers have not given adequate attention n surcharge recovery process.

Investigation of Public Representations

As per the section 4 of National Audit Act, No. 19 of 2018, the Auditor General may examine any matter relating to an auditee entity brought to his notice by any member of the public in writing along with substantial proof of the matters asserted, and report thereon to Parliament.

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

Representations which are received to the National Audit Office through above unit are transmitted to the Special Investigation and Forensic Audit Units and / or Special Investigation Units have been established in different auditee institution or investigation units have been separately established in regionally for further investigations. Audit checks are carried-out based on the transmitted information and actions are taken to include the material and qualitative audit observations encountered through the audit in respective entities audit reports table in parliament or to table as special / performance audit report in parliament by the National Audit Office. However, by giving attention to section 9 of the National Audit Act, No. 19 of 2018, the outcome of the audit are not directly communicate to the parties who have submitted representations. But, replies are sent to all parties except representations submitted without mentioning their identity that the representations have been received and outcome of the examinations are report to the parliament as necessary.

The number of representations received during the year 2021 was 1696. Out of that 884 representations are related to administrative matters of government and government institutions and 124 are related to the grievances of various parties. Another 662 representations are in pertaining to the frauds and corruptions and 26 are related to personal matters of different parties. And also 318 representations have been submitted by mentioning their identity and 1378 representations have been submitted without mentioning their identity. Out of this most representations are submitted with sufficient or some evidences. Representations are submitted without any evidences are as being examined.

In categorizing the written representations referred for further investigations, it was noted that 193 representations have been received in relation to the Education Sector, 191 are related to Local Government, 160 are related to Health Sector, 148 are related to Divisional Sectaries and 8, 72 and 65 are related to Agriculture, Environment and Staff Welfare Sectors respectively. Further, 769 representations have been received in relation to other government institutions.

The audit activities in respect of 216 public representations received in year 2021 and 219 received in year 2020 have been completed during the year under review and recommendations have been made to include the observations in respect of 68 representations to the submitted to the parliament.

Performance and Environmental Audit conducted by the Auditor General

Subjects

- Performance Audit
- Environmental Audit

Issued Performance and Environmental Audit Reports

- Performance of the project to provide housing facility to estate sectors community by the Ministry of Hill Country New Villages, Infrastructure and Community Development
- Local Government Enhancement (Pura Neguma) Sector Project
- Role of the Sri Lanka Standards Institution on the marketing of Quality Goods at the Local Market
- Regulatory Process on Non-Governmental Schools
- Prevention and Control of Chronic Non–communicable Diseases in Sri Lanka
- Performance Audit on the Process of Leasing & Control of Government Lands Relating to Mining Minerals (Stone) in Hambantota, Anuradhapura, Vavunia and Kurunegala Districts and Recovery of Royalty
- Evaluation on the Performance of Clinical Waste Management Project Implemented at Hospitals by the Ministry of Health under Australian and Domestic Loans
- Evaluate the Process of Developing New Renewable Energy Sources
- Performance of Road Accessibility Enhancement between Rural Communities and Socio- economic Centres under the Integrated Road Investment Programme
- Progress of Implementation of MARPOL Convention Executing in Sri Lanka for Preventing Marine Pollution by Ships
- Conservation of Coastal and Marine National Parks in Sri Lanka
- Evaluation of the Legal Mechanism of Groundwater Management of Sri Lanka and its Function

Performance and Environmental Audit conducted by the Auditor General

In addition to the financial audit, special audits including performance and environmental audits are carried out in terms of Section 5(2) of the National Audit Act, No.19 of the 2018. Accordingly, reports on these audits conducted in relation to a certain specific area, are also tabled in Parliament.

Evaluation of economy, efficiency, effectiveness and environmental impact of a public institution, programme, project or unit of expenditure is expected by the performance audit. In addition to the relevant observations made therein, recommendations on improvements to be made as well, have been included in this report.

In addition to audits carried out by the Performance and Environmental Audit Unit established in the National Audit Office, audits carried out at audit branches level of the National Audit Office are also relevant to this sector.

Important matters included in the said Performance and Environmental Audit Reports completed and tabled in Parliament in the year 2021, are summarized below.

Performance of the project to provide housing facility to estate sectors community by the Ministry of Hill Country New Villages, Infrastructure and Community Development

The Ministry of Hill Country New Villages, Infrastructure and Community Development was established by the Gazette Extra-ordinary No 1933/13 published on 25 September 2015 with the intention of eradicating the social discrimination faced by the estate community which represents 4.57% of the total population of Sri Lanka and evolve them as a rural community with a social state so as other communities with a self-respect and pride. Action had been taken under the then Ministry of Infrastructure and Live- stock Rural Community Development and the Ministry of Youth Empowerment and Social Development to achieve the objective of providing housing and infrastructure for landless workers in the Government and private plantation companies that lives in line-houses and it is a main function of this Ministry. Further, Cabinet approval had been received by No. අමප/06/2249/240/005 dated 7 December 2006 to obtain the assistance of the Plantation Human Development Trust which was registered as a limited guarantee company under Companies Act, No. 07 of 2007 with a view to fulfill the said functions.

A total sum of Rs.7, 600.13 million had been spent by the Ministry from 2013 to 2019 for projects for construction of houses and providing infrastructure under implementation of new villages and cities, with a view to provide houses and development of infrastructure for landless workers of the Plantation companies as shown under the functions of the Ministry of Community Empowerment and Estate Infrastructure Development. However, it was observed that houses are required for 93% of estate worker families. Accordingly, a continuous supervision and audit is needed in respect of economy, efficiency and effectiveness of implementation of this project. Therefore, this project was selected to carry out a performance audit.

In addition to the responsibility of providing Management Services for which approval given for implementing the project for providing housing facilities, the responsibility of functions such as selection of beneficiaries, awarding contracts also had been vested with the Plantation Human Development Trust without approval and the supervision function as well which should be carried out by the Ministry had been vested with the said Trust.

An authority named New Villages Development Authority has been established on 05 October 2018 for the housing development in the Plantation Zone. Although a sum of Rs.8.84 million had been spent as at 31st December 2020 for the said Authority, its role was the same as the role of the then Ministry of Infrastructure and Community Development, thus no additional special function was carried out by the said Authority.

Even though this project was expected to be provided housing facilities only to the families employed in the estates, houses are provided to families not employed in these estates and therefore, it was observed that the said situation prevailed in long term had attributed to reduce the extent of estate lands.

According to the Cabinet Decision, non-cultivated lands should be selected for housing construction contracts. However, a tea cultivated land approximately totalling 56.48 Acres in extent had been uprooted in Hatton and Nuwara-Eliya areas.

The Ministry should monitor weather the beneficiaries are correctly selected and however, it was observed in audit test checks that except for the list of beneficiaries, no other documentary evidence had been made available to Audit.

There were defects in housing constructions due to failure in estimating the concrete post requirement for the foundation of houses to be constructed and the Galvanized nail requirement of roofs of those houses and the standard of the houses constructed were not at an expected level due to defects such as applying estimates with same specifications in all areas with different climatic and geographical factors in Sri Lanka, failure in estimating according to the standard building estimates and using raw materials of sub-standard without considering the landslide risk in Kotiyagala Estate where 184 houses were constructed.

As agreements had not been entered into in awarding ownerships of houses, no persuasion was made to remove old houses. Even though the priority for awarding deeds had been approved by the Cabinet decisions, matters such as failure in identifying such requirements by the Plantation Human Development Trust, non-maintenance of proper reports relating to the recovery of interest on loans granted for houses, and failure in including necessary information and signing in valid and legal agreements, were observed. Loan installments not collected and handed over to the Ministry by the Plantation Human Development Trust as at 31 December 2017 amounted to Rs.33.25 million and the value of loan installments not received to the Ministry as at 31 December 2018 was Rs.31 million. Problems such as non-preparation of reports on outstanding income relating thereto and improper remittance of relevant moneys to the Treasury, were observed.

A number of 4000 units of houses had been constructed with the assistance of the Indian Government and over payment of Rs.2.7 million made to the Plantation Human Development Trust relating to repaid loan installments, was observed.

Deviation from the procurement procedure was observed in awarding contracts for the construction of houses and an overpayment of Rs.14.8 million was made relating to the Kotiyagala Housing Project exceeding the provision allocated.

According to the Action Plan, expected number of houses could not be constructed and instances where constructions had been abandoned halfway were observed. Moreover, occupancy of constructed houses in Hatton and Nuwara Eliya areas was at a low level.

It had been recommended that the monitoring level of the Ministry should be further improved in activities such as in the selection of beneficiaries and lands for the construction of houses, preparation of estimates in constructions, awarding contracts, monitoring constructions as well as recovery of loans.

Local Government Enhancement (Pura Neguma) Sector Project

According to the 13th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka in the year 1987, local government remains a subject of Provincial Councils. The "Pradeshiya Sabha", which is the smallest local authority among 03 local authorities, namely Municipal Councils, Urban Councils and Pradeshiya Sabhas, has been introduced by the Pradeshiya Sabhas Act, No.15 of 1987.

Action will be taken to uplift these local authorities by foreign funded projects implemented under the Central Government due to difficulties in providing services to the people and development of necessary infrastructure facilities by the self-reliance of Pradeshiya Sabhas, specifically by Pradeshiya Sabhas located far away from main cities of the country.

In considering at Pradeshiya Sabha level, a handful of Pradeshiya Sabhas that cater to the people at their maximum by avoiding financial difficulties on the guidance of leadership of Divisional Administration and sincere commitment of officers, are not hard to be found among them. There is no evidence of adequate development in certain local authorities due to matters of non-identification of projects required by the people and unavailability of systematical line up in the requirements.

The duties included in the scope assigned to the local authorities of Sri Lanka are two folded.

- Duties bound to be discharged compulsorily
- Duties not compulsory despite authority of discharge

As well as delegation of powers to every local authority for discharge of duties, it has been legally prescribed relating to duties relevant to thoroughfares within the area of authority and public health as duties which should be compulsorily discharged. Failure in discharge of the said duties intentionally or otherwise, would be neglecting of responsibilities as well.

There are duties not prescribed legally for compulsory discharge despite authority of discharge. Public utility services, welfare services, education, religious and cultural services assigned to local authorities come under these duties. Even though powers have been delegated for providing these services, they can be provided only by considering the resources available in the Authority and the demand or requirement of the people. Priority should be given to discharge of duties and responsibilities of the Authority.

Accordingly, the responsibility of providing all facilities necessary for the lives of people spanning from the maternity clinic to the crematorium has been also assigned to the local authorities. As such, the responsibilities of maintaining maternal clinics, health clinics, dispensaries, Ayurveda medical centres, waste management, control of communicable diseases and pandemics, town planning, approval of town plans, street lighting, taking action to prevent environmental harm from factories, maintaining library services for children and adults, pre-schools, day care centres and even maintaining crematoriums, cemeteries and maintaining the town beautifully with sanitary measures, have been assigned to this small unit.

Many have identified the local authorities functioning contrary to good governance principles as authorities failed in fulfilling public requests due to powers of the local authorities and requests of urban residents.

However, building up of a local government system with a solid foundation and a steady revenue, rendering a satisfactory service to the public, would without doubt make life more comfortable for the citizens of the country. It is stressed therefor that the large scale infrastructure facility development projects implemented by the Central Government should turn out to be essential and successful projects and thereby reaping expected benefits by the people and the local authorities as essential matters.

Nevertheless, in the implementation of the Local Government Enhancement (Pura Neguma) Sector Project, matters including selection of sub-projects without conducting studies for selecting them in accordance with criteria specified in the Project Management Manual, delay in the execution of the project, non-preparation of Action Plans and Project Financial Plans in accordance with the Management Manual, delays in procurements, unfit constructions, idle and underutilized constructions as well as several instances of non-achievement of expected objectives and having to make additional payments to consultancy firms for maintaining project offices due to non-completion of the project by completing constructions within the due period, were observed in audit.

It had been agreed by the Loan Agreement No.2790 SRC (SF) entered into on 21 October 2011 between the Government of Sri Lanka and the Asian Development Bank to utilize US$ 68.8 million or Rs.8,940 million for development of infrastructure facilities of 100 Pradeshiya Sabhas belonging to 7 Provincial Councils and to finance Rs.7,892 million of that, equivalent to US$ 59 million in the Asian Development Bank. However, it had been subsequently decided that the amount agreed by the lending agency as Rs.7,892 million equivalent to US$ 52.04 million due to revaluation of US Dollars against foreign drawing rights. Moreover, the Rupee has devalued in relation to the US Dollar. As such, the number of local authorities had been increased up to 108 with the increased value of the Rupee while the project which was due to be completed by 30 June 2015, had been extended up to 30 June 2017 by two years.

Four bus stands, 04 water supply projects, 02 multipurpose buildings and 03 sanitation centres constructed on an expenditure of Rs.332.19 million under this project, had been handed over to the relevant local authorities and those had remained completely idle.

Twelve multipurpose buildings, a library and 03 weekly fairs constructed at a cost of Rs.513.73 million, Rs.18.90 million and Rs.105.06 million respectively had remained underutilized due to various reasons.

Photo: Kalpitiya Library Building remained underutilized

Photo…Sooriyawewa Weekly Fair remained underutilized

Photo: Kalpitiya Library Building remained underutilized

Photo: Polpithigama Multipurpose Building, not achieved expected benefits

It was observed at the audit test checks that expected benefits could not be achieved from 19 sub-projects constructed by spending Rs.666.15 million out of projects completed and handed over to local authorities under this Project.

Photo: Sooriyawewa Weekly Fair remained underutilized

Photo: Mawathagama Bus Station,
not achieved expeced benefits

It was confirmed in audit test checks that 02 multipurpose buildings, constructed with a plan to use for maternity clinics, medical clinics, pre-schools, day care centres, libraries, auditoriums etc, valued at Rs.9.35 million are used for offices of Pradeshiya Sabhas instead of using for expected activities.

Accordingly, identification of projects only for essential requirements, fulfilled by local authorities, carry out studies properly before commencing relevant projects, and taking action to utilize projects effectively, which are not utilized effectively at present, had been indicated as recommendations in this report.

Role of the Sri Lanka Standards Institution on the marketing of Quality Goods at the Local Market

Sri Lanka Standards Institution provides SLS logo, quality control of imported goods, provision of laboratory services, standardization of Sri Lanka standards, standardization and standardization of industry quality control, maintenance of library service and quality control certification. The Sri Lanka Standards Institution was established under the Ceylon Standards Bureau Act No. 38 of 1964 under the name of Ceylon Standards Bureau. The Sri Lanka Standards Institutions Act No. 06 of 1984 repealed the Sri Lanka Standards Bureau Act and established the Sri Lanka Standards Institution, which enabled the standardization of standards and the quality management practices of Sri Lanka. In order to provide these services and to achieve the objectives mentioned in the

Act, the institution is maintained in 12 sub-branches. These divisions include the Product Certification Division, Systems Certification Division, Marketing and Promotion Division, Scientific Standardization Division, Engineering Standardization Division, Quality Assurance Division, Training Division, Finance Division, Documentation and Information Division, Administration Division, Laboratory Division, Information Technology Division and Internal Audit unit.

The company is highly regarded for its role in delivering high quality products to the customer. One of the main functions of the institute is to issue Sri Lanka Standards Certificate in a systematic manner to the manufacturers who come forward to obtain the Sri Lanka Standards Certificate and to inspect the quality of the imported goods and submit a quality report thereon.

It is very important for health safety and health condition that a product should have the right amount of criteria and right dosage to be included. Development is at a very high level in a country where there are people consuming products that are safe and free of health problems. As a developing country, Sri Lanka also has the potential to reduce government spending by adopting healthier food consumption. To that end, local manufacturers should be encouraged to do so regularly. The role that the Sri Lanka Standards Institution can play in this is very important. Provisions for this have been provided by the Sri Lanka Standards Institutions Act No. 06 of 1984.However, this performance audit has been conducted to examine the manner in which the Standards Institution has acted in implementing the provisions of the Act and achieving the objectives stated in the Act.

Sums of Rs.775 million, Rs.889 million and Rs.808 million had been spent as institutional operating expenses in the years 2019, 2020 and 2021 respectively for achieving above objectives.

Further, officers comprising 132 in the staff grade, 102 in the non-staff grade and 44 in the junior level had been deployed in the service amongst officers in this Institution as at the end of the year 2021.

Accordingly, there were instances of release of imported goods to the market prior to the issuance of test reports during the inspection of imported goods, deficiencies in the issuance of the Certificate of Standards, management deficiencies, delay in conducting laboratory tests, minimum level of market inspections, reduction of awareness on the use of pre-standards, test reports This report makes observations on issues such as the failure to deal with the goods properly.

Registration of local or foreign research institutes that issue certificates of conformity for imported goods as per the Guidelines, was at a very weak level and under the third classification of the Guidelines, if the manufacturing company is registered with the Sri Lanka Standards Institution and obtains a Certificate of Conformity, possibility of avoiding from selling without a sample test was at a weak level. Moreover, as relevant goods cannot be issued to the market until the test reports of the Standard Institution are received, Guidelines required to test them had not been issued.

Obtaining the Certificate of Product Certificate (SLS) of the Sri Lanka Standards Institution (SLS) for the imported food item is mandatory, but obtaining the Product Certification (SLS) of the Sri Lanka Standards Institution (SLS) for any imported food item in order to import high quality hygienic food items into the country. It was observed that the LT - PC - 01 Product Certificate issued by the Sri Lanka Standards Institution on 01 January 2019 was not compulsory according to the list of mandatory products.

Establishment of laboratory facilities on behalf of the Standards Institution is mandatory. However, even though a sum of Rs.169 million had been spent therefor by the year 2018, it was unable to provide those facilities due to failure to clear the ownership of the relevant land. Accordingly, laboratory reports were delayed in an unusual manner due to lack of laboratory facilities and as such, there is a possibility of issuing goods to the market without those report.

The Public Safety and Quality Assurance (SLS Certificate) Product Awareness on the Removal and Prohibition of Prohibited Goods Products, even if the functions contained in the Act, facilitate the issuance of high-quality products to the market but such a system (Newspaper, Advertising, Internet, Radio, Television Awareness) had not been prepared and implemented by the Sri Lanka Standards Institution.

There are 4100 CS (Ceylon Standard) and SLS standards issued by the Sri Lanka Standards Institution and it was revealed in the audit that between 500 - 600 of the standards issued during the standard sales evaluation for the three years 2017, 2018 and 2019 are not in use. Failure to take advantage of the standards set by the standards body over a period of time, labor and cost implies that such non-regulation of product standards has allowed non-standard products to enter the market without hindrance. Examples of such products are gas, coconut oil, various electrical appliances, milk powder, etc.

During the period from 1 January to 30 September 2019, there were 73 items imported, prohibited for use or sale due to non-compliance with Sri Lankan standards and the following were observed during the action taken by the Sri Lanka Customs in this regard. Out of 73 cases, investigations have been initiated for 49 cases and only 7 cases have been completed. It was reported that re-exports were made only on 02 occasions.

Recommendations have been made in this report regarding matters such as making the relevant parties aware of the importance of obtaining the Product Certification Logo of the Sri Lanka Standards Institution to minimize the issues arisen pertaining to above observations, strengthening further the method of issuing the said Logo, strengthening the coordination between other related institutions, issuing Product Certification Logo and providing necessary resources required institutionally relating to laboratory tests and thereby expediting the those processes etc.

Regulatory Process on Non-Governmental Schools

A free education system had been established, leading with Dr. C.W.W.Kannangara after giving the universe franchise in 1931. Under this system, the Government had opened central colleges all over the island to providing education for all.

Meanwhile this free education system was in operation, action had been taken to take over many missionary schools and certain Buddhist schools which charged school fees under the Assisted Schools and Training Colleges (Special Provisions) Act No. 05 of 1960 and the Assisted Schools and Training Colleges. (Supplementary Provisions) Act No 08 of 1961.

In terms of Section 25 of the Assisted Schools and Training Colleges (Supplementary Provisions) Act No. 08 of 1961, a provision has been enacted stating that the private sector cannot open schools to provide education for children with compulsory schooling age (5-14 years) Despite such a proviso exists, education institutions named as international schools had been opened by 1980 decade, aimed at children of foreigners inhabited in Sri Lanka and a considerable number of Sri

Lankan students study in those schools under the foreign and local syllabuses.

In considering the framework predominates in connection with global and local education, determinants need to be introduced in providing education to a child less than 18 years of age in terms of paragraph 2 of No 29 of the United Nations convention on the Rights of the child. Similarly an assurance needs to be given by the institutions provide education to children stating that their institutions are operated in accordance with such determinants introduced by the Government.

Moreover, according to the goal No. 04 of the 2030 Sustainable Development Agenda, it should be established that all male and female children should be perfected with free, equal and high quality primary and secondary education in a manner, enabling them to get effective learning results in terms of its target 4.1 on complete, fair and qualitative education.

Institutions in which schooling age children study in Sri Lanka shown in |Table 04

Institution	No. of institutions	Total No. of students
(a) Government Schools (National and Provincial)	10,165	4,061,653
(b) Government approved private schools	89	135,600
(c) International schools	391 (approximately)	139,727
(d) Religious Schools		
(i) Piriven	801	68,319
(ii) Seela Matha institutions	03	45
(iii) Catholic - Seminary	04	16
(iv) Hindu (Provide education to priests)	03	40
(v) Madrasah schools/Arabic schools	317	28,424
	(Only the schools registered under the Department of Muslim Religious Affairs of which 32 was inactive)	

Table 04 - Structure of Institutions in which schooling age children study in Sri Lanka

Accordingly, this performance audit was carried out in order to evaluate the manner how the government approved private schools, international schools and madrasah schools.

The main observations identified in this evaluation in connection with the government approved private schools include; even though the learning process of all government schools is supervised by the Management and Standards Branch of the Ministry of Education, such a broad supervision was not carried out in respect of government approved private schools stating that it does not come under the scope of the Ministry of Education, even though circulars were issued to the government approved private schools under the Ministry of Education, existence of certain schools which do not conform to the instructions stated in those circulars and when the officials go to supervise such government approved private schools, required co-operation is not given by such schools.

In addition, the matters comprising the opening of schools branches by certain mother schools without primary approval of the Ministry of Education, recruitment of non-graduate teachers, when teachers are recruited and conducting primary inquiries only by religious congregations in disciplinary cases without any representation from the Ministry of Education etc. were observed.

Limitations on maximum and minimum fees ranges to be charged by those schools had not been imposed by the Ministry of education, having being graded such schools in terms of available physical and human resources and services they provide. Even though the government incurs expenditure on uniforms, books and teachers' salaries for private schools approved by the government, school fees and other charges are recovered as per the discretion of such school management.

Among major observations revealed in respect of international schools can be cited as such schools do not register with the Ministry of Education or no any kind of regulatory functions whatsoever are carried out, in those schools. Nevertheless, various public representations were reported to the Ministry of Education from time to time with regard to lack of physical resources exists in such schools registered as business entities under the Companies Act/ Registration of Business Names ordinance, complications in the qualifications of teachers and teaching methods, inequalities in charging fees and other problems. Even though, it was expected to intervene by the Ministry of

Education in the events of not teaching properly by the teachers in certain international Schools in the Island, said to be famous with more parents attraction, transfer of teachers from time to time, teaching by unqualified teachers, not covering the syllabus, use of teaching methods without being understood the child mentality, unfair charging, sexual abuse of children etc., existence of it at a minimum level was predominated.

At the time of arising such bad issues in respect of international schools, foreign and local parties inquire from the Ministry of Education on various matters. It indicates that the whole community believes that the Ministry of Education is the prescribed authority for the establishment of international schools, operation of such schools etc. However, the Ministry of Education had replied to each party on, their inquiries stating that the Ministry does not intervene for such issues, but it is an acceptable matter that this monitoring part rests with the Ministry of Education.

Among the main observations on Madrasah Schools, the number of Madrasah schools registered with the Department of Muslim Religious Affairs amounted to 317 only but the Department had informed the audit that 32 schools were not in operation by 06 September 2021. It can be stated that nearly 1700 such schools are in operation all over the Island but there is no data on this and they are not supervised or monitored by any government institutions whatsoever. Despite the government schools which provide general education to these children are situated in the relevant districts, the Ministry of Education had not intervened to monitor the inclination of children to such schools who are at the age of learning compulsory education.

Those schools do not teach on a syllabus nationally or internationally recognized, teaching functions of those schools are not supervised by any recognized body and it was also stated in the Sector Committee report on National Security dated 19 February 2020 about number of students in such schools, number of teachers teach therein and their qualifications, whether basic facilities to students are available, what is the financial position and what is the sources of funding etc. are not monitored by any government authority whatsoever.

Accordingly, it is recommended in this audit that the prevalent government need to take action to provide a nationally recognized standard education to all schooling age children, since the requirement of such an education system to suit for the global needs has arisen at present, the Ministry of Education should be the Centre for monitoring all education institutions in order to prevent in creating such business centers, saying that they provide education congenial to such requirements.

Prevention and Control of Chronic Non–communicable Diseases in Sri Lanka

Due to non-communicable diseases in Sri Lanka, persons debilitate or die and its social and economic effect is currently a serious problem.

Activation of the National Multisectoral Action Plan for the Prevention and Control of Non – communicable Diseases (2016-2020) implemented by the Non-Communicable Diseases Unit of the Ministry of Health in respect of cardiovascular diseases, respiratory diseases and diabetes stated under the National Policy for Prevention and Control of chronic Non-Communicable Diseases is considered under our scope. Objectives on the prevention and control of non – communicable diseases need to be conquered with the participation of many parties. In order to implement the functions include in this Multisectoral Action Plan, the parties given responsibilities include, the Ministry of Health and various units under the Ministry Provincial and District Directors of Health Services, several Ministries such as Education, Environment, Agriculture, Sports including Provincial Councils, Department of Excise, and lots of institutions like the National Authority on Narcotic and Alcohol. The objective of our audit is to evaluate whether action had been taken to achieve the objectives relating to the prevention and control of non – communicable diseases through the programs being implemented by the responsible institutions and related special units by which action to be taken to prevent and control non – communicable diseases and whether there are any obstructions therefor.

The National Policy on non – communicable diseases has recognized as basic risk factors affected to non – communicable diseases, comprising the use of tobacco and liquor, consumption of non – healthy food, lack of physical exercises and other risk factors such as air pollution and stress. The activities to minimize such risk factors are recognized in the National Multisectoral Action Plan. The main observations in this audit include; non – preparation of a National policy on the use of tobacco connected with smoking, non – incorporation of laws to reduce sale of a cigarette which has a highest market, availability of communication problems to continuous implementation of free zones separated for smoking, with a view to reduce the expansion of tobacco use, weaken the supervision of the public Health Inspectors since they are very busy and intervention of tobacco companies. In addition, it was also observed complications such as not sufficiently conducted the training programs for target groups engage in the minimization of tobacco use, existence of sales stalls selling cigarettes near the educational institutions and the increase of tobacco imports was also predominated. It is also observed some issues in the indention of illustrated instructions in packets of tobacco products and the recovery of tobacco taxes. Alcohol consumption had increased instead of control it.

Lack of supervision in respect of improper using pesticide and fertilizer in the production of vegetable and fruits for the popularization of healthy food, taking place post-harvest losses due to falls in transportation and packaging methods, non – creation of a sufficient market for the sale of harvest under good agriculture procedures (GAP) were also observed in this audit. Audit observations, are also made non – functioning of a mechanism for monitoring the advertisement of food and beverages and complaints, regulations on food labeling and advertising not periodically revised, use of schooling age children for advertisements of food and beverages even though regulations in colour symbolizing of sugar, salt and fat in food and beverages are introduced, effective dates of such regulations are extended from time to time, complications on the control of factors within the school as well as outside in respect of student's food, non- taking necessary steps to prepare guidelines on school exercises and to update them and to ensure whether school children engage in physical training. In order to make environment require to promote and improve the physical training, advocacy meetings to be held aimed at city planners and political authority are not held and the guidelines, require for the improvement of physical training in service stations are not developed.

It was further observed that the available data are limited for the determination of quality of air in respect of atmospheric pollution, incompletion of air quality guidelines to be available for the improvement of domestic air quality and unawareness of related parties about the quality of the air to be existed in such premises as school, factories, offices etc.

Even though the responsibility is entrusted to the Ministry of Mass Media for making aware of the community about the risk factors arise due to non – performing adequate physical exercises that ministry was unaware about it and as such as the awareness programs had not been sufficiently conducted.

Matters such as existence of shortage of staff in the Healthy Life Style centers which contribute to identify pre – diagnoses and management at primary level, non-achievement of progress on number of days to be conducted in certain Healthy Life Style centers in terms of circular instructions, unavailability of sufficient facilities for Cholesterol tests, since the unavailability of glucometer strips, checking blood sugar level had been stopped, inadequate other physical facilities and lack of awareness among public on Healthy Life Style centers, were observed.

According to the health data, in 2018 the main cause for death in Sri Lanka is Coronary Heart Diseases. Accordingly, as compared to the total population in Colombo, Gampaha and Kalutara Districts for which audit attention was paid, complications in hospital facilities and lack of facilities in hospitals require for cardiologists, causing severe congestions exists in the National Hospital of Sri Lanka and deficiencies in the Intensive Care Unit clinics and operation theaters exist in the Colombo National Hospital are predominated and the existence of large number of patients in waiting lists had been a major problem.

According to the Health Data of the Colombo National Hospital, it was observed that 10 per cent of heart patients admitted to the hospital in the years 2018 and 2019 had deceased. As such, it was observed that inadequate catheterization facilities had mainly attributed to the said situation.

Photo: Surgical materials stored un-protectively

Photo: Surgical materials stored un-protectively

Photo : Heart Catheterization Theater remained under constructions in the Colombo South Teaching Hospital for over a period of 10 years

Photo: Surgical materials stored un-protectively

Photo : Heart Catheterization Theater remained under constructions in the Colombo South Teaching Hospital for over a period of 10 years

Heart patients have to be transported constantly to the Colombo National Hospital due to inadequate catheterization facilities in other Teaching hospitals in the Western Province other than the Colombo General Hospital and it was a risky situation to patients.

Photo : Heart Catheterization Theater remained under constructions in the Colombo South Teaching Hospital for over a period of 10 years

Inadequate space in clinics for Diabetes patients participated in clinics for treatments, shortages in testing facilities, dearth of officers in the staff and shortages of certain drugs were observed.

Matters such as unavailability of formal methodology to introduce self-management plans for patients with Chronic Respiratory Diseases, unavailability of Existing Equipment for the Diagnosis and Evaluation of Respiratory Diseases, shortages in certain drugs as well as excesses in certain drugs required for management of respiratory diseases, non-establishment of community based pain relief care service for chronic pulmonary circulation diseases and inadequate physical facilities in clinics, were observed.

Functions such as provision of required facilities, progress review, Co-Ordination and supervision require for the implementation of the National Multisectoral Action Plan (2016-2020) for the Prevention and Control of Non Communicable Diseases had been assigned to the National Council for Non-Communicable Diseases, and the issues on its operation and related parties were observed. It was targeted to reduce premature deaths by 10 percent by the year 2020 and to reduce one third of premature deaths caused due to non-communicable diseases, by way of treatments and preventive methods by the year 2030. However, since the informative system for death age analysis is not updated it could not be measured, and the correct date in respect of deaths in government hospitals are not included in the IMMR reports.

As remedies on the above issues, the following recommendations are made. Necessary steps to be taken to encourage the consumption of healthy foods, make aware of the school students and the community including teenagers on the out turns of the use of tobacco and liquor, giving reliefs to encourage healthy foods, increase taxes to discourage the use of tobacco and liquor, encourage the community including school children about physical exercises, make aware of the people on the adverse effects of domestic air pollution and taking action to minimize domestic and external air pollution etc. In addition to this, taking action to make aware of the people on Healthy Life Style Centres, in order to maintain the services of Healthy Life Style Centres more effectively. It is also recommended that required testing facilities and testing materials need to be supplied without lacking. In the case of cardiology diseases units, expedite the supply of required facilities for cardiac treatments in the Colombo National Hospital and Karapitiya Teaching Hospital to minimize the existing long waiting lists and the improvement of services and facilities for treatments to respiratory and diabetics are recommended.

In the case of monitoring, taking action to get the contribution of all parties for the progress review meetings, holding meeting sessions at the specific time, if targets are deviated make strategies to direct expected targets, facilitate to hospitals which have no required facilities, enabling them to get data from all hospitals to the health data system and the commencement of clinical audit are recommended.

Performance Audit on the Process of Leasing & Control of Government Lands Relating to Mining Minerals (Stone) in Hambantota, Anuradhapura, Vavunia and Kurunegala Districts and Recovery of Royalty

There is a great the demand for the construction materials in the market. The stone, as a mineral, is recognized as a limited resource and the provisions with respect to the right and control of this mineral and the relevant powers have been made by the Mines and Mineral Act No.33 of 1992 and the Amendment Act No.66 of 2009.

In this respect, the Sections 6,7,8,20 and 78 of (Cap.451)of the Forest Conservation Ordinance No.16 of 1907, Gazette (Extraordinary) No.68/14 dated 26 December 1979 and Gazette (Extraordinary) No.1600/18 dated 06 May 2009 of the Democratic Socialist Republic of Sri Lanka, State Lands Ordinance No.08 of 1947, National Environmental Act No.47 of 1980 and the Circular No.5/2001 dated 10 August 2001 of the Ministry Forest Resources and Environment have been recognized as the laws, rules and Acts and Ordinance applicable to the mining of minerals on the Government lands.

Geological Survey and Mines Bureau issues licenses for mining mineral based on the laws, rules and provisions referred to above and the institutions such as Department of Archeology, Urban Development Authority and the Central Environmental Authority make the necessary recommendations thereon. In the process of leasing the State lands governed under the Divisional Secretary, the Commissioner General of Land, Provincial Land Commissioner as well as Divisional Secretaries involve in the relevant process. The Controller of Explosive holds the responsibility on the issue of explosives needed for the mineral mining under the control of the Ministry of Defence and supervision of the District Secretary.

Although complying with the above regulations and simultaneously development in the construction sector of the country should be expected, there observed a huge loss of revenue receivable to the government, many instances of non-compliance with the relevant regulations as well as numerous environmental issues associated with this process. Accordingly this performance audit was carried out based on the districts of Hambantota, Anuradhapura, Kurunegala and Vaunia which have been identified as the districts where the quarrying industry is taking place in abundance.

In issuing industrial mining licence, although boundary posts should be fixed in each bending point of the boundary line as per the tracing according to the location of the area of the land for which approval was received to carry out mining, it was observed in audit test checks that the percentage of fixing boundary posts had been 78 and 43 in two instances in the District of Hambantota and the percentage had ranged from 20 per cent to 0 per cent in 06 Divisional Secretariat Divisions in Anuradhapura District and the said percentage was from 80 per cent to 45 per cent relating to 7 instances in the District of Vavuniya.

Action should be taken to obtain a new licence by applying for a renewal of the licence before the expiry of the validity of the licence / recommendation required for the mining work. Nevertheless, 03 cases were observed in 03 Divisional Secretariat Divisions in the Anuradhapura District where excavations had been carried out despite the expiry of the validity of the Industrial Mining Licence, Archaeological Recommendation, Explosives Licence and Environmental Permit had expired. It was further observed that the Geological Survey and Mines Bureau had not paid special attention to the quarries of which the licenses had not been renewed.

Photo…..Carrying out mining further with expired licenses- Nachchduwa D.S.

Photo…..Carrying out mining further with expired licenses- Nochchiyagama D.S.

Accordingly, a recognized scientific methodology had not been followed to compute the amount of stone cubes mined, in the recovery of royalty in mining. In terms of Section 196.1(vi) of the State Land Ordinance, in leasing Government lands for commercial purposes, 4 per cent of the current market value of the land should be recovered as the lease rent. However, the Government revenue has been under charged on the valuation of lands less than the market value on various bases. Even though it has been ordered to pay the tax revenue of Rs.2.2 million to the Court, which was under computed in the Angunakolapellessa Secretariat Division subjected to an audit test checks, the opportunity for mining again had been provided to those lessees themselves.

In addition to that, the worksite on which mining had been completed or suspended, should be rehabilitated. Nevertheless, instances where it had not been so done, were observed.

Photo: Mining License No. IML/B/HO/3711/LR/7 (Hambantota District)

Matters on illegal mining were observed in these Districts and the value of mining amounting to Rs. 16.3 million, carried out illegally in the District of Hambantota was reported from the Okewela Divisional Secretariat Division. Further, instances where a Government revenue of Rs.31.4 million was lost due to such illegal mining, has been reported from the Angunakolapellessa Divisional Secretariat Division.

Due to levying charges in less and making calculations less than actually quarried cubes of stones, total revenue of Rs. 551,305,626 to be recoverable as per the aforesaid legal provisions had been lost to government revenue, including Rs. 198,898,250 relating to 06 quarries in 06 Divisional Secretariats of Hambantota district, Rs. 254,408,741 relating to 46 quarries in 07 Divisional Secretariats of Anuradhapura district, Rs. 81,278,190 relating to 27 quarries in 03 Divisional Secretariats of Vavunia district and Rs. 16,973,250 relating to 12 quarries in 04 Divisional Secretariats of Kurunegala district.

Further, instances where the amount of stones quarried does not tally with the explosives used, were observed and 12,656 cubes of stones had been mined in the Ambalantota Divisional Secretariat Division which was subjected to audit test checks and the minimum amount of explosives that should have been used therefor, is 6,328 Kg. However, 26,244 Kg of explosives had been issued to that licensee. Thus, the purpose for which 19,916 Kg of excessive explosives representing 76 per cent of the amount issued had been used, was not revealed.
Accordingly, it is emphasized that the Government institutions and the individuals involved in this industry should focus attention on the development of the industry utilizing this natural mineral resource efficiently under proper control whilst ensuring safety of both the industrialists and the environment and further, paying attention on the matters such as not properly measuring the quantity of minerals and less recovery of royalty receivable to the Government for the use of minerals and non-compliance with the applicable laws, rules and provisions.

Evaluation on the Performance of Clinical Waste Management Project Implemented at Hospitals by the Ministry of Health under Australian and Domestic Loans

Proper management of clinical waste is a decisive factor for maintaining hygiene in the hospitals and controlling the diseases. Furthermore, according to the regulations imposed by the Central Environmental Authority, all clinical waste is deemed hazardous, and hence, such waste should be sterilized and disposed of within a period of 48 hours after being generated.

It can be stated that the lack of a proper methodology to facilitate the management of clinical waste generated by hospitals and various institutions related to health, was a serious issue faced by the Ministry of Health as well as health sectors in the 09 provinces over many past years.

Photo : Clinical waste being dumped near the hospital as the Metamizer machine of the Kurunegala Hospital had not been activated and the Incinerator had become non-functional.

Photo Clinical waste being dumped near the hospital as the Metamizer machine of the Kurunegala Hospital had not been activated and the Incinerator had become non-functional.

Photo- Empty medicine phials released into the environment by Karawanella Hospital

Photo - Clinical waste dumped at Marawila Base Hospital had been set on fire inside the hospital premises

An Australian company had submitted an unsolicited proposal on the management of clinical waste to the Ministry of Health. Approval of the Cabinet had been granted on 09 May 2013 to take into account that project proposal and implement it. Accordingly, in order to supply, install and activate 20 Metamizer machines & 15 Incinerators with a guarantee period of one year used in disposing of waste, construct the necessary buildings, service & maintain the Metamizer machines, and service & maintain the Incinerators, without being included in the contract dated 12 December 2013, four Agreements had been entered into by the Secretary to the Ministry of Health with R.R. Taylor (Pty) Ltd of Australia together with their local agent named Biomed International (Pty) Ltd whilst the Biomed

International (Pty) Ltd had been involved in operating activities of the project.

The total value of the entire project amounted to US $ 21.11 million or Rs. 452.24 million. It was the objective of this audit to evaluate the performance of the project.

Although it had been planned to implement the project at 134 Government hospitals divided into 06 clusters covering all the 09 provinces of the country, 02 of the 04 Agreements had been revised on 01 December 2015. Accordingly, the 15 Incinerators proposed to be supplied under the Agreement for the supply & installation of the machines and construction of buildings, had been decreased to 05 machines, thus decreasing the agreed value of US $ 18.445 million to US $ 16.19 million. Similarly, the service and maintenance fee of US $ 0.190 million or Rs. 36.382 million agreed to be paid for a period of 05 years under the Service Agreement of the Incinerators, had been decreased to US $ 63,175 or Rs. 12.127 million. Nevertheless, the operating fee of the project had not been revised.

The Agreement of the loan project had been signed in the year 2013 and 134 hospitals covering the entire island had been divided into 06 clusters thus managing the clinical waste from each of those clusters; nevertheless, in a manner favorable to the project proposed by the Sisily Hanaro Encare Pvt Ltd to manage the clinical waste in the Western, Southern and Central Provinces , the officials of the Ministry had removed 10 Metamizer machines and 08 Incinerators from the project that had been agreed to be installed in the said Provinces, in the year 2014. Those 10 Metamizer machines had been installed in Northern, Eastern, North Central, North Western, Sabaragamuwa, and Uva provinces.

Furthermore, 10 of the 20 Metamizer machines have been installed at the base hospitals of Karawanella, Marawila, Akkaraipattu, Kalmunai, and Ashroff Hospital of Kalmunai where clusters were not in place along with the Teaching Hospital in Kuliyapitiya, and the district hospitals in Embilipitiya, Monaragala, Chilaw, & Trincomalee.

In terms of these project agreements, it was the responsibility of the supplier and his local agent to obtain the Environmental Protection Licence for Clinical Waste Management and the Licence for Scheduled Waste Management. Nevertheless, out of the 20 hospitals that were installed with Metamizer machines, 06 of the 09 hospitals inspected had not obtained the required licence for Scheduled Waste Management.

Photo - Marawila Hospital incinerates the waste discharged from the Meta Mizer machine again in the hospital premises.

Photo- Disposal from the Meta Mizer machine at the Kegalle Hospital had been dumped near a canal in the hospital premises

Photo- Chimney of the incinerator of the Polonnaruwa Hospital remains at a low level.

Photo- Steam coming out of the Meta Mizer machine at Ratnapura Hospital

Photo- Steam coming out of the Meta Mizer machine at Kegalle Hospital

Photo- Steam coming out of the Meta Mizer machine at Kegalle Hospital

In implementing this project, putting different types of clinical waste into the machines by each hospital, difference in the time taken and the number of cycles between hospitals, taking different times for reaching sterilization temperature, difference in the pressure of water required for machines between hospitals, instances of non-functionality of machines due to technical issues relating to supply of hydraulic oil, technical issues such as non-function of the odour management unit fixed to the machines in certain hospitals, incomplete burning instances due to non-function of thermometers and other common issues were observed.

With the direct or indirect involvement of the officials of the Ministry so as for the contract for the disposal of clinical waste of the Western, Southern and Central Provinces to be awarded to the Sisily Hanaro Encare Pvt Ltd, measures had been taken to enter into a commercial agreement favorable to the said company, revise the 03 provinces that had been covered by more than 50 per cent of the scope of the Australian and domestic loan project thereby debilitating the cluster system, and obtain Cabinet approval for revising the agreement of the Australian and domestic loan project with a view to managing the clinical waste only in the Northern, Eastern, North Central, North Western, Sabaragamuwa, and Uva provinces.

As measures had been taken in such a manner, the total sum that had to be paid to the Sisily Hanaro Encare Pvt Ltd and other institutions for the disposal of clinical waste from 21 hospitals during a period of 04 years from 2016 to 2019, amounted to Rs. 384.122 million which was an extra burden of expenditure for the Government.

The Metamizer machines and the Incinerators supplied under the Australian and domestic loan project had not been functional up to the capacity mentioned in the specifications. It was not verified through an independent test as to whether the wastes from the machines had been made suitable to be released into the environment. The cluster system or disposing of clinical waste from several hospitals at a single location, the main objective of the Australian and domestic loan project, had become totally unsuccessful. Furthermore, a methodology to properly dispose of the waste generated by those machines, through the Local Authorities, had not been implemented island wide.

Basic recommendations such as implementation of a National Plan for Clinical Waste Management for hospitals, obtaining annual licences for Environmental and Scheduled Waste, examine implementation of the recommendations of the Cabinet Sub-Committee and the decisions of the Cabinet of Ministers, revision of annual operating charges, bring about necessary revisions for the Project Operations Agreement, taking necessary steps to overcome obstacles in the operation of machinery, taking action to verify through an independent examination the fact that the materials remain after the sterilization of clinical waste entered in the Meta Mizer are free of bacteria or other germs and inform to that effect to the local authorities.

Evaluate the Process of Developing New Renewable Energy Sources

Most of the total energy requirements of the island depend on electricity and fuel and coal thermal power plants supply 63 per cent of the total electricity generation. It is very clear the importance of turning presently to renewable energy sources to face emergency power cuts and possible foreign exchange crises in the future due to incurring a large amount of US Dollars annually for this. Renewable energy generation in 2020 will account for 37 per cent of the total energy supply and New Renewable Energy (NRE) generation is about 12 per cent of the total energy supply. Sri Lanka has high wind and solar power capacity due to its geographical location and current utilization is relatively very low. Renewable energy usage can reduce greenhouse gas emission, control global warming, as well as enables to overcome the pressure on the local economy from the importation of fossil fuel. According to the current Government policy, it is expected to increase the total Renewable Energy generation to 70 per cent by 2030 and it is also expected that action will not be taken to set up new coal power plants in the future.

Among the key observations revealed here, although it is planned to achieve the full transition (Balance in the Carbon Budget) of all power supply networks by 2050 according to the energy policy, according to the Low-Cost Long Term Generation Plan 2022-2041 presented by the CEB, the power generation from renewable sources will be only 50 per cent up to 2041 and 02 coal power plants had also been included. It can be observed that the complete transition in 2050 will not be achieved as planned by the Energy Policy through the continuous construction of long lasting coal power plants. Further, it was also observed that in accordance with the provisions of the Sustainable Energy Authority Act and the National Energy Policy, no steps had been taken to minimize the length of time consumed more than 02 years required for the complex process of approving renewable energy projects by a central coordinating mechanism.

To engage to the agreements of 1,374 projects relating to 4014.84 MW approved by the Sustainable Energy Authority under the standard tariff by the C.E.B. based on the provision for the purchase of energy by bidding at minimum cost at competitive prices for supply, extension of new generation plants according to Section 43 (4) of the Sri Lanka Electricity (Amendment) Act, No. 31 of 2013 had been suspended from 1 January 2017 with immediate effect. However, although the Sustainable Energy Authority had been collecting applications and fees from developers for the construction of power plants since 2017, action had not been taken on those projects so far.

The operation of 1,374 projects with 4,014.85 MW submitted for network agreement and licenses, temporary approval was granted by the Sustainable Energy Authority from 01 January 2017 to 31 December 2019 approved by the Project Approval Committee (PAC) under the role of the Sustainable Energy Authority had stopped due to CEB had rejected the signing of the agreements* due to entering into competitive bidding.

** "Electricity Purchase Agreement" is an agreement entered into by a transmission licensee with a power generation licensee to purchase electricity in bulk or in bulk capacity only for the purpose of selling electricity to distribution licensees. "*

There were also 30 projects that were suspended after coming into their final stage ie: the signing of the agreement and also 130 projects that had received temporary approval. The main reason for this situation was the suspension of the existing system at once, which had been in place since the beginning of 2017.

The details of the suspended projects are as follows.

Description	No. of projects	Capacity (MW)
No agreements signed	30	49.33
Temporary approval received (letter of intent not issued)	53	127.61
Temporary approval received (letter of intent not extended)	77	110.67
Referred to Network Agreement	1214	3727.23
Total	**1374**	**4014.84**

Table 05 - Details of suspended projects

Under the competitive bidding system, only 13 solar power projects of 1 MW each had been added to the national grid from 2017 to the end of 2019. Applications are currently being invited for the development of wind power plants only for a capacity of 60 MW. It was observed that only 269 MW of capacity were connected to the main grid under the Soorya Bala Sangramaya Programme. There is also a risk of having to pay the interest due to delays in payments for electricity purchased from renewable energy suppliers. Although the United Nations Framework Convention on Climate Change has decided to replace thermal power plants with Liquefied Natural Gas power plants (LNGs) in line with the Global Charter to keep global warming below 2**C⁰**, even a single power plant had not been built so far. These conditions also contributed to the increase in emergency purchases from diesel power plants.

In the case of the above outstanding observations, a coordinating mechanism should be set up to avoid delays in obtaining approvals for energy projects and when the preparations of a long-term generation plan, it must comply with National Energy Policy and international conventions. It is also important to come to a decision regarding currently obtained Generating Licenses and Intent Letters issued projects that were not signed the purchase agreements with the CEB under the standard tariff method from 01 January 2017. It is important to retain foreign exchange and boost the local economy by engaging only local investors for small-scale projects. It may be important to pay more attention to renewable energy in the process of reviving the economy with the problem of foreign exchange reserves and accelerating the development process under the global pandemic (Covid-19) situation that has to be faced currently. Further, it is also advisable to store solar energy and use it at peak times through the introduction of solar cells technology. Action should also be taken to minimize social protests and environmental impacts arising from the construction of sustainable energy infrastructure projects through the implementation of Corporate Social Responsibility (CSR) projects.

After issuing this report, among the decisions taken by relevant institutions to rectify these situations, granting approval of Purchase Tariff Revision – 2022 relating to renewable energy by the Cabinet and appointing a committee comprising 08 persons therefor, removal of legal restrictions imposed on renewable energy projects by making appropriate amendments to the Sri Lanka Electricity Act, No.20 of 2009, holding a progress review meeting on the delay in acquisition/vesting of lands for mini hydroelectric power plants at the Ministry of Lands on 21.04.2022 relating to the Audit Report of the National Audit Office and accordingly, find out reasons for the delay in relevant projects. Moreover, necessary steps are being taken by the State Ministry relating to expedite delayed projects proposals and the proposals further submitted by energy consultants based on details and observations of the performance report while the Cabinet has approved the restructuring of the Ceylon Electricity Board.

Performance of Road Accessibility Enhancement between Rural Communities and Socio- economic Centres under the Integrated Road Investment Programme

According to the loan agreement of the Integrated Road Investment Programme, then Ministry of Higher Education and Highways, presently the Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Programme is enhance the road accessibility between rural communities and socio economic centres. The long term impact of this is to improve the efficiency of national and provincial roads. As per the Loan Agreements, the estimated total cost of the Programme amounted to US$ 906 million equivalent to Rs.117,780 million and out of that US$ 800 million equivalent to Rs.104,000 million agreed to be provided by the Asian Development Bank under 06 Multi-Tranche Financing Facilities. Out of that, 04 separate Loan Agreements had been signed up to 31 December 2019 to finance Rs.75,195 million under first 04 tranches and out of such receipts, Rs. 61,533 million had been utilized for the rehabilitation of rural roads by 31 December 2019. The purpose of this audit was to evaluate the performance of these functions.

As per the physical progress reports issued by the Project Consultant as at 31 December 2018 and the recent field inspections conducted by the audit, it was selected to conduct a performance audit under this programme due to observing the physical progress of the project had not reached the expected targets by the due date. Out of the total 42 contract packages being implemented under the programme, 8 contract packages that did not reach the expected targets as at 31 December 2018 and roads in the Kurunegala and Puttalam districts of the North Western Province were selected for physical inspection.

Out of 42 contract packages awarded for the rehabilitation of 3,143 km of rural roads in Kalutara Districts in Western, North Central, Sabaragamuwa, Central and Southern provinces under the Integrated Road Investment Programme, the 25 contract packages, ie KU 01, KU 02 package in the Kurunegala District of the North Western Province, all packages in Central Province, MA 02, MA 03 packages in the Matale District and the NE 02 package in the Nuwara Eliya District were only rehabilitated. Also, M01, M02 and M03 packages in the Matara District of the Southern Province, G2, G3 Packages in the Galle District and H01, H02, H03 Packages in the Hambantota District were completed by 30 October 2019. Further, the AP 01, AP 02, AP 03, AP 04 in the Anuradhapura District of the North Central Province and the P01, P 02, P 03 in the Polonnaruwa District and the KL 01 Package in the Kalutara District were completed on 04 November 2019. The R 03 package in the Ratnapura District of the Sabaragamuwa Province only had been completed.

In addition, 12 out of the 42 contract packages offered for the above rural road rehabilitation, ie 3 packages in Kurunegala District (KU 03, KU 04, KU 05) and 2 Packages in Puttalam District (PU 02, PU 03) and MA 01 package in Matale District, G 01 Package in Galle District, KE 01 package in Kegalle District, the two packages (R 01, R 02) in the Ratnapura District and the two packages (KL 02, KL 03) in the Kalutara District had been abandoned by the road rehabilitation contractors.

Photo:The situation as at 27 November 2019

Photo: The situation as at 27 November 2019

Photo : Road No.96 from Kasikotte Junction to Peela via Mee Oya Bridge - The situation as at 13 May 2020

Photo: Road No.96 from Kasikotte to Peela via Mee Oya Bridge - The situation as at 13 May 2020

A 4.11 km out of the 4.30 km length road No.96 from Kasikotte Junction to Peela via Mee Oya Bridge under Contract Package No.04 (KU04) valued at Rs.2,092.2 million in Kurunegala District had been constructed by applying asphalt on the road surface. The asphalt surface of this road had been completely washed away and was no longer usable due to failure in constructing up to standard.

Moreover, compaction defects were among the defects of construction of the road developed under contract package No. KU04 and the road constructed by laying asphalt in this District, was cracked.

In the preparation of Bills of Quantities relating to the road constructed under contract package No KU01 of the Kurunegala District, provision had not been made for reconstruction of bridges. As such, the said section with the bridge had been left out and only the remaining part of the road had been completed, which resulted in affecting the quality of the road.

Photo: Road No. 81: Chanage 7+105

Photo : Road No. 81: Chanage 7+105

Also, the road rehabilitation work of 05 contract packages namely the PU 01 package in Puttalam District, NE 01, NE 03 packages in Nuwara Eliya District and KE 02, KE 03 packages in Kegalle District was progressing slowly as at 31 December 2019. Further, the project had failed to recover the performance bonds of Rs.2,577 million furnished by the contractors under the above 12 contract packages by 30 November 2019.

As mentioned above, a sum of Rs.2,994 million out of the Mobilization Advances amounting to Rs.3,434 million given to 12 contractors who had abandoned works on road rehabilitation works, had failed to be recovered by 30 November 2019.

As a whole, 12 out of the 42 contract packages amounting to Rs.71,978.15 million awarded for the rehabilitation of rural roads were abandoned by the contractors. Accordingly those 12 contracts with road length of 1003.79 km amounting to Rs.21,459 million due to be implemented during 2015 and 2016 in Kurunegala, Puttalam, Mathale, Kegalle, Galle, Ratnapura and Kaluthara Districts had been abandoned in 2019 and at the time of the abandonment, the cost incurred for the contracts was Rs.10,583.6 million.

The amount totalling Rs.23 million had been paid up to the month of August 2019 as per Interim Payment Certificate No.39 on salaries and allowances, housing, office facilities and vehicle facilities on behalf of maintenance of employer and consultants staff attached to those packages after discontinuing the works of these abandoned packages. The contract package numbers KU 01, KU 02 and PU 01 were used as variation orders to make those payments.

Basic recommendations such as, taking necessary steps to rehabilitate a maximum number of rural roads as well as national roads by maintaining the targeted length of the rural and national roads in awarding and implementing construction contracts and consulting contracts, a formal internal financial plan should be implemented to ensure that the funds received for the programme are utilized for the rehabilitation of the relevant roads efficiently and effectively, even after the construction contract had been awarded, action should be taken to make a necessary procedure to identify sections of the road that had been rehabilitated by other projects and revise the cost of the project awarded as a result of completion through another project and rehabilitate other roads by those funds, according to the basic plans of the Road Rehabilitation Programme, proper planning should be done to ensure that it is completed within the stipulated time frame.

Progress of Implementation of MARPOL Convention Executing in Sri Lanka for Preventing Marine Pollution by Ships

The ocean is important as a resource that is conducive to human survival and is rich in biological resources. It is the duty of every citizen to contribute to the control of climate activities around the word and to maintain the ocean as a pollution free zone, a vital part of the water cycle. The maritime zone of a country is determined by the United Nations Ocean Charter and the marine zone is defined by the Maritime Zone Act No 22 of 1976 in relation to Sri Lanka. Further, Sri Lanka has the responsibility to protect the unique Economic zone or pollution prevention zone up to 200 nautical miles from the baseline of the coastal zone according to the Act. The pollution caused by ships can be defined as one of the main causes of marine pollution. The convention was adopted by the international Maritime Organization in the year 1973.The convention which is defined as MARPOL 1973/1978, aims to prevent and minimize pollution in the event of a shipwreck and the normal operation and has provided 06 technical annexures, including regulations, for this purpose. The objective of this audit was to assess the legal Framework for mitigation and the legal framework of functioning and the efficiency of the institutions responsible for implementing the convention and the MARPOL Convention which is activated in Sri Lanka to minimize the pollution done in the ocean zone in Sri Lanka due to the ships. Hence there has been a risk of rising, the vast development of marine navigation in the coast of Sri Lanka since it has been considered as the Silk Road to Marine navigation from the past and the risk can be further increased in the future as well.

In obtaining the access to the audit the fact such as, a preliminary study of the MARPOL Convention, consideration of the need for proper formation of local laws and regulations required for the implementation of the MARPOL Convention in Sri Lanka, identification of technical issues 16 in the implementation of the map or condition in Sri Lanka, identifying the Institutions with refinery responsible for the above convention, studying the pre preparation for the conduct conditions, can the occur due to the problem has Sri Lanka prepare to become a major international Maritime hub, assessing the role of the Melon and environmental protection authority the name is situation; implementing

responsibility of the coastal state. Sri Lanka has also signed to become a party to the convention and enforced the annexures l to V in the year 1997. Although it was decided to access Annexure Vl by a cabinet decision in the year 2016, the action required to implement, it had not been taken by 31st December 2020 at the date of audit.

It was observed that the Marine Pollution Prevention Act No 35 of 2008, which was enacted for the protection of the marine environment, has not added to the legislation required to fully implement the MARPOL Convention, although the invention should be implemented in Sri Lanka, incorporating its provisions into domestic law. Further it was observed that the shortage of physical and human resources were not sufficient to be a party to other international convention in maritime operations and to adopt the relevant conventions to domestic law.

However, despite the fact that the Trade and Shipping Secretariat and Maritime Environmental Protection Authority, have taken steps to implement the provisions of the technical annexures of the convention through the provisions of the existing Acts.

It was observed that strengthening the legal validity of this convention is essential in moving towards sustainable development goals and the expansion of Corporate development through the strengthening of physical and human resources and the need to establish a system of action for 24/7 emergency services in view of maritime operations and potential uncertainties in the marine environment. Accordingly it is observed that challenges of operating as the maritime hub of the Silk Road can be overcome by updating domestic laws in line with international convention and accelerating the need for institutional Framework for the development of shipping operations, environmental protection and conservation.

It was observed that the Government concerned should ensure that the ship is not launched until the requirements of the Annexure, are complied with that, Sri Lanka has not added adequate legal provisions to comply with this. Regulations to prevent pollution caused by harmful substances packaged and carried by sea harmful substances.

It was observed that Sri Lanka has not become a party to this Annexure. The quality test of bunker fuel used for ships is not currently tested by a Government Institution. IIf one has been involved in the rescue of a ship in the event of a shipwreck as a contracted rescuer, he will be able to cover the cost of rescue operations and Hull and Machinery Insurance. But Sri Lanka was not a party to the Salvage convention.

Sri Lanka has not been a party to obtain the compensation to the international convention of HNS (International convention on liability and compensation or damage in connection with the carriage or hazardous and noxious substances by sea) for damages in connection with the carriage of hazardous and noxious substances in 1996 and the convention LLMC (convention on Limitation of liability for marine claim) in relation to obtain marine compensation in 1976.

It was observed that Sri Lanka was not included as a path to the Ballast Water Management Convention. The ballast water management project is very important in reducing environmental pollution through the infiltration of invasive alien organisms into the Marine environment through ballast water.

The recovery of damages has not been done under the Section 34 of the Act, regarding the marine disaster by the ship, New Diamond which was taken place in the Exclusive Economic Zone of Sri Lanka on 03rd September 2020. Moreover, the Emergency Oil Dispensing Plan for management of emergency oil dispensing from ships, had not been prepared.

It was observed that strengthening the legal validity of this convention is essential in moving towards sustainable development goals and the expansion of Corporate development through the strengthening of physical and human resources and the need to establish a system of action for 24/7 emergency services in view of maritime operations and potential uncertainties in the marine environment. Accordingly it is observed challenges of operating as the maritime hub of the Silk Road can be overcome by updating domestic laws in line with international convention and accelerating the need for institutional Framework for the development of shipping operations, environmental protection and conservation.

Photo : Marine Pollution from ships

Conservation of Coastal and Marine National Parks in Sri Lanka

The coastline and marine national parks of Sri Lanka about 1,620 km of length, which are home to a wide range of coastal ecosystems, are currently being damaged by a variety of human activities and the natural phenomena. In addition, ecosystems such as limestone, lagoons and estuaries, as well as mangroves, have been affected by these conditions. Various human activities and natural phenomena have adversely affected the viability of the coastal region and it is being feeling that these conditions need to be taken seriously into the Sustainable Development Goals of the year 2030. The objective of this audit was to examine and promote the protection of coastal and coastal resources through local, regional and national initiatives and thereby contribute to global sustainable development. The sub objectives of this audit were to review the role of affiliates and the regulations currently applicable in Sri Lanka, to evaluate the performance of various projects in operation for that role, and to identify the current environmental impact of coastal areas and the long-term environmental issues that may arise from them.

The scope of this audit is to examine the legal provisions taken for the conservation of coastal and marine national parks, to evaluate the measures and to examine the areas affected by human activities that are accelerating coastal erosion on the basis of the area samples affected by the relevant activities, based on expert reports for related scientific confirmations.

The special Management Areas can be declared through the regulations through 22(e) of the section III c. of the Coast Conservation and Coastal Resource Management Act No. 49 of 2011. (promulgated). Although 45 locations in 12 districts have been identified as proposed areas which are to be declared as Special Management Areas through the Gazette Notification No. 2072/58 dated 25th May 2018, those areas have not been declared as Special Management Areas till the date of audit. As it was not done according to that, not much attention was paid to the conservation of those areas. All the sites of archaeological value located in the coastal area had not been identified and action had not been taken to publish them in a gazette notification.

It was observed that the technical methods applied for restoration of coral reefs, sea grass cultivation, rehabilitation of sand dunes and floating marine culture for sea weeds by the Department of Coastal Survey and Coastal Management were insufficient. Moreover, Mangrove systems which grow in the intertidal zones in the estuaries and closed lagoons of tropical and cub-tropical zones have been destroyed due to shrimp farming, lowland agriculture, housing, expansion of settlements, domestic use and accumulation of silt.

The coastal areas of Galle and Moratuwa which were observed during the audit were found to be under threats such as unauthorized filling, unauthorized constructions, salinization, garbage disposal, blocking of estuaries, improper demarcation of lagoon and estuary boundaries and filling of estuaries.

Photo …..Moratuwa Coastal Zone

Photo …..Moratuwa Coastal Zone

No program had been implemented to systematically map the severely endangered sea grasslands in the territorial waters unique to Sri Lanka and it was observed that, therefore the priority of conservation needs at present has not been identified. Adequate attention had not been drawn towards conservation of sea turtles and regulation of turtle conservation centres.

It was revealed that the fiber waste that accumulates in the Harbor was found to be the most difficult waste to collect, store, dispose of and recycle.From the recorded in Sri Lanka about 35 are soft coral reefs, about 208 are hard corals, It is observed that coastal pollution due to human activities has a direct impact on the destruction of the coral reefs. The parties responsible had not prepared guidelines regarding the "snoklin" used for the observation of coral reef and fish. No regulations had been issued to prevent mechanical boat anchoring in coral reef areas.

Although it was proposed to implement 22 activities proposed by the 2018 Coast Conservation and Coastal Resource Management Plan for the conservation of the reefs, no action had been taken to formulate and implement plans for the conservation of the reefs from the year 2018 to the year 2020. Adverse effects of using Seines, Lyla, Surukku fishing methods, cache nets, dynamite and stilt fishing method had not been identified and regulatory methods and guidelines relating thereto had not been implemented.

Coastal erosion may be exacerbated as the sand in the basin of the Panadura fishing Harbor should be excavated and removed so that the sand does not return to shore. It had been excavated, 11,600.5 cubes of sand from the Panadura Fisheries Harbor Basin from the 18th August, 2016 to 20th May2020 and all the sand had been taken out of the Harbor without being dumping into the beach. It was observed that the sand removed from fishing Harbor s without receiving to the coast or to the sea could be exacerbated the coastal erosion, which is a serious social, economic and environmental problem, currently facing Sri Lanka.

Restrictions on these coral reefs are also included in the Wildlife and Forest Conservation Ordinance (Authority 469) and the Coast Conservation and Coastal Resource Management Act No. 57 of 1981. However, areas not designated as Marine Conservation Areas are not regulated under the Wildlife and Forest Conservation Ordinance and are regulated only 2 km from the coast line towards the sea under the Coast Conservation Act. Accordingly, it was observed while the audit the need to identify institutions with specific management responsibilities for the safety and conservation of coral reefs. Currently, the Department of Wildlife Conservation has declared 29 Marine National Parks and these Marine National Parks are regulated in accordance with the provisions of the Fauna and Flora Ordinance. According to the Sustainable Development Goals 14.5, it is expected to conserve 10 percent of the coastal and marine areas by 2020 in accordance with scientific information and national and international laws, but it was observed that only 2 percent was covered.

Prevent and significantly reduce all forms of marine pollution by 2025, especially from marine pollution and nutrient pollution by the activities based on the land. Sustainable management and protection of marine and coastal ecosystems by empowering them to withstand disasters by 2020 and restoring the oceans in a healthy and productive manner.

Declaration of proposed sites as Special Coastal Management Areas in accordance with the provisions of the Coast Conservation Act, preparation and publication of mangrove replanting guidelines and identification of priorities for mangrove conservation, take necessary measures to minimize filling mouth of estuary and demarcate lagoon, estuary boundaries, carrying out conservation activities of corals and sea grasses plain, conducting meetings of the Coast Conservation and Coastal Resource Management Advisory Council and maintaining the functions of the Advisory Council in accordance with the provisions of the Act, conducting meetings of the Coast Conservation and Coastal Resource Management Advisory Council and maintaining the functions of the Advisory Council in accordance with the provisions of the Act, taking necessary action for the conservation of antiquities located in the coastal zone, issuing and complying with seawater quality testing standards, registration of turtle conservation centers and carrying out proper monitoring activities, implementation of methods for disposal of boat, fiber and other waste at fishing harbors and acting accordingly, preparation of guidelines on sand removal techniques by fishing harbors, acting accordingly and monitoring, regulating and monitoring of coastal wastewater treatment and disposal, declaring and conserving marine sanctuaries and taking necessary action for their conservation, maintaining beach landscaping and publishing beach entrances and maintaining a well-coordinated organizational role related to these issues identified in the report.

Evaluation of the Legal Mechanism of Groundwater Management of Sri Lanka and its Function

Groundwater is water that stores approximately 30 percent of the freshwater that has accumulated below the surface of the earth for millions of years, but has a very low annual precipitation rate. One of the reasons for maintaining the surface water and sustainability of the groundwater, is the high availability of sustainable water resources in the Central Hills and the increase in annual moderate rainfall in Sri Lanka is higher than the other countries in the world. The purpose of the audit was to assess the institutional, legal background, monitoring, assessing the quality of groundwater and assessing the measures taken to the conservation of groundwater in relation to groundwater management in Sri Lanka.

According to the national policy to protect and conserve all the water sources their reservations the conservation areas and immediate catchment areas by Gazette No.1894/3 of 22 December 2014, the institution identified for groundwater management is the Water Resources Board. However, a national policy relating to groundwater management had not been formulated and implemented even up to the date of audit. Moreover, it was observed that identification of alternative methods in fulfilling requirements as compared to the demand of groundwater in future and preparation therefor was inadequate.

Even though in terms of Sections 16(1) and 16(2) of the Water Resources Board Act, No.29 of 1964, the Board may make rules as and when required for the purpose of carrying out and giving effects to the principles and provisions for all matters connected with the functions and duties of the Board, rules had been made only once during the period from the year 1964 to the year 2020. Although a fine has been declared as above, it has not been observed under the Provisions Act for sentencing an offender for any offense. Also, by the year 2020, this penalty had not been revised for a period of 21 years. According to the information of Water Resources Board, no fines had been levied as at 12 October 2020.

Determining the extent and quantities of groundwater that can be absorbed for various purposes It was observed that no provision has been made for groundwater abstraction while protecting the soil layer aquifers.It is the role of the Water Resources Board to issue the guidelines for the construction of tube wells. However, it was observed that no guidelines had been issued even up to the year 2020. Moreover, the groundwater division established under the National Water Supply and Drainage Board was also operational as a tube well construction company in Sri Lanka but had not been registered with the Water Resources Board until 16 August 2020.

However, it was observed that a follow up is not being done whether the recommendations are functioning, regarding the controlling of the salinity of water by the Water Resources Board. It was observed that the Water Resources Board had not been given the authority to take action on unauthorized constructions and illegal land acquisition in areas with water sources that supply water to the above tube wells and it was observed that there is a possibility of the waterlogged areas would be threatened.

It was observed that an adequate program is not being implemented for regulate the 77% of industries which conducting water bottling or beverage manufacturing due to non-submission of the water samples to the Water Recourses Board .The Water Resources Board reserves the right to enter and inspect these locations at any reasonable time of the day, with or without prior notice, at any institution or location where products or services are carried out using natural springs or groundwater. In the year 2019, the Water Resources Board had conducted 07 such tests and it was revealed that 4 institutions were using water without conducting water capacity tests and 03 institutions were using water without plumbing fixtures. Out of these institutions, 04 are in the Kurunegala District, one in the Puttalam District, one in the Ratnapura District and the other institution is in the Matale District.

The Water Resources Board has identified the Kalpitiya, Jaffna Peninsula and the Colombo-Negombo coast as sensitive areas for groundwater protection in Sri Lanka. These zones were identified as sensitive zones by a study based on their geological location and should have been declared as sensitive zones by a gazette notification. Although the opportunity to properly manage the identified sensitive areas and take steps to protect them was available through the publication of a gazette notification, but this had not been done accordingly.

Photo: Use of Groundwater

Photo : Use of Groundwater

It has been currently revealed that water is consumed excessively from water courses on the earth and it is very much above the speed of regeneration of groundwater. Six hundred and forty nine times the percentage of the present capacity is projected per month for the districts of Jaffna and Kilinochchi during the 05 ensuing years and it was observed that it was 251 per cent and 230 per cent in the districts of Gamapaha, Vavuniya/Mannar respectively.

A number of 1,229 new tube wells have been constructed from the year 2015 up to the year 2019 and according to the trend of new constructions of tube wells, the increase of constructing tube wells in the districts of Kegalle, Kilinochchi and Mullaitivu had been more than 50 per cent. Due to construction of tube wells in these districts, it was observed that a long term scarcity of groundwater is possible. Moreover, a necessity of preparing and implementing a long term Action Plan relating to sources subjected and not subjected in respect of groundwater pollution in Sri Lanka by research paper examinations carried out so far by Hydrologists.

According to studies carried out in urbanized areas, a large percentage of nitrate was found in the groundwater in those areas and it had been revealed that the issues relating to sanitation and the water drainage quality of the soil had contributed to this situation. However, attention had not been paid towards the causes for increase in the nitrate composition in such manner and to control it.

Accordingly, it was observed that the establishment of a legal system that prioritizes the need for groundwater development as well as the need for water conservation could contribute to the achievement of sustainable groundwater management by the year 2030.

Recommendations such as establishment and implementation of a groundwater policy based on the nature and quality of groundwater levels in the provinces of Sri Lanka, ensuring the precise responsibility for groundwater management, implementing and establishing objectives based on groundwater development and conservation, increasing the focus on groundwater conservation as the Water Resources Board's contribution to groundwater management is important, giving priority to the Northern, North Western, Uva and North Central Provinces in planning groundwater conservation measures, obtaining chemical analysis of groundwater and implementing the relevant recommendations as there is an evolution of various human activities that change the chemical composition of groundwater, coordinate Government departments, local authorities and public corporations to carry out basic data on hydrogeology, research, analysis of reports based on statistical survey plans and proposals, conservation, utilization and development of the country's groundwater resources and assessing the utility and economic viability of coordinating upcoming projects and the ability to sustain those projects, have been made through this report.

Investigative Audit

Transactions/Incidents/Entities Under Investigation

- A specific part of Gampaha, Atthanagalla and Minuwangoda Intergrated Water Supply Project
- Colombo District Eastern City Water Supply Project.
- Kotwila Garbage Collection Centre.
- Erection of unauthorized billboards in Uyanwatta football stadium.
- Recruitments of the Municipal Council of Matara.
- Payment of contributions to employee provident funds and employees' trust funds for organizations providing labor services belonging to the Uma Oya Lower Valley Development Project.
- Animal feed manufacturing factory running in Akurana area.
- Anuradhapura Sivalakulam Agrarian Service Centre.
- Importation of Rice by Co-operative Wholesale Corporation.
- Sale of land belonging to the Land Reforms Commission by a private party.
- Operations of the Galoya Plantations (Private) Limited.
- Functioning of the Central Cultural Fund.
- Debtor balances of Paddy Marketing Board.
- Administration of National Language Education and Training Institute.

Investigative Audit

In order to facilitate the exercise of my statutory powers in relation to state audit, the audit staff has been assigned under various subject audit divisions. There, when there is a need to conduct an investigative audit in relation to a certain transaction or event related to an audit entity, to carry out such investigative audit functions and to support such audits, the National Audit Office has established a Special Investigations Division consisting of officers with training and experience in special investigations and forensic audits.

Transactions and events that I determine to be appropriate for a special audit investigation will be audited in this investigation department, taking into consideration of the public representations received by me as per Section 04 of the National Audit Act No. 19 of 2018, notices from the Committees on Public Accounts and Public Businesses, as well as information published by heads of institutions, the media, and other requirements that I may consider. In some cases the officers of this division may be temporarily assigned to other audit divisions/branches to conduct special investigations.

Quantitatively important inspections among the group of transactions and incidents subjected to such special investigation in the year 2021 are shown below.

Transactions/Incidents/Entities Under Investigation

1. A specific part of Gampaha, Atthanagalla and Minuwangoda Intergrated Water Supply Project
2. Colombo District Eastern City Water Supply Project.
3. Kotwila Garbage Collection Centre.
4. Erection of unauthorized billboards in Uyanwatta football stadium.
5. Recruitments of the Municipal Council of Matara.
6. Payment of contributions to employee provident funds and employees' trust funds for organizations providing labor services belonging to the Uma Oya Lower Valley Development Project.
7. Animal feed manufacturing factory running in Akurana area.
8. Anuradhapura Sivalakulam Agrarian Service Centre.
9. Importation of Rice by Co-operative Wholesale Corporation.

10. Sale of land belonging to the Land Reforms Commission by a private party.
11. Operations of the Galoya Plantations (Private) Limited.
12. Functioning of the Central Cultural Fund.
13. Debtor balances of Paddy Marketing Board.
14. Administration of National Language Education and Training Institute.

However, the duties of this investigation department were limited due to the relative reduction in the office-based performance of the staff of audit and auditee entities, as well as the limited conditions to go out for audit activities during the Covid epidemic situation in the year 2021.

Some of the observations revealed by this investigation unit are appropriately included in the reports to be issued as per Section 11 and 12 of the National Audit Act, the special reports to be issued as per Section 13 of the Act, and the reports tabled as per Article 154 of the Constitution, and certain observations are included in reports issued to management.

However, due to the relatively long time taken for investigative audits and the time required to provide answers to audit observations, as well as the need to review those responses repeatedly, the observations of investigational audits carried out during the year, included in the above reports, are often carried out in subsequent years.

Financial Statements of National Audit Office for the Year Ended of 31 December 2021

Subjects
Statement of Financial Position as at 31 December 2020
Basis of Preparation of Financial Statements
Statement of Financial Performance for the year ended 31 December 2020
Cash Flow Statement for the year ended 31 December 2020

Statement of Financial Position As at 31st December 2021

	Actual	
	2021 Rs	**2020 Rs**
Non Financial Assets		
Property, Plant & Equipment	1,452,785,677	525,720,485
Financial Assets		
Advance Accounts	224,242,476	228,179,389
Cash & Cash Equivalents	-	64,784
Total Assets	**1,677,028,153**	**753,964,658**
Net Assets / Equity		
Net Worth to Treasury	49,419,013	115,790,810
Property, Plant & Equipment Reserve	1,452,785,677	525,720,485
Rent and Work Advance Reserve		
Current Liabilities		
Deposits Accounts	174,823,463	112,388,579
Unsettled Imprest Balance	-	64,784
Total Liabilities	**1,677,028,153**	**753,964,658**

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.

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

W.P.C.Wickramartne
Chief Accounting Officer
Auditor General
18 Februry 2022

G.S.Karunarathne

Chief Accountant
Februry 2022

Form of preparation of financial statements

Basis of Preparation

The financial statements of the National Audit Office have been prepared in accordance with the provisions of Guideline 6 issued by the Department of State Accounts. The statement of financial performance for the year ended 31 December 2021, the statement of financial position as at 31 December 2021 and the cash flow statement is prepared based on following.

Reporting Period

The reporting period for these Financial Statements is from 01st January to 31st December 2021.

Basis of Measurement

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

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

Recognition of Revenue

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

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

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

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

Property, Plant and Equipment Reserve

This reserve account is the corresponding account of Property Plant and Equipment.

Cash and Cash Equivalents

Cash & cash equivalents include local currency notes and coins in hand as at 31st December 2021.

Statement of Financial Performance for the period ended 31st December 2021			
Budget 2021 Rs.		**Actual**	
			Restated
		2021 Rs.	**2020 Rs.**
-	**Revenue Receipts**	348,678,099	302,494,749
-	Income Tax	-	-
-	Taxes on Domestic Goods & Services	-	-
-	Taxes on International Trade	-	-
220,000,000	Non Tax Revenue & Others	348,678,099	302,494,749
220,000,000	**Total Revenue Receipts (A)**	**348,678,099**	**302,494,749**
-	**Non Revenue Receipts**		
-	Treasury Imprests	1,426,015,000	1,420,640,000
-	Deposits	138,531,867	316,938,095
55,000,000	Advance Accounts	83,398,507	63,638,620
-	Other Main Ledger Receipts	4,570,132	17,382,954
55,000,000	**Total Non Revenue Receipts (B)**	**1,652,515,506**	**1,818,599,669**
275,000,000	**Total Revenue Receipts & Non Revenue Receipts C = (A)+(B)**	**2,001,193,605**	**2,121,094,418**
	Remittance to the Treasury (D)	68,514,459	53,256,963
-	**Net Revenue Receipts & Non Revenue Receipts E = (C)-(D)**	**1,932,679,146**	**2,067,837,455**
	Less: Expenditure		
	Recurrent Expenditure		
1,942,750,000	Wages, Salaries & Other Employment Benefits	1,579,046,154	1,451,777,938
310,900,000	Other Goods & Services	242,889,315	273,604,910
16,500,000	Subsidies, Grants and Transfers	13,168,281	14,628,903
-	Interest Payments	-	-
-	Other Recurrent Expenditure	34,698	141,401
2,270,150,000	**Total Recurrent Expenditure (F)**	**1,835,138,448**	**1,740,153,152**
	Capital Expenditure		
35,500,000	Rehabilitation & Improvement of Capital Assets	7,415,964	21,285,201
12,500,000	Acquisition of Capital Assets	4,670,023	19,016,378
-	Capital Transfers	-	-
-	Acquisition of Financial Assets	-	-
20,000,000	Capacity Building	1,445,665	323,300
-	Other Capital Expenditure	-	-
68,000,000	**Total Capital Expenditure (G)**	**13,531,652**	**40,624,879**
	Deposit Payments	76,096,982	266,873,212
	Advance Payments	79,461,594	65,483,738
	Other Main Ledger Payments	4,570,132	17,382,954
	Total Main Ledger Expenditure (H)	**160,128,708**	**349,739,904**
	Total Expenditure I = (F+G+H)	2,008,798,808	2,130,517,935
2,338,150,000	**Balance as at 31st December J = (E-I)**	**(76,119,662)**	**(62,680,480)**
	Balance as per the Imprest Reconciliation Statement	(76,119,662)	(62,680,480)
	Imprest Balance as at 31st December	-	-
		(76,119,662)	**(62,680,480)**

Statement of Cash Flows for the Period ended 31st December 2021

	Actual	
		Restated
	2021	2020
	Rs.	Rs.
<u>Cash Flows from Operating Activities</u>		-
Total Tax Receipts	-	-
Fees, Fines, Penalties and Licenses	348,678,099	302,494,749
Profit	-	-
Non Revenue Receipts		
Revenue Collected on behalf of Other Revenue Heads	77,718,554	72,347,403
Imprest Received	1,426,015,000	1,420,650,000
Recoveries from Advance	85,093,512	65,260,012
Deposit Received	138,531,867	316,938,095
Other Main Ledger Receipts	4,570,132	17,382,954
Total Cash generated from Operations (A)	**2,080,607,164**	**2,195,073,213**
<u>Less - Cash disbursed for:</u>		
Personal Emoluments & Operating Payments	1,830,269,066	1,745,623,520
Subsidies & Transfer Payments	13,168,281	14,628,903
Expenditure incurred on behalf of Other Heads	3,567,631	12,026,740
Imprest Settlement to Treasury	68,514,459	53,256,963
Advance Payments	79,750,590	66,264,543
Deposit Payments	76,096,982	266,873,212
Other Main Ledger Payments	4,570,132	17,382,954
Total Cash disbursed for Operations (B)	**2,075,937,141**	**2,176,056,835**
NET CASH FLOW FROM OPERATING ACTIVITIES(C)=(A)-(B)	**4,670,023**	**19,016,378**
<u>Cash Flows from Investing Activities</u>		
Interest	-	-
Dividends	-	-
Divestiture Proceeds & Sale of Physical Assets	-	-
Recoveries from On Lending	-	-
Total Cash generated from Investing Activities (D)	-	-

<u>Less - Cash disbursed for:</u>		
Purchase or Construction of Physical Assets & Acquisition of Other Investment	4,670,023	19,016,378
Total Cash disbursed for Investing Activities (E)	**4,670,023**	**19,016,378**
NET CASH FLOW FROM INVESTING ACTIVITIES(F)=(D)-(E)	**(4,670,023)**	**(19,016,378)**
NET CASH FLOWS FROM OPERATING & INVESTMENT ACTIVITIES (G)=(C) + (F)	-	-
<u>Cash Flows from Fianacing Activities</u>		
Local Borrowings	-	-
Foreign Borrowings	-	-
Grants Received	-	-
Total Cash generated from Financing Activities (H)	-	-
<u>Less - Cash disbursed for:</u>		
Repayment of Local Borrowings	-	-
Repayment of Foreign Borrowings	-	-
Total Cash disbursed for Financing Activities (I)	-	-
NET CASH FLOW FROM FINANCING ACTIVITIES (J)=(H)-(I)	-	-
Net Movement in Cash (K) = (G) + (J)	-	-
Opening Cash Balance as at 01st January	-	-
Closing Cash Balance as at 31st December	-	-

Special audit reports issued in 2021

Subjects

- Special Audit Report on Manampitiya Sand Mining Project
- Special Audit Report on the operation of the Agrahara Insurance Trust Fund
- Special Audit Report on the Operations of the Galoya Plantation (Private) Limited established for the operations of the Hingurana Sugar Factory.

Special audit reports issued in 2021

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

03 special reports were issued in the year 2021 as described in table 06. Although 18 special reports were issued in the year 2020, due to the bad situation in the country in the years 2020 and 2021, the number of reports issued in the year 2021 was reduced. All those special reports issued in the year 2021 have been tabled in Parliament and arrangements have been made to publish those reports in trilingual on the official website of the National Audit Office for the use of interested parties

No.	Report No.	Name of the Report	Date of the Report	Background of the report
01	SPR/2021/01	Special Audit Report on Manampitiya Sand Mining Project	29 January 2021	With the aim of controlling floods and reducing the existing shortage of sand in Colombo and other areas, the Supreme Court had entrusted GSMB Technical Services (Private) Limited with the work of mining and selling sand. Even after the work of the project was assigned to the company, due to receiving public representations that various irregularities were occurring in

				the running of the project, various reports were published in the media and the fact that several problems related to this subject were identified during the inspections conducted by the audit, this report was issued under Section 13 of the Audit Act No. 19 of 2018.
02	SPR/2021/02	Special Audit Report on the operation of the Agrahara Insurance Trust Fund	10 March 2021	The Agrahara insurance scheme was introduced in year 1997 by the Ministry of Public Administration and Home Affairs with the primary objective of improving the quality of life of all state and provincial government officials and their family members. Accordingly, the audit had received information on various occasions that the expected benefits of this insurance scheme, which was started about two decades ago, were not properly received by the beneficiaries. This special audit report was issued in terms of the powers vested in me under Section 13 of the Audit Act No. 19 of 2018, based on the observations identified in that inspectiona and including the

				information identified through further inspections on the role of Agrahara Insurance scheme.
03	SPR/2021/03	Special Audit Report on the Operations of the Galoya Plantation (Private) Limited established for the operations of the Hingurana Sugar Factory.	23 November 2021	By considering the request made to me by the Secretary of the State Ministry of Development of Minor crops including Sugarcane, Maize, Cashew, Pepper, Cinnamon, Clove, Betel Related Industries and Export Promotion regarding several areas identified as problematic in the operation of the GOPL Company and based on the facts identified from the annual financial audit of these companies since 2017, this audit was conducted in pursuant to the powers vested in me in terms of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka to audit state companies and in pursuant to the powers vested in me by National Audit Act No. 19 of 2018.

Table 06 : Special audit reports issued in the year 2021

Summaries of the matters included in the special audit reports issued in 2021 are shown below.

Special Audit Report on Manampitiya Sand Mining Project

Since the Mahaweli River flows across a plain at the Somawathiya area including Manampitiya in Polonnaruwa district, sand that is washed away from the upper stream of the river constantly deposits in this area. This situation inhibits the flow of the river thus resulting in often floods in Manampitiya and Gallella area inundating houses, farmlands, other lands of the residents in the area and the Polonnaruwa – Batticaloa main road due to overflowing of the Mahaweli River during rainy seasons. The depositing of sand has spread out over the wildlife zone at Somawathiya including Manampitiya. In order to control floods in this area and meet the shortage of sand in Colombo and other areas, mining and sale of sand in Manampitiya area had been entrusted to the GSMB Technical Services (Private) Limited by the Supreme Court in accordance with the judgment bearing No. SC(FR) No 81/04 delivered on 31 March 2008. Accordingly, the Manampitiya Sand Mining Project has been implemented by the Company since 2008.

Although controlling floods has been one of the objectives of the sand mining project, mining had not been carried out according to a systematic plan and mining of sand had only been done up to a distance of 2.7 km along the upper stream of the Manampitiya bridge and the limitation in the use of the wildlife zones in mining sand along the downstream of the river had resulted in constant floods during rainy seasons.

The Company had obtained 102 Artisanal Mining Licences from the Geological Survey and Mines Bureau as at 31 July 2020 for mining sand and 221 sand corridors had been registered within the zone and 190 sand corridors out of the sand corridors registered were in operation. In the years 2018 and 2019, the members of an association called Polonnaruwa Nidahas Tipper Truck Socity had been irregularly appointed as the representatives of the sand corridors and they had been allowed to mine sand by deploying labourers in 217 sand corridors out of 261 registered corridors for the upper stream of the river. Therein, the said Association had employed labourers for sand mining and opportunities had been provided for the representatives of the association to buy 50 per cent of sand thus mined up by making the relevant payments. The great demand prevailing for this river sand from every part of the

country has intensified the vast competition among the buyers
(including the transporters) and under such circumstances, the mediation of the above association to provide of 50 per cent of mined sand to its representatives without following a systematic distribution method had given room for them to illegally sell sand at higher prices in the market.

After supplying the sand that should be issued firstly by the Company on priority basis, out of the remaining 50 per cent of sand that is marketed by the Company, 50 per cent of the remaining quantity had been issued to the registered lorries in Polonnaruwa district and thereafter, the sand further remained was being issued to the buyers from the other areas in order of their arrival.

A fire had broken out at the Manampitiya Project Office on 19 November 2019 and the Police had reported that the fire broken out at the office had not been just an accident. Moreover, the CCTV camera system installed for the project was inoperative at the moment and it was also a questionable matter. Later, the activities of the project had been restarted on 06 January 2020 and sand was being again issued by the registered Lorries of an Association called Polonnaruwa Mahaweli United Tipper Association in a higher percentage of about 75 per cent.

Since the charges paid to various state institutions and money allocated by the Company for various state funds were included as the cost in the determination of price of 1 cube of sand by the Company, it had also affected the sale price of sand in the market.

However, it is mainly observed by this report that measures should be taken to increase the productivity of the project by resuming Project 11 (Lower Stream) which has been halted halfway, including the formulation of a systematic methodology for the issue of sand in order to achieve the intended objectives of the project as per the judgement delivered by the Court

Special Audit Report on the operation of the Agrahara Insurance Trust Fund

The Agrahara Insurance Scheme has been introduced in the year 1997 by the circular No.05/97 of the Ministry of Public Administration and Home Affairs and its main objective is to uplift the livelihood of all public and provincial public officers and their family members. Even though, this insurance scheme has been revised at various occasions, complaints were made to audit stating that the intended benefits are not appropriately received by beneficiaries and as such, this report is issued.

According to the Public Administration Circular No.5/97(vi) of 31 January 1997, the Agrahara Insurance Scheme had been initiated under a contribution of Rs.11 and subsequently the contribution had been increased to Rs.125 and it had been further widened as Agrahara 'Silver' and 'Gold' by contributing Rs.300 and Rs.600 monthly by expressing self-willingness. Furthermore, this insurance scheme had been introduced to government pensioners as well in the year 2016. The contribution of Rs.200 existed at the introduction stage had been increased to Rs.600 and the benefits had been increased up to life time.

Even though, the objective of the Fund is to get all public officers contributed to the Agrahara Insurance Scheme, it was failed to get all public officers contributed to the Fund. Even though, the magnetic cards of various types had been introduced to facilitate to provide benefits, from time to time, the Fund had failed to get the anticipated results even therefrom. Moreover, the benefits of the Agrahara Insurance Scheme need to be paid to the beneficiaries within 10 working days but there were occasions that over 5 months had been taken to inform the beneficiaries about the rejection of their applications. In certain instances, it had taken a long time from 2 to 12 months from the date of receipt of application to pay the benefits. The fund had not taken action to pay contribution for 30,742 applications from 2003 to 2013 and 87,161 after the period from 2013 which had been identified as applications with errors, can be identified as a major problem.

I recommend from this report that this Fund, becoming loss making condition gradually a present needs to be converted into a profit making Fund again and to utilize effectively by providing benefits to the beneficiaries appropriately as expected by the Fund as well as beneficiaries.

Special Audit Report on the Operations of the Galoya Plantation (Pvt) Limited established for the operations of the Hingurana Sugar Factory.

The Hingurana Sugar Factory which was established in the 1960s with the objective of uplifting the local sugar industry was privatized in the year 1993. Being unsuccessful in its privatization, the Factory was taken over by the Government again in 1997 and resumed production, whereas the production process had to be ceased in September 1997.

Measures had been taken to retire the employees who were working in the factory where the production was thus stopped and restructuring of the factory had been initiated in the year 2006.

Under this restructuring process, the approval of the Cabinet of Ministers had been granted in the year 2006 to commence the operations of the Hungurana Sugar Factory as a joint venture between the Government of Sri Lanka and a private sector consortium led by Brown & Company PLC and Lanka ORIX Leasing Company PLC. Accordingly, a shareholding agreement had been entered into with the Government in the year 2009 and the operations of the industry were maintained by a company called Galoya Plantation (Pvt) Ltd (GOPL) which had been established without government contribution during the period 2006-2009.

Accordingly, this report was issued by taking into account the situation during which the company was in operation without any government contribution as well as the situation that cropped up after the agreement was entered into to establish the state-owned company in 2009.

After reaching the shareholding agreement in the year 2009, the company had carried out its share issuance in the year 2010. In this share issuance, 51 per cent of the ownership of the company was retained by the Government while 49 per cent owned by the private sector together with Brown & Company and LOLC.

Although the private sector, which owns the 49 per cent of the shareholdings as mentioned above, should have bring the relevant consideration in cash, the consideration had not so brought in cash and an amount alleged to have been invested by the private sector in the GOPL during the period where the Government did not have ownership in the company in 2006-2009 had been offset as the said consideration. Further, action had been taken to charge 28 per cent interest for the amount alleged to have been invested and it was also observed that loans had been continuously obtained from the subsidiaries of the aforesaid LOLC under the abnormal terms and comparatively higher interest rates for the affairs of the company.

As a result of obtaining loans under high interest rates and in certain cases, under the Compound interest rate, the GOPL had to incur high financial cost. Further, although the company was succeeded in earning a gross profit under numerous fluctuations since the year 2009, it was observed that this high financial cost had mainly contributed to recording continuous losses from the year 2009 to 2020.

Further, it was observed that there was no sufficient direct supervision by the Treasury regarding this state-owned company and the government did not receive any dividends in accordance with the shareholding agreement. In this backdrop, the value of the liabilities in excess of the assets of the company had been Rs. 7,521 million as at 31 March 2020. Furthermore, both the parties had failed to accomplish certain conditions included in the agreement at the time of reaching the shareholding agreement. Although the management of the GOPL had been vested in the GOHL, the continuous operating inefficiency of the GOPL demonstrated that the desired objective had not been met.

Accordingly, this report recommends that the government ownership of the GOPL with 51 per cent shareholdings to the government and maintained using the government properties should be ensured by expanding supervision of the General Treasury with respect to the operations of the company; action should be taken to properly recover the revenue due to the government by making maximum efforts to make the company profitable; the sugarcane farmers should be given fair benefits; and as the current sugar production in the country accounts for only 09 percent of the local sugar requirement, the operations of the company should be steered towards making maximum effort to increase that production and thereby limit the sugar importation in the country.

Consolidated Fund

Subjects

- Government Revenue
- Classification of Government Revenue
- Estimation of Government Revenue
- Expenditure of the Government
- Increase in the Expenditure on Interest
- Deficit of Revenue
- Government investments
- Budget Deficit
- Budget Deficit Mentioned in the Annual Report of the Central Bank of Sri Lanka
- Financing the Budget Deficit
- Growth in the Loan Balance
- Borrowings of the Government.
- Exceeding the Maximum Limit on Liabilities
- Net Debt Per Capita
- Increase in the Payment of Loan Installments and Interest as the Government Revenue is on the Decline

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. Revenue of the Government should be credited to the Consolidated Fund in terms of Article 149 of the Constitution. Articles 150 and 152 of the Constitution state how payments should be made from the Consolidated Fund.

Government Revenue

According to the annual budget estimate for the year 2021 approved by Parliament of the Democratic Socialist Republic of Sri Lanka, the total of the estimated Government revenue through tax and non-taxable sources (excluding foreign grants and revenue from Provincial Councils) amounted to Rs. 1,984,400 million which was an increase of Rs. 437,200 or 28 per cent as compared to the estimated revenue for the preceding year totalling Rs. 1,547,200 million. As compared to the estimated revenue, a revenue of Rs. 1,466,902 million had been collected in the year under review, thus failing to collect a sum of Rs. 517,498 million or 26 per cent of the estimated revenue approved by Parliament .In comparison with the revenue collected in the preceding year amounting to Rs. 1,378,887 million, the revenue collected in the year under review indicated an increase of Rs. 88,015 million equivalent to 06 per cent. Considering the Government revenue as a percentage of the Gross Domestic Product, that represented 9.2 per cent for the preceding year whereas the same had decreased to 8.7 per cent in the year under review. The said ratio being 14.16 per cent in the year 2016 had declined to 8.73 per cent by the year 2021. Particulars are given in Figure 01

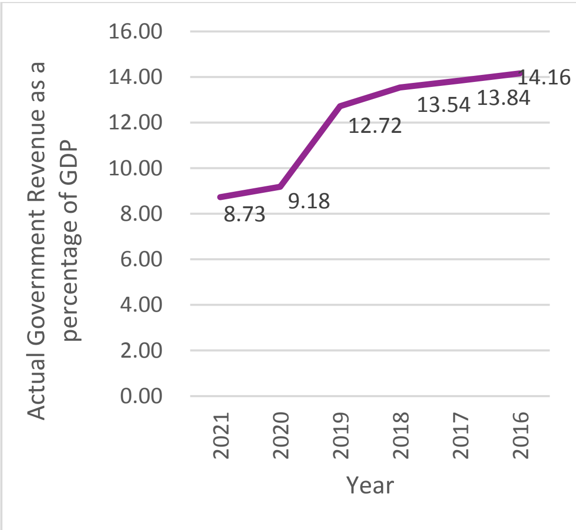


Figure 01: Government revenue as a percentage of the GDP.

Source : Financial statements of the Government and report of the Central Bank of Sri Lanka.

Classification of Government Revenue

Government 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. A tax revenue of Rs. 1,724,000 million had been estimated for the year under review and the estimate had later been revised by deducting Rs. 399,000 million or 23 per cent of the initial value resulting in the new value of Rs. 1,325,000 million. By the end of the year under review, actual tax revenue of Rs. 1,298,019 million had been collected which indicated 75.29 per cent of the initial estimate and 97.96 per cent of the revised estimate. According to the revised estimate on revenue, the income tax, tax on local goods and services, and tax on international trade included in the tax revenue for the year under review, amounted to Rs. 295,000 million , Rs. 647,136 million and Rs. 382,864 million respectively. Of that, sums of Rs. 302,116 million, Rs. 643,086 million and Rs. 352,818 million had respectively been collected by the end of the year under review. Accordingly, revenue through income tax had been collected exceeding the revised estimate by 2.41 per cent or Rs. 7,116 million. A non-tax revenue of Rs. 181,000 million had been estimated in the revised estimate for the year under review whereas 93 per cent or Rs. 168,883 million had been collected therefrom. Particulars on the estimated and actual revenue for the year under review are given in Figure 02.

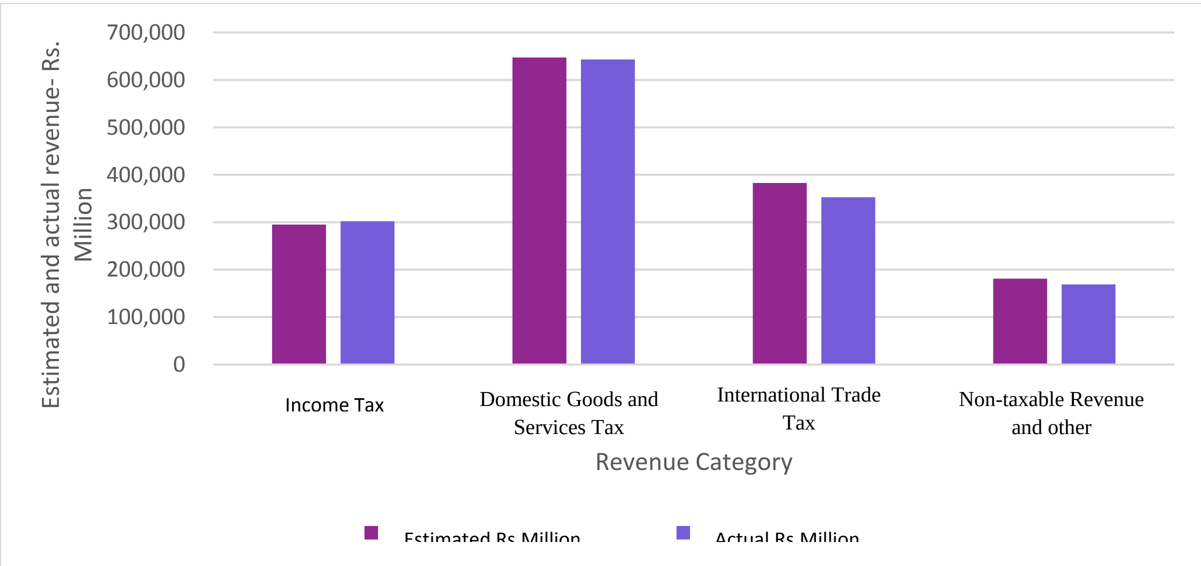


Figure 02 : Estimated and actual tax revenue.

Source : Financial statements of the Government – 2021

Estimation of Government Revenue

The value of GDP for the year 2021 amounted to Rs. 16,809,000 million whereas the GDP for the year 2020 amounted to Rs. 15,027,000 million thus indicating an increase of Rs. 1,782,000 or 11.86 per cent as against the preceding year. According to the annual budget estimate approved by Parliament for the year 2021, the Government revenue amounted to Rs. 1,984,400 whereas the same amounted to Rs. 1,547,200 in the preceding year. As such, the Government revenue had been increased by Rs. 437,200 or 28.26 per cent as against the preceding year in the estimate. The budget deficit had been estimated based on that revenue estimate. Nevertheless, the initial revenue estimate had been revised by the Accounting Officer by Rs. 478,400 million to Rs. 1,506,000 million. The actual revenue of the Government for the year under review represented 8.73 per cent of the GDP. In preparing revenue estimates, increase in the GDP should have been taken into consideration, but without doing so, an overestimation on revenue had been made. Revenue of the Government collected in the year 2021 amounted to Rs. 1,466,902 million which was less than the revised estimate by Rs. 39,098 million. Accordingly, comparison with the revenue estimate presented in Parliament indicated a decrease of Rs. 517,498 million. As for the period of 2012-2021, the decrease in actual revenue ranged from 9.51 per cent to 25.50 per cent as against the revenue estimate presented in Parliament in each year during that period. The highest percentage during that period was reported in the year under review. Particulars are given in Figure 03.

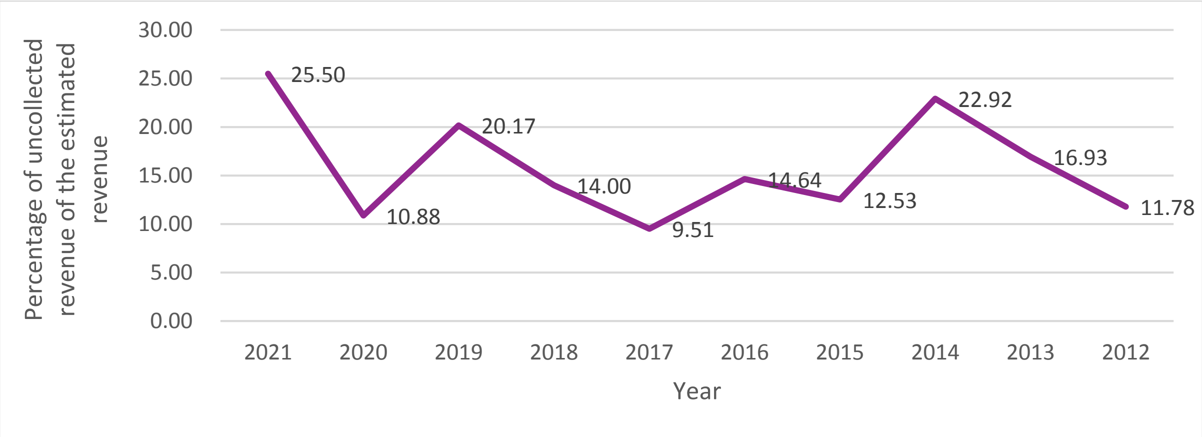


Figure 03 : The uncollected revenue as a percentage of the estimated revenue.

Source : Annual budget estimates and financial statements of the Government – 2021.

According to Financial Regulation 85 (2) (b), the Revenue Accounting Officer should report to the Department of Fiscal Policies to vary the revenue estimates, thus making it possible to revise a Parliamentary-approved revenue estimate without approval of Parliament subsequently. As such, accountability in estimating revenue in a realistic manner had become weak.

Twenty three per cent or Rs. 302,115 million of the total tax revenue of the Government for the year under review amounting to Rs. 1,298,019 million, had been collected through direct taxes whereas 77 per cent therefrom equivalent to Rs. 995,904 million had been collected from indirect taxes. As compared with the preceding year, those percentages stood at 22 per cent and 78 per cent respectively. The impact of indirect taxes on the increase in prices of goods and services was reported with a difference of 01 per cent in the year under review as well as the preceding year. Twenty per cent and 80 per cent of the total tax revenue in the year 2012 had been collected through direct taxes and indirect taxes respectively. As for the period of 2012 – 2021, the direct tax revenue and indirect tax revenue represented 25 per cent and 75 per cent respectively of the total tax revenue for the year 2019- this was the instance in which the direct tax revenue represented 25 per cent of the total tax revenue during that period. Nevertheless, provided the fact that the indirect tax revenue has a direct impact on the general public's cost of living, attention should be brought to collect a higher percentage of the total tax revenue through direct taxes. A description on the direct and indirect taxes collected during the period 2012 – 2021, is given in Figure 04.

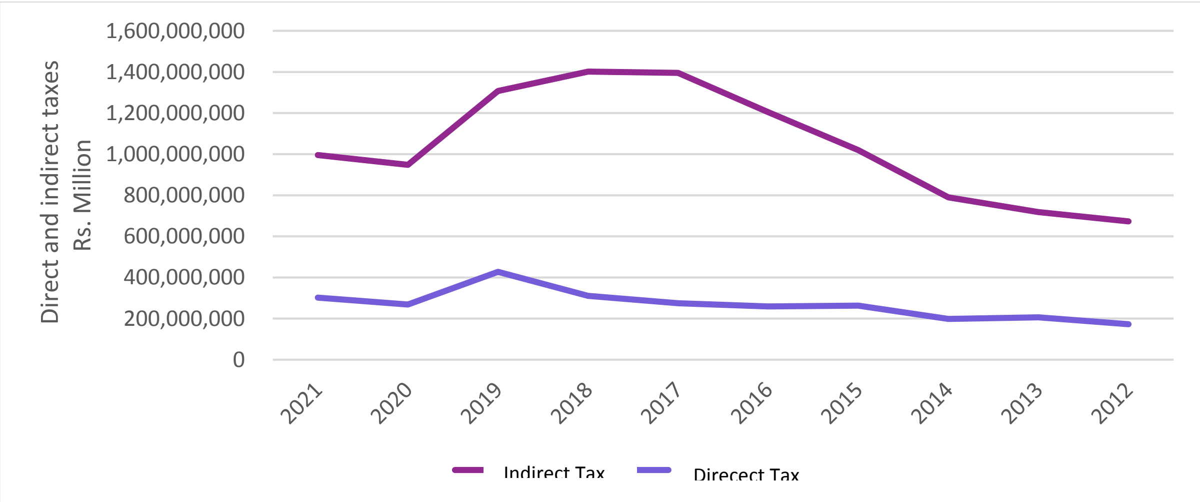


Figure 04 : Collection of Direct and indirect taxes.
Sources : Financial statements of the Government 2012-2021

Amendments made on the Government tax policy in the year 2020 had mainly attributed to the decrease in Government tax revenue in the year 2021. As for the amendments, limit on income tax had been increased whilst the Value Added Tax had been reduced from 15 per cent to 12 per cent, and my observations in that connection was presented in Parliament. As mentioned in the report, it is recommended that the prudence in tax revision be reviewed through an expert committee.

Expenditure of the Government

Legal provisions relating to the Government expenditure for the financial year of 2021 had been made under the Appropriation Act, No. 07 of 2020. Provision totaling Rs. 5,046,538 million was made on supplies and services of the Government including provision for special legal services which were a burden on the Consolidated Fund and approved through the existing laws and provisions of the Appropriation Act. In addition to that, having presented a supplementary estimate in Parliament for the year under review, provision amounting to Rs. 211,844 million had also been made. According to Article 150 of the Constitution, provision amounting to Rs. 162,530 million had been obtained through a warrant on special legal service expenses. Accordingly, a net provision of Rs. 5,420,912 had been made on the supplies and services of the year under review. Particulars are given in Table 07.

Source	Capital Provision Rs. Million	Recurrent Provision Rs. Million	Total Rs. Million
Provision made through Appropriation Act on supplies and services.	1,100,089	1,718,301	2,818,390
Provision on special legal services which were a burden on the Consolidated Fund and approved through existing laws.	1,252,297	975,851	2,228,148
Provision made additionally for expenses on supplies and services. (Through supplimentary estimates)	69,273	142,571	211,844
Provision made additionally on special legal service expenses.	83,000	79,530	162,530
Total	2,504,659	2,916,253	5,420,912

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

Source : Appropriation Act, No. 07 of 2020 and supplementary estimates.

Additional provision amounting to Rs. 365,030 million had been made in terms of Section 06 of the Appropriation Act, No. 07 of 2020 only to be utilized on activities mentioned in Paragraph 3.1 of the annual budget estimate relating to supplementary assistance services and urgent requirements project under the Head 240-development programme of the National Budget Department. A sum of Rs. 363,516 million out of that provision had been transferred to other Heads of expenditure, thus saving a sum of Rs. 1,514 million. Particulars are given in Table 08.

Nature of Expenditure	Through the Appropriation Act	Through Supplementary Estimates	FR 66/69 Transfers	Net Provision	Transfer of Provision to Heads of Expenditure	Saving of Provision
	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million
Recurrent	33,893	131,000	(36,813)	128,080	127,600	480
Capital	131,137	69,000	36,813	236,950	235,916	1,034
Total	165,030	200,000	0	365,030	363,516	1,514

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

Source : Financial statements of the National Budget Department – 2021.

Provision amounting to Rs. 5,420,912 million had been made on supplies and services of the Government for the year under review whereas a provision of Rs. 4,718,158 million had been made thereon for the preceding year. Accordingly, the provision made for the year under review had been increased by Rs. 702,754 million or 14.89 per cent as against the preceding year. As a sum of Rs. 4,879,195 million had been utilized out of the total provision made in the year 2021, ten per cent of that provision amounting to Rs. 541,717 million had been saved. Given below are some of the instances in which savings had occurred out of the provision made on supplies and services of the Government as per the budget estimate of the year under review.

- The net provision made on recurrent expenses totaled Rs. 2,874,192 million. As a sum of Rs. 2,757,343 million had been utilized therefrom in the year under review, provision amounting to Rs. 116,849 million had been saved indicating 04 per cent of the total provision made on recurrent expenses.

- A net provision of Rs. 1,201,353 million had been made on Government investments. As a sum of Rs. 789,636 million had been utilized therefrom in the year under review, provision amounting to Rs. 411,716 million had been saved indicating 34 per cent of the total net provision made.

- Of the net provision amounting to Rs. 1,345,367 million made for settlement of domestic and foreign loan installments, a sum of Rs. 1,332,216 million had been spent for repaying loans. Accordingly, 01 per cent of the net provision equivalent to Rs. 13,151 million had been saved.

Head 422- Provision amounting to Rs. 4,931 million had been made under the State Ministry of Dhamma School, Privenas & Bhikkhu Education in the year under review. However, that provision had been exceeded by Rs. 18 million thereby utilizing a sum of Rs. 4,949 million.

Provision amounting to Rs. 2,874,192 million had been made in the year under review on recurrent expenses, and 96 per cent of that, equivalent to Rs. 2,757,343 million, had been utilized. Provision amounting to Rs. 2,804,651 million had been made in the preceding year on recurrent expenses, and Rs. 2,682,713 million, had been utilized therefrom. As such, 04 per cent of the provision equivalent to Rs. 121,938 million had been saved.

Provision amounting to Rs. 1,201,353 million had been made in the year under review on Government investments, and a sum of Rs. 789,636 million had been utilized therefrom thus saving 34 per cent of the provision equivalent to Rs. 411,717 million. This represented 12.17 per cent as against the preceding year. Provision totaling Rs. 6,137,593 million had been made on Government investments for the 06 year period of 2016-2021 though, only a sum of Rs. 4,115,481 had been utilized therefrom, thus failing to utilize 33 per cent or Rs. 2,022,112 million of the provision so made in that period. Particulars are given in Figure 05.

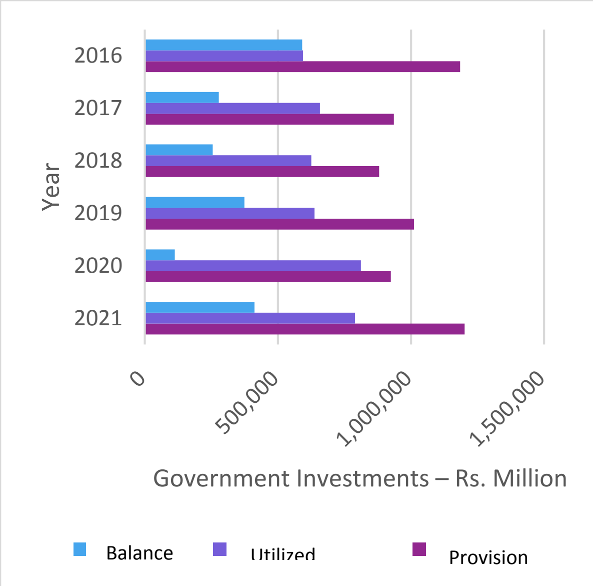


Figure 05 : Utilization and saving of provision made on Government investments during the period 2016-2021.
Source : Financial statements of the Government 2016-2021.

The total of the budgeted expenditure for the year under review amounted to Rs. 5,420,912 million whereas the actual expenditure amounted to Rs. 4,879,195 million. Accordingly, provision amounting to Rs. 541,717 million had been saved out of the estimated expenditure. As mentioned in Paragraph 2.3 of the annual budget estimate of the year 2021, expenses of the Government had been shown under the Cabinet Ministries and State Ministries. Except for the repayment of Government loans and interest on loans under 27 areas identified on that basis, an expenditure of Rs. 2,498,597 million had been incurred under the said 27 areas. A sum of Rs. 658,386 million had been incurred on the public service and Provincial Councils which indicated the highest representation of 26 per cent of the total expenditure excluding the repayment of Government loans and interest thereon. A sum of Rs. 483,220 million or 19 per cent had been incurred on defense, home affairs and disaster management. Thirteen per cent or Rs. 314,472 million had been incurred on health, and manufacturing and supply of drugs. A sum of Rs. 243,219 million or 10 per cent had been incurred on Treasury affairs. Nine per cent or Rs. 213,463 million had been incurred on highways. A sum of Rs. 169,953 million or 07 per cent had been incurred on education, and skills and vocational training. Particulars are given in Figure 06.

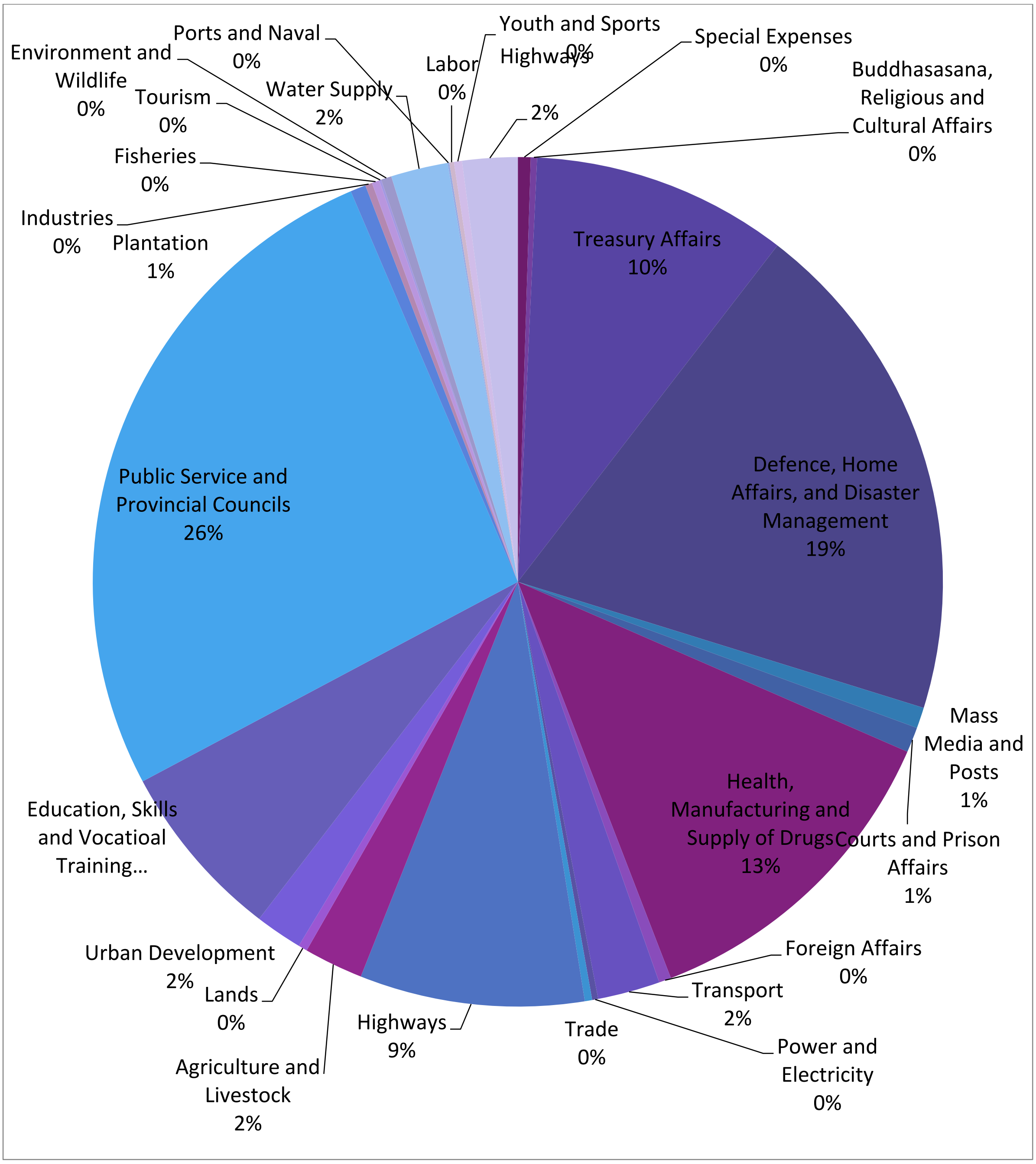


Figure 06 : Expenditure under 27 areas excluding loan installments and interest

Source : Financial statements of the Government – 2021.

Increase in the Expenditure on Interest

A sum of Rs. 1,048,382 million had been incurred on paying interest in the year under review, and the same amounted to Rs. 975,434 million for the preceding year thus indicating an increase by Rs. 72,948 million or 7.48 per cent. The expenditure on interest in the year 2006 amounting to Rs. 150,778 million had increased to Rs. 1,048,382 million by the end of the year 2021 – an increase of 595 per cent as against the year 2006. The total expenditure on interest represented 26.03 per cent of the recurrent expenditure for the year 2006, and that value increased up to 38.02 per cent in the year under review. Furthermore, 31.58 per cent of the Government revenue equivalent to Rs. 150,578 million had been paid on interest in the year 2006, and the same indicated an increase up to 71.47 per cent by the year 2021. Particulars are given in Figure. 07.

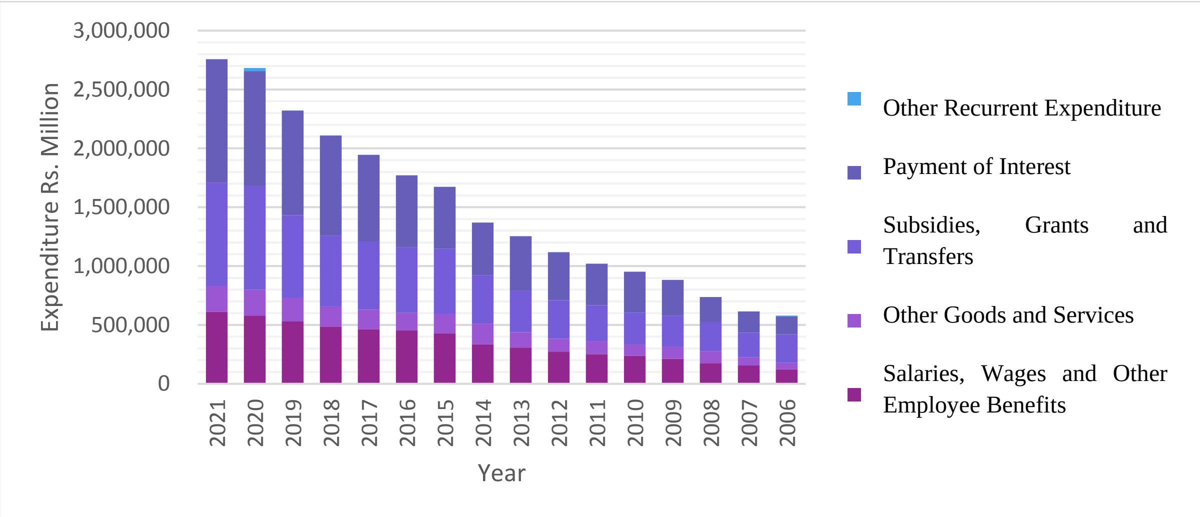


Figure 07 : Total recurrent expenditure and expenditure on interest.

Source : Financial statements of the Government.

Deficit of Revenue

According to financial statements of the year under review presented to Audit, the deficit of revenue amounted to Rs. 1,290,441 million as against the corresponding deficit of Rs. 1,303,826 million for the preceding year. As for the period of 2006-2021, the highest value for revenue deficit was reported in the year 2020. In each year during that period, the collected revenue was insufficient for settling the recurrent expenditure. The minimum of deficit amounting to Rs. 43 Billion in revenue was reported in the year 2007 which represented 7.56 per cent of the collected revenue. During the said period, the deficit in the total revenue amounted to Rs. 4,780 Billion. Domestic and foreign loans, and foreign grants were obtained to bridge the gap. As such, borrowings of Rs. 23,183 Billion were obtained comprising Rs. 16,265 Billion through domestic loans, Rs. 6,704 Billion through foreign loans, and foreign grants totaling Rs. 213 Billion during that period. Having utilized the loans and grants so obtained in each year, the deficit of revenue was financed in the range of 6.86 – 45.59 per cent. With no investments made by utilizing the loans and grants, 20.23 per cent, 45.59 per cent and 42.39 per cent thereof had been utilized in the years 2019, 2020, and 2021 respectively for the settlement of recurrent expenses. Particulars are given in Table 09.

Year	Actual Revenue	Actual Recurrent Expenditure	Deficit in Revenue	Revenue Deficit as a Percentage of the Collected Revenue	Foreign Loans, Grants and Domestic Loans	Revenue Deficit as a Percentage of Loans and Grants
	Rs. Billion	Rs. Billion	Rs. Billion	%	Rs. Billion	%
2006	477	579	102	21.38	514	19.84
2007	57 2	61 5	43	7.52	58 7	7.33
2008	66 4	736	73	10.99	678	10.77
2009	708	88 2	174	24.58	1,019	17.08
2010	826	951	126	15.25	918	13.73
2011	94 3	1,020	77	8.17	998	7.72
2012	997	1,118	122	1224.	1,10 8	11.01
2013	1,066	1,25 4	187	17.54	1,28 9	14.51
2014	1,128	1,370	242	214.5	1,397	17.32
2015	1,394	1,67 3	279	20.01	1,7 50	15.94
2016	1,69 9	1,77 1	72	4.24	1,623	4.44
2017	1,845	1,94 6	101	5.47	1,466	6.89
2018	1,935	2,10 9	174	8.99	1,883	9.24
2019	1,907	2,32 2	414	21.71	2,04 9	20.20
2020	1,37 9	2,68 3	1,304	94.56	2,860	45.59
2021	1,46 7	2,757	1,290	87.97	3,04 3	4239.
Total	19,006	23,786	4,780		23,18 3	

Table 09 : Utilization of loans and grants on the deficit of revenue relating to the settlement of recurrent expenditure.

Source : Financial statements of the Government for the period 2006-2021.

A sum totaling Rs. 1,048 Billion had been paid as interest in the year under review representing 38.02 per cent of the total recurrent expenditure. A sum of Rs. 975 Billion had been paid on interest in the preceding year representing 36.36 per cent of the total recurrent expenditure. Comparison of paying interest with the preceding year indicated an increase of Rs. 73 Billion. Payment of interest in the year 2006 to the total of Rs. 151 Billion had increased to Rs. 1,048 Billion by 594 per cent as of the year 2021. Obtaining loans to finance the budget deficit and paying interest thereon had increased annually. A sum of Rs. 1,048 Billion or 71.74 per cent of the Government revenue collected in the year 2021 totaling Rs. 1,467 Billion had been spent on paying interest. This scenario was annually increasing during the relevant period, and indicated an exponential growth from the year 2019. Particulars are given in Table 10.

Year	Actual Recurrent Expenditure Rs. Billion	Expenditure on Interest Rs. Billion	Expenditure on Interest as a Percentage of Total Recurrent Expenditure %	Actual Revenue Rs. Billion	Payment of Interest as a Percentage of Actual Revenue %
2006	579	151	26.08	477	3166.
2007	615	181	2943.	572	3164.
2008	736	212	28.80	664	31.93
2009	882	303	34.35	708	42.80
2010	951	348	36.59	826	42.13
2011	1,020	353	3461.	943	37.43
2012	1,118	409	36.58	997	41.02
2013	1,254	465	37.08	1,066	43.62
2014	1,370	446	32.55	1,128	39.54
2015	1,673	527	31.50	1,394	37.80
2016	1,771	611	34.50	1,699	35.96
2017	1,946	736	37.82	1,845	39.89
2018	2,109	852	40.40	1,935	44.03
2019	2,322	889	38.29	1,907	46.62
2020	2,683	975	36.34	1,379	70.70
2021	2,757	1,048	38.01	1,467	71.44
Total	23,786	8,507		19,006	

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

Source : Financial statements of the Government for the period 2006-2021.

The revenue of Rs. 620 Billion that should have been collected by the Department of Inland revenue in the year 2021, remained due. Had that revenue been collected in the year 2021, the revenue deficit of that year would have been decreased by 51.94 per cent or Rs. 670 Billion. The revenue due for the years 2019 and 2020 remained Rs. 698 Billion and 579 Billion respectively. Had the due revenue been collected in those years as well, an excess revenue of Rs. 165 Billion would have been resulted in for the year 2019 whilst the revenue deficit for the year 2020 would have been decreased to Rs. 606 Billion by 46.47 per cent. Particulars are given in Table 11.

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

Table 11 : Revenue due for the Department of Inland Revenue and the impact thereof on the deficit of revenue.
Source : Financial statements of the Department of Inland Revenue for the period 2019-2021 and financial statements of the Government.

Loans had been obtained due to reasons such as, failure to accurately prepare the revenue estimates or failing to collect revenue as per the estimates prepared, and failure in managing the expenses economically. As obtaining loans had annually been on the increase, cost for the interest thereon had also increased annually whilst the recurrent expenditure had increased. The deficit in revenue had increased annually due to reasons such as, failure in collecting the estimated revenue as expected, and inadequacy of revenue to settle the expenditure annually owing to the increase in recurrent expenditure. Particulars are given in Figure 08.

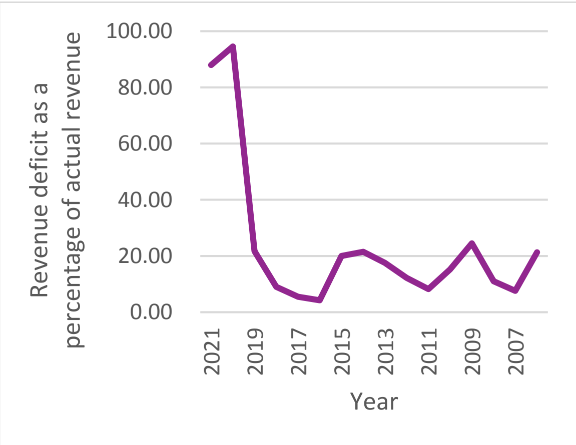


Figure 08 : Revenue deficit as a percentage of actual revenue.
Source : Financial statements of the Government 2006-2021

Government investments

Despite the failure in collecting revenue sufficient to settle the recurrent expenditure during the period 2006-2021, a sum of Rs. 8,199,316 million had been utilized on Government investments during that period. It becomes obvious in analyzing the financial statements that such investments had been funded through Government loans. A sum of Rs. 789,636 had been utilized in the year 2021 on Government investments. The value of Government investments made in the preceding year amounted to Rs. 811,773 million indicating a decrease of Rs. 22,137 million comparing with the utilization of the year under review. The sum of Rs. 789,636 million being the value of Government investments made in the year 2021, had been shown as construction or purchase of physical assets and acquisition of other investments under the expenses of the cash flow generated through investment activities in the cash flow statement. Government investments totaling Rs. 8,199,316 million made during 2006-2021, had been shown as construction or purchase of physical assets and acquisition of other investments in the cash flow statements. Nevertheless, only a sum of Rs. 2,663,594 million therefrom had been recognized as assets before being brought to accounts under financial and non-financial assets in the statement of financial position of the year 2021; thus failing to recognize and account assets valued at Rs. 5,535,721 million or 68 per cent of the amount of Rs. 8,199,316 million being the value of construction or purchase of physical assets and acquisition of other investments shown in the cash flow statements. The value of non-financial assets had not been brought to accounts in the financial statements for the period 2005-2014, and the said values had been brought to accounts since the year 2015. Particulars are shown in Table 12.

Year	Construction or Purchase of Physical Assets and Acquisition of other Investments Rs. Million	Value of Financial and Non-financial Assets Accounted Rs. Million	Value not Accounted as Financial and Non-financial Assets Despite being Spent Rs. Million	Percentage of the Unaccounted Value out of the Expenditure %
2006	197,850	17,697	180,153	91.06
2007	271,191	45,279	225,912	83.3
2008	297,173	45,439	251,734	84.71
2009	365,754	71,819	293,935	80.36
2010	347,007	63,669	283,337	81.65
2011	398,519	49,615	348,904	87.55
2012	471,089	51,591	419,497	89.05
2013	455,578	25,923	429,655	94.31
2014	595,711	64,211	531,500	89.22
2015	683,963	125,266	558,697	81.69
2016	594,013	361,771	232,242	39.1
2017	657,530	500,300	157,230	23.91
2018	625,310	294,160	331,150	52.96
2019	637,219	304,949	332,269	52.14
2020	811,773	489,705	322,068	39.67
2021	789,636	152,200	637,436	80.73
Total	8,199,316	2,663,594	5,535,721	67.51

Table 12 : Financial and non-financial assets generated through Government investments/ construction or purchase of physical assets and acquisition of other investments being understated in the accounts.

Source : Financial statements of the Government for the period 2006-2021.

Budget Deficit

According to financial statements of the Government, budget deficit of the year 2021 amounted to Rs. 2,080,078 million representing 12.37 per cent of the GDP. Budget deficit of the year 2020 amounted to Rs. 2,115,599 million or 14.08 per cent of the GDP. There existed a budget deficit throughout the entire period of 2006-2021, and the budget deficit of Rs. 299,705 million in the year 2006 had become Rs. 2,080,077 million by the year 2021. The highest value of budget deficit during that period had been reported in the year 2020. Considering the budget deficit as a percentage of the GDP for the period 2006-2021, that percentage ranged between 5.55 per cent and 14.08 per cent. According to Section 3(a) of the Fiscal Management (Responsibility) Act, No. 03 of 2003, the actual budget deficit should have been maintained at 05 per cent of the actual GDP, but that limit had not been maintained in any year during that period. That limit had been maintained at 5.55 per cent, 5.69 per cent and 5.59 per cent for the years 2016, 2017, and 2018 respectively. Particulars are given in Figure 09.

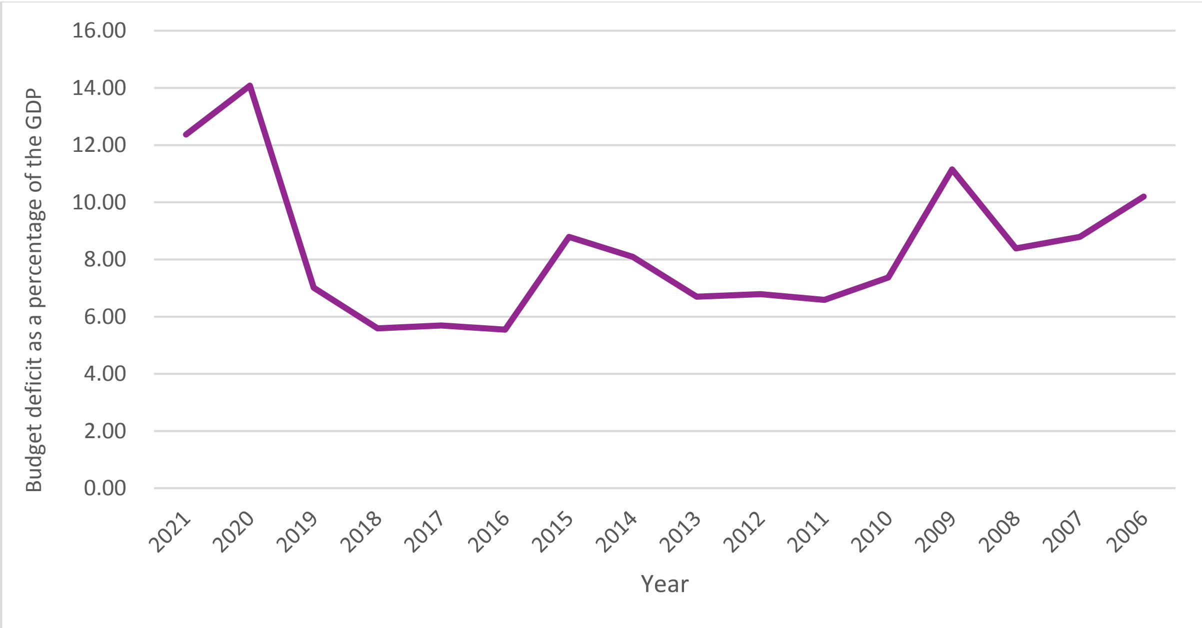


Figure 09 : Budget deficit as a percentage of the GDP

Sources : Annual reports of the Ministry of Finance and financial statements of the Government 2006-2021.

According to financial statements of the Government, the estimated budget deficit of the year under review amounted to Rs. 2,569,545 million whilst the budget deficit of the preceding year amounted to Rs. 2,196,859 for the preceding year. As compared to the preceding year, the deficit had increased by Rs. 372,686 million or 17 per cent. The actual budget deficit of the year under review amounted to Rs. 2,080,078 million as per the financial statements of the Government and the actual budget deficit of the preceding year amounted to Rs. 2,115,599 million.

Accordingly, the actual budget deficit of the year under review had decreased by Rs. 35,521 million as against the preceding year. Moreover, the actual budget deficit had decreased by 19 per cent or Rs. 489,467 million against the budget deficit estimated for the year under review.

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

There existed differences between the budget deficit mentioned in the financial statements of the Government and annual report of the Central Bank of Sri Lanka. The Department of Fiscal Policies informed in this connection that the financial statements of the Government had been prepared based on the classification of accounts, and the budget deficit mentioned in the annual report of the Central Bank of Sri Lanka had been computed in accordance with economic classification. The value of budget deficit amounted to Rs. 2,058,925 million in accordance with the annual report of Central Bank of Sri Lanka for the year 2021 whereas that value amounted to Rs. 2,080,078 million as per the financial statements of the Government, thus indicating a difference of Rs. 21,153 million.

Financing the Budget Deficit

Considering the financial statements of the Government, the budget deficit of the year under review had decreased by Rs. 35,521 million or 1.68 per cent as against the preceding year. In order for the budget deficit to be bridged, net foreign borrowings totaling Rs. 13,901 million had to be settled in the year under review. Accordingly, a net value of Rs. 1,717,712 million had to be obtained through domestic loans to overcome the budget deficit.

As such, a higher contribution which indicated 82 per cent of the total financing, had been made through domestic loans for financing the budget deficit in the year under review.

Growth in the Loan Balance

More borrowings had been obtained in the face of budget deficit increasing annually. By the end of the year 2021, the financial statements of the Government showed that the loan balance payable by the Government, totaled Rs. 16,826,831 million comprising a balance of Rs. 9,985,947 million on domestic loans and a balance of Rs. 6,840,884 million on foreign loans. The loan balance of the Government in the year 2020 totaled Rs. 14,692,492 million. Accordingly, the loan balance had increased by 14.53 per cent or Rs. 2,134,339 million in the year 2021 as against the year 2020. The loan balance of the year 2006 amounting to Rs. 2,430,871 million represented 82.72 per cent of the GDP, and by the end of the year 2021, the loan balance reached Rs. 16,826,831 million representing 100.11 per cent of the GDP. According to Section 3(f) of the Fiscal Management (Responsibility) Act, No. 03 of 2003 as amended by the Fiscal Management (Responsibility) (Amendment) Act, No. 15 of 2013 and No. 12 of 2021, liabilities of the Government should have been maintained by less than 80 per cent of the GDP. Nevertheless, only the Government's liability on borrowings had exceeded that limit thus reaching 100.11 per cent excluding the other liabilities. This situation existed even in the year 2020. Particulars are given in Figure 10.

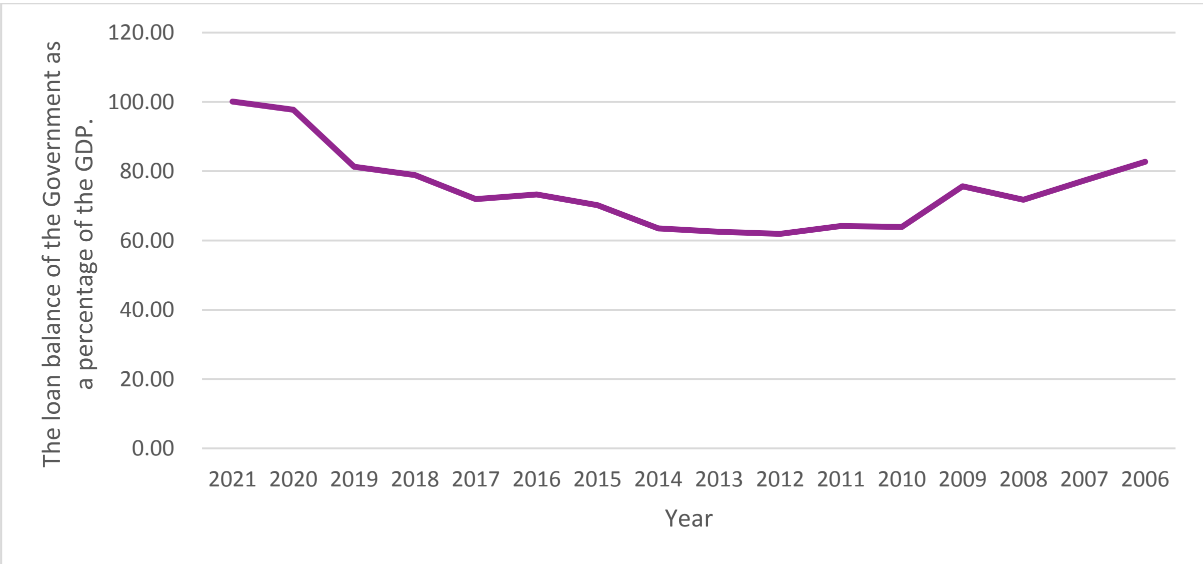


Figure 10 : The loan balance of the Government as a percentage of the GDP.
Sources : Financial statements of the Government and annual reports of the Central Bank of Sri Lanka.

Borrowings of the Government.

Parliament shall have full control over public finance including borrowings of the Government in terms of Article 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka. Parliamentary approval should be obtained on all the loans of the Republic. In terms of Section 2.1(b) of the Appropriation Act, No. 07 of 2020 as amended by Appropriation (Amendment) Act, No. 26 of 2021, expenditure of the Government shall be met from borrowing made in the financial year 2021 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 2021 or at the end of the financial year 2021 shall not exceed rupees two thousand nine hundred ninety seven billion and the details of such loans 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. Nevertheless, the difference between the total short-term borrowing raised during the financial year 2021 and the total settlement of short-term borrowing made during the financial year 2021 shall only be considered in deciding the volume of short-term borrowing for the purposes of calculating the borrowing made during the financial year 2021 as specified in this section. Approval had been given by Parliament that borrowing be made subject to those provisions. According to financial statements of the Government, loans totaling Rs. 3,036,026 million had been obtained in the year under review comprising foreign borrowing of Rs. 516,606 million and domestic non-bank loans amounting to Rs. 2,519,420 million (inclusive of net loans obtained through Treasury bills). Comparing this with the total borrowing of Rs. 2,854,791 million for the preceding year (inclusive of net loans obtained through Treasury bills) indicated an increase by Rs. 181,235 million or 6.34 per cent. The Government had drawn more attention in the year under review on borrowings made domestically. Comparison of domestic borrowings made in the year under review with the domestic borrowings of Rs. 2,253,903 million made in the preceding year (inclusive of net loans obtained through Treasury bills), an increase of Rs. 265,517 million or 11.78 per cent was observed. A comparison between the borrowings obtained in the year under review and the preceding year is shown in Table 13.

Description	2021	2020
	Rs. Million	Rs. Million
Foreign Borrowings	516,606	600,888
domestic Borrowings		
Treasury Bills (Net)	649,336	723,705
Treasury Bonds	1,761,979	1,332,069
Foreign Currency Banking Unit (Non-project)	(102,352)	50,635
Development Bonds	207,504	93,679
Foreign Currency Banking Unit (Non-project)	2,953	3,815
Domestic Term Loan Facilities	-	50,000
Total Domestic Borrowings	2,519,420	2,253,373
Total Borrowings Made During the Year	3,036,026	2,854,791

Table 13 : Domestic and foreign borrowings made by the Government.

Source : Financial statements of the Government.

According to financial statements of the Government, the total loan balance of the Government (excluding the overdraft) payable as at 31 December 2021, amounted to Rs. 16,826,831 million, and a comparison of this value with the total loan balance of the Government amounting to Rs. 14,692,492 million as at 31 December 2020 (excluding overdraft), an increase by Rs. 2,134,339 equivalent to 14.53 per cent was indicated. A description on the total borrowings of the Government by the end of the preceding year and the year under review is given in Table 14.

Description	Balance as at 31 December	
	2021	2020
	Rs. Million	Rs. Million
Treasury Bills	2,270,712	1,621,375
Treasury Bonds	6,937,928	5,689,504
Rupee Loans	24,088	24,088
Sri Lanka Development Bonds	460,078	491,857
Domestic Loans through Foreign Currency	139,301	227,418
Foreign Currency Banking Unit (Projects)	20,247	19,348
Loans on the Construction of “Suhurupaya” Building	5,120	5,689
Treasury Bonds (*************)	30,000	30,000
Loans on Pensions Gratuity	52,995	57,065
Lease Creditors	478	732
*************	45,000	50,000
Total Domestic Loans	9,985,947	8,217,076
Foreign (Projects)	3,779,702	3,576,769
**********	445,521	279,612

International Sovereign Bonds	2,615,661	2,619,035
Total Foreign Borrowings	6,840,884	6,475,416
Total Loan Balance of the Government	16,826,831	14,692,492
Estimated GDP	16,508,000	16,003,000
Total Loan Balance of the Government as a Percentage of the Estimated GDP	101.93	91.81

Table 14 : Classification of loan balances by the end of the year.

Source : Department of State Accounts / Financial statements of the Government.

Exceeding the Maximum Limit on Liabilities

According to the Fiscal Management (Responsibility) Act, No. 03 of 2003 as amended by the Fiscal Management (Responsibility)(Amendment) Act, No. 15 of 2013 and No. 12 of 2021, the maximum value of liabilities by the end of a certain year should be maintained under 80 per cent of the GDP estimated for that year. Nevertheless, taking into account the foreign borrowings not brought to accounts as at 31 December and the liabilities relating to miscellaneous public enterprises that had been brought to accounts external to the statement of financial position, liabilities had been incurred by exceeding that limit in the year. Particulars are given in Table 15.

Liability	Value of Liabilities As at 31 December 2020
	Rs. Billion
Overdraft	832
Borrowings of the Government (As per the financial statements of the Government)	16,826
Advances of the Central Bank	150
Liabilities Unaccounted in the Financial Statements	
- Foreign Borrowings Accounted External to the Balance Sheet	311
- Unaccounted Foreign Borrowings	17
Total Liability	18,136
Estimated GDP	16,508
Total Liability as a Percentage of the Estimated GDP	109.9

Table 15 : Exceeding the maximum limit on liabilities.

Source : Financial statements of the Government.

The sum of Rs. 1.58 Billion being the value of securities and relief letters provided for the banks in respect of loans obtained by the public enterprises under securities of the Treasury along with the sum of Rs. 334 Billion shown in the statement of liabilities in the annual financial statements relating to the foreign currency units , Ministries and Departments, had not been included in the aforesaid liabilities.

Net Debt Per Capita

Figure 11 illustrates the debt balance of the Government, annual average population, and net debt per capita relating to the preceding 08 years.

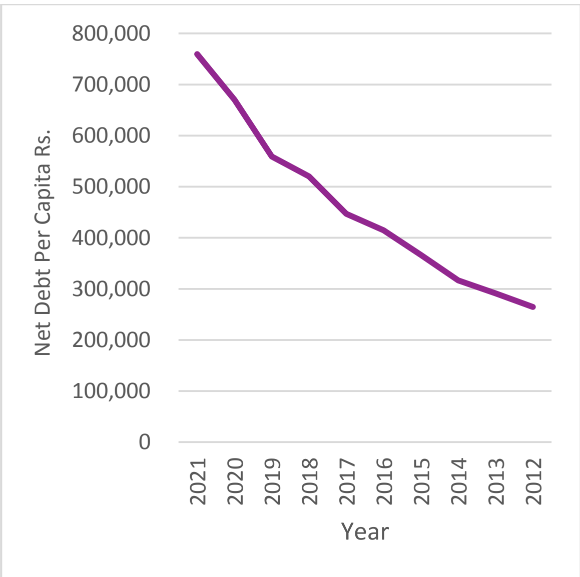


Figure 11 : Net debt per capita.
Source : Financial statements of the Government / Annual reports of the Central Bank.

According to the information mentioned above, comparison of the total debt of the Government against the annual average population indicated that the value of net debt per capita amounting to Rs. 264,811 as at 31 December 2012 had increased to Rs. 759,471 by 31 December 2021. Furthermore, comparing that with the net debt per capita as at 31 December 2020 amounting to Rs. 670,308, an increase by Rs. 89,163 or 13.30 per cent was observed.

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

Net payment of loans (domestic and foreign) had increased by Rs. 369,317 million whilst the payment of interest on loans had also increased by Rs. 72,948 million or 7.48 per cent in the year under review as against the preceding year. The collected revenue remained inadequate for paying loan installments and interest in the year under review as well as in the preceding years. Particulars are given in Figure 12.

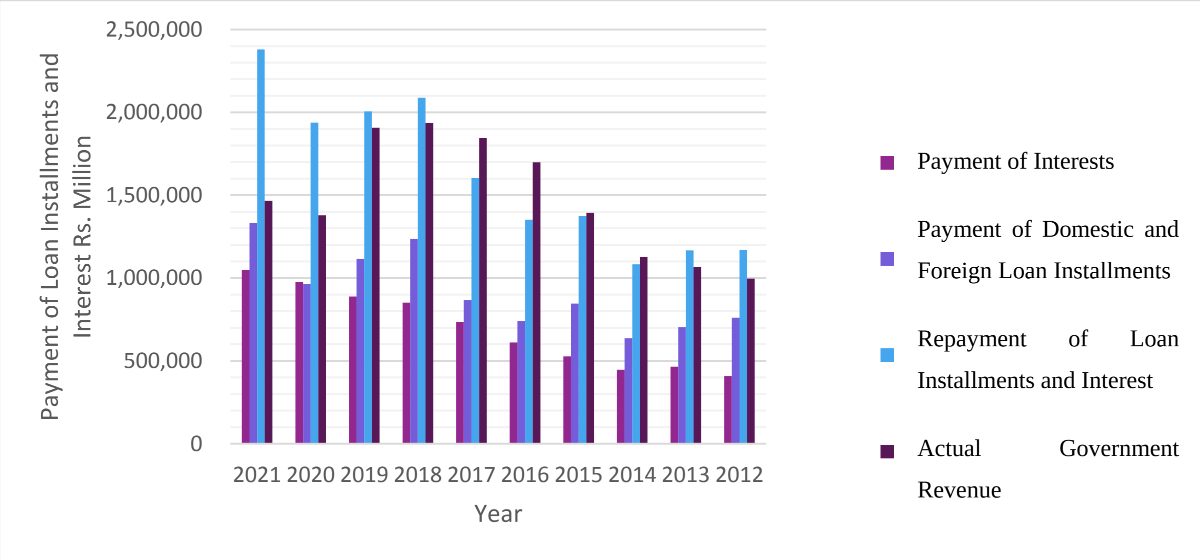


Figure 12 : Inadequacy of collected revenue for paying loan installments and interest.

Source : Financial statements of the Government.

State owned limited liability Companies

Subjects

- **Submission of financial statements for audit**
- **Sri Lankan Airlines Limited**
- **Auditor General's Opinion on Financial Statements of State-owned Companies**

State owned limited liability Companies

State owned limited liability Companies include companies registered or deemed to be registered under the Companies Act No. 07 of 2007, in which 50 percent or more of their shares are held by the Government or by a public corporation or a local authority. There were 125 state owned Companies included in the direct audit of the Auditor General by the end of the year 2021, of which 70 Companies had not submitted financial statements for the year 2021 even as at 20 September 2022, and only 55 companies had submitted financial statements. Figure 13 is the sectorial classification of the 125 state-owned Companies by the Department of Public Enterprises.

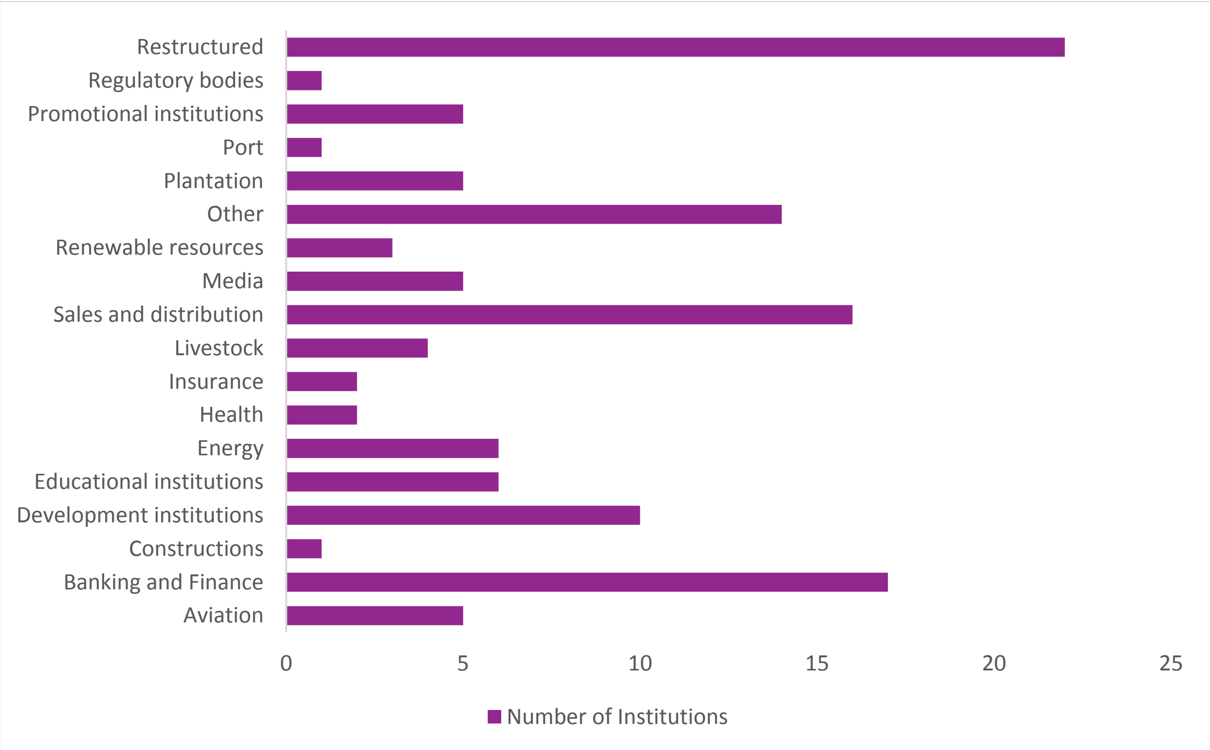
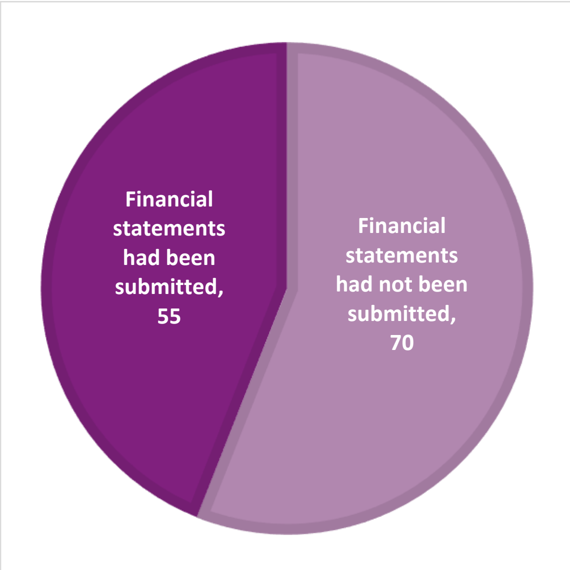


Figure 13 : Department of Public Enterprises Sectoral Classification of 125 state owned Companies

Among these 125 companies, one company related to the electricity sector has obtained an interim order from the court by preventing its company from being audited by the Auditor General, so the company has not been able to be audited.

Submission of financial statements for audit

Below is the summary of submission of financial statements for audit by 125 state owned companies falling under the purview of the Auditor General.



According to the financial statements submitted to the Auditor General for the year 2021, the cumulative profit before tax reported in respect of the 55 state-owned Companies was Rs. 41,283 million, and 20 Companies had reported pre-tax losses during the year under review. The cumulative loss was Rs. 2,865 million. 34 companies had reported profit during the year under review. Airport and Aviation Services (Sri Lanka) (Private) limited, Independent Television Network Limited, Magampura Port Management Company and Hotel Developer Lanka Limited were among the state companies that received pre-tax losses of more than Rs.100 million. According to the financial statements submitted to the Auditor General for the year 2021, the total assets of the 55 audited state-owned companies were Rs.665,090 million.

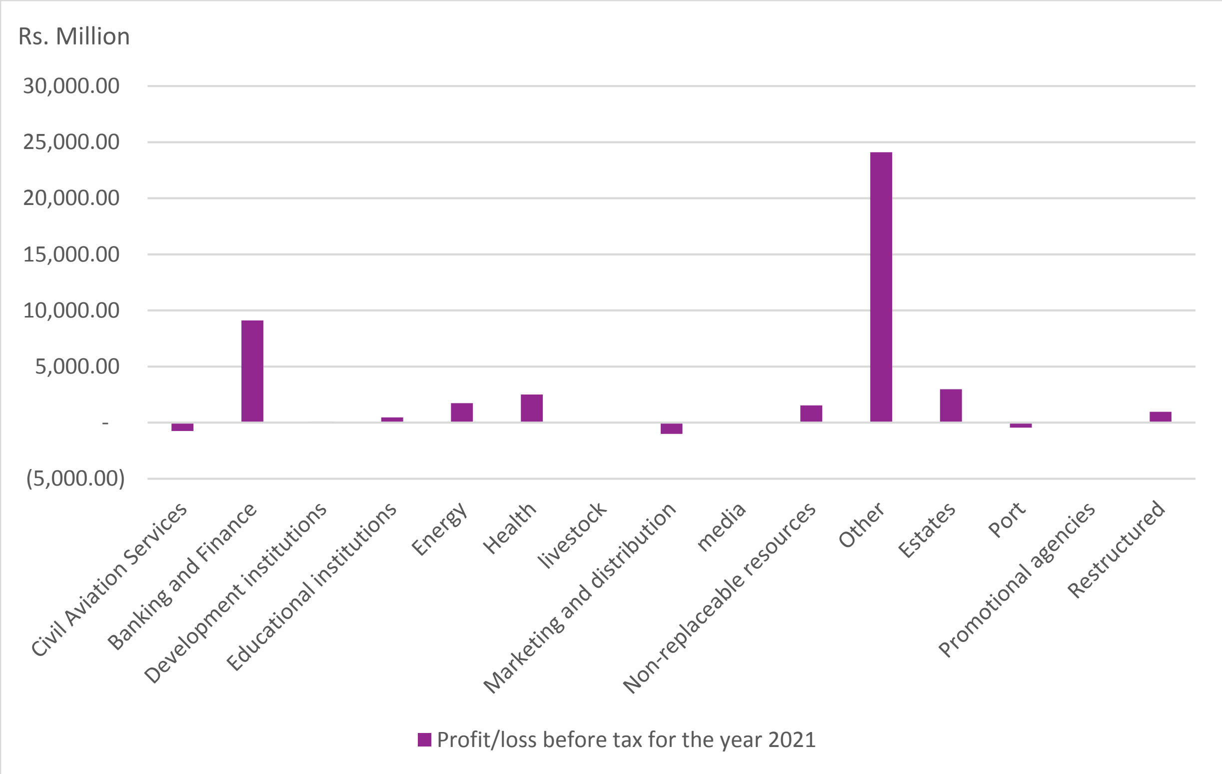


Figure 14 Profit/Loss before tax for the year 2021

Sri Lankan Airlines Limited

Air Lanka Company converted a Sri Lankan Airlines company from the year 1998 and Sri Lanka Airlines Limited was conducted as a ten years Strategic partnership Business with Emirates from 1998 to 2008. In 2008 management was handed over to local management. As per the Extra Ordinary meeting held in 2021 share capital of the company has increased by adding the allowances given by the government amounting to Rs.44,743.23 Million during the year and 20/21.Therefore government contribution on the capital of the company has increased up to Rs.95,900 million or 99.56 percent from Rs.51,157 million or 99.11 percent.

As at 31 March 2021, 12 narrow body and 12 wide body rented air crafts were in service but among them 4 aircrafts are not in operation or they in underutilized. Employees of the company as at 31 March 2022 were 5,965.

Net loss for the year ending 31 March 2021 of the company was Rs.45,674 million and cumulative loss as at the date was Rs.372,015 million and the net assets value of the company as at that date was a negative value of Rs.289,574 million. Therefore there is a serious issue of going concern of the company. However the general treasury has guaranteed on the approval of the cabinet of ministries to the audit that government will give support to the company for the going concern.

As at 31 March 2021 total loan which have been taken from 2 state banks was Rs.71,621 million and the balance of international bond was Rs.34,909 Million as at that date.

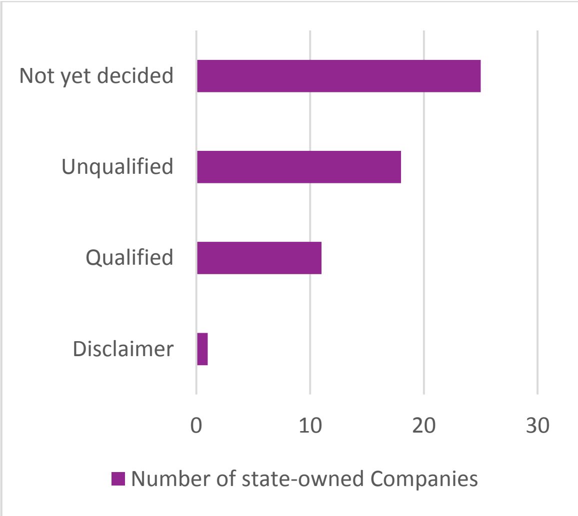
There were 11 corporate plans had been prepared for the company for the period from 2010 to 2021. However targets of these plans couldn't be achieved. The Decision for purchasing six (06) A 330-300 aircrafts and four (04) A350-900 aircrafts, leasing another four (04) A350-900 aircrafts and sell and lease back of above six (06) A 330-300 aircrafts had been taken by the Board of Directors of the Company in 2013 without obtaining approval of the Cabinet of Ministers and without making a proper cost benefit analysis.

Meanwhile, the Company is in negotiation with Airbus SAS Company to amend the purchase agreement of four (04) no. of A350-900 aircrafts which were scheduled to be delivered in 2020 and 2021 to replace with A321 NEOs and/or A330 NEOs and as at the reporting date amounting to Rs.2,528.12 million (USD 19.21 million) had been paid to Airbus as pre-delivery payment. However, no final decision had been taken until 31 March 2022. However, 6 No. of A330-300 Aircrafts were purchased, sold and leased back in 2013 and 2014.

Further, a sum of Rs.16,924.36 million had paid as compensation in the process of revocation of lease agreements for obtaining four (04) A350-900 aircrafts on lease which was scheduled to be delivered in the year 2016/2017. Moreover, it was revealed in the Judgement of the Crown Court in the United Kingdom, that employees of the Airbus had agreed to make payments to a company own by the wife of then Chief Executive Officer of Sri Lankan Airlines relevant to this transaction. No action had been taken by the Company against former CEO and recovers the damages.

Auditor General's Opinion on Financial Statements of State-owned Companies

Regarding the financial statements submitted for audit by the end of 2021 by state-owned Companies, the Auditor General's conclusion regarding whether the financial information shown therein reflects a true and fair situation and the compliance of the financial statements with Sri Lankan Accounting Standards, is expressed in the audit opinion. Below is the form of the Auditor General's opinion regarding 55 state-owned Companies that have submitted financial statements.



Specialized Business Enterprises

Subjects

- **Performance of Specific Business Enterprises**
- **Financial performance**
- **Auditor General's opinion on financial statements presented by Specific Business Enterprises**

Specialized Business Enterprises

Certain entities have been introduced as special business enterprises under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the regulations made thereunder. This Act applies to the preparation, presentation and audit of financial statements of certain identified business enterprises with effect from 01 January 1999.

Accordingly, Special Business Enterprises (SBE) include companies engaged in the business activities of banking, insurance, leasing, securitization, financial services, fund management, stock brokerage, all companies listed under Colombo Stock Exchange and Companies with revenue above Rs.500 million, Companies having an equity capital of more than Rs.100 million, Companies having gross assets above Rs.300 million, Companies with liabilities of more than Rs.100 million to banks and other financial institutions, Companies employing more than 1,000 staff and public corporations engaged in selling goods or providing services. Each of these specialized business enterprises is required to prepare their financial statements in accordance with Sri Lanka Accounting Standards, and the accounts of each specialized business enterprise are audited by professionally qualified auditors who are members of the Institute and hold a certificate issued by the Institute to practice the profession.

According to Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka, the functions and duties of the Auditor General include "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, shall be audited".

According to information from the Sri Lanka Accounting and Auditing Standards Monitoring Board, 1681 entities are listed as Special Business Enterprises (SBE) and according to the National Audit Act, 45 public corporations excluding state owned companies are considered as Special Business Enterprises (SBE) under the purview of the Auditor General at the end of 2021. According to the classification of institutions presented by the Department of

Public Enterprises, those Special Business Enterprises can be classified as follows.

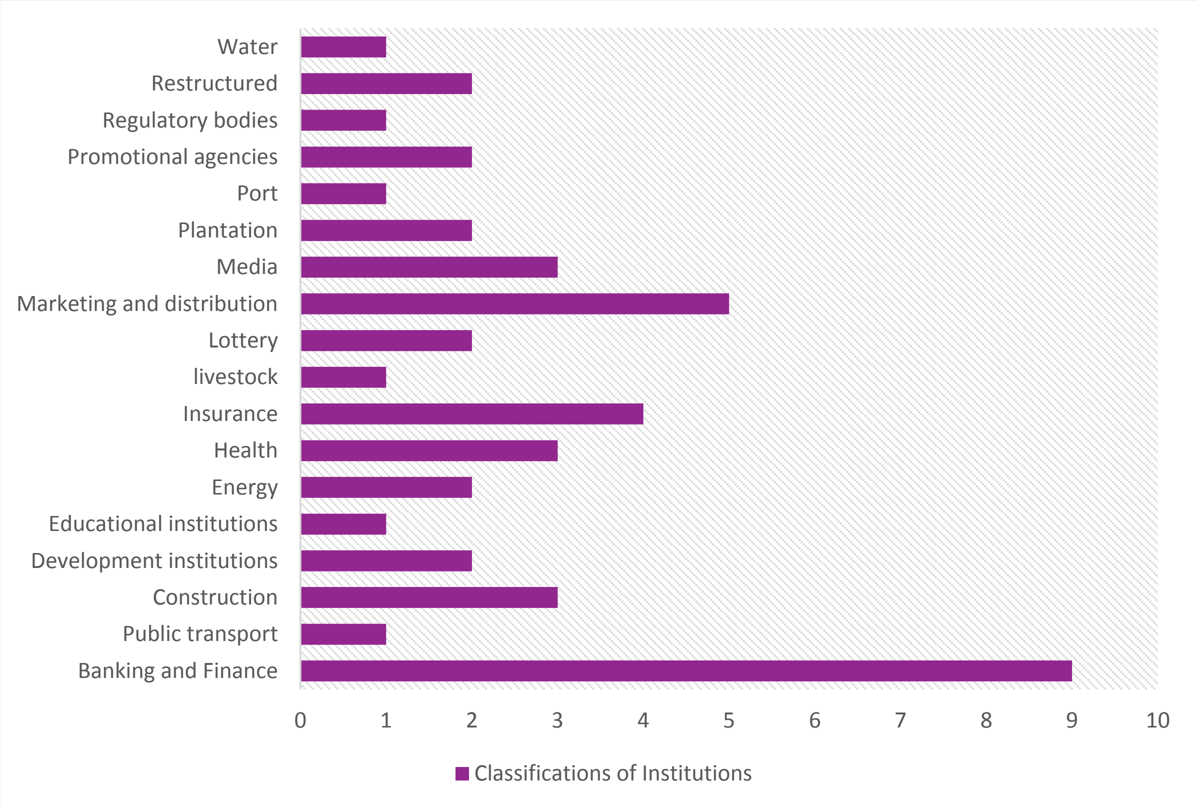


Figure 15 : Classification of Specialized Business Enterprises

Performance of Specific Business Enterprises

Most specialized business enterprises are public corporations established by an Act of Parliament to achieve a specific purpose. Even if some specific business enterprises are in a loss-making situation, they have to continue considering its social benefit. It is not optimal to consider profit as a performance measure, and the extent to which enterprises contribute to those dominant social needs should be taken into account.

There the need for performance audit is strongly highlighted, and there are specific objectives of establishing each enterprise, and in the performance audit, it is examined whether the specific business enterprises have used resources efficiently, economically and effectively to achieve one objective.

Financial performance

According to the financial statements submitted to the Auditor General for the audit, apart from 07 banks and financial institutions, 26 other businesses have earned a cumulative pre-tax loss of Rs.72,281 million in the year 2021, and the segment breakdown of which is as follow.

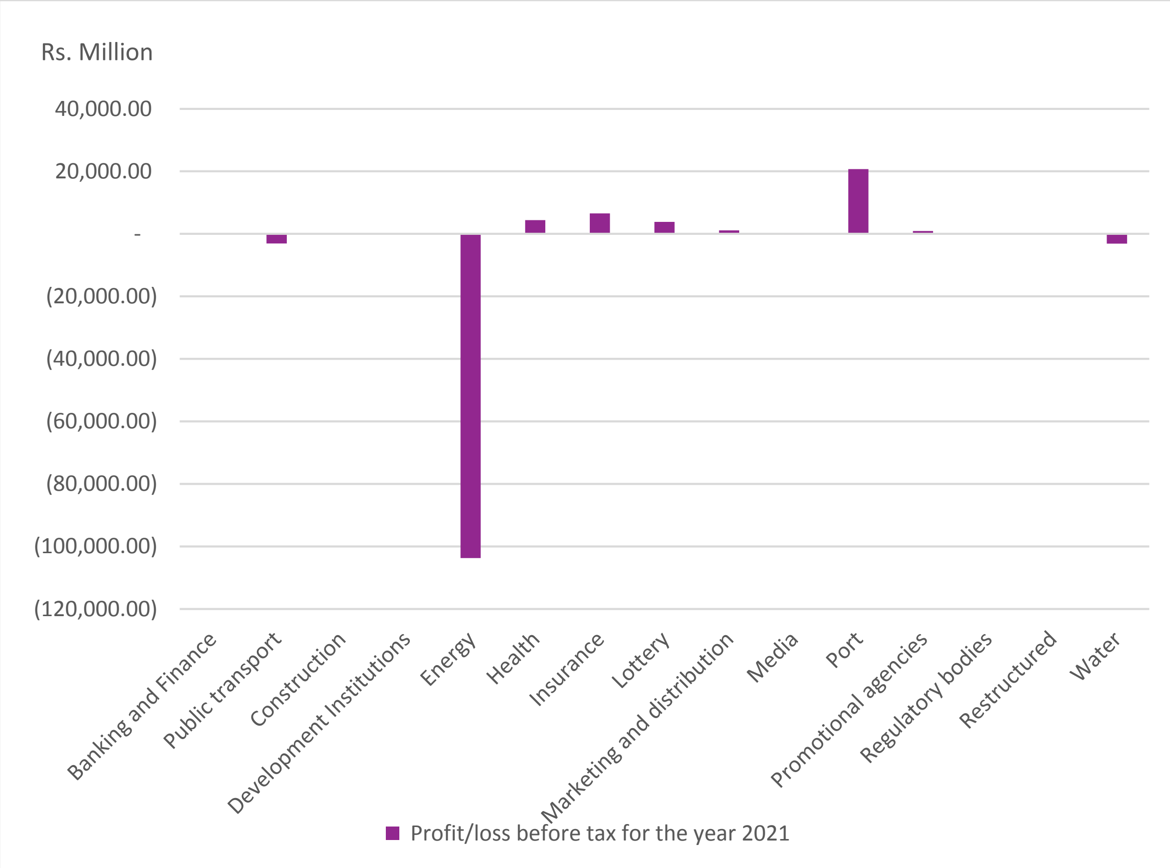


Figure 16 : Profit/Loss before tax for the year 2021

Out of 26 entities (excluding banks) that submitted financial statements, the financial performance of 06 entities was deficient and their cumulative pre-tax loss was Rs.110,177 million. The pre-tax profit of 20 entities aggregateing to Rs. 37,896 million. At the end of the year 2021, the main institutions that reported a loss of more than Rs. 100 million include the Sri Lanka Transport Board, Sri Lanka Rupavahini Corporation, National Water Supply and Drainage Board, Ceylon Electricity Board, Ceylon Petroleum Corporation and, the pre-tax loss of only the two institutions namely the Ceylon Electricity Board and the Ceylon Petroleum Corporation was Rs. 103,745 million.

According to the financial statements submitted for audit, the total net assets of the specialized business enterprises (excluding banks) in the year 2021 were Rs.930,258 million. The dispersion of net assets based on its sectoral classification is as follows. Accordingly, the Port Authority and the National Water Supply and Drainage Board represent 93 percent of the total net assets regarding the year 2021. The cumulative value of liabilities exceeding assets is Rs.367,678 million and it includes Sri Lanka Transport Board, Ceylon

Petroleum Corporation, Ceylon Ceramics Corporation, Local Loans And Development Fund.

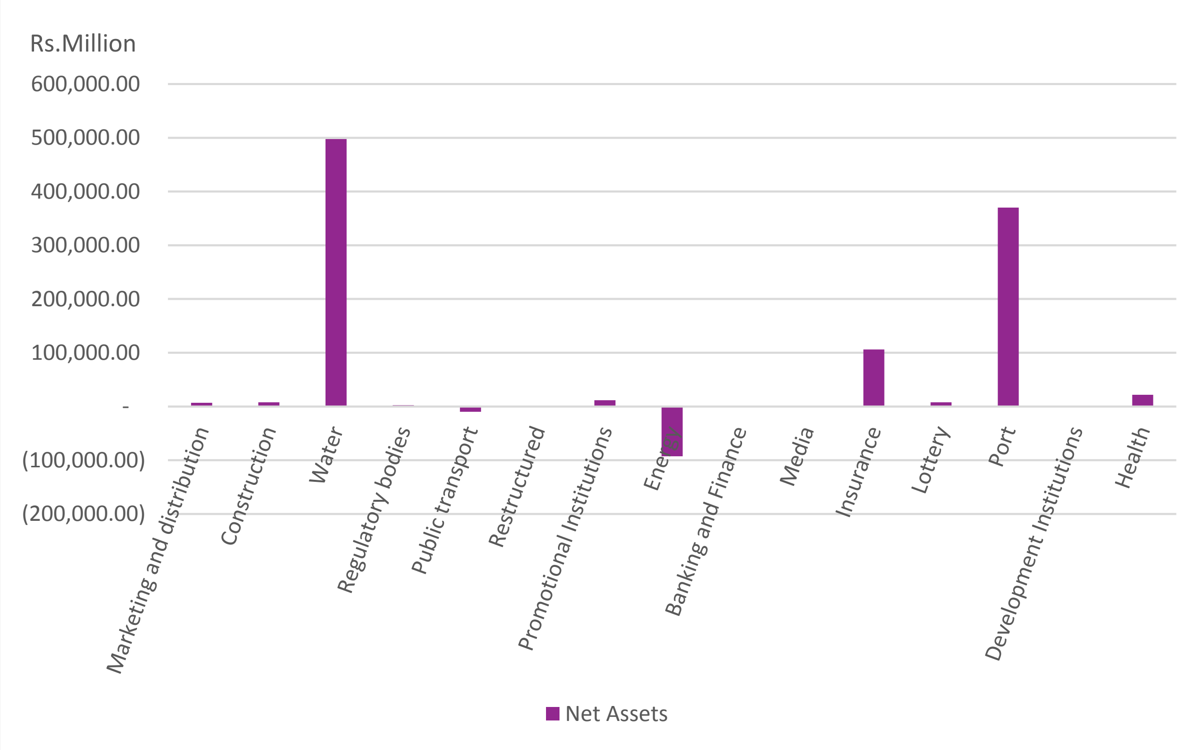
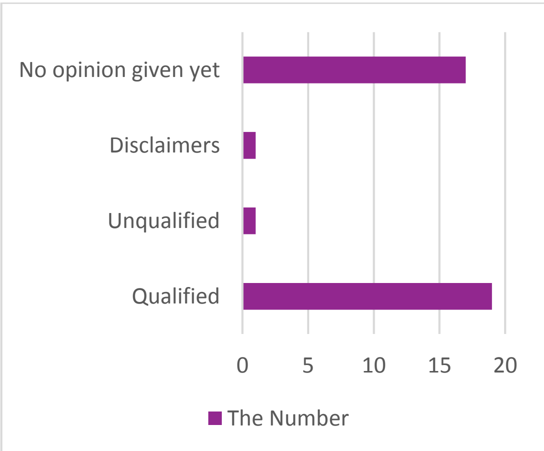


Figure 17 : Dispersion of Net Assets of Specific Business Enterprises

Auditor General's opinion on financial statements presented by Specific Business Enterprises

In relation to the financial statements submitted for audit by the end of 2021 by specialized business enterprises, the conclusion of the Auditor General on whether the published financial information reflects a true and fair situation and on the compliance of the financial statements with the Sri Lankan Accounting Standards, is expressed in the auditor's opinion.

The form of audit opinion of the Auditor General in respect of 38 specialized business enterprises other than banks is given below.



Statutory and non-statutory Funds subject to audit

Statutory and non-statutory Funds subject to audit

64 statutory and non-statutory funds have been established with the aim of achieving a specific objective and all those funds are operated under a ministry, department or government corporation. Only 42 of these funds were established by an Act, while the other 22 funds were established as non-statutory funds established by Cabinet approval, orders, utilizing the provisions of other Acts and Trust Deeds.

Pursuant to Financial Regulation 876 (3) inserted by paragraph 15.1 of Circular No. 01/2020 dated 28 August 2020, although it was informed that the non-statutory funds should be abolished with immediate effect and their balances should be credited to the Consolidated Fund, no necessary action was taken regarding the 22 non-statutory funds accordingly. Furthermore, if there are reasonable grounds for maintaining a non-statutory fund in accordance with that paragraph, such funds should be legalized through an Act of Parliament, but no fund had been legalized during the year 2021.

51 funds had submitted their financial statements for the financial year 2021 as at 10 September 2022, while the remaining 13 funds had not submitted their financial statements. Furthermore, Table 16 shows the number of opinions issued in respect of 46 audited financial statements out of 51 financial statements submitted.

Issued Audit opinion	Count
Unqualified Opinion	10
Qualified Opinion	34
Disclaimer of Opinion	01
Adverse Opinion	01

Table 16 : Number of opinions issued in respect of 46 funds

Out of 51 funds that submitted financial statements for the year 2021, 35 funds had a cash balance and 15 funds had a treasury general deposit balance. As at 31 December of the year under review, the cash and bank balance was Rs. 7,786.26 million and the bank overdraft of the Electricity Board's Employees' Provident Fund was Rs. 72.85 million and the balance of the Provincial Government Service Pension Fund is deposited in the General Account of the Pension Department. There was a balance of Rs.24,674.71 million in 15 general deposit accounts maintained by the Treasury as at 31 December of the year under review.

In relation to 51 funds for which annual financial statements were submitted, the total income was Rs.405,092.90 million and the total expenditure was Rs.62,127.05 million. Out of these funds, the surplus earned by 42 funds during the year under review was Rs. 344,573.87 million, and the deficit of 09 funds that had received losses was Rs. 1,608.02 million. Furthermore, the total asset balance related to 51 funds was Rs. 3,687.61 billion..

District Secretariats

District Secretariats

A number of 329 Divisional Secretariats function under 25 District Secretariats and provision will be made to District Secretariats from the annual budget estimate subject to the Ministry of Public Administration. Offices belonging to other Ministries and Departments are maintained in Divisional Secretariats managed under the purview of 25 District Secretariats. Offices are maintained for operating activities relating to various Government institutions such as Department of Pensions, Department of Samurdhi Development, and Department of Social Service etc.

Provision of Rs.43,656.65 million had been made from the Appropriation Act of Parliament under 25 District Secretariats in the year 2021 and out of that, Rs.38,056.88 million had been spent, thus observing savings of Rs.4,005.77 million of the provision made. Moreover, provision of Rs.17,179.69 million had been granted by the Line Ministry and out of that, Rs.11,727.72 million had been spent, thus observing savings of Rs.5,451.97 million of the provision made. Further, out of the sum of Rs.85,261.54 million made available by other Ministries and Departments for various activities, a sum of Rs.69,023.63 million had been utilized, thus observing savings of Rs.16,237.91 million.

Significant observations revealed at the audit test checks carried out on District Secretariats in the year 2021 are given below.

- Thirteen Divisional Secretariats function under the Colombo District Secretariat. Sixteen projects for which provision of Rs.2.99 million had been approved relating to 06 Divisional Secretariats had not been completed. Moreover, the ownership of lands where Colombo, Dehiwala, Kolonnawa, Kesbewa and Homagama Divisional Secretariats are maintained, has not been vested in those Divisional Secretariats and necessary action had not been taken to vest their ownership so far.
- Thirteen Divisional Secretariats function under the Gampaha District Secretariat. An inquiry was conducted in respect of a cash fraud valued at Rs.1.08 million, committed on 15 July 2014 in the Mahara Divisional Secretariat and it was recommended to recover the said amount from the Divisional Secretary, Accountant,

Financial Assistant and Shroff. However, the said sum was not recovered even by August 2022. Payment of loan balances amounting to Rs.254.16 million granted by 16 Divineguma Community Based Banks operated in the areas of the authority of Minuwangoda, Attanagalla and Negombo Divisional Secretariats, had been defaulted. There were 50,718 families in the area of the authority of the Attanagalla Divisional Secretariat and it was observed that 399, 318, 345, 269, 662, and 564 families of them, live in unauthorized houses, in temporary houses, live without lavatory facilities, without road facilities, without clean water, and without electricity respectively and there are 27,118 unemployed persons.

- Fourteen Divisional Secretariats function under the Kalutara District Secretariat. Forty five buildings owned by Government and semi-government institutions in 08 areas of the authority of Divisional Secretariats had remained underutilized for many years and out of those buildings, 11 were in the unusable condition. Provision of Rs. 1,466.81 million had been received from the year 2017 to the year 2021 for the construction of 918 houses on the concept of "Home to Home" for families fully affected by natural disasters and out of that, a sum of Rs.1,002.29 million had been granted to beneficiaries. However, houses of 397 beneficiaries had not been completed.

- Nineteen Divisional Secretariats function under the Galle District Secretariat. Even though the original estimate for the construction of the auditorium with a capacity of 2000 seats for the Galle District Secretariat was Rs.1,700 million, the estimate had been increased up to Rs.2,657 million and Rs.3,155 million in two instances respectively and a feasibility study had not been carried out thereon. Moreover, the physical progress thereof had been at a level as low as 15 per cent. Even though the Cabinet Sub-committee dated 22 February 2022 had informed to submit a report on the possibility of applying work –in-progress of the project to another purpose, it had not been so done. Construction of the auditorium had been carried out without identifying the requirement and as such, the sum of Rs.874.79 million spent therefor had become fruitless. Further, materials relating to the said construction had been heaped up on the ground in an unprotected manner. The land of 2.709 Hectares in extent taken over for the project as well had remained idle due to non-implementation of the project.

- Sixteen Divisional Secretariats function under the Matara District Secretariat. Even though it had been planned to construct the maldive fish and dried fish production factory building at Kottagoda on the estimate of Rs. 6 million under the project of development of infrastructure facilities of Saubhagya Production Villages, only the construction of concrete posts up to the foundation of the building had been carried out even by February 2022.

- Twelve Divisional Secretariats function under the Hambantota District Secretariat. A number of 320 ration bags valued at Rs.3.2 million had been distributed without ascertaining the low income families by the Sooriyawewa Divisional Secretariat. A sum of Rs.5.16 million had been paid by 09 Divisional Secretariats for the laying of pavement blocks on 163 roads, despite not having finished the edges thereof. Even though ABC mixture had not been laid up to the proper standard relating to 07 Divisional Secretariats, a sum of Rs.4.11 million had been overpaid. Approval had been granted to develop 05 roads on which paving blocks were laid by spending a sum of Rs,3.46 million in 03 Divisional Secretariats under the Kilometre Lakshaya Programme as well and as such, the amount spent therefor had become fruitless.

- Twenty Divisional Secretariats function under the Kandy District Secretariat. A sum of Rs.13.22 million had been overpaid to 61 retired officers in 04 Divisional Secretariats and out of that, a sum of Rs.5.19 million was recoverable. Out of the loans granted under the Grama Shakthi Project in 03 Grama Niladhari Divisions of the Harispattuwas Divisional Secretariat, a sum of Rs.3.03 million was recoverable and out of that, payment of Rs.2.44 million was delayed over a period of 06 months. The total balance of the Revolving Fund Account of the Divineguma Community Based Banks at the end of the year under review had been Rs.173.69 million and out of that, a sum of Rs.94.94 million representing 55 per cent had remained without granting loans.

- Five Divisional Secretariats function under the Nuwara Eliya District Secretariat. The stock of consumable materials valued at Rs.5.47 million of the District Secretariat, Hanguranketha and Kotmale Divisional Secretariats, had not been shown in accounts. Moreover, closing stocks of consumable materials of the Nuwara Eliya, Ambagamuwa and Walapane Divisional Secretariats had not been computed and shown in the financial statements.

- Eleven Divisional Secretariats function under the Matale District Secretariat. A block of land in the Danduyaya Grama Niladhari Division of Deegalewela Divisional Secretariat had been firstly valued as Rs.91,000 in vesting lands for the Wayamba Ela Project. The said value had been changed in several instances and a sum of Rs.2.91 million had been paid as compensation. However, the basis therefor had not been confirmed in audit. Further, a sum of Rs.2.79 million had been paid as compensation considering 07 blocks of lands as private lands. Even though a sum of Rs.5.98 million had been spent for 06 building projects and for the construction of a playground, those had not been completed and as such those had remained in idle without being utilized. Even though Rs. 1 million had been granted to 10 beneficiaries for the manufacture of organic fertilizer under the Saubhgya Production Villages Project in the Ukuwela Divisional Secretariat, the said purpose had not been commenced.

- Fifteen Divisional Secretariats function under the Badulla District Secretariat. A contract agreement had been entered into for Rs.140.96 million for the construction of a new building for the Mahiyanganaya Divisional secretariat and a sum of Rs.109.02 million had been spent therefor by March 2022. In terms of the agreement, the contract should have been completed within 546 days. However, it had not been completed though 1,547 days had elapsed by March 2022.

- Eleven Divisional Secretariats function under the Monaragala District Secretariat. Eleven rural roads developed at a cost of Rs.8.29 million under the Sapirigamak Programme by the Thanamalwila Divisional Secretariat of the year 2020, had been further developed by laying carpet in the year 2021. The Wildlife Conservation Department had made provision of Rs.36.45 million in the year 2020 for the maintenance of the electric fence and the construction of guard rooms for carrying out follow up action and agreements had been entered into with two contractors for the development under 5 packages. Even though agreements had been entered into for Rs.25.01 million for 04 packages of them, it had not been completed or the period relating thereto had not been extended even by March 2022.

- Eleven Divisional Secretariats function under the Kegalle District Secretariat. A sum of Rs.23.71 million had been paid up to the year 2020 to 381 housing beneficiaries under the housing construction project for 300 low income disabled persons by the National Housing Development Authority together with the Swashakthi Organization of Disabled Persons. The funds further payable was Rs.95.69 million. Moreover, a sum of Rs.7.36 million collected by selling flags of the year 2018 had been deposited in the Swashakthi Organization. These funds had not been utilized for relevant purposes and only 03 houses of 381 beneficiaries had been completed. A sum of Rs.69.58 million had been given for 43 Societies in 11 Divisional Secretariats under the first phase and Rs. 4.56 million for 96 societies under the second phase for the establishment of people's societies under the Grama Shakthi People's Movement. However, a sum of Rs. 49.81 million representing 71 per cent of the amount disbursed in the first phase and a sum of Rs.4,.36 million representing 96 per cent of the amount disbursed in the second phase had been retained in the bank accounts of societies without being utilized for the relevant purpose. A sum of Rs.16.77 million was recoverable further relating to the Pensions fraud committed in the Kegalle District Secretariat and the Warakapola Divisional Secretariat. The project of construction of the Warakapols Bus Station and the shopping complex had been abandoned halfway after spending Rs.15.19 million due to issues on ownership of the land.

- Seventeen Divisional Secretariats function under the Ratnapura District Secretariat. Thirty one projects at an estimated cost of Rs.11.22 million in the Ratnapura District Secretariat and 04 Divisional Secretariats, had been abandoned halfway. Even though 3 roads constructed spending Rs.4.46 million in the year 2020 of the Embilipitiya Divisional Secretariat Division were in a good condition, those were carpeted again. Construction of a cultural centre in the Eheliyagoda Divisional Secretariat Division had not been completed and provision of Rs.26.42 million allocated in the year 2021; after 8 years had been returned due to lack of a proper plan. Further. It was observed that the construction site is overgrown with weeds.

- Thirty Divisional Secretariats function under the Kurunegala District Secretariat. A sum of Rs.905.98 million had been spent for 1,159 projects under the Sapirigamak Development Programme and Rural Infrastructure Facilities Development Programme and out of that, a sum of Rs.802.59 million representing 89 per cent had been spent for development of roads. Twenty crusher machines had been purchased by incurring a sum of Rs.5.4 million of the sum of Rs.100 million provided to the Organic Fertilizer Manufacturing Programme. However, they had not been utilized even by April 2022. The savings of provision amounting to Rs.94.6 million had been returned. A sum of Rs. 50 million had been provided to the District Secretary, Kurunegala for purchase of paddy for the Maha Season in the years 2020/2021. Of that, paddy valued at Rs.1.41 million had been purchased and the remaining sum of Rs.48.59 million had been returned. Apparel equipment of Rs.122.26 million provided to 10 Divisional Secretariats by the Ministry of Industry and Commerce, had remained idle even by April 2022.

- Sixteen Divisional Secretariats function under the Puttalam District Secretariat. Even though paddy had been purchased from small and medium scale rice millers, 402,927.7 kg and 1,006,687.5 kg of rice to be given to the Government respectively for the Maha Season and the Yala Season for 2020/2021 and 2020, had not been given. The percentages thereof were 61.12 per cent and 100 per cent. Even though the stadium of Joseph Vaas Vidyalaya, Wennappuwa was repaired by spending a sum of Rs.48.64 million, it had remained idle without being utilized.

- Twenty three Divisional Secretariats function under the Anuradhapura

District Secretariat. In the recovery of fees for collecting and obtaining minerals from state lands managed under Divisional Secretaries, fees of Rs.93.35 million had not been recovered for granite mined exceeding the quantity of cubes mentioned in the mining licence issued by the Geological Survey and Mines Bureau from sites operated in 05 Divisional Secretariats in the Anuradhapura District. Moreover, the arrears of revenue relating to preceding years amounted to Rs.395 million.

- Seven Divisional Secretariats function under the Polonnaruwa District Secretariat. The contract of constructing guard rooms associated with the electric fence of the Hingurakgoda and Elahera Divisional Secretariat Divisions, had been awarded to a value of Rs.22.95 million and even though works should have been completed on 20 February 2021, twenty nine items valued at Rs.13.55 million indicated in the Bill of Quantities had been abandoned without execution even by 25 February 2022. As such, a sum of Rs.6.56 million spent, had become fruitless. Moreover, an overpayment of Rs.2.07 million had been made and it could not be recovered as the period of performance security had expired on 07 November 2021. Forty four millers who had obtained paddy through Divisional Secretariats for the Maha 2019/20, Yala 2020 and Maha 2020/21 seasons had not provided 1,521,337 kg of paddy made into rice, to the Government. As such, the amount further recoverable to the Government had been Rs.85.18 million. A sum of Rs.142.19 million was recoverable from 43 licenced granite sites operated in 05 Divisional Secretariat Divisions from the year 2017 to the year 2021 as fees for collecting minerals from state lands.

- Eleven Divisional Secretariats function under the Trincomalee District Secretariat. In terms of Circular No. SMRHC/RD/04/01 of 17 May 2021 of the State Ministry of Rural Housing and Construction and Building Materials Industries Promotion, people with disabilities due to war or related causes should be selected when selecting persons as beneficiaries of houses. However, 313 persons affected by various other reasons in the Divisional Secretariats of Kinniya, Kuchchaveli, Gomarankadawala, Seruwila, Kantale and Morawewa had been selected as beneficiaries of houses. A sum of Rs.52.19 million provided to 33 Grama Shakthi Janatha Societies under the "Grama Shakthi Janatha Viyaparaya" had not been utilized for intended purposes as the programme was not implemented. Two hundred and twenty two projects to be executed in Divisional Secretariats under the Rural Road Development Programme had been abandoned without completion.

- Thirteen Divisional Secretariats function under the Batticaloa District Secretariat. In terms of Section 29(a) of the Mines and Minerals Act, No.33 of 1992, no licence shall be issued to a public officer, a person declared to be of unsound mind and a person having being declared an insolvent or a bankrupt. However, contrary to that, the Divisional Secretary, Eravur had issued two sand licences. Twenty six river sand mining licences had been issued by the Kiran Divisional Secretariat by which a quantity of 60,118 sand cubes had been mined, exceeding the quantity permitted.

- Twenty Divisional Secretariats function under the Ampara District Secretariat The State Ministry of Samurdhi, Household Economy, Micro Finance, Self-Employment Business Development had provided a sum of Rs.2.67 million for constructing 30 fish breeding pools for producing fish in the village of Kalugolla of the Divisional Secretariat of Damana. However, 17 pools had not been constructed.

- Fourteen Divisional Secretariats function under the Jaffna District Secretariat. Buildings and plant and machinery valued at Rs.10.33 million required for the Neervely project on producing ash plantain chips had been established and production and sale of ash plantain chips had been assigned to the co-operative society in June 2020. However, the relevant expenditure had become fruitless as it was not implemented. Contrary to Guideline 3.6 of the Procurement Guidelines, 07 Divisional Secretariats had taken action to purchase goods valued at Rs.30.20 million by re-order between a percentage ranging from 60 per cent to 24,700 per cent exceeding the existing limit of re-purchase up to 50 per cent of the value of the original agreement. The project on preservation of milk costing Rs.56.64 million to be completed in the year 2019, had not been completed even up to July 2022. Nevertheless, due to the failure in obtaining the original copy of the performance security valued at Rs.4.82 million, it could not be cashed.

- Four Divisional Secretariats function under the Vavuniya District Secretariat. Twenty five vehicles including motor bicycles belonging to the District Secretariat and Divisional Secretariats had been abandoned without repairing for a period between 02 years and 10 years. The Omantha Cultural Centre constructed on an expenditure of Rs.16.09 million in the year 2018, had remained idle over a period of 03 years. Moreover, 349 units of goods valued at Rs.991,670 purchased for this Centre in the year 2020 had remained without utilization and protection over a period of one year. The Vavuniya Economic Centre had not been utilized up to now. As such, the expenditure of Rs.4.85 million incurred by the District Secretariat during the period from the year 2018 to the year 2021 for security and cleaning purposes, water charges and purchase of equipment, had become fruitless.

- Five Divisional Secretariats function under the Mullaitivu District Secretariat. A sum of Rs.16 million provided to the Vishwamadu Farmers' Multipurpose Co-operative Society as advances with the intention of purchasing paddy in the years 2014/15 and a sum of Rs.2.33 million provided to the Panangamam Pattu Farmers' Multipurpose Co-operative Society by the District Secretary, had not been settled over a period of 06 years. The Oddusudan Divisional Secretariat had purchased oil manufacturing machines at a sum of Rs.1.48 million under the Sapirigama Project in the year 2020 and provided them to the Thirumurugandi Rural Development Society. Nevertheless, the said machines had not been utilized for the relevant purposes up to now.

- Four Divisional Secretariats function under the Kilinochchi District Secretariat. Buildings and equipment valued at Rs.13.48 million provided by the Manufacturing Co-operative Project of the Kilinochchi District Secretariat, remains idle over a period of 03 years. Two Divisional Secretariat Bungalows valued at Rs.21.55 million had remained idle for over a period of 02 years.

- Five Divisional Secretariats function under the Mannar District Secretariat. A sum of Rs.72.57 million had been paid for the technical park, vehicle Park and auditorium constructed by the District Secretariat from the year 2018. However, approval in terms of the Urban Development Authority Act had not been obtained for Architectural Drawings and Structural Drawings included in the total estimate for the relevant purpose.

Local Government

Subjects

- Introduction
- Audit Observations
    - Non-compliance with Valuations
    - Over Payments
    - Legal Affairs
    - Asset Management
    - Loss of Income
    - Fees to be charged

Local Government

341 Local Authorities are established and functioning in Sri Lanka including 24 Municipal Councils established by the provisions of the Municipal Council Ordinance (Chapter 252), 41 Urban Councils established by the provisions of the Urban Council Ordinance (Chapter 255) and 276 Pradeshiya Sabhas established by the provisions of the Pradeshiya Sabha Act No. 15 of 1987. Table 17 shows a summary of the submission of the financial statements to audit by these local governments for the year 2021 and the audit opinions issued on those financial statements.

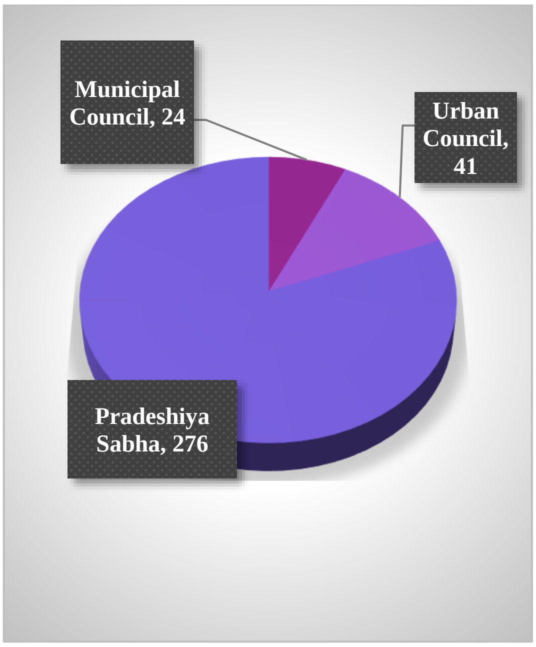


Figure 18 : Number of Local Authorities

Type of local government	Number of councils to submit accounts	Number of accounts submitted for audit as at 15.08.2022	Number of councils issued audit reports	Audit opinion as per reports issued as at 15.08.2022			
				Qualified	Unqualified	Disclaimer	Adverse
Municipal Councils	24	24	19	13	-	02	04
Urban Councils	41	41	35	35	-	-	-
Pradeshiya Sabhas	276	276	259	250	03	-	06
Total	341	341	313	298	03	02	10

Table: 17 - Submission of financial statements to audit for the year 2021 and audit opinions issued on those financial statements

Some important observations revealed by the audit reports on local authority's financial statements are summarized below.

Non-compliance with Valuations

- Due to non-complied with the Valuation No:MO/RD/498 dated 24 July 2018 of the Chief valuer of Uva Province, a revenue of Rs.18.17 million had been lost to the Sabha fund as at 31 December 2021 when collecting the monthly rent of 67 shops which had been leased by the Buththala Pradeshiya sabha for a long term.

- Even though the stall rent had been valued and approved by the Sabha under the section 02 and 03 of the Circular No. දපපා/පපාකො/2010/01 dated 28 December 2010 by the Hambantota Municipal Council, it had been a loss of Rs.13.32 million to the Sabha fund for the period of January 2016 to 31 December 2021 due to charge the old rent values regarding to 56 shops and Lands.

- The Kundasale local pradeshiya sabha had not charged the required assessment amount for 48 shops rooms in Balagolla Moragahapitiya mall in according to the assessment of 2014, and according to the decision of the General Meeting held on 25 February 2015, it had been proposed and charged Rs.500 each for the shop rooms on the upper floor and Rs.1,000 for the shop rooms the lower floor. Therefore, the sabha had a loss of income amounting to Rs.21.77 million as at 31 December of the year under review.

- The Revised shop assessment valid for at least 03 years had submitted on 22 March 2019 by the the assessment department due to the appeals against the assessment made on 16th August 2018 for 83 shop rooms in Nittambuwa New Mall of Atthanagalla Pradeshiya Sabha. No action had been taken to collect income based on this revised assessment rent as at the date of audit, 10 December 2021, and due to non-implementation of the revised assessment for a period of 03 years from 01 January 2019, which was the date of assessment, to 31 December 2021, the loss incured to the sabha amounting to Rs. 27.58 million. Also, based on a resolution passed in the General Meeting dated 14 December 2021, 50 percent of the assessed value has been charged as shop rent from 01 January 2022.

Over Payments

- Matara Maha Nagara Sabha has used plywood boards to make frameworks of the drains during the construction of concrete drains under various funds in the year 2020. Southern Provincial Road Development Authority had not introduced a rate for the preparation of framworks using plywood planks and a total of Rs.3.11 million was overpaid for the preparation of frameworks on 42 concrete drains due to the payment of Rs. 1,108 and Rs. 1,377.85 respectively for one square meter by using the two rates which were introduced by the Southern Provincial Road Development Authority under ST-057 and ST-112, which are unrelated rates, without using the rate of Rs.841 which was introduced under ct-036 by the Southern Province Engineering Services Office for framewoks using plywood planks.

- The Kurunegala Mahanagara Sabha was carrying out a project for the construction of the clinic center and the pre-school with a value of Rs. 232.12 million. For the Preliminaries of this project, when the facilities mentioned in the estimate were not provided, an amount of Rs. 9.33 million and for the removal of the stone in the premises, an incorrect special price analysis was prepared without using the approved price rate and certified by the Technical Officer and Assistant Quantity Surveyor, Urban Engineer and Urban Commissioner approved an amount of Rs.50.55 million had been overpaid to a contractor and the overpaid amount was Rs.59.88 million.

Legal Affairs

Matale Municipal Council collects 16.5 tons of garbage daily, of which about 1 1/2 tons of non-degradable and degradable garbage was dumped informally at Wariyapolawatta garbage yard. And also, it was observed that the polluted water collected in Variyapolawatta landfill gets added to natural water sources during rainy days. According to a case pending in the Supreme Court regarding the Wariyapolawatta garbage disposal land, the recommendations given on 20 February 2020 and in the previous cases regarding waste management had not been implemented even by the end of the 2021. Due to this, the environmental protection license was not granted by the environmental authority, and the proceedings in the court were not completed. A total of Rs. 5.67 million litigation fees had been paid for that in the period from 15 September 2018 to 06 April of the year under review.

Asset Management

An excavator belonging to the council had been met an accident while using without formal approval when carrying out the relevant construction by the contractor selected by the Kandy Municipal Council to carry out the construction of the box culvert on the Kuda Ratwatta road. Later, Rs. 9.97 million was paid from the Municipal Council fund to repair the machine, but the insurance compensation was not received even as at 30 July 2022. Also, for the excavator machine that was hired instead of the above machine that had the accident, between November 2020 and October 2021 to carry out garbage handling activities in the Gohagoda garbage yard, Rs. 12.08 million was paid at the rate of Rs. 3500 per hour. Thus, although Rs. 22.05 million was paid from the council fund for the loss for the excavator machine that had the accident and the rental of the excavator machine that was hired instead of the machine, no action had been taken to recover paid amount.

Loss of Income

Colombo Municipal Council had entered into an agreement o with a private company n 28 March 2016 for the installation of parking meters in a selected area and the arrears of rental income to be collected from the relevant company was Rs. 101.77 million as at 31 December 2021. Although the municipal council had taken steps to suspend the agreement with the relevant Company on 07 April 2021 due to non-payment of rent properly since year 2016, no alternative system had been set up to collect parking fees in those areas even as at 30 April 2022. Thus, the council had a loss of income amounting to Rs. 66.73 million for almost a year.

Fees to be charged

The private entities contracted to collect the parking fees of the Colombo Municipal Council’s Car Parks continued to default on the monthly rental payments due to the municipality and the fees to be collected from 38 entities was Rs. 265.5 million as at 31 December 2021.

Foreign Funded Project

Audit Observations

- Construction of Roads and Transport Sector
- Social Welfare Projects
- Common Drawbacks in the Foreign Investment Projects

Foreign Funded Project

The state budget deficit continued to increase year after year, due to not receiving sufficient annual Government revenue to cover the annual Government expenditure in Sri Lanka. The budget deficit of the Government for the financial year of 2021 was Rs. 2,080 billion and to settle the budget deficit, domestic borrowings amounting to Rs. 2,519 billion and foreign borrowings amounting to Rs. 517 billion had been obtained. Out of the foreign borrowings, a sum of Rs. 530 billion had been used for the repayment of foreign borrowings in the year 2021 and therefore, net foreign borrowings had become a negative value amounting to Rs. 13 billion. Accordingly, all foreign borrowings in the year 2021 were used for the repayment of loans. Annually, the borrowings taken from foreign countries to cover the budget deficit are mainly divided into two parts as project loans and non-project loans. As per the financial statements of the Democratic Socialist Republic of Sri Lanka, the foreign borrowings obtained during previous years amounted to Rs. 16,827 billion and out of that, Rs. 3,780 billion had been obtained as loans for projects through 775 Agreements. In addition, institutions such as the Electricity Board and Water Supply and Drainage Board had taken loans directly from the credit representative agencies. Out of those projects, 45 projects were non-capital projects and the remaining projects were water supply, highways, social welfare, education and vocational projects. Out of these projects, 130 projects were operational as at 31 December 2021.

Funding for domestic projects through these project loans was started from around the year 1978 and foreign loans were used to finance the projects in the form of capital projects at the beginning. However, it has gradually been changed to borrowing for social welfare and consumer needs. Since many project loans obtained during the past had been invested without considering the benefits received for such project loans, such project loans had led to the increase in indebtedness of the country rather than achieving the economic growth in the country.

Most of these projects were not audited by the Auditor General and a separate report had not been issued since the Department of External Resources had not incorporated audit provisions in entering in to the loan agreements. However, the Auditor General had conducted audit activities for 123 projects, out of the projects that were in operation, and submitted separate audit reports to the Parliament.

Moreover, most of these foreign projects had been started on the unsolicited basis and as a result, the country had not obtained the advantages of the procurement procedures and many of the projects received to the country on the unsolicited basis had not assisted in the fulfilment of the investment needs of the country.

Those projects were being implemented under 09 major sectors such as water supply and sanitation, road construction and transport sector, electricity and energy sector, social welfare projects, education and professional development sector, agricultural sector, health sector, urban development sector and other sectors. Some of the observations made during the year 2021 in relation to these projects are mentioned below.

Construction of Roads and Transport Sector

- Only a sum of Rs. 3,754 million had been utilized out of the total allocation on foreign borrowings amounting to Rs.17,129 million For 9 projects implemented under the Road Development Authority for the year 2021 and Rs. 13,371 million or 78 percent had not been utilized.

- Due to the slow progress and the depreciation of the rupee, a foreign exchange loss amounting to Rs. 369 million as at 31 December 2021 had been recorded exclusively in the Port Access Road Construction Project.

- In accordance with Section 38(a) of the Land Acquisition Act No. 09 of 1950, compensation shall be paid to the respective land owners in accordance with Section 35 of the Act in the acquisition of lands. However, acquisition orders had been issued for 19,811 plots of land in 07 road construction projects as per the Act and compensation had been granted for 12,047 plots of land as at 31 December 2021. A sum of Rs. 20,650 million had been paid as compensation for that as at 31 December 2021. However, the payment of compensation was delayed due to not receiving adequate provision for granting compensation and interest must be paid under Section 35 of the Act for the acquired plots of land. Accordingly, an interest amounting to Rs. 2,870 million had to be paid only for 04 projects by 31 December 2021 due to the delay in the payment of this compensation. Moreover, only 5 plots of land, out of the above land plots, for which compensation had been granted, had been acquired in accordance with Section 44 of the Act.

- The Baseline project, which had been commenced in the year 2009 with the aim of reducing traffic congestion, had been implemented so far without a funding agency and without awarding civil work contracts, and Rs.30 million had been spent for the Project Management Unit until 31 December 2021.

- Even though the activities of the road construction project from New Kelani Bridge to Athurugiriya had been commenced in the year 2016, civil work had not been started until August 2022. An investor had not been selected for this project until 31 June 2022 and a sum of Rs. 227 million had been incurred for the Project Management Unit.

- A loan amounting to USD 40 million had been obtained from the Organization of the Petroleum Exporting Countries (OPEC) for the Rakwana - Suriyakanda road construction project in the year 2019. Although the loan had exceeded 2 years from the date of entering the Loan Agreement up to 31 December 2021, the construction work of the project had not been commenced even by 08 August 2022. Furthermore, this Loan Agreement is scheduled to be expired on 30 September 2023.

- Although the contractor should obtain performance bonds at his own expense for the proper performance of the contract according to sub-clause 4.2 of the General Conditions of the Contract, in contrary to that, a sum of Rs.2,526 million had been paid by 31 December 2021 by including a separate payment item for that purpose in the Bills of Quantities of the work in relation to 7 projects and as a result, additional benefits were provided to the contractors.

- The approval of the Cabinet had been granted to obtain the necessary funds for the civil construction activities of the Ruwanpura Expressway project through the local banking system. Only a funding facility amounting to Rs. 16,200 million, out of the total contract cost amounting to Rs. 54,695 million, had been approved through the local banking system by 31 December 2021. Action had not been taken to fund the remaining contract cost of Rs.38,795 million even by 30 July 2022. There was an unsettled liability amounting to Rs.5,099 million for the construction contracting company by 30 June 2022.

- The Department of External Resources had paid a sum of Rs.1,097.18 million to the relevant lending institutions as commitment charges for Section 01 and Section 4 of the Southern Expressway Extension Project by 31 December 2021.

- Pursuant to the loan agreements of the Integrated Road Investment Programme and the Second Integrated Road Investment Programme, sums of Rs. 1,516.79 million and Rs.576.30 million had been paid uneconomically to the lending Agency by 31 December 2021 as accumulated interest and commitment charges respectively on the unutilized loan amounts.

- Since there is no any service area for the users of the Southern Expressway after passing the point of 46 Km on the Southern Expressway, provision of services to the public travelling the distance of 176 Km from Welipanna to Hambantota was problematic.

- The remaining works of 6 contract packages, out of the 12 contract packages abandoned in the Integrated Road Investment Programme, had been re-awarded as at 31 December 2021 to be performed through this programme. The value of the re-awarded contracts had been increased by Rs. 4,808.8 million when compared with the original contract price. Therefore, the Government had to incur additional costs due to the poor management of the projects.

- Action had not been taken by the Integrated Road Investment Programme to encash the performance guarantees amounting to Rs.690.74 million related to 03 canceled contract packages even by the end of the year under review.

- The programme had failed to collect the arrears of the mobilization advance amounting to Rs. 560.14 million remained in relation to the 03 canceled contract packages in Uva Province under the Integrated Road Investment Programme. Accordingly, the total value of the unrecovered mobilization advances of contracts awarded by the programme was Rs. 13,922.63 million as at 31 December 2021.

- Feasibility studies and comprehensive planning process for 4 railway lines of the Colombo Suburban Railway Project implemented by the Department of Railways had been finalized in March 2021 and the reports had been handed over to the Line Ministry. The Asian Development Bank had invested USD 8.397 million, equivalent to Rs. 1,506 million as at 31 December 2021 for this purpose. A sum of Rs. 1,447 million or 96 percent, out of that, had been paid. The relevant reports were in the Railway Department without being implemented.

- A sum of USD 380,000 equivalent to Rs. 69.3 million had been paid as at 31 December 2021 as finance charges and loan interest for the loan amount obtained for this project. Benefits had not been derived by the country for the cost incurred for feasibility studies and comprehensive planning due to non-implementation of these feasibility studies and comprehensive planning reports.

Social Welfare Projects

- Approximately USD 07 million had been utilized as at 31 December 2019, out of USD 75 million, which had been the total provision of the Social Safety Nets Project that had been commenced in 2017 and scheduled to be finalized in 2022.

- The Social Safety Nets Project was reorganized to confront the CoViD pandemic according to a request made by the Government of Sri Lanka and thereby, the amount totalling to USD 45 million had been released during the year 2020. However, a sum of Rs. 436.02 million had to be paid as interest charges and a sum of Rs. 107.54 million had to be paid as commitment charges for the project as at 31 December 2021.

- Even though five years had passed by 31 December 2021 since the commencement of the Social Safety Nets Project, the establishment of the Social Welfare Benefits Board could only be accomplished out of the functions intended to be executed through the project. However, the Social Welfare Benefits Act could not be passed even by the end of the year under review.

- Although the functions of establishing the Social Security Information Network, which stores the information related to the welfare programmes, as an electronic database in order to improve the procedure of selecting beneficiaries for various welfare programmes and expanding it into an integrated welfare management system had been initiated by this project, the project had failed to finalize it as expected.

Common Drawbacks in the Foreign Investment Projects

- The projects had to use loan funds for activities not related to the projects and to incur a percentage value to cover profit margin and overhead expenses in addition to the agreed amount to the contractors by incorporating clauses to the contract documents to cover the expenses of the project management units.

- The projects do not purchase vehicles and include that requirement as a subject of the bill of quantities of works of the contract agreements, the projects have to pay much money to the contractor than the amounts to be paid in the direct purchase of motor vehicles and since the ownership of the relevant vehicles remains in the name of the contracting company, there is a risk of not receiving the ownership of the relevant motor vehicles to the line Ministry or the government institutions at the end of the project period.

- Due to the CoViD pandemic prevailed in the country in the year 2021, the physical performance of the projects was lagging behind the expected goals, the utilization of loan amounts was at a low level and time extensions had been given to achieve the goals of the projects. Due to this, the government of Sri Lanka had to incur a huge cost in the form of commitment charges on the undisbursed loan amounts.

- Since the Ministry of Finance had not received formal instructions on the manner of preparing the financial statements in the final year of the project, the project management units had submitted financial statements based on the concept of going concern even after the end of the operational period of the foreign funded projects.

Banking Sector

Subjects

- Assets of the Banking Sector
- Liabilities of the Banking Sector
- Non-Performing Loans (NPL) of the Banking Sector
- Performance of the Banking Sector
- Central Bank of Sri Lanka
- Bank of Ceylon
- People's Bank
- The National Savings Bank
- The National Savings Bank - Group
- Housing Development Finance Corporation Bank
- Merchant Bank of Sri Lanka & Finance PLC (MBSL)
- Regional Development Bank (RDB)
- Major Audit Findings
    - Central Bank of Sri Lanka
    - Bank of Ceylon
    - People's Bank
    - National Savings Bank
    - Housing Development Finance Corporation Bank of Sri Lanka
    - Merchant Bank of Sri Lanka and Finance PLC
    - Regional Development Bank

Banking Sector

The banking sector in Sri Lanka consists of Licensed Commercial Banks (LCBs) and Licensed Specialized Banks (LSBs) and by the end of 2021, banking sector in Sri Lanka consisted of 30 banks comprised of 24 Licensed Commercial Banks including 11 Foreign Banks and 6 Licensed Specialized Banks.

Deposits are the main source of funding for the banking sector and there had been a marked increase in rupee borrowings during the year 2021. However, the downgrading in sovereign ratings adversely affected the foreign borrowing from foreign sources. The profitability of the banking sector improved significantly in 2021 compared to the previous year due to the significant increase in net interest income and non-interest income.

The banking sector, continuing its intermediary role in 2021, expanded the banking network to facilitate financial inclusion. According to the data of the Central Bank of Sri Lanka, there were 2,919 branches belonging to Licensed Commercial Banks, 705 branches belonging to Licensed Specialized Banks and 3,695 student savings units by the end of the year 2021. Accordingly, the total number of bank branches and other banking units and Automatic Teller Machines (ATMs) had increased to 7,319 and 6,342 respectively by the end of the year under review.

Assets of the Banking Sector

The asset base of the banking sector was increased by Rs. 2.3 trillion in the year 2021 and exceeded Rs. 16.9 trillion by the end of the year 2021, and it was a growth of 15.4 percent compared to 17.1 percent, the annual growth recorded at the end of the year 2020. The asset growth was mainly driven by loans and advances and investments. Growth in loans and advances increased from 11.9 percent in 2020 to 15.3 percent in 2021. Approximately 92.2 percent of the growth in the loan portfolio during the year 2021 had been due to the increase in rupee loans. The annual growth in the investments decreased from 40 percent at the end of the year 2020 to 16.4 percent at the end of the year 2021. The held-to-maturity investment portfolio grew by 24.8 percent in 2021 due to the increase in Treasury bond investment by Rs.903.7 billion and decrease in Treasury bills and

Sri Lanka Development Bond investment by Rs. 99.8 billion and Rs. 55 billion respectively. The change in total assets of the banking sector – The balances as at the end of each year from 2016 to 2021 is indicated in Figure 19.

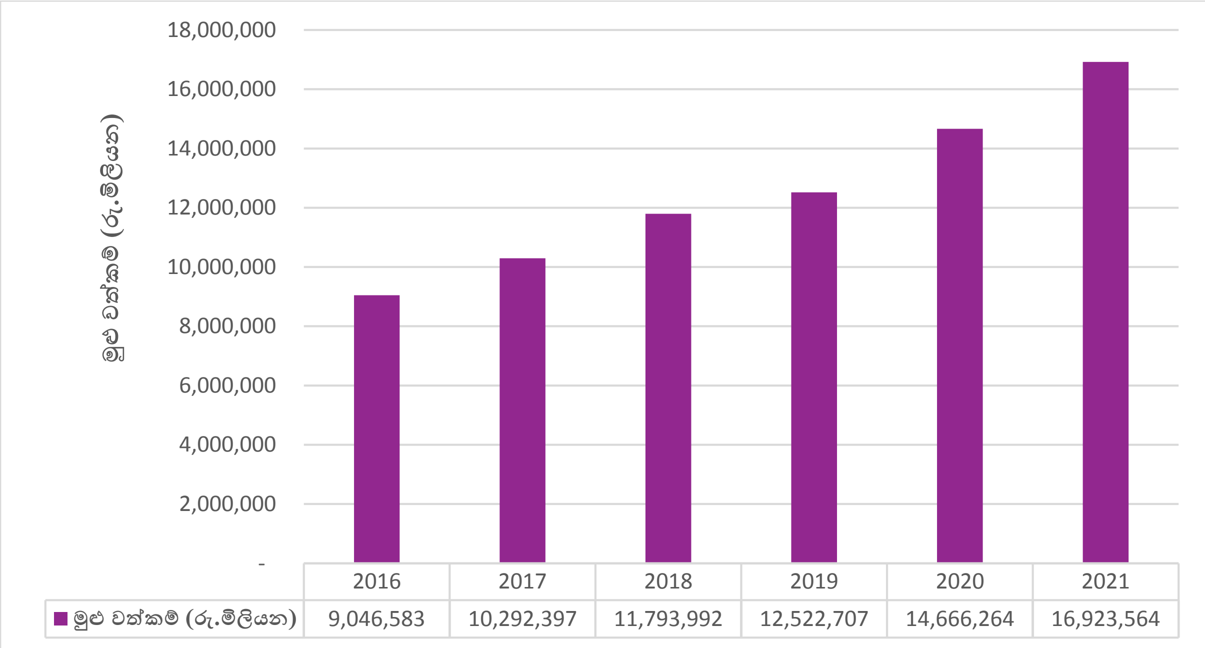


Figure 19 - Total assets held by the banking sector

Liabilities of the Banking Sector

Deposits continued to be the main source of funding for the banking sector and borrowings was the second largest source. The contribution of time deposits to total deposits decreased from 63 percent in the year 2020 to 60.6 percent by the end of the year 2021. Time deposits accounted for 42.7 percent of the increase in deposits during 2021. Savings deposits and current deposits, out of the total deposits, accounted for 29.5 percent and 7 percent respectively at the end of the year. Current and savings account ratio was 34.5 percent and 36.6 percent in the years 2020 and 2021 respectively. A growth of Rs. 489 billion (i.e. 28.9 percent) in the total borrowings of the banking sector was recorded in the year 2021 compared to the increase of Rs.12.8 billion recorded in the year 2020. This increase was mainly due to rupee borrowings, which recorded a growth of 86.6 percent (Rs. 688 billion) in the year 2021. The change in the deposits of the banking sector - the balances as at the end of each year from 2016 to 2021 are indicated in Figure 29.

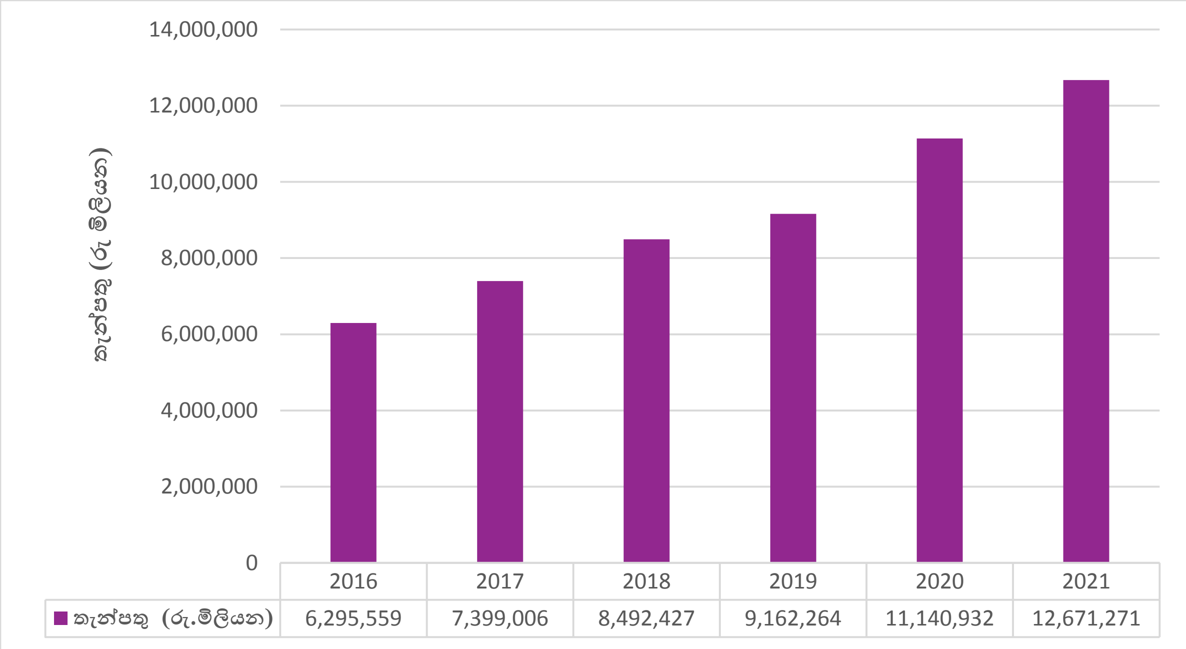


Figure 29 - Total Deposits held by Banking Sector

Non-Performing Loans (NPL) of the Banking Sector

Several loan moratorium opportunities that had been provided to the affected individuals and businesses in certain sectors were extended until the year 2022 due to the different scales of the COVID pandemic prevailed during the year 2021. Even though the classification of loans and advances into non-performing loans category was suspended during the period of loan moratorium, it was increased by Rs. 20.1 billion in the year 2021 compared to the increase in non-performing loans (NPLs) by Rs. 66.4 billion in 2020. Nevertheless, the gross non-performing loan ratio declined to 4.5 percent at the end of 2021 from 4.9 percent at the end of the year 2020, due to the relatively high growth in loans and advances during the year 2021. The net NPL ratio has also been declined in 2021, with the transition of NPLs into categories requiring higher provisions. Allocation for total non-performing loans increased by Rs 80.2 billion and specific allocation out of that was 84.7 percent.

In addition, according to the Sri Lanka Financial Reporting Standards 9 (SLFRS 9) after the implementation of the expected loss model, the ratio of stage 3 loans to total loans in the banking sector indicated 7.64 per cent and the ratio of stage 3 loans (net of stage 3 impairment) to total loans (net of stage 3 impairment) indicated 4.26 per cent as at end 2021.

Performance of the Banking Sector

The net interest income of the banking sector had grown by 28.5 percent compared to the decrease in interest expense by 11.5 percent during the year 2021 and increase in interest income by 3.2 percent. Accordingly, the net interest margin, which was 3.1 percent at the end of 2020, has grown to 3.4 percent in 2021. The net interest income has grown by Rs.121.8 billion compared to the previous year, and non-interest income increased by Rs.24.6 billion owing to higher foreign currency revaluation gains during the 2021. Moreover, the after-tax profit of the banking sector at the end of 2021 was Rs. 198.4 billion, and it was an increase of 46 percent compared to the previous year.

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 endeavour to regulate the supply, availability, and cost of money to secure, so far as possible by action authorized by the Monetary Law Act to determine the local monetary policy for the stabilization of the local currency. The Central Bank is mainly responsible for determining the policy interest rates and managing liquidity in the economy. The monetary operations of the Central Bank are influenced by the prevailing interest rates in the economy and it influences the behaviour of borrowers and creditors, economic activities and ultimately the rate of inflation. Accordingly, the Central Bank uses monetary policy to control inflation and maintain inflation at a desired level.

The statement “Road Map 2021: Monetary and Financial Sector Policies for 2021 and Beyond” was presented by outlining the medium-term monetary policies and the financial sector policies at the beginning of 2021. While the challenges and uncertainties are increased, the Bank presented the Six-Month Road Map for ensuring Macroeconomic & Financial System Stability in October 2021 with the objective of strengthening the economy based on a three-pronged framework and provide the market with an assurance of Macroeconomic stability.

The Central Bank of Sri Lanka departed from the loose monetary policy stance in 2021 with the aim of curbing inflationary pressures and addressing external sector imbalances. In August 2021, the Bank raised the policy interest rate and the statutory reserve ratio for all rupee deposit liabilities of the Licensed Commercial Banks in order to prevent possible high inflationary pressures in the medium term and to address foreign sector and domestic financial market imbalances. Accordingly, the policy interest rates of the Bank, i.e. the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR), were raised by 50 basis points each to 5 percent and 6 percent respectively in mid-August 2021. Moreover, the statutory reserve ratio was raised by 2 percentage points to 4 percent with effect from September 2021, thereby absorbing liquidity of Rs.170 billion through the banking system. Policy interest rates were raised by a total of 150 basis points between January and March 2022. In April 2022, the Bank had significantly tightened its monetary policy stance and raised its policy interest rate by 700 basis points and removed almost all the maximum interest rate caps on debt instruments.

During 2021, the Bank continued to introduce prudent policy measures and regulations to strengthen the financial and operational resilience of Licensed Banks to ensure the safety and strength of the banking sector. Moreover, the Bank cautiously eased certain regulations in order to continue the provision of relief to economic sectors affected by the outbreak of the COVID-19 pandemic and to facilitate the adjustment of the banking sector to the new normal.

Bank of Ceylon

Bank of Ceylon is a Licensed Commercial Bank established under the Banking Act No. 30 of 1988 and duly incorporated on 01 August 1938 under the Bank of Ceylon Ordinance No. 53 of 1938. The Vision of the Bank is to be the Nation's preferred bank with a strong global presence, providing customer centric innovative financial solutions. 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.

Bank of Ceylon has managed to own 25 percent of loans and advances and 23 percent of deposits in the sector in the year 2021. In addition to its extensive reach across Sri Lanka, Bank of Ceylon has three branches in India, Maldives and Seychelles, and a limited service branch in Hulhumale and the Bank is also operating a wholly owned subsidiary in London, UK.

As a result of growth in loan portfolio, quality of loan portfolio in interest margins and effective management of expenses, the Bank has been able to increase its profit before tax to Rs.43.2 billion with a growth of 83 percent during the year. It can be indicated as a commendable achievement during a year with severe market challenges.

The balance sheet of the Bank had reached up to Rs 3.8 trillion by the end of December 2021, indicating a strong asset expansion of 28 per cent during the year. The 22 percent growth in assets was primarily driven by loans and advances and financial facilities required to support the recovery of the pandemic-affected industries and businesses were provided continuously.

The loans and advances of the Bank exceeded the limit of Rs. 2 trillion during the year. This was due to the low interest rate throughout the year and the increase in applying for loans for starting business under the new normalization. Meeting the working capital requirements of both the private and public sector is reflected by the increase in overdraft facilities by 73 percent and term loans by 12 percent and personal loan facilities had grown by 19 percent during the year due to the new normalization of lifestyles since travel restrictions were relaxed and the vaccination programme was implemented successfully.

Total liabilities had increased up to Rs 3.6 trillion by 28 percent as a result of 16 percent growth in deposits and doubling of other borrowings.

In the year 2021, Koladeniya Hydropower (Private) Limited, which was an indirect subsidiary of the Bank was sold to an external party, and capital contribution amounting to Rs. 1.7 billion was provided to make the Merchant Bank of Sri Lanka and Finance PLC (MBSL) a profitable entity within the year.

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, development and providing assistance to agriculture and industry and to carry on the business of a commercial bank, pawn broker and to function as the merchant bank.

People's Bank is being operated with 742 branches across the island by the end of 2021. In addition, there were 797 ATM machines, 298 CDM machines, 221 Kiosks and 268 self-banking units. The total deposit base of the Bank had reached to Rs. 2,071.5 billion by the end of the year 2021 after expanding the total deposit base by Rs. 236.43 billion by the end of the year 2021. The total asset base of the Bank by the end of December 2021 was recorded as Rs. 2,647.64 billion. The profit before tax of the Bank in the year 2021 was Rs. 30.4 billion and it was a growth of 43.2 percent compared to the previous year. The net interest income of the Bank in the year 2021 was Rs. 82.64 billion and it was a growth of 35.3 percent compared to the previous year.

At the Retail Financial Services International Awards 2021, the Bank was awarded the Best Retail Bank and the Best Digital Bank in Sri Lanka. Furthermore, the People's Bank was awarded the "People's Banking Service Provider of the Year" award for the 15th consecutive year at the 'SLIM People's Awards 2021'. The Bank was also capable of securing the award of the Best Digital Bank in Sri Lanka by the International Business Magazine. The People's Pay Wallet application was introduced as one of the innovations in 2021. Moreover, it was ranked amongst the prestigious World's Top 1000 Banks for the fourth time in a row. Fitch Rating Lanka Ltd has maintained People's Bank's (Sri Lanka) (PB) National Long-Term Rating of 'AA-(lka).

A sum of Rs. 700 billion has been granted as funding to the Treasury of the Ministry of Finance in the two years of 2020 and 2021. Loan portfolio growth of the People's Bank in the year 2021 has contributed nearly 22 percent of the loan portfolio growth of the sector. At the end of 2021, approximately 50 percent of the loan portfolio of the Bank has been provided to state and other government-owned enterprises. The assets of the Bank, deposits and some important indicators are shown in Table 18.

Banking Sector

Details	As at 31 December 2020	As at 31 December 2021
Total Assets (Rs.000)	2,230,118,665	2,647,640්,536
Total Deposits (Rs.000)	1,835,099,456	2,071,532,612
Return on Assets (Before taxes) (%)	1.0	1.3
Return on Equity (%)	14.4	19.9
NPL (%)	3.2	3.2

Table 18 : Assets, Deposits and Vital Indicators of the People's Bank

The National Savings Bank

The National Savings Bank (NSB) was established via the Parliament Act, No. 30 of 1971 by 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 to provide their customers with total financial solutions to optimize their savings and investment needs, while meeting the expectations of all their stakeholders.

To achieve the aforesaid Mission, the Bank has distributed their services through 261 branches, 4063 post and sub-post offices and 384 numbers of CDM / ATM / CRM. In addition, 4,641 number of staff members have been employed island wide.

The ICRA Lanka Limited has reaffirmed the issuer rating of [SL]AAA with Stable outlook for National Savings Bank.

The National Savings Bank - Group

Group has two subsidiaries, NSB Fund Management Company Limited and Sri Lanka Savings Bank Limited (SLSBL). 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 01 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.

According to the letter of the Director of Bank Supervision of the Central Bank of Sri Lanka dated 05 January 2021, the Bank is to be liquidated or merged with the National Savings Bank by 30 September 2021. However, the aforementioned process has not been completed until the reporting date and business operations had not been carried out.

Housing Development Finance Corporation Bank

Housing Development Finance Corporation 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, to 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 2021 and accordingly the total number of branches was 39 and had a credit rating of BB+ (lka) at the end of the year 2021. In addition, loans granted was Rs. 41.84 billion in 2021 and it had been increased by 1.5 percent compared to Rs.41.21 billion in 2020. Interest income during the year under review had decreased by 11.32 per cent reaching Rs. 6.61 billion, from Rs. 7.46 billion, the interest income of the previous year. Furthermore, the Bank had expanded its deposit base from Rs. 47.95 billion to Rs. 49.81 billion during the year and it was 3.89 percent increase.

Total assets amounting to Rs.61.03 billion by the end of the year 2020 had increased by Rs.1.93 billion up to Rs. 62.96 billion by the end of the year 2021. Nonperforming loan ratio of the Bank had decreased from 20.2 percent in the year 2020 to 18.8 percent in the year 2021.

The Bank had reported a profit before tax amounting to Rs. 878 million in 2021 and it had been 17.79 percent decrease as compared to the previous year. Further, the net interest income of the Bank had increased by 75 million or 2.52 percent compared to the year 2020.

Capital adequacy and minimum capital requirement, value creation for shareholders was of top priority and shareholder funds increased by 9.88 percent in 2021, Asset value per share grew from Rs. 89.35 to Rs. 98.18 in 2021 and it marked a 9.88 percent increase.

However, earning per share decreased from Rs. 10.94 to Rs. 8.46 during the year 2021 owing to the decrease in profitability. Core Capital Ratio (Tier 1) and total Capital Ratio (Tier 2) remains above the minimum requirement at 22.38 percent and 23.02 percent, as against the the Central Bank (CBSL) direction No. 05 dated 26 October 2017. Due to the current minimum regulatory capital requirement deadline to the end of the year 2023. Assets of the Bank, deposits, borrowings and some significant indicators are mentioned below.

Details	As at 31 December 2020	As at 31 December 2021
Total Assets (Rs. Million)	61,030	62,964
Total Deposits (Rs. Million)	47,947	49,813
Borrowings (Rs. Million)	5,542	5,090
Returns on Assets (%)	1.16	0.87
Returns on Equity (%)	12.25	8.61
NPL Loans (%) - Gross	20.23	18.8

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 as 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.

Regional Development Bank (RDB)

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 are 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.

Regional Development Bank continues to play a vital role in uplifting the social and economic development activities in the country as a financial institution targeting the financial development. The Bank empowers the customers of the Bank with the contribution of 2,590 staff members island wide through its 288 island-wide branch network and thereby contributes in the development of the entire nation. The bank played an important role to support the businesses impacted by the Covid-19 pandemic through moratoriums. The Bank has secured a rating of BBB+ (negative) from ICRA Lanka Limited.

As a state-owned bank, the Regional Development Bank implemented loans and other relief to customers during the COVID-19 pandemic. In the year 2021, the bank launched the RDB QR code-based transaction facility, whereby customers purchasing goods or services from a merchant can pay for the goods through the QR application of another bank and the funds are credited to the RDB account of the merchant/owner concerned. Furthermore, the Loan Origination System (LOS) and the Collections Management System (CMS) are in the final stages of development and that will facilitate prompt credit facility to customers.

The Bank reported a profit before tax amounting to Rs. 775.5 million and net interest income amounting to Rs. 13.65 billion for the year 2021. By the end of 2021, the total assets of the bank had been increased up to Rs. 245.9 billion and it had been an increase of 11 percent compared to the total asset value of 222.1 billion in the year 2020. Deposits of the customers had been Rs. 187.7 billion by the end of the year 2021 and it had been an increase of Rs. 14.8 billion or an increase of 8.6 percent compared to the end of the year 2020. Tier 1 capital adequacy ratio at the end of the financial year, 2021 was 8.72 percent and total adequacy ratio was 14.27 percent.

Major Audit Findings

Central Bank of Sri Lanka

- According to the financial statements of the Bank, the value of the treasury bill investment of the Bank had been increased from Rs.25 billion (book value) prevailed at the end of the year 2019 up to Rs.638 billion (book value) by the end of the year 2020 and up to Rs.1,351 billion (book value) by the end of the year 2021. Accordingly, the Bank had only 2.9 percent of the treasury bills issued by the Government by the end of 2019, and that amount had been increased by the end of 2020 up to 40.4 percent of the amount issued and that amount had been increased by the end of 2021 up to 59.5 percent of the amount issued. Accordingly, the Bank had purchased a significant amount of treasury bills issued by the Government prevailed at the end of each year.

- According to the financial statements of the Bank, the foreign assets of the Bank, which had been Rs. 1,511.6 billion at the end of 2019 had been decreased up to Rs. 1,387.5 billion at the end of 2020 and up to Rs. 798.8 billion by the end of 2021 by about 42 percent by the end of 2021, compared to the year 2020. According to the weekly economic indicators published by the Bank, net foreign assets of the Bank had been a negative value amounting to Rs. 83.9 billion in August 2021 and it had been increased and the negative balance of the net foreign assets had been increased up to Rs.386.2 by December 2021 and that negative balance had been increased up to Rs.1,612 by the end of July 2022.

- According to the daily exchange rates published by the Bank, the Bank had maintained the exchange rate for the US Dollar at a fixed value from 7 September 2021 to 7 March 2022 and it was observed that the Bank had traded more foreign exchange at the domestic foreign exchange market during that period. Accordingly, the Bank had supplied USD 1,746 million to the domestic foreign exchange market during the period from September 2021 to March 2022, and had purchased only USD 738 million from the domestic foreign exchange market. Accordingly, the net foreign exchange supplied to the domestic foreign exchange market was around USD 1,008 million and as a result, foreign reserves held by the bank had decreased.

- The remittances of foreign employees had decreased significantly during the period from September 2021 to March 2022. Accordingly, USD 3,548.9 million had been received from foreign employees for the 7 months from February 2021 to August 2021 and it had been decreased to USD 2,049.8 million from September 2021 to March 2022. It was observed that the significant difference in the exchange rate in the informal market compared to the official exchange rate was primarily responsible for the decline in remittances through formal channels.

- Pursuant to Section 66 (1) of the Monetary Law Act, the Monetary Board shall endeavor to maintain an international reserve sufficient to meet any foreseeable shortfall in the balance of payments by the assets of the Central Bank in order to maintain the international stability of the Sri Lankan Rupee and to ensure maximum freedom in its current international transactions. However, gross official reserves, which stood at nearly USD 7,670 million as at January 2018, had declined drastically to a value less than USD 2,000 million by March 2022. The use of the foreign reserves of the Bank totaling to USD 1,500 million on two occasions to settle the international sovereign bonds of the government had been the reason for the decline in gross official reserves.

- According to Section 113 of the Monetary Law Act, the Central Bank of Sri Lanka has been entrusted with the responsibility of managing public debt. However, the types of debt included in the public debt or a definition for public debt have not been stipulated in the Monetary Law Act on the objectives and functions of public debt management or in any other written law.

- Issuance of Licenses, regulation and supervision of microfinance companies is carried out by the Monitory Board of the Bank under the Microfinance Act No. 6 of 2016 with effect from 15 July 2016. Companies that accept deposits and provide financial services mainly to low-income earners and micro-enterprises (microfinance businesses) must obtain a license under this Act. Accordingly, only 4 companies had obtained licenses to conduct microfinance businesses from the effective date of this Act up to 30 June 2021. Companies that do not accept deposits, but provide financial services to low-income earners and micro-enterprises in the country are not required to obtain a license under this Act. Therefore, such companies are not regulated and supervised by the Monetary Board of the Bank under this Act. In response to the report of the Auditor General for the year 2019, it had been stated that a credit regulatory authority would be established through a separate Act to provide licenses, regulate and supervise institutions engaged in microfinance and money lending businesses and the draft of the proposed Act has been submitted to the Ministry of Finance on 26 November 2019. However, it had not been enforced even by the end of 2021.

Bank of Ceylon

- The operating result of the year under review was a profit amounting to Rs.37.6 billion and the corresponding profit of the previous year was Rs.17.8 billion. Accordingly, a growth of Rs. 19.8 billion was observed in the financial result. This growth was driven by a 22 percent growth in loans and advances and a 15 percent increase in the interest income on the growth of investment by 44 percent. Compared to the previous year, lending directly to the government and state-owned enterprises grew by 41 percent, while lending to the private sector grew by 9 percent.

- Impairment charges for loans and other losses had increased by Rs.12.5 billion or 40 percent during the year under review as compared to the previous year. This was mainly due to the increase in the total credit portfolio of the Bank, increase in the amount of loans reported under stage I and stage II, increase in the loans granted to the Government and State Enterprises in foreign currency and increase in the allocations made on investments made in foreign currency. The deposit base of the Bank had been increased by 16 percent and borrowing had been increased by 126 percent as compared to the previous year, and due to the low interest rate throughout the year, the interest expense had decreased by Rs. 2.2 billion or 2 percent compared to the previous year.

- The total outstanding balance of loans and advances belonging to State Owned Enterprises (SOEs) had increased significantly during the last five years. By the year 2021, the total outstanding loans and advances of state-owned enterprises had increased by 209 percent or by Rs. 772,819 million compared to the year 2017. In 2017, the total outstanding balance of state-owned enterprises was 30.24 percent of the total loans and advances and 18.90 percent of the total assets of the Bank. These percentages had grown rapidly to 44.31 percent of total loans and advances and 30.02 percent of total assets as at 31 December 2021.

- The General Treasury, Ceylon Petroleum Corporation, Road Development Authority, Government of Sri Lanka, Sri Lankan Airlines, National Water Supply and Drainage Board, Ceylon Electricity Board, Department of Pensions, the State Pharmaceuticals Corporation of Sri Lanka and the Paddy Marketing Board were among the Government-owned enterprises with the highest loan balances in the Bank of Ceylon as at 31 December 2021. The total value of loans given to these institutions had been recorded as Rs. 1,101,087 million, which comprised of the Capital portion of Rs. 1,085,738 million and interest portion of Rs. 15,349 million and it represented 96.44 percent of the loans and advances of the government-owned enterprises.

- The total of these top 10 non-performing loan balances was Rs.21,455.50 million as at 31 December 2021 and it was 0.83 percent of the total loan and advance balance as at that date.

People's Bank

- During the last 5 years (2017-2021), the total outstanding balance of loans and advances belonging to state-owned enterprises has increased significantly. By 2021, the total outstanding balance of loans and advances belonging to state-owned enterprises had been increased by Rs. 584,107 million or by 165 percent compared to the year 2017. During the year 2017, the total outstanding balance of the government owned enterprises was 32.89 percent of the total loans and advances of the Bank and 24.08 percent of the total assets of the Bank. These balances had grown rapidly to 48.39 percent of total loans and advances and 35.40 percent of total assets by 31 December 2021. The total asset base of the Bank was Rs.2,647,641 million as at 31 December 2021 and 35.40 percent out of that had represented the loans and advances belonging to the government-owned enterprises.

- The capital portion of the top 10 loans granted to the state-owned enterprises was Rs. 873,689 million as at 31 December 2021 and the interest was Rs.9,152 million and the total was Rs. 882,840. It represented 94.18 percent of the total outstanding balance of loans and advances belonging to government-owned enterprises. The top 10 loans granted to the government-owned enterprises were represented by Deputy Secretary to the Treasury and the institutions such as the Ceylon Petroleum Corporation, Ceylon Electricity Board, Sri Lankan

Airlines, Road Development Authority, Ceylon Fertilizer Company Limited, Director of Pensions, Colombo Commercial Fertilizer Company Limited, National Water Supply and Drainage Board and the State Pharmaceuticals Corporation of Sri Lanka.

- The outstanding balances amounting to Rs. 480,526 million to be received from Deputy Secretary to the Treasury, Samurdhi Loans and interest due from the Government Treasury for Senior Citizen Deposits etc. were settled by issuing treasury bonds in the year 2020 and 2021 instead of performing cash settlement.

- A mortgage officer had provided mortgage advances totalling to Rs. 50,233,000 by creating fake customers in the mortgage system. Accordingly, the advances had been realized without the physical presence of the mortgage customers.

- According to the project Charter, the Data Ware House Project had been approved and bids were invited in 2012. In 2015, JIT Technologies accepted the bids and the Agreement was signed by the Bank on 02.11.2015. According to the Agreement, the total expenditure of the project was Rs.250,539,917.95. According to the project Charter presented, the expected total maintenance cost of the project for the previous 5 years was Rs.168,850,063.17. As per Board Paper No. 800/2021, the total cost incurred for the previous 5 years was Rs. 402,028,385 and the total expected cost was Rs.480,910,852. The project was scheduled to be finalized on 08.12.2018. According to the details presented by the Finance and Supply Division, a sum of Rs.137,187,229 had been paid in installments in 17 occasions from 2015 to 2020 and remained as unsettled in the suspense accounts as at 31.12.2021. A provision had also been made in the financial statements for that.

- According to the report of the meeting of the data storage committee held on 27.07.2021 and 19.08.2021, the representatives of each sector have emphasized that the project cannot be utilized as expected and the system is currently unavailable due to the expiry of the license. It had been communicated to the Board through Board Paper No. 800/2021 and the Executive Steering Committee had decided to discontinue the existing database as well.

National Savings Bank

- According to the financial statements presented, the total interest income of the Bank had increased up to Rs. 131,438 million by 7.3 percent or Rs. 122,512 million during the year 2021. a net profit before tax amounting to Rs. 28,381 million had been reported in the year under review through the operations of the Bank as compared with the corresponding net profit before tax amounting to Rs. 15,645 million in the previous year. Thereby, an increase of Rs. 12,736 million or 81 percent of the financial result had been indicated. Return on average assets (ROAA) and return on average equity (ROAE) were 1.93 percent and 33.92 percent respectively.

- Loans and advances at the end of the year under review had increased by 4 percent or from Rs. 516,795 million up to Rs. 538,941 million as compared to the previous year. Personal loans had been 40.5 percent of the total outstanding loans as at 31 December 2021 and housing and property loans had been 11.7 percent. Further, the Bank had converted outstanding loans of the Road Development Authority amounting to Rs. 59,366 million into debentures on 01 January 2021. Therefore, it was classified as loans and other instruments out of loans and advances as at 31 December 2021.

- Gross non-performing loan ratio of the Bank had increased from 2.79 percent to 2.97 percent during the year under review. Furthermore, the provision for impairment had also been increased by Rs. 2,978 million or 33.1 percent. The reason for that increase was the increase in non-performing loans by 12 percent.

- The total deposit base of the Bank had increased by 15 percent or from Rs. 1,237,124 million up to Rs. 1,428,467 million by the end of the year. Fixed deposits accounted for 74.2 percent of the total deposits of the Bank by the end of the year 2021.

- The investment of loans and other instruments had been increased by 24 percent or from Rs.754.2 billion to Rs.935.4 billion during the year 2021. The above growth is due to the investment in Government Securities, Sri Lanka Development Bonds (SLDB), Debentures (Treasury Bonds) and Corporate Debt Instruments during the year under review.

- Tier 1 capital ratio of the Bank had increased from 13.65 percent to 18.6 percent during the year under review. The total capital ratio of the Bank had increased from 16.45 percent to 20.83 percent during the year under review.

- In contrary to the Public Enterprises Circular No. PED/03/2016 dated 29 April 2016, the Bank had paid the Pay-as-you-earn taxes for the employees of the Bank as per the collective agreement. Accordingly, the Bank had paid Rs. 11.81 million as Pay-as-you-earn taxes for the year 2021.

- The Group had reported a net profit before tax amounting to Rs.28,425 million for the year 2021 and it had been an increase of 69 percent compared to the previous year. The total asset base of the Group had increased up to Rs.1,605,805 million by the end of the year by representing a growth of 16 percent as compared to the previous year. Gross loans and advances and total deposits had increased by 4 percent and 15 percent respectively as compared to the year 2020.

- The total capital ratio of the Group had increased from 18.3 percent to 36.6 percent as compared to the year 2020.

Housing Development Finance Corporation Bank of Sri Lanka

- Integrated Risk Management Framework (IRM Framework) for Licensed Banks in accordance with Guideline No. 07 of the Banking Act of 2011 dated 05 October 2011, as per Amendment of Guideline No. 04 (D) 2.9 (a) 7 of 2014 of the Banking Act of 25 June 2014, The Baseline Security Standard should be implemented for information security management by all the banks with effect from 01 July 2015. However, the Bank had failed to implement the Baseline Security Standard (BSS) for information security management with effect from 01 July 2015. Although the IT Department of the Bank had formulated the BSS policy, the Bank has not yet been able to implement it in the entire banking network. Under that Guideline, 95 Baseline Security Standard Control Objectives had been provided and only 45 control objectives, out of them, had been implemented.

- Pursuant to Section 25 of the Guideline No. 02/2021 dated 20 July 2021 of the Central Bank of Sri Lanka, all Financial Institutions (FI) shall issue internal operational guidelines on positioning, operation, monitoring, record keeping, system maintenance and administration and it needs to be done as part of the AML/CFT (Anti-Money Laundering/Combating the Financing of Terrorism) policy as well as with the approval of the Board of Directors (BOD). However, the Bank had failed to meet this requirement for the financial year under review.

- Password Settings: 38 user accounts in the Polaris Core Banking System and 22 user accounts in the ICMS had not been used for a long time and had failed to take action to disable it.

- Backup Restoration & Testing: According to Information Security Control Documents, backup restoration should be done once in every 4 months. However, the Bank had not carried out backup restoration testing for Database and Polaris, AMS, DMS, HRPA, ICMS, Palmtop and IB during the financial year under review.

- Investment Property: The ownership of the investment property worth 801 million located at the premises of the Building Materials Corporation at Sri Sangharaja Mawatha of Colombo 13 had been transferred to the Bank on 31 December 2008. However, the Building Materials Corporation (BMC) had not handed over the vacant possession of the land to the Bank. The Bank has been trying to get the vacant possession of this land since 2008. However, the bank had failed to get the vacant possession of the land until 31 July 2022.

- Loans and Advances - Performing and Non-performing Loans (excluding Loans against Employees Provident Fund (EPF) and Leasing Facilities): The total balance of outstanding loans and advances as at 31 December 2021 had been Rs.29,765 million and non-performing loans and advances as at that date had been 7,549 million which represented 25 percent of the total outstanding loans and advances. Furthermore, it was observed that Rs. 2,154 million loans (7.2 percent of the total deficit) had been categorized under watch status and there was a risk of it becoming a non-performing loan later. The outstanding balance of 67 Corporate Loans had been Rs. 1,378 million as at 31 December 2021. Out of that, Rs. 618 million (10 loans) had been converted into non-performing loans by 31 December 2021. Furthermore, it was also observed that loans amounting to Rs.22 million had been classified under Watch and there was a risk of it becoming a non-performing loan.

- Loans granted to Government Institutions: The Bank had granted 02 loan facilities amounting to Rs. 71.40 million and Rs. 84 million to the government institutions, such as National Equipment and Machinery Organization (NEMO) and State Development and Construction Corporation (SD&CC), which were under the purview of State Engineering Corporation (SEC). Both of these loans have currently been classified under non-performing loans due to not performing the two contracts as expected at the time of granting the credit facilities to these two institutions and the total amount payable as at 31 December 2021 had been Rs. 118 million.

- Olympus Construction Limited: A credit facility amounting to Rs. 350 million that had been applied by Olympus Construction Limited (110730000003) for meeting working capital requirement had been approved at the special meeting of the Board of Directors held on 07 June 2019. Loan facilities amounting to Rs. 100 million and Rs. 150 million had been provided to the Company on 08 July 2019 and 28 October 2019 respectively. Subsequently, it had been classified under non-performing loans on 07 January 2020 at the initial stage of offering it. 785 Days Past Due without the recovery of the total outstanding amount of Rs. 298 million as at 31 December 2021. Furthermore, the Bank had taken over the above property on 24 March 2021 and the Bank had not been able to sell it even by now.

- Top Ten Depositors: The total amount of the top ten depositors had been Rs. 3,481 million and 28 percent of the top 10 depositors represented Samurdhi Development Department and Samurdhi Micro Finance Bank Fund and it had been Rs. 973 million. The value of the top 10 depositors in the previous year had been Rs. 6,344 million and it had been declined by 45 percent to Rs.3,481 million during the year under review.

Merchant Bank of Sri Lanka and Finance PLC

- The operating result of the Company during the year under review was a profit amounting to Rs. 529 million and the corresponding loss of the previous year had been Rs. 1,108 million. Accordingly, a growth of 1,637 million was observed in the financial result compared to the previous year. The increase in this financial result was due to 101 percent growth in net interest income due to the increase in interest income by 11.6 percent and the decrease in interest expense by 24.3 percent against the low interest situation prevailed throughout the year. The balance sheet of the Company had grown up to 34.3 billion by the end of December 2021 indicating a 6 percent expansion of the assets of the Company during the year. Loans and advances had grown by 5.2 per cent as compared to the previous year and it had been the main contributor in the growth of assets. The deposit base of the Bank had increased by 2.5 percent as compared to the previous year.

- The Company had issued equity shares in the year 2021 to meet the capital requirements and a capital amounting to 2.15 billion had been raised through that issue. Accordingly, the Company had been able to increase the reserve capital of the Company from Rs. 2.12 billion prevailed in the previous year to Rs. 4.27 billion.

- In 2020, the Tier I capital and total capital ratios of the Company had been 4.4 percent and 5.6 percent respectively, which were below the minimum regulatory requirements of the Central Bank of Sri Lanka. Due to the increase in capital with the issue of the equity shares, Tier I capital and total capital ratios had increased during the current year to 10.75 percent and 11.33 percent respectively, which were higher than the minimum regulatory requirements of 7 percent and 11 percent of the Central Bank of Sri Lanka.

Regional Development Bank

- The gross non-performing loan ratio which had been 10.11 percent at the end of the year 2020 had been decreased to 8.71 percent by the end of 2021. However, the sectoral gross non-performing loan ratio of Licensed Specialized Banks stood at 6.47 percent for the year 2021. Even though gross debt had been increased by Rs. 21.9 billion compared to the end of the previous year, loans classified under stage 2 had been increased by Rs. 9.8

billion owing to the deterioration in the quality of loans and advances.

- The Return on Assets (ROA) of the Bank for the year 2021 was 0.13 percent and it was 1.33 percent for the Licensed Specialized Banking Sector. The Return on Equity (ROE) of the Bank for the year 2021 was reported as 1.99 percent as compared to 21.54 percent for the Licensed Specialized Banking Sector.

- Collective Agreements had been signed between the Bank and the employees' union for the salary revision and the Regional Development Bank had considered the salary revisions of the other state banks while deciding the salary revision. However, the salary revisions of those banks are not directly comparable with the Regional Development Bank as the asset base, profit levels, number of employees and number of branches are not the same. Furthermore, personnel expenses for the year 2021 as a percentage of the net operating income of the Bank was 66 percent and it represented the highest figure among the other state-owned banks. Moreover, it was observed that the profit earned by the Bank from one employee had been only Rs.0.12 million for the year 2021 and a cost of 2.82 million had been incurred per one employee.

- A total of 423,760 numbers of loans with a balance of Rs.129.02 billion or 77 percent of the total loan balance as at 31.12.2021 carry an interest rate of less than 15 percent. However, with the increase of the interest rates, fixed deposit rates had been increased more than 20 percent and as a result, a negative impact can be recorded on net interest income in the future.

- Every employer is required to deduct income tax from income and profits derived from employment at the discretion of each employee liable to pay income tax. However, in contrary to the Public Enterprises Circular No. PED 03/2016 dated 29 April 2016, the Bank had paid Rs. 15.33 million on behalf of its employees without deducting a Pay-as-you-earn / APIT tax from the salary of the relevant employees.

National Security

Audit Observations

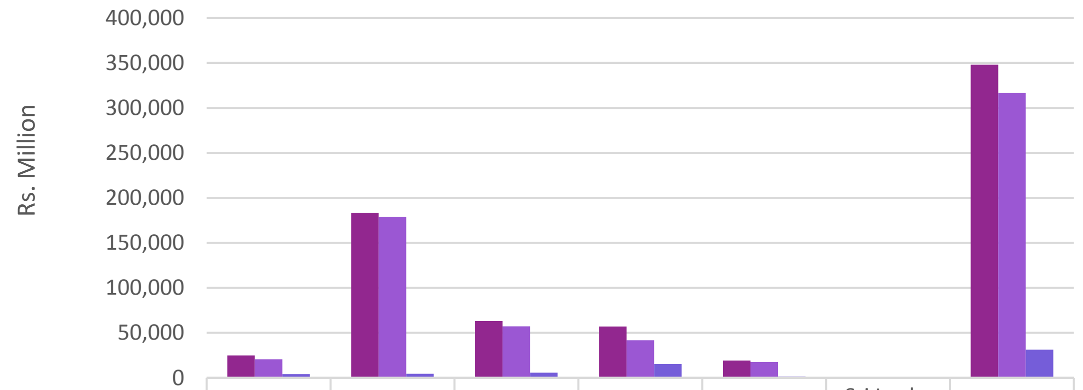
- Defense Force Headquarters Construction Project
- Strategic Defense Communications Network Project
- Sir John Kotalawala Defense University
- National Defense Fund
- Api Wenuwen Api Fund
- Sri Lanka Air Force
- Ranaviru Seva Authority
- Defense Services Command and Staff College
- Sri Lanka Army
- Department of Civil Security
- Sri Lanka Navy
- Department of Sri Lanka Coast Guard
- Rakna Arakshaka Lanka Company Limited
- Metropolitan Campus (Guarantee) Limited

National Security

The Ministry of Defense and 06 Departments and 03 Statutory Boards/Institutions under it have been established and the departments directly involved in the country's security should have performed the following functions and tasks.

- Suppression of internal insurgencies, acts of terrorism and protection from external influences
- reventing the smuggling of illegal goods and services in violation of maritime boundaries
- Working together with the relevant Presidential Executive Force in order to create a country free from drug menace, to prevent the entry of drugs into the country, to control the menace of drugs, to prevent victims of the menace of drugs and to rehabilitate the victims of the menace of drugs.
- Strengthening the Civil Security Department for rural community safety and welfare.
- To increase the employment and livelihood contribution of poor families to the multi-purpose development activities and to refer to the multi-purpose development performance force for poverty alleviation works as well as other development areas.

The Parliament had given a total of Rs.348,065 million in the year 2021 to the Ministry and 06 departments to fulfill the aforementioned role, and only Rs.316,727 million had been utilized by the end of the year under review. Details are shown in Figure 21.



	Ministry of Defence	Sri Lanka Army	Sri Lanka Navy	Sri Lanka Air Force	Department of Civil Security	Sri Lanka Coast Guard Department	Total
Net provision Rs. million	24,870	183,437	63,078	57,140	19,183	357	348,065
Expenditure Rs. million	20,693	178,986	57,264	41,737	17735	312	316,727
Balance Rs. million	4,177	4,451	5,814	15,403	1448	45	31,338

Figure 21 – Provisions given and Expenditures

Source - 2021 Annual Financial Statements

The significant audit observations revealed during the sample audit tests performed in connection with the performance of the aforesaid role are summarized below.

Defense Force Headquarters Construction Project

- At an estimated cost of Rs.13,349 million, 275 contract works related to priority phases 02 to 07 of the Defense Headquarters construction project were scheduled to be completed during the year under review, but no physical progress was observed in 85 of those works as at 31 December 2021 and the works Progress in 58 was between 1 and 30 percent lower.

- Assets worth Rs. 14.27 million belonging to the three armed forces headquarters project had been damaged due to the fires that occurred in the year under review and in the previous year, and the recovery or follow-up action from the responsible parties was delayed.

- The contract period had to be extended on failure to complete the contract within the expected time, due to delays in the construction of the Defense Forces Headquarters construction project, delays in opening letters of credit, etc. and 5 such supply contractors had applied for 24 Claims for EOT amounting to Rs. 1,126.14

million and US$ 1.61 million by the end of the year under review.

Strategic Defense Communications Network Project

According to the initial plans, although the strategic defense communication network project was proposed to be completed in the year 2016, although the project period was extended by 06 years, the overall physical and financial progress at the end of the year under review was 73 percent and 53 percent respectively.

Although the procurement work of purchasing a microwave radio communication system for this project was started in the year 2016, it was still in the procurement appeals committee stage by December 31, 2021. As a result, 22 generators worth Rs. 38.54 million were purchased in 2016 and 2017 and 11 communication towers cost of Rs. 562.16 million which completed in 2020 and other constructions remained idle due to delay in concurrent works. Accordingly, the primary objective that expected from the project of maintaining joint strategic communication between the armed services was further delayed.

Sir John Kotalawala Defense University

Established by General Sir John Kotalawala State Defense Training Institutions Act No. 68 of 1981, to provide facilities and guidance for studies to cadet officers, officers, civil servants and any other person preparing for first degree, to promote brotherhood and goodwill between officers and cadets, to provide courses of study for obtaining post-graduate, diploma and other qualifications and the University In order to achieve their goals, to carry out research and development and other tasks necessary to achieve their goals

- Course fees of Rs.45.97 million, which were in arrears for more than 04 years and Rs.10.82 million and USD 118,107 for providing food and hostel facilities to foreign students had been remained in arrears for 1-4 years as at 31 December 2021, due to failure in collect course fees by the University on time.

- 76 university students, lecturers and other staff members who were in agreement with the bail bond conditions had to pay an amount of Rs. 75.03 million as of 31 December 2021 due to the violation of the said bail bond conditions. Although legal action had been taken regarding the breach of these bail bond conditions, no satisfactory method or follow-up measures had been adopted to promptly recover the amount due as agreed upon, and the number of bail bond violations had grown four times in the year under review compared to the year 2020.

- Although 07 years have passed since the establishment of the Southern Campus belonging to the University at the end of the year under review, the 7.6883 hectares of land used by the campus had not been taken over.

- Furthermore, the legal ownership of the 21.5815 hectares of land where the buildings of the University Teaching Hospital were built at a cost of Rs.32,318 million had not been transferred to the University by the end of the year under review. As of the year under review, more than 5 years have passed since the completion of the construction, but the further work of acquiring the relevant land has not been completed. Therefore, the value of this land was not reflected in the financial statements.

- the Breast Health Center and the Nuclear Medicine Department have not been started for treatment services, due to 31 vacancies including the positions of medical officer and radiographer in the approved staff of the radiology department of the teaching hospital, and it was not possible to effectively use the premises reserved for that, the furniture and medical equipment that had been purchased.

National Defense Fund

- Although the National Defense Fund planned to pay Rs. 105.98 million in three installments for the construction of houses for 150 war hero families in the year 2021, the fund had failed to pay any installments in the year 2021.

- The awarding of scholarships of Rs.25,000 each to 137 children who passed the five-year scholarship examination of deceased and disabled war heroes in the year 2019 was delayed for almost 15 months. Also, although it was planned to complete the work of awarding scholarships to 130 children who passed the five-year scholarship examination in 2020 by 30 June 2021, it was not possible to provide scholarships by 25 April 2022.

- An estimated minimum interest income of Rs.3.49 million had been lost due to delayed reinvestment of two fixed deposits belonging to the fund by a period of 37 to 45 days after maturity.

Api Wenuwen Api Fund

Api Wenuwen Api Fund was established by Act No. 6 of 2008 to provide for the granting of loans to members of the armed services for the construction or purchase of houses, assistance in repayment of loans taken from financial institutions and to ensure repayment of loans in the event of death or total disability of a member.

- The fund had planned to pay an amount of Rs.209.74 million for 299 houses in 03 installments under the partial housing assistance project in the year under review. However, only Rs. 448,833 was paid as the first installment for 02 houses in the year under review, and the second and third installments were not paid for any of the houses. Therefore, the expected financial performance and physical performance as per the annual plans were very minimal.

- Although Rs.43.07 million was planned to be provided in 3 installments for 27 houses in the year under review, 03 installments for one house, 02 installments for 02 houses and one installment for one house were paid only Rs. 3.99 million during the year. It was a very low level of 9 percent when taken as a percentage of the amount planned to be paid in the year.

Sri Lanka Air Force

- 72 aircraft spare parts sent for foreign repairs on 37 occasions between 2004 and 2014, were not received back by the Air Force for a period of 7 to 17 years. Considering the commercial value of these aircraft spare parts, the total was valued at Rs.138.27 million as the repair value of 55 aircraft spare parts was USD. 130,525.28 , the new purchase value of 05 aircraft spare parts was USD 536,000, and the scrap value of 05 aircraft spare parts was 17,997 US dollars.

- In terms of Financial Regulation 128 (1) (b), it is the responsibility of the Accounting Officer to correctly ascertain and fully recover the fees due to the Government. In charging the monthly rent assessed by the Chief Assessor of the Government for giving 15 existing government buildings at Katunayake Air Force Base Camp and

Colombo Air Force Camp to external parties, the government had lost a total of Rs. 11.6 million in revenue between January and November 2021, due to the crediting of a part of the relevant contractual value as government revenue and the remaining part as non-public fund to another fund as per the instructions of the Director of Administration of the Sri Lanka Air Force.

- Although 12 ½ percent of the salary of married officers who are not entitled to get scheduled housing should be charged as per paragraph 5.2 of Chapter xix of the Institutions Code, the government had lost Rs. 3.63 million in the year 2021 for 221 officers' houses in Air Force Base Colombo and Rs. 12.64 million in the year 2021 for 302 houses in Katunayake Air Force Base, due to the charging of 10 percent of the economic rent from the officers who do not own the scheduled housing apart from those terms while charging the rent of officers' houses related to Colombo Air Force Base and Katunayake Air Force Base.

- In terms of 128 (2) (e) of the Monetary Regulations Code of the Democratic Socialist Republic of Sri Lanka, although special arrangements should be made for the immediate collection of arrears of revenue due to the Government by the Revenue Collectors, the Sri Lanka Air Force had a total of Rs. 12.67 million aircraft rents due as at the end of the year under review, from 10 government agencies and 02 private agencies, with a delay of 3 years to 18 years.

Ranaviru Seva Authority

The primary objective of the Authority was to promote the welfare of the dependents of members of the Armed Forces and Police Force who have been disabled in action or are missing.

- In order to purchase the hearing aid equipment for the disabled war heroes, only one bid received from one organization was considered outside of the procurement method for providing the equipment called Cochlear Implant replacement worth Rs. 2.51 million. It was observed that the purchase of these hearing aids had been submitted to the technical evaluation committee and the evaluation reports had been obtained, but it was observed that the approval of the procurement committee was not transparently included in the technical evaluation committee report.

Defense Services Command and Staff College

The purpose of the Defense Service Command and Staff College is to improve the professional knowledge and understanding of those officers selected for training at the Staff College to prepare them for appropriate appointments and promotions in the respective services of the Armed Forces.

- Due to the problem of water leakage in the four-storied library and examination hall building, which was built at a cost of Rs. 133 million for the teaching activities of the college, the electrical system and walls of the upper floor had suffered a lot of damage, and the renovation work could not be carried out from the year 2019 to the year under review. This situation had adversely affected the achievement of the objectives of the college.

Sri Lanka Army

The total recurrent expenditure for the activities of the Sri Lanka Army in the year 2021 was Rs. 173 billion, of which Rs. 80 billion was spent on salary payments. Following are some of the quantitative facts revealed by these recurring expenses.

- 353 items belonging to 27 categories of goods were proposed to be disposed of equipment, stationery, electrical equipment, cover outers and batteries worth Rs. 3.37 million purchased without properly identifying the need in the past years, due to expiry or becoming unfit for consumption due to being kept idle for a long time.

- No fuel inspection was carried out in the year under review or in previous years in respect of 2,464 vehicles in running condition used by the Army, and fuel balances had been done in the running charts/ transport passports as per the fuel consumption figures determined by the transport department.

- A master procurement plan was not prepared for the expected procurement activities for a period of three years, and the procurement plan prepared with an estimated cost of Rs.36.59 billion for the year under review did not specify the unit quantities of goods or services to be procured.

- Goods, armed and unarmored vehicles and equipment for 685 troops to be established in Mali for peacekeeping duties were purchased in 2016 and

2017, and among these purchased transport and other equipment, value disclosed transport and equipment worth Rs. 1.38 billion, and other stocks of vehicles and equipment whose value was not disclosed, were stored in different parts of the island in idle.

- Due to terrorist attacks, there was a total year-end balance of Rs.14.06 billion including 125 losses of Rs. 13.78 billion to various assets of the army including weapons and Rs. 282.05 million as losses related to 497 road accidents, and these damages include losses of Rs. 840.7 million related to 119 cases over 10 years and losses of Rs. 12.99 billion in relation to 263 cases over 05 years. Recovery or write-off of these balances had been slow.

Department of Civil Security

- Although the main objectives of the Department of Civil Security are acting as a supplementary force to aid and assist the armed services and the police service as appropriate according to the emerging security situation in the country, working to protect the villages and towns affected by terrorist threats, assisting the armed forces and the police in maintaining law and order in the country, engaging in security related activities for festivals and other important occasions of national importance and to assist in the mitigation of various disasters (floods, landslides, tsunamis) in the country, after the civil war situation, the Civil Defense troops were assigned to development projects in all parts of the island, such as agricultural, security, industrial, animal husbandry, handicraft projects, medium and small scale construction, dengue control, drug prevention programs, national education and cultural programs, etc. However, the department had not prepared a formal manpower development plan in this regard.

- In the procurement of goods and equipment for the implementation of a Green House chilli cultivation project at a cost of Rs.17.67 million, the warehouse had received the goods before the procurement activities such as the opening of bids, giving the recommendations of the technical evaluation committee, giving the decisions of the procurement committee and ordering the goods, and due to the fact that the related procurement activities were carried out very quickly, the goods and equipment purchased at an extra cost of Rs. 3.23 million were stored idle for over a year. Furthermore, this project was not yet implemented.

- A total of 4,534 troops were assigned as 3,300 civil security troops for electric fence (elephant fence) maintenance, 845 troops for , and 389 troops for wildlife office work. The total length of elephant fence constructed so far in Sri Lanka is 4,756 km, of which 4,725 km or 99 percent had been handed over to the Department of Civil security for maintenance. There was no common agreement on how the two concerned departments would coordinate or how to provide anonymous services and how to allocate money in this regard. 845 civil security troops were deployed at an annual cost of more than Rs.427 million in salaries and allowances to driving away wild elephants, and these troops were not given formal training in this regard. The total capital expenditure incurred for the construction of elephant fences in Sri Lanka was Rs. 1.64 billion from the year 2010 to the year 2020, and the total expenditure incurred for the maintenance of elephant fences, including the salaries of officials, was Rs. 1.16 billion from the year 2016 to the year 2020. 989 people and 3,646 elephants were killed during the relevant period due to human-elephant conflict, and although the loss of life in recent years had increased compared to previous years, the deployed civil security forces had not been able to control the situation.

Sri Lanka Navy

The Sri Lanka Navy, whose mission is to carry out naval operations to ensure maritime security in accordance with national policies for the sake of national security and national interests, is divided into 07 naval commands covering the entire island and administered and the Parliament had allocated Rs. 63,078 million and Rs. 357 million respectively to the Sri Lanka Navy and the Sri Lanka Coast Guard Department in the year 2021, of which Rs. 57,264 million and Rs. 312 million had been used respectively. Accordingly, Rs. 5,814 million and Rs. 45 million, i.e. 9 percent and 12 percent from the provisions made by the Parliament during the period were left respectively.

- The amount of land owned by other ministries and departments used by the Sri Lanka Navy was 435.4223 hectares, and formal approvals had not been obtained for the use of those lands. Some lands had been used for more than 8, 14 and 22 years.

- During the year 2021, attention was not paid to the follow-up regarding the handing over of 41.012 kg of water gel and 542 units of plane detonators to the Sri Lanka Police, which were seized during the discovery of possession of illegal explosives by the Sri Lanka Navy.

- The investigation started in relation to the financial discrepancy of Rs.8.3 million in the gunpowder warehouse 5 years ago has not been completed till now.

- The breakwater project at Urani Fishery Port, which had cost Rs.8.1 million by the Northern Naval Command, was stopped midway.

Department of Sri Lanka Coast Guard

- After an amount of Rs. 30.09 million was spent for the construction of an advanced training and administrative building in the Department's Rohana Institute, the work on the project, which had been abandoned since July 22, 2017, was resumed in the year 2021. The total cost incurred for this project was Rs. 104.8 million by April 2022. Necessary steps should have been taken to complete this training and administrative building, which is a very essential project for the department.

- There was no focus on expediting further action to be taken in respect of 10 ships/vessels worth Rs.163.2 million which were not in working condition.

Rakna Arakshaka Lanka Company Limited

The main functions of Rakna Arakshaka Lanka Company's are land security services, maritime security services and running restaurants as well as maritime security operations. Below are some of the observed deficiencies related to the performance of these tasks.

- According to the company's latest financial statements, out of the trade and other receivable balance of Rs.2,299 million as on 31 March 2019, Rs.1,651 million was the credit balance due from the provision of maritime security services. Out of which Rs. 1,525 million i.e. 92.4 percent of the total loan was the balance due from Avangard. The balances of Rs. 84 million and Rs. 378 million respectively due from the Rangala and Galle floating arsenals had been un-charged for over 7 years, and no steps had been taken to recover the debt.

- Although Rakna Lanka Security Company's main source of income is based on the provision of local and maritime security services, the management had not focused on properly invoicing those revenues and sending them to the relevant institutions, identifying the differences with those institutions and establishing suitable internal control systems for formal management and control.

- After spending Rs. 739 million for the construction of the head office, the value of the 86.4 perches of land where the building was stopped in the middle of the construction work had not been assessed and disclosed.

Metropolitan Campus (Guarantee) Limited

The Academy of Financial Studies (Guarantee) Limited (Miloda Institute) had been announced as a faculty of the Kotalawala Defense University by Government Extraordinary Gazette No. 2187/27 dated 09 August 2020 and No. 2202/25 dated 20 November 2020, and the Academy of Financial Studies (Guarantee) Limited was incorporated as Metropolitan Campus (Guarantee) Limited under GL2244 under the provisions of the Companies Act No. 07 of 2007. The main functions of the company are to conduct courses for training public and private sector officials under the areas of financial management, information communication and digital management, law and leadership.

Prison Management and Prisoners' Rehabilitation

Audit Observations

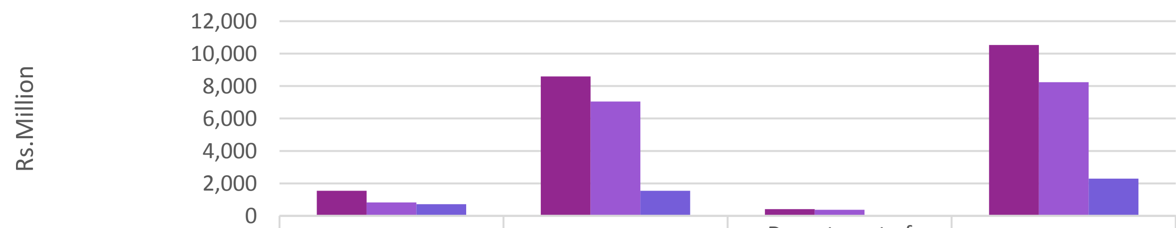
- Revenue Management
- Deposits and receivable balances
- Losses and damages
- Control of Vehicle
- Liabilities and Obligations
- Bills
- Failure to perform tasks
- Procurement
- Internal Audit

Prison Management and Prisoners' Rehabilitation

Through rehabilitation, using financial and human resources efficiently and effectively for a law-abiding society, reforming the departments and other institutions operating under the State Ministry, rehabilitating the inmates through good supervision and coordination and making them socialize as good citizens, the following tasks should have been accomplished.

- Taking steps to eliminate anti-social activities in prisons together with the Presidential Task Force.
- Taking necessary measures for the development of prison infrastructure together with the Presidential Task Force.
- Establishment of modern technical methods for monitoring criminals in prisons.
- In addition to the policy process of general amnesty to reduce overcrowding of prisoners, a mechanism for granting special amnesty through a review system should be developed.
- Preparation of a comprehensive system for the rehabilitation of prisoners.

Parliament had given a total of Rs. 10,535 million to the State Ministry, the Department of Prisons and the Department of Community based Corrections to fulfill the above-mentioned role in the year 2021, and only Rs.8,244 million had been utilized by the end of the year under review. Details are shown in Figure 22.



	State Ministry	Department of Prison	Department of Community Based Corrections	Toal
Provisions Rs.Million	1,538	8,591	406	10,535
Expenditure Rs. Million	821	7,051	372	8,244
Balance Rs.Million	717	1,540	34	2,291

Figure 22 - Amount of provision given and actual expenditure

Source - 2021 Annual Financial Statements

The significant audit observations revealed in the performance of the above role are summarized below.

Revenue Management

- The rental income of the canteens run by the Department of Prisons had not been recognized and credited to the government revenue as tax rental income in accordance with the Financial Regulations 83.

- The Bogambara Prison Canteen earned more than Rs. 10 million from the sale of goods to prisons and suspects alone in the first 8 months of 2021. However, Rs. 1.42 million were spent during this period on salaries and allowances for the officers assigned to the canteens and for water and electricity, but none of these expenses were deducted from the income of the canteens and reimbursed to the government. Furthermore, 63 officers were assigned to the canteens of the department of prison from August to December 2021, and an amount of Rs. 16.49 million was spent from the consolidated fund as salaries and allowances for those officers. Apart from this, 103 prisoners were also assigned to serve in the canteens.

Deposits and receivable balances

- Of the debtor balance of Rs. 49.56 million shown in the prison department's industrial and agricultural advance account in the year under review, the necessary evidence was not submitted to confirm the balance of Rs. 26.37 million, and an actions had not been taken according to Financial regulations 571 in respect of deposits of Rs.84.69 million in 05 general deposit accounts which exceeded 02 years.

- Of the balance of Rs.50 million receivables for sales made by the prison to the public sector, Rs.1.64 million were more than 20 years old and Rs.24.7 million between 5 and 20 years.

Losses and damages

In the prison department, without proceeding in terms of Financial Regulation 103(1) in respect of the loss of Rs. 9.33 million related to 103 incidents including 100 vehicle accidents that have been going on for more than 10 years, Rs.38 million rupees related to 54 incidents including 52 vehicle accidents that have been going on for a period of 05 to 10 years, and the loss of Rs. 12.13 million related to 118 incidents, including

22 vehicle accidents in the year 2021 and 94 vehicle accidents that have existed for less than 05 years, were presented in the financial statements on an ongoing basis. Further, 26 losses from the year 2017 to the end of the year 2021 were not assessed.

Control of Vehicle

72 vehicles of the prison department and 3 vehicles of the Bureau of the Commissioner General of Rehabilitation, which were removed from use in the period between 01 and 10 years, had not been misused. Also, 56 vehicles which were taken over from various institutions to the prison department were not registered.

Liabilities and Obligations

In the statement of obligations and liabilities included in the financial statements, the liabilities with the value of Rs. 4.57 million related to 02 expenditure subjects belonging to the Bureau of Rehabilitation Commissioner General were shown less, and the value of the obligations to external parties for the construction of buildings of Rs. 346.21 million was not stated in the statement of Liabilities and Liabilities as at 31 December 2021.

Bills

By the decision of the Cabinet of Ministers No. CP/17/2509/745/016 dated 22 November 2017, approval was given to the Bureau of the Commissioner General of Rehabilitation to prepare the bill, although the Cabinet Decision No. CP/21/0564/330/029 dated April 28, 2021 instructed the Bureau to resubmit the bill to the Cabinet with the approval of the Attorney General, the resubmission was not completed until the end of 2021.

Failure to perform tasks

Although one of the main tasks of the department is to rehabilitate the prisoners to suit the needs of the time and create the social background necessary for them to leave as good citizens, instead of complying with it, the Cabinet approval was obtained to rehabilitate the prisoners and handed over to a private company. The relevant company had employed 50103 prisoner man-days in various workplaces in the period from 15 June 2020 to 09 May 2022, under this training project.

Although receiving prisoners and providing for their safety, care and maintenance in accordance with prison rules and regulations is one of the main functions of the prison department, However, it was not adhered to for the following reasons.

- Over 1,667 detainees are detained without adequate facilities in wards and cells in Bogambara (Dumbara), Mahara prisons and Pallekele open prisons.

- 3253 detainees were kept together without classifying prisoners and suspects.

- Lack of adequate sanitary environment for prisoners.

- There was no proper system to identify people who are repeatedly incarcerated, and according to the information collected informal manner, the number was 220.

- 520 suspects have been detained in prisons for a period of 6 months to 2 years due to delay in providing Analyst reports.

Procurement

- According to Section 4.2 (b) of the Government Procurement Guidelines Code of 2006, a master procurement plan should be prepared including expected procurement activities for a period of at least 3 years, but the Department of Prisons had not prepared such a plan in the year 2021. Furthermore, although the State Ministry had spent Rs.9.59 million to acquire capital assets, the suppliers had not been registered for the year 2021 as per 3.4.3 (a) of the Procurement Guidelines Code 2006.

- Before obtaining the assessment report of the building where the Bureau of Rehabilitation Commissioner General is located and before entering into an agreement with the building owner, the contract was awarded with the concerned institute for the office division of the building for an amount of Rs.8.38 million. Furthermore, the monthly rental value of the building, which was estimated at Rs. 2.40 million, was contracted for a rental value that was Rs. 0.163 million higher than the estimated value, so an additional rental amount of Rs. 3.912 million had to be paid for a period of 02 years. Also, while the building requirement was advertised as 15000 to 16000 square feet, the 14524 square feet building housing the Procurement Commission office could be purchased for a monthly rent of Rs. 2.45 million, having to pay Rs.0.11 million more per month due to renting a 19858 square feet building for Rs.2.56 million, In addition, the economic advantage of acquiring the building with its fixed assets, computer network and share allocation was lost. As a result, due to the Ministry not taking proper decisions within the stipulated period, an additional cost of Rs.2.62 million as extra rent for 2 years and Rs.10.64 million for room reservation and computer networking had to be incurred.

- During the year under review, goods worth Rs.61.80 million were purchased in a situation where the rehabilitation centers cannot be established with certainty.

Internal Audit

An internal auditor was not appointed in terms of Section 40 (1) and Section 40 (2) (1) of the National Audit Act No. 19 of 2018.

Treasury Affairs

Audit Observations

- Collection of Government Revenue
- Non-revision of limits
- Purchase of vehicles under financial lease
- Distribution of motorcycles for Field Officers.
- Public Debt
- Payment of Charges for Unutilized Foreign Debt Balances
- Repayment of Foreign Debts
- Accounting the Public Debt
- Receipt of Foreign Assistance
- Capital Contribution of the Government Owned Enterprises
- Advance Accounts Approved by the Treasury
- Non-financial Assets
- Social Security Network Project
- Resolving Tax Appeals
- Monitoring and Control of Public Enterprises
- Providing accurate time statistics

Treasury Affairs

Following duties and functions had to be performed by the Ministry of Finance and 22 Departments and 48 Statutory Boards/ Institutes under the Ministry.

- 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.
- Introducing 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 the institutional structure required to make government revenue and expenditure management efficient.

A total of Rs. 2,572,396 million had been allocated by Parliament for the Ministry of Finance and 22 Departments functioning thereunder to fulfill the above role in the year 2021, and only Rs. 2,529,916 million had been utilized at the end of the year under review. Provision totaling Rs. 2,255,020 million had been made for the year 2020 and Rs. 2,158,968 million thereof had been utilized in that year. Details appear in figure 23.

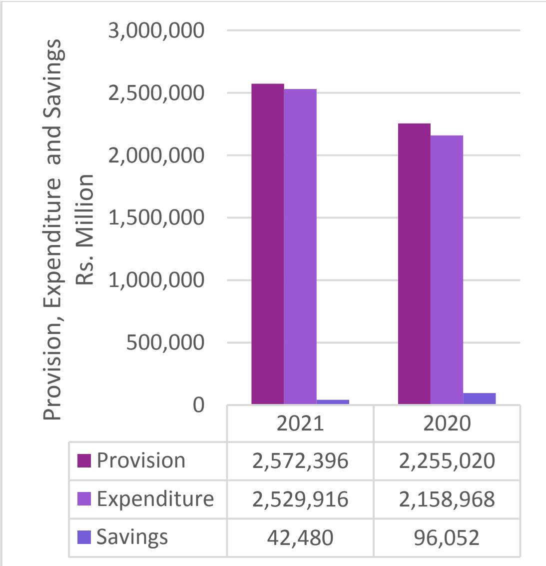


Figure 23 – Allocated provision and actual expenditure

Source – Financial Statement of the Year 2021

Collection of Government Revenue

The heads of departments of 10 Departments functioning under the Ministry of Finance serve in the capacity of Chief Revenue Accounting Officers. In terms of revenue estimate in the budget estimate approved by Parliament for the year 2020, the said Revenue Accounting Officers had stated a revenue of Rs. 1,449,485 million under the relevant 56 revenue codes. The Revenue Officers concerned had revised the estimate approved by Parliament reducing that estimated revenue by Rs. 183,463 million. As a result, the estimated budget deficit of the year had increased by that amount. A revenue of Rs. 1,221,931 million from the revised revenue estimate had been collected. Accordingly, the revenue of Rs.44,091 million from the revised estimated revenue had failed to be recovered. Accordingly, 10 ministries under the Ministry of Finance had not been able to collect revenue of Rs. 227,554 million or 15.70 per cent of the original estimated revenue approved by Parliament. Out of these 10 departments, the Department of Import and Export Control had revised the revenue estimate of Rs.1,600 million approved by the Parliament increasing the estimate by Rs.1,200 million or 75 percent and that revised revenue estimate had been increased by Rs.135 million and collected revenue of Rs. 2,935 million by the end of the year under review. The Director General of National Budget, Commissioner General of Inland Revenue, Chief Assessor and Director General of Customs had collected revenue totaled Rs.683,415 million, exceeding the revised revenue estimate by Rs.4,719 million. Other 05 departments had collected revenue totaled Rs. 538,515 million out of the revised revenue estimate aggregating to Rs. 587,325 million. Accordingly, it had not been able to collect revenue totaling Rs. 48,810 million. Details appear in Table 19.

Revenue Accounting Officer	No. of Revenue Codes	Revenue as per Original Estimate	Revenue as per Revised Estimate	Revenue Collected	According to the Revised Estimate	
					Excess	Revenue not collected
		Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Ms
Import and Export Controller	1	1,600	2,800	2,935	135	-
Comptroller General	1	400	400	188	-	212
Director General of National	1	0	0	3	3	-

Budget						
Commissioner General of Inland Revenue	28	666,503	629,215	640,213	10,919	-
Director General of Treasury Operations	10	51,750	51,800	56,777	4,977	
Director General of Fiscal Policy	2	20,000	25,000	15,012	-	9,988
Director General of Public Enterprises	2	56,000	40,000	30,591	-	9,409
Director General of Customs	8	503,107	381,890	354,050	-	27,840
Commissioner of Excise	2	150,035	140,035	138,674	-	1,361
Chief Assessor	1	90	82	115	33	
Total	**56**	**1,449,485**	**1,271,222**	**1,238,479**	**16,067**	**48,810**

Table 19 - Estimated income and actual income of 55 revenue codes in the year 2021

Source - 2021 Annual Budget Estimates and Government Financial Statements

The material and significant audit observations revealed at the audit test check carried out on the discharge of the above functions by the Ministry of Finance and 22 departments are summarized below.

Non-revision of limits

In relation to a State Ministry and a District Secretariat depicted in the third schedule of the Appropriation Act No. 7 of 2020, maximum expenditure limits of Rs. 32 million and Rs. 17 million had been imposed respectively for public officers' advance purposes. By the end of the year under review, that Ministry and the office had paid advances exceeding those limits by Rs. 1,401,679 and Rs. 208,590 respectively. Similarly, a minimum receipt limit of 525 million had been imposed in relation to another government ministry for the public officers' advance purposes. Receipts of Rs. 457.95 million of the limit had been collected by the end of the year under review. Accordingly, the limit had not been reached by Rs.67.05 million. Moreover, for two advance activities of the government officers, minimum receipt limits of Rs.500,000 and Rs.200,000 respectively had been imposed by the Appropriation Act for two commission offices that did not operate in the year 2021. Nevertheless, no receipt whatsoever had been reported even by the end of the reviewed year. The maximum debit limit of another State Ministry had been shown as Rs.20 million. However, that balance had turned out to be Rs. 24.6 million by the end of the year under review. Accordingly, the debit limit had been exceeded by Rs.4.6 million. Although these non-exceedance of limits should be revised on or before 31 May 2022 as per the provisions of the Appropriation Act, the National Budget Department had not taken measures to revise those limits even by 31 August 2022.

Purchase of vehicles under financial lease

According to National Budget Circular No. 150 dated 07 December 2010, although the relevant institutions had been informed to take over the vehicles worth Rs. 4,229.68 million purchased under the financial lease for another public institutions, the National Budget Department had not introduced a system to verify that the relevant transfer has been completed.

Distribution of motorcycles for Field Officers.

In terms of the National Budget Circular No. 02/2014 dated 23 July 2014, the registered rights of the motorcycles provided to the field officers are transferred to the personal name after a period of 5 years, whereas the National Budget Department had not introduced a system to confirm that the transfer of the motorcycles is completed.

Public Debt

According to the financial statements presented to audit, the public debt payable by the Government as at 31 December 2021 was Rs. 16,826.83 billion, the observations revealed during the course of audit test check thereon are as follows.

- The value of foreign debt totalling Rs.311,191 million in relation to 8 loan agreements included in CS-DRMS 2000+ Report 854 – 1 maintained by the Department of External Resources for foreign debt reporting as at 31 December 2021, has been completely eliminated from the financial statements of the government.

- The loan balance of Rs.589 million existed as at 31 December 2021 in relation to a loan agreement under the contractual obligations entered into by the government in the year 2021 had not been included in the financial statements of the government.

- Of the loan balances in the above 08 loan agreements, a balance of Rs. 161,332 million was payable from the loans obtained by the government for the construction of the Hambantota port. According to the decision of the Cabinet of Ministers dated 04 August

2017, the repayment of the loan balance had been taken over by the Treasury with effect from the effective date of the concession agreement. Nevertheless, that loan balance had not been included in the government financial statements of the year 2021. Similarly, that loan balance had also been eliminated from the financial statements of the Ports Authority as at 31 December 2021. The loan servicing relating to this loan balance is done by the General Treasury.

- Although the loan currency in relation to two loan agreements in CS-DRMS 2000+ Report 854 – 1 had been considered as Euro (EUR), it had been considered as XDR and (USD.) according to the government's financial statements. Accordingly, due to the use of exchange rates relating to different loan currencies for the same loan balances, it had affected the public debt balance stated in the financial statements to increase by Rs.340 million and decrease by Rs.285 million.

- Although the realized loan value pertaining to the loan number 2021026 during the year was Rs. 64,910.4 million according to the CS-DRMS 2000+ Report 854 – 1, it was Rs. 64,983.8 million according to the financial statements of the government. Accordingly, the loan value stated in the financial statement had been overstated by Rs. 73.4 million.

- When comparing the balances of the loans given to the Government of Sri Lanka by various lenders according to the financial statements of the government as at 31 December 2021 and as per report 854-1 with the balance confirmations submitted by those institutions for audit, totaled US$ 1,800,227 or Rs. 360.82 million of 02 loan balances had not been included in the government's financial statements.

- Although there was a loan balance of Rs. 240 million as at 31 December 2021 under loan number 2001042 included in the CS-DRMS 2000+ Report 854 – 1 report, the source of foreign loans, that balance had not been disclosed in the financial statements of the government.

- The negative debit balance of Rs. 1,481,264 related to two loan agreements had been eliminated from the government's financial statements and no explanation had been made to the audit regarding the fact of being negative those balances and eliminating those values from the financial statements.

- Information relevant to Note No.29 (i) submitted along with the financial statements had not been included in the CS-DRMS 2000+ Report 854 – 1 and the sources to confirm that value of Rs. 20,247 million was not furnished to audit.

- The foreign debt balance as at 31 December 2021 was US $ 34,130,219,447. As compared with the exchange rate of Rs.200.43 as at that date, the rupees value of the debt balance was Rs.6,841 billion. The exchange rate as at 30 May 2022 was Rs.360.76 and therefore, the value of that foreign debt balance was Rs.12,313 billion. The material impact on the debt balance due to the change of exchange rate had not been disclosed in the financial statements under the incidents after the balance sheet date.

Payment of Charges for Unutilized Foreign Debt Balances

Despite reaching agreements in the years 2014 and 2016, due to non-utilization of the relevant foreign debt owing to the reasons such as limitation of the scope relevant to those agreements, delay in the preparation of detailed plans, delays of the procurements and the contractors and the Covid 19 epidemic situation, payments of US $ 93,175,883, Euro. 1,328,347 and Renminbi Yuan 70,213,890 had been made as obligation charges in terms of agreements. Details appear in Table 20.

Name of the Project	Unutilized debt balance	Obligation Charges rate out of unutilized funds	Obligation Charges paid
Project for the extension of Southern expressway from Beliatta to Wetiya	US $ 80,938,153	0.25 per cent	US $ 2,641,904
Urban Healthcare and sanitary initiative Project.	Euro 73,243,437	0.5 per cent	Euro 562,354
Integrated Urban Development Project, Anuradhapura.	Euro 50,135,990	0.5 per cent	Euro 379,487

Implementation of Anamaduwa Integrated water supply scheme.	Euro 17,274,470	0.5 per cent	Euro 18,223
Implementation of Greater Matale water supply project.	Euro 37,938,128	0.75 per cent	Euro 368,283
Implementation of the project for the construction of the Southern Expressway from Matara to Beliatta.	US $ 19,511,551	0.25 per cent	US $ 56,089,787
Implementation of the part from Kadawatha to Kerawalapitiya of the Outer Circular Expressway Project.	US $ 140,728,238	0.25 per cent	US $ 32,212,172
Implementation of the project for the extension of Southern Expressway from Mattala to Hambantota via Andarawewa.	Renminbi Yuan 540,370,717	0.25 per cent	Renminbi Yuan 51,295,324
Implementation of roads and flyovers construction project of the Hambantota International Hub.	Yuan 1,489,711	0.25 per cent	Renminbi Yuan 18,918,566
Implementation of the project for the improvement of Ambatale water supply system and the power saving project.	US $ 53,129,531	0.5 per cent	US $ 53,132,020

Table 20 - Payment of obligation charges levied on unutilized balance of debts.

Source - Report 854-1 of the Department of External Resources

Repayment of Foreign Debts

According to the Statement of Financial Performance, the foreign debts obtained during the year under review was Rs.516,606 million and the value of the loan installments paid during the year under review was Rs.530,507 million. Accordingly, the payment of loan installments in the year 2021 had exceeded the loan obtained during the year by Rs.13,901 million. The payment of foreign debts exceeding the amount of foreign debts obtained during the year under review had resulted in a foreign exchange deficit of Rs.13,901 million. The audit observations revealed during the course of audit test check on the repayment of foreign debts are given below.

- According to the information submitted to the audit by the Letter

No.TO/S&A/03/08/05 dated 25 February 2022 of the Director General of Treasury Operations, the values of foreign debts as at 31 December 2021 that had been realized in the year 2021 and 2020 or previous years but not accounted for even by the end of the year 2021 were Rs.16,883.6 million and Rs.21 million respectively. However, a difference between the value included in that letter and the value as per the actual calculation was also observed.

- According to Annexure 03 of the above letter, it had been stated that the value of foreign debts accounted for in the year 2021 but realized in the year 2020 or prior years was Rs.5,671 million. Accordingly, it was further observed that certain foreign debts had not been continuously brought to account during the respective year though they had been realized during that year.

- According to the Letter No.SA/MAA/02/02/03/VO(iii) dated 21 April 2022 of the Director General of State Accounts, the value of loan installments calculated as per the Note No.29 (ii),(iii) and (iv) related to the foreign debts and settled in the year under review was Rs. 514,154 million. Nevertheless, it had been Rs.530,508 million according to the statement of financial performance. Accordingly, a difference of Rs.16,354 million was observed. The information relating to this difference was not furnished to the audit.

- According to the CS-DRMS 814-1 report of the Department of External Resources that had been printed on 19 January 2022, the value of foreign debts realized in relation to 19 foreign loan agreements was Rs.15,208 million. That value had been included in the government's financial statements for the year 2021. Nevertheless, according to the aforementioned 814-1 report printed on 19 may 2022, a sum of Rs.39,174 million had been stated as the foreign debts realized in the year 2021 relating to the above 19 agreements. Accordingly, the realized foreign debts relating to the year 2021 had been understated by Rs.23,966 million in the financial statements.

- In relation to the Loan No.2016028, a negative realization of US $ 729,484.66 or Rs.146,217,030 had been indicated in the report 814-1 applicable to 31 December 2021 printed on 19 May 2022. Out of the initial advance paid to the project related to the agreement, the amount saved at the completion of the project had been included in the repayment. Nevertheless, that repayment had not been included in the financial statements of the government.

Accounting the Public Debt

There observed instances where the consistency of the financial statements had not been secured due to the periodic changes made to the accounting methods/policies adopted by the State Accounts Department to account for the public debts.

- Due to the failure to account for the minimum price of the Treasury bonds issued before the year 2016, a sum of Rs.318,246 million had been understated in the financial statements as at 31 December 2019. However, provisions of Rs.318 billion should have been made to account for this minimum price, but practically making such colossal amount of provision will result in increase in the budget deficit and therefore, the State Accounts Department had informed the audit that they had taken action to adjust the minimum prices relevant to the bonds issued before the year 2016 in the year of maturing the respective bonds and to reveal the face value of those bonds as the notes to the financial statement until then. Nevertheless, without being thus obtained provisions, that value had been brought to account as at 31 December 2020 and that balance had been included in the financial statements of the year 2021.

- In the audited financial statements of the year 2020, the Central Bank advance had been classified as a domestic loan and the reasons therefor had also been presented. Nevertheless, having eliminated that Central Bank advance amounting to Rs.150.1 million from the domestic loan classification in the year 2021, it had been stated as a separate item.

- The Department of Treasury Operation had not introduced an appropriate method for cash flow management and accounting for loan transactions relating to the foreign debts.

Receipt of Foreign Assistance

According to the State Accounts Circular No.30/94 dated 20 April 1994, the transactions in relation to foreign assistance should have been performed by the Director General of the Department of External Resources. The following matters were observed during the audit test check carried out in that connection. The following matters were observed during the course of audit test check carried out in that connection.

- Although two entities had directly obtained foreign grants of Rs.24.77 million for 07 projects in the year 2021 without the knowledge of the General Treasury, those grants had not been included in the financial statements of the government.

- With the outbreak of the Covid 19 in Sri Lanka in the year 2020, although the Ministry of Health and the hospitals under the Ministry and other health institutions had received Rs.1,949 million as the assessed financial and non-financial assistance/donations in the years 2020 and 2021 from various foreign states, local/ foreign institutions/ organizations/ individuals and local/ foreign non-governmental organizations, those donations had not been included in the financial statements. Further, the value of 162,465 items of goods received from the aforementioned parties during the years 2020 and 2021 had not been included in the financial statements.

Capital Contribution of the Government Owned Enterprises

The capital contribution of the government owned enterprises as at 31 December 2021 was Rs.760,777.41 million and the following observations are made in this connection.

- An on-lending of Rs.8,169 million granted by the government had not been settled by the Milco (Pvt) Ltd and the Treasury had written off that loan, whereas action had not been taken according to the financial statements in connection with that matter. The income thus written off had been stated as the government's capital contribution to that company in the financial statements. Although that transaction should have been carried out obtaining provisions from the Annual Appropriation Act, the information that it was so done was not submitted to the audit.

- According to the direct balance confirmations submitted by the state corporations and 13 state-owned businesses and companies, the capital contribution of those institutions as of 31 December 2021 was Rs. 439,639 million and according to the financial statements, that balance was Rs.

411,874 million. Accordingly, the government capital contribution had been understated by Rs. 27,765 million in the financial statements as at 31 December 2021.

- The direct balance confirmations submitted by 5 government-owned limited companies as at 31 December 2021 did not indicate the value of the total capital contribution of the government and stated the market value of a share. Further, the value of the share ownership of those institutions had been identified as 38 million rupees based on the nominal value of the shares in the financial statements of the government.

- According to the financial statements of the government, the balance of the work and rent advance account of the Head-290 the Department of Fisheries and Aquatic Resources as at 31 December 2021 was Rs.8.25 million. However, there was no balance in the work and rent advance account of that department as at 31 December of the year 2021.

Advance Accounts Approved by the Treasury

Sums totalling Rs. 15,727.68 million had been stated in the government's financial statements as the total balances of the Treasury approved advance accounts as at 31 December 2021. The observations revealed at the audit test checks conducted on those balances are specified below.

- There was a total debit balance of Rs.1,373 million and a total credit balance of Rs.19.92 million under the government approved treasury advance accounts by 31 December 2021 that have continued to exist for many years. In the audit queries constantly made on those balances, it had been informed that action would be taken to close them by taking actions in accordance with F.R.518. Of those advance accounts, balances in three accounts had been settled and closed in the year 2022. No action had been taken to close the balances of remaining advance accounts even as at 19 May 2022.

- Although there was an opening balance of Rs.1,221.65 million in the stores and other advance account under the Head 111 - Ministry of Health, it was observed during the audit test check that this balance was being maintained nominally without any basis. Although audit queries had been issued from time to time regarding that matter, no expeditious action had been taken thereon even by 20 May 2022.

Non-financial Assets

An amount of Rs. 1,850,007.34 million had been stated as the non-financial assets as at 31 December 2021. The observations made during the course of audit test check thereon are given below.

- By the Cabinet Memorandum No. MF/NB/01/CM/2017/85 dated 20 March 2017 titled "Inclusion of loans and interest received from local banks for development projects by the Ministry of Defence in the accounts" submitted by the Minister of Finance, approval had been sought for inclusion of the value of the Personal Identity Secretariat building in the government asset register and approval therefor had been given by the Cabinet decision No. අමප/17/0632/719/062 dated 05 April 2017. Nevertheless, action had not been taken to document that asset even by 31 December 2021, the date of audit.

- Sums totalling Rs.8,199 billion had been shown as the government investments in the cash flow statements as construction or purchase of physical assets and other investment acquisitions from the year 2006 to the year 2021. But in the statement of financial position of the year 2021, only Rs. 1,850 billion had been identified and accounted for as non-financial assets. Financial assets totalling Rs.934 billion had been brought to account including on-lending of Rs.173 billion contained therein and the capital contribution made to state enterprises. Accordingly, by the end of the year under review, a total of Rs.2,784 billion had been accounted for in terms of financial and non-financial assets. Out of the sums totalling Rs.8,199 billion mentioned in the cash flow statements as construction or purchase of physical assets and acquisition of other investments, assets valued at Rs. 5,415 billion or 66 per cent had not been identified and brought to account. Non-financial assets had not been accounted for in the financial statements during the period from 2005 to 2014, and it was started to be brought to account from the year 2015.

Social Security Network Project

For the Social Safety Net Project (SSNP) implemented under the Ministry of Finance using local funds, foreign loans and grants, provisions of Rs.8 million had been made during the year under review.

Similarly, provisions totaled Rs.489 million had been allocated for the Financial Sector Modernization Project (FSMP). Due to slow performance of those projects, 65 per cent or Rs. 5.2 million of the allocation for the Social Safety Network Project (SSNP) remained utilized. Without using any amount out of the provisions of Rs.489 million made for the Financial Sector Modernization Project (FSMP), Rs. 313 million had been transferred to other Objects.

Resolving Tax Appeals

The Tax Appeals Commission had received 1024 appeals from the year 2016 to 31 December 2021 and examination of 569 of those appeals involving the controversial tax amount of Rs. 113,154 million had not been commenced even by 31 December 2021.Out of 569 appeals, the hearing of which had not been commenced, 227 or 40 per cent remained unattended for 02 years (721 days) even by 31 December 2021 from the date of registration. The value of the controversial tax amount stood at Rs. 47,727 million.

Monitoring and Control of Public Enterprises

A major function of the Public Business Department includes monitoring and controlling public enterprises. Although the Treasury had appointed a representative to represent the board of directors of many public enterprises, 105 non-compliances with rules and regulations had been revealed in the audit reports issued in relation to 19 public enterprises in the year 2020. The treasury representative had not been able to get the public enterprises motivated to comply with those laws, rules and regulations. Similarly, it was observed that 119 institutions out of 300 institutions under the supervision of the Department of Public Enterprises are subsidiaries owned by public enterprises and these subsidiaries were not under the direct supervision of the department.

Providing accurate time statistics

The mission of the Census and Statistics Department was to make Contribution to the Socio Economic development of the country by providing accurate time statistics. Sixty two data reports should have been released on the website and 23 data reports should have been printed and released within the prescribed periods in the relevant calendar during the year under review. Any of those reports had not been issued on the due dates and they had been issued after a delay ranging from 1 month to 11 months.

Agriculture

Audit Observations

- Termination of the Lease Agreement for the Building Leased by the Ministry of Agriculture.
- “JeewaThuruUdana” National Programme
- Advertising Expenses on the Production and Use of Organic Fertilizer, and Paying Incentives to the Farmers
- Water Pumps and Drip Irrigation Project
- Cultivation of Fallow Paddy Lands
- Sri Lanka National Freedom From Hunger Campaign Board
- Ran Geviliya Social Enterprise Pvt. Ltd
- Unutilized Estates of the Janatha Estate Development Board
- Unutilized Assets of the Janatha Estate Development Board

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, budgetary provision had been provided for the Ministry of Agriculture, 02 State Ministries, 03 Departments and 14 Statutory Institutions to perform the following functions:

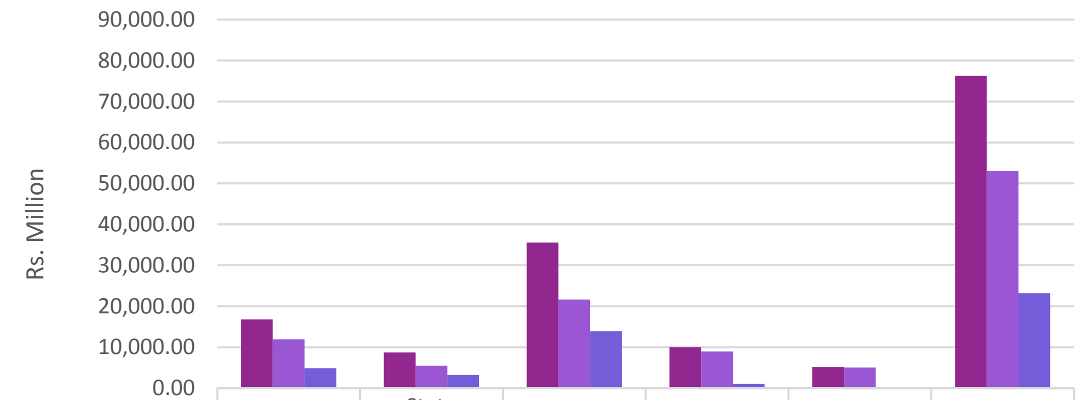
- Broadening agro-technical knowhow so as to suit each target group to direct traditional farmers, youth and student community to educational opportunities with modern technology.
- Encouraging the building up of young agricultural entrepreneurs.
- Formation and implementation of an approach with a mechanism 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 excess products and by value addition.
- 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.

In order to execute the above mentioned functions, a net provision of Rs. 76,221.40 million had been made available by Parliament in the year 2021 to the Ministry of Agriculture, the State Ministries and Departments functioning thereunder, and only Rs, 53,013.00 million of that provision had been utilized by the end of the year under review, thus saving a provision of Rs. 23,208.40 million by the end of the year. Particulars are given in Figure 24.



	Ministry of Agriculture	State Ministry of Paddy and Grain, Organic Food, Vegetables, Fruits, Chilies, Onion and Potato Cultivation Promotion, Seed Productio...	State Ministry of Production, Supply and Regulation of Organic and Natural Fertilizer	Department of Agrarian Development	Agricultural and Agrarian Insurance Board	Total
Net Provision Rs. Million	16,786.80	8,720.60	35,554.20	10,013.30	5,146.50	76,221.40
Expenditure Rs. Million	11,924.20	5,463.60	21,627.40	8,950.80	5,047.00	53,013.00
Savings Rs. Million	4,862.60	3,257.00	13,926.80	1,062.50	99.50	23,208.40

Figure 24 – Amount of provision made and the expenditure.
Source : Annual financial statements -2021.

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.

Termination of the Lease Agreement for the Building Leased by the Ministry of Agriculture.

The Lease Agreement, No. 2178 between the Ministry of Agriculture and the private company being the owner of the building obtained on lease by the Ministry had not included a clause as to how the agreement be terminated by the lessee or the lessor prior to the end of the period of lease. As such, when the building obtained on lease for a period of 05 years had been handed over in the 4th year, the possibility of deducting an amount proportional to the remaining period of lease had been lost. Accordingly, a lease rent of Rs. 310.94 million had been incurred uneconomically with respect to the period in which the building had not been made use of.

No condition had been included in the Agreement that a report on losses and damages caused to the property by the lessee during the period of lease be obtained from a suitable technical institution under consent of both parties at the time of vacating the leased property. The lessor had been informed to take part in the examination conducted in March and April 2021 by the officers of the Engineering Division of the Ministry and the Department of Valuation to assess the damage caused to the building by the lessee during the period of lease. However, they had refused to do so. The damage on the building had been assessed as Rs. 12.71 million by the officers of the Ministry of Agriculture whereas the value of assessment done by the lessor on the same amounted to Rs. 28.25 million. As such, a contentious situation had arisen between the parties relating to the damages, thus giving rise to a risk for the Ministry of Agriculture to incur an additional liability of Rs. 15.54 million.

According to Condition No. II of the Agreement, within a period one month since the handover of the property following the termination of the lease agreement, the lessor should take action to refund the deposit amount of Rs. 63 million to the lessee. Each time the lessee had taken action to terminate the Agreement by handing over the property, the lessor had objected by disregarding the conditions of the Agreement, thus the deposit could not be recovered.

“JeewaThuruUdana” National Programme

Approval had been given through the Cabinet Decision, No. අමප/ 21/0689/323/026 dated 04 May 2021 to implement the “JeewaThuruUdana” national programme in coordination with the Department of Agrarian Development and the State Ministry of Agriculture with a view to enhancing the nutrition level of pregnant and breast feeding mothers, and infants below 05 years of age. Accordingly, provision amounting to Rs. 55.62 million had been allocated through the Object, 425-2-3-004-2509 of the State Ministry on food sustenance in the year 2021 to plant 01 million moringa plants at 01 million gardens comprising 100 beneficiary families selected from each division of agriculture research and production assistants with the help of midwives, and 999,211 moringa plants costing Rs. 41.96 million had been distributed under the project. Circular, No. 03/2021 of the Secretary to the State Ministry of Agriculture dated 05 April 2021 had given instructions to plant moringa trees at 01 million gardens of those beneficiaries, but contrary to provisions of the Circular, 56,025 plants costing Rs. 2.35 million had been given to the Civil Security Department.

Provision amounting to Rs. 21 million had been given to the Department of Agrarian Development by the State Ministry of Paddy and Grain, Organic Food, Vegetables, Fruits, Chilies, Onionand Potato Cultivation Promotion, Seed Production and Advanced Technology. Sums of Rs. 17.59 million and Rs. 0.35 million had been spent on distributing 418,363 moringa plants to 516 agrarian centers and conducting awareness programs respectively. The Ministry had not carried out a proper supervision in order to achieve the objectives of the programme. Due to reasons observed in the physical inspection conducted in Western Province such as, failure to properly distribute the plants, plants dying at the Agrarian Service Centers, persons who received the plants did not plant and maintain them, and lack of supervision on the plants so distributed, it was observed in audit that the sum of Rs. 17.94 million incurred on the project had become uneconomic.

Advertising Expenses on the Production and Use of Organic Fertilizer, and Paying Incentives to the Farmers

Although the Agriculture Research and Production Assistants of the Agrarian Service Centers had been trained online on the production and use of organic fertilizer, and paying incentives to the farmers , the Department of Agrarian Development had paid a sum of Rs. 21.66 million to 06 media institutions to air awareness programs on the production and use of organic fertilizer, and paying incentives to the farmers.

Water Pumps and Drip Irrigation Project

Provision amounting to Rs. 2,327.27 million had been given to the Ministry of Agriculture by the Department of External Resources in the years 2005-2008 to be spent on solar powered water pumps and drip irrigation technology in view of a solution for the energy crisis and facilitating the farmers in the dry zone of Sri Lanka to cultivate with a minimum amount of water during the dry season. Using that provision, 7,231 micro irrigation systems had been provided for 19 Agrarian Service Centers. All the funds spent on those systems should have been recovered bythe end of the year 2018. Nevertheless, a sum of Rs. 2,264.75 million remained recoverable by the end of the year in accordance with the letter of the Director General of the Department of Treasury Operations addressed to the Commissioner General of the Department of Agrarian Development dated 03 July 2020. Of the sum retained in the Farmers' Banks, a sum of Rs. 4.17 million had been paid to the Ministry of Agriculture by the year 2022. A sum of Rs. 1.85 million collected from the farmers in the District Secretariats of Kilinochchi, Badulla and Jaffna, had been further retained. It was observed with respect to the systems given that 90 per cent remained misplaced, unused, non-functional or with owners' whereabouts missing by the year 2022. As such, the outcome of the project could not be achieved.

Cultivation of Fallow Paddy Lands

A sum of Rs. 25 million had been released to the district offices of the Department of Agrarian Development in order to be disbursed among the farmers as a loan under special programme for cultivating the fallow paddy lands in the period 2020/21. However, Rs. 10.52 million of that sum had not been given to the farmers by the district offices.

Sri Lanka National Freedom From Hunger Campaign Board

All the projects implemented by the Board through the food technology unit of the Department of Agriculture in Gannoruwa during the o3 year period of 2019-2021, such as, "Mawposha" project, "Suwaposha" project, project to produce dosai flour, Soya related products manufacturing project, and the fruit drink manufacturing project, had been halted due to non-functioning of machines and lack of raw materials.

An expenditure of Rs. 3.37 million had been incurred in the years 2017 and 2018 for removal of soil from the reservoirs-an activity not included in the Sri Lanka National Freedom From Hunger Campaign Board Act, No. 15 of 1973. The soil so removed had been sold for expressway construction works and earned an income of Rs. 81.13 million. It was stated in the report of the project for removing soil from the reservoirs that the Board should recover monies from the Farmers' Associations on the soil so supplied, and those monies, with funds from the Government, should be used to develop small reservoirs under consultation of the Department of Agrarian Development on engineering aspects. Nevertheless, a sum of Rs. 77.76 million had been retained in a deposit account without doing so.

Ran Geviliya Social Enterprise Pvt. Ltd

As had been pointed out by the Audit in the preceding year, an interest free loan of Rs. 5.9 million had been given on the basis of settling within one year to the Ran Geviliya Social Enterprise Pvt. Ltd that had been established with the objectives of cultivating 3,000 acres of paddy lands in Polonnaruwa district for the season 2018/2019 as per the Global Gap certification, apprising the farmers on international standardization, and reaping economic benefits by following the environmentally-friendly and sustainable agricultural practices. According to the time frame of the project, it was expected to obtain GAP certification (Good Agriculture Practice) for the production of paddy by the farmers as of March 2019, but none of the farmers had reached the expected level by December 2021, and the loan provided by the Trust Fund had not so far been recovered.

Unutilized Estates of the Janatha Estate Development Board

According to the hectarage resister of the JanathaEState Development Board, the total area of 15 estates where tea and other crops had been cultivated, was 10,164 hectares as at 31 December 2021, but it was observed that only 4790 hectares had been in use. Of that, 3573 and 1217 hectares had been used for tea and other cultivations respectively whereas the remaining area of 5374 hectares representing 53 per cent remained underutilized. The Board had not taken action either to cultivate on those lands or give them on lease to external parties. Furthermore, an area of 770 hectares had been used for rubber cultivation as at 31 December 2021 in accordance with the hectarage statement, and this area was observed to have been as low as 35.5 per cent of the total area allocated for rubber cultivation, being 2167 hectares. Rubber was cultivated in the estates of Kumarawatta and Diyaluma. Of the total area used for rubber cultivation, the area used for rubber cultivation in Diyaluma estate was as low as 15 per cent.

Unutilized Assets of the Janatha Estate Development Board

Fifteen tea factories and 02 rubber factories had existed at the 15 estates of Janatha Estate Development Board by the end of the year under review, but only 07 factories remain functional at the present day, and 04 of them had been given on lease to external parties whilst the other

03 factories were used for processing tea leaves of the estates. It was observed that the 08 tea factories with a capacity of 77,000 remained non-functional at present. Despite being pointed out in that connection in the previous audit queries, those factories had not been made use of after being repaired. As such, tea leaves of the estates had been sold to external parties. Furthermore, the non-functional factories had become dilapidated with valuable machines therein being decayed. The two factories in Kumarawatta and Diyaluma have become non-functional at present day.

Fisheries and Aquatic Resources Development

Audit Observtions

- Planned tasks
- Project implementation, progress and follow-up
- Failure to achieve desired goals
- Non-preparation of Annual Performance Report

Fisheries and Aquatic Resources Development

Create a well-nourished population and provide high foreign exchange earnings By increasing the consumption of fish and providing a higher standard of living to the fishing community by increasing the employment opportunities in the fishing sector were the expected results from this sector. In order to obtain the results, the Ministry of Fisheries, the State Ministry of Ornamental Fish, Freshwater Fish and Shrimp Farming, Fishing Harbor Development, Multiday Fisheries and Fish Exports, the Department of Fisheries and Aquatic Resources and 6 Statutory Boards/Institutions were to perform the following functions.

- Introduction of a scientific method to increase fish population in coastal areas.

- Modernization of fishing harbors and construction of new fishing harbors as required.

- Providing opportunities for local companies to expand fishing in international sea areas.

- Encouraging private companies and investors to expand the canned fish industry.

- Expand marketing and development activities for fish production in a way that is fair to both the producer and the consumer.

- Elimination of illegal fishing in North and East Seas and strengthening of naval and coast guard units and resolution of conflicts with India.

- Introduction of an effective banking and insurance system for the fishing community.

- Implementation of technical and management training programs on fisheries for youth using Sagara University.

- Expanding the welfare activities of the fishing community.

- Providing necessary facilities for establishment of ornamental fish industry aimed at export market

- Formulation of necessary strategies to popularize freshwater fish farming in lakes, lagoons and on land.

- Development of fishing port for efficient operations of large-scale boats.

- Development of refrigeration systems using sea water for multi-day fishing vessels and encouraging use of solar energy.

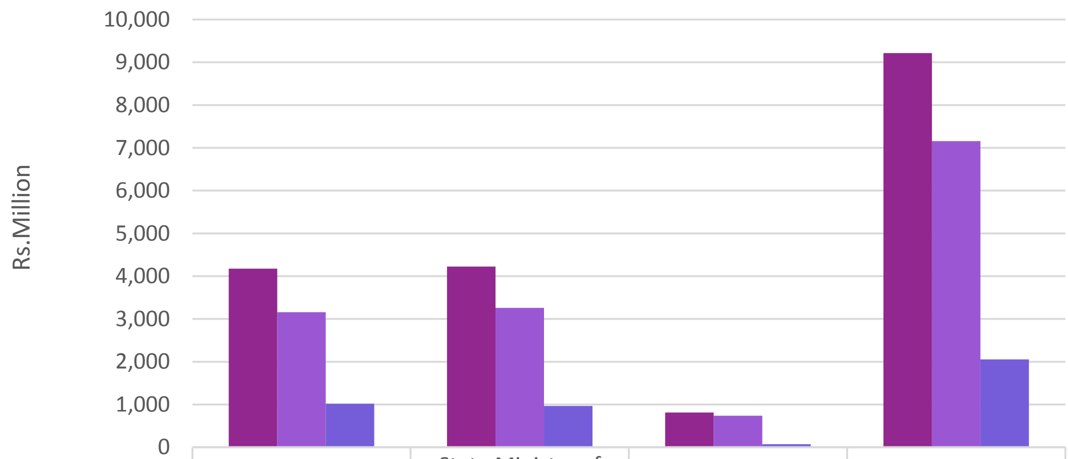
- Upgradation of all fishing ports, anchorages with modern communication facilities, refrigeration, fuel supply and sanitation facilities.

- Initiation of programs jointly with Fishermen Community Associations and National Aquaculture Development Authority for extensive breeding of marine and fresh water fishes.

- Working to increase the yield of fish using environmentally friendly modern hi-tech methods.

- Professional training and knowledge development of fishermen and those involved in the industry.

The Parliament had given a total allocation of Rs. 9,214 million to the Ministry of Fisheries, the Ministry of State and the Department to fulfill the above-mentioned roles in the year 2021, and only Rs. 7,158 million had been utilized by the end of the year under review. Accordingly, the provision of Rs. 2,056 million was not utilized. Details are shown in Figure 25.



	Ministry of Fisheries	State Ministry of Ornamental Fish, Inland Fish & Prawn Farming, Fishery Harbour Development, Multiday Fishing and Fish Exports	Department of Fisheries and Aquatic Resources	Total
Net Provision Rs.Million	4,177	4,226	811	9,214
Expenditure Rs.Million	3,158	3,261	739	7,158
Balance Rs.Million	1,019	965	72	2,056

Figure 25 - Given Allocations and Expenditure
Source - 2021 Annual Financial Statements

The audit observations revealed during the sample audit inspection carried out by the Ministry of Fisheries, the State Ministry, the Department and the statutory bodies regarding the performance of the above-mentioned roles are summarized and given below.

Planned tasks

- Although the estimate for the year 2021 of the Ministry of Fisheries has introduced 9 special priority tasks, according to the action plan for the year 2021 and the progress report prepared accordingly, plans were not prepared focusing on the expanding the welfare of the fishing community, modernization of fishing harbors and introduction of a scientific method to increase the fish population in coastal areas, other than the construction of fishing harbors as required, providing opportunities to local companies to expand fishing in international waters, encouraging private companies and investors to promote the canned fish industry, expand marketing and development activities for fish production in a way that is fair to both the producer and the consumer, eliminate illegal fishing in the North and East Seas and strengthen naval and coast guard units and resolve conflicts with India, introduction of an effective banking and insurance system for the fishing community and the implementation of technical and management training programs for the youth using Ocean University. A Joint Working Committee was formed between Sri Lanka and India for the task of eliminating illegal fishing in the North and East Seas and strengthening the naval and coast guard units and resolving conflicts with India, only to implement a few decisions.

- Although the estimate for the year 2021 of the State Ministry of Ornamental Fish, Freshwater Fish and Prawn Breeding, Fishing Harbor Development, Multiday Fisheries and Fish Exports has introduced 8 special priority tasks, according to the action plan for the year 2021 and the progress report prepared accordingly, plans were not prepared and implemented focusing on formulation of necessary strategies to popularize freshwater fish farming in lakes, lagoons and land areas and in order to carry out large-scale operational activities efficiently, providing the necessary facilities for the creation of ornamental fish industries aimed at the export market, other than the development of the fishing port, development of seawater refrigeration systems for multi-day fishing vessels and encouraging the use of solar energy, upgrading all fishing ports, anchorages with modern communication facilities, refrigeration, fuel supply and sanitary facilities, initiation of programs jointly with Fishermen's Community Associations and National Aquaculture Development Authority for extensive breeding of marine and fresh water fishes, working to increase the yield of fish by using environmentally friendly modern hi-tech methods and professional training and knowledge development of fishermen and those involved in the industry.

Project implementation, progress and follow-up

- The purpose of lagoon conservation and development which is not an asset owned by the Ministry of Fisheries and is not included in the 2021 Annual Action Plan had not been fulfilled as Rs. 39.012 million had been spent from the provisions of the Ministry of Fisheries for the conservation and development of lagoons for the renovation of the Hikkaduwa

Fisherman's Housing Complex. The financial progress of the renovation of the housing complex was only 22 percent as at 31 December 2021, and the physical progress was not revealed by the audit.

- Although Rs. 10.13 million has been spent to the NARA Institute by the expenditure subject of introducing new technology under capital transfers, the Ministry of Fisheries had not followed up on the use of the technology introduced to increase fish production and reduce the travel time spent on fish production, by introducing new technology.

- The Ministry of Fisheries had given Rs. 20.28 million to Nara Institute for the implementation of development projects in the year 2021, of which Rs. 12.04 million had been spent. Rs. 4.9 million rupees had been given to NARA, without presenting the related cost details, without doing a follow-up or evaluation on the efficiency, and without identifying a project need.

- The National Aquaculture Development Authority had purchased 110 Tab machines at a cost of Rs. 8.51 million under the expenditure subject of development assistance and introduction of new technology in the year 2021, and no follow-up or evaluation was done by the Ministry of Fisheries on how they were distributed or on the fulfillment of the expected tasks.

- Out of Rs. 1000 million allocated to the Ministry for the year 2018 for the development program of 10 lagoons and 100 tanks, Rs. 180 million had been given to the National Aquaculture Development Authority for the purchase of 03 machines. The bid of the lowest bidder was rejected without any reasonable cause, an outsider was selected and the bid was awarded and a movement advance of Rs.42.57 million was paid on 17 July 2018. Although, it was discovered after 6 months that the advance security given in relation to the said movement advance was forged and the relevant advance amount was recovered, no disciplinary action was taken against the concerned officers or any legal action against the supplier for fraudulently misappropriating government funds by presenting fake advance security, and the supplier had not been blacklisted as per Financial Regulation 705.

- Although 4 officials in Ministry including the Chairman of the National Aquaculture Development Authority had paid Rs.435,499 for participating in a foreign trip to the United States of America, to examine the structural design, materials used, spare parts and machinery etc. of the said equipment, since the relevant machines had not been received, the role targeted by the Ministry had not been fulfilled even after 4 years.

- Although an allocation of Rs.100 million had been made for the development of Dodanduwa Fishing harbour for the year 2021, only Rs.7.63 million had been spent for the construction of the Quay Wall 60 meters below the target of Rs.25 million, and it was not possible to reach the physical progress of the work even as at 31 December 2021.

- Although Rs.18 million was earmarked for the development of 8 landing points and berths, the financial progress was only 11 percent and no physical progress was detected due to only Rs.1.9 million being spent on capital expenditure.

- In accordance with the relevant laws and ordinances to create a self-sufficient fishing economy, under the national budget and public investment and national development program, the implementation, follow-up and evaluation of the projects of the established institutions under the State Ministry of Fisheries are stated under the functions and tasks of the State Ministry, although an amount of Rs.1,742.97 million had been spent out of the amount of Rs.2,441.45 million allocated for the year under review, to the established institutions namely the National Aquaculture Development Authority, the National Aquatic Resources Research and Development Agency, the Sri Lanka Fishery Harbours Corporation and the Ceylon Fishery Corporation, the State Ministry had not done quantitative identification, follow-up and evaluation of the work output of the established institutions contributing to the creation of a self-sustaining fishing economy.

Failure to achieve desired goals

For the development of Hambantota Fishing harbour, Rs.20 million had been allocated for the year 2021, but only Rs.9 million had been planned and Rs.1.05

million had been spent, so the desired objectives were not achieved.

The project of sinking abandoned fishing vessels, buses, railway carriages to improve the marine ecosystem with the aim of increasing the fish population, started in July 2020 and ended in December 2021 within Trincomalee, Jaffna, Galle, Matara districts, under the introduction of new technology, and although the Department of Fisheries and Aquatic Resources had paid Rs. 18.27 million to the Fishing Port Statutory Corporation and Rs. 10.95 million to the Sri Lanka Transport Board for that purpose in the previous year and the year under review, as the success of the project was not followed up, it was not revealed whether the intended objectives were achieved.

Non-preparation of Annual Performance Report

According to paragraph 10.2 of the State Account Circular No. 2/2020 dated 28 August 2020, the Department of Fisheries and Aquatic Resources had not prepared and submitted the annual performance report as per the format mentioned in Guideline No. 14 issued by the State Finance Department.

Industrial Sector

Audit Observations

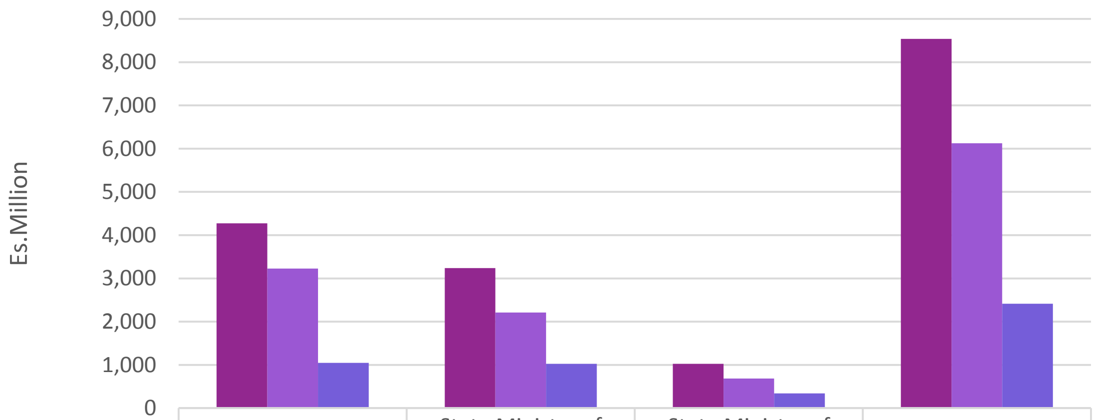
- Industrial Estates under the Ministry of Industries
- Centre of Excellence in Robotic Applications (CERA)
- Lanka Mineral Sands Limited
- BCC Lanka Limited
- Paranthan Chemicals Company Limited
- Ceylon Ceramics Corporation
- Sri Lanka Cement Corporation
- National Crafts Council
- Sri Lanka Handicrafts Board
- Department of Textile Industry

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 Institutions under its purview had to perform the following functions in 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 exportation process.
- Formulation and implementation of policies, programmes and projects covering all the Provinces to strengthen the export related manufacturing process.
- Development and implementation of necessary strategies to strengthen the existing industries economically and to expand investment opportunities and thereby to 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, which has already been planned to be established in Eravul, 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.

Net provision amounting to Rs. 8,539 million had been granted by Parliament to the Ministry of Industries and two State Ministries under its purview to fulfil the above role in the year 2021. Only a sum of Rs. 6,124 million had been utilized by the end of the year under review. Accordingly, provision amounting to Rs. 2,415 million had been saved by the end of the year. Details are given in Figure 26



	Ministry of Industry	State Ministry of Rattan, Brass, Clay, Furniture & Rural Industry Promotion	State Ministry of Batik, Handloom & Local Apparel Productions	Total
Net Provision	4,275	3,239	1,025	8,539
Expenditure	3,227	2,213	684	6,124
Savings	1,048	1,026	341	2,415

Figure 26 – Provision made and Expenditure

Source - Financial Statements for the Year 2021

The following specific matters were revealed at the audit test checks carried out on the performance of the above functions by the Ministry of Industries and the Institutions under its purview.

Industrial Estates under the Ministry of Industries

There were 1001 plots of land in 33 industrial estates, which were under the Ministry of Industries and 791 plots out of that extent of lands were allocated to industrialists for various investment activities and 78 plots of land (excluding 09 vacant land plots of Nalanda in Central Province and 23 plots in Northern Province) remained idle. Industries are being carried out in 08 plots of land out of the total 38 plots of land in Nalanda Industrial Estate in the Central Province since 2018 without the approval of the Ministry, and only 08 plots of land out of the 31 plots of land in the Northern Province had been given to industrialists. The value of the 14 administrative buildings constructed by the Ministry incurring a sum of Rs.105.878 million in the industrial estates since 1997 had not been capitalized in any financial statement and the administrative building constructed in the Bataatha Industrial Estate in the Southern Province was currently unusable and in a dilapidated condition.

- Two (02) acres of land in Minuwangoda Industrial Estate had been provided in 2002 to a company engaged in assembling auto parts imported from Japan. However, the business activities of this company had been stopped for almost 9 years and since a tax deed had not been given, there was a huge amount of tax to be collected. During the field inspection, vehicle assembly was not being carried out at this location and 2 buildings of about 3000 square feet remained idle.
- The plot of land in extent of 49.5 perches in Mahara Industrial Estate had been given to a company manufacturing steel and wooden house and office furniture in the year 2007 and during the field inspection, it was found that the business activities presented in the project report had not been carried out and only three people had been engaged in business activities instead of 100 employees and adequate production had not been done and tax payments had been defaulted since 2007.

Centre of Excellence in Robotic Applications (CERA)

Although approximately Rs.120 million had been incurred for the modernization of a building of Sri Lanka Industrial Development Board and for the purchase of necessary machinery in relation to the commencement of this project with the objective of encouraging, improving and supporting the development of industries in Sri Lanka as per the Cabinet Decision No. 039/723/1424/16, it was observed that the modified building and the purchased machinery had remained idle for more than 5 years from 2017 to 2022 and some items were corroded and destroyed due to non-commencement of the project. However, the executive officer, who had been recruited to implement the project, had been paid approximately Rs. 11 million as salaries and allowances at the rate of Rs. 725,000 each per month for a period of 11 months from September 2017.

Lanka Mineral Sands Limited

- Lanka Mineral Sands Limited had been unable to achieve the budgeted production of Ilmenite, Hi-Ti-Ilmenite, Rutile and Zircon in the year under review and the Company had not received any income from Low Grade Zircon crude, Final Talien, Hydro sized Fines and Hi-Ti-Ilmenite. Moreover, the estimated revenue from Rutile had been decreased by 85 percent and the estimated revenue from Zircon had been decreased by 75 percent. Hi-Ti-Ilmenite had been stored in the open air insecurely due to the overflowing of the warehouses as any quantity of Hi-Ti-Ilmenite had not been sold. Ilmenite had not been sold through a tender related to the year 2021 and the remaining 79,947 metric tons of the tender of 85,000 Metric Tons dated 28 October 2020 had been recorded as sales in the year under review. Although the stock of the bidder should have been released in 4 parts (25,000 20,000, 20,000 and 20,000 Metric Tons) within 130 days according to 5th Condition of the Agreement entered in to with the bidder, the stock had been released on 15 August 2021 and as a result, there had been a delay of another 150 days. Although the second and third payments of the tender amounting to USD 12,495,000 had been delayed, Rs. 1.108 million had been charged from the relevant buyer as late fees only for the fourth payment. All the operations of the factory had been at a standstill since production activities at the "Block B" factory had been halted until March 2021 as the buyer had not properly cleared the Ilmenite stock and the capacities of the warehouses had been exceeded. Therefore, all the resources including human resources had been idle.

- The Company had lost interest income receivable amounting to Rs.1.476 million in the year under review due to encashing 04 fixed deposits worth Rs.403.42 million before their maturity. Moreover, the Company had fixed deposits worth Rs. 2,293.5 million as at 01 January 2021 and it had been Rs. 1,500 million by 31 December 2021 and it had been Rs. 1,300 million by June 2022. A sum of Rs. 500 million out of this had been pledged as a guarantee for imports and as a result, the balance had been Rs.800 million. Since mineral sand had not been sold during the year under review, these fixed deposits were encashed to meet the expenses required to operate the Company.

- Subsequent to revealing the potentiality of a very rich, heavy mineral composition around the Kokkilai Lagoon by investigation reports, it had been planned to construct a new factory in this area and a land in extent of 17.69 hectares had been purchased in this area in 2013 for a sum of Rs.2.25 million. Before taking over the land properly and constructing a new factory, assets valued at Rs.39.34 million had been purchased in August 2013 and all those assets had been installed in other places of the Pulmudai factory and they had been idle and some machines had been stored idly in the warehouse. Twenty four (24) Spirals purchased for the Kokkilai project and installed in the old Block A factory had been idle since 2013 and they had been removed in the operation of the new Block A factory and had been insecurely left in the open air. Despite the difficulty in obtaining permits for this project and before the commencement of the project, 117 workers had been recruited on 25 June 2015 and then they had been attached to various locations at the Pulmudai factory. Due to this, the cost of production had increased.

- Although Rs. 1000 million had been allocated in the action plan for the construction of the new factory at Kokkilai, the preparation of the Project Report had not been completed and Cabinet approval had not been obtained even by the end of June 2022. Earth filling activities were being carried out in that area during the physical inspection carried out in the Kokkilai area on 01 January 2022 and an expenditure of Rs. 17.8 million had been incurred for the project according to the financial statements by 31 December 2021 even though the Project Report had not been prepared.

BCC Lanka Limited

- Although a portion of land in extent of 6 acres, out of 12 acres 3 roods and 8.77 perches belonging to BCC Lanka Limited, had been granted to the Ministry of Justice for the construction of "Adikarana Piyasa" at the Courts Complex in Colombo by the Cabinet Decision No. 15/1874/702/010-VII dated 17 December 2015 and the Cabinet Decision No. 16/0597/731/009-1 dated 20 April 2016, the transfer of the land and activities of obtaining compensation according to the land acquisition procedure of the Government have not yet been finalized.

- There had been 32 warehouses with an area of 118,345 square feet and 3 oil tanks with a capacity of 3,500 Metric Tons of oil within this area, which had been valued at Rs. 8,195 million in the year 2013. These warehouses had been hired for Rs. 55-70 per square foot and the First Floor of the General Stores with an area of 5,140 square feet had been hired for Rs. 30 per square foot. These warehouses in the premises of the Company with a high commercial value had to be given at such a low price as these warehouses had not been renovated properly.

Paranthan Chemicals Company Limited

- The caustic soda and chlorine requirement of this country had been met solely by importation due to the cessation of chlorine production in the Paranthan factory since 1986. It had been proposed in the year 2016 to establish a factory for chlorine production in the land in extent of 227 acres located in Paranthan. A feasibility study and an environmental impact assessment had been carried out in the year 2020. Although sums of Rs. 7.6 million and Rs. 2.1 million had been incurred for the feasibility study and the environmental impact assessment respectively, construction of the factory has not yet been started.

- Considering the demand for caustic soda lye, the caustic soda liquid manufacturing project had been started on 30 December 2015 at Nagoda Industrial Estate of Kalutara with the objective of adding value to caustic soda and reaching the markets that are currently unavailable to Paranthan Chemicals Company Limited and the project had been finalized on 25 April 2016**.** However, the project had been abandoned due to the fact that this caustic soda liquid processing machine was made of iron and the iron and caustic soda liquid reacted and the iron had been mixed with the caustic soda lye and caustic soda lye could not be sold. The Company had incurred a loss of Rs. 2.1 million as the Company had functioned without carrying out a study that iron could be mixed with caustic soda flakes before the development of the caustic soda liquid machine.

Ceylon Ceramics Corporation

The institution named "Ceylon Porcelain", established under the Government Sponsored Corporations Act, No. 19 of 1955, had been established as Ceylon Ceramics Corporation under the State Industrial Corporations Act No. 49 of 1957. Under the peoplization Programme carried out in the year 1990, the Tile and Bricks Division is currently being operated under the name of Ceylon Ceramics

Corporation. The permanent staff had been reduced to 32 by the voluntary retirement scheme implemented in 2012. Only one factory, out of the 9 factories owned by the Corporation, manufactures ceramics by the year 2022 and all the remaining factories have been closed. Although the corporation had been established with the broad goals and objectives of producing clay and clay-related products in Sri Lanka, the Corporation had not functioned to diversify the products by aiming the target market in order to face the competition and to change the form of the products according to the timely requirements, rather than engaging in the production of flat tiles and ridge tiles.

- It had not been possible to execute the decision of the Cabinet of Ministers approved in the year 2010 regarding the leasing out of factories due to the inability of the Corporation to take over the ownership of the lands of 07 factory sites out of the 09 factory sites owned by the Corporation and it had to incur Rs. 8 million as annual production costs and administrative expenses for the 6 factories, where any production had not been carried out. The approval had been granted by the Cabinet Decision No. CP/20/0989/224/002-1 dated 09 July 2020 for the recommencement of the Oddusudan factory under the administration of the Corporation. Although sums of Rs. 3 million in the year 2020 and Rs. 1 million in the year 2021 had been incurred for the renovation and other expenses respectively, production activities of the factory could not be started even by January 2022.

- Even though the paddy land in extent of about 50 acres, out of the 231 acres owned by the Eragama factory, where production activities had been carried out, had been leased to an external party, the remaining lands, other than the factory site and the brick cutting area, had not been used for a productive investment. A private individual has already acquired 3½ acres of the paddy lands. Since approximately 125 families had settled illegally in the Mahiyanganaya land, which had been in extent of 94 acres, even prior to the year 2015, the rest of the land, other than the factory area, had not been used for productive investment.

Sri Lanka Cement Corporation

The Vision of the Sri Lanka Cement Corporation, established by the Industrial Corporation Act No. 49 of 1957, is to provide guidance and leadership to facilitate the development of the cement industry in Sri Lanka and its Mission is to ensure the adequate supply of quality cement and other cement based products to meet the needs of the country. However, the Corporation does not manufacture cement or any cement related products at present. The only sources of income of the Corporation are leasing of the Aruwakkalu limestone deposit in extent of 5,164 acres and leasing of land in extent of 12 acres and 30 perches in Palavi and operating a vehicle park in the land in extent of 89.07 perches in Kollupitiya.

- Since the two oil tanks and pipe systems in Kankesanthurai belonging to the Corporation had been given to Ceylon Petroleum Storage Terminal Limited without entering into a written agreement, the Corporation has not yet been able to recover an amount of Rs.185 million, the rental income receivable from 2010 to 31 December 2021.

- It had been entered in to a contract to lease the Aruwakkalu land with limestone for 50 years on the basis of annual fixed rental by the Agreement No. 495 signed on 23 August 1996 between the Corporation and Puttalam Cement Company Limited, or the current Siam City Cement Public Company Limited and the rental income had been increased up to USD 319,118 from the year 2019 based on twelve percent, the rate of increase of the rental as stipulated in the Supplementary Lease Agreement No. 268 signed on 07 November 2019. However, the Corporation has not yet been able to reach a decision regarding the recovery of the annual rental, lost to the Corporation by the first Agreement effective from 1993 to 2018. The approval of the Attorney General for the Supplementary Lease Agreement has not been granted even by the date of this report.

- The loan amount obtained by mortgaging the Kollupitiya land in extent of 89.07 perches owned by Sri Lanka Cement Corporation to the Bank of Ceylon in the year 2008 had been restructured to an amount of Rs. 97.7 million in the year 2017. The loan balance further payable was Rs. 58.7 million as at 31 December 2021. Although an interest amounting to Rs.5.5 million had been paid in the year 2021 for this loan amount obtained, the rental income obtained for the year by leasing the said land was Rs. 4.8 million only. The procurement activities for starting a mixed investment project on this land, which has a very high commercial value of about Rs.735 million, as per the decision of the Board of Directors dated 29 September 2021 had not been completed even by the date of this report and the Corporation had failed to use the property for productive investment.

- It had been decided by the Cabinet Paper No. CP/21/0175/320/004 dated 16 February 2021 to remove unusable materials from the Kankesanthurai cement factory, where production activities had been terminated due to the war prevailed in the country and to clean the factory premises. In concurrence with that, it had been decided by the Cabinet Decision No. PFD/PMD/01/CM/2021/041 dated 08 February 2021, to appoint a Technical Evaluation Committee to prepare lists of items such as scrap iron and metal in the factory and to determine the value of building models, machinery and scrap metal that could be removed. However, those tasks have not yet been completed. Even though 13 years have passed since the end of the war, the Corporation has not been able to contribute to the local economy by starting the production activities of the factory and deriving maximum benefit of the resources owned by the Corporation.

National Crafts Council

- One major objective among the objectives of the Council in terms of the Act is to increase the production of industrialists by making local raw materials abundantly available for handicrafts. Equipment worth Rs. 10.5 million had been purchased by the Council to establish 9 raw material banks province wise in the year 2021 to execute the objectives such as providing scarce raw materials for artisans and organizing those activities. Even though machinery related to that should be provided subsequent to repairing the buildings required for the establishment of raw material banks, the equipment purchased for 9 raw material banks (excluding the Northern and Eastern Provinces) could not be released to the relevant Centers and had been stored at the Waragoda Training Centre even by the date of this report.

- Training courses had been implemented only in 56 training centers, out of 85 training centers owned by the National Crafts Council in the year 2021. Although 737 apprentices had been initially recruited for 70 training courses in the year 2021, the number of apprentices had reduced to 350 by September 2021. The Council had failed to produce any skilled apprentice at the completion of the 27 training courses. NVQ qualification had been provided only for 6 courses, out of the 17 fields of handicraft training introduced by the Council and the Council had failed to upgrade the other implemented courses up to the NVQ level. Although provision amounting to Rs. 9 million had been allocated by the revised budget of the year 2021 for the provision of training allowances, raw materials and equipment related to training courses, provision amounting to Rs. 6 million had been saved.

- Sigiriya Handicrafts Village comprising of 18 stalls, a showroom, an office building, a hostel and buildings for sanitary facilities located in an area of 1.1165 hectares owned by the National Crafts Council had been estimated at Rs. 47.7 million and had been transferred to National Crafts Council in 2013 by the Dambulla Divisional Secretary by a deed of assignment. However, all the stalls had been closed by March 2021 due to Covid 19 pandemic. The property valued at Rs. 47.7 million had been idle as sale stalls and buildings had not been rearranged to attract local and foreign tourists and action had not been taken to derive maximum benefits out of the assets owned by the Council.

Sri Lanka Handicrafts Board

- Sri Lanka Handicrafts Board had obtained a loan of Rs. 200 million in 2013 from the Regional Development Bank to meet the working capital requirements of the suppliers. Even though it had been scheduled to repay the loan amount within a year in monthly installments in terms of the Agreement and to pay an interest rate of 9 percent on the loan amount, the loan amount and interest payable by the end of 2020 had been Rs. 158.4 million and Rs. 1,255 million respectively due to non-payment of installments and interest as scheduled. The bank had provided a moratorium for an amount of Rs.8.32 million of the interest on 24 September 2020. Accordingly, the interest payable to the Regional Development Bank on 31 December 2020 had been Rs. 4.17 million and the loan amount payable had been Rs. 166.72 million. The Board had to incur an additional cost due to the computation of an interest for the interest of loan amounting to Rs. 8.32 million, which had been capitalized owing to non-payment of the loan interest.

- An amount of 238.78 million had been paid to the Bank of Ceylon as the interest in relation to the loan amounting to Rs. 950 million obtained by the Board during the period of 2012-2018 by mortgaging the Laksala building in Fort for meeting working capital requirements. A sum of Rs. 273 million, which had been remained as the balance by the end of the year 2019 had been rescheduled as 03 new loans. A grace period of 06 months had been granted for the payment of installments related to the said loan amount and that period had also ended by April 2020. Accordingly, The Board had not been able to pay the installments amounting to Rs. 28.08 million and the interest amounting to Rs. 21.83 million as at 31 December 2020 for the loan amount even by 31 December 2021, the date of audit.

- The modernization of the Laksala building in Fort, which was a four-storied building with an area of 44,000 square feet had been awarded in the year 2013 by functioning outside the tender procedure to a private contractor, who had not fulfilled ICTAD qualifications and a sum of Rs.45.45 had been incurred regardless of the procurement instructions. According to the report given by ICTAD in this regard, the Board should have received an amount of Rs. 30 million from the contractor after deducting the value of the physical work. Due to halting the construction midway, the rest of the area, other than the area, where the showroom with an area of 1,200 square feet is maintained, out of the total area of 44,000 square feet had been unusable and remained idle for almost 08 years. The building had been destroyed due to sudden halting of the modernization activities of this building, which had a great economic value, and thereby, the Board had lost a huge income that could have been earned annually.

- The area of approximately 15,000 square feet, where Laksala carpentry and hostels were located, apart from the showroom, Government Audit

Division, Purchasing Division and the Warehouse, out of the five buildings with an area of 39,364 square feet located in the land in extent of 2 acres and 21 perches situated in Katubedda of Moratuwa and valued at Rs. 48.32 million and had been transferred to the Sri Lanka Handicrafts Board by the Department of Small Industries and the assets owned by the Carpentry had been idle almost from the year 2012.

Department of Textile Industry

The Mission of the Department is to create the quantitative and qualitative growth in the field of handloom industry and textile industry through the formulation of the policies related to the development of the industry within the state policy framework by providing services related to the development of the industry through the coordination of the policy decisions related to the subject of handloom industry and the centralized work and textile industry sectors of the Provincial Council and providing the necessary guidance and the necessary services and facilities through the direction and coordination to implement the said policies.

- Any amount had not been collected during the period even though a period between 3 years to 22 years had passed since the violation of the Lease Agreement by 04 institutions out of power loom institutions belonging to the Department, which had been leased out to the external parties. The amount of tax to be collected from the lessees by 31 December 2021 had been Rs.13.87 million. One of the lessees had taken a loan by pledging the leased property and had defaulted tax payments amounting to Rs. 8.91 million. An amount of Rs. 2.76 million should have been charged from another tax property and an unauthorized person is currently occupying the property. Arbitration procedures had not been adopted in relation to tax arrears amounting to Rs.521,000 recoverable from one institution. Although action regarding the recovery of tax arrears should have been taken expeditiously, such action had not been taken.

- It was planned to establish 10 textile villages to develop the handloom textile industry through strengthening the rural economy and to train 150 applicants associated with those villages and provide necessary equipment to them. However, training was given to 73 applicants associated with 5 villages in the year under review and equipment related to handloom valued at Rs. 24.68 million purchased for the project in the year under review had been retained in the warehouse even by 30 April 2022.

Land Affairs

Audit Observations

- Bim Saviya Programme
- Acquisition of land
- Government Land Information Management System
- Land tax revenue management
- Not reaching goals
- Organic Fertilizer Project
- Decreasing of performance
- Implementation of the Land Use Act

Land Affairs

Optimum use of land resources for sustainable development was the result expected from the land sector. The Ministry of Lands and the State Ministry of Land Management, State Enterprises Land & Property Development, 04 Departments and 02 Statutory Boards/Institutions under it were to perform the following tasks and functions.

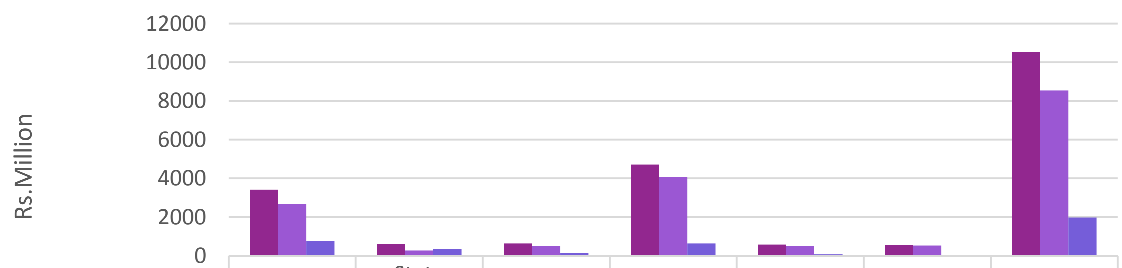
- Providing opportunities and incentives to cultivate raw materials under a long-term lease basis on underutilized government lands under a cultivation cooperative system as a solution to the existing raw material problem related to the carpentry industry, cane industry, palm industry.

- To carry out the necessary coordination with the relevant institutions to make a proper assessment for the affected people, houses and other properties, land and agro-industrial land due to large irrigation projects like Mahaweli, Uma Oya, Moragahakanda etc.
- Providing government land and land acquired as public projects under lease basis for agricultural cultivation and implementation of programs for farmers to carry out cultivation activities.
- Cultivation of domestic and foreign demand flower varieties and organic crops on currently unused land allotted to plantation companies and government farms and expansion of climate-friendly additional crops.
- Formulate a national policy for land use taking into account historical and archaeological factors, natural resources, urbanization and future needs.
- Establish and maintain an updated land information system.
- Develop an efficient system with an information technology approach for land surveying and mapping, land information and related services in a timely manner.
- Review the process of land acquisition and the process of providing land, and prepare a system for the rapid release of land for development and investment projects for effective productive activities for the landless low-income earners.
- Expediting Bim Saviya land ownership verification program, preventing the creation of a landless community by

selling land and building policies and a legal framework to obtain banking, financial and insurance activities on land ownership.

- Implementation of a clear policy on residual land use.
- Providing the land required for the development of the country without delay and properly.
- Develop an efficient mechanism to resolve issues related to government land given to the public.
- Implementing a program to give one lakh plots of land to the youth in coordination with banks and other related institutions, as a project to encourage youth entrepreneurship, providing investment opportunities in government lands.
- Implementation of effective development programs after proper assessment of unused private lands acquired for development schemes, development needs.

In order to fulfill the above-mentioned role, the Parliament had given a total of Rs. 10,517 million to the Ministry of Lands and the State Ministry and 4 departments under it in the year 2021 and Rs.8,541 million had been utilized by the end of the year under review. Thus, the provision of Rs. 1,976 million was left at the end of the year. Details are shown in Figure 27.



	Ministry of Land	State Ministry of land management affairs, state enterprise land and property develop...	Land Commissioner General's Department	Survey Department	Land use Policy Planning Department	Land Title Settlement Department	Total
Allocations Rs.Million	3415	608	635	4714	580	565	10517
Expenditure Rs.Million	2667	269	496	4075	509	525	8541
Balance Rs.Million	748	339	139	639	71	40	1976

Figure 27 - Amount of provision and Expenditure

Source - 2021 Annual Financial Statements

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

Bim Saviya Programme

- Although the Department of Land Settlement had planned to issue 60,000 title certificates under this program and allocated Rs.124 million, the number of title certificates issued during the year was 13,907 and the actual expenditure incurred was Rs.94.4 million. Accordingly, although the estimated cost of issuing a certificate is Rs.2,067, Rs.6,788 had been spent for it in the year under review.

- During the year under review, the number of title certificates issued by the Land Registry Office under this program was 22,485, while the number of certificates issued to owners was only 13,907. Due to the weaknesses in the distribution of title certificates, the number of title certificates remaining to be distributed among the owners was 21,231 at the end of the year under review.

- As on 31st December of the year under review, the total number of files set aside due to various unsolved issues related to issue of title certificates under this program was 455,271, details of files set aside in Weligepola, Ratmalana, Dehiwala and Nallur regional offices were not disclosed.

- By the end of the year under review, these projects had been implemented in only 66 Divisional Secretariat Divisions, and no steps had been taken to start this in the remaining 265 Divisional Secretariat Divisions. Furthermore, out of the 3899 Grama Niladari divisions belonging to the 66 Divisional Secretariat Divisions, the survey work had been completed in only 1394 divisions. Accordingly, the progress of this project remained unsatisfactory.

Acquisition of land

According to Section 35 of the Land Acquisition Act No. 09 of 1950, in case the compensation amount is not paid to that person or the court before the date of publication of an order under section 38 in the Gazette for the acquisition of land or property, even though the amount of compensation shall be paid with a fixed amount of interest from the date of issue of the relevant order to the date of payment of compensation, due to non-compliance with the provisions of the Act, out of the total interest amount of Rs.1,206.32 million paid in the year under review, Rs.602.13 million or 50 percent was the interest expenses incurred for land acquisition more than 15 years ago.

Government Land Information Management System

The government's land information management system (e-Slims) was started in the year 2013 to make the government's land management activities efficient, and the cost incurred for that was Rs.159.46 million by the end of the year under review. Although this project has been implemented for more than 07 years, the amount of information of land plots included in the system was 1,306,917, and only 62,785 out of 100,000 planned land plots were included in the system in the year under review.

Land tax revenue management

The Commissioner General of Land collects land tax revenue from inter-provincial farming colonies under the Land Development Ordinance, and the arrears of Rs.84.92 million had not been recovered at the end of the year under review. 53 percent of the arrears or Rs. 45.15 million had been outstanding for more than 2 years, and the amount recovered from the arrears in the year under review was only Rs. 5.18 million.

Not reaching goals

- According to the action plan for the year under review, although the Ministry of Land had planned to provide 20,000 plots of land by the end of the year under review through a program implemented with the aim of "Encouraging local production and providing the necessary institutional support by selecting youths who are engaged in various products representing agriculture, commerce, tourism and other service production sectors in Sri Lanka and who have such entrepreneurship ability, but have not yet received basic resources and government support for it and give them land ownership", only 402 plots of land or 2 percent of the planned amount had been given.

- According to the action plan for the year under review, although it was planned to acquire land under 11 sectors such as urban development, low-lying land development, village expansion, irrigation works, etc., land acquisition was started only under 07 sectors. Accordingly, by the end of the year under review, only 707 hectares or 10 percent of the planned 7383 hectares of land had been acquired. Accordingly, the ministry had failed to take over the land for the government's needs as planned.

- Under the advice and guidance of the Ministry of Lands, the Land Commissioner Genaral's Department had started an island-wide survey to collect government land information in the last quarter of 2020, for that, 10 million survey forms were printed for free by the Government Printing Department and distributed all over the island to cover the Grama Niladari Divisions. Progress of related survey activities had not been obtained as on 31 December of the year under review.

Organic Fertilizer Project

- The Ministry of Lands had produced 6,156.23 metric tons of fertilizer at a cost of Rs.302 million, and according to section 2 (1) (2) of the Regulation of Fertilizer Act No. 68 of 1988, a license should be obtained from the National Fertilizer Secretariat for the production of fertilizers, but it has not been obtained so far.

- Although 777,720 kg of fertilizer produced under this project was sold to Colombo Commercial Fertilizer Company at Rs.15 per kg in the year under review, the income of Rs.11.67 million due for that had not reported in the financial statements as deficit income.

Decreasing of performance

- The surveyors of the surveying department carry out various types of surveys, with the vision of being "always the leader in the provision of land information" and the mission of "providing quality land information products and services by a professional service-oriented team", and accordingly, the monthly target of one officer for statutory surveying with boundary stones is 20 plots and 30 lot. For other survays the progress is calculated as 30 hectares of land and 5 km of measured distance. These standard surveying techniques and equipment, established more than 15 years ago, have not been reviewed with technological progress and updated to provide quality land information products and services as per the vision and mission of the department, but the department had spent an amount exceeding Rs. 430 million from 2018 to 2021 for the purchase of modern measuring equipment under the purchase of machinery and equipment in the financial statements.

- According to the Survey Act No. 17 of 2002, the Land Survey Council was established with the objective of ensuring that the surveying profession and its practices are maintained in an orderly manner and that the highest standards of professional existence are maintained by those practicing the profession. Although the total number of complaints submitted by the public regarding professional misconduct of surveyors in the year under review was 143, the council resolved only 27 percent of those complaints or 39 complaints. Although the number of complaints to be resolved annually has been gradually increasing, no special program had been implemented to increase the efficiency of resolving those complaints. Adequate measures were also not taken to track down people who are carrying out survey work without being registered in the council.

Implementation of the Land Use Act

The vision of the Department of Land Use Policy Planning which was established by an announcement published in Gazette No. 1654/21 (Extraordinary) dated 20 May 2010, is the optimal and sustainable use of land resources in Sri Lanka and the main mission of the department is to assist in the formulation and implementation of policies and plans for sustainable and optimal land use while maintaining ecological balance. The Department has so far failed to pass the National Land Use Act and formulate a National Land Use Policy to achieve that vision and mission.

Transportation

Audit Observations

- Railway Project from Kurunegala to Habarana via Dambulla
- Colombo City Based Railway Efficiency Improvement Project
- Colombo Suburb Railway Project
- Park & Ride Project
- Construction of the Orugodawatte Filling Station
- Construction of 09 Vehicle Emission Centers
- Purchase of necessary Equipment for the Camera and GPS System in Luxury Buses
- Purchase of Buses under Indian Credit Facility
- Inadequacy of Buses
- Lands owned by the Sri Lanka Transport Board
- Causing Severe Damages to Vehicles of the Sri Lanka Transport Board
- Purchase of 160 Railway Compartments
- Project for Construction of a Double-Line Railway between Kandy – Gatambe
- Project for Rehabilitation of the Railway Line from Mahawa – Anuradhapura – Omantha
- Colombo Suburb Railway Project – Feasibility Study
- Leasing out Railway Reserve Lands
- Vesting of Railway Lands
- Purchase of Spare Parts for M6 Class Locos
- Idle Assets
- Making Payments for unsupplied Goods
- Unsettled Letters of Credit
- Sri Lanka Railways Master Plan
- Revenue
- Failure in Recovery of Revenue in Arrears

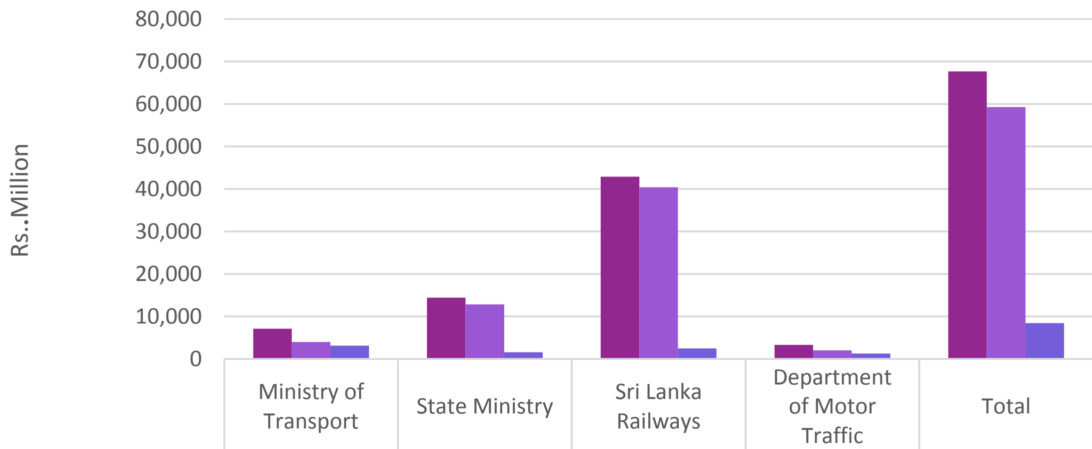
Transportation

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, a State Ministry, two Departments and 05 statutory bodies functioning under the Ministry.

- Formulation of policies, rules and regulations required to ensure an ecofriendly transport system.
- Taking necessary steps to establish a high standard road facility to build the public trust on the public transport system.
- Introduction of guidelines, laws and rules to be followed to reduce traffic congestion and road accidents
- Introduction of a futuristic e-ticketing system for public and private transport services and rail services to operate as a single mode of transport under a common format.
- Development of infrastructure facilities required to ensure common amenities and security associated with railway and bus stands.
- Maintenance of trains and buses required for train and bus service.
- Introduction of procurement systems essential to build a local industrial system relevant to the field of bus production and transportation.
- Establishment and expansion of facilities necessary for transporting goods by trains to Colombo, Hambantota, Kankesanthurai and Trincomalee ports.
- Making motor vehicle registration a people friendly, efficient and corruption free process through the application of information technology.
- Modernization of the Sri Lanka Transport Board into a profit generating institution and development of common facilities at the major bus stands.
- Rehabilitation of existing bus fleet and thereby introduction of new ecofriendly buses for operation in Colombo and major city limits and formulation and implementation of
- programmes to comply the private passenger transport with green transport concept.

- Establishment of a transport service that encourages investors to manufacture, repair and upgrade railway compartments, buses, and motor vehicles locally.
- Strengthening school bus services and student safety under the proper standards.
- Direction of the Sri Lanka Transport Board towards the transportation of passengers and goods to formalize the provision of public transport facilities to rural areas.
- Regulating the transport services to a high standard to ensure the safety of passengers and transport services.
- Eradication of various malpractices being committed in the issuance of driving licenses and registration of motor vehicles and providing an efficient service.

Provision amounting to Rs.67,680 million had been made for the Ministry of Transport, the State Ministry and two Departments by Parliament during the year under review in order to perform the aforesaid functions and out of that, a sum totaling Rs.59,273 million had been utilized. Accordingly, Rs.8,407 million or 12.42 per cent out of the provision made by Parliament had not been utilized. Details are given in Figure 28.



	Ministry of Transport	State Ministry	Sri Lanka Railways	Department of Motor Traffic	Total
Provision Rs. Million	7,086	14,408	42,899	3,287	67,680
Expenditure Rs. Million	3,989	12,845	40,416	2,023	59,273
Savings Rs. Million	3,097	1,563	2,483	1264	8,407

Figure 28 - Provision made and Actual Expenditure

Source - Financial Statements 2021

The audit observations revealed relating to performing the above functions are summarized below.

Railway Project from Kurunegala to Habarana via Dambulla

A feasibility study was conducted on the new railway lines from Kurunegala to Habarana via Dambulla in the year 2009 which commenced in the year 2010 with the objective of promoting freight trains centered on the Dambulla Economic Center. Provisions of Rs.1,032.76 million had been made for the Kurunegala Habarana railway line from the year 2010 to the year 2021 by annual estimates under local funds out of which only 46 per cent of the total provision made for the project had been spent and provision of Rs.555.91 million representing 54 per cent had been saved.

Even though 4,090 blocks of land should be taken over and compensation paid by the year 2024, compensation had been paid only for 133 blocks of land by 24 January 2022.

Colombo City Based Railway Efficiency Improvement Project

This project was initiated giving priority to five objectives to improve the efficiency of the railway service and the loan agreement of US $ 160 million entered into on 20 August 2019 for successful execution of this function, had been implemented from 06 September 2019. The following observations are made relating to the performance of the project.

Provision of Rs.3,200 million and Rs.235 million had been made in the year under review under the Asian Development Bank and under local funds respectively for the Colombo City Based Railway Efficiency Improvement Project. However, the expenditure under the source of local funds had been approximately Rs.96 million representing 41 per cent.

Moreover, the sum spent of the provision under funds of the Asian Development Bank had been only Rs.2,012 million. As such, the entire estimated provision had been underutilized. Therefore, a sum of Rs.83 million had been paid as commitment fees by the end of the year under review.

Colombo Suburb Railway Project

This project had been commenced at an estimated total cost of Rs.1,654 million equivalent to USD 11.36 million with the objectives to develop feasibility studies, prepare detailed engineering plans for transport projects and make provisions to support transport projects. The following observations are made relating to the performance of the project.

- Provision of Rs.350 million and Rs.1,578 million had been made by annual estimates under the Asian Development Bank and under source of local funds respectively for the Colombo Suburb Railway Project. However, the performance of resettlement of occupants on the sides of the railway lines of the project was at a minimum level and as such, the utilization by local funds had been Rs.264 million representing 17 per cent of the said provision.

- Even though plans had been drawn to resettle unauthorized occupants in 2,036 housing units by the end of the year 2021, resettlement had been carried out only in 484 housing units.

Park & Ride Project

The number of buses targeted for operating the Park & Ride Project was 18 and 06 in the Colombo and Kandy districts respectively. Details on operation and income in this regard, had not been made available to Audit. However, the Sri Lanka Transport Board had spent monies for installation of 25 GPS devices in buses for the Park & Ride Project and those buses are not operated while the cameras had not been handed over. Moreover, the Park & Ride Project had been commenced again on 16 June 2022 by obtaining 10 buses from Ashok Leyland Company on rental basis.

Construction of the Orugodawatte Filling Station

The Sri Lanka Transport Board had entered into an agreement with a private company on 20 March 2018 for the construction of 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 16 June 2022. The total amount paid by now is Rs.26.77 million and 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 the audit examination, 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 09 Vehicle Emission Centers

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 for the construction of 09 Vehicle Emission Centers in 09 Provinces and the construction of the centers had been done without conducting a feasibility study. Among these emission centers, the Kurunegala and Medawachchiya centers were opened after completing the constructions. However, due to a legal issue, they had to be closed. 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 by 30 April 2022, the date of audit. The said constructed centers had remained idle even by 30 May 2022.

Purchase of necessary Equipment for the Camera and GPS System in Luxury Buses

The Sri Lanka Transport Board had entered into an agreement valued at Rs.33.63 million with a private company for purchase of equipment necessary for maintaining the Camera and GPS System in 125 luxury buses of the Board. A preliminary feasibility study and a study on the manner of projecting cost benefit analysis and results had not been conducted prior to carrying out this project. Liquidated damages of Rs.3.36 million recoverable as per Section 8 of the relevant procurement agreement had not been recovered from the suppliers relating to the delay in installing GPS software and accessories for 125 luxury buses.

Purchase of Buses under Indian Credit Facility

A sum of Rs.3,506 million had been estimated for adding 600 buses to the vehicle fleet under the Indian credit facility. Cabinet approval had been received and the supply contract had been awarded for purchase of 500 Lynx 32 seater buses after completing the procurement process. However, an advance of 20 per cent had been paid and cancelled the purchase of buses again due to prevailing financial issue faced by the Government as a result of the increase of the Dollar and the inadequacy of the loan for purchase of 500 buses. The purchase of one hundred 43 seater buses had been cancelled by the Cabinet and it had been decided to look into the possibility of purchasing electric buses instead.

Inadequacy of Buses

The daily requirement of buses of the Sri Lanka Transport Board by 16 June 2022 was 7,339 and the bus fleet owned by the Sri Lanka Transport Board stands at 6,951. Out of this, 32 per cent were inoperative. Out of the 4,718 buses in operation, 2,742 were older than 10 years.

Lands owned by the Sri Lanka Transport Board

The Sri Lanka Transport Board maintains its 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 all 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 with weeds.

Causing Severe Damages to Vehicles of the Sri Lanka Transport Board

Three vehicles valued at Rs.7.3 million including 02 belonging to the Head office of the Sri Lanka Transport Board and one belonging to the Gampola Depot had been severely damaged due to the conflict which arose at the protest site on 09 May 2022.

Moreover, 18 buses costing Rs.60.90 million belonging to 12 depots had been damaged during the period of protest and the net value thereof amounted to Rs.11.63 million.

Purchase of 160 Railway Compartments

Even though 160 railway compartments had been purchased by spending a sum of USD 82.6 million (Rs.11,564 million) under the Indian credit facility, only 107 compartments had been utilized for operations so far. Accordingly, 53 compartments had not been utilized up to now.

According to the Engineer’s estimate, the cost of importing one compartment, was USD 0.3 million. However, the actual expenditure thereof had been USD 0.558 million when harbor dues, custom duty, insurance charges and transport charges are added.

Only 10 out of the 160 railway compartments had been received and accordingly, it had been recommended that receipt of the remaining 150 railway compartments without inspection is proper and as such, it was observed that there were deviations from technical specifications as follows.

- The length, width and height of the railway compartments had been increased beyond the standard.

- Even though the running speed to be maintained, should be 120 kmh-1, according to specification, the minimum radius of curves was 150 metres. However, it was observed that the radius of curves in the yards being 90 metres cause fast running, running off the rail tracks and accidents of trains. Moreover, imposing speed limits had affected other trains as well.

- A number of 234 seats comprising 82 in Third class, 82 in Second class and 70 in air conditioned compartments had been reduced than the number mentioned in the specification.

- This train had been increased in height by 400 mm or 16 inches, than the standard height from the rail head to the ground.

Project for Construction of a Double-Line Railway between Kandy – Gatambe

An agreement had been entered into with a private company for a value of Rs.47 million for constructing a double- line railway between Kandy Gatambe and the constructions thereof should have been completed before 30 July 2018 (extension of the deadline). However, the works of the project could not be completed so far. Moreover, the contractor had withdrawn from the constructions of a section with a total length of about 190 metres from 1/720 to 1/830 and 1/900 to 1/980. Even though it had been agreed to repair it with the involvement of the Department, it had not been completed up to now. The following deficiencies were observed herein.

- Even though laying of ABC should be as 10” according to standard, it had deviated from standard as 9.5”, 7.25” and 9.6” in the physical inspection carried out and in laying ballast, it had deviated from standard as 6.75”, 6” and 7.5” instead of 8”.

- Even though a Court Order had been given to evacuate 116 unauthorized dwellers who had settled in the railway reserve for constructing this double- line railway, demolishing 95 houses had failed even by now.

- Even though alternative lands had been provided from Pallekele, Kandy to 44 dwellers of Lot No.01 to 28 and Lot No.73 to 88, 17 dwellers belonging to Wellassa Grama Niladhari Division had been further occupying the railway reserve.

- It was observed that 35 dwellers who had been given evacuation orders, were occupying the same place without leaving.

- Despite not having completed the works of the first stage of the double-line railway, a sum of Rs.567 million had been paid to the contractor as start-up allowance for constructing the railway system from Gatambe to Sarasavi Uyana which is the second phase of the railway line.

Project for Rehabilitation of the Railway Line from Mahawa – Anuradhapura – Omantha

According to the agreement with Ircon International Limited, subject to conditions in the loan agreement entered into with Exim Bank of India, the contract had been awarded subject to a discount of 19.26 per cent and the other bidders had not been provided with the opportunity of negotiating concessions for the rehabilitation of the Railway Line from Mahawa – Anuradhapura – Omantha.

Even though the signal system should be established simultaneously with the rehabilitation of the road, a work plan and a cost estimate required for the establishment of the signal system had not been prepared. Moreover, it was not observed whether a final decision had been reached so far relating to the said task carried out through the contractor or whether it is being carried out by the Signals Division of the Department.

Seventy eight level crossings had been identified in the relevant section of the road and it was observed that 09 of them are fully protected gates with barriers at present and 01 bell and light, 02 padlocked gates and the rest are controlled by people. After constructing the railway line, the Department had failed to take action to establish a permanent road safety programme for the said gates.

The financial progress expected from the project as at 31 December 2021 was 39 per cent and the physical progress was 38.5 per cent. Nevertheless, it was observed that the financial progress and the physical progress achieved had been 23 per cent and 27 per cent respectively. The reasons therefor had been indicated as allocation of inadequate budget provision and failure in making provision by the Treasury. It was observed that no such situation existed in consideration of estimated provision and the actual expenditure.

Colombo Suburb Railway Project – Feasibility Study

The feasibility study report and detailed plans including targets expected to be achieved during a period of 20 years under the Colombo Suburb Railway Project had been completed in March 2021 and submitted to the Sri Lanka Railways through the relevant line Ministry. A sum of Rs.1,446 million had been spent under the Asian Development Bank loan facility for the said feasibility study. Moreover, the payment of the half yearly loan installment on the said loan was due on 15 March 2022 and 15 September 2022 at USD 275,000 each. As such, it was observed in Audit that the aforesaid feasibility study remaining idle without being implemented, is of no productivity towards the economy.

Leasing out Railway Reserve Lands

In leasing out railway lands, failure in entering into agreements properly, unauthorized utilization, unauthorized constructions, sub leasing, breach of conditions in agreements, non-recovery of income as due and instances of issues arising in their ownership, were observed.

The railway reserve land within close proximity to the Gampola Railway Station leased out legally to another person under No. L- 4731 (LC 32933) and another block of land to a total of 02 Acres, 02 Roods and 35.3 perches in extent had been leased out to the Urban Development Authority for the Gampola Central Town Development Project. The following matters were observed in this connection.

- According to the approval of the Cabinet No. 16/1370/724/054, before entering into a tripartite Memorandum of Understanding in accordance with proposal III of the said Cabinet Memorandum, the clearance of the Attorney General was to be obtained. However, such approval was not obtained.

- The Minister of Transport and Civil Aviation had recommended that this land should be handed over to the Urban Development Authority subject to a tax determined on the basis of the valuation of the Chief Valuer. However, action had not been so taken.

- The foundation stone for the Gampola Central Town Development Project was laid on 10th September 2016, and according to the 12th condition of the signed Memorandum of Understanding, it was stated that this agreement will be valid until 20th February 2019. Accordingly, the construction has not been commenced so far and due to the non-fulfillment of the objectives, the possession of the land owned by this Department has not been recovered.

Vesting of Railway Lands

The railway land of 03 Acres, 17 Roods and 09 perches in extent had been vested in the Urban Development Authority for constructing financial centres under the "Pibidemu Polonnaruwa" Development Programme. Nevertheless, the said objective had not been achieved even during the period of agreement, that is 21 February 2022. Even the anticipated financial companies had not made reservations under the said project. Accordingly, relevant objectives could not be achieved even up to 16 December 2022, the date of inspection. As such, the administration had not taken action to recover the possession of the railway land reserved therefor.

Purchase of Spare Parts for M6 Class Locos

In the purchase of spare parts for M6 class locos, the supplier should be notified within 45 days of receiving the goods at the port regarding shortage or damage, but the Department has informed the supplier that the goods have been sent less, after a lapse of 03 years. Accordingly, the supplier had refused to supply the outstanding goods valued at Rs.12 million or refund the value and as such, the sum of approximately Rs.14 million incurred therefor had become a fruitless expenditure.

Idle Assets

In the purchase of spare parts for S – 8 Class Locos, the stock of spare parts valued at Rs.16 million received to the Sri Lanka Railways on 10th April 2019 had remained idle until 31 December 2021 in the stores without being made use of.

Making Payments for unsupplied Goods

Payments for warehouse supplies shall be made after certification by the officer certifying payment that the goods are of proper quality and in correct quantities. However, a payment of Rs.90 million had been made for goods not supplied to the Department of Railways.

Unsettled Letters of Credit

At the end of the year under review, the value of outstanding letters of credit was Rs.616 million out of which Rs.116 million representing 19 percent were old balances between 02 and 23 years. The reasons why these balances, which have been paid for more than 02 years, were not made available to Audit and whether these payments of more than 116 million were paid to suppliers for goods that had not been supplied, was contentious in Audit.

Sri Lanka Railways Master Plan

An agreement had been entered into on 27 October 2017 for formulation of a main operating plan (Master Plan) for the Department of Railways by spending a sum of USD 1.5 million received under grants (Agreement No. TA 9382-SRI 27.10.2017) of the Asian Development Bank in the year 2017. Even though the said project should have been completed on 30 June 2021, the period thereof had been extended up to 30 June 2022. According to sources of the Asian Development Bank, the provision released therefor by 05 July 2021 was USD 1,056,555.63. Nevertheless, details on the operating plan prepared, was not submitted and grants made by the Asian Development Bank, had not been included either in the budget estimates or in the financial statements of the Ministry of Transport.

Revenue

The revenue of Rs.2,678 million of the Sri Lanka Railways for the year 2021 was less than 41 per cent of the revenue amounting to Rs.4,566 million for the year 2020 and decreased by 66 per cent as compared with the revenue amounting to Rs.7,901 million of the year 2019.

Failure in Recovery of Revenue in Arrears

The arrears of revenue from the railway warrants of the Sri Lanka Department of Railways was Rs.809.66 million by the end of the year under review. Out of the said arrears, arrears from railway warrants of Rs.9.13 million comprising Rs.7.38 million recoverable from 197 Government institutions since before the year 1987 and arrears of Rs.1.76 million recoverable from 187 Government institutions during the period between 1990 and 2020, were observed. Moreover, a total of Rs.120.47 million in arrears from 31 institutions at the end of the year under review in respect of transporting goods by trains included Rs.20.31 million older than 21 years receivable from 16 institutions and Rs.1.7 million older than 05 years realting to trade bills in arrears. Furthermore, the arrears of commuter revenue due from railway stations by the end of the year under review was Rs.12.75 million.

Ports and Shipping

Audit Observations

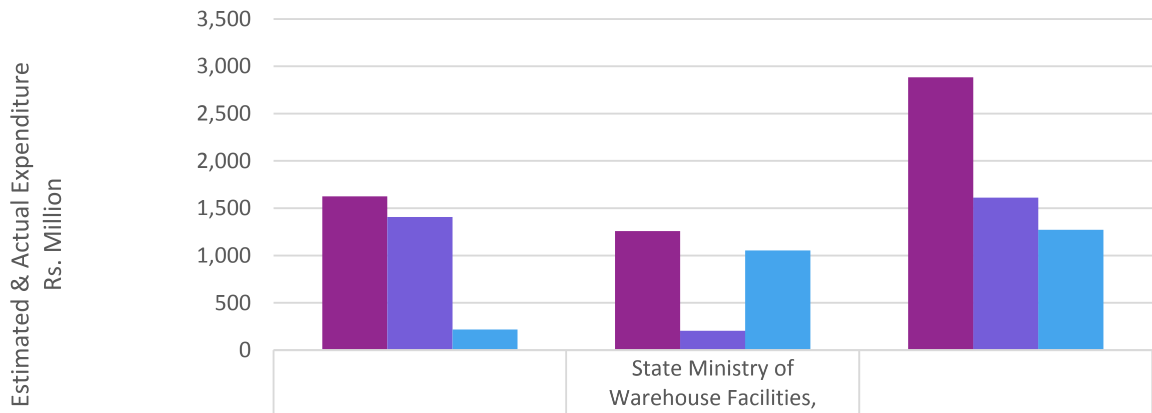
- Implementation of major development projects
- Importation of Public Sector Cargo
- Cargo Operations
- Vessels arrived at the Port of Colombo (Arrival)
- Decline in the Terminal Operations
- Underutilization of the Eastern Container Terminal
- Foreign Loans Obtained for the Construction of the Hambantota Port
- Guarantee Made for Loans Obtained by a Subsidiary Company
- Non-installation of CCTV Camera System
- Penalty Imposed by the Custom
- Receivables from the General Treasury
- Review of Assets
- Non-compliance with the Finance Act and Ports Authority Act
- Non-compliance with Ports Authority Act
- Failure in Properly Vesting Lands
- Related Party Transactions
- Uneconomical Expenditure
- Indemnity
- Uncapitalized and Unidentified Purchasing
- Share Rights not Transferred to the Sri Lanka Ports Authority
- Human Resource Management
- Non-preparation of a Policy for Subsidiaries
- Delayed Projects
- Grant of Rebates to the Shipping Agencies Contrary to the Terminal Services Agreements

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 fishery, 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. 2,883 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 functions by the year 2021 and only Rs. 1,612 million out of the provision allocated had been utilized by the end of the year under review. Details are given in the figure 29.



	Ministry of Ports and Shipping	State Ministry of Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development	Total
Provision Rs. Million	1,625	1,258	2,883
Expenditure Rs. Million	1,407	205	1,612
Savings Rs. Million	218	1,053	1,271

Figure 29 - Estimated and actual cost
Source - Financial Statements for the Year 2021

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 below.

Implementation of major development projects

Out of the net provision of Rs. 380 made for the preparation of a feasibility report for the Colombo North Port Development Project under the development programme of the Ministry of Ports and Shipping, there were savings of 24 per cent as a percentage while there were savings of 48 per cent out of the net provision amounting to Rs.210 million made for the port access elevated highway project. Further, due to failure to implement and complete the works of these two projects within the year as planned, the performance remained at the levels of 75 per cent and 12 per cent respectively.

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.

However, 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 notices of waivers for more than 700 such requests made in 2017, 538 in 2018, 486 in 2019, 492 in 2020 and 347 in 2021 and allowed those institutions to get the importation facilities from other institutions. 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.

International position of the container operations and market share of the Ports Authority. According to the Alpha Liner Report issued by the Alpha Liner Organization on container operations of the Ports in the World for the year 2021, the Port of Colombo operated 7,249,358 Twenty Equivalent Units (TEU) and was able to secure the ranking of 22nd in the world during this year. According to the reports, 5.8 per cent increase in the container operations of the Colombo port had been obtained as compared with the year 2020 and that increase in the terminals owned by the Sri Lanka Ports Authority was 4.8 per cent.

Cargo Operations

Although the number of ships arrived at the main ports of Colombo, Galle, Hambantota and Trincomalee was 4,942 in

2017, it had dropped to 4,180 by the year 2021. However, the number of Twenty Equivalent Units (TEUs) handled had increased from 5.7 million in 2016 to 7.2 million in 2021. The volume of conventional cargo handled had decreased from 10.1 million MT in 2018 to 9.2 million MT by 2021. The details appear in Table 21.

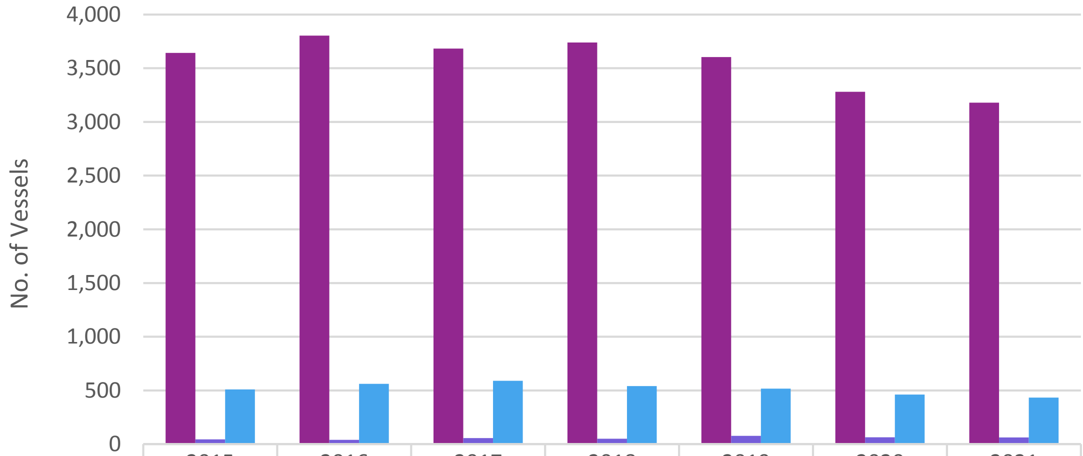
Details	2016	2017	2018	2019	2020	2021
Number of ships arrived	5,023	4,942	4,933	4,708	4,337	4,180
Number of Twenty Equivalent Units (TEUs) handled (000, Units)	5,735	6,209	7,047	7,228	6,854	7,249
Volume of conventional cargo handled (000, M.Tons)	8,197	9,210	10,136	9,530	8,894	9,229

Table 21 - 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)

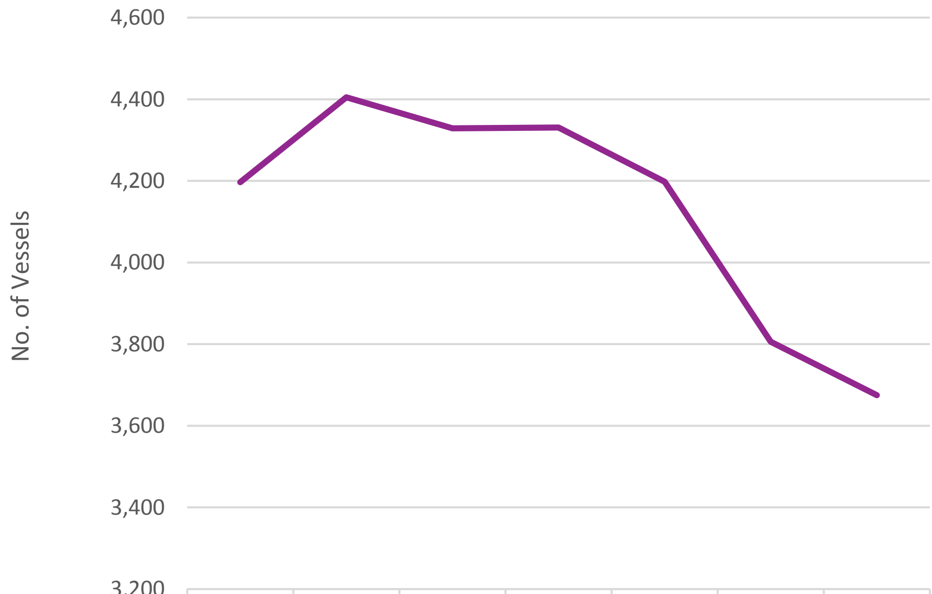
The number of container vessels arrived at the Port of Colombo during the year under review had decreased by 131 vessels or 3.4 per cent compared to that of in the previous year. A gradual decrease in the number of container vessels arrived at the port was observed since the year 2016 and the arrival of large vessels instead of medium and small vessels had been the reason for that decrease. Details are as in Figure 30 and Figure 31.



	2015	2016	2017	2018	2019	2020	2021
Container	3,643	3,804	3,683	3,739	3,604	3,281	3,180
Traditional	45	40	56	51	77	64	62
Other	509	561	590	541	517	461	433

Figure 30 : Arrival of Vessels at the Port of Colombo – With the classification

Source - Performance Review Report of the Sri Lanka Ports Authority



	2015	2016	2017	2018	2019	2020	2021
Total No. of vessels arrived	4,197	4,405	4,329	4,331	4,198	3,806	3,675

Figure 31 : Arrival of Vessels at the Port of Colombo – Total number of vessels

Source - Performance Review Report of the Sri Lanka Ports Authority

Decline in the Terminal Operations

The Colombo Port had handled 1,726,616 units of containers in the year 2001 and it had increased up to 7,249,358 units by the year 2021. In these container operations of the Port of Colombo, the market share of the Sri Lanka Ports Authority had dropped from 81 per cent to 30 per cent from the year 2001 to 2021. Of the two private companies which were competitively engaged in operations in other two terminals given to the private sector on long-term basis in the Colombo Port, the company that had commenced its operations in the year 2013 had secured a market share of 45 per cent while the other company that had initiated its operations in the year 2001 had secured a market share of 25 per cent by the year 2021. Details on the container handling during the past twenty one years are as Table 22.

Year	Jaya Container Terminals (**Annual terminal capacity** 2.750 **container unit millions**)	Percent age	South Asia Gateway Terminals (SAGT) (Annual Terminal Capacity 1.950 **container unit millions**)	Percent age	Colombo International Container Terminals (CICT) (Annual Terminal Capacity 2.400 **container unit millions**)	Percent age	Total number of container units
2001	1,396,946	81	229,670	19			1,726,616
2002	1,206,694	68	558,025	32			1,764,717
2003	1,334,900	68	624,439	32			1,959,339
2004	1,320,845	59	899,720	41			2,220,565
2005	1,523,794	62	931,526	38			2,455,300
2006	1,743,669	57	1,335,411	43			3,079,078
2007	1,834,734	54	1,546,497	46			3,381,231
2008	1,747,670	53	1,739,668	47			3,687,338
2009	1,714,488	49	1,749,809	51			3,464,297
2010	2,167,173	52	1,970,268	48			4,137,441
2011	2,299,446	54	1,963,441	46			4,262,887
2012	2,316,849	55	1,870,271	45			4,187,120
2013	2,501,863	58	1,746,802	41	57,541	1	4,306,206
2014	2,559,339	52	1,661,940	34	686,636	14	4,907,915
2015	2,252,323	44	1,371,245	26	1,561,899	30	5,185,467
2016	2,100,117	37	1,632,207	28	2,002,599	35	5,734,923
2017	2,010,702	32,	1,809,835	29	2,388,531	39	6,209,068
2018	2,304,534	33	2,066,758	29	2,676,194	38	7,047,486
2019	2,282,618	32	2,052,153	28	2,893,566	40	7,228,337
2020	2,097,804	31	1,872,052	27	2,884,906	42	6,854,762
2021	2,198,334	30	1,838,693	25	3,212,331	45	7,249,358

Table 22 - Details on the container handling during the past twenty one years

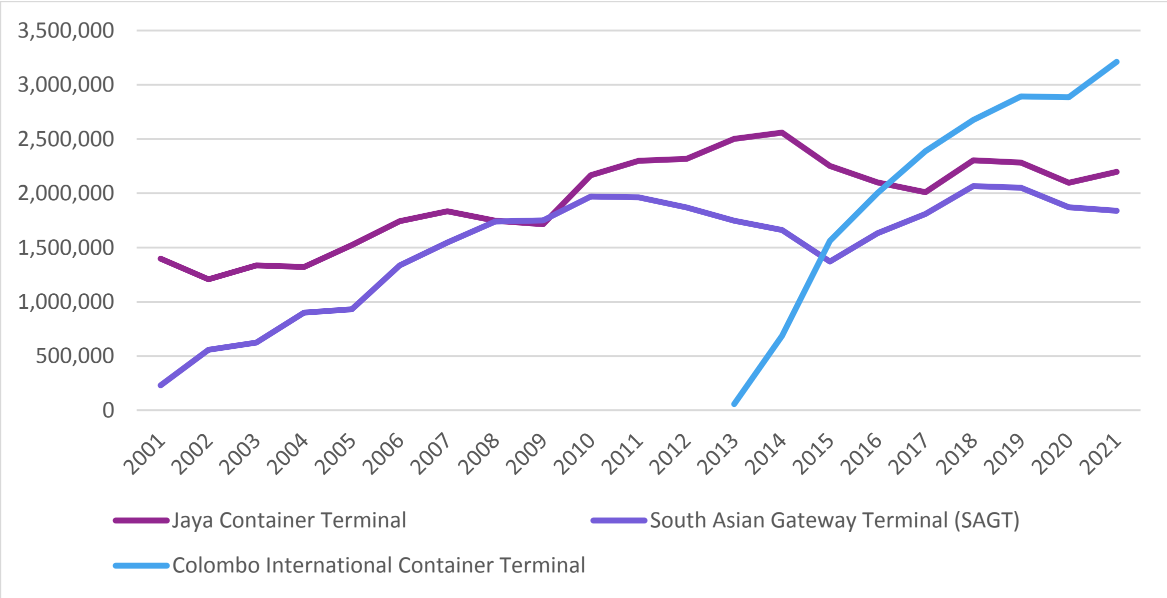


Figure 32 – Terminal operations of the Sri Lanka Ports Authority
Performance Review Report, 2021 of the Sri Lanka Ports Authority

Since the operations of the constructed section of the Eastern Terminal had been commenced from the year 2021, the terminal capacity of the Sri Lanka Ports Authority had increased up to 3.55 million units (2.75+0.80 million units) from the year 2021.

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. When the Terminal Occupancy Ratio of the container operations of the Authority is taken in to consideration, it was 65 per cent, 70 per cent and 72 per cent and 70 per cent in 2018, 2019, 2020 and 2021 respectively. Accordingly, the terminal occupancy ratio of the Authority had increased by two percent during the year 2021. Further, the terminal occupancy ratio of the Authority was about 62 per cent. However, it was observed that the terminal occupancy ratio of one terminal operated by the private sector was 134 percent while the terminal occupancy ratio of the other terminal was 94 per cent.

Underutilization of the Eastern Container Terminal

The Colombo International Container Terminal (C.I.C.T) and the Eastern Container Terminal (ECT) 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 2021, a number of 1,027 such container vessels had arrived at the terminal and handled a total of more than 3.2 million container units. It had also exceeded its maximum capacity.

Meanwhile, the construction activities of phase 1 of the Eastern Container Terminal with an annual capacity of 0.8 million container units of 18 m deep and 440 m long at construction cost of Rs. 11,168 million and related to the Colombo Port Expansion Project and funded by the Bank of Ceylon had been completed 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. Thereafter, the approval had been granted by the Cabinet Decision No. අමප/21/0198/328/005/ TBR dated 09 February 2021 for the development of the Eastern Container Terminal, the purchase of operating equipment and the carry out operations of the Container Terminal as a fully owned container terminal of the Sri Lanka Ports Authority. According to the information submitted to the audit, 30 container vessels (not in large size) had arrived at the terminal during the year 2021 and had handled 106,454 containers. Accordingly, the terminal usage was about 13.3 per cent. In order to maximize the utilization of the operating capacity of the terminal, the Sri Lanka Port Authority had entered into an agreement with a contractor in May 2021 to purchase three cranes capable of operating from the vessel to the mainland at an estimated cost of Rs.282.56 million and the supply contract had been awarded on 18 December 2021. According to the agreement, the mobilization advance was US $ 56.51 million, but the amount paid up to 20 June 2022 was US $ 18 and it had not been possible to pay the remaining amount as agreed. Although the Authority had instructed the bank to release that money form the dollar deposits of the Authority, the bank had failed to release that payment to the contractor. Since the payment of mobilization advance had not been finalized, planning review meetings had not been conducted on the construction of cranes and accordingly, productions had also not been initiated.

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, that remained in the accounts of the Authority as at 30 November 2017 had been eliminated from the financial statements of 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, 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", the General Treasury was responsible for repaying the above loans and interest. Accordingly, the External Resources Department of the General Treasury had paid the loan installments and interest since the year 2017 and according to the documents for the year 2021, the loan balance that further remained payable as at 31 December 2021 was Rs. 165,483 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 and the foreign exchange conversion loss for the year 2021 had not been included in the accounts of the General Treasury or the Authority. However, the information regarding the foreign exchange conversation profit/loss calculated relating to the loan balance as at 31 December 2021 was not furnished to the audit by the Department of External Resources.

The Secretary to the Ministry of Finance had informed the Chairman of the Authority on several occasion to include this loan in the books of the Authority. However, neither the Sri Lanka Port Authority nor the General Treasury had taken steps to account for the above loan balance and the profit/loss of the foreign exchange conversation even by the end of the year 2021.

Guarantee Made for Loans Obtained by a Subsidiary Company

Magampura Port Management Company (private) Limited, a subsidiary of the Colombo Ports Authority which had ceased operations from November 2017 had obtained a loan amounting to USD 24 million from a private bank in 2014 for purchasing bunkering oil. A sum of USD 22.3 million out of that amount had not been settled even by the 31 May 2022 and it was observed according to the financial statements that 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. In this connection, the chief legal officer of the Authority had notified the head of the Finance Division to make provisions in the financial statements, 2021 to settle this liability of Rs.4,465 million. However, no provisions for contingent liability had been made for the above liability in terms of Paragraph 10 (a) of the Sri Lanka Accounting Standard 37 and as a result, the profit of the Authority for the year under review had been overstated by Rs.4,465 million.

Non-installation of CCTV Camera System

Plans had been drawn 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 by spending Rs.60 million and Rs.150 million respectively from the capital budget of the years 2017 and 2018. A sum of Rs.150 million and Rs.600 million had been allocated from the annual budget during the years 2019 and 2020 and the letter of the Managing Director of the Authority bearing No. PA/MD/46 dated 09 March 2021 had also stated that a CCTV camera system would be installed. Further, according to the Cabinet Memorandum No. PFD/DFD/103/CM/03 dated 30 January 2020 presented by the Minister of Finance and Economic Development, approval had been granted by the Cabinet Decision No. අමප/20/0174/222/003 dated 13 February 2020 to appoint a Cabinet Appointed Procurement Committee (CAPC) and a Technical Evaluation Committee(TEC) for this purpose.

However, without cancellation of that approval, Rs.580 million out of budget provisions amounting to Rs.600 million made for the installation of the CCTV camera system in the year 2021 had been transferred to the consultation activities of the Planning and Development Division according to a decision of the Board of Management. Accordingly, installation of the CCTV camera system in the Colombo Ports Authority, which is a high security zone, had not been carried out and 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 and it was further observed that the conduct of confirmation inspections regarding the transparency and the efficiency of the operating activities would not be possible.

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 the year 2011. Nevertheless, 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 the year 2020 against the order of the Court of Appeal. However, according to the letter dated 09 March 2022 of the Director General of the Department of Trade and Investment Policies of the Ministry of Finance, approval had been granted to ease the custom penalty up to Rs.50 million on a Cabinet decision.

Receivables from the General Treasury

The sum of Rs. 4,778 million including Rs. 4,406 million in installments and the stamp duty of Rs. 372 million paid in the year 2017 by the Authority for loans obtained for the Hambantota Port Construction Project had not been received by the Authority even by 30 April 2022.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 2021 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.

Since the General Treasury had not settled in time the installments for the Dollar loan obtained by the General Treasury from the Bank of Ceylon for the oil tank construction project under the Hambantota Port Development Project, the Bank of

Ceylon had recovered US $ 0.64 million or Rs.377.84 million in the year 2018 from the US $ Dollar Account maintained in favour of the Authority in the Bank of Ceylon. Although the above amount had been stated as a receivable balance from the General Treasury as at 31 December 2021 in the financial statements of the Authority, money had not been received up to 30 April 2022 and there observed an uncertainty in the receipt of this amount

Review of Assets

According to the land register maintained by the Premises Division of the Sri Lanka Ports Authority, it had been stated that 19 blocks of land worth Rs.633.94 million had been given on lease to other institutions, whereas it had not been included in the register of investment property maintained by the Finance Division. As a result, the investment property had been understated by Rs.633.94 million in the statement of financial position of the Port Authority and the land value had been overstated by that amount.

According to the committee report of the assets review conducted by the Sri Lanka Ports Authority as at 31 December 2021, due to inability of physically identifying the operating buildings and structures with carrying amount of Rs. 403.68 million and machinery and equipment of Rs.181.9 million as at 31 December 2021, the existence of those assets was uncertain.

Non-compliance with the Finance Act and Ports Authority 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 of the Finance Act No.38 of 1971. Similarly, as required by Section 30 of the Ports Authority Act No.51 of 1979, a dividend not exceeding 8 percent (minimum of Rs.607 million) per annum should be paid to the Consolidated Fund on the value of the assets vested in the Sri Lanka Ports Authority and the financial contribution made to the Authority. However, only an amount of Rs. 600 million, out of the net profit totaling Rs. 69,687 , million received by Sri Lanka Ports Authority during the years from 2016 to 2021 had been credited to the Consolidated Fund. Further, the rent totaling Rs. 13,021 million, levied by the Authority only for the period of 2016 to 2021 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. 19,582 million, charged as royalty for the period, had been included in the aforementioned profit. It was further observed that these income were not the direct operating income of the port.

Non-compliance with Ports Authority Act

In terms of Section 37 (i) of the Sri Lanka Ports Authority Act, No.51 of 1979, the charges that may be levied by the Ports Authority for the services provided by the Authority shall be fixed, by the Authority with the approval of the Minister who shall, before giving his approval, consult the Minister in charge of the subject of Finance. As per the Item 24 of the Tariff-2019 revised in the year 2019 obtaining such approval, although the grace period for warehouse charges given for the removal of containers relevant to re-exportation is 21 days, a grace period up to 45 days had been given for that purpose in the Terminal service agreement entered into with the shipping agency. The Rebates on storage given during the year under review was Rs. 2,286.44 million and the terminal service agreements had been signed with the conditions not in conformity with the conditions stipulated in the Tariff-2019. The approval obtained for that purpose from the Minister in charge of the subject of Finance was not furnished to audit.

In terms of Section 39 (1) of the Sri Lanka Ports Authority Act No.51 of 1979, the Ports Authority may, where any goods which have been placed in any transit sheds of the Authority, at the expiration of the relevant period, sell by public auction without prejudice to the provisions of section 40. Similarly, any saving after payment of relevant custom duty from the proceeds of the sale and deduction of warehouse charges and administration expenses of the Authority should be remitted to the General Treasury. It was observed in the perusal of the financial statements of the Authority for the year ended 31 December 2021 that the unsettle balance of the proceeds of such auction sale as at 31 December 2021 was Rs. 385.14 million and it include a balance of Rs. 336.58 million unsettled to the relevant parties from the income received from the auctions from 2015 to 2020. Similarly, action had been taken to identify a sum of Rs. 63.31 million as the Authority’s share in the unsettle balance relating to the auctions conducted from the year 2010 to 2014 to the previous year income. Nevertheless, action had not been taken to identify the custom duty payable to the Sri Lanka Customs and contribution to be made to the General Treasury and make those payments out of 52.57 million of the said auction sale income.

Failure in Properly Vesting Lands

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 vested in the Urban Development Authority for the construction of the Lotus Tower, the Sri Lanka Ports Authority had not written 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 with 02 acres worth Rs.947.5 million bearing Plan No. L/S/MIS/344 and bound by Main Street of Colombo 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 as at the date of this report.

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. However, the related party transactions pertaining to the annual deferred rent revenue of Rs. 1,713 million credited to the revenue statement in the calculation of the net profit for the year under review out of Rs. 169,479 million received from Hambantota International Port Services (HIPS) and Hambantota International Ports Group (HIPG) in the year 2017 in respect of transferring the assets of the Hambantota Port on a long term lease basis by the Sri Lanka Ports Authority and the provision of Rs. 95.7 million to the Authority in the year 2020 by Jaya Container Terminals Ltd. for the construction of a new oil tank and the fire guard system had not been disclosed by the notes to the financial statements.

Uneconomical Expenditure

It had been agreed to implement the construction of 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 Lank 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

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 been stated under the work-in-progress in the financial statements even in the year under review. According to a decision taken by the Audit Committee of the Sri Lanka Ports Authority in this connection, the Authority had, on 04 April 2021 made inquiries from the Sri Lanka Accounting and Auditing Standards Monitoring Board regarding the manner in which this amount to be accounted. Nevertheless, instructions thereon had not so far been received and that expenditure had not been recognized as an capital expenditure or revenue expenditure up to 31 December 2021.

Indemnity

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 other than the Feeders had not been carried out even up to 31 May 2022.

Uncapitalized and Unidentified Purchasing

In terms of Paragraph 55 of Sri Lanka Public Sector Accounting Standard 16, the depreciation of property, plant and equipment begins when it is available for use for operating activities. Nevertheless, the value of two Diyathri vessels costing Rs.495 million that had been used for operating activities and received by the Sri Lanka Ports Authority on 23 December 2019 had not been capitalized and depreciated as applicable even up to 31 December 2021. These payments had been included in the account named " Foreign Purchasing Advance Account Without Budgetary Allocations" under the current assets in the statement of financial position. Accordingly, the property, plant and equipment Sri Lanka Ports Authority had been understated by the aforesaid amount as at 31 December 2021.

Further, the balance of that Foreign Purchasing Advance Account as at 31 December 2021 amounting to Rs. 1,808.56 million included the purchase of spare parts worth Rs. 223.57 million that had been settled but not identified as expenditure in the revenue statement or not capitalized the assets on a recognized policy. As a result, the profit and non-current assets of the year had been understated/overstated by that value. Further, it was observed that the uncapitalized assets that had already been received and unidentified expenditure included in the remaining balance were maintaining in this account over a long period.

Share Rights not Transferred to the Sri Lanka Ports Authority

In exchange of the value of three cranes provided by the Sri Lanka Ports Authority in the establishment of South Asia Gateway Terminal Ltd-SAGT in the year 2010, it had been agreed to transfer the shares of that company worth Rs.141.63 million to the Ports Authority. However, the relevant share rights had not been transferred to the Authority up to the end of the year under review and the relevant company had answered through the balance confirmations in 2020 that there was no amount to be paid by the company for shares. Due to lack of a contractual obligation with the South Asia Gateway Terminal Ltd in this connection, the receipt of shares of the relevant company to the Authority remained uncertain and the Authority had not made provisions for impairments for the above share value receivable. Similarly, although a request had been made to confirm the balance on 02 February 2022, no balance confirmations were furnished.

Human Resource Management

In terms of Section 3.1 (i) of the Public Enterprises Circular No.PED/01/2021 dated 16 November 2021 and the Letter No. DMS/F1/3/3-1 dated 23 January 2013 issued by the Department of Management Services, the institute should prepare a scheme of recruitment and obtain approval of the Department of Management Services. Although the Sri Lanka Ports Authority had prepared draft schemes of recruitment and promotions, approval of the Department of Management Services had not been obtained therefor.

According to the Letter No. MPS/AD/06/83-2017 dated 12 February 2019 issued by the Ministry of Ports and Shipping and Southern Development, it had been informed that all recruitments and promotions of the Authority should not be made until the scheme of recruitment and promotion of the Sri Lanka Ports Authority is approved. Nevertheless, the Authority had granted promotions for 227 posts of the primary service category without obtaining approval of the Department of Management Service in the year 2021 alone.

Non-preparation of a Policy for Subsidiaries

In terms of Section 2.2.5 of Guidelines on Corporate for State Owned Enterprises No.01/2021 dated 16 November 2021, a Board approved subsidiary policy for the subsidiaries of the parent company should be prepared and action should be taken in accordance therewith. Nevertheless, a Board approved subsidiary policy for the subsidiaries of the Authority had not so far been furnished to the audit.

Delayed Projects

- Since the length of the Jaya Container Terminal which performs the main operations of the Sri Lanka Ports Authority is 600 meters, it was found difficult to handle 02 large vessels with 330 meters at the same time and it causes deprivation of business opportunities to the Authority. Given the aforesaid facts, the Cabinet approval had been granted in July 2017 to extend the length of the terminal by 120 meters and prepare the dock with 15 meters in depth. As per the agreement entered into between the Ports Authority and the Contractor (China Harbour Engineering Company Ltd) on 29 November 2018, the cost of the contract was Rs. 5,035.30 million (excluding VAT). Although the notice for commencement of the contract should be issued to the contractor within a date not less than 07 days from signing the agreements in terms of Clause 8.1 of the agreement, the notice for commencement of work with Addendum 1 had been issued on 23 November 2020, that is, after a period of 02 years.

  This delay had experienced due to obtaining approval again under the Cabinet Decision No. 20/1403/328/001/TBR dated 29 September 2020 for the improvement proposed after discussing the matters again on the relevant contract. After the amendment, it was expected to complete the above contract by 23 July 2022. Nevertheless, the physical progress of this project as at 31 December 2021 was only 30 per cent.

- With the objective of achieving the North Eat Gateway Zone Concept, the Sri Lanka Government had signed a dollar credit line agreement with the Export Import Bank of India (EXIM Bank) on 10 January 2018 to obtained US $ 45.27 million to reconstruct the Kankasanthurai Port. Although it had been 04 years since the signing of agreement by 31 December 2021, constructions of the port had not been commenced. According to the information furnished to audit, issues on ownership of the relevant land had not been settled up to May 2020 and the clearance certificate on the security of the port could not be obtained up to that month. After the receipt of that certificate, the contract for the management and consultancy services had been awarded to an Indian company in October 2020. Although, renovation activities of the above contract were scheduled to be started in September 2021, renovations had not been initiated up to May 2022. It was expected to spend Rs.1,001 million for this project as per the Appropriation Act, 2021, whereas only Rs. 142.3 million was spent during the respective year. It had been 14.2 per cent of the expected capital expenditure. Similarly, out of the loan amount of US $ 45.27 million, only US $ 0.745 million had been spent as at 31 December 2021 and due to failure to utilize the funds, the Authority had to pay US $ 9,537.34 (Rs. 1.94 million) as Commitment charges on the unclaimed mount of the allocated loan to the EXIM Bank of India as per the Clause 7.1 of the loan agreement. It was observed as an uneconomical expenditure.

Grant of Rebates to the Shipping Agencies Contrary to the Terminal Services Agreements

In granting Volume rebates by the Sri Lanka Ports Authority to the shipping agencies, the Minimum TEU's to qualify for the rebates scheme is taken into account in respect of the shipping agencies that had entered into Terminal service agreements with the Sri Lanka Ports Authority and Volume rebates of Rs.26.95 million had been granted under the approval of the Board of Directors to a shipping agency that had TEU's level less than the Minimum TEU's to qualify for the rebates scheme in the year 2020.

Highway Sector

Subjects

- Ministry of Highways
- State Ministry of Rural Roads and Infrastructure
- Road Development Authority

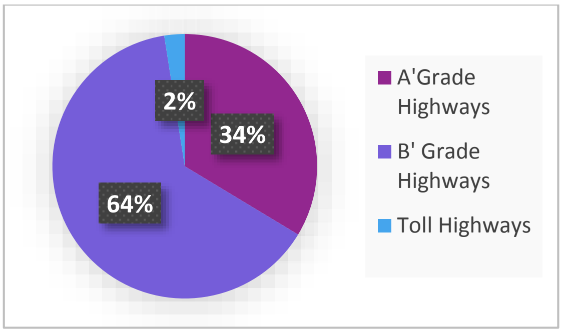
Highway Sector

The highway network is considered as one of the most valuable and vast social assets of a country and it has recognized as a very important element for social welfare in terms of economic, socio-cultural as well as environmental.

Accordingly, "Development of the transport network for an efficient and environment-friendly public transport system" has been identified as a basic requirement in order to remedy the disparity in urban and rural development by providing equal services and infrastructure to the economic sectors through the main policies of the government. The government is constantly making investments in order to improve the living conditions of the people living in the country, and a very high investment is being made in the highway sector as a whole in order to meet the growing demand for transportation needs. Accordingly, It has been observed that the investment made in this sector will generate a very high economic value due to the factors such as easy access for the passengers to their destinations, fuel savings, reduction of travel costs and reduction of traffic congestion by improving the country's road network including national, provincial and rural roads. The Ministry of Highways, the State Ministry of Rural Roads and Residual Infrastructure and the Road Development Authority should have performed the following tasks in order to achieve those goals according to the annual performance report of the year 2021.

- Preparation, implementation and coordination of policies, programs and projects related to road and highways and rural infrastructure ු subject and institutions affiliated to the Ministry, laws and ordinances.
- Taking necessary steps to improve and maintain the national highway system in an optimal condition so that people-centric economic and social development can be achieved by expanding rural, pre-urban and urban area connections.
- Highway Development, Toll Fixing, Collection and Regulation.
- Directing the coordination of programs and projects based on national policies on roads belonging to provincial councils and local government bodies.
- Supervising all institutions under the Ministry and carrying out activities related to all other subjects.

Sri Lanka's national highway network, including toll highways, was approximately 12,536 km by the end of the year 2021, it consists of 4,217 km of 'A' grade highways, approximately 8,007 km of 'B' grade highways, approximately 312 km of toll highways and 4,254 bridges. It had contributed to the social and economic development of the country through the development of all internal and rural access roads, as well as arrangement of facilities for providing wide access to the national highways and toll highway network, through many nationally important development projects in the year 2021.



National Highway Network of Sri Lanka

Ministry of Highways

The Parliament had provided an allocation of Rs. 358.3 billion under the Ministry of Highways in the year 2021, and only Rs.211.6 billion had been utilized by the end of the year under review. Figure 33 shows the amount of allocation received for the Ministry of Highways, utilizations and balance for the year 2021 and the previous 5 years.

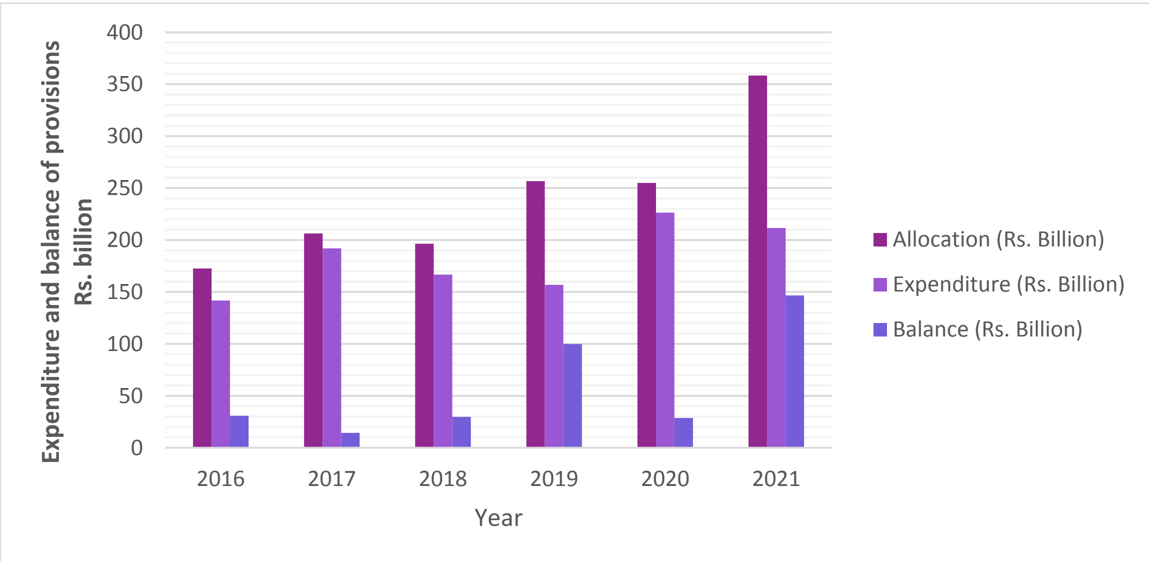


Figure 33 - Allocation and Utilization given to the Ministry of Highways during the last 6 years period
Source - Annual Performance Report - Ministry of Highways 2021

State Ministry of Rural Roads and Infrastructure

In order to meet the socio-economic development, transportation, communication and access needs of the Sri Lankan people, the Ministry of Highways has been entrusted with the role of formulating national policies and implementation strategies to improve and maintain the national road network, recognizing the need to develop a coherent road system and rural roads, and also, by giving priority to the development of other related infrastructures, creating a separate organizational structure to play a special role, the State Ministry of Rural Roads and Residual Infrastructure was established by the Special Gazette Notification No. 2187/27 dated 09.08.2020.

Also, the rural road development programs implemented under the Ministry of Highways are being implemented under the State Ministry through a broad vision and a targeted approach under the policy guidance of the Ministry of Highways. For that purpose, identifying, planning, implementing, directing and following up new projects and programs was expected to be done mainly by the State Ministry.

Accordingly, the State Ministry Rural Roads and Residual Infrastructure is expected to fulfill the following main objectives.

- To identify the necessary strategies for the development of rural roads, bridges and other related infrastructure.
- Introduction of new methodology technologies and machinery for rural infrastructure development.
- To promote and enhance employment and business opportunities in the rural community.
- Efficient development of rural roads, bridges and other infrastructure by identifying them according to priority.

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

- An allocation of Rs. 24,997 million was reserved for the rural bridge project and the rural road improvement project in the year 2021, and an additional allocation of Rs. 20,000 million was allocated by the Ministry of Highways under the project to complete 100,000 km of rural roads. However, Rs.8,381 million or 88 percent of the allocation of Rs. 9,500 million allocated for the rural bridge project had failed to be spent in the year under review, and out of the total allocation of Rs. 35,497 million allocated for the rural road improvement project, Only Rs. 7,018 million projects had been completed, which was only 19.6 percent of the total allocation. Further, out of 2839 km of planned roads, only 536 km had been completed, which was only 18.87 percent of the target.

- Rs.31.62 million were given to two institutions to identify the proposals received by the ministry for the construction of rural bridges on a priority basis through a scientific method, and although those institutions have identified 6,432 bridges that need to be constructed in 6 districts and submitted a report on the same, Out of those bridges, only 13 bridges have been selected for construction by 31 December 2021, so the money paid for the above two institutions had become an uneconomical expense.

Road Development Authority

- The total outstanding loan balance as on 31 December 2021 was Rs.359,479 million, which consists of local bank loans of Rs.268,313 million and debentures of Rs.91,166 million. That bank loan balance consists of licensed commercial bank loans of Rs. 245,103 million and licensed commercial non-bank loans of Rs. 114,376 million, and the state bank loan balance consists of Rs. 307,893 million and private bank loan balance of Rs. 51,586 million. Furthermore, out of these total bank loans, Rs.219,744 million had been rescheduled bank loans and issued debentures. From this loan balance, the amount to be paid between 2030 and 2039 is Rs. 239,857 million.

- The loan was taken for the 100,000 km road programme, the construction of the Central Expressway, the widening and upgrading of highways and the working capital requirements of the Authority, and the interest had been fixed at a maximum of 2 to 2.8 percent to the weighted primary loan rate. However, in obtaining all these loans, treasury guarantees were issued and for payment of loans and installments, treasury funds are provided to the authority through annual budget allocations.

- The total distance of A and B grade highway network belonging to the Road Development Authority was 12,225 km as at 31 December 2021,, of which only 26 percent, i.e. 3,179 km had been capitalized on that date. Accordingly, 74 percent of the total road network remained to be further capitalized.

- Action Plan for Integrated Road System Development and Maintenance to be prepared in terms of Section 4(3) of the National Thoroughfares Act No. 40 of 2008, Road System Development Consultative Council to be constituted in terms of Sections 6(1) and 7(1) of the Act and District Road System Development Coordinating Committees were not constituted by the Road Development Authority.

- The Road Development Authority, which is an institution with more than 13,000 employees spread across the island, does not have an approved recruitment procedure in the Management Services Department regarding the recruitment and promotion of employees. Also, regardless of the staff restructuring recommendations presented by the Department of Management Services in 2009, the salaries of 268 officers related to 23 positions were adjusted according to the wrong salary scales based on the decisions of the Board of Directors and payments were made accordingly.

- The assets of the Highway Operations and Maintenance Management Division were Rs. 824,859 million as at 31 December 2021, and the income and expenditure for the year ended on 31 December 2021 were Rs. 8,168 million and Rs. 3,638 million respectively. Although the Highway Operations and Maintenance Management Division met the criteria for identification as a separate segment from the rest of the Road Development Authority's operational units, the Authority's management did not identify and report the Highway Division separately from normal operations. Identifying the highways sector as a separate segment could result in higher performance through effective and efficient allocation of resources.

- 02 years had passed since the contractual period of the agreement reached between the Road Development Authority and the Bank of Ceylon for the collection of electronic tolls on the Colombo Katunayake Expressway. Accordingly, due to non-arrangement of a new agreement, the total amount of Rs. 12.4 million was deducted from the highway revenue as transaction cost for the years 2020 and 2021, which the bank did not have authority over. Also, because the 10 percent discount that was decided to be given only for the first 06 months to encourage the users of the electronic toll payment system on that road was also given after that, the authority had lost an income of Rs. 56.5 million in the years 2020 and 2021.

- Although the revenue earned from the highways should be used for the development and maintenance of the national highways for which tolls are charged, in addition to that, out of the revenue of Rs. 61,435 million from the highways, Rs. 18,473 million for payment of value added tax, Rs. 4,052 million for pay loan installments, 9,895 million for salary related payments of the Authority, Rs. 10,713 million for the payment of salaries and allowances for the employees of the Road Development Authority, 3,402 million for general expenses and payments to projects And Rs. 650 million for providing facilities to the officers of the police department, a total of Rs. 47,185 million had been spent as on 31 December of the year under review.

- According to Section 133 of the Companies Act No. 07 of 2007, a company should hold the annual general meeting of shareholders once every year, but none of the companies administered by the Road Development Authority had done so.

- The Road Development Authority and the Line Ministry had not intervened to introduce a formal framework or guidelines in the relevant fields in order to create formality and uniformity in the financial, administrative, procurement and operational activities of the companies.

- Expressway Transport (Private) Limited Company, a subsidiary of the Road Development Authority, has not submitted its financial statements for audit till now after the financial year 2015.

- Although the financial statements of the authority state that the Road Development Authority owns 99 percent of the shares in Maganeguma Emulsion (Private) Limited which a Company administered by the Road Development Authority, the financial statements of the Company state that the Road Development Authority and another private party each own 50 percent of the company's shares. Furthermore, although the financial statements of the authority state that an investment of Rs.01 million was made, which was not confirmed by a share certificate issued by the company, the financial statements of the relevant company show an investment value of Rs.100 and the rest as a loan given to the company by the authority. Also, the authority did not have a representation corresponding to the percentage of 99 percent in the board of directors of the company.

- Although the Project Management Unit of Central Expressway Project Section 04 was commissioned in the year 2016, the civil works of the project had not been started by the end of 28 February 2022 due to poor planning of priority projects. However, Rs.448.87 million had been spent on the Project Management Unit till 31 December 2021.
- Although the Project Management Unit for Central Expressway Project Section 3 was established in the year 2013, after a long delay, the civil works of the project were not started until 20 August 2021 when 3 contracts were awarded for a 2.25 km road section and Rs.833.83 million had been spent on the Project Management Unit till 31 December 2020.

- Under the 100,000 Km Rural Road Development Programme, 71,468 rural road projects covering 53,517.39 Km had been identified for development by 31 December 2021. The estimates had been prepared for 16,705 road projects totaling 24,785.04 km as at that date, of which contract awards for 11,595 road projects with a contract value of Rs.356.44 billion had been completed. An expenditure of Rs.92.25 billion had been incurred on this program as at 31 December 2021, and further bills of Rs.15.65 billion had to be paid.

- Highway Schedule of Rates (HSR) and specifications used for highway development were used in road development under the 100,000 Km Rural Road Development Programme. However, since most of the road developments carried out under the said program are rural road developments, it is not economical and effective to use the highway rates and specifications for that, so the specifications for the rural roads should have been prepared and followed.

Electricity Sector

Audit Observations

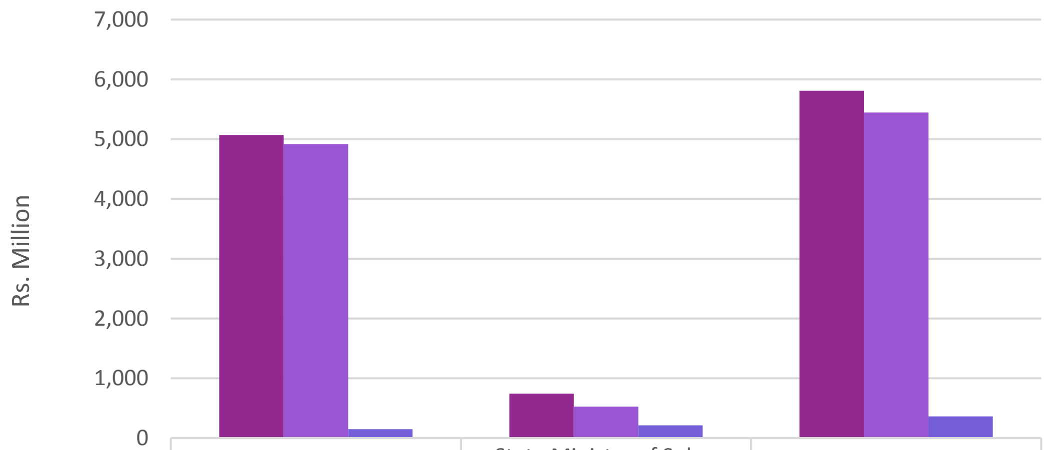
- Construction of the Moragolla Hydro Power Station with the Capacity of 31 MW
- National Transmission and Distribution Network Development and Efficiency Improvement Project
- Broadlands Hydro Power Project
- Performance of Foreign Aid Projects
- Management of Assets
- Management Weaknesses
- Low Supply of Coal
- Non-vesting of Assets
- Non-recovery of Moneys recoverable from Lanka Coal Company (Private) Limited
- Purchase of Electricity from Producers without Generation Licences
- Release of Employees to other Institutions
- Non-payment of Interests on Deposits owned by Consumers
- Determination of Standardized Charges for Non-Conventional Renewable Energy Projects (NCRE)
- Long Term Generation Expansion Plan
- Recovery of Debtors Balances
- Payment of Salary on a Draft Joint Agreement
- Implementation of the Seethawaka Hydropower Project
- Maintenance of the Lakvijaya Power Plant
- Payment on Avoided Cost Method
- Payment of Employees' Allowances
- Payment of Bonus

Electricity Sector

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 08 statutory boards/institutions functioning under the Ministry.

- Providing policy guidance to relevant State Ministry and formulating policies in relation to the subject of power, in conformity with the prescribed Laws, Acts and Ordinances for "Assuaring low-cost power generation and efficient distribution" based on the national policies implemented by the Government in accordance with the policy statement "Vistas of Prosperity and Splendour"
- Implementation of projects under National Budget, state investment and National Development Programmes
- Formulating, implementing, monitoring and evaluating policies, programmes and projects related to subjects functions under the institutions coming under the Ministry
- Developing a Smart Grid to ensure maximum efficiency and utility of the power generated
- Equilibrating the mix of renewable energy power plants, thermal power plants and natural power plants and thereby reducing the cost of power generation and eliminating uncertainties that may occur
- 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

In order to carry out the said functions, provision totalling Rs. 5,808 million had been made by Parliament in the year 2021 to the Ministry of Power and the State Ministry functioning under the said Ministry and out of that, only a sum of Rs. 5,445 million had been utilized by the end of the year under review. Details appear in Figure 34.



	Ministry of Power	State Ministry of Solar, Wind and Hydro Power Generation Projects	Total
Provision Rs. Million	5,067	741	5,808
Expenditure Rs. Million	4,918	527	5,445
Savings Rs. Million	149	214	363

Figure 34 – Net provision made and Actual Expenditure

Source - Annual Financial Statements – 2021

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.18,809 million and a sum of Rs.14,851million of that, had been received from the Asian Development Bank. The physical progress thereof had been 30 per cent by the end of the year 2021. 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 substations in Western, Central and North Central Provinces and to reducing the transmission loss, had been Rs. 37,285 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 48 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. A sum of approximately USD 1,197,199.67 had been paid as commitment charges to the Industrial and Commercial Bank of China by 16 December 2019 on behalf of this project due to improper utilization of the loan amount of this project and this project had been connected to the National Power Grid.

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. 1,980 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 2021 and thus, no physical progress of the project had been reported.

Management of Assets

In terms of the Assets Management Circular No. 02/2017 of 21 December 2017, it is emphasized that each Government agency should have registered ownership for each of the Government owned vehicles used by them. However, 19 vehicles valued at Rs. 227.7 million out of 42 vehicles valued at Rs. 365.7 million included in the financial statements of the Ministry of Power as at 31 December 2021 were not physically available with the Ministry.

Management Weaknesses

- Matters such as reducing the Long delays encountered in renewable energy development through a centrally coordinated project approval process to enhance the share of the renewable energy and introducing the effective forecasting technologies for wind, solar and rainfall for optimal use of renewable resources, were set out in the National Energy Policy and Strategies of Sri Lanka. However, adequate measures had not been taken therefor even by the end of the year under review.

- The responsibility of realization of targets and likely timeframes associated with expected policy intents and the said policy intents, has been assigned to each institutions through the Results Delivery Framework included in the National Energy Policy and Strategy Statement. Accordingly, the Ministry of Power should have been accomplished targets and milestones such as studying and documenting the feasibility of cross border electricity transfer with countries in the region by the end of the year 2021 to assure the energy security and to enhance the share of renewable energy, establishment of a high-level standing committee to be titled as 'Energy Sector Risk Assessment Panel' with sufficient representation from key sectors by the end of the year 2019 to assess possible internal and external contingencies that could critically affect the performance of the energy sector and introducing and implementing a lighting standard for street lighting, to cater to rural, urban and major road illumination including other public space lighting requirements on a mandatory basis within the year 2020. However, it was observed that those responsibilities had not been accomplished in an adequate manner.

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 seven 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.

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 02 August 2021.

Non-recovery of Moneys recoverable from Lanka Coal Company (Private) Limited

A sum of Rs.714.96 million recoverable from the Lanka Coal Company (Pvt) Ltd. to the Ceylon Electricity Board for the coal shortage had remained unrecovered for over a period of 05 years without taking any action to recover them.

Purchase of Electricity from Producers without Generation Licences

Contrary to provisions in Sections 7(1) and 43(1) of Sri Lanka Electricity (Amendment) Act, No. 20 of 2009 and without the approval of the Commission, the Ceylon Electricity Board had spent a sum of Rs. 6.02 billion to purchase electricity of 261.32 GW from three independent power producers who had not obtained generation licences.

Release of Employees to other Institutions

Contrary to Section 3.5 of the Operational Manual for State owned Enterprises issued by the Department of Public Enterprises, a sum of Rs.105.22 million had been paid by the Board during the year 2021 as salaries and other payments for 65 employees released to the Line Ministry and to the Provident Fund of the Board.

Non-payment of Interests on Deposits owned by Consumers

In terms of Section 28(3) of the Sri Lanka Electricity (Amendment) 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, the interest paid thereon was of Rs.1,357.60 million and as such, the accumulated interest payable as at 31 December 2021 was Rs.8,089.50 million.

Determination of Standardized Charges for Non-Conventional Renewable Energy Projects (NCRE)

According to Sri Lanka Electricity (Amendment) Act, No.20 of 2009, charges determined as per procurement procedures instead of standardized charges should be adopted for Non-Conventional Renewable Energy Projects (NCRE) after 06 August 2013. However, only 7 procurements with a total capacity of 390 MW had been commenced for NCRE Projects up to 31 December 2021. Further, of the said power plants with a capacity of 390 MW, only 49MW power plants with a total capacity of 49 MW were operated as at 31 December 2021.

Long Term Generation Expansion Plan

- According to the Long Term Generation Expansion Plan 2018-2037, it had been planned to implement new generating power plants with a capacity of 500 MW, 657 MW, 430 MW and 445 MW in the years 2018, 2019, 2020 and 2021 respectively. However, only power plants with the capacity of 661.6 MW out of new capacity of 2,032 MW planned to be implemented, 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, purchase of additional electricity of 267.17 GW Hours valued at Rs.6.54 billion had been made during the year 2021.

- When an average price of a unit is Rs.16.37, the cost of a unit of energy purchased in the year 2021 from three power plants of retired independent power producers and from an additional power plant with a capacity of 24 MW had been Rs.21.75 Rs.25.26, Rs.24.97 and Rs.88.85

respectively. In case power plants are operated as per the Long Term Generation Expansion Plan with a minimum cost to meet the demand to the maximum instead of using urgent power plants at a high cost, there is a possibility of reducing the high cost incurred for the purchase of electricity.

Recovery of Debtors Balances

Out of the trade debtors balance amounting to Rs.44,079 as at 31 December 2021, loan balance of RS.6,839 million relating to ordinary and bulk supplies had remained unrecovered for over a period of one year and out of that, a sum of Rs.2,928 million had remained unrecovered for over a period of 05 years.

Payment of Salary on a Draft Joint Agreement

The Board had increased the employees' salary by 25 per cent in the year 2021 based on draft joint agreements which was not become a legal document due to failure in signing those agreements by relevant parties, viz. employers and sevaka sangam. Accordingly, the adverse impact on the Board due to the said unauthorized payment was approximately Rs.9.6 billion.

Implementation of the Seethawaka Hydropower Project

According to the Long Term Generation Expansion Plan 2018-2037, the Seethawaka Hydropower Project should be implemented by 2022. The Project Management Unit has been established in September 2016 and activities such as feasibility study, detailed planning and preparation of draft tender documents were carried out. An expenditure totalling Rs.301.19 million had been incurred by this Project at the end of the year 2020. However, the Board of Directors had decided at its meeting held on 20 December 2020 to terminate the project. Further, it had been decided at the meeting held on 23 February 2021 to obtain the Cabinet approval to develop this project through Sri Lanka Energies (Pvt) Ltd. and to award this contract as a "Single Source Procurement" to the said Company. Moreover, as this expenditure incurred for the above mentioned activities, cannot be used by another investor, it was observed that there is a risk of recognition of a sum of Rs.301.19 million spent by the Project, as an expenditure of Board.

Maintenance of the Lakvijaya Power Plant

According to the Register on Trainings submitted by the Chaina Machinery Engineering Corporation (CMEC), maintenance period at Level A should be the period from 4 years to 6 years for the maintenance of operations of equipment, comprehensive dissembling inspection for the recovery or improvement of the unit and for repairs. However, it was observed that the maintenance at Level A for the Units 02 and 03 of the Lakvijaya Power Plant had not been carried out despite having lapsed of 7 years from the date operation of the said Units. Moreover, 14 breakdowns relating to Units 02 and 03 of the Lakvijaya Power Plant had occurred during the year 2021 and thereby, a loss of 663,510 MT of energy, was further observed.

Payment on Avoided Cost Method

Even though the determination of price for mini hydro power plants should be done on the actual cost, price for certain mini hydro power plants had been determined based on the avoided cost method and there is no connection whatsoever between this method and the actual cost of a mini hydro power plant. The avoided cost method is based on the dispatch of thermal power plants and it varies with fuel cost. According to the Letter No. DGM/SYC/TCH/41 of the DGM (System Control), the average cost per unit of a hydro power plant should be less than Rs.10 and according to the reports on statistics, the cost per unit of a hydro power plant of the Board was Rs.2.49 in the year 2020. However, according to the Avoided Cost Method, the said cost of mini hydro power plants for the year 2021 had been Rs. 19.11 and Rs.20.59 in wet and dry seasons respectively.

Payment of Employees' Allowances

The Board has paid various allowances from time to time to the staff on the approval of the Board of Directors. However, contrary to a decision taken by the Cabinet on 14 November 2007 and the decision No. BM/2021/22/01of the Board of Directors, payment of allowances to 233 employees had exceeded 65 per cent of their salary.

Payment of Bonus

Contrary to Section 5.1 of the Operational Manual for State owned Enterprises dated 21 November 2021, the Board was running at a loss. However, bonus of Rs.2.7 billion had been paid in the year 2021 based on the draft joint agreement.

Energy Sector

Audit Observations

- The performance of the Ministry of Energy
- The development and rehabilitation of Trincomalee Tank Farm
- The modernization and expansion of the Sapugaskanda Oil Refinery
- Establishment of a Fuel Storage Facility in the Northern Province
- Polipto Lanka Company
- Failure to perform regulatory functions properly
- Management of Special project
- Projects implementation
- Losses and damages
- Human Resource Management
- Local Petroleum Market
- Financial Results and the Position of Net Assets of the Ceylon Petroleum Corporation
- Hedging Transactions
- Storage and Distribution Facility of Petroleum in Sri Lanka
- Intercompany balances and agreements
- Collection of Monthly Utility Fee (MUF)
- Major Shutdowns and Maintenance of the Refinery – Year 2021
- Ship to Party (SPS) Fuel Distribution Method
- Dealer Commissions
- The Common User Facilities
- Use of ERP System (SAP)
- Non-Compliance to the Public Enterprises Circulars
- Non availability of a formal monitoring process over terms and conditions of the Settlement Agreement
- Non-availability of written Agreements
- Fuel Distribution
- Use of bowers on hire basis for fuel distribution
- Capital Projects
- Employee Loans

Energy Sector

There are 03 statutory boards/Institutions under the Ministry of Energy namely Ceylon Petroleum Corporation, Ceylon Petroleum Storage Terminal Limited and Sri Lanka Petroleum Development Authority and the following duties and functions had to be performed.

- Formulation of policies pertaining to the subject of Energy in accordance with the stipulated Laws and Acts.
- Under the guidance of the Minister in charge of the subject, submitting Cabinet Memorandums and Bills relevant to the subject of Energy to the Cabinet of Ministers and the Legislature respectively, and follow up the procedure thereof.
- In accordance with the national policies and laws accepted by the Government, operation of sectorial policies and plans, utilization of financial provisions to maximum productivity and supervision.
- Timely updating the Vision, Mission and Objectives of the Ministry within the national policies, focusing the requirements of the people
- Determination of the optimum staff required for implementing the purview of the Ministry and vesting of responsibility in certain manner to the staff attached to the various institutions/ divisions.
- Guiding and supervising the Corporations and other institutions under the Ministry so that their Vision and Mission are achieved.
- Ensuring that the administrative functions, accounting procedures and procurement matters of the Ministry and all institutions under it are carried out in accordance with the laid down standards and assisting the audit procedure.
- Simplifying the regulations, permits and licenses relevant to the energy sector in a people friendly manner and the efficient performance and regulation of people centered functions.

In order to carry out the said functions, provision of Rs. 274 million had been made by Parliament in the year 2021 to the Ministry of Energy and out of that, only a sum of Rs. 228 million had been utilized by the end of the year under review. Details appear in Figure 35.

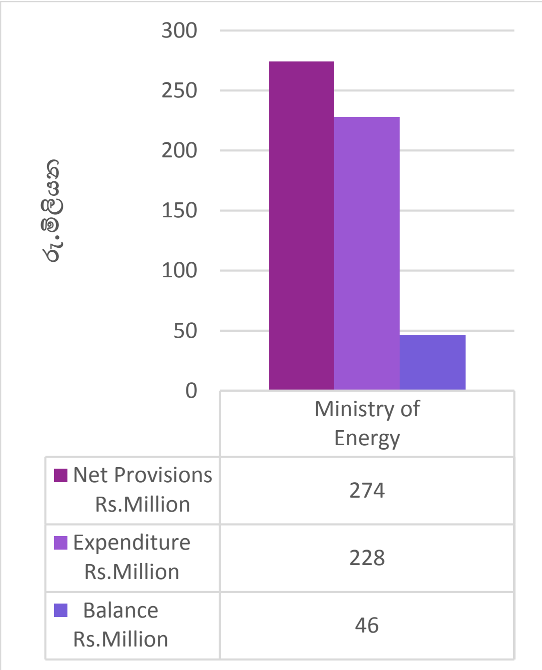


Figure 35 – Net provision made and Actual Expenditure

Source - Annual Report 2021

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.

The performance of the Ministry of Energy

Although it is the responsibility of the Ministry of Energy to formulate, follow-up and evaluate policies programs and projects in order to ensure the quality of fuel supply and create reliability, sufficient evidences were not made available to the audit that a proper program had been introduced and was being implemented by the Ministry covering both the main oil market players in Sri Lanka of the Ceylon Petroleum Corporation and the Lanka Indian Oil Company.

The development and rehabilitation of Trincomalee Tank Farm

The Tank Farm which the attention of the whole world is focused in terms of geographical location contained of 100 Oil Tanks, each having a capacity of 12,500 cubic meters (m^3)(10,000 MT) and other associated facilities, had been constructed in Trincomalee in 1930.

Out of a total of 99 existing tanks, 14 tanks in the lower section are used by Lanka Indian Oil Company. Although the initial decision-making activities for the modernization of the 84 tanks in the abandoned upper section had been started on 29 April 2015, the necessary activities for the development and rehabilitation of the tank complex had not yet been carried out. Although the Ceylon Petroleum Corporation and the Lanka Indian Oil Company had established a joint company, named Trinco Petroleum Terminal (Pvt) Ltd, in connection with an agreement related to the development of the Trincomalee Oil Tank Complex, no any development plan had been prepared yet for that purpose.

The modernization and expansion of the Sapugaskanda Oil Refinery

In 2011, Even a feasibility study report regarding the modernization and expansion of the Sapugaskand oil refinery and the establishment of a new refinery considering the local needs had given by an expert committee, it was unable to modernize and expand the existing oil refinery or establish a new refinery up to date.

Establishment of a Fuel Storage Facility in the Northern Province

A storage facility for the Northern Province had not been established from the date where the Ceylon Petroleum Storage Terminals Limited (CPSTL) was informed by the Cement Corporation in the year 2011 that the oil storage facility situated in Kankasanthurai be shifted from that location. Further, according to the Cabinet decision of dated 19 October 2016, even the approval had been granted to use existing storage facility by renovation and expansion till a suitable land is found, the project had not been completed up to date.

Polipto Lanka Company

Polypto Lanka Company is under the Ministry of Petroleum Resources Development which was established under the Central Environment Authority in 2008. The factory is located in Horana and its main function is to produce fuel using plastic and polythene solid waste and it owns 60 percent to the Ministry, 30 percent to the producer and 10 percent to the Petroleum Resources Research Faculty of the University of Moratuwa. This company is currently inactive, and the investment of over 80 million in assets and other facilities provided by the government, as well as the investment of the relevant investor, was observed as an unprofitable transaction without proper results. Also, no evidence was presented to the audit that the Ministry has any formal program to activate and operate this company effectively.

Failure to perform regulatory functions properly

The main objective and task of the Ministry of Energy to formally regulate the activities of fuel supply chain in order to ensure the quality and reliability of fuel supply. These regulatory tasks include ensuring that the importation, refining, storage, distribution, etc. of petroleum oil, bunkering oil, bitumen, lubricant, etc. related to petroleum products to Sri Lanka under proper management, ensuring that precise standard products are continuously provided to the customer at a reasonable price, promoting research activities on building standards for petroleum-related products, adding chemicals, new methods of measuring storage capacity, fuel coloring, etc.

- Even though standards for petroleum-related petrol, diesel and kerosene had been prepared by the Sri Lanka Standards Institute, the Ministry had not yet established a formal program to mandate the adoption of those standards in Sri Lanka. Furthermore, an authorized agency had not been established to check the standards the fuel in Sri Lanka and the ministry was unable to prepare a formal program for it.
- According to the Cabinet decision No. අමප/16/1576/19/06 dated 31 August 2016, as a joint proposal of the Ministry of Petroleum Resources and the Ministry of Finance, a fully equipped petroleum research laboratory had been established at the Institute of Industrial Technology in order to set up a laboratory that can be facilitated for laboratory tests of petroleum products by an independent third party in terms of the Public Utilities Commission. However, evidences were not made available with audit to ensure whether the Ministry has taken steps to get that technical assistance or come to an agreement or memorandum of understanding with that institution. Accordingly, the Ministry has failed so far to properly utilize the facility to conduct laboratory tests on petroleum products by an independent third party, and as a result, the said petroleum research laboratory has been underutilized/idle for a longer period.
- It was unable to ensure that there is an information system in the Ministry that provides timely information on the country's demand situation for each petroleum product, exchange requirements, other import and production priorities of the country, etc., with formal and inter-connection with other institutions, and on which evaluations can be made. Accordingly, it is problematic whether approvals and regulatory activities are carried out in the respective fields by appropriately identifying the priorities with the needs of the country.

- Bunkering and Issuance of operating License

  According to Schedule 1 of 07 and letter No. DEVF/6/1/23(II) dated 15 February 2022 of Additional Secretary to the Ministry of Energy, a statement of their monthly bunkering activities of the authorized persons in written for bunkering business must be submitted to the Ministry on or before the 18th day of the next month. Nevertheless, in the year 2021, 13 companies with written authority had not regularly submitted reports on monthly bunkering activities to the Ministry, and among them 05 companies had not submitted any reports. Further, action had not been taken by the ministry to collect the charges of late payment over Rs. 180,000 in relation to 08 institutions that did not submit reports on the due date and had not taken any action against those institutions up to date.

- Importation and regulation of Bitumen Business

  According to the Circular No. 2018/01 dated 07 February 2018 of the Secretary to the Ministry of Petroleum Resources Development, bitumen importers should submit quarterly reports to the ministry regarding the import of bitumen. However, the ministry had not taken steps to collect quarterly reports from the importers for the years 2020 and 2021. Furthermore, the Ministry had not taken any action against the institutions that did not submit quarterly reports as scheduled.

Management of Special project

- Cairn Lanka (Pvt) Ltd., which was selected for oil exploration in the M2 exploration area of the Mannar Basin following an international bid in 2007, discovered two natural gas deposits during excavations in 2011. The company terminated its research activities in the Mannar Basin and concluded the contract on 15 October 2015. In addition, IHG Global Limited had been selected by international competitive bidding in 2016 to launch exploration activities and marketing campaigns for the commercial production of natural gas, and US Doller 300,000 or equal to Rs. 46,610,853 at exchange rates prevailing at that time had been incurred from December 2016 to August 2018 to launch a marketing campaign. However, the Ministry has failed to carry out exploration of this land or to formulate a formal program for the commercial production of natural gas from the identified deposits.

- The Ministry has failed to take the necessary steps to expedite the completion of the Gravity and Magnetic Survey Data Collection Project in the vicinity of the Mannar

Basin which was launched in 2012. According to the agreement entered with Bell Geospace on 15 August 2019, its activities had to be completed by 2020. However, evidences that the work had been completed had not yet been submitted to the audit.

- The Petroleum Resources Development Secretariat had signed an agreement with the National Aquatic Resources Research and Development Agency on 30 September 2015 to launch an island wide project for the collection of maritime environmental data, targeting maritime areas of Sri Lanka. By 28 September 2018, NARA had been paid a sum of Rs. 37,165,283 being the total contract cost of this project. However, due to the lack of trained officers who could operate the data system with a proper understanding of data and due to the lack of necessary infrastructure, it was not possible to establish and formally utilize the web server machine containing this data up to date.

Projects implementation

- The estimated cost to commence the operation of regional flights and development of the Palali Airport was Rs. 575 million. According to the Cabinet approval No. 18/1229 dated 06 June 2019, the project was expected to complete the construction of the terminal at the end of the second quarter of 2020, and in the year 2021, it was targeted to invite for bids to purchase storage tanks and distribution modules, materials/equipment for fuel stations, etc., to import and was aimed at installing equipment at the airport. However, in the year 2021, these tasks had not been completed and the progress of the overall project was about 3 percent.

- For the construction of warehouses at Colombo port Rs. 75 million was estimated, for which in relation to the year 2021 Rs. 39 million had been allocated. Although 40% of the construction work was targeted to be completed in the year under review, the project had not yet been started.

- Forty (40) million dollars was estimated to construct a Re-gasified Liquefied Natural Gas (R-LNG) pipeline from the Floating Storage Reprocessing Unit (FSRU) located about 5 km from the Kerawalapitiya coast to the Kerawalapitiya and Kelanitissa power plants. It's progress reported was less than 5 percent in the year 2021.

Losses and damages

As at 31 December 2021, at least 4 years had elapsed a total of 17 accidents amounting to Rs. 1,064,226, had been reported as ongoing losses and omissions. No action had been taken to recover the loss or write off the books in accordance with Financial Regulation 104.

Human Resource Management

- At the end of the year 2021, the approved cadre of the Ministry was 93 and, on that day, the actual cadre was 70. Accordingly, there were 23 vacancies including 07 senior level officers. Details are shown in Table 23.

Employee Type	Approved Cadre	Actual Cadre	Number of Vacancies	Number of vacancies as a percentage of approved Cadre
Senior level	20	13	07	35
Tertiary level	03	01	02	67
Secondary level	47	35	12	26
Primary Level	23	21	02	9
Total	**93**	**70**	**23**	**25**

Table 23 : Cadre Information of The Ministry of Energy

- Vacancies persisted at all levels, including senior staff ranks, tertiary and secondary levels, due to the inability to maintain a realistic level of service and to conduct a timely review of staffing.

- Granting necessary approvals for the operating the businesses of lubricant, Bitumen, Bunkering, etc... and basic regulatory work in respective sectors is carried out by the Ministry. Although a staff consisting of professional officers with specialized technical knowledge related to each subject is essential for the control and regulation of these fields, it was observed that there were no such professional officers in the Ministry and that the organizational framework has not been prepared to enable the formal performance of these tasks.

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 2021. A sum of US $ 3,465 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 2021 had increased up to US $ 68.86 by 51.1 per cent as compared with the price of the preceding year amounting to US $ 45.57. The refinery product of the Ceylon Petroleum Corporation had dropped by 24.7 per cent due to shut down the Sapugaskanda refinery in various times in the year 2021 whilst the imported refinery output had increased by 75 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 loss of Rs. 18,554.53 million in the year under review while the said loss was a decrease of Rs. 73,805.39 million as compared with the gross profit of Rs. 55,250.86 million reported in the preceding year. Furthermore, a before-tax net loss of Rs. 82,208.12 million had been reported in the year under review whilst a profit of Rs. 2,370.96 million had been sustained in the preceding year. The before-tax profit of the Corporation had decreased by Rs. 84,579.07 million as compared with the preceding year while the unfavorable situation caused by the fluctuations in the exchange rates of Rs. 21,840.76 million prevailed during the preceding year had increased to Rs. 33,220.08 million by Rs. 11,379.32 million in the year under review.

According to the financial statements of the year under review presented to Audit, the value of trade debtors totalled Rs. 161,079.76 million as at 31 December 2021 indicating an increase of 14.16 per cent as compared with the value of trade debtors for the preceding year amounting to Rs. 141,103.47 million. The debtors balance of the year under review comprised of debtors from public sector totalling Rs. 146,955.21 million and debtors from the private sector totalling Rs. 14,124.55 million. Of that, the sums recoverable to the Corporation from the Ceylon Electricity Board and Sri Lankan Airlines were amounted to Rs. 83,031.65 million and Rs. 62,111.12 million respectively.

The negative net assets of the Corporation which was Rs. 275,208.58 million (Revised) in the preceding year, had increased up to Rs. 357,504.43 million by Rs. 82,295.85 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 36.

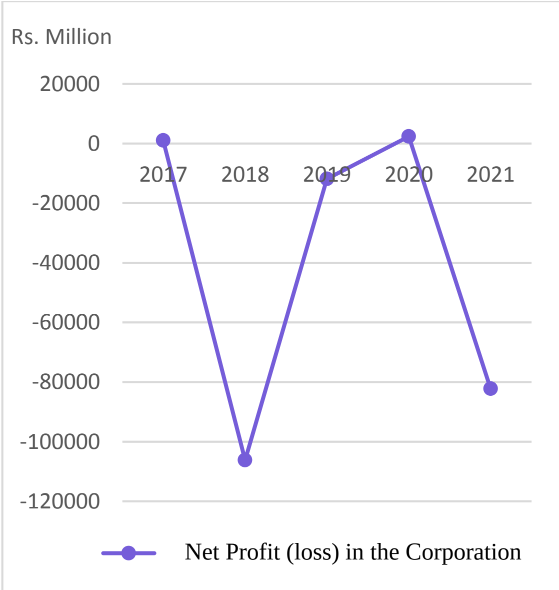


Figure 36 : Financial results of the Ceylon Petroleum Corporation in the year under review and for the last 5 years

Source - The Financial Statements of the Ceylon Petroleum Corporation -2015-2020

Hedging Transactions

As per the audit examination carried out pertaining to the hedging transactions taken place in respect of procurement of oil during the period of 2007 to 2009, the total loss incurred to the country on those transactions as at 31 December 2021 had been Rs. 14,028 million. Moreover, the Commercial Bank had filed a case at the Commercial High Court, Colombo against the Corporation by claiming US$ 8,648,300 and the case was pending till the end of the year 2021.

Storage and Distribution Facility of Petroleum in Sri Lanka

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 while Ceylon Petroleum Corporation 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, 4 main pipelines are currently being used to transport fuel and bowsers and railway wagons are being used to transport fuel across the land. Accordingly, A report in relation to the special audit was 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 (Special Audit Report on the Storage and Distribution of Petroleum in Sri Lanka) had been presented to the Parliament on 28 August 2028, where the following matters were also brought to Parliament's special attention.

- 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, 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 had been 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 was revealed 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 had also been observed that it has led to increased environmental damage and increased risk of traffic congestion.

- This report had 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 storages have 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 up to the date. 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.

- However, it was not yet revealed that the Ministry, the Ceylon Petroleum Corporation or the Ceylon Petroleum Storage Terminal Limited have duly and expeditiously evaluated the said observations and recommendations and taken appropriate actions in order ensure the smooth operation of the energy sector.

Intercompany balances and agreements

It is very essential to properly supervise and guide the activities of subsidiaries established by a public corporation for a specific purpose. However, it is observed that Ceylon Petroleum Corporation has not formally reviewed the affairs of its subsidiary company, Ceylon Petroleum Storage Terminal Limited. Even though according to the paragraph 4.2.3(b) of Public Enterprises Circular No. PED/12 dated 02 June 2003, the board of directors of the parent company shall review at least once in six months the performance of its subsidiaries and prepare a performance report and forward that report to the Department of Public Enterprises, had not done so. And the corporation had no proper knowledge about the decisions taken by the board of directors of the said company. For example; The business of supplying fuel to ships, which is a major business activity carried out by the corporation, had been implemented according to a decision of the board of directors of the subsidiary, but the corporation had not been informed about it. Also, significant differences were observed between the current accounts of the two parties for a longer period due to the lack of formal coordination between the two institutions regarding inter-company transactions. A difference of 692.47 million was observed at the end of the year under review

Collection of Monthly Utility Fee (MUF)

According to the Board Decision No. 38/1140 dated 29 October 2013, the Board had approved to charge a Monthly Utility Fee (MUF) from all Corporation Owned Dealer Operated (CODO) Filling Stations and Treasury Owned Dealer Operated (TODO) Filling Stations with effect from 01 January 2014. However, this decision had not been fully implemented, and accordingly, the loss of income for the year under review was Rs. 510.223 million and the accumulated loss of income as at the end of the year under review was Rs. 3,557 million. However, no adjustment was made in this regard in the financial statements of the corporation in the year under review. As a result, the net income for the year under review and the current assets and accumulated income/retained earnings as at the end of the year under review had understated by similar amounts respectively. Even though the Managing Director had informed to the Board that collection of MUF had been initiated with the effect from 01 July 2022, no any actions had been taken to recover the accumulated Rs, 3,557 million up to date.

Major Shutdowns and Maintenance of the Refinery – Year 2021

The major refinery shutdown and maintenance of refinery of the Ceylon Petroleum Corporation of the year 2021 had been carried out from 15 February to 21 March 2021. During the relevant period, the arrival and departure records were not maintained as required and the allowances related to the refinery shutdown had been calculated and paid based on inconsistent arrival and departure dates. Further, shutdown allowance of Rs.42.6 million and lieu leave allowance of Rs. 5.963 million had been overpaid contrary to the internal circular No. RRM/03/2021 of the Refinery Function

Ship to Party (SPS) Fuel Distribution Method

A commission is paid to the dealers when the corporation distributes petroleum products through dealers and no commission is paid in case of direct sales to the consumer. In addition to these methods, the management had implemented a system called Ship to Party (SPS) to distribute fuel directly to consumers by giving commissions to selected dealers since 2008. The audit did not make clear the basis for operating such a system of fuel distribution by paying agents an additional commission when the corporation has the ability to sell directly to the consumer. According to the information provided to the audit, 5 selected dealers had been paid an additional commission of Rs.132.453 million in the year 2021, due to the distribution of fuel under this system.

Dealer Commissions

According to the decision of the Board of Directors dated 30 July 2019, to rule out the negative impact on the corporation and the distributors due to the fluctuation in the amount of commissions (Dealer Commissions) paid to distributors due to the influence of domestic market price fluctuations of petroleum product, the percentage of commission was determined subject to the upper and lower limits (Upper and Lower Cap) as shown in the diagram below.

Description	Octan 92 Petrol Rs.	Octan 95 Petrol Rs.	Lanka Auto Diesel Rs.	Lanka Super Diesel Rs.
Upper Limit (Upper Cap)	162.00	170.00	121.00	145.00
Lower Limit (Lower Cap)	117.00	128.00	95.00	110.00

- Although the prices of local petroleum products have increased rapidly due to the economic crisis caused by the current foreign exchange deficit in the country, due to the negligence of the corporation, the commissions were paid to the distributors without considering the upper limit (Upper Cap). Accordingly, several distributors had filed a lawsuit against the recovery, in seeking to recover the overpaid commission from them, and they had also obtained enjoining order to maintain a status-que from the court. Then, on 15 July 2022, the Honorable Court quashed the injunction order and pursuant to the resolution given that the Board of Directors has the power to decide the commissions paid to the distributors. Accordingly, the corporation had commenced to implement the decision from 17 July 2022. However, the chairman of the corporation had arranged to pay commission to the distributors regardless of the upper limit from 26 July 2022, subject to the approval of the board of directors. However, it was unable to ensure that the approval of the board of directors had been obtained so far. Accordingly, the corporation, which is facing a crisis in obtaining the amount of rupees required to procure dollars for the import of petroleum, contrary to the above board of directors' decision, the overpaid dealer commission by 15 September 2022 had been exceeded over Rs. 6,500 million

- According to the information received in the audit, it was observed that, due to the economic crisis in the country, the daily supply of fuel to the dealers by the corporation has limited to two-thirds (2/3) of the normal petroleum supply (through the QR system). Despite that, as per the decision of the Board of Directors, the actual commission payable on 26th July 2022 was Rs. 30.7 million, and regardless of that decision Rs. 98.6 million had been paid. As such the overpaid commission in one day was Rs. 67.9 million and the overpaid commission in one month from that date had been exceeded over Rs. 1,960 million. Accordingly, the impact may arise due to the commission payment regardless of the upper limit, even in a setting where the daily petroleum supply is limited is given below.

	Per Day Rs. Million	Per Month Rs. Million	Per Year Rs. Million
Payment of Commissions for Dealers			
Payable as per approved basis	30.7	921	11,052
Actually Paying	98.6	2,958	35,496
Excess	67.9	2,037	24,444
Excess as a percentage to the approved Commissions	221	221	221

As mentioned above, it was observed that the amount of commission to be paid in excess may more than four times of the total cost of employees (including refinery employees) including overtime, allowances, bonuses and all other allowances paid to the employees of Ceylon Petroleum Corporation and that is equivalent to the cost of building over 400 new petrol sheds (excluding land) in a year.

- The information in relation to the payment of dealer commissions including the commissions paid by corporations for bitumen, lubricants, agro products and public sector customers during the last five-year period is given below.

Year	Rs. Million
2017	10,995
2018	13,541
2019	14,132
2020	12,402
2021	14,486
Estimation for next 12 months	**35,496**

Based on the above information, it was observed that the estimated total dealer commission cost for the next 12 months is very high and unusual compared to the average dealer commission costs incurred in previous years, and there is a possibility that this cost will increase further once the country's fuel supply returns to normal.

- The impact to the cost per liter due to payment of excess dealer commission in determining the local selling price of petroleum products based on the price formula in terms of Cabinet Decision

No. 22/0673/522/002 dated 23 May 2022 is given below.

	Petrol (A liter)		Diesel (A liter)	
	92 Oct	95 Oct	LAD	LSD
Local Market Price	450.00	540.00	430.00	510.00
Upper Limit (Upper Cap)	162.00	170.00	121.00	145.00
Dealer Commissions as per Price Formula	13.50	16.20	12.90	15.30
Actual commission to be paid	4.86	5.10	3.63	4.35
Overcharged price per liter due to overpayment of commission	8.64	11.10	9.27	10.95

Accordingly, the selling price of each petroleum product will increase as indicated above due to the overpayment of dealer commission in determining the price based on the pricing formula, and as a result, the petroleum consumers will have to bear disadvantage of price increase due to overpayment of dealer commission for every liter of fuel consumed by them. Otherwise, due to the corporation losing the advantage of increasing the price, the current negative net assets of the corporation may further deteriorate, and it is observed that the corporation, which is currently facing a financial crisis, may have an adverse effect on its continued operation (Going Concern) without government support.

- Audit was in questioned whether a proper evaluation about the financial impact to the entity had been done when the decision to make payments beyond the approved limits of dealer commission. Accordingly, it was further observed that in planning for the present and future challenges of the corporation, the impact of management decisions taken without proper financial evaluation will adversely affect the survival of the corporation and public welfare.

The Common User Facilities

- Pursuant to clause 15 of the Common User Facility Shareholders Agreement (GOSL/CPC/LIOC) dated 30 December 2003 entered into among the Government of Sri Lanka (GOSL), the Corporation and the LIOC, the said agreement had expired on 31 December 2008. Therefore, the common user facilities covered under said agreement including the governance procedures for entities and the pricing formula used for the purpose of determining the throughput charges and transport expenses including slab charges (last revised in 2011) had not been revised with the agreement of all related parties.

- The Corporation had entered into an Agreement with Ceylon Petroleum Storage Terminal Limited excluding Lanka Indian Oil Company (LIOC) on 13 May 2019 and which had included terms and conditions relating to storage and transport of petroleum products and the way of deciding the throughput between CPC and CPSTL. Even though the same terms and condition had been related to the LIOC as well, as a main user and a party of the Common User Facilities Share Holder's Agreement (GOSL/CPC/LIOC) dated 30 December 2003, the LIOC had not been considered. Therefore, it was observed that any impact on unfavourable conditions and cost had to be borne by the Corporation in any event of LIOC refusing the terms and condition entered between the Corporation and CPSTL.

- Due to the current exchange crisis in Sri Lanka importation of fuel had become limited and as a result supply of petroleum product had been limited compared to the demand. Therefore, the corporation's involvement in a national program of distribution of limited petroleum product identifying the priorities across the island with proper management should be at a very high level. However, it was observed that the responsibility of the Corporation was not properly fulfilled due to allowing the CPSTL to exercise its discretion in carrying out all the tasks related to issuing fuel for the orders received from the dealers and consumers belonging to the Ceylon Petroleum Corporation.

Use of ERP System (SAP)

The ERP which is an initial version (SAP ECC 6.0) of SAP ERP system released in 2005 has been using by the Corporation from the date of 01 April 2010 without any up-grading up to date. According to the letter no. ADM/12/01/19 dated 09 April 2021, secretary to the Ministry of Energy instructed the Chairman of CPC & CPSTL to do a feasibility study and value for money audit in relation to the use of SAP system and to take necessary actions accordingly. Further, according to the board decision no.07/1252 dated 22 July 2021, the board advised to get the recommendation on the proposal of SAP system version upgrade together with relevant server hardware platform upgrade by the steering committee and submit for the consideration of the board of directors. However, Corporation had not taken prompt action to upgrade SAP system up to date.

Non-Compliance to the Public Enterprises Circulars

- In accordance with the Public Enterprises Circular No. PED/12 of 2 June 2003, Guidelines for Good Governance, the Company had not taken appropriate actions to prepare a scheme of recruitment and promotion (SORAP) with the approval of the Board of Directors, and to get the approval from the Ministry with the concurrence of the Department of Public Enterprise. The Ceylon Petroleum Storage Terminal Limited had not obtained the approval of the secretary to the treasury to appoint employees on contract basis.
- 02 motor vehicles to trade union leaders of Ceylon Petroleum Storage Terminal Limited which contrary to the Public Enterprises Circular No. 1/2015 of 25 May 2015 and 02 motor vehicles to the Secretary to the Ministry of Energy and to the Managing Director of Ceylon Petroleum Corporation which ccontrary to the Operational Manual for State Owned Enterprises (SOEs) dated 16 November 2021 had been assigned.

Non availability of a formal monitoring process over terms and conditions of the Settlement Agreement

According to the Section 03 of the Settlement Agreement dated 05 January 2007 between the Government of Sri Lanka and Lanka Indian Oil Company, it was restricted to deliver petroleum products by Lanka Indian Oil Company from its China Bay installation to a maximum 5 per cent of the Country’s throughput of petroleum products and Ceylon Petroleum Corporation to a maximum 5 per cent excluding deliveries from Sapugaskanda Refinery. However, a regular process had not been established to monitor the compliance of above provisions.

Non-availability of written Agreements

Even though a proper agreement should be maintained between the parties who provide any support services to an organization for smooth running of the business and minimizing the cost, even it has iterated in previous audit report any agreement or even a Memorandum of understanding (MOU) had not been entered into with Ceylon Petroleum Corporation and Lanka Indian Oil Company covering all the related business activities. As a result, procedures, roles and responsibilities of each party were not properly defined.

Fuel Distribution

The main business of Ceylon Petroleum Storage Terminal Limited is the storage of fuel belonging to the marketing organizations Ceylon Petroleum Corporation and Lanka Indian Oil Company and distribution of fuel to authorized dealers and customers across the country as per the instructions of those entities.

- Most of the activities in supplying of petroleum products of Ceylon Petroleum Corporation, such as accepting fuel orders from dealers and consumers, deciding the amount of fuel to be issued, the date of fuel issue, preparing the invoice, collecting the related money, etc had been being carried out by the Company and those works belonging to Lanka Indian Oil Company are carried out by the same company. Further, such activities were not covered by the Common User Facilities Share Holder's Agreement dated 30 December 2003

- Due to the economic crisis in the country, the Ceylon Petroleum Corporation issued a priority list for the distribution of limited fuel stocks, however the company had distributed fuel products regardless of the list. The instances were observed where fuel was not distributed to the places included in the priority list as well as the instances where the distribution of fuel by the company's distribution function at its own discretion.

Use of bowers on hire basis for fuel distribution

Ceylon Petroleum Storage Terminal Limited uses a fleet of 147 bowers owned by the company and a fleet of 653 bowers obtained on rent basis for fuel distribution. In this case, the company's bowsers were not used optimally for fuel distribution and due to this underutilization, the company was not able to cover even the minimum fixed costs incurred. A tender procedure had not been followed for the registration of bowser on rent basis and no formal and transparent system had been followed when utilization of those vehicles.

Capital Projects

Ceylon Petroleum Storage Terminal Limited had awarded two companies to contract 9 fuel tanks with a capacity of 93,000 cubic meters at Kolonnawa Storage Terminal and that projects were planned to be completed in the year 2022 and 2023.

- The contract for the construction of 03 fuel tanks had been awarded to a private company registered in Sri Lanka for Rs. 942,474,240. However, the company had not prepared a bill of quantities (BOQ) including prices to calculate the initial construction cost. Also, the selected bidder, which is a local company, had the ability to procure a considerable extent of raw materials and technical staff locally, however the bid offered in foreign currency (USD) had been approved for the entire project without formal evaluation in this regard. The company had to incur an additional cost Rs. 69 million due to adverse fluctuations in the exchange rates

- It was observed that the progress of the projects was at a very low level and it is difficult to complete the projects within the expected time frame due to stoppage of the construction of 06 fuel tanks by the contractor.

Employee Loans

Both Ceylon Petroleum Storage Terminal Limited and Ceylon Petroleum Corporation had introduced a number of loan schemes for their staff and at the end of the year under review, the total outstanding loan balances were Rs. 3.359 billion and 4.314 billion respectively.

- Even though a significant loan portfolio had been maintained by the entities, no proper financial policy had been established in relation to the management of loan portfolio, and required consultation with expertise for treasury operations had not been obtained internally or externally by the entities. Further, the entities had failed to enforce legal actions against the defaulters, and consequently, default loan balances as at the end of the year under review had increased up to Rs. 41.44 million and Rs. 16.67 million respectively.

- According to the Circular No. 1063 dated 01 July 1985, monthly instalments of the loan could be accommodated within 50 per cent of the employee salary. However, repayment of monthly loan instalments of considerable percentage of employees of the entities had exceeded 50 per cent of their salaries.

- Due to having to use the basic salary of the employees completely or more or a significant percentage to repay the loan, although there was no real need for overtime work to the entities, it was observed that the employees have to work overtime due to the fact that their basic earnings are not enough to pay the loan and other expenses. Accordingly, more than 40 percent of the total employees of the corporation and more than 50 percent of the total employees of the company had been paid overtime exceeding 50 percent of their basic salary. Accordingly, due to the implementation of inappropriate loan schemes regardless of the ability to repay the loan, employees are tempted to take loans, which directly affected the unnecessary increase in overtime expenses of the organizations.

- Lack of sufficient funds, due to allocation of significant funds to maintain a large loan portfolio on behalf of the staff, had resulted to delay or postpone very urgent and important capital improvement works of the entities, and having to use unnecessary time and resources to manage it. Accordingly, the Audit and Management Committee of the entities had discussed several times the importance of outsourcing of the loan scheme to a commercial bank or a finance institution to overcome above issues. However, the entities have not paid attention in this regard up to date.

Irrigation and Water Resources

Audit Observations

- Delays in the execution of the Projects
- Gin Nilwala Diversion Project
- Uma Oya Multipurpose Development Project
- Abandoning Projects without being completed
- Projects that had not achieved progress despite money being released
- Construction of the Basnagoda Reservoir
- Desilting of the Tissa Tank
- Non- achievement of the Intended Benefits
- United Nations Development Programme and the Green Climate Fund
- Non- development of the Lands provided to the Investment Projects by Mahaweli Authority of Sri Lanka
- Utilization of Tourist Bungalows
- Liquidation of Companies

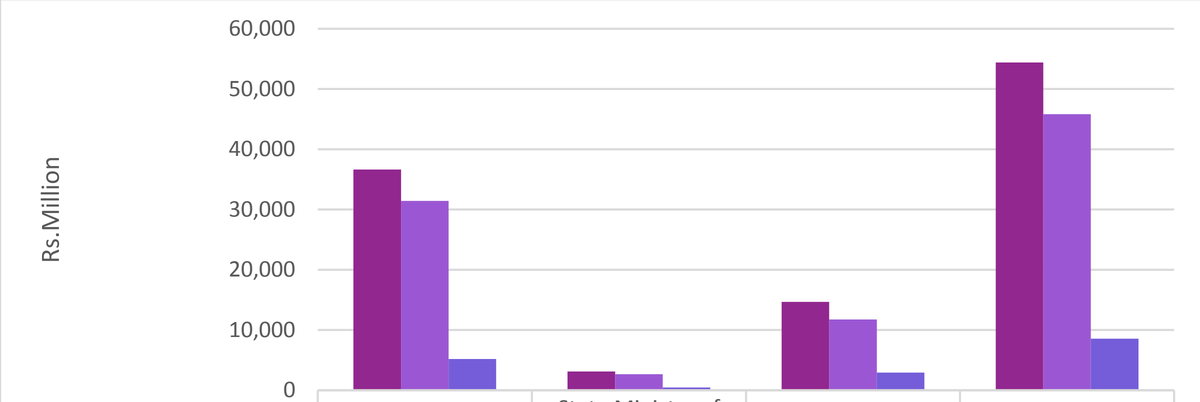
Irrigation and Water Resources

The following functions had to be executed by the Ministry of Irrigation and by the State Ministry of Tanks, Reservoirs and Irrigation Development related to rural Paddy Fields, two Departments, three Statutory Boards and by two projects under its purview.

- Making policy- related guidance for the relevant State Ministries for formulating an "optimal irrigation management", incompliance with the Policy Statement "Vistras of Prosperity" and by being based on other national policies that are intended to be implemented by the Government and the formulation of policies, the National Budget, State Investments and the implementation of projects under the National Development Programme, in compliance with the requisite rules laws and ordinances.

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

Net Provisions totalling Rs.54,404 million had been provided by the Parliament in the year 2021 to the Ministry of Irrigation and to the State Ministry and a Department under its purview for the execution of the above function and, only a sum of Rs.45,833 million of it had been utilized by the end of the year under review. Details appear in the Figure 37 below.



	Ministry of Irrigation,	State Ministry of Tanks, Reservoirs and Irrigation Development related to rural Paddy Fields	Department of Irrigation,	Total
Net Provision Rs. Million	36,621	3,114	14,669	54,404
Expenditure Rs. Million	31,438	2,657	11,738	45,833
Savings Rs. Million	5,183	457	2,931	8,571

Figure 37 - Amount of provisions being provided and the Actual Expenditure

Source: Annual Financial Statements 2021

The material and important audit observations that were disclosed in the audit test checks carried out relating to the execution of the above functions are summarized and given below.

Delays in the execution of the Projects

Even though the 4 projects of Thalpitigala Reservoir, Project on the Promotion of Productivity and on the management of the efficiency of the irrigation systems, Gin Nilwala Diversion Project and Uma Oya Diversion project of which the estimated value being a sum of Rs.153,915.7 million, implemented under the Ministry had not been completed despite the planned period of time had lapsed twice, any contribution whatsoever had not been made to the National Economy up to date from the cost of Rs.90,294.5 million that had been incurred within a period of 14 years for those projects.

Gin Nilwala Diversion Project

- An EPC Agreement amounting to USD 690,000,000 had been entered into with a Chinese Company on 05 November 2014 and, a sum of USD 29,989,000 equivalent to a sum of Rs.4,011.05 million had been paid as mobilization advances. The Agreement is void without the consent of both parties on non- execution within a year as per the conditions of the Agreement and, as such, the Agreement had been void from 05 November 2015. As such, the Advance had been identified as the cost for the collection of initial data, survey activities, geographical observations, updating of the Feasibility Report and for the initial plan by considering it as the First Phase of the Project without the approval of the Cabinet of Ministers despite the capability being remained to convert the Advance Guarantee into money. A Mutual Agreement had been entered into, stating that those activities should be completed before 8 months. Even though 05 years had lapsed after the completion of the payment amounting to Rs.4,011.05 million, the full amount relating to the identified parts of work.

- A sum of Rs.57 million had been incurred within the period of 05 years as salaries and allowances for the staff recruited for the project and it had been uneconomic and an additional burden of cost on the activities of the project being delayed for 05 years.

- Even though it had been stated by the Letter No.PMO/01/ASP/2016/01/Vo of 23 June 2016 of the Secretary to the Prime Minister that it would be recommended to carry out the project only surrounding the Nilwala river and a Cabinet Memorandum should be furnished in this connection, instead of doing so, a Mutual Agreement had been entered into, to carry out a study in both segments of Gin river and Nilwala river on 20 July 2017. The project had been carried out with domestic funds due to the sanctions imposed on Iran in the year 2013.

- Public protests had been arisen on not being able to obtain the approval of the relevant Department of Forest Conservation and other Institutions on planning to implement the project surrounding an area that had been declared as a World Heritage Site by the UNESCO, without considering those recommendations. As such, the study that is being carried out had become fruitless.

Uma Oya Multipurpose Development Project

- It had been intended to finance a total estimated cost as a sum of USD 529 million equivalent to a sum of Rs.74,325.75 million for the works of the Headquarters and a sum of

Rs.15,475.25 million for other costs and for the development of the underpass area, for the Uma Oya Multipurpose Development Project. A sum of Rs.72,153.17 million had been spent from the domestic funds and a sum of Rs.6,522.85 million had been spent from the foreign funds for the work of the Headquarters as at the year 2020. Even though it had been intended to initiate the project in the year 2008 and to complete in 7 years or, on 15 November 2015, the period of the project had been extended to 25 December 2021. An Agreement had been entered into, by way of selecting a contractor without calling for competitive quotations under the financing for the project by the Export Development Bank of Iran. The project had been carried out by utilizing domestic funds due to the sanctions imposed on Iran in the year 2013.

- Supplying of irrigation water to new lands, 4,500 hectares in extent, located in Wellawaya and Thanamalwila Divisional Secretariats of the Monaragala district and for the lands that are currently being cultivated, 1,500 hectares in extent, in addition to the electricity generating system, an intended benefit, due to the delay in the project. It had not been able to achieve the benefits of supplying of 30 million cubic meters for the drinking and industrial purposes of the project area, the supply of drinking water purposes in the Bandarawela and Atampitiya areas in the Badulla district, by the reservoirs constructed in Dayabara and Puhulpola areas.

- The compensation amounting to Rs.1,931,346,396 that should be paid by the contractor due to the water leak occurred in the main tunnel of the Uma Oya Multipurpose Development Project had been paid with Government Money and a sum of Rs.889,789,252 of it had not been recovered from the contractor.

- The extensions of the project period had been made from 15 November 2015 to 25 December 2021 and the demurrages that could have been recovered to the maximum of up to 5% as 0.01% of the contract value per day as per the provisions of the Section 8.7 of the EPC Contract Agreement had been a sum of Rs.26.453 million. A USD 5,305,091 of it had been repaid as per the decisions of the Cabinet of Ministers of the sum of USD 6,631,364 that had been recovered as demurrages from the contractor. The requests for the period of extensions made by the Valuers on the loss of profits receivable from the project due to the delay had not been included into the Cabinet Memorandum. Moreover, the relevant information that the Contract Company informed by the Project Unit on the impact that was made by the delay was not furnished to the audit.

- An Additional Fee of a sum of USD 181,337,171 had been requested for the delay in the payments for the additional expenditure and for the Bills for the period of extension by the contractor. Action had not been taken to properly reject that request and to raise the awareness of the Policy Formulation Units in this connection in terms of the EPC Contract Agreement, by the Project Management Unit. It had not been able to achieve the intended benefits of the project even by May 2022.

Abandoning Projects without being completed

It had been scheduled to be initiated a project by the Department of Irrigation and to wound up in the same year under the Domestic Funds of an estimated cost of Rs.2000 million in the year 2019 for the supply of drinking water to the people of the Jaffna Peninsula by the development of water resources in the Wadamarachchi Lagoon, a sum of Rs.28 million had been spent by 31 December 2021 and the project had been abandoned.

Projects that had not achieved progress despite money being released

It had been scheduled to initiate under the Initial Plan of the Benthara River Right Bank Drainage and Salt Water Extrusion Scheme in the year 2015 by the domestic funds amounting to Rs.298 million and to wound up in the year 2017 and its period had been extended up to the year 2021. A sum of Rs.95,194 million had been spent for the project from 2015 to 31 December 2021 and a sum of Rs.100 million had been received in the year 2021. A sum of Rs.69.950 million had been spent as the Project Expenditure from January to December 2021, of that money and a sum of Rs.30.050 million had been saved. As such, a sum of Rs.165,144 million had been spent by the end of the current year from the year 2015 for this project. Even though 55 per cent of the intended cost had spent in the project, only 35 per cent had been spent from the physical constructions.

Construction of the Basnagoda Reservoir

Even though it had been entered into a Mutual Agreement on 21 March 2016 for the construction of the Basnagoda Reservoir under the Gampaha, Attanagalle and Minuwangoda Consolidated Water Supply Project, the project works had not been initiated even by the year 2022. Even though plumbing and other activities had been carried out by spending a sum of Rs.560 million by the year 2020, it had not been able to obtain the intended results due to the delay in the construction.

Desilting of the Tissa Tank

- An Agreement had been entered into, with Gaja Holding (Pvt.) Ltd by the Director, Irrigation of Hambantota. It had been initiated despite the deficiencies such as deploying of 17 per cent of the total area of the Tank, 120 acres in extent for unauthorized agricultural activities, not taking action despite being identified in the year 2019 that 50 Hotels, houses are being used in an unauthorized manner, initiating without identifying the boundaries of the Tank, not determining the level of the depth of the Tank within 10 years, not taking action for the request of the Water Drilling Division of using electronic equipment in determining the level of the depth of the Tank being remained within the project. Moreover, the Trade License had not been obtained from the Geological Survey and Mines Bureau in terms of the Environmental Recommendation No.7.1 provided by the Central Environmental Authority. Even though it was capable to sell the sand obtained by the extraction of the sludge, the royalty had not been recovered despite the fact that the royalty should be recovered in the instance where it is being carried out as a commercial activity in terms of the Condition No.33.

- The sludge obtained from the Tank by using machines should not be washed inside the Tank by using machines should not be washed inside the Tank in any manner whatsoever and even though it had been included in Section 10 of the Contract Agreement that the water of either the Tank or the Main Canal should not be impurified, contrary to that, the consent had been granted to extract sand until the completion of this project in the site that is temporarily provided by the Regional Engineer, Tissamaharama.

- Even though a capability of recovering a land usage fee of a sum of Rs.1,120 each, for 01 cube of surface soil that is being removed, as per the fees declared by the Gazette Extraordinary No.1600/18 of 06 May 2009 by Section 20 of the Forest Ordinance, the value that could have been recovered by 2400 cubes of soil that was intended to be removed, 100 cubes each, in terms of the Project Reports had been a sum of Rs.2,688,000 on that Condition not being included into the Agreement. As such, the amount of the loss of money occurred to the Government in 12 months, the period of Agreement, had been a sum of Rs.32,265,000.

Non- achievement of the Intended Benefits

A sum of Rs.12,000,000 had been provided to Anuradhapura Divisional Forest Office for the replantation, for the forests that were lost due to the construction of the Yan Oya Reservoir, of the Department of Irrigation. As such, over 90 per cent of the planted plants had been destroyed due to those areas being inundated in water, in filling the reservoir with water on the planting of the plants being carried out without an evaluation on the feasibility of the lands located between the FSL and HFL levels of the reservoir in planting 110000 plants in 209.1 hectares in extent in the Anuradhapura district.

United Nations Development Programme and the Green Climate Fund

A Financial Assistance Agreement had been entered into on 07 June 2017 for providing USD 38.084 million (Rs.5,499.71 million) to the Government of Sri Lanka, by the United Nations Development Programme (UNDP) and by the Green Climate Fund (GCF), with the key objective of minimizing the problems faced by the smallholders due to the climate changes in the dry zone of Sri Lanka. As per the above Agreement, the Ministry of Mahaweli Development and Environment is the Executing Agency of the project and the United Nations Development Programme (UNDP) is the Accredited Entity of the project. It was required to provide a sum of USD 38.084 million as a Grant to the Executing Agency (MMDE) by the Accredited Entity, as per Section 3 of the FAA. However, even though the Green Climate Fund had provided a sum of USD 20.4 million (Rs.3,774 million) in the 03 preceding years to the UNDP, only a sum of USD 5.7 million (Rs.1020 million) had been provided to the MMDE by 31 December 2020. As such, the remaining sum of USD 14.7 million had been spent by the UNDP for the activities of the project.

Non- development of the Lands provided to the Investment Projects by Mahaweli Authority of Sri Lanka

As per the information provided to the audit, a total of 6,879 hectares in extent of land had been provided to 695 Investors for the Investment Projects, by the Authority. Out of these lands, the fully-developed portions of land had been 3,284 hectares in extent and the under-developed portions of land had been 2,023 hectares in extent while the undeveloped portions of land had been 1,572 hectares in extent. As such, 52% of the provided lands remained as under-developed and undeveloped lands and action had not been taken to acquire those lands and to provide them to other Investors.

Utilization of Tourist Bungalows

The total number of Tourist Bunalows belonging to the Authority is 27 and, the loss of the year 2021 due to the expenditure being incurred in all 27 Tourist Bungalows, exceeding the Income, had been a sum of Rs.36.39 million. Moreover, 08 Plant Nurseries out of 11 Plant Nurseries had incurred losses and, the loss of the year under review had been a sum of Rs.35.08 million.

Liquidation of Companies

Even though it had been determined to liquidate Mahaweli Venture Capital (Pvt.) Ltd in the year 2012 and Natural Resources Management Associates in the year 2019, two affiliated Companies belonging to Mahaweli Authority of Sri Lanka, action had not been taken to wound up the liquidation activities in the year 2021.

Water supply and sanitation

Audit Observations

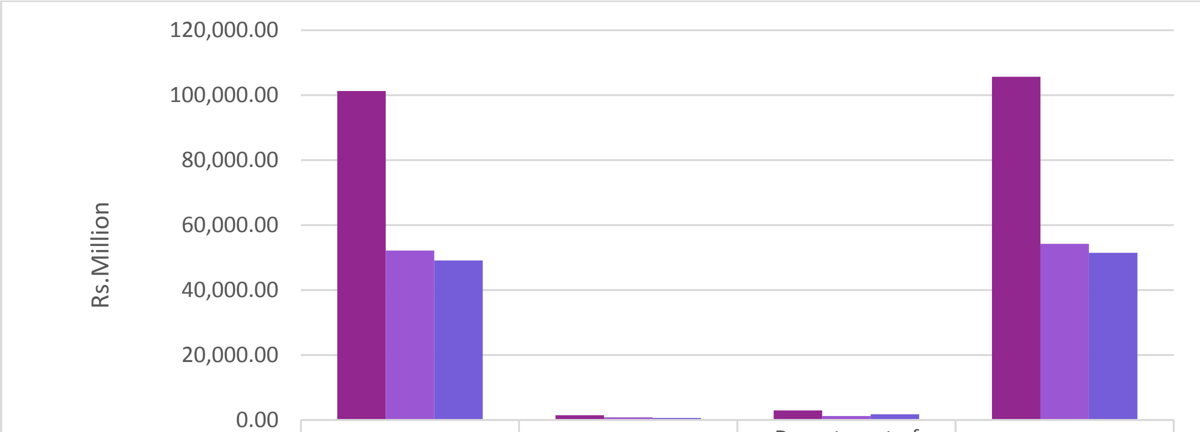
- Providing of water supply and sanitation facilities
- Covering piped water and piped sewage facilities
- Financial results of the National Water Supply and Drainage Board
- Projects initiated under the Greater Colombo Water and Wastewater Management Improvement Investment Program under Asian Development Banks' funds.
- Ambatale System Rehabilitation and Energy Saving Project.
- Anuradhapura North Water Supply Project Phase I and Phase II
- Greater Colombo Water and Wastewater Management Improvement Investment Program Project II
- Kandy City Wastewater Management Project
- Anamaduwa Water Supply Project
- Water for All Programme
- Projects under the Department of Community Water Supply
- China Sri Lanka Joint Research and Modeling Center operating under the Ministry of Water Supply
- Water Supply and Sanitation Improvement Project
- State Ministry of Rural and Regional Drinking Water Supply Project Development
- Water Resources Boards

Water supply and sanitation

The provision of sustainable water and sanitation for all was identified as a key performance indicator under Goal 6 of the United Nations Sustainable Development Goals - Agenda 2030. In line with that, in the government's policy statement on the vision of prosperity, it was planned to provide clean drinking water supply to all by the year 2025, and to reach that goal, the Ministry of Water Supply and the Water Supply and Drainage Board and the Water Resources Board under it are acting as the main statutory bodies and the Water Supply and Sanitation Improvement Project implemented by the Ministry with the assistance of the World Bank, under the direct supervision of the Ministries, the State Ministry of Water Supply and the Community Water Supply Department under it should have performed the following functions and tasks.

- Expeditious implementation of new water supply and drainage projects to provide water for all.
- Improving groundwater security and improving rural and urban water schemes by coordinating rural tanks, reservoirs and irrigation systems under the purviews of the Ministry of Agriculture and the Ministry of Irrigation respectively.
- Avoiding prodigality and wastage of water in drinking water supply system and distribution.
- Taking measures for efficient and regular execution of community water supply and projects.
- Maintenance and development of community water supply projects to provide quality drinking water to rural people.
- Stabilization of drinking water supply in rural areas, development of reservoirs and waterways and water conservation activities
- Acceleration of water distribution projects related to water supply projects implemented at the rural and regional level by the National Irrigation System.

The Ministry of Water Supply, the State Ministry and the Department for the performance of the above-mentioned duties, a net provision of Rs. 105,706 million had been provided by the Parliament during the year under review, out of which, it was observed that had been utilized only Rs.54,217.2 million or 57 percent. Details are shown in figure 38.



	Ministry of Water Supply	State ministry	Department of National Community Water Supply	Total
Provision Rs.Million	101,291.10	1,452.47	2,962.30	105,705.90
Expenditure Rs.Million	52,193.50	806.8	1,216.90	54,217.20
Balance Rs.Million	49097.6	645.67	1745.4	51488.7

Figure 38 : Net Provisions and Utilization
Source - 2021 Annual Financial Statements

The significant and quantitative audit observations revealed during the sample audit performed on the performance of the above-mentioned task by the Ministry of Water Supply and the State Ministry and the statutory bodies under it are summarized below.

Providing of water supply and sanitation facilities

Aiming to provide water supply and sanitation facilities, the National Water Supply and Drainage Board had been implemented a total of 36 projects under the direct supervision of the line ministry in the year under review, including 22 large-scale foreign-funded water supply projects, 3 sewage projects, and 11 locally financed water supply projects. However, the board had failed to achieve the expected physical progress at the beginning of the year in respect of 25 projects. Furthermore, according to the action plan of the year under review, 5 large-scale water supply projects and 6 water projects under local financing were planned to be completed during the year, but the board failed to do so. Also, there was a significant delay from 184 days to 1779 days regarding 16 foreign financing projects and 6 domestic financing projects implemented during the year and it was observed that time extensions from 1 to 9 cases were also given for those projects which were delayed due to poor performance of contractors, land settlement issues etc.

Although the project to improve water supply and sanitation facilities in 7 districts such as Ratnapura, Kegalle, Monaragala etc. under the supervision of the Ministry and supported by the World Bank is scheduled to be completed on 31 December 2021, It was extended on 2 occasions till 31 March 2022 and 31 March 2023 as it could not achieve the desired results on that date.

Covering piped water and piped sewage facilities

The National Water Supply and Drainage Board's Coporate plan for the years 2022-2025 had been revised to include the number of new water connections expected to be provided under the Water for All project. Accordingly, it was initially planned to provide 301,762 new water connections during the year, but later it was reduced to 215,000 water connections. However, the actual number of water connections provided by the Board at the end of the year under review was only 192,087. Compared to the growth in the number of new water connections from the previous year to the end of the year under review, the assessed sales revenue of the Board in the year under review had grown by only 1 percent. Further, although the piped sewerage coverage was expected to increase to 2.1 percent of the total population during the year under review, the total sewerage coverage that the Board could achieve was only 2.08 percent with the completion of 3 large scale sewerage projects and 3 more large scale sewerage projects being implemented during the year. At the end of the year under review, the board had aimed to reduce the total non-revenue water percentage to 23.09 percent, but the actual result at the end of the year was 25.82 percent. It is an increase of 1.19 percent over last year. The percentage of non-revenue water in Colombo city was at a very high level of 34.75 percent and more than 30 percent non-revenue water percentage was recorded in Dehiwala, Kandy-North, Kandy-South and Galle regions. Table .... shows the details regarding the target and actual progress of the Board's performance indicators.

Performance index	Unit	2020	
		Target	Achieved
Safe drinking water coverage	% of the population	99.6	95.8
Protective piped water cover	% of the population	59.5	55.8
New water supply connections	the number	215,000	192,087
Safe piped sewerage facilities	% of the population	2.12	2.08
Non-revenue water supplies			
Colombo city	% of the population	32	34.75
All over the island	% of the population	23.09	25.82

Financial results of the National Water Supply and Drainage Board

Table 25 shows a summary of the financial results and financial position of the National Water Supply and Drainage Board for the year under review and for the previous year.

	2021 Rs. Million	2020 Rs. Million
Income	28,935.44	27,761.78
Cost of Sales	(19162.95)	16,754.65
Gross Profit	9,772.5	11,007.13
Operating Profit	(3,087.15)	(385.11)
Profit Before Tax	(2,996.69)	642.78
Total Assets	785,467.18	699,281.44
Equity	497.70	456.82
Long term Loan		
Non-Current	227,420.93	198,175.77
Current	12,578.84	2,920.57

Table 25 : Summary of Financial Results and Financial Position of National Water Supply and Drainage Board

Last year's profit before tax of Rs. 642.78 million had deteriorated to a loss before tax of Rs.2996.69 million during the year under review. A relative decline in actual sales, a relative increase in private costs directly related to the production of treated water and the relative increase in other manufacturing costs had caused the board's gross profit margin to decline by 6 percent. In addition, the board's pre-tax profit in the previous year had declined to a pre-tax loss in the year under review due to the increase in administrative expenses and financial costs by 10 percent and 38 percent respectively. Furthermore, the current and immediate ratios of the board's liquidity were down by 0.45 times and 0.41 times respectively compared to last year and due to the increase in total borrowings of the board by 19 percent compared to last year, its gearing ratio also increased from 53 percent to 58 percent relatively by 5 percent compared to last year.

Projects initiated under the Greater Colombo Water and Wastewater Management Improvement Investment Program under Asian Development Banks' funds.

Under this program, the main objectives were to reduce the non-revenue water ratio of 49 percent in Colombo city from 2012 to 18 percent by the year 2020, to provide continuous 24-hour quality water supply in Colombo city and to strengthen the activities of institutions. For this, under the financial contribution of the Asian Development Bank, 3 large-scale projects as projects I, II and III respectively were planned to be started in the years 2013, 2014 and 2016 and completed by 2016, 2019 and 2020 respectively. As the related projects failed to be completed by those dates, the project period was extended from June 30, 2021 to October 22, 2022 respectively. Although, under the above projects, the city of Colombo was divided into 77 district measurement zones and the systems were rehabilitated and the non-revenue water ratio was initially planned to be reduced to 18 percent and the non-revenue water rate had been reduced to 18 percent and the number of district measurement zones that had been handed over was only 29 as at 31 December 2021. As a result, the non-revenue water ratio in Colombo city remained at 34.75 percent even as at 31 December 2021. According to the calculations of the audit, if the non-revenue water rate is reduced by 1 percent, the income of the board can be increased by Rs.40.03 million. However, even though the Board could not reap the full benefits under this programme, the government respectively charged Rs.1,124.29 million interest charges and Rs. 203.97 bond fee payments had been made against the loan amount obtained..

Ambatale System Rehabilitation and Energy Saving Project.

Removal of inefficient and old pumps and replacing them with new pumps in order to reduce the average monthly energy cost of more than Rs.67 million in Ambatale water treatment plants and reducing friction costs by replacing small transmission pipe systems that are between 70 and 100 years old with high-capacity pipelines were the primary objectives of this project. Although the project work started in September 2014 and was initially planned to be completed in 4 years and 9 months by June 2019, the time was extended by another 04 years to June 2023 due to the failure to complete by that date. However, more than 7 years have passed since the commencement of the project as at 31 December 2021, the overall physical progress achieved was very low at 58.83 percent and no major contract had been completed as of this date. Accordingly, it is doubtful whether the remaining 43.17 percent progress can be achieved in the remaining 1 ½ years till June 2023. But due to this poor performance, based on under-utilization of loan, the Government had paid a bond fee value of USD 2.19 million equivalent to Rs. 358.71 million to the loan granting institution. Accordingly, due to the non-completion of the project within the planned time, in addition to the high energy costs incurred on a daily basis, the Board had a great opportunity to significantly reduce the energy costs to be increased in the future.

Anuradhapura North Water Supply Project Phase I and Phase II

Compared to other parts of the island, in Anuradhapura districts, where dental disorders and chronic kidney disease have spread rapidly, there is a limited supply of purified piped water and shallow underground water sources are not being consumed, and with the aim of providing clean drinking water to the people of those areas, 02 projects called Anuradhapura North Water Supply Project Phase I and Phase II have been started in Anuradhapura district with the expectation that they will be started soon and completed in a short time, out of which Anuradhapura North Phase I will cover Rabewa and Medavachchiya Divisional Secretariat Divisions and its project work will start in February 2013 and it was planned to be completed in 05 years by February 2018. But, failing to complete by that date, its time had been extended till 05 July 2022. However, as on 30 June 2022, 09 years 04 months have passed since the commencement of project work here, the overall physical progress was at 97.46% and none of the structures had been fully constructed and handed over to the Board. For this, the poor performance and the delay in the laying pipeline contract, Lot-B, had been severely affected. In addition, although the project work of the above

Anuradhapura North Phase II, which has been started targeting the people of Horovpatana, Padaviya, Kahatagasdigiliya and Kabathigollewa Divisional Secretariat areas, was planned to start in June 2017 and be completed by June 2024 in a period of 07 years, by 30 June 2022, although a period of 5 years had passed, no construction contract had been awarded in that regard. Accordingly, it is further observed that due to the continuous delays in these projects, which were planned to be completed by the government in a short period of time, the objectives expected by the government and the public have not been achieved in time.

Greater Colombo Water and Wastewater Management Improvement Investment Program Project II

- Although 7 years have passed since the commencement of the said project on 31 December 2021, the contract had not been awarded till now due to the inability of Pamankada Divisional Engineering Office to acquire suitable land for construction. But even though the land acquisition process had not been completed, 03 consultancy service contracts had been awarded on 03 occasions in the form of architectural conceptual plans and construction etc. The contracts were subsequently canceled due to delay in the land acquisition process, including changes in the size of the land and the scope of the building and the expenditure incurred for that was Rs. 28.19 million. In addition, as the loan agreement of the project expires on 24 October 2022, it is doubtful whether the above construction will take place due to the fact that the Department of Foreign Resources has not given approval for new construction. Accordingly, as at 31 December 2021, the cost of Rs. 1.45 million incurred as land acquisition fees, including Rs. 28.19 million incurred as consulting service fees, had become an uneconomical expense for the project.
- A contract was awarded for the development, supply and installation of GIS software for web deployment and training at a cost of Rs.54.26 million on 16 October 2018, and was scheduled to be completed within one year. The project had planned to establish a comprehensive and institutional GIS system at the head office and 40 regional offices. Although the basic scope under the contract is completed, the system upgrade under the contract has not been completed till date as the head office has changed the basic scope. In addition, according to the terms of this

contract, from the second year onwards, the respective company will be required to pay USD 21,600 to be paid every year, the audit had a doubt whether the Board could afford such a huge maintenance fee.

Kandy City Wastewater Management Project

The Kandy City Wastewater Management Project was started on 03 February 2010 and was scheduled to be completed by September 2017. An extension was granted again till 31 December 2022 due to poor performance of contractors, delays in approval of plans. Although the contract for the design and construction of the main sewerage network awarded to Cologne Global in November 2013 was to be completed by October 2018, three extensions were granted until 31 May 2022 due to the poor performance of the contractor. Although the contractor can be given time extensions as per clause 8.4 of the FIDIC guidelines, payment cannot be requested for the delay as per clause 19.4. Despite this, it was agreed to pay Rs.52.12 million as additional planning cost and Rs.1,698.38 million as time delay and price fluctuation respectively to the contractor, based on the dispute settlement decision, of which Rs. 52.12 million was paid in March 2022.

Anamaduwa Water Supply Project

Although, this project was started in February 2017 and was planned to be completed by February 2020, it was extended time to December 2022 due to the contractors' inefficiencies and poor project management. Although the contractor could not claim additional costs for time extensions as per paragraph 19.4 of the FIDIC guidelines, additional financial charges of 330,183.98 euros and 3.01 million Sri Lankan rupees were paid by the 12 variation orders for time extensions made due to the contractor's inefficiency. Further, Although the contractor was supposed to supply the vehicles at the very beginning of the project as per Paragraph No. 8.5.4 of the Contract Agreement, the contractor had provided the vehicles in September 2020, near the completion of the project. Due to the non-purchase of vehicles at the beginning of the project as per the agreement, Rs. 14.99 million as vehicle rentals had been spent during the project through variation orders.

Water for All Programme

This project which was started with the expectation of providing clean drinking water to all by the year 2025 and for the years 2020, 2021 and 2022 respectively, Rs.24,568 million Rs. 29,568 million and

Rs. 17,000 million had been allocated in the budget estimate and for 2021 and till 31 May 2022, only Rs. 9,427 million had been received to the NAtional Water Supply Board through the Ministry to implement the project. A total of 176 project officers were recruited for the project without the approval of the Management Services Department, contrary to the provisions of Management Services Circular No. 02/2020 and dated 26 October 2020 and from the date of recruitment to 31 July 2022, Rs. 216.7 million had been paid by the board as salaries and allowances. Rs. 33.3 million rupees had been paid as late fees by the end of June 2022 without the approval of the treasury for the import of DI and HDPE pipes and other accessories imported for the purpose of the project without making adequate provisions to release them from the port and approximately Rs.813.12 million was to be paid as port late fees for 207 imported containers which had been received by the port on that date but had insufficient provisions to release. However, the cost exempted on that date was Rs. Out of 234.37 million DI pipes, none had been laid by the end of July 2022 and nearly 40 per cent of HDPE pipes were lying idle in warehouses belonging to 10 regional support service centers without being used for any laying purpose. However, none of the DI pipes amounting to Rs. 234.37 million, released on that date, had been laid by the end of July 2022 and nearly 40 percent of the HDPE pipes were lying idle in warehouses belonging to 10 regional support service centers without being used for any laying purpose. However, due to the fact that most of the main contracts under the project had been stopped by the end of July 2022, there is a high uncertainty in the audit regarding the ability to achieve the expected results from the project by the end of 2025.

Projects under the Department of Community Water Supply

At the end of the year under reviewed, it was observed that the progress of 105 water projects out of 275 water projects implemented under the "Praja jala abhimani" Program was below 50 percent as at 31 December 2021. Among them, 81 projects amounting to Rs. 603.15 million, which was planned to be started in the year 2021 and completed within that year, 76 water projects amounting to Rs. 591.96 million were not completed at the end of the year under review and 05 water supply projects which were started in Galle and Kurunegala districts in the year 2019 and expected to be completed in that year remained unfinished even at the end of the year under review. In addition to this, for the improvement of water quality which was planned to be completed during the year under review, 16 projects amounting to Rs. 72.7 million out of 21 projects amounting to Rs. 101 million were not completed by the end of the year under review. A sum of Rs. 2.58 million was paid to community based organizations in 2020 and 2021 for unfulfilled tasks related to 9 sample audited projects implemented under "Praja jala abhimani" Program.

China Sri Lanka Joint Research and Modeling Center operating under the Ministry of Water Supply

The China-Sri Lanka Joint Research and Demonstration Center for Water Technology built at a cost of 1,950 million was handed over to the Government of Sri Lanka as a grant from the Chinese government in February 2021, but the main objectives had not been achieved as at the audited date of 10 January 2022.

Water Supply and Sanitation Improvement Project

- This project is implemented under the direct supervision of the Ministry of Water Supply and it also aimed to increase access to piped water supply and improved sanitation services in 07 selected districts and strengthen the capacity of related institutions. However, due to non-completion of the project within the stipulated period, two time extensions were given till 31 December 2023 on two occasions. As at 31 December 2021, there was a delay from 178 days to 1463 days in physical progress of 19 urban, rural and estate water supply and sanitation facilities rehabilitation and improvement schemes which were sampled and from 197 days to 505 days delay in progress of 06 contracts for provision of sanitation facilities. Also, paid to 05 contractors with poor performance Rs. 140.65 million advances were not efficiently utilized for project work and 02 more contracts were awarded and the Ponnagar Pathiyapuram water scheme in Kilinochchi district, which was suspended due to poor performance of the contractor, was scheduled to be completed on 20 October 2018, but the contract awarded for the remaining work was not completed by 31 March 2022.

- Although it was planned to complete 24000 toilets in the 07 districts during the project period, the construction of 1302 toilets had not been started by the end of the year under review. Although it was planned to build 84 units of sanitation facilities for those with special needs in Kegalle, Monaragala and Kilinochchi districts, only 43 such units were built in Kegalle and Monaragala districts and construction was suspended in Kilinochchi district. Furthermore, although 566 residential sanitation units were planned to be constructed in Badulla and Monaragala districts, the construction of 154 units had not been started by the end of the year under review.

State Ministry of Rural and Regional Drinking Water Supply Project Development

- In the year under review, the Ministry allocated a provision of Rs.775 million and planned to implement one project under the Ministry, four projects under the Department of National Community Water Supply, three projects under the National Water Supply and Drainage Board, and two projects through the District Secretariats. Out of which, the Madupalli Water Supply Project which allocated Rs. 61.21 million and 10 activities related to Rural Water Supply and Sanitation Improvement Project had not made any physical progress.

- Although the primary objective of the rain water tank construction program implemented by the National Community Water Supply Department based on the Ministry's provisions is to provide safe drinking water to the people in rural and remote areas that cannot be supplied with water through the water pipe system of the National Water Supply and Drainage Board and it was observed during the physical inspection of a rain water tank constructed in Puttalam district that due to the non-selection of beneficiaries on a formal basis, the benefits were not given to the needy people and formal measures were not taken to make the water collected in the tanks suitable for drinking..

Water Resources Boards

- Although the Cabinet of Ministers had ordered to amend the Water Resources Board Act on 12 July 2021, the relevant draft had not been submitted to the Attorney General until the end of 2021. Due to the failure to amend the Act, the board had failed to take action related to the problems arising from the offenses identified as the purpose of amending the Act and the related penalties, and the problems of groundwater misuse and excessive extraction.

- Although the Thimbirigasaya Divisional Secretary had informed the board to pay tax of Rs. 12.77 million to obtain an annual tax licenses from the year 2013 for the land located at Hector Kobbackaduwa Mawatha, where the head office of the Water Resources Board was maintained since 1978, a case was filed in the Colombo High Court by the Divisional Secretary of Timbirigasaya in 2019 due to non-compliance of this. Later, while the Attorney General had instructed the Thimbirigasaya Divisional Secretary to settle the issue of the land, without acting on the advice of the Attorney General, the board had left the premises and land where the board's head office was run for about 45 years and moved the head office to a rented building from 18 July 2021. However, the impact of this on the financial and operational activities of the Board was not disclosed in the financial statements.

- The land of 40 perches located on Densil Kobbekaduwa Mawatha belonging to the Urban Development Authority was decided to be given to the Water Resources Board for a period of 30 years as per Cabinet Decision No. CP/16/2500/724/099 dated 06 December 2016. Although the government's chief Valuer had determined an annual tax amount of Rs. 2.7 million for the said land, the annual tax fee had been paid since 2016 without entering into a formal agreement with the Urban Development Authority for the said land. This land was not used as planned and till now the tax fee of Rs. 10.75 million paid for one land had become an idle expenditure.

- Approval had received under Cabinet Decision No. CP/16/2500/724/099 dated 06 December 2016 for the proposals submitted by the Minister of Megapolis and Western Development in Cabinet Memorandum No. 16/2500/724/099 submitted on 24 November 2016. Accordingly, it was decided to give the land where the main office of Water Resources Board located at Hector Kobbakaduwa Mawatha, Colombo 07 is to be transferred to the Urban Development Authority without charging money, and the land of 40 perches belonging to the Urban Development Authority located at Densil Kobbackaduwa

Mawatha, Battaramulla to be given to the Water Resources Board for a period of 30 years on the basis of charging a nominal ground rent. Without dealing with it, the head office of the Water Resources Board had been removed from the place based on a request made by the Prime Minister's Secretary in the letter No. PMO/2/13/20/bldg submitted on 29 April 2021. No documents regarding the handover of the land and building to the Prime Minister's Office were submitted for audit. Although it is stated in the said letter that the Ministry of Finance will provide the necessary allocations for the construction of another building in place of the buildings located on the said land, the necessary policy clarifications were not taken to obtain the relevant allocations. The Appropriation Act of 2022 also did not provide allocations for it. The head office at Hector Kobbekaduwa Mawatha had been moved to a private building in Rajagiriya at a monthly rent of Rs.950,000 since 19 July 2021.Rs. 671,985 had been incurred to install the main office in that building. By the end of 2021, Rs. 4.75 million rent had been paid for that building. The main office of the Water Resources Board had to be moved to another place after 18 July 2022 due to the agreement being valid only for a period of one year.

The Minister of Irrigation had been submitted a Cabinet Memorandum No. 05/2015 on 10 July 2015 to establish a groundwater monitoring information network for Sri Lanka, based on a project plan prepared by the Water Resources Board in 2015 to establish a data system necessary to manage the quantitative and qualitative conditions of groundwater in Sri Lanka. By the Cabinet Decision No. CP/15/1087/644/005 dated 29 July 2015 had first approved the implementation as a pilot project in selected districts such as Anuradhapura and Polonnaruwa where kidney disease is widespread. An agreement was reached on October 03, 2017 to provide the Eijkelkamp Earth Sampling Group in the Netherlands at a cost of 20.63 million euros to implement the project. 02 high-tech drilling machines (MS – FT Drilling rig mountel truck) worth 2.24 million euros or Rs.393.976 million were used under this project. After the completion of the project, these 02 machines were to be handed over to the Water Resources Board. However, until now, no action had been taken to identify the officers required to take over and operate the machines and to provide them with the necessary training.

- Non-implementation of the orders issued by the Extraordinary Gazette No. 2010/23 dated 16 March 2017 as per the provisions of the Water Resources Board Act No. 29 of 1964 and No. 42 of 1999 as amended.

Order No. 01

Although the written approval of the Water Resources Board has to be taken for cultivation wells with a diameter of 4 meters or more to be built for agricultural purposes, no approval has been obtained from the Board for any of the cultivation wells so far.

Order No. 02

Although all the institutions engaged in the construction of tubewells should be registered with the Water Resources Board, only 67 institutions were registered by the end of the year under review. Also, the Board had not taken adequate measures to find out which institutions were not registered. Although the above registered institutions should provide a report containing the data of all the new construction of deep or shallow tube wells to the Water Resources Board every 03 months, none of the 67 institutions registered so far had submitted the above report.

Order No. 03

If any state or local government agency or non-governmental organization or agency or person engaged in water bottling industry and beverage production, natural water source or ground water is used for its production activities, a water sample of that water source is accepted by the government every 6 months. Although a test should be done by a laboratory and the relevant analysis report should be submitted for approval, by the end of the year under review, 40 institutions had registered with the board, but none of the institutions had given the above reports to the board. A Perimeter Protection Report related to the relevant water source should be obtained from the Water Resources Board for projects that draw 30,000 liters of underground water per month for commercial agriculture or industries. No institution had received the relevant status report in according to its provisions.

Order No. 05

Although establishments or places where production and services are carried out using a natural water source or ground water, with or without prior notice, at any reasonable time of the day, those production or service places shall be entered and inspected, no on-site inspection was carried out in the 40 registered drinking water bottling plants till the year under review.

Order No. 06

Necessary action has not been taken in terms of section 20 of the Water Resources Board Act No. 29 of 1964 and amended No. 42 of 1999 against the state or local authorities or non-governmental organizations or individuals who do not act in accordance with the above provisions.

Education

Audit Observations

- Ministry of Education
- Failure to evaluate productivity of programs
- Foreign loans and aid projects
- National Commission for UNESCO
- Procurement
- Printing Text Books
- Uneconomic Transactions
- Underutilized Assets

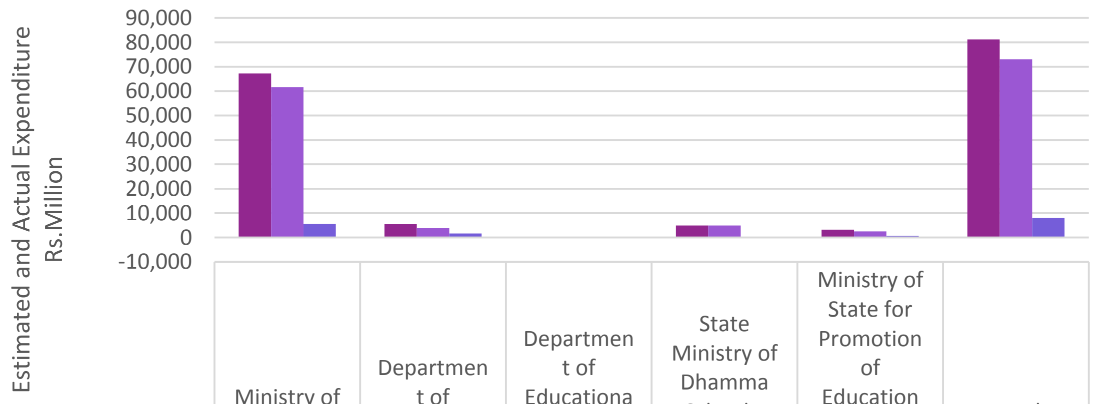
Education

With a view to directing the Sri Lankan community towards a knowledge based socio economic strata, the following duties and functions should have been accomplished in order to open opportunities required for the future generation to step toward the child friendly, knowledge based, innovative and excellent higher education system through the sustainable educational strategies.

- Providing policy guidance for the relevant State Ministry to establish a " A Knowledge based society" in keeping with the national policy framework "Vista of Prosperity and Splendour" and other national policies expected to be implemented by the Government.
- Formulation of policies applicable to the field of education in pursuance of the prescribed laws and Acts and Ordinances, implementation of projects under the national budget, government investments and the national development programme and implementation, follow up and evaluation of subjects and functions and related policies and programmes of the departments, state corporations and statutory bodies under the Ministry.
- Establishment of necessary institutional structure for the implementation of national education policies designed by the President's Task Force for the Education Reforms.
- 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.
- Formulation of a strategy to reduce the time taken for the university entrance.
- Upgrading facilities in the universities and the hostels.
- Effecting curricular revision within the entire education reform policy in order to produce the graduates targeting local and foreign job market.
- Provision of information technology facilities for universities.
- Making selections for Mahapola and bursary and expansion of facilities under a formal procedure.
- Taking steps to expand the Ocean University and the Kothalawala Defence University.
- Making effort to place all the universities on the top of the ladder of world university ranking.
- Providing facilities to encourage research and innovations within the university education.
- Eradication of Raging Culture from all the universities and higher education institutions.
- Taking measures to establish universities with smart education.

For the discharge of aforementioned functions, Parliament had made total net provision of Rs. 81,163 million for the Ministry of Education, 02 departments and 02 state ministries in the year 2021 and Rs. 73,063 million of the provision only had been utilized by the end of the year under review. Details appear in Figure 39.



	Ministry of Education	Department of Examination	Department of Educational Publications	State Ministry of Dhamma Schools, Purity and Monk Education	Ministry of State for Promotion of Education Reforms, Open Universities and Distance…	Total
Provisions Rs.Million	67,227	5,472	289	4,931	3,244	81,163
Expenditure Rs.Million	61,663	3,822	136	4,949	2,493	73,063
Balance Rs.Million	5,564	1,650	153	-18	751	8,100

Figure 39 – Estimated and Actual Expenditure
Source - Annual Financial Statements2021

Material and significant audit observations revealed during the audit test checks carried out in relation to the duties and functions performed during the year under review by the Ministry of Education and 02 State Ministries, 02 Departments and 02 Statutory Institutions, which are under the purview of the Ministry of Education are summarized and mentioned below.

Ministry of Education

- In terms of Section 25 of Assisted Schools and Training Colleges (Supplementary Provisions) Act No. 8 of 1961, no person shall establish any school for the education of persons who are between the age of five years and the age of fourteen years. Nevertheless, without mediation of the Ministry of Education, 319 international schools had been maintained as business establishments in addition to the private schools and 317 Madrasa Schools had been maintained as religious schools and those had not been subject to the supervision of the Ministry of Education.

- According to the provisions of the National Education Commission Act No. 19 of 1991, the National Education Commission had made recommendations in the years 1992,2003,2016,2018 and 2019 for creating a national education system that enables the approach to the world competition with self-confidence and confidence of success in accordance with the role of the Ministry of Education. Nevertheless, no specific and firm national education policy had been formulated even by the end of 2021.

- Although it was supposed to conduct schools for 229 days in the year 2021 under the condition of Covid-19 epidemic, schools were held for 102 days in the Western Province and only for143 days in the other provinces, and the school year had been extended up to 08 April 2022. The extent of learning loss to children had not been assessed. Even though the distance teaching method was adopted to cover the subjects of the lost school days, due to the signal problems and the lack of necessary technical facilities, students inability to connect to that process online, difficulty in joining online education due to the poor economic status of the parents, and the majority of teachers have little knowledge of distance education, it was not possible to achieve successful results from the relevant method. Although the National Institute of Education had proposed to prepare and implement a 100-day accelerated programme in the years 2021 and 2022 to cover the lost learning opportunities of the students in the years 2020 and 2021 due to the Covid-19 epidemic situation, the Ministry of Education had failed to implement that programme.

- According to the audit test check, 49 acres, 02 roods and 33 perches of lands belonging to 26 schools of the island, 07 acres, 01 rood and 25 perches of lands belonging to 03 teacher's training colleges and 91 acres and 24 perches belonging to a college of education had been illegally occupied by external parties, the follow up measures taken by the Ministry of Education was at a poor level.

- Even though the “Nearest School is the Best School” national programme designed to rebuild a centralized fully equipped school system to build a student generation nourished with knowledge and quality ended on 31 December, works of 05 principal quarters and 09 teachers’ quarters built in 03 provinces at a cost of Rs.7.3 million had not been completed even by 05 July 2022 and there was a Principal's quarters and a teacher's quarters for which Rs.6.52 million had been spent, though a physical progress could not be seen. According to the information submitted by 07 provinces relating to this project, 117 projects with an estimated value of Rs. 2,331 million, the work of which had been initiated, had been abandoned before its completion by the end of the year under review. A sum of Rs. 1,851 million had been paid and a sum of Rs. 1,756 was further to paid for those projects as at 31 December 2022.

- On 02 December 2019, the Minister of Education had submitted a Cabinet Memorandum titled “Making the entire teaching staff of Sri Lanka graduates and upgrading the national college of education to the status of a university faculty” and the policy approval therefor had been granted by the Cabinet Decision No. අමප/19/3353/219/006 dated 31 December 2019. Nevertheless, having appointed an expert committee as mentioned in the proposal included in the Cabinet Memorandum, the programmes required for the implementation of the proposal were in the stage of preparation.

- Nineteen colleges of education had been established to train teachers, for which more than Rs.2,200 million had been annually spent from the Consolidated Fund. Trainees should have been admitted annually to the colleges of education from the students who passed the General Certificate of Education (Advanced Level) examination. The admission of students for the national colleges of education based on the results of the General Certificate of Education (Advanced Level) 2018 examination had not been completed even in 2021 and the enrollment of students based on the results of the General Certificate of Education (Advance Level) examinations 2019 and 2020 had not been done even up to 22 May 2022.

- In terms of Public Administration Circular No. 05/2008 dated 06 February 2008 and No. 05/2008 (i) 24 dated January, 2018, every public institution should establish a citizen-client charter in the form of a written obligation to the effect that the needs of the public receiving services from a public institution are fulfilled promptly, efficiently, qualitatively and continuously. Nevertheless, the Ministry of Education, which provides various services, had not prepared and maintained a citizen-client charter as per the circular even by the end of 2021.
- Although Rs.3.73 million from the provisions of the Ministry of Education had been given to the State Ministry of Dhamma Schools, Piriven and Bhikkhu Education for a training programme of the Sri Lanka Institute of Development Administration, it had not been possible to complete this training programme even by the end of 2021.

Failure to evaluate productivity of programs

For the purpose of broadcasting the "Guru Gedara" educational programmes in order to continue the educational activities of the students whose educational activities were interrupted due to the closure of the schools in the face of Covid-19 epidemic situation in 2020, sums totalling Rs.226.9 million comprising Rs. 28.6 million and Rs. 198.3 million respectively in the years 2020 and 2021 had been paid to National Television by the State Ministry of Education Reforms, Open Universities and Distance Education Promotion. Nevertheless, the productivity of these programmes had not been evaluated.

Foreign loans and aid projects

- Although it had been proposed to establish a national level subject oriented/ software and computer inputs creation center at Pitipana North, Homagama as per the project feasibility report, subsequently, the Kuliapitiya Narangalawatta area had recommended for that purpose according to the Cabinet Decision No. අමප/18/1142/835/005 dated 13 June

2018. Again, according to the Cabinet Decision No. අමප/19/3468/219/016 dated 09 January 2020, a decision had been reached to use the unused portion of the 08 acre land currently being used by the Education Publication Department at the Homagama Divisional Secretariat Division for this purpose. As a result of hanging the proposed land related to the construction of the project from time to time, it was not possible actively implement the project despite the signing of the agreement in the year 2019 and the project period had also expired.

- According to Cabinet Decision No. අමප /18/1142/835/005 dated 13 June 2018, approval had been grated for the construction of 2 Provincial Information Technology Education Centers at premises of Nilwala College of Education for the Southern Province and at the Addalachchenei College of Education for the Eastern Province. Subsequently, decision had been taken to construct the Southern Provincial Information Technology Education Center at the Galle Pnagamuwa Amarasinghe School premises as per the Cabinet Decision No. අමප/21/1324/308/113 dated 26 July 2021 and to use the land depicted as Lot No.1 in the Original Plan on the Inner Harbour Road in Trincomalee district to construct the Eastern Provincial Information Technology Education Center as per the Cabinet Decision No. අමප/21/1655/308/113-1 dated 28 September 2021.Accordingly, the project could not be activated due to the change in the location of the centers from time to time although the loan agreement was signed in 2019. By the Letter No. SRI/31-2573 dated 09 November 2021, submitted by the Korea EXIM Bank, it had requested an assurance to the effect that the proposed location of the centers of this project would not be changed repeatedly. That assurance had not been submitted and it had been failed to implement the project within the project period of 2019-2021.

- With a view to minimizing the shortage of the teachers teaching the subject of Technology for the General Certificate of Education (O/L) and the General Certificate of Education (A/L) classes, providing opportunities for the students following the Technology stream to pursue higher studies as the trainee teachers in the field of Technology, and providing the teachers of the Technology stream with training in relation to the subject of Technology for their professional development, approval had been granted for the Cabinet Memorandum No. අමප/16/2647/742/036-1 dated 18 January 2017 submitted for the establishment of a National College of Education for the subject of Technology. By the notification indicated in the Order No.93 of 2017 published in the Extraordinary Gazette dated 19 April 2017, the possession of a land situated at Narangolla in the Divisional Secretariat Division of Kuliyapitiya West had been vested in the Secretary to the Ministry of Education. Although Rs.15.3 million had been spent by the " Nearest School is the Best School" project during the years 2019 and 2020 for the expenses including laying foundation stone of this project which was planned to be constructed on the Korean Government assistance, works of the project have been discontinued at present. Due to the delay of this project, the Korea International Cooperation Agency (KOICA) had quit the constructions of the project according to the revised work agreement and the responsibility thereof had been entrusted to the Ministry. Nevertheless, the Ministry had failed to start the constructions of this project even up to 31 May 2022, the date of audit.

National Commission for UNESCO

- Inaugurating in the year 2005, the Sri Lanka National Commission for UNISCO was established in accordance with the Cabinet Decision No. අමප/08/1742/316/086 dated 24 September 2008 and the Bill drafted for provision for the matters connected or incidental thereto was forwarded to the Department of Legal Draftsman in the year 2008. Nevertheless, the Act had not been finalized even by the end of the year under review.

- Even though appointment of the staff of the Commission and making payments should have been done by an Act, without being approved the Act, appointment of the staff of the Commission and making payments had been effected on the Cabinet Approval No. අමප/08/1742/316/087 dated 04 October 2006. However, it had been informed according to the Letter No. DMS/0039/TEM dated 27 April 2016 of the Director General of Management Services that a post of Coordinating Officer cannot be approved under the Ministry of

Education for the UNESCO Permanent Agency in France. Nevertheless, an officer had been attached to the UNESCO Permanent Agency in France and the Ministry of Education had released Rs. 35.65 million to the Ministry of Foreign Affairs as her remuneration from the year 2017 to 31 December 2021.

- Having deposited a sum of Rs.10.26 million belonging to the UNSCO Scholarship Fund in a bank current account in the year 2015, award of scholarships had been commenced in the year 2017. The Fund remained underutilized for about two years and the award of these scholarships had been stopped from May 2021.

Procurement

- With the objective of assuring the credibility of the candidates by getting a better finishing for the question papers and securing the maximum confidentiality, the Department of Examination had purchased a Wide web digital printing machine at a cost of Rs.546 million in the year 2018. Even though 4,898,000 copies of question papers had been printed for the General Certificate of Education (A/L) examination related to the year 2021 conducted in the year 2022, only 509,000 copies had been printed with this printing machine and it had been 10 per cent of the total number of question papers printed. The number of question papers printed for the General Certificate of Education (O/L) examination related to the year 2021 conducted in the year 2022 was 7,845,825 and 46,125 copies only had been printed with this machine and it was as low as 0.58 per cent of the total number of question papers. Further, the Wrapping Solution the machine purchased at a cost of Rs. 8.4 million in the year 2018 remained idle from the date of purchase without being utilized.

- Although the construction of six storied multi-purpose building which was commenced in the year 2017 and scheduled to be completed by 02 February 2019 had been awarded to the Engineering Corporation for Rs.564 million according to the Cabinet Decision No. 13/1030/530/01/15 dated 06 May 2014 for the use of the Department of Examination in order to conduct school examinations institutional examinations, lessen the closure of schools for evaluation activities, use as the answer scripts collection center and to panel the answer scripts protectively as per the proposal of the expert committee appointed to investigate the issues cropped up in relation to the results of the General Certificate of Education (Advanced Level) Examination 2011, works had not been completed even by 31 July 2022. Sums totaling Rs.258 million had been paid for the construction by 31 December 2021 including Rs.58 million to the Central Engineering Consultancy Bureau and Rs.200 million to the State Engineering Corporation.

- A proposal had been made by the budget 2015 to construct a hostel building in the South Asian Centre for Teacher Development at Meepe at an estimated cost of Rs.198 million with the intention of providing hostel facilities for 100 local and foreign teaching students in relation to the National Institute of Education. Accordingly, the constructions had been started on 20 February 2018 and it was scheduled to be completed on 05 December 2019. A sum of Rs.151 million had been paid by 31 December 2021, but extensions had also been obtained on 06 occasions. Nevertheless, constructions had not been completed even by 11 July 2021. Further, approval of the Urban Development Authority had not been obtained to carry out this construction even by 31 December 2021.

Printing Text Books

Since the Education Publications Department had printed text books without properly identifying the annual requirement of the students following the studies in the island and the necessary stores facilities were inadequate, books worth Rs.84 million and Rs. 8.5 million had been disposed in the years 2018 and 2021 respectively and it had been once again identified that books valued at Rs.9.7 million were required to be disposed of by the end of the year 2021.

Uneconomic Transactions

The National Education Commission that had been maintained in a building with 10,000 square feet in Nugegoda on a monthly rental of Rs.650,000 had been shifted to a space with 4,748 square feet in a Bandaranaike Memorial International Conference Hall at an monthly rental of Rs.1.42 million with effect from 01 July 2021. Therefore, the average annual cost of Rs.8.1 million incurred on the building rent, electricity, water, security and sanitary services had increased up to

Rs.17.1 million and the Commission had to bear an additional cost of Rs.9 million.

Underutilized Assets

Although the State Ministry of Education Reforms, Open Universities and Distance Education Promotion had purchased equipment on the proposal to construct studios under the Provincial Education Departments in 09 provinces for the use of "e-Thakshilawa" Learning Management System in the Regional Information and Technology Education Centres under the budget proposal 2021, studios had not been established in 05 provinces up to 31 May 2022 and therefore, equipment costing Rs.15.3 million provided for those provinces remained idle.

Higher Education

Audit Observations

- Delays in project completion
- Unauthorized transactions
- Non-recovery of money paid to grantees who had canceled postgraduate courses
- Non-filling of student vacancies in universities
- Non-submission of research reports by research grantees
- Underutilization of funds in universities
- Underutilized assets
- Outsourcing of consulting services
- Non-recovery of money due to breach of bond
- Non-performance of duties related to money charged from
- Non-economic transactions

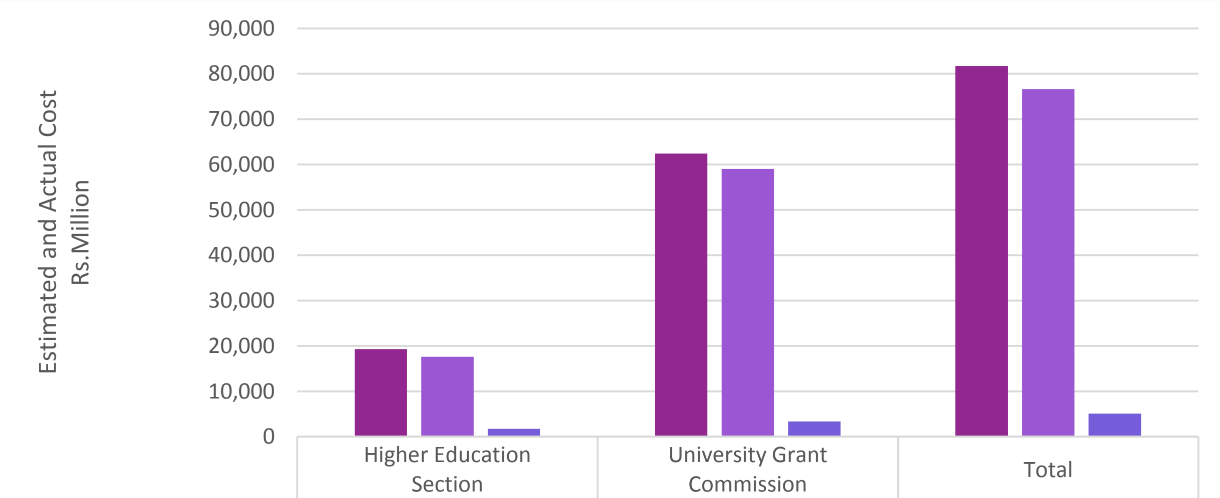
Higher Education

Our country, which will become a middle-income country through building a strong economy, a unique sector in the journey towards a developed country is assigned to the field of higher education. According to the education system in force in the country, after passing the General Certificate of Education (Higher Level) examination the children enter the field of higher education, this department is entrusted with the responsibility of releasing the children into society as a intellectual who are compatible with the world of modern technology. The role of the higher education sector extends to opening up local and foreign educational opportunities for higher education, increasing the employability of graduates by increasing its quality, increasing research and innovation, etc.

Also, in order to achieve these higher education opportunities, the following tasks should have been performed by the Higher Education Division, the University Grants Commission, and the 39 state universities and higher education institutions established under it:

- Planning and coordinating university education in accordance with national policy.
- Distribution of funds appropriated by Parliament in relation to university education among institutions of higher education, and control of expenditure incurred by each such institution of higher education.
- Maintaining academic standards in higher education institutions.
- Regulation of administration in higher educational institutions.
- Regulating, admission of students for each institution of higher education and to implement and perform such powers, duties and functions as are delegated, granted to the Commission by or under the Universities Act No. 16 of 1978.

In order to carry out the above-mentioned functions and tasks, the Parliament had given Rs. 19,322 million and Rs. 62,395 million respectively to the Higher Education Division and the University Grants Commission in the year 2021 and by the end of the year under review, Rs. 17,579 million respectively. And only Rs. 59,038 million had been utilized. The detail diagram is shown in Figure 40.



	Higher Education Section	University Grant Commission	Total
Provisions Rs.Million	19,322	62,395	81,717
expenditure Rs.Million	17,597	59,038	76,635
Balance Rs.Million	1,743	3,357	5,100

Figure 40 - Estimated and Actual Cost

Source - 2021 Annual Financial Statements

The audit observations revealed during the sample audit check on the utilization of the above provisions are summarized below.

Delays in project completion

Based on the Cabinet decision dated April 05, 2021, it was decided to establish the Faculty of Medicine at the University of Moratuwa with the aim of increasing the number of doctors available to improve the existing national health standards, but due to the non-acquisition of the private land identified as per the Cabinet decision, the new Faculty of Medicine needs It was not possible to complete the contract with the Kuwait Fund for the design and construction of the building complex and the local allocation of Rs. 200 million allocated for this purpose during the year under review was also not able to be utilized.

Saudi government with the signed doing received an agreement the North West University City Development Project which was planned to be implemented at a project value of Rupees 4 077 million although the project started on October 24 2017 and was supposed to be completed by December 31 2020 , after extending the project period on two occasions , 2024 The work was supposed to be completed on May 31 and by the end of the year under review only 29 percent of the physical progress had been achieved at a cost of Rs.168.66 million.

The 12-storey Faculty of Medicine building of Ruhunu University, which is being construct on an estimate of Rs.1,180 million, was started on October 30, 2017 and was supposed to be completed by November 23, 2019, but due to the delay on the part of the contractor, the contract agreement was canceled on December 23, 2019 and Although the bank was informed to encash the advance bond, failed to recover the advance amount of Rs.155.3 million paid to the contractor.

The contract for the construction of the five-storied building worth Rs. 252.3 million at the Colombo campus of Sri Lanka Buddhist and Pali University was awarded on 02 October 2019 on the condition of completion in one year. On November 18, 2019, an advance of Rs.14.51 million was given to the contractor, but by December 31, 2021, the construction work had not started. Thus, for more than 2 years, a private contractor was allowed to keep the government money While the money was not recovered.

Unauthorized transactions

The Director General of National Budget has canceled the lease agreement of the 3,337 square feet building at Ward Place, which was obtained by the University Grants Commission for a monthly rent of Rs.350,000 in the year 2017 and to obtain a building consisting of 7,000 square feet for a monthly rent of Rs.950,000 approval was given on 2020 November 09. However, contrary to that approval, due to the fact that the new building was acquired on a rental basis without canceling the rental agreement of Rs.350,000 per month, an additional amount of Rs.4,200,000 had been paid as building rent in relation to the year under review.

The Open University of Sri Lanka had hired 39 academic officers and 179 non-academic officers on contract basis without obtaining the approval of the Management Services Department and only on the approval of the governing body of the university and had paid an amount of Rs.100.6 million as allowances for the year 2021.

Non-recovery of money paid to grantees who had canceled postgraduate courses

During the period from 2009 to 2020, the University Grants Commission had given 725.6 million rupees to 416 grantees for postgraduate studies, but 143 grantees had canceled their postgraduate studies. Due to the resignation of 14 staff members who had canceled their post-graduate courses, Grants of Rs.24.04 million have been given a period of 5 to 10 years had passed but failed to be recovered until December 31, 2021.

Non-filling of student vacancies in universities

For the period from 2016/2017 academic year to 2019/2020 academic year, there were 192 to 220 vacancies after the admission of students to the universities, but 798 students had lost their university admission due to the lack of re-admission for those vacancies.

Non-submission of research reports by research grantees

Research grants of Rs.137.3 million have been paid to 358 academic staff members in 17 departments of Ruhunu University's Karapitiya Faculty of Medicine, but the inter-research reports to be submitted to the Research Management Committee by the recipients of the research grants have not been submitted from the past 04 years to the end of the reviewed year.

Underutilization of funds in universities

As at the end of the year under review at University of Moratuwa, 22 scholarship funds of Rs. 9.6 million had not been utilized for a period of 03 years to 11 years while a new account called "Awards and Scholarships" was opened using Rs. 3.4 million which was the sum of 22 scholarship funds which were inactive as of December 31, 2020 and an amount of Rs. 10 million was transferred from the University Development Fund to that account during the year under review. Related to that the criteria for awarding the scholarships were not identified.

A total of 112 funds in the form of 21 research funds, 54 external research funds and 37 special funds in Sri Jayewardenepura University as of December 31, 2021 amounting to Rs.633 million were not utilized for the relevant purposes during the year under review.

Underutilized assets

Although only 03 floors out of 05 floors that were to be completed in the Leadership Quality Development Center building constructed at the Institute of Advanced Technology in Dehiwala were completed at a cost of Rs. 113.8 million and handed over to the institution on February 21, 2017, Due to non-completion of work on the remaining two floors, this building remained idle till December 31, 2021.

Outsourcing of consulting services

Although an income of Rs.292.6 million was earned during the year under review through engineering consultancy services provided by the University of Moratuwa to external parties, during the year under review, Rs. 7.4 million had also been spent for obtaining consultancy services from external parties for the construction projects being carried out within the university premises.

Non-recovery of money due to breach of bond

Due to the fact that 36 lecturers who went abroad on study leave of the University of Moratuwa did not report back to work, the sum due on December 31, 2021 was Rs. 55.3 million in the bond amount, the sum due from 09 lecturers who had exceeded 25 years was Rs. 5.8 million.

Due to non-reporting of 41 academic and non-academic staff officers who went abroad on study leave of the University of Sri Jayawardenepura, the bond amount of Rs.117.3 million due on December 31, 2021 had failed to be collected.

31 officers who were employed at the Open University of Sri Lanka from the year 1989 to the year 2021 who broke the bond agreement due to not reporting back to work, 71.4 million rupees to be recovered had failed to be collected by the end of the year under review. In this, between 1989 and 2015, 19.9 million rupees to be collected from 11 officials who breached the bond agreement from the date of breach of the agreement and the amount to be collected from 09 officials from the year 2017 was Rs. 9.8 million.

Non-performance of duties related to money charged from

In the year 2020, to conduct courses, seminars and examinations of the external degree and extended course unit of the University of Sri Jayawardenepura, Rs. 115.2 million had been collected from the students but the related tasks had not been completed.

Non-economic transactions

Dehiwala Institute of Advanced Technology has installed a solar energy system at a cost of Rs.19.8 million to reduce electricity costs, and although the work was completed on June 07, 2019, the institute has failed to obtain the wholesale electricity connection required to operate the system from June 2019 to 2021. Consequently, the amount of Rs. 3.4 million that the institute had paid for electricity up to December had been a useless expenses.

Skills Development and, Vocational Education

Audit Onservations

- Drop of Students Participation in the Courses
- Qualitative and Quantitative Development of the Vocational Training Programmes
- Inadequacy in the implementation of the Self-Employment Promotion Initiative Loan Scheme
- Failure to Achieve Expected Output Level
- Delays in the Execution of Projects
- Projects without Progress despite the Release of Funds
- Idle or Underutilized Assets
- Non-compliance with laws, rules and regulations
- Failure to update skill standards
- Irregularities in the open competitive examination conducted for recruitment of apprentices
- Uneconomic Transactions
- Deficiencies in the Contract Administration
- Underutilization of Funds

Skills Development and, Vocational Education

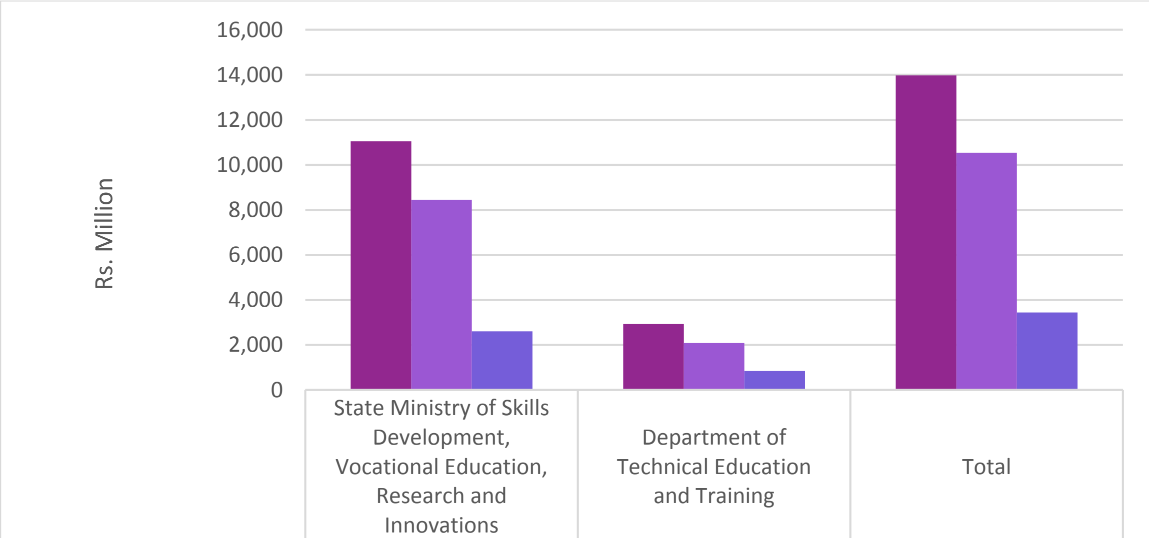
The following functions should have been performed by the State Ministry of Skills Development, Vocational Education, Research and Innovations, a department and 18 statutory institutions under the purview of the State Ministry for creating technologically nurtured society by heralding the 2021-2030 Decade of Skills Development in line with the Government's national policy framework "Vistas of Prosperity and Splendor " 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.

- Imparting technology and advanced vocational education disregarding educational qualifications.
- Networking all the vocational training institutions under the "One TVET" concept while all the vocational training institutions are subjected to the evaluation.
- Expanding the Ceylon German Technical Training Institute
- Increasing the present scheme of 7 levels of National Vocational Qualification (NVQ) to level 10.
- Providing education opportunities to pursue vocational education up to Postgraduate levels.
- Amending the curricula for the development of soft skills by including Information Technology, English and other languages.
- Taking measures to provide vocational education focused on domestic and foreign job markets.
- Establishing Information Technology (IT) Entrepreneurship
- Establishment of city universities
- Establishing Sri Lanka as an Innovation Hub by maximizing the use of Internet, 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

The provision made for the discharge of the above functions of this Ministry in the year 2021 was Rs. 13,978.1 million and Rs. 10,534.4 million thereof had been utilized. Accordingly, Rs. 3,442.7 million or 23 per cent had not been utilized.



	State Ministry of Skills Development, Vocational Education, Research and Innovations	Department of Technical Education and Training	Total
Provision Rs. Million	11,048	2,930.10	13,978.10
Expenditure Rs. Million	8,448	2,086.40	10,534.40
Savings Rs. Million	2,599	843.7	3,442.70

Figure 41 - Provision made and expenditure

Source - Annual Financial Statements, 2021

Audit observations made during the audit test checks carried out relating to performance of above functions are summarized below.

Drop of Students Participation in the Courses

Though there was an annual increase in the demand for fulltime courses of the Ceylon-German Technical Training Institution during the past 05 years, the management had taken measures to enroll a minimum number of students at a fixed amount of 600 or 20 per cent annually without increasing the enrolment to the courses in keeping with the increasing demand. Similarly, no attention had been focused to increase the number of students and the courses conducted in the 03 regional centres. Therefore, it had restricted the opportunities for advanced level students who lost the university entrance to acquire vocational training.

Qualitative and Quantitative Development of the Vocational Training Programmes

- Although recruitment of an adequate academic staff should be made and the opportunity to participate them in sufficient training programmes related to the subject area should be provided in relation to improve the quality of the vocational training programs, there observed lack of experienced instructors and lack of adequate training programmes.

- Since the students participation in certain training courses conducted in the training centers under the Ministry remains low, it was observed that the government incurs a large cost per student in calculating the overhead cost and lecture costs incurred for a single student.

Inadequacy in the implementation of the Self-Employment Promotion Initiative Loan Scheme

- Whilst not being registered any loan application in the year 2020 under the Self-Employment Promotion Initiative Loan Scheme implemented under two stages, estimated provisions of Rs.90 million had been made for the year 2020. Due to the lack of a proper loan plan and the number of target beneficiaries had not been decided, Rs.80 million or 89 per cent of the allocated amount had been transferred to another Object. Only three borrowers had been registered during the year and Rs. 1.5 million had been distributed at Rs. 05 lakh each.

- According to the loan agreement, loans can be given for the purchase of basic equipment and raw materials required to begin a self-employment business. Although nearly 38 per cent of people had obtained loans to expand their businesses, nearly 14 percent had not used the relevant loan money. Accordingly, the audit revealed that the expected objectives of the loan scheme have not been achieved due to not properly carried out the ministry's intervention and follow-up activities.

Failure to Achieve Expected Output Level

- Though provision of Rs. 100 million had been allocated for the year under review for the project of starting 05 city universities identified under special priorities in Gazette No.

2209/14 dated 04 January 2021, only basic constructions and land acquisitions of 03 city universities had been initiated at a cost of Rs.6.11 million by the end of the year.

- Although it had been targeted to provide bursary to 55,000 students with the provision of Rs. 500 million allocated under the budget proposals of the year under review with the objective of expanding vocational training opportunities for the youth community by doubling the number of students involve in vocational education, only 142.4 million had been disbursed as bursary to 26,730 students by the end of the year.
- Plans had been drawn to construct a 06-storey hostel in Attidiya area for the students of the Ceylon- German Technical Training Institute at an estimated cost of Rs.756 million by the Sectoral Skill Development Fund starting in the year 2018 and to be completed by 25 October 2020. A sum of Rs.559.7 million had been spent for the construction, but the physical progress thereof was only 75 per cent by the end of the year under review.

Delays in the Execution of Projects

- According to a Cabinet decision dated 20 June 2017, approval had been granted to establish a Kinnia University College in Trincomalee district at a cost of Rs. Rs. 434 million. Although 8.9 million had been spent in the year 2019 for obtaining consultancy services and constructing a staff residence, the hostel built remained idle until 31 December 2021 due to the non-construction of the college.
- Up on the approval received in the year 2017 to construct a student hostel at a cost of Rs. 300 million for 400 students of the Kilinochchi Sri Lanka German Training Institute, a sum of Rs.6 million had been spent in the year 2018 for the payment of consultancy fee. Nevertheless, action had not been taken to construct the student hostel up to 30 June 2022 and therefore the amount spent had become fruitless.
- The proposal to start a Social Innovation Lab costing 80 million was presented with the aim of starting in the year 2018 and completing by the end of that year under the Cabinet approval received in the year 2017. For that purpose, the Secretary to the Ministry and the Director of the United

Nations Development Programme (UNDP) of Sri Lanka had reached a concurrence and signed an agreement. Although Rs.35 million had been spent for its operating activities from the year 2017 to 2018, no written document whatsoever related to that expenditure was furnished to audit. Accordingly, it was revealed in the audit that the Rs.35 million spent had become fruitless.

- For the construction of a five-storied building in the head office premises of the Ocean University at Mattakkuliya with the objective of developing the classroom, lecture hall and laboratory facilities of the university, a sum of Rs.6.5 million had been spent out of the additional provision of Rs.300 million granted under the budget proposal, 2016 for preparing plans and for soil testing. Nevertheless, the building had not been constructed even by the end of the year 2021. As a result, having obtained a building on rent from an outside party from the year 2018, an expenditure totaling Rs. 109.9 million had been incurred including Rs.96.4 million as building rent and Rs.13.5 million as electricity and other expenses as at 31 December 2021.

Projects without Progress despite the Release of Funds

- Even though Rs. 280 million had been paid to the Urban Development Authority in order to take over the necessary plot of land for the establishment of a National Science Center on the approval given by the Cabinet Paper No. අමප /16/0167/716/008 dated 11 February 2016, it had not been possible to take over its right to the Ministry even by the end of the year 2021. Further, a sum of Rs. 2,819,711,538 had been estimated in the year under review to complete the constructions within a period of 24 months, whereas constructions had not been initiated.
- Although Rs. 80 million had been allocated for 05 projects recognized in the year under review in relation to the research and invention sector with the vision of making this island a developed county in the year 2030 through science, technology and innovation, a sum of Rs. 7.68 million which is 9.6 per cent of the allocated amount only had been spent.

Idle or Underutilized Assets

- One hundred and fifty seven devices worth totaling Rs. 15.7 million given to the Orugudawatta Korean Tech

Institute under the Vocational Training Authority from the Korean loan project for the construction of the Colombo Vocational Training Center and Gampaha Technical College in the year 2019 remained idle without being used for any purpose and 07 other devices worth totaling Rs.1.8 million also remained idle. Similarly, despite not having approved posts of medical officer or nurse to that institute, medical equipment worth Rs.3.5 million used by the medical officers and medicines had been provided and medicines had expired without being used.

- Two lands which had been acquired on long term lease basis in the years 2017 and 2018 after paying 43.3 million to the Urban Development Authority and Land Reform Commission for constructing new vocational training centers remained idle even by the end of the year under review without being used for the relevant purposes.
- Without being conducting a pre-feasibility study, the existing hotel school in Ahangama had been renovated at a cost of 124.7 million under the Skills Sectoral Development Fund during the period of 2016 and 2018 in order to convert it to a tourist hotel on the approval of the Board of Governance of the Vocational Training Authority, and equipment worth Rs.37.6 million had been purchased for that purpose. Nevertheless, those assets remained idle even by the end of the year under review without being used for any purpose.
- Although 14.9 million worth of training equipment had been purchased by the 02 hotel schools in Pothuvil and Karainagar for the cookery course, that equipment remained idle from the year 2016 to December 2021 due to not taking action to start the courses.

- Due to not making recruitments to the posts of hostel warden and other supporting posts and not providing water facilities to commence hostels in 16 rooms in a national training center, 02 hotel schools and 12 rooms in constructed two storied 02 buildings to provide hostel facilities to the apprentices, those buildings and equipment remained idle from the year 2017 to 31 December 2021.

- Twenty two hotel rooms built at a cost of Rs.91 million in Ampara and Jaffna districts with the intention of providing facilities to the tourists and household appliances worth Rs.6.1 million purchased without preparing the basic utility plans and contrary to the objectives of the Vocational Training Authority remained idle from 2017 even up to 31 December 2021.

- For the purpose of selling furniture produced by the apprentices of Katubedda Industrial Engineering Training Institute, although a showroom had been constructed at a cost of Rs.18.8 million in the premises of the institution during the period from 2014 to 2016, it was observed that the relevant building remained idle till date without being used.

- The student hostel and the staff dormitory, which had been completed in December 2019 at a cost of 9.1 million in Orugudawatta Motor Mechanic Engineering Training Institute and the equipment purchased therefor remained idle even by the end of 2021 without being used for any purpose.

- Library books worth Rs. 1.1 million received by the National Apprenticeship and Industrial Training Authority on 29 October 2019 from the Asia Foundation as a donation had been kept in storage without being released to the libraries even as at the date of audit on 11 February 2022.

- Although the Arthur C. Clarke Institute for Modern Technologies had signed a memorandum of understanding with a Chinese agency in 2013 for a project to establish a national center for acquiring and disseminating Earth observation data, it could not be started even by the year 2022. Similarly, the land containing 12 acres in Talagala area that had been selected for this project remained underutilized since 2019.

- Although the Arthur C. Clarke Institute for Modern Technologies had purchased an unmanned aircraft in August 2016 at a cost of 10.7 million for the purpose of obtaining photographs for archaeological research and excavation work on behalf of the Department of Archaeology, the relevant aircraft had not been used even by 25 May 2022, the date of audit.

- The Sri Lanka National Engineering Research and Development Center had spent Rs. 4,522,370 to buy computers and accessories in the year 2021. Although the number of officers in the center is 143 at present, the institute had 222 usable computers (Desktop, Laptop, Notebook, Tablet) and accordingly, it was observed that 79 computers had been bought exceeding the number of officers who need computers.

Non-compliance with laws, rules and regulations

- According to the Circular No. PED/2020 dated 27 January 2020 of the Secretary to the Treasury, it had been informed that new recruitment should not be made during the appointment of new chairmen. Nevertheless, recruitments had been made for two consultant positions that are not included in the approved cadre of the Vocational Training Authority and a total of Rs. 1.7 million had been paid as allowances and fuel allowances during the year 2021.

- According to Management Service Circular No. 05/2017 dated 25 October 2017 of the Secretary to the Treasury, professional allowance can be paid from 01 October 2017 only to officers who do not receive any special allowance other than the allowances approved by the circular in addition to the present salary. Nevertheless, for 9 officers of Tertiary and Vocational Education Commission and 8 officers of Vocational Training Authority who received 1/3 allowance of basic salary had been paid total of Rs.2.7 million from January 2018 to December 2021 and total of Rs. 1.7 million from October 2017 to December 2021 respectively as professional allowance.

Failure to update skill standards

In terms of Section 3.1.7 of the Nation Vocational Qualification Frame Work of Sri Lanka, Operation Manual – 2009 No. 20 of 1990, the skill standards should be updated once in 03 years and updates should be made in less time for rapidly changing technical fields, but skill standards and curricula related to 11 fields had not been updated since 01 to 10 years.

Irregularities in the open competitive examination conducted for recruitment of apprentices

- Due to irregularities taken place in the preparation of examination papers, printing of question papers and answer sheets, conduct of examinations, marking of answer sheets and giving marks and selection of apprentices in the open competitive examination for recruitment of apprentices for full-time courses in Orugudawatta Motor Engineering Training Institute for the year 2020, 20 unqualified apprentices were selected although there were 30 qualified apprentices for such courses. Although it had been since 01 years and 09 months form these matters being pointed out, no disciplinary action had been taken transparently against the officers involved in the irregularities even up to the year under review.

- A sum of Rs. 17 million due from 20 officials who violated the terms of foreign scholarship agreements of the Industrial Technology Institute had not been recovered by 31 December 2021.

- Although a pharmaceutical laboratory had been established in the Industrial Technology Institute at a cost of Rs. 99 million to avoid spending a colossal amount of money for availing pharmaceutical testing laboratory services from foreign countries, since it was not resorted to conduct the tests from this laboratory that are being carried out from foreign countries, the purpose of the establishment of the laboratory had not been fulfilled and accordingly, it had not been possible to prevent the foreign exchange on testing.

- The Sri Lanka Institute of Nanotechnology has entered into an agreement with an Indian company on 15 March 2012 for the transfer of Nano fertilizer development technology. The total value of the technical transfer was US$ 2,250,000 and it was to be recovered in four installments. Although the invoice for US$ 750,000 had been issued on 30 June 2013, it had not been recovered by the end of the year under review. Further, the invoice for the final installment amounting to US$ 500,000 had not been issued even as at the end of the year under review.

- Although the Sri Lanka Institute of Nanotechnology had spent Rs.182.9 million and Rs. 155.6 million as research and development costs respectively in the year under review and in the previous year, the company had not been able to create a market for the inventions of national importance discovered through research.

- Since the promotional activities for the enrollment of students for the free degree, diploma and certificate courses conducted by Ocean University remained low, the total number of students registered for the 8 centers in the years 2018, 2019 and 2020 was 569, 787 and 695 respectively. Accordingly, the cost per student for the years 2018, 2019 and 2020 had been Rs. 0.7 million, Rs. 0.6 million and Rs. 0.7 million respectively.

Uneconomic Transactions

- Even though multi-disciplinary research based on the targets of the National Research Council should be completed in 05 years, the research to improve a multivalent anti-venom for snake bites in Sri Lanka commenced in the year 2014 had not been completed till 31 December 2021 despite lapse of 07 years.

- Although the research to make Sri Lanka self-sufficient in milk production had been completed in the year 2020 at a cost of 41.7 million, the National Research Council had not carried out any monitoring and follow-up on the progress of the practical use of the technology identified by the research. Sri Lanka has not achieved the goal of achieving self-sufficiency in milk production at present.

- The task of conducting the research to ensure food security through the improvement of crop varieties and cultivation techniques suited to different climatic conditions in Sri Lanka had been entrusted to the Field Crops Research and Development Institute and the results of the research on improved varieties of rice, maize, green gram and green chillies have not been socialized, and the receipt of their progress to the National Research Council, their evaluation and follow up activities had not been carried out.

Deficiencies in the Contract Administration

The contract for renovation of Faculty Building of Vocational Technology University had been awarded to a private contractor for Rs.14.5 million on 10 September 2016 and an advance of 2.9 million had been paid on 12 September 2019. Although the contract should have been completed by 22 November 2019, the relevant work had not been initiated even by the end of the year under review, and the government's funds had been retained by an external party for more than a period of 2 years. Further, the validity period of the performance security obtained for this contract has expired on 19 June 2021 and no steps had been taken to extend the period.

Underutilization of Funds

The National Research Council had not taken action to identify the time frames applicable to the estimated costs for target based multi-disciplinary research that take a duration of 05 years or more, and accordingly to prepare the priority plans and receive the grants and use them efficiently. Therefore, sums totaling Rs.64.30 million (relating to 05 researches) had been retained in the current accounts for a period from 03 to 07 years as at 31 December 2021 without being used.

Buddhasasana, Religious and Cultural Affairs

Audit Observations

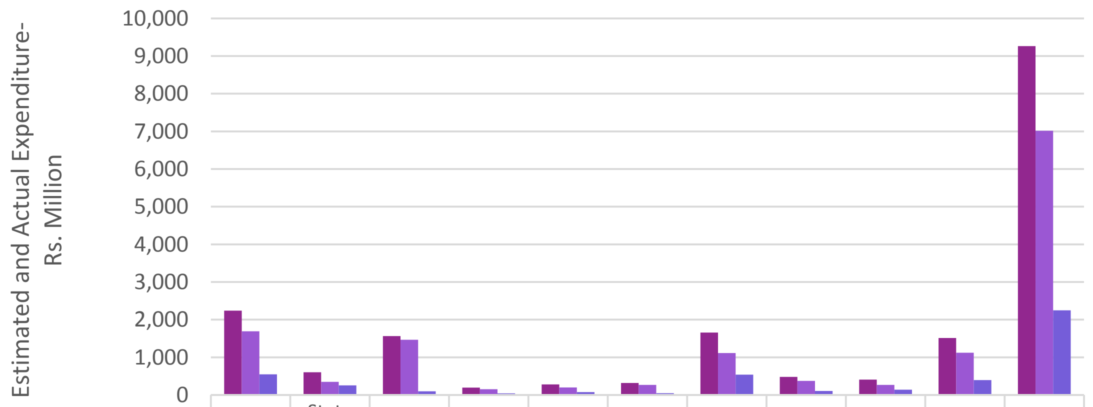
- Delays in Implementing Projects
- Management Inefficiencies
- Non-compliance with Laws, Rules and Regulations
- Irregular Transactions
- Losses and Damages
- Planning
- Procurements
- Management of Assets
- Activities Contradictory to the Main Objectives
- Performance
- Utilization of Provision Granted by other Departments and Ministries
- Failure to Discharge Functions

Buddhasasana, Religious and Cultural Affairs

The Ministry of Buddhasasana, Religious and Cultural Affairs, and the State Ministry along with other State Ministries, 08 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.
- To coordinate with the Presidential Task Force that manages the archaeological heritage in the Eastern Province.

Provision totaling Rs. 9,263 million had been granted by Parliament in the year 2021 to the Ministry, and the State Ministry & 08 Departments functioning thereunder to discharge the said functions. Only a sum of Rs. 7,014 million had been utilized therefrom by the end of the year under review, thus saving a sum of Rs. 2,249 million. Particulars are given in Figure 42.



	Ministry of Buddhasasana, Religious and Cultural Affairs	State Ministry of National Heritage, Performing Arts and Rural Art 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 of National Museums	Department of National Archives	Department of Archeology	Total
Net Provision (Rs. Million)	2,238	604	1,566	196	279	318	1,656	482	409	1,515	9,263
Expenditure (Rs. Million)	1,690	350	1,466	155	202	270	1,115	375	270	1,121	7,014
Savings (Rs. Million)	548	254	100	41	77	48	541	107	139	394	2,249

Figure 42 Estimated and actual expenditure.

Source : Annual financial statements – 2021.

A summary of significant and material audit observations made in audit test checks conducted on the performance of the Ministry and the Departments and Statutory Institutions thereunder in discharging those duties and functions, is given below.

Delays in Implementing Projects

- Without calling for bids, verifying the ICTAD registration, and considering as to whether the contractor had the necessary resources and staff, construction of cultural centers and cultural conservation activities at Mawathagama, Bamunakotuwa and Polgahawela had been entrusted to a contractor at the values of Rs. 14.66 million, Rs. 19.99 million and Rs. 11.08 million respectively. The constructions that should have been completed by 25 December 2016, 23 December 2016 and 03 January 2017 respectively, had not been completed and handed over even by December 2021.

- An agreement had been entered into on 30 November 2015 to implement a project for constructing a building to house the office of the museum in Hambanthota at an estimated cost of Rs. 22. 51 million. Payments totalling Rs. 18.09 million had been made for this project scheduled to be completed by 30 April 2016. The building had been taken over under the agreement that corrective measures would be taken on the defects, but the defects had not been corrected even by 31 December 2021.

- The project that had been commenced on 04 August 2021 under a cost estimate of Rs. 98.55 million for installing the fire extinguishing system at the library of the National Museum, should have been completed by 31 January 2022. Nevertheless, a period of 02 months had lapsed by March 2022 since the scheduled date of completion, and the physical progress of the project remained 35 per cent although a payment of Rs. 23.43 million had been paid thereon as at 31 December 2021.

Management Inefficiencies

- Leakages of water were observed at the lavatory constructed for the local and foreign devotees and the "ViharaMandiraya" at the Nagadeepa temple that had been renovated by incurring sums of Rs. 2.77 million and Rs. 4.5 million respectively out of the provision made for renovating the Buddhist temples in Jaffna district where the Vesak festival had been scheduled to be held at.
- Furthermore, the state Vesak festival scheduled to be held, had been cancelled in the wake of Covid-19 pandemic. However, the sum of Rs. 1.49 million paid to the Navy for canopies to be used for the temporary pandol and the stage for the Vesak festival, had not been recovered.
- In order to avert the difficulties and problems arising in constructions and maintenance of the Ministry of Cultural Affairs and the institutions functioning thereunder, the Cultural Conservation & Construction (Pvt) Ltd, fully owned by the Ministry, had been registered on 17 November 2008 in terms of Companies Act, No. 07 of 2007. However, construction works of the Ministry and the institutions thereunder entrusted to the Company during the period 2009-2010, had been

assigned to sub-contractors at a profit margin of 05 per cent. As such, the said difficulties and problems remained further.

- Furthermore, financial statements for the years 2018/2019, 2019/2020, and 2020/2021 of this Company, fully owned by the Ministry, had not been furnished to the Auditor General for being audited. The Secretary to the Prime Minister had been requested on 05 July 2021 to liquidate the Company which is completely non-functional at present, but the liquidation process had not been commenced even by the date of this report.

- Contrary to the Letter, No. SA/AMP/Deposit/Transfer of the Director General of State Accounts dated 09 January 2020, action had not been taken even up to the date of audit to consider the NelumPokuna Theatre as a seperate project and make provision through the budget for its maintenance thus crediting the income to a suitable Head of expenditure through the Department of Fiscal Policies. Transactions had been performed through the Deposit Account, No. 6000-0-0-020-009-0.

- Electricity charges of the NelumPokuna Theatre for the months of May and June 2021 in which the quarantine curfew had been in effect, amounted to Rs. 1.45 million and 1.26 million respectively whilst the electricity charges for the month of September 2021 in which no activity had been performed, were as high as Rs. 1.52 million. Furthermore, given the category of KVA-209152249 under General Purpose-03 of the billing method being followed, price per unit of electricity remained higher. However, action had not been taken to reduce the charges on electricity by changing this billing method.

Non-compliance with Laws, Rules and Regulations

- The contract value of Rs. 02 million had been paid in full on 15 December 2021 before completion of the official website of the Mahinda Rajapaksa National Tele Cinema Park without having a certificate of completion contrary to Guidelines 8.12.4, 5.4.6 and 5.4.8 of the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka. The website remained non-functional and inaccessible to the public even by the date of audit on 31 March 2022. The payment had been made without deducting the retention monies. The performance security that should have covered maintenance period of the contract being one year after installation, had been obtained to be effective only for 06 months following the installation.

- The Huj Fund being maintained by the Department of Muslim Religious And Cultural Affairs had not been established through a Parliamentary Act in terms of Section 3.3 of the Public Finance Circular, No. PF/423 dated 22 December 2006. No action has thus far been taken either to wind up or legalize the Fund.

Irregular Transactions

- According to technical cooperation agreement with China Relating to the maintenance of NelumPokuna Theatre, the Chinese company had been facilitated to import the machines, equipment and accessories for maintenance works under tax waivers. The Ministry had paid Customs duties totalling Rs. 14.37 million in 09 instances on items imported by the Chinese company from January to July 2021. Ownership of the items so imported, belonged to Sri Lanka, and 74 items of 19 capital goods kept in the stores after being imported for maintenance works, had not been taken over by the Theatre.

- A building had been given on lease to the Handicrafts Board by the Department of National Museums for a period of 10 years from 10 August 2011 to 31 July 2021. The Board had done renovation works of the building without being approved by the Department. Without consent of the Department, the Handicrafts Board had sought Cabinet approval in the year 2013 to extend the lease period up to 35 years. Assessment taxes, and water charges for the building had been paid by the Department. The value of outstanding lease rents receivable to the Department as at 31 July 2021, totaled Rs. 91.92 million. Furthermore, the monthly lease rent payable from August 2021 should have been based on the new lease agreement. However, the new lease agreement that should have been entered into under consent of both parties, had not been entered into, thus using the building to house the Handicrafts Board without paying lease rents in such a manner.

Losses and Damages

- A certain institution had submitted 02 bids relating to the purchase of baggage scanner for the NelumPokuna Theatre, and the bid opening committee had mentioned the values of Rs. 2,999,000 and Rs. 5,400,000 being the first bid and the second bid respectively. Nevertheless, the Technical Evaluation Committee had mentioned the value of Rs. 5,400,000 as the first bid and the value of Rs. 2,999,000 as the second bid thus rejecting the second bid. However, the bid value of Rs. 4,800,000 had been considered the lowest bid thereby recommending to purchase the machine from that institution causing a financial loss of Rs. 1.8 million to the Ministry.

- A building with a floor area of 6039 square feet in the municipality of Kandy Municipal Council had been obtained at a monthly lease rent of Rs. 01 million to house the office of the inter-statutory Board in view of protecting the Kandyanlegacy. The lease agreement had expired as at 31 October 2020, but procurement process had not been started by that time to select another location thus extending that agreement by 03 months up to 31 January 2021. The floor area required for the office was 3400 square feet, but due to extension given to the previous agreement for 03 months, an area of 6039 square feet had been agreed upon, and the sum of Rs. 18 million paid additionally in that connection had become a loss to the Ministry.

Planning

- According to the Cabinet Approval No. MSEW/CM/13/2017 dated 15 August 2017 relating to the inter-statutory Board for the protection of Kandyan legacy, 04 projects had been introduced relating to the protection of Kandyan legacy. However, activities had not been scheduled under those projects. Five projects for which provision amounting to Rs. 9.02 million had been made in the revised Action Plan of the Board, had not been implemented.
- The insurance scheme for artists should have been implemented under the same institution. However, provision amounting to Rs. 15 million had been given by the Treasury to the Tower Hall Theatre Foundation in view of "Preksha" artist insurance scheme intended for the drama artists whilst a provision of Rs. 10 million had been given to the State Ministry of

National Heritage, Performing Arts and Rural Art Promotion relating to accidents and medical insurance scheme for all the artists.

- Provision amounting to Rs. 100,000 had been given for issuing identity cards to the artists as mentioned in the Action Plan of the Department of Cultural Affairs whilst provision amounting to Rs. 02 million had been given to the State Ministry of National Heritage, Performing Arts and Rural Art Promotion for issuing an electronic identity card to the artists, thus incurring expenses to execute the same activity through 02 institutions.
- Sums of Rs. 04 million, Rs. 04 million and Rs. 32 million had been given to the Department of Cultural Affairs to be spent on national literary festival, assistance for cultural procession and "Posonhewisi Pooja" , and aid for artists in need respectively. However, in view of similar activities such as, national literary festival, cultural processions and other cultural activities, and providing livelihood support for artists, the Ministry of Buddhasasana, Religious and Cultural Affairs had also been given the sums of Rs. 20 million, Rs. 10 million and Rs. 05 million respectively thus incurring expenses to execute the same activities through the 02 institutions.

Procurements

- Renovation works of the temple "MahaNayakaWarikaramaya" maintained by the Department of Buddhist Affairs had been entrusted with the Navy at a sum of Rs. 16.38 million without entering into a formal agreement and preparing a procurement timetable. The repairs commenced in April 2021 had not been completed even up to the date of this report. Furthermore, action had not been taken to vest the rights of the land of the building in the Department.
- Without calling for competitive bids contrary to Guideline 3.2 of the Government Procurement Guidelines, payments totalling Rs. 202.73 million had been paid by the Department of Buddhist Affairs to the Department of Government Printing in the year 2021 for printing Dhamma school text books and applications.
- Contrary to the Cabinet decision presented in September 2011 for renovation of the John De Silva Memorial Theatre, the Theatre had been demolished in November 2013 by incurring a cost of Rs. 3.64 million. Nevertheless, a Cabinet Paper had

again been presented in February 2014 for renovation of the Theatre.

- Although the building had not been handed over by completing constructions, the final payment of Rs. 38.66 million had been paid. Without having a certificate for completion of works. Of the retention monies amounting to Rs. 19.33 million, a sum of Rs. 9.66 million or 50 per cent had been refunded. Although the constructions had been delayed by 03 years, the penalty for delay amounting to Rs. 38.66 million had been refunded to the contractor without proper approval and justifiable verification. Additionally, a sum of Rs. 9.26 million had been paid on the price variations in the bills relating to the delay of 03 years, and this sum was a loss to the Department of Cultural Affairs.
- Construction of floor, walls, and ceiling of the building of National Art Gallery for which provision amounting to Rs. 69 million had been made in 04 instances for modification and conservation, had been estimated to the value of Rs. 11.78 million by the Sri Lanka Navy, and those works had been done through an external party without being approved by the Procurement Authority. Having exceeded the estimate by Rs. 7.87 million, a sum of Rs. 19.65 million had been paid to that institution. The consultancy firm had not properly supervised or evaluated the works so done.
- Furthermore, a sum of Rs. 108.12 million had been incurred for constructions under Stage 02 as at 31 December 2021. However, provision amounting to Rs. 92.49 million only had been approved through a Cabinet Decision as at 22 July 2021, thus incurring a sum of Rs. 15.63 million without being approved.
- The contract for renovation of the main office building of the Department of National Archives had been awarded to the Central Engineering Services (Pvt) Ltd at a cost of Rs. 992 million whilst the Central Engineering Consultancy Bureau had been entrusted with the consultancy. The agreed period of contract was from 07 January 2019 to 07 July 2020, and that period had been extended up to 18 May 2021. Although a draft Cabinet Memorandum had been presented to the Ministry to further extend that period up to 30 July 2024, approval had not been given thereon up to April 2022. The renovation works and other activities had not been completed even by May 2022.

Management of Assets

- The Department of National Archives maintains about 700 volumes of archives comprising inherited assets with national level significance such as, books, registers, ancient agreements, ola leaf scripts, and confidential documents. Those invaluable assets had not been disclosed in the financial statements, and a survey had not been conducted on those assets thus failing to furnish survey reports to the Audit.
- A large number of ancient coins found in archaeological sites had been kept at records and numismatics section , laboratory section and zonal offices of the Department of Archaeology over a longer period without being properly documented. Although documenting those coins had been started as per the report of the Auditor General for the year 2020, it had not been completed even by April 2022.

Activities Contradictory to the Main Objectives

- As for the works of awareness and introductory programme on “Mahavamsa”, construction of wall around the WalisinghaHarischandra Center, and landscaping and installation of air conditioners at the “UthuruDakunuMithuruSevana”, Mihintale, provision amounting to Rs. 2,000,000, Rs. 800,000 and Rs. 300,000 had been made through the annual Action Plan for the Department of Cultural Affairs. However, without executing the intended works during the year, sums of Rs. 1,285,867, Rs. 669,405 and Rs. 97,189 had respectively been incurred on other activities.
- Having utilized provision allocated for the Department of Cultural Affairs under the Object, 206-2-3-4-1508 to provide assistance for the artists in need, a sum totalling Rs. 4.25 million had been incurred for giving prizes to 170 “Kalabhooshana” awardees each receiving Rs. 25,000.

Performance

Vacancies existed for 61 professional officers relating to the archival works of the Department of Archives. The scarcity of officers had caused delay in the management of archives.

Utilization of Provision Granted by other Departments and Ministries

A net provision of Rs. 31.07 million had been made as per revised estimates of the year 2021 for the Rajagalathenna archaeological conservation project implemented during 2012-2022 under funds from the United States at an estimated cost of Rs. 323.8 million. However, due to suspension of various activities of the project by the end of the year 2021, works of 02 mining sites and 05 conservation sites had been concluded. Accordingly, having spent a sum of Rs. 17.9 million from the revised provision, a financial progress of 58 per cent and a physical progress of 77 per cent had been acquired.This project should have been completed by the year 2022, but it could not be so done due to financial and other issues faced at the present day.

Failure to Discharge Functions

- The sum of Rs. 1.49 million donated by a Government Corporation to the Department of Archaeology for conservation of frescos at the Kelani temple, had been credited to the Government revenue on 11 December 2020. Instructions had been given at a meeting held under patronage of the Secretary to the Line Ministry in the year 2021 that those funds be retrieved and the intended activities should be carried out, but such instructions had not been heeded.
- According to information made available by the antiquities protection unit of the Department of Archaeology, cases had been filed in 232 instances in which the Antiquities Act had been violated in the year 2021. Such cases included, 03 instances of theft of antiquities, 14 cases on vandalizing antiquities, 199 cases on illegal mining, 02 cases of unauthorized acquisition, and 14 other cases. During the year, 122 cases had been concluded, and penalties totalling Rs. 38.86 million had been recovered. However, 273 instances , 121 instances and 383 instances of theft and vandalism of antiquities had been reported in the years 2019, 2020 and 2021. As such, such incidents had grown in a timely manner.
- A 1270 year old ancient yacht in length of 59 feet and 11 inches found in Attanagalla Oya in the year 1998, had been kept in a water tank of the National Museum in Colombo by the Department of Archaeology. The responsibility of conserving this yacht had been entrusted to the Department of Archaeology.The chemicals to be used in conservation, such as polyethylene and glycol, had been purchased at a cost of Rs. 04 million. However, action had not been taken to conserve the yacht by using those chemicals even up to the year 2001, and the chemicals had been used for 02 other activities. Due to failure in

carrying out the conservation within the specified timeframe in accordance with the conservation methodology, the wooden parts had rotten and the yacht had completely decayed by the end of the year 2021.

Labour Sector

Audit Observations

- Deposit Balances
- Management Weaknesses
- Failure to Discharge Functions
- Procurements
- Sharma Wasana Fund
- Formulation of National Standards
- Amounts not credited to the individual accounts of the members
- Interior Designing of the Mehewara Piyasa Building.
- Declining investment benefits
- Issuance of identity cards to members of Employees' Provident Fund

Labour Sector

The functions that fall under the purview of the Ministry of Labour include maintenance of relations with the international regarding labour laws, ordinances and standards while ensuing labour community protection, welfare and promotion of industrial peace and co-operation. According to the Special Gazette Notice No. 2196/27 dated 06 October 2020, the tasks of ensuring occupational safety for private sector employees based on the national policies implemented by the government in accordance with the Vision of Prosperity policy statement, and providing policy guidance for the State Ministry to create a skilled workforce fit for the foreign job market, formulation of policies related to the subject of labour in accordance with the prescribed laws and ordinances, implementation of projects under the national budget, government investment and national development programme are the priority tasks, and the Ministry is taking measures towards the achieving its vision "Satisfied and Effective Sri Lankan Workforce" by compiling, implementing, following up and evaluating the subjects, functions and related policy programmes and projects of the affiliated institutions of the Ministry.

In order to discharge the aforementioned functions, Parliament had made provision totaling Rs. 5,628 million to the Ministry of Labour and the Department of Labour in the year 2021 and only Rs. 3,665.2 million of the provision had been utilized by the end of the year under review. Accordingly, provision of Rs. 1,962.8 million had not been utilized. Details appear in Figure 43.

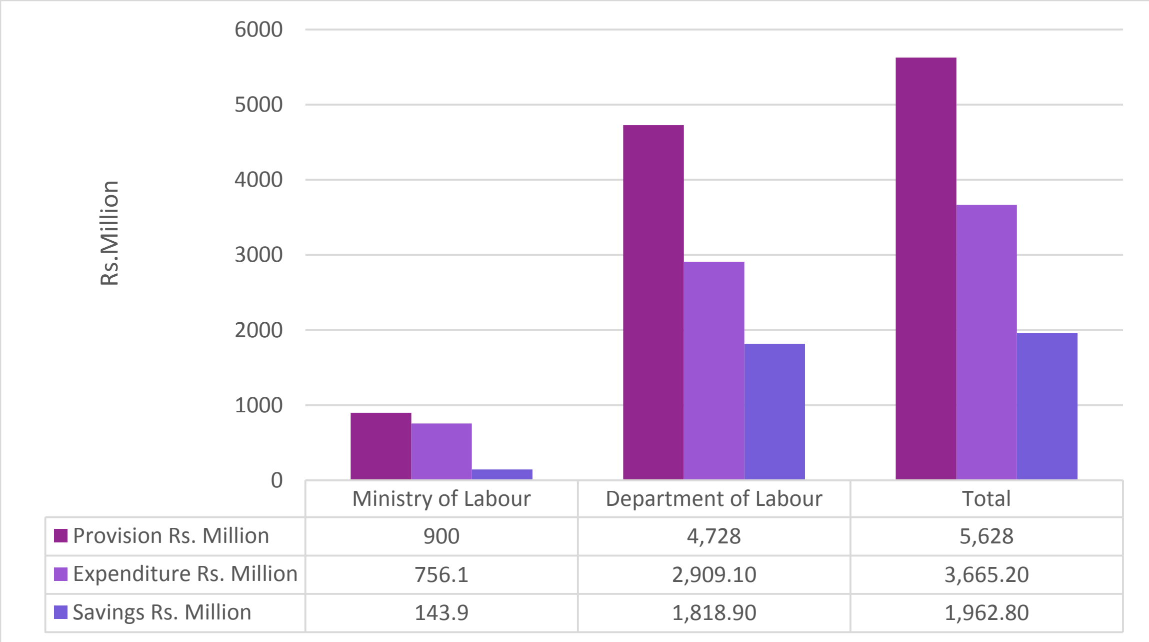


Figure 43 - Provision made and Actual Expenditure

Resource - Financial Statements 2021

Some of the main characteristics of the workforce in Sri Lanka are as follows.

Description	Male	Female	Total
Workforce (Millions)	5,621	2,932	8,553
Employed Population (Millions)	5,414	2,699	8,113
Participatory Ration of the Workforce (Per cent)	71	31.8	49.9
Unemployed Population (Millions)	207	233	440

Table 26 - Estimated and Actual Expenditure

Source - Department of Census and Statistics

Material and significant audit observations revealed in the audits test checks conducted regarding the performance of the above duties and functions by the Ministry and the department under it and the statutory bodies are summarized below.

Deposit Balances

- Compensation amounting to Rs.10 million had been deposited in the General Deposit Account No. 6000-0-0-17-0-26 of the Ministry of Labour as at 31 December 2021. The value that had exceeded 02 years from the receipt of compensation included in the above deposit was Rs.0.53 million and the value that remained for 1 to 2 years from the deposit of compensation was Rs. 1.37 million. The value applicable to the period from 06 months to one year from the deposit was Rs.2.97 million.

- Accounts had been opened in the National Savings Bank in the name of the Commissioner for Compensation by depositing Rs.2.02 million from the compensations that were not paid to the respective persons on various grounds. Although a period from 22 months to 48 months had elapsed from the deposit of these monies in the accounts, it was not possible to release to the respective owners due to pending court proceedings.

Management Weaknesses

- Section XII, Section 57 (1) of the Workmen's Compensation Ordinance No. 19 of 1934 stipulates that where a workman has been injured as a result of an accident occurring on the business premises of his employer in the course of his employment, the employer shall report the occurrence to the Commissioner within a period of fourteen days reckoned from the date on which the accident occurred. Nevertheless, it was revealed according to the records that the reports on the accidents had been received by the Workers' Compensation Commissioner's Office after a delay from 05 months to 12 years due to the lack of any system put in place.

- Utilizing the provision of Rs.45 million made in the annual estimates for the implementation of the national policy for a good working environment (Sunisi Mehewara), a sum of Rs. 14.89 million had been spent comprising Rs. 11.86 million for 03 other capital Objects and Rs.3.03 million for a work that had not been made provisions for the year 2021.

- A sum of Rs.383.4 million had been paid as salaries in the year 2021 for the 690 Productivity Development Officers attached to the District Secretariats and Divisional Secretariats. Although the implementation of productivity concepts is one of the main tasks of those officers, the implementation of those concepts remained at a very minimal level and some officers did not have a proper understanding of the concepts of productivity. The role of those officers had not been formally regulated by the head office and as such, the productivity of the role of those officers remained at a poor level.

- After the previous audit report pointed out that there was an overpayment of one million rupees due to the Ministry of Labor recommending two applications from of the same beneficiaries while recommending applications from by the National Budget Department for the payment of allowances to the July 1980 strikers, the audit had been informed that relevant data system was rectified. Although the data system was updated according to the payments made for the year 2022, the risk of recommending applications repeatedly for those people continued due not updating the data system according to the information obtained from the budget department about the beneficiaries who were paid before the year 2022. Even though a staff officer checked the accuracy of the application form, monitoring had not been carried out regarding the update process of the data system.
- The land on which the Tourist Bungalow, Ampara was built at a cost of Rs. 26.8 million had not been taken over by the Ministry of Labour even by May 2022 and in a Driver's Lodge had been constructed on that land at a cost of Rs. 5 million in the year 2021.

- A special project was initiated to correct the accounts of institutions that have been credited with more than Rs. 10 million in the year 2018 and account to individual accounts in order to settle the balance of Sri Lanka Labour Commissioner's account in the Central Bank of Sri Lanka. A sum of Rs.920.12 million belonging to 23 institutions should have been settled by this project. Only Rs. 44.05 million had been settled out of Rs. 262.8 million that should have been settled in 10 institutions belonging to 09 regions as at 07 September 2021. Accordingly, the percentage of non-settlement ranged from 52 per cent to 100 per cent and the unsettled value stood at Rs. 218.76 million.

- Rent totaling Rs.171.46 million remained outstanding to the Department of Labour from the offices set up in the Mehewara Piyasa building from the date of their establishment. The space that remained idle for more than a period of 02 years is 102,725 square feet and the assessed monthly rent for 39,180 square feet of the above space was Rs.6.98 million (excluding 4,5, 28-31 floors). Accordingly, rental income of Rs.83.77 million had been lost for the year 2021.

- Out of the accidents reported to the Office of the Commissioner for Wormen's Compensation as at 30 November 2021, the compensation recovery process for 140 fatal accidents and 424 non-fatal accidents had not been completed and it included 14 fatal accidents and 29 non-fatal accidents that had elapsed 05 years after reporting the accident.

- Savings accounts had been opened for Rs.4.95 million deposited by the employer in the compensation office in relation to 13 files in which appeals had been made against the decisions of the Workmen's Compensation Court and a period of 01 to 04 years had elapsed from the opening of 10 savings deposit accounts worth Rs.3.73 million out of the above savings accounts.

- Although the compensation due to the children of employees who die as a result of fatal accidents while at work should be invested in a fixed deposit maintained at the National Savings Bank in the name of Commissioner for Compensation until they attain the age of maturity and it should be released to them after attaining the age of maturity, the value of fixed deposits that had not been released despite the attainment of the age of maturity by 30 December 2021 was Rs.6.1 million.

- Despite the decision of the court that the compensation should be paid to the aggrieved party, 46 cases remained as the warrants as at 31 December 2021 due to non-payment of compensation by the employer according to the court order and the amount of compensation to be settled was Rs. 13.4 million. It included Rs. 1.87 million related to 10 cases that had elapsed more than 10 years from the issue of warrants, Rs. 6.92 million related to 21 cases between 5-10 years and Rs. 4.63 million related to 15 cases between 1-4 years. Even though compensations were thus decided by the court, as the recipient was not received the relevant amount of compensation, the objectives of the office of the commissioner for workmen's compensation had not been fulfilled.

Failure to Discharge Functions

- Out of the complaints made by employees to the Commissioner General of Labour regarding non-receipt of benefits properly, the number of unresolved complaints related to 2015 and 2020 that were referred to the Special Investigation Division as at 31 December 2021 was 96.

- In terms of the information made available to the audit, the number of institutions that maintain private employees' provident funds approved in terms of section 27 of the Employees' Provident Fund Act No. 15 of 1958 was 117 as at 31 December 2021. The total balance of funds of 30 institutions on that day was Rs.106,794 million. Due to failure to properly regulate the those funds, various issues such as not correctly identified the number of registered organizations, revealing cases of non-payment of contributions and non-implementation of surcharges, fraudulent receipt of money by the officials of those institutions, non-submission of minutes of the employer organizations, Non-operation to investigate complaints and non-identification of the number of members of the fund, inactive institutions/funds, balance of funds and arrears of contributions as at 31 December 2021, non-submission of formal information on inspection of institutions, lack of adequate staff in the private employees' provident fund division and the not updating the sections of the Act, cropped up and the functions of this division had become paralyzed.

- Due to the lack of proper regulation, the officers of the Coconut Cultivation Board had defrauded Rs. 73.8 million from the approved employees' provident fund and due to non-payment of contributions on the due date by United Newspaper Company Limited, surcharges of Rs. 107 million remained payable for the three years 2019, 2020 and 2021.

Procurements

- Although the Department of Labour had awarded contracts worth Rs.397.4 million to the Buildings Department to carry out in the year 2021, out of the construction works awarded, 08 works valued at Rs.143.7 million had not been included in the approved procurement plan of the Labour Department of the year 2021.

- According to the agreement entered into on 03 October 2013 with the private construction company that constructed the "Mehewara Piyasa" building, it had been agreed to complete the constructions within 36 months. But action had been taken to extend the period of contract up to 30 April 2019 subject to the payment of late fees. Nevertheless, late fees had not been recovered even by 31 December 2021 in accordance with the agreements.

- As has been pointed out by the Audit Report,2020 a sum of Rs.21.8 million had been paid to a private institute as the late fees for 13 Inter Payment Certificates (IPC), whereas action had not been taken to recover the late fees from that institute for the delay of the contract.

Sharma Wasana Fund

For the construction of 200 sanitary toilets for the estate labour workers in Badulla district from the Shrama Vasana Fund, a sum of Rs. 10 million had been given from the funds held by the Treasury Operations Department in February 2021. Out of which, Rs. 5.95 million had been spent as payment to the beneficiaries through the Badulla District Secretary and Rs. 0.23 million as other expenses of the project during the year under review. According to the objectives of the Shrama Wasana Act No.12 of 1998 and the amended Act No.15 of 2019, action should be taken to ensure the welfare of the employees and their dependents. Contrary to those objectives, benefits of this toilet project had been provided for 140 low income earners and it was 70 per cent of the total number of beneficiaries.

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 Subsection 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 2021.

Amounts not credited to the individual accounts of the members

The amount of Rs.11,456 million recovered by the department from the cases filed against the employers and retained in the account held in the name of the Labor Commissioner in the member fund of the Employees' Provident Fund as at 31 December 2021 and the amount of

Rs.301 million that was recovered by filing cases and retained in a general deposit account until it is settled had not been credited to the each account of the members. Further, a balance of Rs. 70,832 million in the account "Current Year Contribution No. 01" maintained separately in the name of the employers as at 31 December 2021 had not been identified and settled to the relevant members. Even though the retained benefits and unclaimed benefits amounting to Rs. 956 million, deficit/excess contributions of Rs. 2,117 million, and deficit/excess benefit payments of Rs. 353 million as at 31 December 2021 had been stated under the membership fund, action had not been taken to identify and settle those balances. In the years 2013, 2016 and 2017, the Committee on Public Accounts had also directed to settle the balances in the accounts that remained without crediting to these member accounts.

Interior Designing of the Mehewara Piyasa Building.

Without being properly adhered to the Government's Procurement Guidelines, the total cost estimate of Rs. 135.3 million obtained from the Building Department for the internal designing of the office premises of the Employees' Provident Fund at Meshavara Piyasa had been approved and the total amount had been paid on 31 December 2020. Nevertheless, the interior designing works had not been completed even by 30 April 2022.

Declining investment benefits

Dividend income for ordinary shares worth Rs. 7,386 invested by the Employees' Provident Fund in 11 listed companies as at 31 December 2021 had not been received during the 3 years 2019, 2020 and 2021 and no dividend income had been received for the investments of Rs. 9,486 million made in 08 listed companies even in the year 2021. The fund had not received any income since its investment of Rs. 500 million made in an airline company in the year 2010.

Further, out of the share investment in unlisted companies, Rs.5000 million or 53 per cent of the share had been invested in the construction of Canville Holdings hotel complex in 2013. Although the construction work of the Grand Hyatt Colombo project related to the construction of the hotel complex was resumed in July 2020, the construction work of the hotel complex had not been carried out as planned by 27 December 2021. Therefore, the fund had not received any benefit from that investment although 8 years had passed since the said investment. Similarly, the Employees' Provident Fund had suffered a capital loss of Rs. 53.76 million from the sale of shares of 05 companies at average cost of Rs.93.39 million out of the ordinary share sales carried out by the Fund in the year 2021.

Out of the total investment of Rs. 84,067 million made by the Employees' Provident Fund in the share market as at 31 December 2021, a sum of Rs. 9,681 million or 12 per cent had been invested in 11 companies in the hotel sector. The market value of those investments had decreased by Rs. 2,660 million as at 31 December 2021 and no returns whatsoever had been received for those investments in the year 2021. The benefits received on these investments in 2019 and 2020 was Rs. 103.18 million and Rs. 47.40 million or 2.47 percent and 0.98 percent respectively. Further, no benefit for the investments of Rs. 3,174.54 million made in 7 companies had been received in the years 2020 and 2019.

Issuance of identity cards to members of Employees' Provident Fund

Although 15,000 cards had been purchased at a cost of Rs.12.61 million in the year 2008 for issuing new identity cards to the members of the Fund and computerizing the re-registration, these cards remained idle without being used. Further, out of 35 machines purchased at a cost of Rs. 17.67 million for this project, 02 machines had been disposed of and suitable measures had not been taken regarding the remaining 33 machines.

Health Sector

Audit Observations

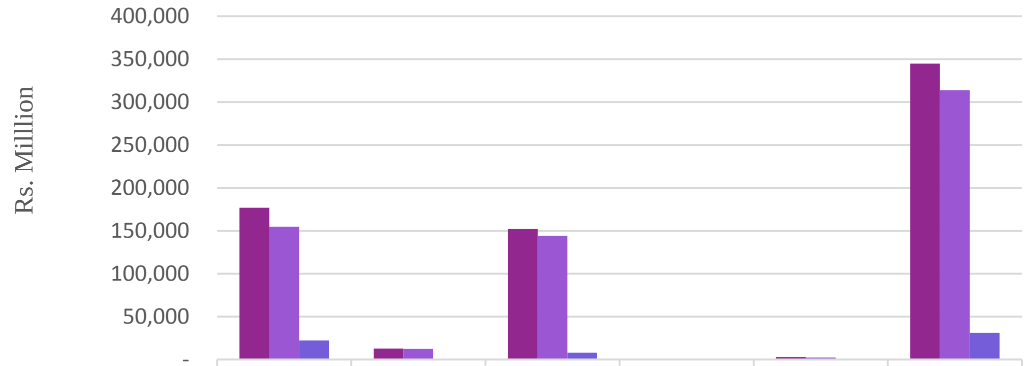
- Ministry of Health
- State Ministry of Production, Supply and Regulation Pharmaceuticals
- National Medicines Regulatory Authority
- Sri Jayawardhenepura General Hospital
- National Health Development Fund
- State Ministry of Indigenous Medicine Promotion, Rural and Ayurveda Hospitals Development and Community Health
- Department of Ayurweda

Health Sector

With a vision to create a healthy nation that contributes to the economic, social, mental and spiritual development of the country, the Ministry of Health and 03 State Ministries, 01 Departments and 13 Statutory Boards/Institutions under it should have performed the following functions and tasks.

- Monitoring and evaluation of Health and Nutrition subjects and subjects under Departments, Statutory Boards and Government Corporations
- Formulation of policies and standards relating to public health services
- Formulation and implementation of programs to improve public health and nutrition
- Implementation of laws and rules pertaining to international quarantine and sanitation regulations
- Regulation and monitoring of quality, standards and prices of private hospitals and medical centres
- Regulation and supervision of the activities of non-profit community medical care institutions
- Launching operations for quality control, prevention and treatment of epidemic, communicable and non-communicable diseases
- Implementation of medical and oral health services related to school health programme
- Implementation of health services for estate sector, general sanitation, Thriphosha Distribution Programmes
- Administration of all hospitals and hospital employees under the Ministry
- Administration and organization of all departments which conduct training activities and those services and coordinating with other higher medical education institutions.
- National Blood Transfusion Services, drug manufacturing, importation and distribution, administration and personnel management related to Sri Lanka Medical Service
- Creating training opportunities to improve the quality and skills of medical and paramedic services
- Introducing new strategies to expand research activities related to the health sector and activities of National Health Insurance Programmes

The Parliament had provided a net allocation of Rs. 344,750 million to the Ministry of Health, 03 State Ministries and a Department under it to fulfill the above mentioned functions in the year 2021 and only a sum of Rs.313,766 million had been utilized. Accordingly, a sum of Rs. 30,979 million had been saved . Details are shown in Figure 44.



	Ministry of Health	State Ministry of Primary Health Care, Epidemiology and Covid Disease Control	State Ministry of Pharmaceutical Manufacturing, Supply and Regulation	State Ministry of Indigenous Medicine Promotion Rural and Ayurvedic Hospital Development and Community Health	Department of Ayurveda	Total
Net Provision Rs. Million	176,861	12,724	151,980	417	2,769	344,751
Expenditure Rs. Million	154,776	12,264	144,081	393	2,251	313,765
Saving Rs. Million	22,085	460	7,899	24	518	30,986

Figure 44 - Amount and cost of provision made
Source - Annual Financial Statement 202

The significant and quantitative audit observations revealed during the audit test checks carried out in relation to the performance of the above functions and tasks are summarized below.

Ministry of Health

- The approval of the Cabinet of Ministers had been given on 12 July 2016 for the payment of a special allowance to 78 executive grade officers who were assigned with names of specific positions to the Ministry and were working within the Ministry on that date. Based on that approval, Although this allowance cannot be paid to executive officers working in hospitals and other health institutions outside the Ministry, doing in contrary to that, a sum of Rs. 20.41 million had been paid as special allowances during 04 years from 2016 to 2020, to the executive officers employed in 40 institutions and hospitals who had submitted information for the audit by 18 February 2022 . Due to the fact that the Ministry has decided to consider different categories of services separately and pay allowances, although the National Salary and Cadre Commission had emphasized by the letter dated 04 June 2016 that

that the allowances are paid without identifying the categories that should receive and should not receive allowances and a strict review of all allowances currently paid to the officials of the Ministry should be carried out and a new method of payment of allowances should be implemented from 01 January 2017 , it had not so acted even by 15 April 2022.

Instead, the approval of the Cabinet of Ministers was obtained to revise this hourly special allowance in relation to the new salary scale, to remove the maximum allowance limit of Rs.10,000 per month and to increase the period of overtime work up to 80 hours per month. While paying allowances on the basis of that approval, a higher allowance had to be paid as compared to the previous allowance and if an officer is employed in addition to normal duty at maximum the officer was able to get a higher allowance from 456 to 942 per cent as compared to the earlier allowance. Further, this increase in allowances was also paid to the executive officers working in hospitals and other health institutions outside the Ministry and the total amount of special allowances paid to the executive officers employed in 15 hospitals and institutions who had submitted information for the audit by 18 February 2022 during the year 2021 was Rs. 6.27 million .

- Since all medical officers and dental officers with any post-graduate qualification were given equal opportunity to enter the Deputy Administrative posts without giving priority to medical officers with post-graduate qualifications in Medical Administration, 79 medical officers who had acquired expertise in disease prevention and patient care services had been appointed to administrative positions in the Ministry as at 15 April 2021 as per the information submitted for the audit. Therefore, it was observed that the amount spent by the government for those medical officers to obtain expertise in disease prevention and patient care services had become an idle expenditure, and that there is a shortage of expert medical officers in maintaining the curative and preventive services in the respective sectors where the expertise was obtained. As the possibility of appointment to senior medical administration posts is only for officers with medical administration and community medicine expertise who have completed 03 years in the grade of Deputy Medical Administration and also the medical officers who have joined the Deputy Medical Administration Service with other postgraduate specialization had to serve in the same position till their retirement, it was ascertained that the officers who have expected to be admitted to the rank of Deputy Medical Administration after obtaining expertise in medical administration had lost the opportunity to get those positions and that the 110 officers with medical administration expertise are awaiting appointment by 25 November 2021 and those officers have not been absorbed into the medical administration service. Accordingly, it was not revealed whether these 110 medical officers, who have expertise in medical administration, were employed in positions related to disease prevention and patient care services or were paid salaries and allowances without being appointed to any position. Although 160 posts were in vacant out of 250 posts in community medicine throughout the island, 80 officers with expertise in community medicine were appointed to medical administrative posts.

- According to the information submitted for the audit, 281 officers who were appointed for 15 posts had been employed in 11 other institutions outside the Ministry such as Tri-Army Hospitals, Jails and Police Hospitals, Sir General John Kothalawala Defense University Hospital, State Ministry of Pharmaceutical Supply and Regulation, Ministry of Labour, Ministry of Internal Trade, Food Safety and Consumer Affairs, National Pharmaceuticals Quality Assurance Laboratory and National Medicines Regulatory Authority. Release of those officers to those institutions on full or secondary basis and implementing a system of payment of salaries from those institutions had not been carried out and

  the Ministry had paid salaries and allowances without verifying whether they were actively engaged in the said institutions. As a result, although the vacancies had occurred in approved positions for the Ministry, those vacancies had not been filled.

  A number of 110 officers had been employed in those institutions for more than 04 years and the salaries and

allowances paid to them by the Ministry amounting to Rs. 615.24 million had not been reimbursed during the 21 months from January 2020 to October 2021 as per the information submitted for the audit.
Although the Ministry had not paid salaries and allowances to 12 officials, the administrative works of those officers had been done by the Ministry and the Ministry had paid salaries and allowances to two medical officers who were attached full-time to the Sri Lanka Police Department.

- As per the information submitted for the audit, it was observed that, out of the 62 construction projects implemented by the Ministry in the year 2020, both the positions of contractor and consultant (Contractor and Consultant/Engineer) were assigned to the same organization in 30 projects with an estimated cost of Rs.31,650.38 million and as a result and that there may be impacts on the more efficient and effective execution of a project as well as on protecting the fairness, independence and transparency of project implementation. As per an agreement signed by the Director General of Health Services with the Central Engineering Consultancy Bureau in 1991, the consultancy works was assigned to that Bureau without inviting competitive bids and out of the 62 projects implemented in the year 2020, the Bureau was assigned to provide consultancy services in 52 projects. Accordingly, the economic advantages that could be obtained through competition had been lost. Despite the Ministry has an Engineering Division consisting of 43 officers belonging to the construction sector including the Additional Secretary (Engineering Services), Civil, Mechanical and Electrical Engineers, Designers and Technicians, preparation of plans and estimates and work supervision were outsourced to external agencies such as the Central Engineering Consultancy Bureau of Engineering Works on a fee-paying basis for construction projects as well as for renovations and repairs carried out by hospitals annually.

- Measures should be taken to keep records of officers' arrival and departure from the office by using fingerprint recording machines in all government institutions as per the Public Administration Circular No. 03/2017 dated 19 April 2017 and if the fingerprint recording machines are not implemented from 01 July 2017 to prove the arrival and departure of the health staff, it should be ensured that overtime allowances are not paid as per the current salary as per the letter issued by the Treasury Secretary No. DMS/0016 dated 12 May 2017 to the Secretary of the Ministry of Health. A total of Rs. 74,310 Million as a sum of Rs. 41895 million for salaries and a sum of Rs. 32,415 for overtime and holiday pays had been paid during the year under review based on current salary without using fingerprint recording machines acting contrary to the facts shown in the letter sent by the Secretary to the Treasury. Similarly, the total amount spent on overtime and holiday wages was about 77 per cent of the cost of salaries.

- An intern doctor can be paid only Rs.48,950 as monthly training allowance and Rs.7,800 as living allowance and during the year 2021 and

  The allowances paid by the Provincial Councils to the intern doctors assigned by the Ministry to the Provincial Council Hospitals for training by the Ministry should be reimbursed by the Ministry to those Provincial Councils. Nevertheless, in addition to the monthly training allowance and living expenses allowance, a monthly allowance of Rs.750 was paid to the intern doctors of 14 hospitals from the sample of 20 Provincial Hospitals. Further, although the monthly allowance of Rs.2,500 which was approved by the Public Administration Circular No. 09/2019 dated 22 April 2019 cannot be paid to the intern doctors, the allowance was also paid to intern doctors in 11 Provincial Council Hospitals. Similarly, Rs.8.47 million of allowances which are not legally entitled to the intern doctors had been paid by the respective Provincial Councils only in the year 2021 and the Ministry had reimbursed the amount to the Provincial Councils.

- Based on the initial estimate of Rs. 1,333.04 million given by the State Engineering Corporation of Sri Lanka on 16 September 16, 2015 for the construction of the six-storeied operation theatre building of the Horana Base Hospital, the contract was awarded to the State Engineering Corporation of Sri Lanka on 27 November 2017 subject to the condition of completion of work within 24 months at a contract value of Rs.1,333.04 million inclusive of taxes on the as-built basis by making up subject to the approval of the Standing Technical Indication Committee of the Ministry of Housing and Construction. Although the work should commence within 14 days as per the contract award letter, a sum of Rs. 221.14 million with taxes were paid to the contractor as an advance for the commencement of work without considering the fact that it is not possible to start the work due to problems at the construction site and a formal contract agreement had not been entered into as per Guideline 8:9:1 of the Government Procurement Guidelines. The works had been commenced after 06 months from the date of payment of advance for commencement of work. After allocation of Rs.19,065 million for this contract in the year 2019, no allocation was made until the year 2022 . Due to not maintaining a satisfactory progress in the construction, it was possible to cover only Rs. 4.82 million from the advance amount to commence the work and the work was not completed even as at 25 January 2022. The State Engineering Corporation of Sri Lanka had submitted a revised cost estimate of Rs. 2,465.99 million on 15 June 2016 and due to the fact that the information related to that additional estimate has not been provided by the State Engineering Corporation of Sri Lanka, actions had not been taken even by 31 March 2022 to complete the works that could be done on the approved estimate.

- A sum of Rs.2.24 million had been paid to the contractors for the period from December 2019 to October 2021 for removing and burying dead bodies such as infant corpses, abortion parts, inanimate body parts and placentas in De Soyza Women's Hospital. It was observed that the internal control and supervision of the hospital regarding the disposal of body parts was poor because of the matters such as failure to prepare a basic cost estimate of a disposal unit, allowing the use of contractors' scales, not ensuring that the scales are calibrated up-to-date, not introducing a system for measuring the weight of the placenta after removing water, allowing excess weight to be applied to disposals and legally failure to verify disposals. The hospital had made the payment based on the unit prices submitted by the contractors, with unfavourable price variations of 521 per cent to 6371 per cent for a unit of that material in the year 2021 as compared to unit prices in 2020 without doing any comparison due to the fact that failure to prepare a cost estimate for the disposal of 01 kg of placenta, 01 kg of fetal remains, 01 kg of aborted parts and 01 kg of body organs. As a result, the cost of disposing of non-living body parts had increased by 8070 per cent and the cost of disposing of aborted parts by 696 per cent in the year 2021 compared to the year 2020.

It was observed at the physical audit inspection carried out on 26 January 2022 that due to the poor performance of the refrigerator that contained the containers weighing 550 kg where the placentas removed from 553 deliveries in the hospital during the period from 21 December 2021 to 25 January 2022 kept, filled with water. Accordingly, the average weight of a unit of placenta with water was 995g. Similarly, the weight of the discarded placentas was 10,700g , and the average weight of a placenta unit was 563 grams in 19 deliveries on 02 and 03 February 2022.

It was observed that, the weight range of the placenta expelled during childbirth ranges from 500 grams to 800 grams and the weight of the placenta with the water accumulated due to its storage in the refrigerator is 01 kg as per the information obtained from the internet. It was observed that, when calculating on that criteria a sum of Rs. 1.02 million was overpaid to the contractors for 29,616 kg of placenta during the period.

- Two suppliers had provided the raw food ingredients needed to provide cooked food to the patients and junior staff of the Kalutara Teaching Hospital during the period of one year from January 2021 to January 2022 . Although a monthly requirement of 111 and 148 types of food, fruit and other stuffs was identified respectively for the years 2020/2021 and 2021/2022 , it was observed that the number of items ordered exceeded 75 per cent of the monthly requirement was very less, and the number of items not ordered in the 04 months was about 45 percent of the total number of items, and the contract value for the 04 months for the items not ordered was Rs.1,978,640 as per the information regarding the supply of raw food in the first 04 months of 2021 that was submitted for the audit. Similarly, the value of raw food actually supplied in the first 04 months was about 47 per cent of the value of the estimated monthly requirement. Accordingly, it was observed that the monthly stuffs requirement had been estimated without following any logical method, thereby making the procurement process complicated and limiting competition,

A few contractors who are aware of this situation offer a low price for the materials that are not ordered by the hospital and a low price, and a high price for the stuffs that are ordered in excess and get the contract, the hospital authorities had refrained from ordering the stuffs that had been offered at a relatively low unit price by the contractor, who has understood this situation, delays could have been minimized by assigning this procurement to the Regional Procurement Committee by eliminating unnecessary items and preparing a realistic estimate. It was observed that there were leftovers from large quantities of cooked food during the audited period from 10 January 2022 to 21 January 2022, as there was no system in place to cut down any amount of food to reduce employee food wastage and on some days, more than 34 kg of cooked rice was left over. Although the number of employees who ordered morning, afternoon and evening meal on the day the audit began on 10 January 2022 was 300, 280 and 85 respectively the number of employees could be reduced to 110, 225 and 65 respectively by 20 January 2022 . Accordingly, it was observed that if the hospital authorities had properly supervised the process of providing food to employees, they could have reduced about 40 per cent of the annual cost of employee food.

- Five luxury buses with 54 air-conditioned seats were purchased in April 2018 for 05 nursing colleges at a cost of Rs.10.6 million for each and Rs.53 million exceeding the financial limit of Rs. 40 million approved by the National Budget Department. These buses which were bought without carrying out a feasibility study had been parked underutilized due to the difficulty of driving on the roads in the provinces where the nursing schools are located and due to the inability to enter into some nursing school campuses, and various technical errors. During the past 44 months from April 2018 to 31 December 2021, the total distance traveled by 05 buses was only 94,260 km and the average distance traveled by a bus in a month was only 428 km. Similarly, according to the daily running charts, it was confirmed that only a distance of 1.2 km to 3 km was driven per liter of fuel.

- Although the medical, surgical and dental equipment, technical equipment, machinery and tools including accessories and parts thereof, hospital or medical furniture and drugs, chemicals and similar items required for the provision of health services in the face of the Covid-19 pandemic had been exempted from value added tax, with effect from 20 May 2020 in response to a request from the Ministry to the Secretary, in terms of Section 8 (1) of the Value Added (Amendment) Act No. 09 of 2021, institutions, hospitals and projects under the Ministry had not been informed about that and follow up actions had not been taken on that. As a result, Value Added Tax of Rs. 130.57 million had been paid to 74 suppliers for the medical supplies purchased to control the Covid-19 epidemic through 04 projects implemented under the assistance of the World Bank and the Asian Development Bank in the years 2020 and 2021 . In addition, it was ascertained as per the internal audit query No. FIB/05/2021 dated 02 February 2021 that the State Pharmaceutical Corporation had paid value added tax of Rs.159.10 million to three suppliers during the period from June 2020 to August 2021

- The information requested for audit on the use of land and buildings owned by the Ministry and 60 hospitals and other health institutions under it had not been submitted as at the date of this report from 25 other hospitals and institutions, including the Ministry. As per the information presented by 35 hospitals and other health institutions, the formal deeds had not been prepared for the lands owned by 02 hospitals and government approved survey plans had not been prepared for the lands owned by 03 hospitals. Similarly, actions had not been taken to assess the values of land and buildings owned by 19 hospitals and account for .

  Although about 169 families, 36 families on land belonging to Ratnapura Teaching Hospital, 40 families on land belonging to Mulleriya East Colombo Base Hospital, 04 families on 0.1764 hectare plots belonging to Galle Karapitiya Teaching Hospital, 0.4401 hectare land belonging to Nuwara Eliya District General Hospital. 12 people in 07 plots and one person in an unassessed land of 05 perches owned by Gampola Base Hospital are residing illegally in the lands belonging to the Kandy National

Hospital , the responsible parties had not taken formal and adequate steps to evict the encroachers and reclaim the plots. Even though the administrative building of 225 square feet belonging to the Kegalle General Hospital has been leased to the Bank of Ceylon for a monthly rent of Rs.8,500 since 2007 and a part of about 40 perches of the land called Nadeniya Watta, whose value has not been assessed but is worth approximately Rs.20.00 million has been handed over to the Ceylon Electricity Board for over 50 years and about 20 perches of the land belonging to the Galle Karapitiya Teaching Hospital had been given to the Karapitiya People's Bank since 10 April 1996, the written agreements or assignment letters related to it were not possessed with those hospitals. Although the Hantana Sisila Building by the Police Department on a land owned by the Kandy National Hospital,
and the institutions such as Sinha Samaja, Hekitta Christuraja Vidyalaya, Ranaviru Sampath Kendra, Hindu Temple, Gangathilaka Temple, Naval Police Unit in the land belonging to Hendala Leprosy Hospital in which the amount and value not ascertained, had been established, actions had not been taken to settlement or transfer of those lands.

- A total of Rs, 7.20 million had been overpaid to the supplier when making payments by Castle Street Women's Hospital for the period August 2018 to January 2019 for the provision of hospital cleaning services , as a payment of Rs. 3.85 million made due to the fact that failure to check the monthly attendance records and salary records of the sanitation workers and a sum of Rs. 3.35 million made due to the payment of salary arrears contrary to the 04 conditions given by the Ministry Procurement Committee on 17 December 2018 regarding the increased allowances paid by the government as per the Extraordinary Gazette No. 2080/22 dated 16 July 2018 for those employed in the cleaning services industry.

State Ministry of Production, Supply and Regulation Pharmaceuticals

- A number of 21,678 items of medical supplies had been entered in the Medical Supply Management Information System by 31 December 2021. A number of 8,258 items of medical supplies that were not approved by the Pharmaceutical Formulary

Revision Committee were entered into the computer system due to various requirements such as change in requested volume, placement of emergency orders, change in package contents, supply of capsules instead of tablets, use of certain items as raw materials without committee approval and change in supplier specifications. Accordingly, 38 per cent of the total number of medical supply items entered into the computer system were the items that had not approved by the Pharmaceutical Formulary Revision Committee . Similarly,

The Medical Supplies Division had procured 104 items of medical supplies valued at Rs.67,520 million for the year 2021 which were not approved by the Pharmaceutical Formulary Revision Committee.

- Although the order for 2022 of Streptokianse vaccine used for heart disease, which was a vital drug that was out of stock by 22 April 2022 had been issued to the State Drug Corporation of Sri Lanka in January 2021 , the tender was canceled twice and the bids were re-invited due to non-submission of bids from the suppliers. As the tender was still under evaluation, a shortage of stock had occurred even by March 2022.

- Due to the side effects caused by the use of Streptokianse vaccine, the Tenecteplase 40mg vaccine had been purchased instead of that vaccine. As the stocks to be received for the orders issued in previous years for Tenecteplase 40mg vaccine are sufficient, the Medical Supplies Division had decided on 14 December 2021 to cancel the order submitted for the year 2022. However , as there was a shortage of stock in the medical supplies sector for less than 02 months by 22 April 2022 , a shortage of stock had occurred.

- For the reasons such as Letters of Credit had been issued more than 24 months after the order was issued and orders had been amended for various reasons, the Suxamethonium Chloride vaccine used for anesthesia was in stock for less than 02 weeks in the Medical Supply Division as at 22 April 2022 and stocks had remained for less than 02 months in hospitals.

- Due to the reasons such as issuance of Letters of credit for more than 27 months after the order was issued, rejecting and cancelling orders for various reasons and failure to place order by the Medical Supplies Division for the year 2022, the stock of Cetirizine HCL Syrup which is an essential drug used for allergies had been zero by 22 April 2022, the hospitals had only enough stocks for about 05 weeks. The stock levels at Castle Street Women's Hospital, Kurunegala Teaching Hospital and Badulla General Hospital had reached zero by 22 April 2022 .

- It was observed that due to failure of making the right decisions and not planning properly in the procurement of the order for the year 2021, as a result of the matters such as shift from Cabinet Standing Procurement Committee level to Ministry Procurement Committee level, periodic change of order size, change from Ministry of Health Procurement Committee to State Ministry Procurement Committee due to change in the scope of the Ministry and again from State Ministry Procurement Committee level, shifting from State Ministry Procurement Committee level to Cabinet Standing Procurement Committees due to increase in contract value again and due to the fact that it had taken approximately 02 years to receive the drug stock, the order issued on 23 February 2021 for the year 2022 was also under evaluation, medical supplies and hospitals will have less than a month's supply of Meropenem1g vaccine which is an essential life-saving drug by 22 April 2022 .

  Due to this delay, this medicine could be bought for Rs. 481 each, had been purchased from local market by Government hospitals incurring Rs. 49.52 million at various prices ranging from Rs. 1,956 and Rs. 4,697.

National Medicines Regulatory Authority

- There was no single common register to document every request for pharmaceutical registration as per Section 142 of the National Medicines Regulatory Authority Act No. 05 of 2015, the Special Gazette Notification No. 2145/1 dated 14 October 2019, as stated in Pharmaceutical Registration and Licensing Order No. 4 .

  Due to this, the information such as the date of receipt of the application for drug registration, number of the application, name of the manufacturer, country of manufacture, authorized importer, pharmaceutical name, if the drug is a pharmaceutical compound, the pharmaceutical names of its active ingredients, the brand name of the drug, the dosage form of the drug, the strength of the drug, the type of application (Whether it is an application for a new or a renewal) details such as the type of drug as well as the details of the money received for each application, the date each application was submitted to the drug regulatory department for evaluation, the number of applications rejected by the respective departments and the approved applications, the number of applications that are still being processed in each section, the time taken for registration by each section could not be able to obtain. Accordingly, it was observed that the pharmaceutical registration and licensing process was not done transparently.

- The contract for automating the Authority's data system was awarded to a private company on 03 May 2018 for a period of 05 years for a total contract value of Rs.29 million.

- The implementation of this document and workflow management system as a service was contracted to be obtained and implemented according to the Operational Expenditure Financing Model and a sum of Rs.12,253,328 was paid to the contracted company during the period from June 2019 to May 2021 . However, some of the information entered into this data system due to the negligence or deliberateness of the concerned private company had been deleted and the service had become inactive until the completion of the investigations carried out by the Criminal Investigation Department and even by 27 July 2022 . Similarly, even though a Memorandum of Understanding had been entered into with the Sri Lanka Information and Communication Technology Agency for a period of one year on 25 June 2018 to obtain the necessary consultancy, management and technical advice in the implementation of this system, actions had not been taken to extend the agreement in parallel to the contract period of 05 years. Further , actions had not been taken to take care of confidentiality of information, change passwords or misuse information as per the contract agreement and after automating the system, both manual and automation systems were implemented in parallel and an audit trial had not been conducted on the internal workflow of the Authority. Similarly, the management was not concerned with the issues of file management, preservation and ability to securely store copies of documents with relevant data for up to 5 years, obtaining automatic copies on a daily, weekly and monthly basis and obtaining confirmation of professional liability insurance and payments had been made to the company without securing copies of relevant data and attachment information.

Although the assets in this system which cost Rs.7,558,128 should be capitalized in terms of agreement conditions, instead, the amount had been written off against profit. According to the reports of the expert committee appointed to examine the incident and restore the deleted data, it had been submitted by the report dated 15 July 2022 that the data that had been deleted from the system cannot be restored and decision had not been made even by 27 July 27 to whether or not the system will be brought back into use.

After the activities of this system is disabled, registration of drugs, equipment, etc. is done using a Google Form as a temporary solution, it was observed that this system is maintained with deficiencies due to the problems that arose there.

Sri Jayawardhenepura General Hospital

- A consultant had been recruited to obtain the services of a person with appropriate expertise and experience to prepare the Scheme of Recruitment for the purpose of removing the existing salary discrepancies in the Scheme of Recruitment of Sri Jayewardenepura Hospital, updating the salary scales, solving human resource problems, streamlining the promotion procedure and formalizing the Organizational Structure. The value of the assignment was Rs.3.04 million and as per the terms of the agreement dated 20 October 2020, Rs. 0.76 million, which is 25 per cent of the agreed amount, had been paid in advance. This consultant had been selected based on the Decisions of the Board of Directors, in contrary to the Guidelines 3.4, 3.5, 4.2, 4.4 and 6.4.4 of the Guidelines for the Selection and Employment of Consultants of the Democratic Socialist Republic of Sri Lanka. Although the relevant task should be completed within 04 months from the date of award of the procurement as per the agreement, and also more than a year had passed as at the date of this report, it was impossible to complete the preparation of the Scheme of Recruitment.

- In payment of allowances on piece rate basis for laboratory tests carried out by laboratory staff during night hours , payments had been made on piece rate basis for all the tests requested by the Medical Laboratory Technicians on night shift non-compliance with the General Circular letter dated 10 May 2006 of the Director General of Health Services . Accordingly, allowance valued at Rs. 3.48 million had been overpaid for 154,687 different laboratory tests between January 2021 and December 2021 in contrary to the provisions of the circular.

National Health Development Fund

- According to the Memorandum of Understanding entered into in 2010 with the Asia Cornea Foundation in Singapore to establish the National Eye Bank of Sri Lanka and as per the approval of the Cabinet of Ministers received on 29 August 2013 for the establishment of the National Eye Bank of Sri Lanka as a trust, actions had not been taken even by 08 April 2022 to prepare separate financial statements to establish the National Eye Bank of Sri Lanka as a unit with a separate corporate structure by an Act and to record its transactions.

- The Health Development Lottery system was introduced in September 1998 with the aim of raising funds for the purchase of essential equipment for government hospitals and for hospital repairs and although the task to be done from the Fund for that season must be identified and announced before each drawing period and that work should be carried out, actions had not been so taken. Similarly, although the Additional Director General of Treasury Operations had made a request on 06 March 2020 to submit a work plan including the tasks expected to be implemented in the Fund for the release of money from the Treasury for the years 2020 and 2021, such a work plan had not been prepared and submitted even by the date of this report. Due to the lack of a proper program belonging to the Fund a regarding the tasks to be done with the lottery income, it was not possible to get released Rs. 113.55 million due from the Treasury by 31 December 2021 . A sum of Rs. 428.49 million had been received as lottery income and during the period from 2014 to 31 December 2021 and out of which only Rs. 177.33 million had been spent as Rs. 20.58 million and Rs. 156.75

million respectively for purposeful tasks such as purchase of hospital equipment and hospital repair. Lottery revenue utilization had remained at the level as low as 41 per cent.

- Annual Action Plans in order to achieve the expected objectives of the Fund and work plans on how to utilize the public funds of the Fund for the improvement of health services in Sri Lanka had not been prepared. However, the total amount received by the General Fund was Rs. 599.75 million as at 31 December 2021 and the amount spent from the General Fund was only Rs. 33.46 million during the year under review. Accordingly, the cash utilization of the fund was at the level as low as 6 per cent.

State Ministry of Indigenous Medicine Promotion, Rural and Ayurveda Hospitals Development and Community Health

- A number of 1000 travelling bags to carry the drugs had been purchased at a cost of Rs. 2.9 million to provide traditional doctors who are expected to be appointed as foster doctors in a project started to provide healthy foster care medical services to monks in 565 Monasteries throughout Sri Lanka. As the maximum number of foster doctors that can be appointed is 565 as compared to the number of Monasteries, a sum of Rs. 1.26 million had been spent to buy 435 more travelling bags and it was observed as a fruitless expenditure. Further, it was observed that the travelling bags had been distributed to only 105 traditional doctors in 13 Divisional Secretariats of Gampaha District, and 895 travelling bags were left on that day, and a sum of Rs. 223,300 had been spent for the distribution ceremony held at Kelaniya Rajamaha Vihara and the data and information about the purchase and issue of the 1,000 bags had not been not entered in the stock books.

- The Provisions of Rs.1.8 million and Rs. 5 million had been made available in the years 2020 and 2021 respectively for the programme of establishing Poshana Mandira all over the island to promote the use of healthy local food among the public and to sell nutritious local food with the aim of saving the people from non-communicable diseases. Accordingly, a sum of Rs. 1.68 million and Rs. 4.85 million had respectively been spent, during those two years and out of that, Rs. 5 million i.e 77 per cent was spent for Gampaha District. Further, although 35 Poshana Mandira had been built by 31 December 2021, follow-up actions had not been carried out by the Ministries on whether they were operational and achieving the objective.

Department of Ayurweda

- Although the Ayurvedic Commissioner should register to run an Ayurvedic Hospital, Ayurvedic Drugs Manufacturing Unit, Ayurvedic Dispensary or Ayurvedic Warehouse , in terms of Section 10 of the Ayurveda Act No. 31 of 1961, as the provisions on registration of Panchakarma and Massage Centres, had not been included in the Act, the practice of Panchakarma Medicine could not be regulated.

- The Ayurveda Community Health Promotion Programme was allowed to be implemented as a Pilot Project in Anuradhapura District from 2001 to 2005 and based on its success, the Project was to be implemented by expanding the services to other Districts from the year 2005 after the approval of the Cabinet of Ministers was received. But, without doing so, a sum of Rs. 897.2 million had been spent from the year 2005 to the year 2021and this Project had been implemented only in the Anuradhapura District for 16 years.
  Although the Memorandum of Cabinet of Ministers were presented regarding the extension of services to other Districts in 2005, further actions had not been taken

- The approval of the Cabinet of Ministrers was obtained for a project to distribute 60 lakhs of Suwadharani Medicines Manjusa cost at Rs.1,000 each to control the Covid-19 epidemic through local medicines. At the beginning, Rs. 250 million were allocated by a supplementary provision to supply 250,000 Manjusa to the Western Province and a sum of Rs. 142.56 million had been spent. Without paying attention to the time taken by calling the prices, the quality of the products and reducing the cost etc. in order to be able to give all the functions of drug preparation to one supplier, the suppliers had been selected as 07 suppliers for the production of medicines and porridge, one supplier for packaging printing, one supplier for printing cardboard boxes and leaflets, and 07 suppliers for packaging medicines and porridge. Further, it was observed that there were the defects such as selection of suppliers subject to completion of various deficiencies in bid evaluation, disregard of Technical Evaluation Committee recommendations, non-completion of all procurements on due date, extension of time without obtaining the approval of the Procurement Committee, non-imposition of late fees, payment in excess of price committee prices had existed in this procurement process. It was further observed that the deficiencies such as failure to safe storage of medicines in Manjusa, irregular distribution, disposal of certain medicines as expired due to expiry date being printed on the packages before the medicine is filled, lack of enough time to beneficiaries to use the medicines before expiry, getting medicines to the targeted beneficiaries. and lack of monitoring and follow-up of use, 183,776 out of 250,000 Manjusa planned for distribution in Western Province were distributed in Gampaha District alone and although the Cabinet of Ministers approved to follow emergency procurement methods to distribute 60 lakh Manjusa all over the island within 60 days and also 122 days had elapsed by 31 December 2021, not even 05 per cent of the project has been completed shown in this procurement process

Sports Affairs

Audit Observations

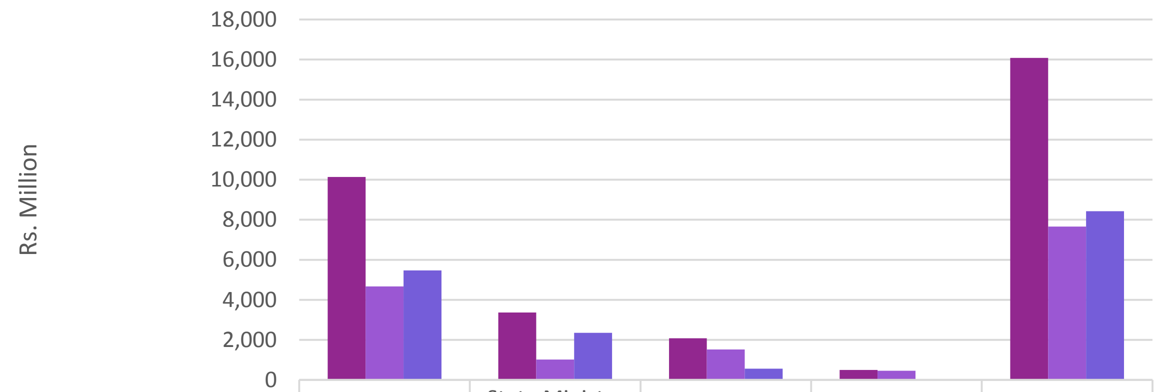
- International achievements won by Sri Lankan players
- Utilization of Funds
- Establishing a sports policy
- Non-submission of financial statements for the year 2021 by National Sports Associations
- Unfinished Abandoned projects
- Delays in project execution
- Establishment of a labor market information system
- Career guidance and job creation promotion
- Asset management
- Annual Action Plans

Sports Affairs

The mission of the Ministry of Youth and Sports was to create a youth community that actively contributes to the national economy and to contribute to building a united and prosperous country by creating a disciplined and sporting society. In order to achieve that result, 10 statutory bodies, a sports fund and 66 sports associations, including the Ministry of Youth and Sports and the State Ministry of Rural and School Sports Infrastructure Promotion under it, the Department of Sports Development, the Department of Manpower and Security, should have been perform the following tasks.

- In accordance with the "Vision of Prosperity" policy statement and based on other national policies expected to be implemented by the government, to provide policy guidance for the relevant State Ministry to create a proud and energetic youth generation.
- Formulating policies related to the subject of youth and sports in accordance with the prescribed laws and ordinances.
- Implementation of projects under the national budget, public investment and national development program.
- Formulation, implementation, follow-up and evaluation of the subjects and functions of the State Ministry of Rural and School Sports Infrastructure Promotion and affiliated institutions under the Ministry of Youth and Sports and related policies, programs and projects.

The Parliament had given a total of Rs.16,085 million net allocation to the Ministry of Youth and Sports and 02 State Ministries and Departments under it for the performance of the above-mentioned functions in the year 2021, and only Rs.7,661 million had been utilized by the end of the year under review. Accordingly, an allocation of Rs.8,424 million was left at the end of the year. Details are shown in Figure 45.



	Ministry of Youth and Sports	State Ministry of Rural and School Sports Infrastructure Promotion	Department of Sports Development	Department of Manpower and Employment	Total
Net Provission Rs.Million	10,138	3,369	2,080	498	16,085
Expenditure Rs.Million	4,667	1,016	1,520	458	7,661
Balance Rs.Million	5,471	2,353	560	40	8,424

Figure 45 : Net Provision and Utilization

Source - 2021 Annual Financial Statements

The significant and quantitative audit observations revealed during the sample audit regarding the performance of the above functions and tasks are summarized below.

International achievements won by Sri Lankan players

In the year under review, Sri Lankan athletes participated in 11 international tournaments and managed to set a world record in the javelin event, while other achievements included 25 medals in the form of 08 gold, 04 silver and 13 bronze.

Utilization of Funds

- The total net capital allocation to the Ministry of Youth and Sports was Rs.10,137.7 million, of which Rs.4,666.6 million had been utilized by the end of the year under review. Accordingly, Rs. 5,471.1 million or 54 percent of the net capital provisions was left.

- The total net allocation made to the State Ministry of Rural and School Sports Infrastructure Promotion was Rs. 3,369.8 million, and Rs. 1,016.3 million had been utilized at the end of the year under review. Accordingly, Rs. 2,353.4 million or 70 percent of the net provision was left.

Establishing a sports policy

The Ministry of Youth and Sports had been established by the Extraordinary Gazette No. 2187/27 dated 09 August 2020, focusing on the youth community, in accordance with the policy statement "Vision of Prosperity" and in accordance with the Constitution of the Democratic Socialist Republic of Sri Lanka, to create an active generation to create a vibrant youth community with a proud balanced personality and a vibrant healthy and disciplined society. Accordingly, although the Ministry should formulate policies related to the subject of youth and sports in order to uplift sports in Sri Lanka in accordance with the prescribed laws and ordinances, an updated national sports policy had not been established even by 19 May 2022.

Non-submission of financial statements for the year 2021 by National Sports Associations

According to Section 7 (xiii) of Part III of the Orders made by the Minister of Sports published vide Gazette Extraordinary No. 1990/23 dated 27 October 2016, although all National Sports Associations are required to submit certified financial statements to the Auditor General within 2 months of the end of the financial year, s of 9 National Sports Associations had not been submitted financial statement to the Auditor General even by August 2022. Furthermore, although the Sri Lanka Table Tennis Association had not submitted financial statements from 2019 to 2021, the Department of Sports Development has granted Rs. 5.4 million to the Association under the International Tournaments and High Talent Program in 2021.

Unfinished Abandoned projects

The amount of Rs. 361 million that has been spent so far had been an useless expenditure, due to being left unfinished of 05 projects that had been allocated Rs.1,622 million and Rs.37 million had been spent by the Ministry of Youth and Sports and 13 projects that had been allocated Rs.1155 million and Rs.324 million had been spent by the Sports Development Department.

Delays in project execution

- It was observed that there are delays in the implementation of 11 projects in which Rs. 143 million had been spent with an annual estimated allocation of Rs. 1,049 million in the Ministry of Youth and Sports.

- 16 sports schools had been selected with the support of the Ministry of

Education by the State Ministry of Rural and School Sports Infrastructure Promotion, Under the Sports School Development Program that should be developed to identify talented children from childhood and take care of them with proper nutrition and training in order to produce a player related to international achievements. An estimated provision of Rs. 211 million had been made for that, and work had started in 11 schools and Rs. 159 million had been spent in the year 2021, and work had been completed in only 03 schools.

- With the aim of developing the infrastructure of international cricket stadiums in Sri Lanka, Sri Lanka Cricket had spent a total amount of Rs. 58.3 million during the period from 2018 to 2021 for the construction of a swimming pool at the Dambulla International Cricket Stadium. Although the construction work was planned to be completed within 06 months from the contracted date of 18 December 2019 for this project, the construction work of the project was not completed until the end of 2021.

- Four projects worth Rs. 47.4 million started in 2014 and 2015, which were awarded the construction works by the Sri Lanka Cricket to the Central Engineering Bureau, were stopped due to not obtaining the necessary approvals from the local government bodies and the Urban Development Authority. However, the value of these projects for which construction work was stopped had not been adjusted accordingly in the financial statements and was shown under work in progress.

Establishment of a labor market information system

Although an estimated allocation of Rs.20 million had been made for the establishment of a labor market information system for the development of human resources with job skills targeting the labor market demand of the Department of Manpower and Employment, only Rs.1.9 million i.e. 9 percent had been spent. Accordingly, the establishment of the labor market information system had not been completed by 31 December 2021, so it was not possible to achieve the desired objectives.

Career guidance and job creation promotion

According to the revised estimate for the year 2021, an allocation of Rs.159 million had been made for 09 proposal programs related to career guidance and job creation promotion of the Department of Manpower and Employment. Rs.104.6 million rupees were spent for the implementation of these programs, through which 77,124 job candidates were registered and only 7,759 jobs were given to the unemployed youth in the private sector in the year under review. In this regard, the Director General had pointed out that it was not possible to achieve the set goals in the last year due to the country being shut down from time to time due to the covid epidemic situation in the country in 2021.

Asset management

Although it is stated that all assets should be documented according to the Financial Regulation 751, the 630 KVA Sound Proof Generator, which was purchased in the year 2014 by the Ministry of Youth and Sports, at a cost of Rs. 12.1 million, was not included in the asset register.

Annual Action Plans

According to paragraph 7 (xii) of National Sports Association Order No. 01 of 2016, although national sports associations should prepare annual action plans for the coming year and submit them to the Director General three months before the end of the current year, only 19 sports associations out of 65 sports associations had been submitted action plans for the year 2021.

Foreign Affairs

Audit Observations

- Non-settlement of the balance of the Imprest account
- Overdue deposits
- Idle and underutilized assets

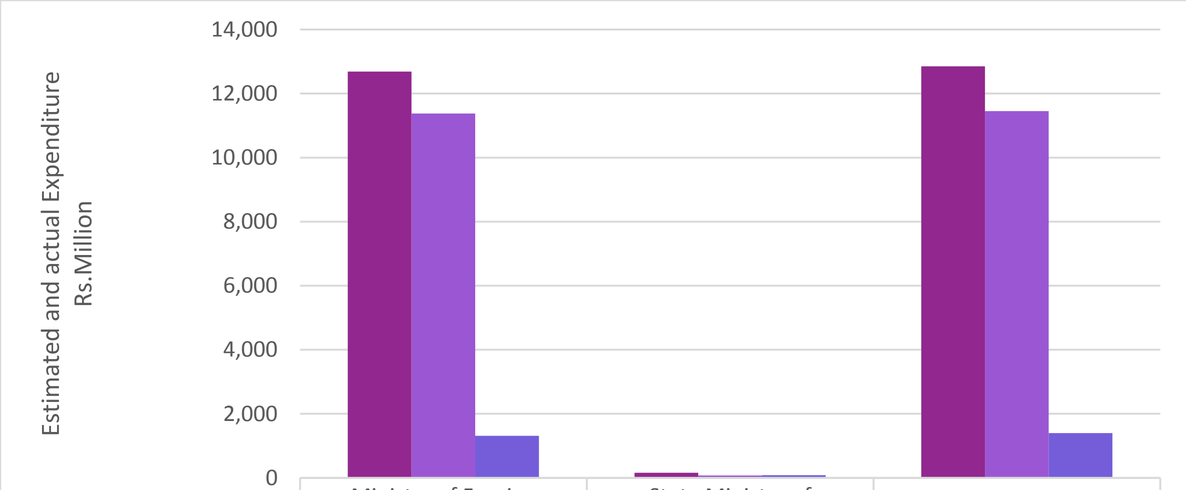
Foreign Affairs

To promote, demonstrate and protect Sri Lankan national aspirations internationally in accordance with the foreign policy of the Government of Sri Lanka and in order to advise the government on the management of international relations in accordance with the Sri Lankan national aspirations, in accordance with the Vision of Prosperity policy statement, to carry out policy guidance for the relevant government ministry to establish a friendly and non-aligned foreign policy based on other national policies expected to be implemented by the government, and formulation of policies related to foreign affairs in accordance with the prescribed laws and ordinances, and Implementation, evaluation and follow-up of projects under the National Budget, Public Investment and National Development Programme are the main role of the Ministry of Foreign Affairs.

The above duties and functions should have been executed by the Foreign Ministry and a State Ministry, a statutory body, 36 Embassies, 13 High Commissions, 13 Consulate General Offices, 02 permanent Missions to the United Nations, 01 Deputy High Commission and a Sri Lankan agency functioning under the Ministry.

The Sri Lankan Embassy in Kabul, Afghanistan was closed in 2021.

A sum of Rs. 12,849 million had been allocated by the Parliament for the Ministry of Foreign Affairs and the State Ministry under it to fulfill the above-mentioned role in year 2021, and only Rs. 11,452 million had been utilized by the end of the year under review. Figure 46 shows the details.



	Ministry of Foreign Affairs	State Ministry of Regional Cooperation	Total
Allocations Rs.Million	12,689	160	12,849
Expenditure Rs.Million	11,376	76	11,452
Balance Rs.Million	1,313	84	1,397

Figure 46 - Estimated and Actual Expenditure

Source - 2021 Annual Financial Statements

The significant audit observations revealed in the accomplishment of the above role are summarized below.

Non-settlement of the balance of the Impress account

Balances totaling Rs.455.16 million comprising Rs.89.92 million and Rs.365.24 million remained respectively in two imprest accounts of the Foreign Ministry by the end of the year under review.

Out of the unsettled imprest account balance of Rs.89.92 million, a balance of Rs.60.05 million was made up of 248 security deposits for houses given to staff who had gone abroad for foreign mission service. Out of those 248 houses guarantee/security deposits, excluding the security deposit amounting to Rs. 0.48 million, the rest of 247 house security deposits amounting to Rs.59.57 million were security deposits held for houses not currently used by foreign mission staff. Out of that, the deposits amounting to Rs.12.44 million had exceeded 20 years and Rs. 43.29 million in the range of 10 to 20 years, the balance of 3.84 million had exceeded 07 years. Even though the internal circular of the Director General of the Foreign Missions Control Division of the Ministry No. 250 dated 01 September 2009 had given instructions regarding the recovery of those deposits, it had not been acted upon. There were 127 unsettled outstanding interim imprest amounting to Rs.29.87 million, of which, although Rs.0.70 million had exceeded 20 years, Rs.12.84 million had exceeded 10 years to 20 years and the remaining Rs.16.33 million had exceeded 07 years, the interim imprest should be settled immediately after the completion of the work as per the Financial Regulation 371, but this was not done. Further, it was not ascertained for what purpose the sum of Rs. 23.29 million had been given to 72 out of 127 outstanding interim imprest.

The other imprest account had a balance of Rs.365.24 million, in which there was a security deposit of Rs.344.21 million for the houses provided to the staff who went abroad for foreign mission service. Of those security deposits, 19.54 million rupees had been related to 46 deposits that were kept for houses where the mission staff had not settled down. Of that value Rs. 3.02 million were the value of deposits exceeding 10 years, and Rs. 16.52 million were deposits between 04 and 10 years. Of the other imprest balance, the remaining balance of Rs.21.03 million was interim imprest, in which Rs.3.93 million related to the period before the year 2018, Rs.2.43 million related to the year 2019 and Rs.4.27 million related to the year 2020. The situation was not dealt with according to the conditions mentioned in the Financial Regulation 371 in relation to the Interim imprest.

Overdue deposits

Even though the unclaimed deposits up to 2 years from the date of deposit should be taken to state revenue, the Ministry had not taken steps to credit to the state revenue according to the 571 of the Financial Regulations regarding the deposits amounting to Rs.32.60 million.

Idle and underutilized assets

- Although the Foreign Mission of Malaysia in Kuala Lumpur had purchased a land for MYR 3,661,000 in the year 2007, Rs. 19.36 million had been paid as the rent of office buildings in the year 2021 due to the non-construction of a building.
- The Sri Lankan ambassador's quarters in Sweden, which had been purchased in 1972, had not been used since 2012, a sum of Rs. 17.88 million had been paid as the rent of quarters in 2021 due to non-renovation and non-use of those buildings.
- The office building and the official residence of the High Commission of Lanka in Kenya, which was purchased in 1976, had been decommissioned

since 2021 and 2014 respectively. A sum of Rs. 12.48 million had been paid as office rent and quarters rent in year 2021, due to the buildings had not being renovated and not in use.

- The office building and quarters of the High Commission of Sri Lanka located in Canberra, Australia, had been decommissioned since 2012 and 2007 respectively. The buildings were not renovated and not used.

Foreign Employment Sector

Audit Observations

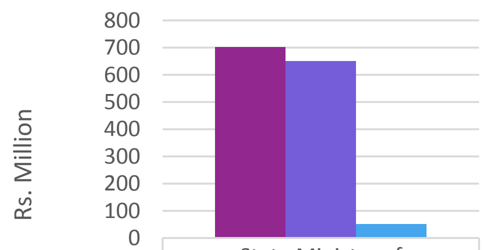
- Demonstrating growth in referrals for foreign employment
- Not updating the agreement regarding sending Sri Lankan workers for employment in Korea
- Non-operation of the program to obtain information about migrant workers online
- Non-economic transactions
- Lack of formal training for expatriate workers as caregivers
- Not formalizing the system of sending caregivers to Israel
- Informal recruitment for labor welfare departments located in foreign missions
- Disbursement of disaster loans beyond the sanctioned limit
- Failure to fulfill the purpose of starting the research department
- Financial irregularities in the Abu Dhabi and Israel offices
- Non-processing of preliminary investigation reports related to cases of financial irregularities
- Unauthorized transactions
- Performance of Sri Lanka Foreign Employment Agency Pvt Limited
- Non-appointment of a General Manager on a permanent basis for the Company

Foreign Employment Sector

The State Ministry of Foreign Employment Promotion and Market Diversification and 02 statutory bodies under it should have performed the following functions and tasks for the promotion of this sector.

- Access to skilled labor market opportunities for overseas employment, as well as diversification of the overseas employment market, rather than an unskilled labor force.
- Encouraging the Sri Lankan banking system to provide special facilities for expatriate workers and Sri Lankans living abroad to effectively save and invest their foreign exchange earnings in Sri Lanka.
- Implementation of special project programs for people who come to the island after working abroad to start businesses with the ministries related to those business areas.
- Implementation of a program to ensure the safety and welfare of domestic workers working in the Middle East and other countries.
- Introducing the necessary legal reforms to strengthen the process of obtaining compensation for victims of various accidents in foreign countries.
- Regulation of private foreign employment agencies under proper system

An annual budget allocation of Rs. 701 million had been allocated to the Ministry for these activities in the year 2021, and Rs. 650 million had been utilized by the end of the year under review. Details are shown in Figure 47.



	State Ministry of Foreign Employment Promotions and Market Diversification
Provisions Rs.million	701
Expenditure Rs.million	650
Balance Rs.million	51

Figure 47 - Provision and actual expenditure
Source - 2021 Annual Financial Statements

This sector makes a unique contribution to the national income of Sri Lanka and according to the statistics of the Central Bank of Sri Lanka, Rs. 1,087,188 million was earned from it in the year 2021. It was 6.23 percent of the disposable national income and 97 percent of the foreign exchange earnings.

Under the supervision and direction of the State Ministry of Foreign Employment Promotion and Market Diversification, the foremost agency in fulfilling the above-mentioned role of the government in the field of foreign employment is the Sri Lanka Foreign Employment Bureau and its service has been expanded through the following organizational structure.

- Establishment of Labor Welfare Sections in 16 Foreign Missions.
- Running 12 detention houses under these welfare units for temporary detention of emigrants who have left for foreign jobs and faced various problems.
- To maintain 17 training centers throughout the island for the familiarization and training of migrant workers.
- Having established 09 regional offices of Foreign Employment Bureau.

The Bureau had earned a total income of Rs.3,054 million through its services in the year 2021, and the total expenditure was Rs.2,421 million. The total investment value of the Bureau was Rs. 10,586 million as on 31 December 2021.

According to the information of the Sri Lanka Foreign Employment Bureau, the number of people who registered with the Bureau and left for employment in the year 2021 was 122,264. Of these, 73,717 (60%) were domestic workers, semi-skilled and unskilled workers. The number of departures for professional and skilled jobs was 8,373 and 40,174 respectively.

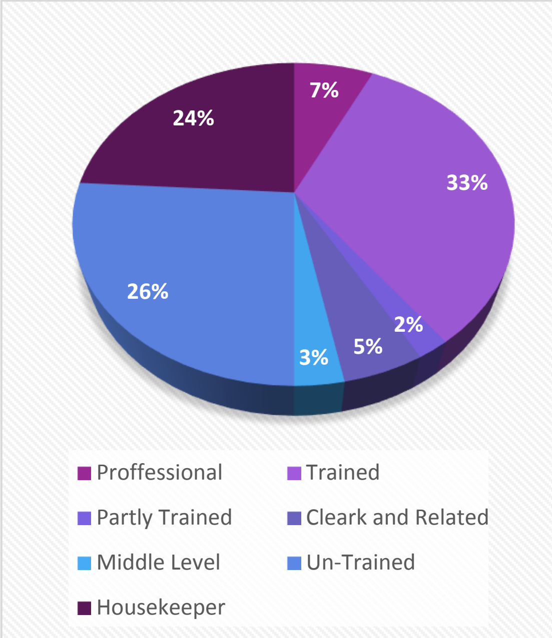


Figure 48 - Expatriation by Service Classification - 2021
Source: Sri Lanka Foreign Employment Bureau

Demonstrating growth in referrals for foreign employment

Due to various reasons mainly due to the global epidemic situation, the number of people who went abroad for work had gradually decreased in the past years, and it had shown an increase again in the year 2021.

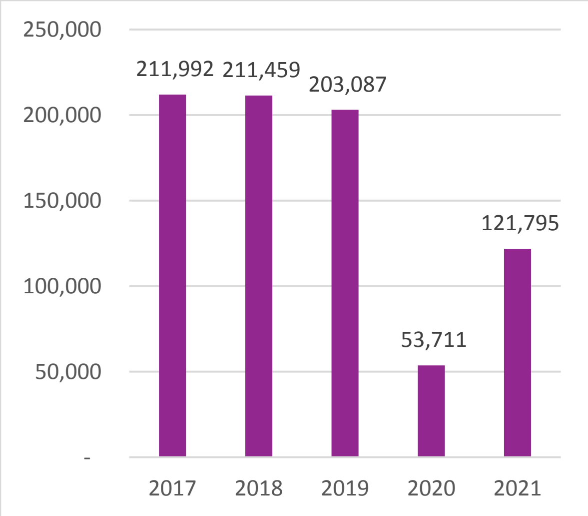


Figure 49 - Bureau registered and overseas employment - 2017 to 2021
Source: - Central Bank of Sri Lanka Annual Report - 2021

The audit observations revealed during the sample audit tests carried out by the Ministry of State and the statutory bodies under it in relation to the performance of the aforementioned work and tasks are summarized and given below.

Not updating the agreement regarding sending Sri Lankan workers for employment in Korea

According to the agreement signed between the Ministry of Foreign Employment and the Korean Government on November 29, 2017 for a period of 02 years in relation to sending Sri Lankan workers for employment in Korea, if a period of 06 months expires after the cancellation of the agreement to update the agreement again without a reasonable reason, there is a possibility to suspend or terminate the agreement. Under this, the work of referring workers to those states should be done only by the bureau, and in the last 5 years, a total of 20,144 people had been referred for employment. However, the update of the agreement started in 2020 was not completed by July 2022.

Non-operation of the program to obtain information about migrant workers online

With the aim of maintaining a computerized data system related to the family profiles of migrant workers and sending updated information to the Sri Lanka Foreign Employment Bureau through an online computer system, the Ministry spent Rs. 35.5 million and purchased 277 computers in 2016 and 2017 and distributed them to the Divisional Secretariats. However, it was not possible to maintain the data systems and forward the necessary information to the Sri Lanka Foreign Employment Bureau as expected, by the audit date of 05 April 2022.

Non-economic transactions

Buildings were continuously rented for the Ministry's office, and on two occasions from January 2016 to October 2019, which were subject to sample inspection, a total rent of Rs. 95.63 million for the buildings thus obtained and a total of Rs. 15.42 million for allocating rooms in those buildings and transportation of goods had also been spent. Also, it was decided to establish the office again from the year 2019, in the "Mehewara Piyasa" building in Narahenpita and an initial payment of Rs. 2 million was made in the year 2021 based on an estimate of Rs. 34.61 million for room reservations.

Lack of formal training for expatriate workers as caregivers

Although the recommended competency standard curriculum for the Care Giving National Vocational Qualification (NVQ 3) training course conducted by the Bureau for the purpose of sending Sri Lankan workers to Israel includes 12 units of lessons to be completed within 03 months, the bureau had obtained approval to complete the training course in 02 months. The duration of the course was reduced to 45 days and 30 days on two occasions without approval and conducted online without covering the 260 hours of practical training required for international skill levels. Since the Israeli Embassy had informed that the qualifications need to be updated when applying for a visa one year after completing this training, those workers were asked to pay Rs. 8,100 was charged and within 07 days, the syllabus had been re-taught. Also, according to the job requirement, this course should be conducted in English medium, but the bureau had arranged to conduct a short-term English course for those recruited for training by charging fees. Out of 5,918 people who completed the training, only 862 had gone abroad for the relevant job. However, the Bureau had earned an amount of Rs.84.91 million through these training programs.

Not formalizing the system of sending caregivers to Israel

Students who have completed formal training in 19 government and non-government training centers with National Vocational Qualification Level 04 and 03 certificate with practical training approved by the Tertiary and Vocational Education Commission were not able to apply for this job, since only 11 months Care Giving Training Course Certificate with practical training or NVQ 03 Level Nurse Training Course Certificate operated by the Bureau is mentioned in the agreement between the Government of Sri Lanka and the Government of Israel as recruitment qualification for these jobs.

Informal recruitment for labor welfare departments located in foreign missions

31 people on the basis of Siyarata Peruva and 67 people on the local basis were recruited for Labor Welfare Sections located in Foreign Missions without an approved recruitment process in the year 2020, applications are invited by the Board of Directors on a decision and based on the criteria developed by the Bureau. While there were those who obtained relatively higher marks in the interview related to selection on Siyarata basis and local basis, 09 people and 16 people who scored low marks were recruited respectively. The Bureau had hired two people from outside for the positions of adviser and third secretary in these labor welfare divisions in the year under review, and no information was reported about the method used to call for applications related to that recruitment. Also, an officer who had not completed the minimum age for the relevant post and had no experience in the relevant field or service had been recruited as a consultant in Singapore.

Disbursement of disaster loans beyond the sanctioned limit

A total of Rs.80.79 million more had been paid as disaster loans to 275 officers during the year under review, due to the payment of disaster loans to the officers of the Bureau contrary to paragraph 02 of Public Administration Circular No. 30/2008 dated 31 December 2008.

Failure to fulfill the purpose of starting the research department

According to Section 15 (a)(k)(l) of the Sri Lanka Foreign Employment Bureau Act, the Research Division was established with the aim of promoting and developing employment opportunities for Sri Lankans outside Sri Lanka, conducting research and studies on employment opportunities, establishing and maintaining an information data bank to survey the emigration and return of Sri Lankans for employment. Although 13 officers were employed at the end of the year under review, 09 researches were conducted in the years 2020 and 2021, which were sampled, and 04 of them had been completed. However, the researches were not carried out to fulfill the above objectives, and the information data bank was not maintained.

Financial irregularities in the Abu Dhabi and Israel offices

It was mentioned in the financial statements that there were financial irregularities of Rs.1.15 million in the year 2014 and Rs.1.83 million in the year 2019 respectively in the labor welfare sections of the Sri Lanka Foreign Employment Bureau in Abu Dhabi and Israel embassies. Of this, Rs. 91 million related to the financial irregularity in the Israeli embassy and Rs. 1.15 million in the financial irregularity which happened in the Abu Dhabi embassy had been failed to be recovered even after 08 years.

Non-processing of preliminary investigation reports related to cases of financial irregularities

The ministry secretary had appointed three investigation officers to conduct preliminary investigations related to 07 cases of irregularities that had occurred in the Sri Lanka Foreign Employment Bureau in the period from 2015 to 2019 and obtained the relevant reports. But formal disciplinary investigations or other action were not taken based on those reports.

Unauthorized transactions

The Labor Welfare Fund, which was established in according to Section 45 of the Sri Lanka Foreign Employment Bureau Act for the benefit of Sri Lankans employed outside Sri Lanka, had a sum of Rs.223 million balances in foreign bank current accounts. Contrary to the provisions of Sections 17 (2) and 45 (2) of the Act, an amount of Rs. 544 million that should have been collected for the Bureau Fund was collected for the Labor Welfare Fund, and a total of Rs.428.56 million had been spent from the Labor Welfare Fund for salaries, allowances and other facilities for 56 officers who were assigned to serve in foreign missions to be paid from the Bureau Fund.

Performance of Sri Lanka Foreign Employment Agency Pvt Limited

Although it is possible to employ Sri Lankan workers at relatively low cost on the basis of government security by the Foreign Employment Agency Company, wholly owned by the Sri Lanka Foreign Employment Bureau, only 90 workers were sent abroad in the year under review, and it is about 0.07 percent of the total number of workers who registered with the Bureau and went abroad for work during the year. Acting as a foreign employment consultant, conducting awareness and training programs, satisfying job demand and other major tasks were not done in the year under review.

According to the action plan prepared by the company for the year under review and its progress, although it was planned to receive 84 new job orders, through 05 methods including spend Rs. 2.1 million to enter new job markets, through Sri

Lankan embassies abroad, through the marketing department of the Sri Lanka Foreign Employment Bureau, through finding job opportunities through foreign countries and web and e-mail channels, the company had received only 15 job orders through those methods during the year. Also, the programs planned to be implemented locally to promote the foreign employment market had not been implemented as expected.

Non-appointment of a General Manager on a permanent basis for the Company

There had been no continuous recruitment of a general manager as per the approved recruitment procedure for the company, and the company had appointed 16 general managers in the 25 years from its inception to the year 2021. The line ministry had appointed two officers on permanent basis only for a period of one year. 09 officers of the Sri Lanka Foreign Employment Bureau were employed as general managers on 11 occasions after the year 2000, without any formal system on the acting basis, and the bureau officers were continuously appointed to the higher positions in the financial and administrative departments of the company on the acting basis.

Aviation Sector

Audit Observations

- Collection of Revenue
- Utilization of budgeted Provision
- Payment of Allowances by the Civil Aviation Authority without Treasury Approval
- Implementation of the Project on Expansion of the Katunayake International Airport under Japanese Loan
- Payment of Commitment Fee due to Underutilization of Loans
- Non-compliance with Civil Aviation Act
- Ownership of Airport Lands and Buildings
- Performance of Mattala, Ratmalana, Jaffna and Batticaloa International Airports
- Going Concern of Sri Lankan Airlines
- Allocation of Additional Funds by the Treasury on Cabinet Approval
- Obtaining Short Term Loan Facilities from State Banks
- Issuance of International Bonds
- Accounts Payable
- Settlement of Pre-delivery Payments made for 4 Aircrafts of type A350-900
- Calling Proposals for obtaining Operating Lease for 12 new Aircrafts and Re-fleeting of 09 Aircrafts

Aviation Sector

The following duties and functions had to be performed by the State Ministry of Aviation and Export Zone Development which functions on the vision, “environmental and local culture friendly, high foreign exchange earning tourism industry” and 03 statutory institutions under its purview.

- Assisting in the formulation of policies relating to the subject of Aviation and Export Zone Development in compliance with relevant laws, rules and Acts and Ordinances
- Implementation of projects under the National Budget, state investments and National Development Programme
- 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 a domestic 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 Sri Lankan Airlines to a high international standard
- Expansion of cargo exports

Parliament had provided allocations totalling Rs.2,086. million to the State Ministry of Aviation and Export Zone Development in the year 2021 to carry out the above functions and only Rs.969 million out of the above had been utilized by the end of the year under review.

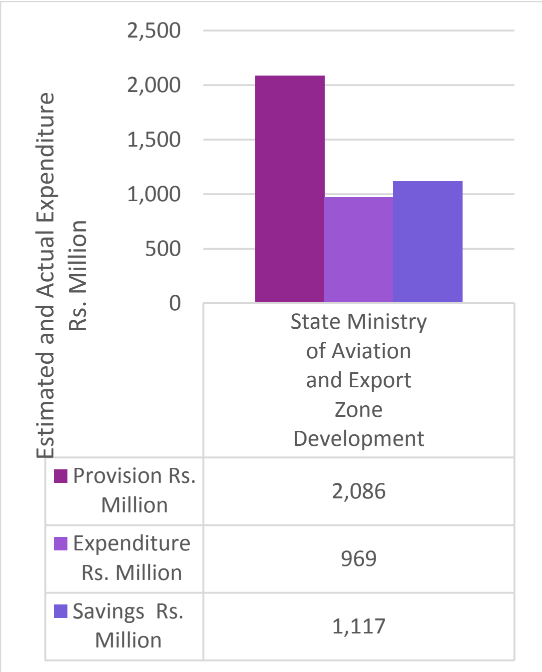


Figure 50 : Estimated and Actual Expenditure

Source – Annual Financial Statements – 2021

Material and significant audit observations revealed at the audit test checks carried out relating to performance of above duties and functions by the State Ministry of Aviation and Export Zone Development and 03 statutory institutions under its purview, have been summarized as follows.

Collection of Revenue

The original estimate for the year ended 31 December 2021 under the Embarkation Levy collected by the Civil Aviation Authority which is the main source of revenue of the State Ministry of Aviation and Export Zone Development, was Rs.19,000 million and it had been reduced and revised to Rs.4,000 million due to the Covid pandemic. However, only a sum of Rs. 3,350 million representing 84 per cent had been earned of the revised estimate during the year.

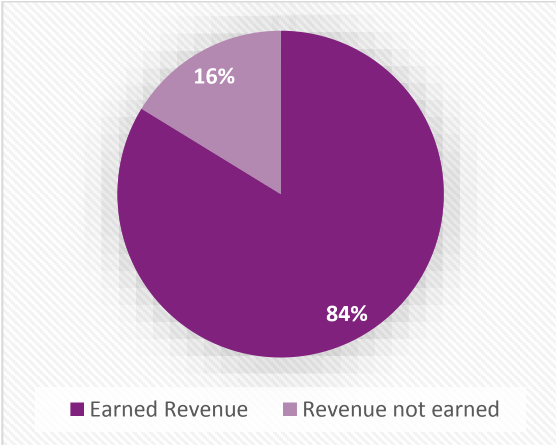


Figure 51 : Estimated revenue and earned revenue

Utilization of budgeted Provision

The budgeted provision for the recurrent expenditure of the State Ministry of Aviation and Export Zone Development relating to the year 2021 was Rs.169.84 million and out of that a sum of Rs.103.01 million had been utilized while a sum of Rs.66.83 million representing 39 per cent of the budgeted provision had been saved.

Even though provision of Rs.1,916.12 million had been saved for capital expenditure, only a sum of Rs.866.02 million had been utilized while a sum of Rs.1,050.1 million representing 55 per cent had been saved. Moreover, a sum of

Rs.53.6 million payable to the Road Development Authority relating to construction of the runway of the Batticaloa Airport which was an expenditure for which provision was not made relating to this year, had been brought to account under capital expenditure as per instructions of the General Treasury. Furthermore, the Ministry had not obtained source documents or documentary evidence whatsoever in addition to the letter of releasing provision relating to this payment.

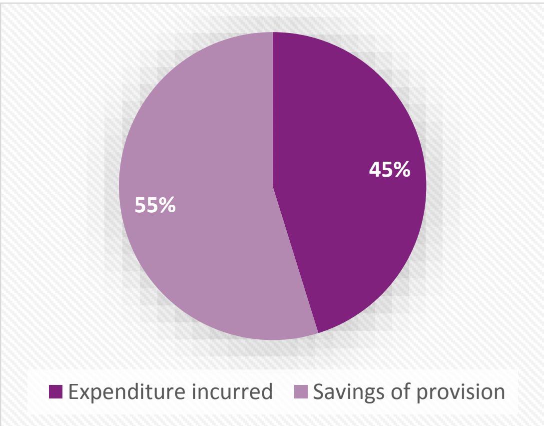


Figure 52: Capital Expenditure

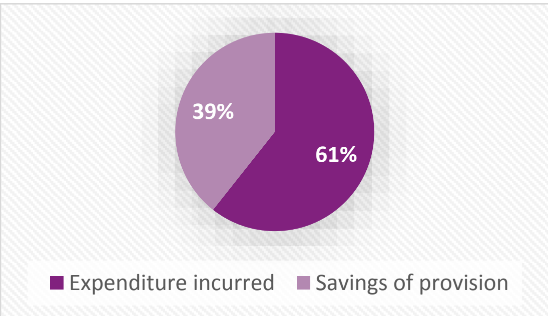


Figure 53: Recurrent Expenditure

Payment of Allowances by the Civil Aviation Authority without Treasury Approval

In terms of Circular No.03/2018 of 18 July 2018 of the Department of Management Services, allowances should not be paid without approval of the Department of Management Services. Nevertheless, a Management allowance of Rs.50,000 per month had been paid with effect from May 2018 to 27 officers of the Top Management of the Authority according to a decision of the Board of Directors. The Authority had paid an allowance totalling Rs.50,128,553 from the year 2018 to the year 2021 comprising a sum of Rs.13,061,742 which was paid for the year under review.

Implementation of the Project on Expansion of the Katunayake International Airport under Japanese Loan

The Airport and Aviation Services (Sri Lanka) (Private) Ltd had planned to implement the Project on Expansion of the Katunayake International Airport for fulfilling the requirement of air passengers which increased due to the favourable atmosphere in the country after the year 2009. The "New Terminal Building and Associated Constructions" package named A and the "New Apron and Solid Waste Management System" been named as B had been identified under two parts. This project had been commenced in the year 2012 and expected to be completed within 3 years that is in the year 2015. However, awarding of the contract had delayed due to various reasons including change of plans. As such, the contract had been awarded first to “B” package and it had been commenced on 25 April 2017 and completed on 06 August 2020.

The Airport and Aviation Services (Sri Lanka) (Private) Ltd had entered into agreements with the contractor on 12 March 2020 for a value of Japanese Yen 41,554 million and Rs.35,136 million relating to the “A” package including main constructions representing 92 per cent of the estimated cost of the above project. While constructions thereof were being carried out, payment of loan instalments had been discontinued on the policy decision taken on 12 April 2022 by the Ministry of Finance due to the current financial issues prevailing in the country. As a result, the payment for contract could not be made due to failure in reimbursement of funds by the lender. As such, the contractor had temporarily discontinued constructions on 25 July 2022.

Payment of Commitment Fee due to Underutilization of Loans

The Airport and Aviation Services (Sri Lanka) (Private) Ltd had entered into 02 agreements on 28 March 2012 and 24 March 2016 respectively for obtaining a loan totalling Japanese Yen 74,397 million from the Japanese International Cooperation Agency (JICA) for implementing constructions of the new terminal building and constructions thereto under “A” package of the project on Expansion of the Katunayake International Airport. A commitment fee of Rs.359.5 million had to be paid to JICA due to underutilization of foreign loans by 20 April 2022 on the delay in implementation of the project.

Non-compliance with Civil Aviation Act

In terms of Section 14 of the Civil Aviation Act, No.14 of 2010, the Airport and Aviation Services (Sri Lanka) (Private) Ltd had not prepared a major plan for establishment of airport zones or development and obtained approval from the Civil Aviation Authority of Sri Lanka. Such a plan had not been prepared and obtained approval even by the end of the year under review.

Ownership of Airport Lands and Buildings

The Minister of Transport and Civil Aviation, by the Gazette Notification dated 21 December 2017 under the Civil Aviation Authority Act, No.34 of 2002 had vested the Katunayake Airport, Ratmalana Airport, lands, buildings and structures of the Civil Aviation Training Centre, Aeronautical Telecommunication Transmitting Station of Attidiya, Ratmalana, Air Navigation Facility of Gampaha and Pamunugama, Radar Centre of Piduruthalagala, Holiday Resort in Nuwara Eliya and the land in Anuradhapura of 0.125 hectares in extent, in the Civil Aviation Authority of Sri Lanka. However, lands, buildings and other movable and immovable property owned by the Government and utilized by the Airport and Aviation Services (Sri Lanka) (Private) Ltd should be valued and brought to account based on the Cabinet Decision of 17 August 2005 and according to the letter No.PE/COMC/33/02 of 28 April 2006 of the Deputy Secretary to the Treasury. Furthermore, the assets and liabilities in the financial statements of the General Treasury relating to development of airports as at that date, should have been vested and shares issued to the Government of Sri Lanka for net assets. As such, there was a problematic situation in relation to the ownership of lands and buildings utilized by the Airport and Aviation Services (Sri Lanka) (Private) Ltd. An issuance of shares as above, had not been carried out up to 31 December 2021 and only the buildings of the Bandaranaike International Airport had been revalued during the year under review and action had not been taken up to now to complete the total valuation.

Performance of Mattala, Ratmalana, Jaffna and Batticaloa International Airports

- Even though the annual passenger capacity expected at the Mattala Airport was about one million, the number of passengers who had used the Airport during the 5 preceding years was only 91,747. Moreover, the total flights during the 5 preceding years, was only 2,396. The net loss from operations of the Mattala Airport for the year 2021 was Rs.4,440 million and the accumulated net loss from the year 2017 up to the year 2021 was Rs.20,590 million. Accordingly, it was observed that the capital expenditure of Rs.36,564 million equivalent to USD 247.7 million incurred for constructing this airport, had not been utilized effectively. Moreover, the General Treasury had paid Rs.1,708 million from 2010 to March 2015 while the

Company had paid Rs.3,532 million from April 2015 to March 2022 as loan interest for the loan of USD 190 million obtained for the above construction and the balance of the above loan had been USD 109 million as at 31 December 2021.

- Continuous losses had been sustained from the operations of the Ratmalana Colombo International Airport and the accumulated loss had been Rs.1,693.66 million and Rs.461.08 million for the period from 2017 to 2021 and for the year under review respectively. According to reports, the movement of aircrafts had been only 13 per year for the years 2020 and 2021 and the movement of passengers had been only 60 and 28 respectively.

- The Jaffna International Airport had opened to passengers on 17 October 2019. The number of aircraft movements and passenger movements reported from its commencement up to 31 December 2021, had been 142 and 4,441 respectively and continuous losses had been sustained from operations for the entire 03 preceding years. Even though the administration expenditure had been 40.74 million in the year under review, no revenue whatsoever had been earned.

- The Batticaloa International Airport had been re-opened for civil operations on 25 March 2018. No revenue whatsoever had been earned during the four preceding years and a sum of Rs.74.64 million had been incurred as administration expenditure. Sums of Rs.38.4 million and Rs.482.78 million had been incurred respectively by the Civil Aviation Authority in the year 2016 for constructing a passenger terminal and a runway and the State Ministry of Aviation and Export Zone Development had paid a sum of Rs.53.61 million during the year to the Road Development Authority as the final payment for constructing the runway.

Going Concern of Sri Lankan Airlines

The loss of Sri Lankan Airlines for the year ended 31 March 2021 was Rs,45,231.46 million and the accumulated loss was Rs.371,733.52 million. The current liabilities over the current assets of the Company as at that date was Rs.221,308.99 million, total liabilities over the total assets was Rs.289,265.27 million. Accordingly, there was a material uncertainty on the going concern of Sri Lankan Airlines. However, financial statements had been prepared on the assumption of the ability of going concern as per the letter of the Secretary to the Treasury dated 24 February 2022 confirming the Government's assistance towards Sri Lankan Airlines on the Cabinet approval dated 07 February 2022.

Allocation of Additional Funds by the Treasury on Cabinet Approval

A sum of Rs.46,470 million (USD 375 million) had been allocated from time to time by the Treasury to the Company from the year 2011 to the year 2014 for working capital requirements, that is to make payments to the Ceylon Petroleum Corporation. Subsequently, the Cabinet approval had been granted in the year 2020 for investing an additional capital of USD 500 million by the Treasury and of that, a sum of USD 240 million had been provided up to April 2021. Even though there was such an unfavourable financial situation, the Cabinet had decided at the Cabinet meeting held on 15 November 2021, to assign the procurement activities of Sri Lankan Airlines to the Board of Directors of the Company without any restrictions and without any supervision of the Government.

Obtaining Short Term Loan Facilities from State Banks

Sri Lankan Airlines had obtained loan facilities of USD 200 million during the year 2016/2017 (approximately Rs.31,115 million) and Rs.29,439 million during the year 2017/18 from 02 state banks for short term financial requirements on Treasury securities. Furthermore, a loan of USD 75 million had been obtained in the year 2020/21 from the same 02 state banks. Accordingly, a loan of Rs.71,621 million had to be settled as a whole to the 02 above mentioned state banks by 31 March 2021. None of the said loans had been settled even by the end of the year under review.

Issuance of International Bonds

Sri Lankan Airlines had issued international bonds valued at USD 175 million under an annual interest rate of 5.3 per cent in the year 2014 on Treasury securities and international bonds were issued again in June 2019 under an annual interest rate of 7 per cent for releasing those bonds. According to the Corporate Plan 2021/22-2024/25 approved by the Board of Directors, it had been indicated that the said bonds are expected to be re-issued in the year 2024 for release.

Accounts Payable

A sum of USD 311.9 million was payable to the Ceylon Petroleum Corporation by Sri Lankan Airlines by 31 May 2021 and the aircraft operating lease rental was USD 59 million.

Settlement of Pre-delivery Payments made for 4 Aircrafts of type A350-900

A sum of Rs.2,528.12 million (USD 19.21 million) had been paid as pre-delivery payments by 31 March 2021 for the 4 aircrafts of type A 350-900 due in the years 2020 and 2021.

As stated in the judgment given by the Crown Court of United Kingdom, authorizing the agreement entered into between the Serious Fraud Office and the SAS Airbus Company, the employees of the Airbus Company had agreed to make payments up to USD 16.84 million to a company owned by the wife of the former Chief Executive Officer of Sri Lankan Airlines for influencing the transaction of purchasing 6 aircrafts of type A 330-300, 4 aircrafts of type A 350-300 and leasing of 4 aircrafts of type A 350-900 to Sri Lankan Airlines. Sri Lankan Airlines, based on legal advice, had notified the SAS Airbus Company by a Letter before Action dated 29 September 2020 on recovery of pre-delivery payments together with compensation by terminating the agreement of purchase of the said aircrafts of type A 350-900. It was revealed by the letter dated 07 December 2021 sent by the Airbus Company that a preliminary discussion had been held with the Airbus Company on 03 December 2021. The current position in this regard had not been made available to Audit.

Calling Proposals for obtaining Operating Lease for 12 new Aircrafts and Re-fleeting of 09 Aircrafts

Proposals had been called on 10 April 2022 unheeding the current economic situation in Sri Lanka and the unfavourable financial situation of Sri Lankan Airlines for obtaining operating lease for 12 new aircrafts and re-fleeting of 09 aircrafts and the potentiality and reasonable assurance on the necessity of obtaining 12 new aircrafts in such manner, had not been made available to Audit.

Tourism

Audit Observations

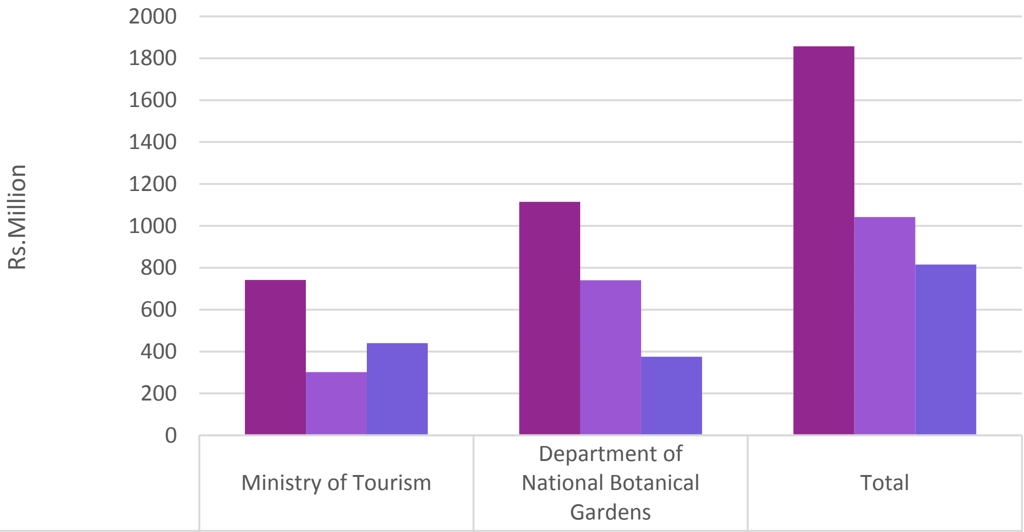
- Decrease in tourist arrivals and income
- Maintaining the Ministry of Tourism and the ministerial office under it in private buildings
- Taking over a jeep to the ministry that had been in an accident and was sent for repair
- Repairing a damaged vehicle without following procurement procedures
- Advances of foreign currency to foreign missions
- Participation in foreign promotional programs
- Selection of an agency to conduct the promotional program apart from the procurement process
- Conducting promotional programs
- Non-commencement of operations on leased lands
- Leasing of Rest Houses
- Accommodation and tourist facilities Registration in the Authority

Tourism

Ministry of Tourism, Department of National Botanic Gardens, Sri Lanka Tourism Promotion Bureau, Sri Lanka Tourism Development Authority, Sri Lanka Tourism and Hotel Management Institute and Sri Lanka Convention Bureau should have done the following to promote the tourism industry in Sri Lanka.

- Formulating a program for development as an eco-friendly and local culture-friendly tourism industry with comprehensive individual participation.
- Preparation of a special program for the safety of tourists.
- Identifying new attractions for foreign tourists.
- Facilitating business conferences, events, exhibitions and conferences to attract tourists.
- Providing investment and other facilities to the private sector to develop the tourism industry.
- Establishment of tourist service centers on roads, junctions connecting major tourist cities.
- formalizing the process of approval of tourism facilities by setting up regional offices.
- Establishment of tourism training schools in major tourist cities and introduction of attractive skill development courses.
- Development of home based and community-based tourism industry.
- Arrange for registration, training and identity verification of all tour guides and drivers.
- Introducing a special program to create a tourism-related business.
- Facilitating tourists through information technology.
- Implementation of a process of execution through one coordination center under the concept of One Stop.
- Establishment of high quality tourist hotels, doubling the number of existing hotel rooms.
- Establishing a system of imparting correct knowledge and information to tourist guides to disseminate accurate information about national heritage and archaeological sites among tourists.

A total sum of Rs. 1,857 million had been provided by the Parliament to the Ministry of Tourism and Department of Botanical Gardens to fulfill the above role, out of which only Rs. 1,042 million had been utilized by the end of the year under review. Accordingly, Rs. 815 million had not been utilized. Details are shown in Figure 54.



	Ministry of Tourism	Department of National Botanical Gardens	Total
Provision Rs.Million	742	1,115	1,857
Expenditure Rs.Million	302	740	1,042
Balance Rs.Million	440	375	815

Figure 54 - Amount of provision given and actual cost

Source - 2021 Annual Financial Statements

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

Decrease in tourist arrivals and income

Last year, 507,704 foreign tourists visited to Sri Lanka and in the year under review, the amount decreased by 61.7 percent to 194,495 foreign tourists. Due to the Covid pandemic, the country has been locked down from time to time, had caused this situation. The Ministry of Tourism and other agencies operating under it had some limitations in their work and activities due to the decrease in the arrival of these tourists. Figure 55 shows the arrival of tourists in 2021 compared with the previous three years. Also, an income of Rs. 711,961 million was collected from tourism in the year 2018, but in the year of 2019, it had decreased to Rs. 646,362 million and in the year of 2020, that income had been reduced by 80.78 percent or Rs. 522,173 million and it was Rs. 124,189 million. In the year 2021, that income had further decreased to Rs. 100,620 million. In terms of foreign exchange, it had decreased to USD 3,606.9

million in 2019 compared to USD 4,380.6 million in 2018. In 2020 and 2021, that income decreased to USD 682.5 million and USD 506.9 million respectively. Accordingly, compared to the year 2019, in the year 2020 there was a decrease of 2,924.4 million USD or 81.08 percent, and compared to the year 2020, it decreased by another 175.6 million USD in the year 2021. The income from tourism increased gradually from 2015 to 2018 and decreased rapidly from 2019 to the end of 2021. The details of that are shown in Figure 56

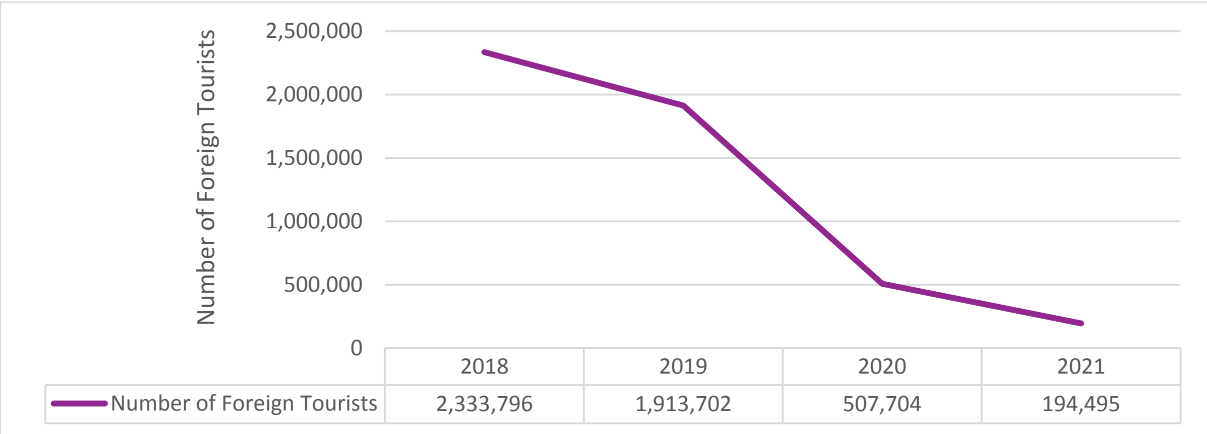


Figure 55 - Foreign tourist arrivals in the year under review and in the last three years

Source - Sri Lanka Tourism Development Authority

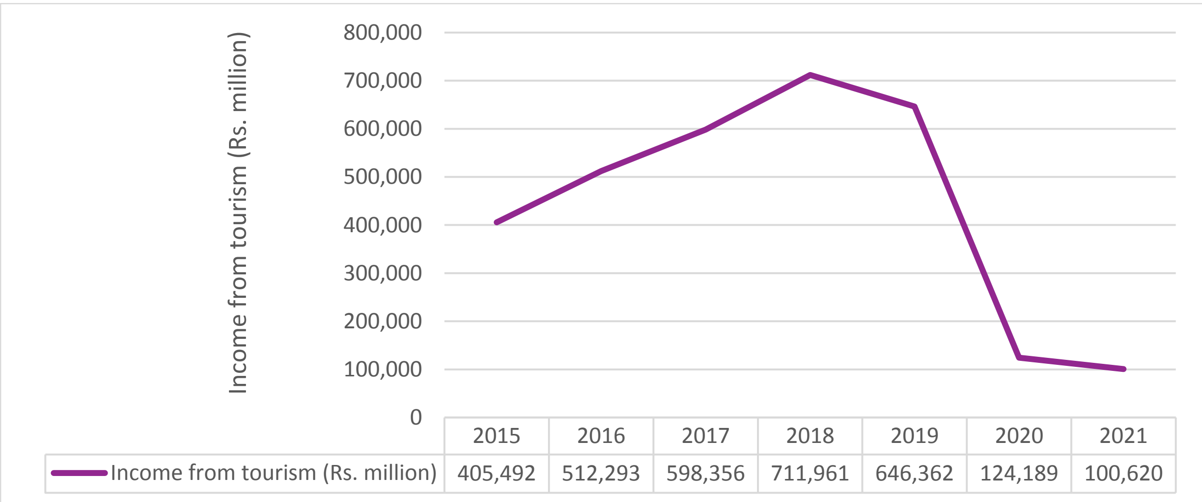
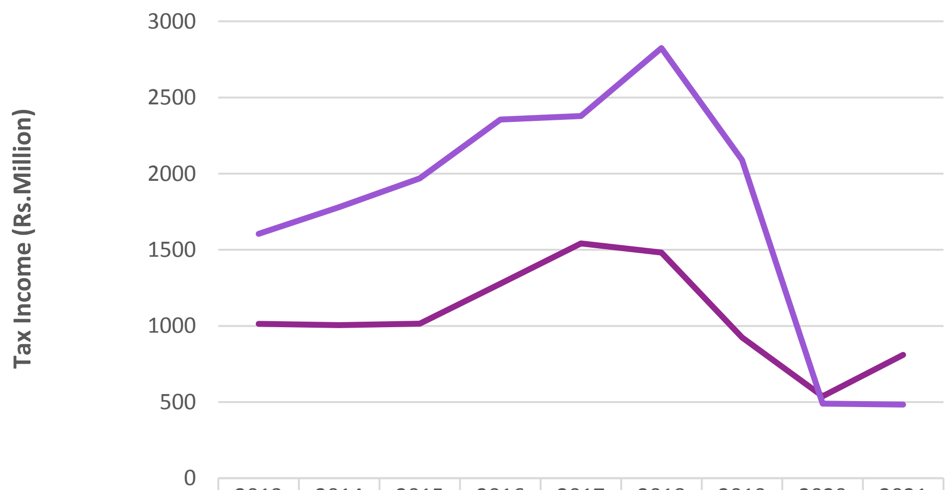


Figure 56 - Income from tourism

Source - Sri Lanka Tourism Development Authority

The tourism development tax revenue has grown gradually since 2013 and in 2018 it reached Rs. 1,482 million and the tourism development tax revenue had decreased rapidly from the year 2018 to the year 2020. In the year 2021 it had been Rs. 809.7 million, an increase of 51 percent compared to the previous year. Also, the deviation tax income for foreign tourists had also grown gradually since 2013 and it was increased to Rs.2,824.9 million in 2018 and decreased rapidly from 2019 to 483.9 million in 2021. Figure 57 shows the details.



	2013	2014	2015	2016	2017	2018	2019	2020	2021
Tourism Development Tax Revenue (Rs. million)	1014.2	1005.6	1014.8	1276.8	1541.5	1482.1	924.2	537.8	809.9
Deviation Tax for Foreign Tourists (Rs. million)	1604.9	1779.8	1968.5	2355.4	2378.8	2824.9	2089.2	489.5	483.9

Figure 57 - Tourism development tax revenue and deviation tax for foreign tourists

Source - Sri Lanka Tourism Development Authority

Maintaining the Ministry of Tourism and the ministerial office under it in private buildings

Although the offices of the Ministry and all the institutions under it should be maintained as far as possible in the buildings belonging to the government or state corporations, had been notified by the Presidential Secretary's Circular No.CA1/17/1 dated 14 May 2010 related to "Management of Public Expenditure", the Ministry of Tourism was continued in a private building on York Street, called Asset Arcade, and the Ministerial Office was continued in an office rented from the World Trade Center, without being located in or on the above building. The rent incurred for that was Rs.43.4 million.

Taking over a jeep to the ministry that had been in an accident and was sent for repair

While belonging to the Ministry of Development Strategies and International

Trade, a jeep that had been involved in an accident on 24 November 2019 was sent to a company for repairs at a cost of Rs. 20.8 million, and it was taken over in the name of the Secretary of the Ministry of Tourism on 22 July 2021. However, the insurance company informed the Ministry that they can pay the market value of this vehicle is Rs. 15.5 million for condemning it or paying only Rs. 9.3 million to complete the repair, so the ministry had to accept an outstanding repair cost responsibility of Rs.11.5 million.

Repairing a damaged vehicle without following procurement procedures

Even though, the Secretary of the Ministry of Tourism had instructed on 26 October 2021 that the repairs of a vehicle that had been in an accident be carried out by an agency, but without following the procurement procedures, the repair of this vehicle was assigned to another private garage and a sum of Rs. 1.5 million had been incurred. It was Rs 0.2 million more than the agency's estimate.

Advances of foreign currency to foreign missions

The balance confirmations for the balance of Rs. 44 million in the foreign currency advances sent by the Sri Lanka Tourism Promotion Bureau to the foreign missions of 24 countries as at the end of the year under review, were not sent directly by the missions but were sent by the Ministry of Foreign Affairs and the confirmed balance was Rs. 7.5 million, so there was a difference of Rs.36.6 million between the accounts.

Participation in foreign promotional programs

According to the Presidential Circular No. CSA/2/3/4 and dated February 21, 2006, the minister and the ministry secretary should not travel abroad at the same time, both of them had simultaneously participated in a promotional program held in France by the Sri Lanka Tourism Promotion Bureau from 05 to 08 October 2021. For that purpose, an expenditure of Rs. 2.5 million was paid by the Bureau for expenses including accommodation, composite allowances and air tickets. Furthermore, while it has been informed that participation in foreign travel should be minimal according to the said circular, the coordinator of the advisory committee of the Tourism Development Authority, the head of the minister's media unit, the deputy chairman of the Civil Aviation Authority and a member of parliament also participated in the promotional programs held in France, Russia and Ukraine, and Rs. 7.9 million had been paid for their accommodation, combined allowances and air tickets. According to the circular, the travel time including the travel time must be minimized, an additional of Rs.2.4 million had to be paid to for accommodation and composite allowances due to previous participation of the Coordinator of Advisory Committee of the Tourism Development Authority, the Head of the Minister's Media Unit and the Deputy Chairman of the Civil Aviation Authority for the promotional programs held in Russia and Ukraine from 6 to 10 September 2021.

A promotional evening was planned to be held on 06 October 2021 in conjunction with the promotional program held in France from 05 to 08 October 2021 and was later cancelled, but on the advice of the Minister, the evening was not held on that day and was held again on 09 November 2021. For that, the Minister, the coordinator of the tourism advisory committee and an official of the promotion bureau had participated and had incurred expenses of Rs. 3 million and if the tourism promotion evening had been held concurrently with the promotion program, that expense would have been avoided.

Selection of an agency to conduct the promotional program apart from the procurement process

According to the decision of the Board of Directors No. 08/01/2021 and dated 17 August 2021, the selection of an agency by the Sri Lanka Tourism Promotion Bureau to conduct the promotional program held in Russia and Ukraine from 06 to 10 September 2021 was done outside of the procurement process, but the facts which led to the deviation were not specifically reported. The amount paid to the agency for conducting the programs was Rs. 11 million.

Conducting promotional programs

According to the agreement reached by the Sri Lanka Tourism Promotion Bureau with an agency in China for a promotion program in China, an advance of Rs. 25 million (US$ 137,600) was paid on 28 February 2019, and the program was stopped midway due to the Easter Sunday attack. Furthermore, an amount of Rs. 8.1 million was paid to a private organization in 2019 for the promotion program called "Riyadh Travel Fair 2020" which was planned to be held in the Middle East and the program was postponed due to the situation of the Covid-19 epidemic. However, no steps had been taken to resume these programs or recover the advances by the end of 2021.

Non-commencement of operations on leased lands

Although the Sri Lanka Tourism Development Authority had leased 35 acres to 5 companies in 2014 and 16.8 acres to 2 more companies in 2019 and 2020, in the Yala Palatupana Tourism Development Zone, only 2 companies had started operations by the end of the year under review. Out of the 510.086 acres of land acquired for tourism development projects in Kuchchaveli in 2011 and 2014, only 49 acres of land were leased to 3 companies, but only one of those 3 companies was engaged in operational activities. Although, the authority had received 2055.87 acres of land in 12 islands of Kalpitiya as free grants in the years 2010 and 2012, only 206.58 acres of land belonging to 05 islands out of those 12 islands had been leased to 03 companies in the years 2010, 2011 and 2020. However, none of these companies had commenced operations by the end of the year under review. Out of the leased companies, 2 companies have Rs. 43 million and Rs. 9 million in rent arrears for 3 to 5 years respectively.

Leasing of Rest Houses

Out of the 37 rest houses owned by the Sri Lanka Tourism Development Authority, 9 rest houses were not leased for a period of 01 to 13 years and the said property remained underutilized.

Accommodation and tourist facilities Registration in the Authority

The number of places registered with the Sri Lanka Tourism Development Authority as places providing accommodation and tourism facilities was 5378 in the year 2020 and in the year under review was 5872. Accordingly, the number of newly registered places was 494. However, the number of places that renewed their registration was only 783 during the year under review, so out of the 5378 places registered in the previous year, 4595 places had not renewed their registration.

Trade Affairs

Audit Observations

- Failure to achieve the main objectives of the Ministry of Trade, Commerce and Food Security
- Maintaining rice Buffer Stocks
- Modernization of warehouses belonging to the Cooperative Wholesale Establishment
- The Project to provide prompt loan relief to small and medium scale rice mill owners
- Establishing a network of small outlets aimed at distributing local products including essential food items
- Performance of Consumer Affairs Authority
- Registration of patents
- Recruitment for the position of Chief Executive Officer of Lanka Sathosa Limited
- Renting of equipment outside the procurement process
- Accounts Receivable of Lanka Sathosa Limited
- Liquor stores royalties
- A tax on sugar
- Verification of measuring instruments and measurement standards used in trade

Trade Affairs

The following duties and functions should have been performed by the Ministry of Trade, Commerce and Food Safety and by the State Ministry of Cooperative Services, Marketing Development and Consumer Protection, 05 Departments and 09 Statutory Boards / Institutions under the ministry.

- Using tariff policy as a tool to control market behavior so as to protect the rights of local producers and consumers through a national trade policy and to encourage exports by providing tax incentives to domestic producers to encourage production.
- In case of abnormally high prices of commodities in the market, keeping the cost of living at a low level by controlling the prices of essential commodities including vegetables and fruits
- In an open competitive market environment, conducting the necessary guidance to implement a concessional program to customers through government institutions such as Lanka Sathosa Limited, State Trading (General) Corporation, Cooperative Wholesale Establishment.
- Ensuring proper implementation of units of measurement for the benefit of the trading community as well as consumers
- Developing the legal framework and infrastructure needed to maintain buffer stocks of essential food items in the country to ensure food security.
- Maintaining a data system related to the institutions under the Ministry, updating those data systems and setting up a mechanism to link those data with external information providers.
- Providing legal support, advisory contribution to encourage export nationally
- To guide the organization in the arrangements related to maintaining proper standards of domestic products and export goods
- In education, contributing to maintaining welfare processes related to encouraging children for higher education.
- Guidance for the Implementation of a Conservation System to Protect National Intellectual Property

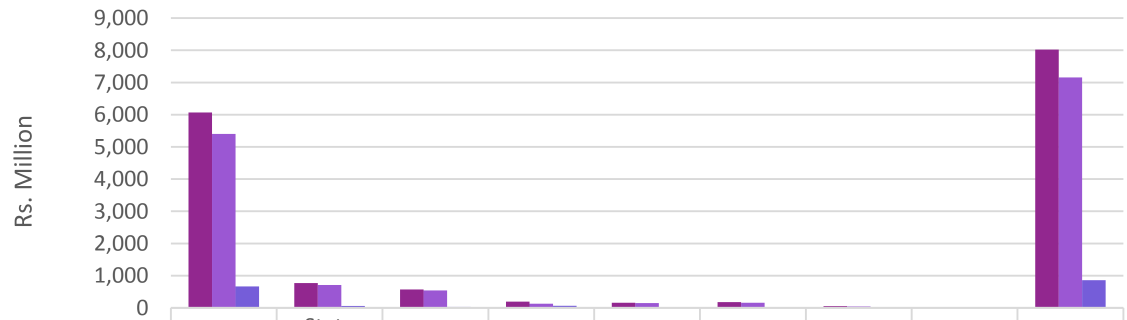
- Guidance on ensuring conformity assessment accreditation services are conducted in accordance with national and international standards

- To protect and promote Sri Lanka's economic and commercial interests, to encourage exporters for international market opportunities and to encourage related institutions

- Guidance and coordination in agreements with relevant bilateral, regional and multilateral countries

- Guidance on legal coordination related to Generalized System of Preferences (GSP) for Sri Lanka's exports, Non-Reciprocal Trade Agreements (NMTR), Free Trade Agreements (FTA) and Regional Trade Agreements (RTA)

In order to fulfill the above-mentioned role, the Parliament had provided an allocation of Rs. 8,020 million for the year 2021, and by the end of the reviewed year, Rs. 7,159 million had been utilized. Accordingly, the provision of Rs. 861 million was remained. The details are shown in figure 58.



	Ministry of Trade	State Ministry of Cooperative Services, Marketing Development & Consumer...	Food Commissioner's Department	Department of Co-operative Development	Department of Commerce	Department of Measurement Units, Standards & Services	National Intellectual Property Office of Sri Lanka	Co-operative Employee's Commission	Total
Provisions Rs.Million	6,069	770	571	193	160	177	56	24	8,020
Cost Rs.Million	5,403	711	540	131	150	160	45	19	7,159
Balance Rs.Million	666	59	31	62	10	17	11	5	861

Figure 58 - Amount of provision made and actual cost

Source - 2021 Annual Financial Statements

The observations revealed during the sample audits carried out in the performance of the above duties are summarized below.

Failure to achieve the main objectives of the Ministry of Trade, Commerce and Food Security

The main objectives among the objectives of the Ministry is to use tariff policy as a tool to control market behavior so that the rights of local producers and consumers are protected through a national trade policy and to encouraging exports by providing tax concessions to local manufacturers to encourage production and to maintaining a data system related to the institutions under the ministry, updating those data systems and setting up a mechanism to link those data with external information providers were not fulfilled.

Maintaining rice Buffer Stocks

According to the Cabinet decision dated April 27, 2008, maintaining a rice buffer stock of 100,000 MT in the warehouses owned by the Food Department throughout the island was recognized as a major task, but the department had not maintained a rice reserve in the past years. In the year 2021, a grant of Rs. 200 million was provided to the department to maintain a rice buffer stock of 8000 metric tons of rice in Sri Lanka on the basis of the requirement of the South Asian Association for Regional Cooperation. However, due to non-utilization of this grant to maintain a rice buffer stock till October 2021, the relevant grant was transferred to the State Trading (General) Corporation.

Modernization of warehouses belonging to the Cooperative Wholesale Establishment

The contracts award for the modernization of 13 warehouses belonging to the Co-operative Wholesale Establishment was made in the year 2019 and the contract period was from 30 to 180 days. The corporation had spent Rs.82.5 million for the modernization of the warehouse and the Ministry of Trade, Commerce and Food Safety had reimbursed the expenditure of 62.4 million rupees by 31 December 2020. However, the modernization works of 06 warehouses had been completed by 30 April 2022 and the progress of modernization works in other 07 warehouses had been 05 to 95 percent.

The Project to provide prompt loan relief to small and medium scale rice mill owners

According to the decision of the Cabinet No. CP/20/0722/218/010 dated 07 May 2020, the project to provide quick loan relief to small and medium scale rice mill owners in the year 2020 was implemented by providing working capital to small and medium scale rice mill owners, with a view to facilitating them to re-operate the rice mills and supply rice to Sathosa for sale or to the Food Commissionerate Department for maintenance as safety stock. The approval was given to implement this project subject to the criteria, in accordance with the decision of the Cabinet, priority should be given to cooperative societies owning rice mills, being a mill owner who did not get credit facilities through the credit relief package given to small and medium businessmen implemented in January 2020 and not defaulting on loan installments to banks. Under this project, credit facilities of Rs. 266.7 million in the year 2020 and Rs. 109 million in the year 2021 were provided. While providing these loans, attention was not paid to the debt to be collected from each rice mill owner and the amount of loan to be provided under the project for each society was determined based on the total amount of outstanding loan from the bank loans taken by all the members of each cooperative society and the monthly installment to be paid. Cases were also observed where aggrieved parties resorted to court proceedings due to the existing problems regarding the parties to whom the loan should be given. Accordingly, loans were given contrary to the criteria mentioned in the above Cabinet decision and the attention of the Ministry of Trade, Commerce and Food Safety was not focused to avoid those situations.

Establishing a network of small outlets aimed at distributing local products including essential food items

The State Trading (General) Corporation Limited introduced the concept of “Q Shop” in the year 2020 to establish a network of small outlets throughout the island for the purpose of distributing local products including essential food items. It was planned to establish 20 Q Shop stores by the end of the year 2021. The Ministry had reimbursed an amount of Rs. 34.3 million for this in the year 2021. However, only 08 stores had been established by 28 March 2022. According to the decision of the Cabinet, although the estimated cost per outlet was Rs. 2.5 million, 5 outlets were built beyond that amount and the additional cost incurred for that was Rs.

10.87 million. Also, it was planned to modernize the container boxes and build these outlets and the Ministry of Trade, Commerce and Food Safety had released Rs. 7.2 million on 26 January 2021 for the amount invested by the State Trading (General) Corporation Limited for 20 container boxes. However, only 08 shops were established and the Ministry of Trade, Commerce and Food Safety had not follow up on the verification that the amount of containers were purchased or how the amount was spent.

Performance of Consumer Affairs Authority

- The revision work of the Consumer Authority Act No. 09 of 2003 was started in the year 2004 and by the year 2021, 17 years have passed but the revision work has not been completed.

- Under subsection 13 of the Consumer Affairs Authority Act No. 09 of 2003, out of the 1557 complaints received by the Consumer Complaints Division of the Authority excluding District Offices during the year 2021, 318 complaints had not been completed as at 31 December 2021.

- From the year 2015 to the year 2021, out of 1,647 complaints registered in the legal department, 767 complaints had been resolved by 31 December 2021 and 194 complaints had been removed. 291 complaints have not been investigated and orders were issued for 168 complaints, but orders were not signed in relation to 14 complaints. Also, the authority had conducted 9494 raids in the year under review, which is a 40 percent decrease compared to the 15,923 raids conducted in the previous year. Only 6980 raids were prosecuted during the year under review.

- The 1977 hotline service was established in the year 2013 for immediate complaints to the customers and in the year 2021 it received 8,056 public complaints. At the end of the year under review, no action had been taken regarding 2646 complaints and raids had been conducted on only 816 complaints. Out of the complaints received for the hotline service, the progress of implementation regarding complaints in 07 districts was between 15 percent and 53 percent.

- Although prices for laboratory tests were controlled by Gazette No. 2240/30 dated 12 August 2021, only 03 raids were conducted in 02 districts to identify that the price control was passed on to the consumer.

- According to Section 8 (h) of the Consumer Affairs Authority Act, one of the duties of the Authority was to undertake studies, publish reports and provide information to the public related to market conditions and consumer affairs. Accordingly, the authority did not take action to inform and protect the consumer about the current situation regarding organic agriculture and organic products in the year 2021 and about the facts revealed in 2 market studies conducted on the percentage of alcohol contained in various types of hand washing liquids sold in the market.

- According to Section 61 (3)(b) of the Consumer Affairs Authority Act, in case it is revealed that a product does not conform to the standards and specifications and due to that non-conformity, the relevant product has become unusable or unfit for consumption, as the case may be, the product or stock should be banned and legal action should be taken. According to a sample inspection, cases were filed only against the shopkeepers who sold non-standard canned fish, but no cases were filed against 05 companies that manufactured those products.

Registration of patents

The number of patents registered in the year 2021 was 181, of which 30 licenses were applied for between 2008 and 2015. As per Section 83(1) of the Act, the validity period of a patent is 20 years from the date of application, it was observed that most of the validity period has been spent for the registration process as it took between 06 and 13 years to register the application. Thus, the security sought by the applicant by obtaining a patent was not fulfilled.

Recruitment for the position of Chief Executive Officer of Lanka Sathosa Limited

The position of Chief Executive Officer of Lanka Sathosa Limited is currently a position that is recruited on a contract basis and it has not been arranged to be recruited on a permanent basis. The recruitment procedure for the relevant post was not approved and the salaries and allowances were approved by the Department of Management Services and Cabinet decisions in several cases. The recruitment procedure for the relevant post was not approved and the salaries and allowances were approved by the Management Services Department and Cabinet decisions in several cases.

Contrary to the letter of the Department of Management Services No. DMS/1741 dated 16 May 2017, the board of directors of the company had approved various salaries and allowances and accordingly the salaries and allowances paid in the years 2019, 2020 and 2021 without formal approval amounted to Rs. 6.5 million.

Renting of equipment outside the procurement process

Aiming at the 2019 Sinhala and Hindu New Year festival, in order to grow the stock and increase the sales of Lanka Sathosa outlets, a Pallet Jack Cart was hired only for 2 months at a cost of Rs. 7,500 each without any procurement process in the year 2019.

Since the price of this equipment was Rs.55,000, although it was decided to rent it by stating purchase was not economically viable, a contract had not been entered into with the relevant company. However, by 25 June 2022, 59 equipments were rented without approval for the operation of 3 warehouses and the amount spent was Rs. 9.2 million. The company had lost the opportunity to buy about 165 equipments with the money taken from the rent due to not considering the economically.

Accounts Receivable of Lanka Sathosa Limited

- According to Lanka Sathosa Limited's guidelines for renting buildings, no advance should be paid for empty land without buildings on the assumption of opening shops in the future, but according to 29 agreements reached as of 31 December 2020, Rs.34.2 million had been paid as advances for 1 ½ years for building construction works without obtaining an assessment report. However, no amount had been recovered from the amount even as at 15 June 2022.
- The Ministry of Finance had compensated the company for the loss calculated on the cost of Rs. 705.62 million due to the price reduction for the two food items, salmon and dhal, between 18 March 2020 and 29 April 2020. The cost between the purchase price and purchase cost calculated by the company was Rs. 71.99 million, of which a settlement of Rs. 42 million had been approved by the Cabinet decision No. 21/0563/313/016 and dated 20 April 2021. The company had requested the Ministry of Finance to reimburse this amount, but it had not

been received by 27 June 2022. Accordingly, the total amount of Rs. 71.99 million was a loss incurred by the company.

Liquor stores royalties

Lanka Sathosa Limited operates the liquor stores belonging to the Co-operative Wholesale Establishment, and for that, the company pays annual royalties to the Co-operative Wholesale Establishment and an expense for the renewal of the liquor store license without any agreement between the two parties. These licenses have not been taken over by 25 June 2022, although they have been working since 2016. Due to this non-appropriation, an additional expenditure of Rs. 16.22 million was incurred in the years 2020 and 2021.

A tax on sugar

The Extraordinary Gazette No. 2197/12 dated October 13, 2020 reduced the tax imposed on sugar to 25 cents from 14 October 2020 and a control price on sugar had been prescribed by the Extraordinary Gazette No. 2201/8 dated 10 November 2020. Based on tax reduction and control price, Lanka Sathosa Limited's purchase price was Rs.80 and selling price was Rs.85. The sugar stock held by the company was 919,409 kg as at 14 October 2020, on which the calculated the loss of Rs.37.16 million was settled by the Ministry of Finance to Lanka Sathosa Limited. Even though the tax was reduced to 25 cents, the Lanka Sathosa Limited had procured and purchased at a price higher than Rs.80, so by 08 February 2021, the day when the control price was removed, the loss incurred by the company was Rs. 42.81 million.

Verification of measuring instruments and measurement standards used in trade

Although all measuring instruments used in trade should be verified annually, a proper system to ensure that each instrument is verified was not established in the Department of Measurement Units, Standards & Services, and although it was planned to re-verify the measuring instruments used in 12 districts, in respect of none of the districts, the task had not been carried out.

Women and Child Affairs Development

Audit Observations

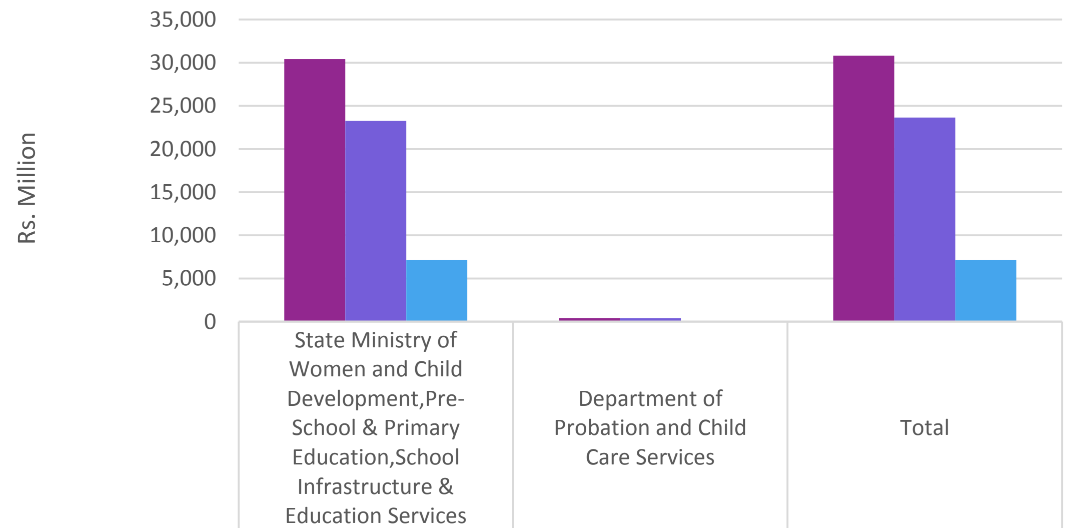
- Remaining provisions
- Non-implementation of Suraksha Student Insurance Program
- Non-distribution of school uniforms on time
- Providing a digital marketing platform for women entrepreneurs without imparting technical knowledge
- Projects for the economic and social empowerment of vulnerable women
- Idle Expenditures
- Non-legislation of children's rights
- Non-arrangement of appropriate mechanism to act on complaints received by the National Child Protection Authority
- Delay in resolving complaints
- Non utilization of funds
- Early Childhood Development Project

Women and Child Affairs Development

The State Ministry of Women and Child Development, Pre-School and Primary Education, School Infrastructure and Education Services and the department, the statutory body and the project under it should have performed the following functions and tasks.

- Implementing a program to ensure women's safety
- Providing relief to rural women oppressed by unregulated microfinance schemes
- Implementation of a permanent program to provide care and facilities and reduce hardship to people who are vulnerable to frequent disasters, especially women and children.
- Implementation of special nutrition programs to end malnutrition of all children
- According to the Charter of Children's Rights, all relevant institutions should take international steps to jointly confirm children's rights
- Allocating a separate division in each district court for disposal of all pending cases related to children
- Develop a national program to create a foster family system for children in child care centers
- Expanding the 'Child Friendly School Concept'
- Expansion of pre-school education based on national pre-school policy under state regulation
- Making rural schools attractive to students
- Implementation of a special program to improve classrooms and sanitary equipment, teachers and students' rest rooms, medical facilities and infrastructure in all schools.
- Taking measures to publish school textbooks, syllabus, teacher manuals etc. through an information technology method

The Parliament had provided a total of Rs.30,818 million to the State Ministry and the Department of Probation and Child Care Services in the year 2021, to fulfill the aforementioned role, and only Rs.23,649 million had been utilized in the end of the year under review. Figure 59 shows the details.



	State Ministry of Women and Child Development,Pre-School & Primary Education,School Infrastructure & Education Services	Department of Probation and Child Care Services	Total
Provisions Rs.Million	30,412	406	30,818
Expenditure Rs.Million	23,248	401	23,649
Balance Rs.Million	7,164	5	7,169

Figure 59 - Amount of provision given and actual cost

Source - 2021 Annual Financial Statements

The significant and quantitative audit observations revealed during the sample audit carried out in relation to the performance of the above mentioned functions and duties are summarized and presented below.

Remaining provisions

- A sum of Rs. 5,768.1 million was remained as at 31 December of the year under review due to made an over-allocations for 43 expenditure subjects and it ranged from 24 percent to 100 percent.
- A remaining balance ranged from 64 per cent to 100 per cent of the allocations transferred for 3 expenditure subjects under the Financial Regulation 66.

Non-implementation of Suraksha Student Insurance Program

A provision of Rs. 3,700 million has been given for this insurance cover in the year 2021, out of that Rs. 3,331 million has been paid to the insurance company. Contracts were awarded on 5 occasions for the period from 01 October 2018 to 01 December 2022, without following the competitive procurement method as per the 2006 Procurement Guidelines for the selection of insurance companies. During that period, 33,974 applications submitted by the students did not receive benefits and 2,422 complaints received at the Suraksha

Complaints Window were not investigated and no actions were taken to provide a solution. Due to the low level of awareness of students and parents, the number of benefit applications was a very small percentage of 0.84 percent.

Non-distribution of school uniforms on time

Even though all the uniforms required for the year 2021 must be delivered to the schools before 15 November 2020 in according to the bid documents of the uniform fabric supply contract for the year 2021, the amount of uniform cloth distributed to the divisional education offices was at a minimum level of 20 percent of the total uniform cloth requirement even as at 23 December 2020.

Furthermore, due to the lack of an updated accurate data system on the number of students at the school and regional level, due to estimates for the year 2021 have not been prepared as per 4.3 of the Government Procurement Guidelines Code, and uniform fabrics have been procured on two occasions, it was not possible to provide uniforms to the school children within the required time.

Providing a digital marketing platform for women entrepreneurs without imparting technical knowledge

Although a digital marketing platform was created by the Ministry by spending Rs.3.5 million in the year 2020 to register women entrepreneurs under 13 categories, due to the lack of knowledge and technical knowledge of rural women entrepreneurs, only 8 entrepreneurs were registered under 4 categories by May 2022**.**

Projects for the economic and social empowerment of vulnerable women

By the end of the year 2021, the Ministry had spent Rs. 6.9 million on purchasing machinery and equipment and building repairs for Diriya Vanitha Garment and Footwear Project and Diriya Vanitha Handicraft Production Special Project which has been started in Ampara district with the aim of empowering vulnerable women, economically and socially. While there were around 20,000 disabled and widowed women in the district, the total number of beneficiaries of the project was as low as 20.

Idle Expenditures

On the approval of the Cabinet, in June 2020, the Thriposha Limited had been purchased a machine manufactured by a Japanese company at a cost of Rs. 209.3

million for production of nutritious biscuits. A sum of Rs. 5.3 million had been spent to travel to Japan for 4 officials for a training before importing the machine to Sri Lanka and Rs. 19 million had been spent for the construction of a building to house the machine. However, the machine and the building amounting to Rs. 228.3 million were idle by the audit date of April 2022 and Rs. 5.3 million was an uneconomical expenditure.

Non-legislation of children's rights

Even though 65 years have passed since the year 4956 to 2020 when the department was established, the preparation of a national policy in accordance with the Universal Charter to protect the rights of children and the related legislation had not been accomplished until 31 August 2022. And also, even though the Cabinet approval had been received for an alternative care policy on 06 March 2019, the policy had not been substantially implemented by the audited date of 25 March 2022. Although the Department of Probation and Childcare Services had implemented programs to re-enroll children who do not have the opportunity to engage in continuous school education based on various economic or social factors, 2718 children had dropped out of school in year 2021 due to the inadequacy of those programs.

Non-arrangement of appropriate mechanism to act on complaints received by the National Child Protection Authority

A sum of Rs. 0.9 million paid to a consultant for preparing a suitable mechanism for dealing with complaints received on the Authority's 1929 telephone number and for getting recommendations to improve the relevant system, although 4 years have passed since that report obtained in 2017, the management was not focused on following the recommendations and methods included in it and Rs. 1.2 million had been paid to a private company to develop a database but the database system could not be implemented.

Delay in resolving complaints

In the action plans of 2020 and 2021, the main role of the authority, the role of resolving complaints, was not included and out of the 100,592 complaints reported to the authority from 2011 to 2021, 47,136 complaints were brought forward without resolving.

Non utilization of funds

The National Child Protection Fund established in the year 2010 for the prevention of child abuse and for the protection of the victims of such abuse and protection of their rights and for taking all necessary measures, it has not been used for the related purposes since the year 2018, and there was a balance of Rs.2.8 million as at 31 December 2021. And 3 funds coming from 1 year to more than 11 years totaling a sum of Rs.1.9 million were not utilized for the respective purposes.

Early Childhood Development Project

Although the Early Childhood Development Project provided an allocation of Rs. 221.5 million in 2017 for providing of teacher learning education equipment sets and reading material sets for 6000 early childhood development centers, the equipment was not distributed to 3386 centers by the end of 2021 and it was 56 percent of the expected physical progress.

Mass Media

Audit Observations

- Procurement
- Failure to follow action plan
- Loss of income
- Establishment of National Development Media Centre
- Weaknesses of Human resource management
- Non-recovery of dues
- Operating results
- Media coverage of the 2020 Olympic Games
- Financial control
- Underutilization of assets
- Internal investigations
- Unsettled balances
- Inventory management
- Non-payment of dues
- Non-registration of the institution
- Unauthorized payments
- Public representations
- Legal Affairs
- Issuance of copies of publications free of charge
- Asset Management
- Operational weaknesses

Mass Media

The Ministry of Mass Media, which has a curriculum of creating an appropriate media culture for a balanced communication of information, knowledge and ideologies that affirms the people's right to know correct information, including freedom of speech and expression, as well as developing the professional skills of journalists had to fulfill the following duties and specific functions together with 03 departments and 08 companies/constituent bodies from under the ministry.

- Establishing media standards that adhere to national and international legal regulations in order to introduce a transparent media culture for journalists and media organizations not to exceed the framework of socio-cultural values and social values.

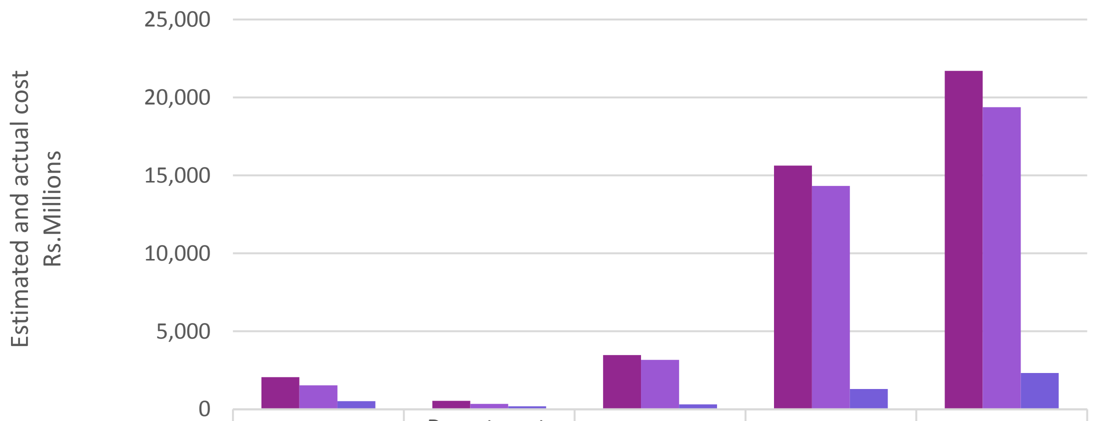
- Introducing and implementing the necessary methods for digital mail-related services by expanding the postal service into a service aimed at people-centric needs.

- Restructuring of Sri Lanka Press Council.

- Introducing a social education system to provide professional knowledge and understanding of the use and handling of new media including social media.

- Create opportunities for development of professional skills in media higher education in line with international standards.

To fulfill the above tasks, a sum of Rs. 21,704 million had been provided by the Parliament to the Ministry and three Departments and Rs. 19,374 million had been utilized as at the end of the year under review. Details are shown in figure 60.



	Ministry of Mass Media	Department of Government Information	Department of Printing	Department of Posts	Total
Provision Rs.million	2,061	538	3,478	15,627	21,704
Expenditure Rs.million	1,539	343	3,166	14,326	19,374
Balance Rs.million	522	195	312	1,301	2,330

Figure 60 - Estimated and Actual Cost

Source - 2021 Annual Financial Statements

The observations revealed in the sample audits conducted in the Ministry and the departments and statutory bodies under it regarding the fulfillment of the above-mentioned duties and special functions are summarized and given below.

Procurement

- For the purchase of 42 computers, which is the computer requirement identified as at 18 February 2021 of the Department of Government Information, had called for quotations on two occasions, that is on 31 May 2021 for 3 computers and on 25 August 2021 for 39 computers. Rs.4.19 million had to be paid more for purchasing 11 computers due to the increase in prices and non-purchase of all computers at once.

- Although it had been called quotations on 04 occasions under 12 sub contracts for the contract for the renovation and improvement of the Ministry premises with an estimated value of Rs.179.48 million and had been spent Rs.113.40 million at 31 December 201, the need for this procurement was not identified clearly and formally.

  According to 7.8.4 (b) of the Government Procurement Guidelines, although the inadequate bid security declaration forms are a major exception, but considering the non-submission of bid security in the prescribed format as a minor deviation, the Secretary of the Ministry had informed on 19 July 2021 to the relevant consultancy firm to carry out a technical evaluation of the submitted prices, including the institute that submitted the lowest price, and submit the recommendations. But the consulting firm had rejected the lowest bidder and recommended the second lowest bidder. However, the Technical Evaluation Committee of the Ministry, regardless of the recommendations of the consulting firm, recommended the firm that submitted the lowest price without submitting bid securities in the prescribed format and prepared a Technical Evaluation Committee report and with the approval of the Procurement Committee, given the letter of acceptance on 22 July 2021 and had awarded the contract for the rehabilitation and improvement of the premises of the Ministry of Media. However, as per section 8.9.1 of the Procurement Guidelines, no formal agreement was reached with the relevant institution regarding this contract even by 29 March 2022.

Also, since both tenders submitted for the civil engineering works related to the installation of the elevator machine and the procurement works related to the supply, installation, operation and maintenance of the elevator are not responsive, even though the consultancy firm has recommended to call for fresh bids, the contract for installation of elevators was also awarded to the contractor who had the contract of renovation and improvement of the premises of the Ministry buildings without calling for quotations.

- It had not followed any action in the procurement process including preparation of total cost estimates, determination of procurement method, calling for tenders, issuance of tender documents, opening of quotations, technical evaluation committee reports, procurement committee reports, award of procurement to be followed as per Government Procurement Guidelines Code 2006, while repairing 03 pianos on studios No. 6 and 10 of Sri Lanka Broadcasting Corporation and this work was also not included in the procurement plan prepared by the Director (Engineering) for the year 2020. According to the statement given by the Controller (Music) of the Corporation to the Internal Audit

Department on August 09, 2021, the normal procedure for repairing pianos is that the repair request is submitted by the leader of the orchestra for the approval of the Director (Music) with the recommendation of the Controller (Music), but on the contrary, these repairs the request of the orchestra leader was directly forwarded to the Chairman by the Director (Music) without the recommendation of the Controller (Music).

Rs. 0.46 million was paid for the repair of the piano in studio number 06 and although the Orchestra Leader had given a statement to the Internal Audit Division on 09 August 2021 that no identification number of the pianos was known and nothing could be said about the internal changes of the pianos before and after the repair, it was stated in the supporting documents submitted with the payment voucher that he himself had done the proper repairs.

Although the orchestra leader informed that 02 pianos in studio no.10 would be taken away for repairs and brought to the corporation premises on 21st May 2021, requests for payment had not been made even as at 16 August 2022. Further, according to the written statement given to the Internal Audit Department by the Controller (Music) of the Corporation, although earlier the practice was to carry out the repair of pianos in-house in order to preserve the antique value and reliability of the pianos, these 03 pianos were taken out of the institution and repairs were made on the direct intervention of the chairman. Accordingly, these antique and highly valuable pianos were not repaired according to proper procedures to ensure their safety. As no special numbers and markings were used to identify these pianos during the inventory, the Corporation had no evidence to verify that the 3 pianos taken out of the Corporation were correctly returned.

- Although government agencies must follow public procurement guidelines for works, supplies and services, One supplier of the estimated valued Rs.11.00 million was selected by excluding the procurement process for event management related to the musical program “Asian Star Carpet” held by Independent Television Media Network on 31 December 2021. It had not done so to provide fair and maximum opportunity to the eligible interested parties to participate in the procurement so as to achieve the objectives of the procurement with maximum economic benefit at minimum cost. Further, no information about the existence of this selected institution was revealed from search in the internet.

- In the year 2021, although the all procurement and inspection activities of 06 procurement activities of the Badulla District Accounts Office and the Deputy Postmaster General's office amounting to Rs.4.92 million had been carried out by the Divisional Secretariats, the Department of Posts had not confirmed that the related work had been completed as scheduled and no specific amount was withheld from the payments. Also, as per 5.4.10 (b) of Government Procurement Guidelines, performance security was not obtained for 07 procurement activities of Rs.6.92 million.

- Contrary to 2.14 of the Government Procurement Guidelines, the Department of Posts had followed the price comparison method while purchasing 50 postage stamps for Rs.47.52 million inclusive of VAT. Also, No. 2.11.1(c), 2.12, 5.3.1(d), 7.4.1 and 8.8.1(a) of the Procurement Guidelines 2006 had not been properly followed within the purchase of 45 dot matrix printers amounting to Rs.1.69 million for the use of Post Offices.

- According to Section 30 of the Press Council Act, the role of the Sri Lanka Press Council was to formulate the necessary rules and regulations regarding newspapers released to the market without registration. The relevant rules and orders had not been processed as at the end of the year under review.

Failure to follow action plan

Developing an online system for registration and renewal of registration of news broadcasting websites, regulation of Mechanism for Issuance of Television and Radio Broadcasting Licenses and amending the Sri Lanka Television Act, which were Included in the 2021 action plan of the Ministry of Mass Media had not been completed by the end of 2021.

Loss of income

Even though a condition was included in the licenses that the Ministry of Mass Media informs to the licensee of the license fee to be paid within the specified period for the licenses issued to the institutions that carry out broadcasts in the form of terrestrial television, radio, satellite TV, Internet Protocol Television (IPTV), Cable TV and Mobile TV, the Ministry had not taken steps to collect a license fee from 49 institutions that had been given licenses until the date of the audit. Also, during the issuance of television and radio broadcasting licenses, no license fee was charged for the licenses issued so far and no formal system of license renewal was introduced by the Ministry on an annual or periodic basis. Accordingly, the government had lost a huge revenue that could have been obtained as license fees and license renewal fees.

Establishment of National Development Media Centre

A National Media Center was established as per Cabinet Decision No. CP/16/1675/702/059 and dated 31 August 2016 for the strategic flow of information in the government structure through public opinion and participation. Due to the failure to achieve the expected objectives, the center was abolished by the Cabinet Decision No.CP/19/3332/203/002 dated 05 December 2019. With the aim of communicating the government's ten-fold state policy and the progress of development projects to the people, the aforesaid National Media Center was newly established as the National Development Media Center as per the Cabinet decision dated 04 January 2021. The currently unuse immovable and movable properties assigned to the Ministry of Defense during the abolition of the previous National Media Center, were not transferred to this new unit and Rs. 3.511 million had been spent for purchasing of office equipment. Also, since a significant part of the employees who worked there, had assigned to the Department of Government Information, new recruitments should be made only for positions that cannot be covered by that number of employees, but 44 officers had worked from time to time from 17 February 2021 to 08 April 2022Attendance records of these staff were not maintained properly and an allowance of Rs. 18.638 million was paid by the Ministry to the officers who served during that period as per the written recommendation of the Director of the Centre. It was not observed that the money was remitted to the officer as the officials did not keep their signatures on the allowance payment vouchers.

Weaknesses of Human resource management

- In a situation where the independent television media network is continuously incurring losses and facing working capital problems, although more attention should be paid to staff management, the media network had hired two employees on contract basis and 16 employees on daily basis during the financial year and 67 over staff were recruited in approved staff posts and 113 employees were recruited as privates to officers in posts not included in the approved staff.

- At the end of the year under review, there were 2,164 vacancies in the Department of Posts, including 62 senior level vacancies. The vacancies had also failed to be filled during the year under review.

- The Board of Directors' approval for the Carder prepared on 06 June 2017 for the Associated News Paper of Ceylon Limited had not been obtained by 23 May 2022 and according to the carder, the number of staff for the general and editorial departments was 658 and 327 respectively. However, the actual staff strength of the General and Editorial Departments was 875 and 423 respectively. and there were 313 redundant staff. Furthermore, 407 employees were hired on contract basis by the end of the year 2021 and the cost of the staff was 52 percent and 62 percent as a percentage of the income of the year under review and the previous year respectively.

Non-recovery of dues

- A sum of Rs. 2.758 million that should be received to the corporation from the officers who released from the Sri Lanka Broadcasting Corporation service to other institutions between 2009 and 2015 had not yet been recovered on 16 August 2022, the date of audit. Rs. 1.90 million to be received from a female officer who was released to other institutes and reported back to the service of the corporation and Rs. 0.119 million to be received from a female officer who retired in the year 2021 had been included in this receivable..

- The client debtor balance of Sri Lanka Television Corporation was Rs. 377.27 million as at 31 December 2021, and legal action was taken only for Rs.38.96 million or 10 percent of the total debtor balance. Rs.1.50 million had been paid as legal fees for this by the end of the year under review. According to the statute of limitations, although the legal action should be taken to recover the debtor balance before 6 years, legal action had been taken only for Rs. 12.08 million out of Rs. 100.13 million of the debtor balance that exceeded 5 years, by the reviewed year. Also, 152.17 million or 40 percent of the total debtor balance consisted of 15 debtors, including 08 government institutions with a value of more than 5 million. Although legal steps were taken to recover Rs.10 million due from the Savings Bank included in it, its recoverability was uncertain, due to the absence of a formal agreement with the National Bank.

- At the end of the year under review, the outstanding debtor balance of Independent Television Media Network Limited for more than 01 years was Rs.371.58 million, of which only Rs.2.53 million had been taken legal action. Also, at the end of the year under review, the balance of Rs.41.47 million, which exceeded 10 years that included in the client advance balance of Rs.127.24 million, had not been settled during the year under review.

- The outstanding revenue balance of the Department of Posts for more than a year was Rs.101.39 million by the end of the year 2021, and the said balance had failed to be recovered during the year under review as well.

- According to the letter of the Director of State Finance No. PED/RED/WO/2021/30 dated September 21, 2021, the outstanding revenue balance of Rs.81.02 million related to the year the previous years should be followed up and recovered, but no any amount of it had been recovered by the Department of Government Printing in the year 2021.

Operating results

- Considering the financial results of Sri Lanka Rupavahini Corporation in the year under review and the last 5 years, although the loss in the year 2017 had turned into a profit of Rs. 188.8 million in the year 2018, and it had increased to a loss of Rs.501.16 million by the year 2019. According to the presented financial statements, the loss after-tax of the corporation for the year ended 31 December 2021 was Rs. 227.34 million, and correspondingly, the loss after-tax of the previous year was Rs. 234.3 million, although a decrease of Rs. 6.96 million was observed in the operating result, Rs.164 million out of Rs.362 million which the recurring grants provided by the government for payment of employee wages in the year under review, had caused this loss to decrease. Also, the working capital position of the corporation was Rs. 69.31 million in the year 2020, and it had fallen to a negative working capital position of Rs. 254.31 million in the year 2021. Showing a bank overdraft balance of Rs.53.57 million as at the end of the year under review, which the bank balance in the year 2020 was Rs.124.71 million and the increasing in other financial liabilities by Rs.146.72 million had caused for a negative working capital situation. The debt to mass ratio of 4.9 In the year 2020, had become a leveraged situation of 4.3 in the year 2021. The continuous loss of the corporation adversely affected to working capital and equities, and there was uncertainty in running the corporation without any other financial support from the treasury or the government.

- According to section 7(1) of the Finance Act No. 38 of 1971, carrying on the affairs of the statutory corporation sufficient to cover the extreme surplus in the revenue account, the extreme deficit in the account within a period of 5 years or such period as may be determined by the Minister of Finance, Although it should be the duty of the governing body of the statutory corporation, the performance of the Sri Lanka Rupavahini Corporation in the analysis of the financial statements during the last three years has not reached the desired level. Also, the total net financial result of the corporation for the past five years was a net loss of Rs. 1,345.54 million.

- The mass capital of Independent Television Network Limited was Rs.3,198.5 million in the year 2015, and it had continuously decreased till the year 2021. The loss of the company was Rs.107.2 million in the year 2016, while the loss of Independent Television Network (ITN) in the year under review was Rs.238.13 million, and the loss of ITN FM was Rs. 41.33 million and loss of Vasantham FM was Rs. 10.46 million and even after receiving grants of 46.34 million, the loss of Vasantham TV was Rs. 26.06 million. Accordingly, the total loss of the company in the year under review was Rs. 315.97 million.

Media coverage of the 2020 Olympic Games

As the official media broadcaster of the 2020 Olympic Games, a team of four officials from the Sri Lanka Rupavahini Corporation had gone to Japan for 22 days from 19 June 2021 to 10 August 2021 for media coverage. Rs. 11.21 million had been given by the corporation for the accommodation, transportation, food and internet facilities of these officials, subject to a resale agreement to provide airtime to the National Olympic Committee. Also, the corporation had entered into a resale agreement with Sri Lankan Airlines to provide air time worth Rs.1.04 million for the air tickets of the four officers. Since these officials were also given allowances by the sponsoring company for media coverage, although the board of directors had given approval to recover the casual allowance of Rs.714,560 paid by the corporation, the said amount had not been recovered from the officers by the end of the year under review. Furthermore, due to the failure of the corporation to properly manage opportunities to make profits in a situation of continuous losses, the corporation had incurred a loss of Rs.57.20 million through the media coverage of the Olympics.

Financial control

- The working capital of Independent Television Media Network was Rs.620.76 million in the year 2020, and it had decreased to Rs.399.83 million in the year 2021. Accordingly, due to the existing weaknesses in working capital management, it had faced the difficulty of meeting the day-to-day financial needs. Although in practice working capital management should prepare a cash budget and cash flow plan for the year under review by forecasting cash receipts and payments quarterly, such budgetary control methods were not used.

- In the year 2021, there was a loss of Rs. 18.35 million from 8 local tele dramas purchased by the independent television media network and the "Sat Varsha" teledrama, which was recommended by the prescreening board as unfit for broadcasting, had been aired on the basis of the approval given by a re-appointed survey board on an appeal by its producer, thereby it had been incurred a loss of Rs. 5.11 million to the media network.

- There was no cash inflow to the media network despite receiving airtime revenue from resale transactions due to including gift vouchers given to employees of the Independent Television Media Network worth Rs.10.13 million in the airtime sales revenue for the year 2021. Therefore, although the sales revenue of the media network had increased by Rs.257.57 million, but the net working capital had decreased by Rs.220.93 million. Accordingly, while the net working capital ratio to sales revenue was 1.85 in the previous year, it had increased to 3.52 in the year under review.

Underutilization of assets

- The Hot Swappable Power Distribution Rack machine worth Rs.1.59 million purchased by Independent Television Media Network in 2015, and the Aros Flexus FT- 30, 30KVA UPS Systems, purchased in the year 2010 worth Rs.1.22 million, had been remained idle without use since the date of purchase and since about 03 years respectively.

- An 8-acre land in Hokandara area, which was purchased by the Associated News Paper Company Limited for the construction of a housing scheme and reassessed for Rs. 733 million in the year 2021, had remained idle since 1985 without being used for the relevant work.

Internal investigations

At the beginning of the year under review, the initial number of inquiries in the Department of Posts was 2,156, and out of a total of 2,563 inquiries, including 407 inquiries received during the year under review, 584 were closed and disposed, and the remaining number of inquiries was 1,979. Also the updated data of the investigations was not in the custody of any responsible officer of the department.

Unsettled balances

Unsettled post office deposit balances older than 08 years of 2,366 employees of 16 District Accounts Offices amounting to Rs. 4.71 million had remained. The inactive accounts were not updated by the department for more than 07 years, and interest-free security deposits of 1,828 officers of Rs.2.1 million and unexplained security deposits of 30 officers of Rs.0.67 million had remained.

Inventory management

There were an excess of 9 stamp items of Rs. 1.97 million and a shortage of 10 stamps items of 0.18 million, according to the board of survey reports of the year 2021. Also, there was a shortage of stamps amounting to Rs. 2.18 million in Narahenpita Stamp Department.

Non-payment of dues

- In terms of Section 2 (1) (a) of the Inland Revenue Act No. 24 of 2017, although a person deriving taxable income for a particular assessment year is liable to pay income tax for each assessment year, the Selacine Television Company, which was established on 01 February 1982, had not paid income tax.

- Contrary to Section 27(2A) of the Employees' Provident Fund Act No. 15 of 1958, the employee provident fund late fees aggregating to Rs. 108.2 million for the years 2019, 2020 and 2021, had not been paid by the Associated Newspaper of Ceylon Limited as at the end of the year 2021..

Non-registration of the institution

The Selacine Television Institute, which was established on 01 February 1982, was assigned under various ministries through extraordinary gazette announcements on 06 occasions until the year 2019, and a decision of the Cabinet of Ministers also mandated that all the advertisements and promotional programs of all the ministries and agencies under them be carried out by Salasine Television Institute. However, the organization was not registered as a legal entity.

Unauthorized payments

- Contrary to 16.46 (i) (c) of the Cabinet Decision No. 20/Miscellaneous (064) dated 13 October 2020, the seven-year leave of the Chairman of the Sri Lanka Press Board, who was a university professor, ends on 20 January 2021, but Rs. 0.4 million was paid as the chairman's salary related to the period from that date to June 2021.

- In accordance with paragraph 2.2 of the Public Enterprises Circular No. PED 03/2015 dated 17 June 2015, although the Board of Directors shall decide the allowances to be paid to the Chairman and the Board of Directors after personal consideration of the level of education and skill, with the concurrence of the Minister of Finance and the recommendation of the Secretary of Line Ministry and taking into account the values paid in similar businesses, contrary to that, allowances of Rs.24 million had been paid to the Chairman and Board of Directors of

Associated Newspapers of Ceylon Limited in the year 2021.

- According to a request made by the Minister of Media on 26 November 2020, an independent consultant was hired by the Associated Newspapers of Ceylon Limited on 07 December 2020. Later, this consultant was released from service to the staff of the Minister of Mass Media on 08 December 2020 and to the staff of the Minister of Health on 17 August 2021, and the company had paid an amount of Rs. 1.8 million as consultant salary without receiving any service to the company.

- According to the Director General of Establishment's letter No. B/8/3/706/969/21 and dated 02 December 2008, an allowance of 65 percent of the current salary of an employee was approved to be paid until the year 2018. Nevertheless, it was revealed in a sample audit conducted in two divisions of the State Printing Department that 19 different types of allowances are received, ranging from 104 percent to 555 percent, exceed 65 percent of the monthly salary of the employees. In the year under review, the amount of such allowances of Rs. 30.3 million had been paid for those two divisions.

- Payment of stipends was approved only till 31 December 2018 by the Director General of Establishment's letter No. ESJ/T/ALLOW/03/0120 dated 02 July 2018, by considering recommendations of the National Salary and Cadre Commission, subject to the terms of the last letter approving the allowances for the staff of the Printing Department. However, during the year under review, Rs.557.4 million was paid as allowances on piecemeal basis without such approval.

- According to a Cabinet decision dated December 16, 1981, a system of payment by pieces of work instead of overtime allowances had been approved in order to expeditiously carry out urgent printing work in the Government Printing Department. Although 40 years have passed since the Cabinet decision, both overtime allowances and piece allowances were paid for the same work without any action being taken to accurately identify the parts of work for which piecework allowances were to be paid and the rates to be paid for the allowances.

- In the year under review, Rs.0.6 million was paid as Chairman's Allowance to the Government Printer who is a member of the Board of Governors while no Chairman was appointed to the Sri Lanka Institute of Printing.

Public representations

According to Section 09 of the Press Council Act, the total number of complaints against newspapers in the year 2021 was 102, including 33 complaints received from the public and various institutions and 69 pending complaints in the year 2020, of which 37 complaints are still investigating at the end of the year under review.

Legal Affairs

- Although the "Code of Ethics for Journalists" was published in the Special Gazette No. 162/5 on 14 October 1981, 15 defamation cases had been filed against Associated Newspapers of Ceylon Limited as at 31 December 2019, and in relation to an article published in the weekend newspaper "Silumina" on 18 November 2007, the plaintiff had demanded Rs.500 million from the company for one defamation case against the company. When this case was called in the Colombo District Court in 2010, the company's lawyer who represented the defendants and the company did not come to the relevant courtroom. Therefore, the court had decided to give the verdict in favor of the plaintiff. The company had filed petitions against this decision in the Colombo District Court and the High Court of Civil Appeals, but both the appeals were rejected.

  Subsequently, on 30 August 2019, the Board of Directors had decided to appeal to the Supreme Court by their decision number F 104.19 and select a Senior President's Counsel and his assistants to represent the company in this case. Accordingly, Rs. 18.23 million were paid as their legal fees on 09 October 2019 and the lawyer who appeared in the wrong courtroom for this case had selected the lawyers and presented them to the board of directors. Further, this lawyer had retired on 08 April 2020 and was re-hired on contract basis on 15 May 2020. So far no disciplinary action has been taken against the officer and the defamation case has not been closed.

- Sri Lanka Institute of Printing had to pay an amount of Rs.0.522 million to the employee in the year under review, as a Labor Court concluded that there was no just and justified reason for terminating the employment of an employee of its institute.

Issuance of copies of publications free of charge

As per the practice of Associated Newspapers of Ceylon Limited, copies of publications for the company's management members, certain executive employees, the President, the Prime Minister, the Minister of Media, the Ministry Secretary, former management members, employees with more than 20 years of service and retired employees who have completed 25 years of service It was continuously released for free. Accordingly, 1,154,607 copies of seven major newspapers and 87,898 copies of 14 periodicals had been issued free of charge during the year 2021. Dinamina newspaper had the highest number of free printed copies, representing 22 percent of the total number of printed copies. Rs. 84.38 million had been spent in the year 2021 for these free copies.

Asset Management

The 0.105 hectare land assigned to the Department of Printing by the Kataragama Divisional Secretary under Section 44 of Chapter 460 of the Land Acquisition Act No. 28 of 1964 on 31 January 2003, had given to the Government Printing Co-operative Thrift and Credit Society for use after the lease period ended. This land, which was assigned in the year 2003, was not assessed and its value not included in the financial statements even in the year 2021.

Operational weaknesses

The Sri Lanka Foundation had conducted 130 Higher National Diploma, Diploma and Certificate courses and various workshops in the year 2021. There are 11 permanent lecturers in the institution and paid Rs.15.6 million had been paid for them as annual salary and allowances and Rs.17.1 million had been paid as salary for external lecturers. In a sample test, 67 out of 94 courses and workshops were fully employed by external lecturers, and in 27 courses the resource contribution of external lecturers exceeded 75 percent. Although there was a course coordination unit in the institute for course coordination, the permanent lecturers of the foundation had only done the coordination work of these courses.

Environment Section

Audit Observations

- Earning income
- Non-financial assets
- Obligations and Liabilities
- National Environmental Action Plan
- Failure to meet project objectives
- The National Environment Act
- Expenditure contrary to objectives
- Underutilization of assets
- Project Major Underutilization
- Bogala Graphite Company
- Kahatagaha Graphite Company
- Grant and Extension of Licenses
- Excavations at Karasnagala Graphite Mine
- Value addition to minerals under the National Mineral Policy
- Royalty Revenue
- Land rehabilitation after excavation
- Obtaining the approval of Bord of Investment of Sri Lanka for foreign owned companies
- Manampitiya Sand Project
- Kanthale Sand Project
- Muthur Sand Project
- Kotikambokka quartz Project

Environment Section

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

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

The Parliament had given a net allocation of Rs. 2,319 million In the year 2021, to the Ministry of Environment to fulfill the above-mentioned tasks, and only Rs. 1,793 million had been utilized by the end of the year under review. Thus, a provision of Rs.526 million was left at the end of the year. Details are shown in Figure 61.

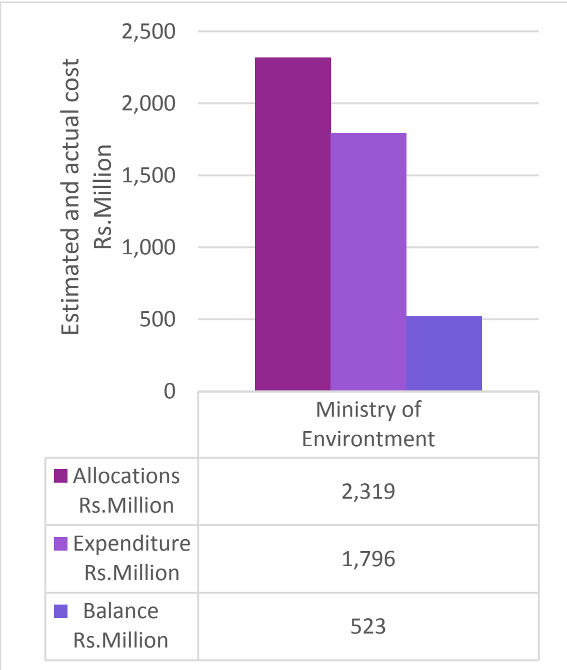


Figure 61 - Estimated and Actual Cost

Source - 2021 Annual Financial Statements

The significant and quantitative audit observations revealed during the sample audit regarding the performance of the above functions and tasks are summarized below.

Earning income

In the issuance of quota licenses related to the import of Hydrochloraflora Carbon Refrigerant, the revenue of Rs. 1.56 million, which was the government fee charged by the Ministry as ten rupees per kilogram of imported refrigerant in the year 2021, without recognition in the estimate of annual income as per Financial Regulation 83, and it had been accounted as income in the financial statements of a project operated under foreign capital.

Non-financial assets

A sum of Rs. 1.17 million had been spent under the land and land development of the Ministry's non-financial assets of the project for the rehabilitation of barren agricultural land in the districts of Kandy, Badulla, Nuwara Eliya in the Central Highlands for the year under review. It was observed that the value of the assets held by the Ministry was misrepresented in the Ministry's land and land development as these were incurred for the rehabilitation of private lands.

Obligations and Liabilities

Although observed according to the account, the environmental protection national program implemented under the ministry has reached obligations and liabilities of Rs. 15.45 million for individuals, societies and organizations, and the Surakimu River National Environmental Program has reached obligations and liabilities of Rs. 18.19

million, and evidence for verification was not presented for audit.

National Environmental Action Plan

It was observed that the National Environmental Action Plan for the years 2021-2030 remained in draft status until the end of the year under review.

Failure to meet project objectives

Although an expenditure of Rs.36.46 million had been incurred for the environmental protection programme as at the end of the year under review, the expected objectives of the project had not been achieved.

The National Environment Act

The National Environment Act No. 47 of 1980 had not been amended by the end of 2021.

Expenditure contrary to objectives

Using the provisions of the Surakimu River Program to purchase an Electric Cart at a cost of Rs. 2.03 million contrary to the objectives of the program, paying Rs. 170,000 for each month to a program manager who was appointed with the approval of the Board of Directors without the approval of the Management Services Department were observed as deficient in payment.

Underutilization of assets

The drone purchased in 2020 at a cost of Rs. 1.39 million for the purpose of collecting information while carrying out environmental management activities had not been used for any operational purposes, the environmental pilot caps purchased at a cost of Rs. 6.27 million under the environmental pilot program had not been used even by the end of the year under review for the relevant purpose, 55 of the 60 lawn mowers purchased at a cost of Rs. 1.08 million under the Surakimu River National Environmental Program had not been used for the purpose as of the audit date were observed as defects.

Project Major Underutilization

For the Climate Change Prevention Partnership Project, out of the amount of Rs. 117.7 million awarded by the World Bank for the first four months of 2021, an amount of Rs. 9.20 million was not used for the project purpose and was remitted back to the World Bank..

Bogala Graphite Company

According to an agreement between the Secretary to the Treasury and a German company in the year 2020, 50.01 percent of the shares owned by the government of Bogala Graphite Company were transferred to the German company, and pursuant to this agreement, the purchasing company had also agreed to hand over proposals related to the development and marketing of graphite-based industries in Sri Lanka to the State Business Reform Commission. However, the company had not developed a graphite-based industry in Sri Lanka, and the graphite mined by the company continued to be exported as raw materials without adding value.

Kahatagaha Graphite Company

In the Kahtagaha Mine, where the Kahtagaha Graphite Company is mining, the Bureau had been constantly informing about the deficiencies in the field inspections conducted by the Bureau annually and on special occasions, and the mining licenses had been extended annually, and it had been confirmed from the inspection reports that the relevant company had not taken steps to correct the defects.

Grant and Extension of Licenses

- During the year under review, after a field inspection and a committee meeting by a technical team consisting of mining engineers and geologists of the Bureau, while the Director (Environmental Impact Assessment and Regional) recommended to extend the mining license for Sakura Graphite Company by only one year, the Bureau took steps to extend the relevant license by 10 years from 2021 to 2031 and no special powers were assigned for this purpose by the Bureau Establishment Act or any other special gazette notification.

- Alchemy Heavy Metals (Pvt) had been granted 02 mining licenses for 10 years from 09 December 2014 to 08 December 2024 for the mining of mineral sand in Wakare Divisional Secretariat of Batticaloa District. 02 of these licenses were canceled in 2017 due to non-excavation of these licenses, and those licenses were reactivated in 2018 with the approval of the Secretary of the Ministry of Environment. No mining had been done as of the audit date of 15 June 2022, and the transfer of these 02 licenses to a newly registered company in the year under review was in progress.

- According to the decision of the Cabinet No. AMA/17/530/704/009 dated March 29, 2017, during the removal of minerals from the rivers and river basins managed by the Mahaweli Authority for government development activities, taking into account the importance of comprehensive environmental impact assessment in those areas and minimizing the negative impact on the environment due to unrestricted removal of those minerals, it is stated that the Bureau should grant mining licenses only to GSMB Technology Services (Private) Company. Apart from that Company, the Bureau had given licenses to 82 private licensees during the year under review, for sand mining in Maduru Oye belonging to the Mahaweli Authority.

Excavations at Karasnagala Graphite Mine

The Karasnagala graphite mine is being mined by Zircon Development Private Limited, and since its full ownership is held by foreign parties, that company had entered into an agreement with the Board of Investment of SriLanka in 2012 to explore, mine and sell graphite in Sri Lanka to the local and foreign markets. The validity period of those agreements had been extended until the year 2018 due to the relevant work has not been completed as per the agreement, and mining permits were issued for this mine on 02 occasions from 26 August 2019 to 28 February 2022 without further checking the validity of the agreements. Graphite mining was not done sufficiently in this mine during 2019-2021, and only 01 ton of graphite was exported as raw material to a foreign country in the year 2020.

Value addition to minerals under the National Mineral Policy

- Althoygh the value addition should be done for the existing mineral-based industries as per the current national mineral policy published by the Ministry of Industrial Development in 1991, but 7,632,000 kg worth of Rs.2708 million were exported at a price of Rs.282 to Rs.415 per kg without value addition by the 4 companies named Bogala Graphite, Kahatagaha Graphite, Karasnagala and Sakura Graphite during the period from 2019 to 2021.

- An investment agreement was entered into in 2012 between the Board of Investment and VVM Lanka Graphite (Pvt) Limited for the mining and value addition of mineral sand in Mannar district, and the related agreement had been canceled by the Board of Investment of Lanka on 25 February 2020 due to non-implementation of the project. Without checking these agreements, the Bureau had also granted a license for mineral sand mining in Trincomalee Muthur area from 2017 to 2018 and for 10 years from 12 July 2018 to 11 July 2028.

- According to the notification made by the Cabinet of Ministers on 22 May 2017, a national policy on mineral resources had not been prepared and approved until 30 June 2022.

Royalty Revenue

According to Section 26(1) and 44(b) of the Mines and Minerals Act No. 33 of 1992, the royalties collected by the Bureau on behalf of the government should be sent to the treasury, but the royalty value retained by the Bureau without remittance to the treasury during the period from 2016 to 2021 was Rs. 3,147 million.

Land rehabilitation after excavation

Even though the land should be rehabilitated within a period of 2 months to 09 years after the excavations as per Section 52(2) of the Mines and Minerals Act No. 33 of 1992 and Mines and Quarries order 21(a) as amended by Gazette No. 958 of 10 January 1997, 1943 mining license holders have not been able to complete the work. Also, although the bank guarantees of Rs.439 million obtained from the above licensees had been cashed, the money was not used for land rehabilitation activities and was shown in the financial statements as a balance to be paid.

Obtaining the approval of Bord of Investment of Sri Lanka for foreign owned companies

According to the Foreign Exchange Order stated in the Extraordinary Gazettes No. 1232/14 dated 19 April 2002 and No. 2045/56 dated 17 November 2017, the foreign ownership should be up to 40 percent of the total shareholding of a mining company in Sri Lanka, if the foreign ownership exceeds that limit, a special approval from the Board of Investment of Sri Lanka should be obtained. However, 86.55 percent of the total share ownership of Bogala Graphite Company, which mines graphite in Sri Lanka, was owned by 02 foreign companies, and this company had not obtained such approval from the Board of Investment of Sri Lanka or entered into an investment agreement with that board. Regardless of this, the bureau had issued 02 mining licenses to this company for graphite mining.

Manampitiya Sand Project

The price of sand, which was Rs.4,830 for 1 cube, was increased by Rs.1,620 to Rs.6,450, and although Rs.1,000 out of which was approved by the Board of

Directors to pay the laborers who were piling sand, out of that amount, between Rs.600 and Rs.800 was being paid to Weli Mankada owners. Also, in order to control the high sand price in the districts outside Polonnaruwa district, the company's attention was not focused on imposing a control price together with the Consumer Affairs Authority.

211 mining licenses were obtained for this sand project, under which 211 sand mining locations were supposed to be operational, but only 144 sand mining locations were operational. Although mining locations owners were appointed regarding 61 sand mining locations, but it had not been operational and, mining locations owners were not appointed for 6 sand mining locations.

A loader machine purchased for this project in the year 2009 for Rs.8.88 million was withdrawn from use in the year 2012 due to technical defects. It was repaired again in the year 2019 at a cost of Rs. 966,595, but it could not be restored. Due to the unsafe parking of this machine on the project site, its parts had rusted, and a power generator worth Rs.2.4 million was in a dilapidated condition, exposed to rainwater and sunlight without any cover.

Kanthale Sand Project

41,773 cubes of sand were sold out of the 46,306 cubes of sand that had been excavated and transported to a sand warehouse under this project, and the remaining sand was slightly mixed with silt due to the fact that it had not been sold for about 10 months, and tenders were called for selling the remaining quantity of 4533 cubes. The tenderers informed that less than 1000 sand cubes were available at this site, and 875 sand cubes had been sold to a tenderer. Accordingly, there was a shortage of 3658 sand cubes and the cost of that sand stock was Rs. 12.1 million. Furthermore, it was observed during the physical inspection that the buyer who bought the sand, which was slightly mixed with silt, cleaned it using a machine at the project site and sold 01 cube at Rs.10,000 each. Accordingly, it was observed that an external party had earned a profit of more than Rs. 5 million.

Muthur Sand Project

The Defense Force headquarters construction project had refused to excavate sand from this place for the relevant construction due to the fact that the existing sand at the site of Muthur Sand Project is not suitable for concrete used for construction purposes. The company had obtained 24 mining licenses and carried out sand mining at this location, and 1,397 cubes of sand had been mined during the period from 18 August 2020 to 31 December 2021 when the project started, and a loss of Rs. 1.9 million had occurred during the relevant period.

Kotikambokka quartz Project

The Wellawaya Kotikambokka quartz project which was planned to be started in the year 2017 was not started in the year under review and an amount of Rs.21.71 million was incurred during the period 2017-2021 as liabilities and capital expenditure including leasing land for storage of mining quartz, purchase of bridge scale for weighing of mining quartz and employment of workers for its security.

Wildlife and Forest Conservation

Audit Observations

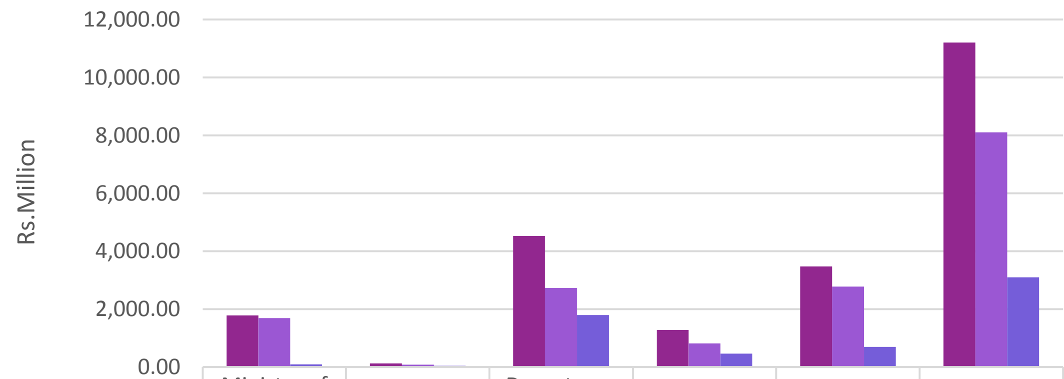
- Elephant human conflict
- Cutting elephant trenches instead of elephant fences to reduce elephant-human conflict
- Muthurajawela Sanctuary
- Fees charged in quarrying
- Mangrove forest replacement
- Distribution of seedlings in nurseries
- Illegal acquisition of reserve forests
- Furniture Factories of the State Timber Corporation
- Maintenance of timber stores
- Felling of trees at Robgill site
- Department Of National Zoological Gardeans
- Construction of rural sales centres
- Purchasing of Birds
- Construction done by National Equipment and Machinery Organization
- Animal conservation center under construction at Gonapala farm

Wildlife and Forest Conservation

In order to fulfill the mission of affirming the conservation of wildlife heritage through participatory management with the vision of preserving wildlife heritage for the present and future generations, the Ministry of Wildlife and Forest Conservation and the State Ministry of Wildlife protection, Adoption of Safety Measures Including Electrical Fences and Trenches Construction and Reforestation and Forest Resource Development, two departments and a statutory body under it, should have performed the following roles.

- Conservation of wildlife resources
- Taking necessary steps to emphasize the conservation of the relevant ecosystems while promoting the tourism industry in wildlife protected areas.
- Convention on International Trade in Endangered Species and related activities.

In order to fulfill the aforementioned role, the Parliament had given a total of Rs.11,205.65 million in the year 2021 to the Ministry of Wildlife and Forest Conservation, State Ministry of Wildlife protection, Adoption of Safety Measures Including Electrical Fences and Trenches Construction and Reforestation and Forest Resource Development and 03 departments under it, of which only Rs.8,105.44 million had been utilized by the end of the year under review. Details are shown in Figure 62.



	Ministry of Wildlife and Forest Conservation	State Ministry	Department of Wildlife Conservation	National Zoological Department	Department of Forest	Total
Net provision Rs.Million	1,787.50	128.55	4,527.80	1,286.80	3,475	11,205.65
Expenditure Rs.Million	1,691.43	83.78	2,731.09	820.14	2,779	8,105.44
Balance Rs.Million	96.07	44.77	1,796.71	466.66	696	3,100.21

Figure 62 - Amount of Net Provisions Given and Actual Expenditure

Source - 2021 Annual Financial Statements

The significant and quantitative audit observations revealed during the sample audit regarding the performance of the above functions and tasks are summarized below.

Elephant human conflict

Commercial and other abuses of wild animals, trees and their habitats have hampered Sri Lanka's wild elephant population and its survival.

Human-elephant conflict had grown rapidly due to reasons such as the blocking of elephant paths due to development activities, changes in land use patterns due to development activities and illegal deforestation, Degradation and reduction of usable habitat; the elephants invaded the village Due to the lack of food for the elephants by the end of the year under review. Table 27 shows the details of the increase in elephant deaths, human deaths, physical damage and property damage during the last 5 years due to the escalation of human-elephant conflict.

	2021	2020	2019	2018	2017
Wild elephant deaths	375	327	407	319	256
Human deaths	142*	113	122	96	87
Physical damage	58*	75	145	58	77
Property damage	1326*	850*	2,148*	1,423*	1,425

Table 27 - Details of increase in elephant deaths, human deaths, physical damage and property damage during last

*Department does not have complete information as compensation is paid by District Secretariats 05 years

Cutting elephant trenches instead of elephant fences to reduce elephant-human conflict

Due to the fact that the estimates were prepared based on building construction rates, which were not relevant for trenching, the estimate per cubic meter was increased by Rs.312 when compared to the irrigation rate, and the engineering estimate was increased by Rs.49.53 million. As a result, Rs.28.48 million had been paid over the stipulated cost for 91,278.09 cubic meters.

In the physical inspection of the elephant trench, it was observed that 3000 cubic meters of soil had been piled up, and accordingly, it was observed that Rs. 1.5 million would have to be spent to remove the soil. Furthermore, it was observed that Rs.25.66 million per year had to be spent on soil removal due to soil cutting regardless of the topography. Also, although the elephant trench cutting project was supposed to be completed on 03 June 2021, its physical progress was 50 percent at the end of the year under review.

Muthurajawela Sanctuary

Although a 1285 hectare plot of Muthurajawela Ecosystem was gazetted as a sanctuary through Gazette No. 947/13 of 1996, the Department had failed to demarcate the boundaries of the sanctuary even at the end of the year under review.

Fees charged in quarrying

The fees charged to the contractors for the demolition of granite in the lands under the Department's management until the year 2020 according to the Gazette Notification No. 1600/18 dated May 06, 2009 by the Department of Forest Conservation, had been reduced by 50 percent with Cabinet approval through the consolidated Cabinet Memorandum No. 14/2020 dated 13 November 2020. Accordingly, as the departmental income has come down drastically, it has led to a decrease in the state income as well.

Mangrove forest replacement

The Mannar District Forest Officer's office had initiated 110 hectares of mangrove replantation and mangrove conservation projects, under the Mangrove Forest Restoration Project. Although 70,000 saplings had been planted in the Wedithalativu mangrove forest, none of them were alive. Accordingly, since the planting of new saplings has failed, an amount of Rs. 13.02 million which had incurred for it had been wasted.

Distribution of seedlings in nurseries

Since the 62,046 saplings in the Madu and Chettiar nurseries which were planted with ESCAMP project grants in 2019, had not been distributed by December 2021, and another net expenditure of Rs. 2.53 million had to be incurred for the maintenance of the saplings.

Illegal acquisition of reserve forests

137.03 hectares of reserved forest under Mannar District Forest Office was illegally acquired by outside parties from 2019 to December 2021 due to lack of measures to detect, prevent and reduce forest crimes.

Furniture Factories of the State Timber Corporation

The number of orders received in the year 2021 to the three furniture factories of the State Timber Corporation was 395, of which 99 orders or 25 percent were not completed during the year. In order to make the production process of the corporation more efficient, the corporation had proceeded to buy and sell a stock of ornaments manufactured by external parties without paying attention to the main tasks legally assigned by the Act.

By increasing the production during the production year without taking into account the annual average sales of the State Timber Corporation, a stock of furniture worth Rs. 22.88 million was unnecessarily piled up in the Ampara factory on 31 December 2021. Also, the value of the unsold furniture stock in the weaving sector, which existed before the year 2018, was Rs. 36.37 million, and the value of the furniture stock related to the ninety unfinished items was Rs. 109.59 million.

Maintenance of timber stores

The State Timber Corporation has 52 timber warehouses, and due to the lack of proper management, it has been observed that the logs and timber stocks are decomposing over a long period of time, and out of only in the Ampara timber warehouse, 14,527 logs from government forests since 2015, 3,040 logs received as donations since 2014, 616 decimeters of Ampara logs were collected between 2010 and 2019, and 124,928.75 cubic decimeters of sawn timber since the year 2017 had been piled up unsafely.

Felling of trees at Robgill site

Although an investigation had been carried out regarding the irregularity that had occurred during the felling of 2172 eucalyptus trees at the Robgill site in the year 2018, the corporation had not proceeded to conduct a disciplinary investigation against the officials involved..

Department Of National Zoological Gardeans

The Department Of National Zoological Gardeans was established to fulfill the mission of exhibiting a diverse and healthy collection of animals by providing a home under the maximum care in accordance with the accepted rules, using attractive artistic methods and skills under modern zoological concepts, and the Parliament had made an allocation of Rs. 1,286.8 million for the year 2021 to fulfill them. Out of which Rs. 820.14 million had been utilized. Accordingly, 36 percent or Rs. 466.66 million of the allocation made by the Parliament during the period was not utilized..

Dehiwala Zoo, Pinnawala Elephant Orphanage, Pinnawala Zoo, Ridhiyagama Safari Park and Gonapala Zoo Farm are managed under the Department of National Zoological Gardens.

The audit observations uncovered during the sample audits conducted in 2021 are summarized below.

Construction of rural sales centres

Although the construction work of 12 rural sales centers built at the cost of Rs.7.2 million in Ridiyagama Safari Park was completed on 22 March 2018, it remained idle even by April 2022.

Purchasing of Birds

136 foreign birds were purchased in the year 2020 at a cost of Rs. 66 million, and 57 birds were kept in other cages in the safari park without being displayed due to the fact that the construction work of the bird sanctuary of Hambantota Safari Park, which is expected to be built to exhibit these birds, has not been completed by the end of the year under review.

Construction done by National Equipment and Machinery Organization

The procurement committee had decided to terminate the contract related to the projects due to the fact that the National Zoological Department did not work according to the agreements reached with the National Equipment and Machinery Organization, and the projects were stopped in the middle without being given to a new contractor. An expenditure of Rs. 69.56 million had been incurred for that construction as at 31 December 2021 and an amount of Rs.14.36 million should have been recovered from the Mobilization Advance given to the National Equipment and Machinery Organization after adjusting the retention amount for some of the projects.

Animal conservation center under construction at Gonapala farm

The construction work of the animal conservation center built at Gonapala Farm, which was to be completed in the year 2019, was not completed by the end of the year 2021, and Rs. 14.31 million had been paid to the relevant contractor by the end of the year under review.

Urban Development and Housing

Audit Observations

- Ministry of Urban Development and Housing
- State Ministry of Urban Development, Waste Disposal and Community Sanitation
- Science and Technology City Development Project
- Colombo Solid Waste Management Project
    - Implementation of packages A, B and C of the Aruvakkalu Landfill Construction Project.
    - Purchase of required Machinery and Equipment (Package D)
- Urban Project Preparatory Facility
- Light Rail Transit Project
- Strategic Cities Development Project
- Metro Colombo Urban Development Project
- Urban Development Authority
- Waters Edge Company
- Sri Lanka Land Development Corporation
- Urban Settlement Development Authority
- Sri Lanka Land Reclamation and Development Company
- National Housing Development Authority
    - Model Village Project
    - Housing projects that did not achieve the Desired Target / were not Implemented
    - Mixed Development Projects
- Condominium Management Authority
- Department of National Physical Planning

Urban Development and Housing

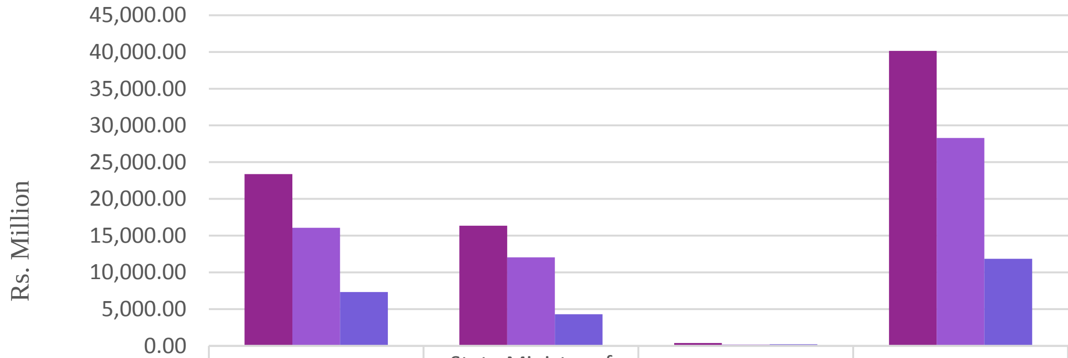
The Ministry of Urban Development and Housing and the State Ministries, Departments and Statutory Boards/Institutions under it should have performed the below mentioned functions and tasks.

- Expansion of multi-skilled jobs, businesses and income streams centered on urban development
- Giving priority to local builders in the construction sector
- Taking necessary steps to develop building materials industries
- Providing necessary incentives to turn to technical solutions as much as possible for labour shortages
- Coordinating vocational education as per market requirement to develop skills in the construction sector to produce skilled workers
- Engaging local professional engineers and advanced technicians for easy access to construction advice and introducing a coordination mechanism to easily work with architects institute, engineering institute, universities and other institutions to prepare the necessary construction plans so that the local brand in the construction industry can become a brand at the international level.
- Enact legislation to protect subcontractors and protect local small and medium-sized subcontractors
- Socially empowerment of the urban workforce by developing fully equipped housing complexes for slums and low income earners
- Coordinating the provision of long-term credit facilities for housing complexes with modern facilities for middle income earners in Colombo and urban suburbs
- Carrying out flood control, providing urban vehicle parks, shopping malls, physical wellness, recreational facilities
- Replacement of old flats with new flats
- Providing modern housing and community facilities for urban slum dwellers through urban housing schemes
- Providing new housing projects and credit facilities to solve the housing problems of the middle class
- Introducing an apartment scheme on fair rent basis for those desired on temporary residences on rental basis

- Encouraging investors for new housing projects by providing lands at subsidized rates to housing construction companies
- Introducing urban forest gardens, urban and semi-urban parks, water parks and roadside green lanes
- Introducing of efficient mechanism for managing municipal waste and sewage and establishing a system for water recycling
- Making arrangements to prevent irregular waste disposal by locating waste disposal yards and sanitary landfills so that the merging several local authorities
- Develop legal frameworks to adhere to the disposal of hospital and industrial waste, technical and electronic waste
- Taking measures to prevent irresponsible waste disposal
- Formulating a required programme to regulate carrying out all urban constructions in accordance with urban development plans
- Considering the setting up of vehicle parking yards and access facilities for the disabled as a core part of the project in all urban constructions
- Taking actions to prevent marine erosion
- Implementation of marine cleanup programmes to avoid the damage caused to the coastline and seabed due to dumping of plastic waste
- Implementation of low-lying development programmes with a view of creating flood-free habitats and protecting the environment
- Implementation of rural housing programmes for displaced persons
- Creating facilities to obtain all approvals from one place or through online to avoid unnecessary delay in obtaining necessary approvals for the construction industry
- Simplifying of the existing licensing system for procurement of raw materials for construction industry.
- Establishment of "People's Based Boards and People's Based Centers" where community leadership and community participation are predominant
- Implementation of projects for estate community related housing and basic infrastructure development
- Introducing estate-related low-rise housing schemes with the participation of estate owners and establishment of facilities including fully equipped health centers, pre-schools and community halls in this housing scheme
- Implementation of a special programme to ensure primary

education and health facilities for the children of the estate community.

In the year 2021, the Parliament had given an allocation of Rs. 40,138.01 million to the Ministry of Urban Development and Housing and a State Ministry and department under it to fulfill the above-mentioned role. Only Rs.28,296.95 million had been utilized. Details are given in Figure 63.



	Ministry of Urban Development and Housing	State Ministry of Urban Development Waste Disposal and Community Sanitation	National Physical Planning Department	Total
Net provision of Rs. Million	23,386.18	16,353.24	398.59	40,138.01
Expenditure Rs. Million	16,069.92	12,051.36	175.67	28,296.95
Balance Rs.Million	7,316.26	4,301.88	222.92	11,841.06

Figure 63 - Amount of provision made and actual cost

Source - Annual Financial Statements 2021

Quantitative and significant audit observations revealed during the audit test check conducted on the performance of the above functions and tasks are summarized below.

Ministry of Urban Development and Housing

Even though the Ministry of Urban Development and Housing had spent Rs. 15,718.38 million for development projects through the infrastructure development other capital expenditure object (123-2-7-2506), due to the fact that an accounting system that enables to identify and capitalize the assets arising from the expenditure has not been introduced, it was observed that those assets had not been included in the asset accounts of the Comptroller General.

State Ministry of Urban Development, Waste Disposal and Community Sanitation

Although a sum of Rs. 8,280.18 million had been spent for development projects through infrastructure development and other capital expenditures (411-2-3-2506) by the State Ministry of Urban Development, Waste Disposal and Community Sanitation, due to the fact that an accounting system that enables to identify and capitalize the assets arising from the expenditure has not been introduced, it was observed that those assets had not been included in the asset accounts of the Comptroller General.

Science and Technology City Development Project

Actions had been taken to develop 04 roads under the development of infrastructure which is one of the components of Science and Technology City Development Project with the expectation of dividing the towns of Malabe, Homagama, Kaduwela and Athurugiriya area into 05 zones and develop. The following matters were observed in this regard.

- Although the award of contract should be made after confirming that the procurement entity has completed all the land acquisition activities and completed the necessary activities for the implementation of the project without interruption in terms of 2.3.1 (b) of the Procurement Guidelines, even though the new access road construction contract from Homagama High Level to Diyagama Road Katuwana had been planned to commence on 11 March 2019 and to be completed in 547 days without settling the acquisition of two plots of land connected to the access road and also 05 extensions had been given till 31 December 2021, after completing 50 meters of development work it had been decided to terminate the contract without connecting to the high-level road. The total cost incurred for these development activities as at 31 December 2021 was Rs.712.49 including land acquisition cost also.

- Due to failure to act properly to assess the compensation value to the parties claimed for land acquisition by the procurement entity in terms of 2.3.1 of the Procurement Guideline, the Pitipana Talagala Phase 1 road development contract which was awarded for Rs.562.87 million on 26

October 2018 had to be terminated due to the protest of local residents on 16 November 2021 with the agreement of both parties. Therefore, although about 3 ½ years had elapsed since the contract was awarded, the amount of Rs.114.08 million paid to the contractor as mobilization advances and the interim payment of Rs.11.68 million made had become an unproductive investment of money.

Colombo Solid Waste Management Project

a National Policy on Management on Environmentalists and Municipalities in the National Solid Waste Recycling Programme and waste recycling, production of compost manure and establishment of biogas units had been identified as the main methodology of implementing that policy and it was pointed out that the final temporary solution was the construction of the landfill. The Decision of the Cabinet of Ministers dated 16 May 2017 had been given to implement the project of Distribution and Disposal of Municipal Solid Waste generated in the Colombo Suburbs to Puttalam Aruwakkalu area as a permanent solution to garbage problem of Sri Lanka by proposing to construct the landfill as the final temporary solution with the Methotamulla Landfill collapsing and to complete the Project promptly during the period of 2017-2019 .

This Project had been approved on 30 November 2017 to call international tenders with an estimated amount of USD 120 million i.e. Rs.19,127 million under 2 parts on 4 main (packages).

A. Construction of Kelaniya Garbage Loading Centre and Aruvakkalu Garbage Unloading Centre

B. Construction of sanitary landfill

C. Construction of new railway lines from Kelaniya to Aruvakkalu.

D. Purchase of required machinery and equipment.

The estimated cost of this entire project is USD 120 million and its local value is Rs. 19,127 million. A sum of Rs. 18,345.02 million had been spent for this project by 31 December 2021 and the project period had been extended to 31 July 2022. Accordingly, a sum of Rs.18,601.49 million had been spent on this Project up to that date and it was observed that Rs.4,494.61 million had to be paid for bills.

Implementation of packages A, B and C of the Aruvakkalu Landfill Construction Project.

It had been contracted to China Harbor Engineering Company for the value of USD 100.96 million to commence on 01 January 2018 and to complete by 30 June 2019 for the above constructions. The World Bank Review Team had submitted observations that in awarding the proposed A, B and C packages of the Project to the contractor, the Government Procurement Guidelines and World Bank Procurement Guidelines had not been followed in a transparent manner. However, Due to failure to re-evaluate the said contract award indicating the reasons as this project should be completed soon without any delay, the World Bank assistance of US$ 700,000 agreed by the World Bank had also been lost. The contract that was given so by depriving the World Bank assistance, has remained extending the project duration continuously despite 02 years had delayed and although 02 years had elapsed exceeding the completion date, the expected results from the relevant project could not be achieved even by 31 December 2021 . However, However, the contractor of this Project had suspended the construction works with effect from 15 June 2022 .

Purchase of required Machinery and Equipment (Package D)

Four locomotive engines had been imported at a cost of Rs.8.27 million as at 31 December 2019. Although the warranty period related to mechanical components of locomotive engines were to be expired by 28 August 2022, and also 02 years had elapsed since it was brought, it could not be used for the intended purpose and were parked in the yards of the Railway Department and, it was observed during the physical inspection that the spare parts of one locomotive engines were removed by the local agent of M/S Donfang Electricals International Corporation and fixed into another locomotive engine.

- As a result of the defects in the technical plans submitted by the manufacturers, the approval of the Railway Department were not given in terms of the terms of the contract agreement signed for the procurement of 34 container wagons, the contract for the importation of container wagons had been suspended. Accordingly, its annual progress as at 31 December 2021 was 0%. However, it was observed as per the progress reports of the Project that a Memorandum of Cabinet of Ministers has been submitted for this purpose, to allocate the necessary money to provide 17 machines remained in the Railway Department that can be used after minor repairs.

- Although 94 container boxes had to be received at the end of the year 2020, as there was no suitable place reserved to hold those boxes after they were supplied, although they had not been provided by 31 December 2021, the Project has indicated that they were imported by 31 July 2022 .

Urban Project Preparatory Facility

- The project had been commenced on 06 March 2019 to achieve high level readiness for priority urban projects in the cities of Kurunegala, Dambulla, Trincomalee and Ratnapura. The estimated total cost of the project is Rs.1,297.14 million equivalent to USD. 6.42 million and out of which the Asian Development Bank had agreed to provide a loan of USD 5.27 million equivalent to Rs. 1,064.79 million. The project was expected to be completed by 31 March 2021 .

- However, out of total funds of USD 5.27 million equivalent to Rs. 1,064.79 million allocated by the lending agency, only USD 2.07 million equivalent to Rs.405.68 million representing 38 per cent of the total allocation had been utilized for the project works after elapsing of 2 years 09 months from the date of commencement of the project that is 31 December 2021 .

- As per the decision made to suspend the project activities according to the letter of the Director General of the Department of External Resources No. ER/AB/US/01(vol-i) dated 18 August 2020, the services of contracted consultants had been terminated from October 2020 in relation to 3 sectors which were being carried out by that date. Although a sum of Rs. 413.36 million had been paid for 3 consultancy service institutions by the end of the year 2021, though the delay period in providing 11 consultation reports by 2 consulting firms had remained in between 01 and 08 months, any late fee had not been charged and the provisions relating to recovery of late fee also had not been included in the consultancy service agreement. Further activities of the project had still not implemented even by June 2022 according to the consultation reports submitted.

Light Rail Transit Project

- A light rail transit system network running high on towers was installed as the Western Regional Light Rail Transit Project with the assistance of the Japan International Agency (JICA) as a high-speed transport system considering the need for an efficient public transport system as a long-term solution to the heavy traffic congestion on the main roads of Colombo city and carried out a feasibility study in relation to the proposed project, and identified that the construction of light rail lines was feasible and the approval of the Central Environment Authority had also been obtained. The total estimated cost of this Project was Rs.59,100 million. Out of which Rs.43,037 million was given at an interest rate of 0.1 percent and the remaining amount was given under the Japan International Cooperation Agency (JICA) at an interest rate of 0.01 percent for a grace period of 12 years. The project was planned to be commenced on 25 March 2019 and to be completed on 31 December 2024 and the Japanese and Sri Lankan governments had signed the agreement on 11 March 2019. However, as per the instructions of the President , the Secretary to the President had informed to the Secretary to the Ministry of Transport that the Project was too expensive and not profitable and therefore, the project should be closed and to propose a suitable project for providing urban transport infrastructure in Colombo. Accordingly, although the Secretary to the Ministry of Transport had submitted a Cabinet Memorandum No. MT/46/2020 dated 24 September 2020 to terminate the project unilaterally, the reasons based on this had not been given . Accordingly, the Secretary to the Ministry of Urban Development and Housing had taken actions to suspend the Project and close the Project Office by the Cabinet Decision No. 20/1450/312/002 dated 06 October 2020 .

- It had been installed with the assistance of Japan International Agency (JICA) and a total of Rs. 5,803.95 million had been spent on this Project as Rs.4,886.75 million from JICA Funds and Rs. 917.2 from Treasury Funds from the commencement of the proposed Project in 2019 to 31 December 2021. Therefore, due to the decision of the above Decision of Cabinet of Ministers to stop this Project halfway, the amount of Rs. 5803.95 million incurred till then had become a useless expenditure. Likewise, the expenditure made as front end fee amounting to Rs. 102.73 million on 23 May 2019 as per the Loan Agreement had become a useless expenditure. Further, The project had not taken steps to recover the amount of Rs. 44 million that should have been collected from the mobilization advance for the commencement of the work that had been paid to the Electricity Board in order to obtain the necessary electricity facilities for the activities of this Project and the amount was shown under the project expenditure without stating as a mobilization advance under the current asset in the financial statements.

- Similarly, further actions had not been taken in respect of the land whereas the actions were taken in accordance with Section 10.1 of the Land Acquisition Act to acquire about 21 hectares of land required to construct the depot under the process of land acquisition on suspension of the project.

- A Committee consisting of 11 members was appointed on 16 June 2021 as per Decision of Cabinet of Ministers No. CP/21/0221/306/015 dated 23 February 2021 for the discussion of the loss of USD 31.36 million claimed by the Consulting Company of the Project due to the suspension of this project. After spending about a year, this committee had submitted a report in May 2022. According to the information given to the audit by the date of the audit, it was observed that Rs. 4.8 million had been spent only for providing technical support to this Committee and it was not confirmed whether any remuneration was paid to the Committee. Further, it was observed that it had impossible to agree with the Consultant Company regarding the Category 3 request as per the Paragraph 3.3 and Recommendation No.4 of the said report. A Memorandum of Cabinet of Ministers was submitted on 28 June 2022 requesting the approval for the Recommendations of the Committee.

Strategic Cities Development Project

- This project has been commenced to improve selected urban services and public urban spaces in the Participatory City Regions of Sri Lanka. Accordingly, the cities of Kandy, Galle and Jaffna were selected as the Participating City Regions to be developed under the Project. The estimated total cost of the Project is equivalent to Rs. 34,912.48 million and the International Development Association had agreed to provide USD 202 million out of that, equivalent to

Rs. 27,507 million. The project had commenced its activities on 05 May 2014 and although it should be completed by the end of 2019, and also the Project period had been extended by 02 more years up to 31 December 2021, Out of the total funds of USD 202 million allocated by the Lending Agency, a sum of USD 106 million representing 52.5 per cent of the total allocation had been underutilized after elapsing of 7 ½ years from the date of commencement of the project that is by 31 December 2021. On failure of the project to achieve the desired targets by the end of the year 2021, out of the USD 202 million in loans the World Bank agreed to grant, a total of USD 92 million as USD 65 million allocated for the construction of the Kandy Multimode Transport Terminal (KMTT) and USD 27 million as expected savings as at 31 December 2021, when the project ends, respectively had been removed .

- Although it had been identified that one of the primary objectives of the Project was to control the floods in Galle City as per the Consultation Report given by the Galle City Project Consultancy Institute, the acquisition of plots of land belonging to those water catchment areas was suspended until 31 December 2021 and a Wetland Management Plan had also not been prepared.

- As a result of the activities of 09 sub - projects valued at Rs. 3,380.70 million expected to be implemented in Jaffna city were suspended by 31 December 2021, it was not possible to achieve the desired benefits through those sub-projects.

Metro Colombo Urban Development Project

This Project had been commenced with the objective to reduce flooding in the catchment of the Colombo water basin, strengthen the capacity of Local Authorities in the Colombo Metropolitan Area and beautifying the city of Colombo and out of Rs. 10,954 million allocated for the following tasks targeted for the year 2021, the progress obtained in respect of projects not yet completed by incurring Rs.10,861 million (99%) is shown in Table 28.

Relevant Purpose	Progress %	
	Physical	Financial
Improvement of Norris Cannel	85	68
Design and Construction of Water Transport Tunnels at Muthurajawela and Torrington	97	78
Upgrading the Ambatale Pumping Station	100	81
Development of Bio Diversity Park at Kotte Fort	100	69
Improvements to Madiwela East Diversion Scheme Stage 111	100	79
Kolonnawa Canal Diversion Scheme Stage IV	100	86
Plan and Installation of Pump Station of St. Sebastation South Power Station	100	87

Table 28 : Progress made on pending projects

Urban Development Authority

The Urban Development Authority was established under the Urban Development Authority Act No. 41 of 1978 to prepare, implement and promote integrated economic, social, environmental and physical development plans for urban development areas. The Authority has 04 subsidiary companies namely Water's Edge Company, Urban Investment and Development Company, Peliyagoda Warehouse Company and Rest Houses Company and Water's Edge Recreation Company was formed as a subsidiary company of Water's Edge Company. Further, 04 associated companies had been established as Ocean View Development Company, Colombo Land Development Company, Onali Holding Company and Lanka Electricity Pvt. Company.

- As per the Paragraph 3.4 of the President's Office Circular No. SP/RD/02/10 dated 03 February 2010, a large amount of land given by the Authority for urban development was not used for the assigned purpose but was used for other purposes or was alienated after many years. A few examples are given below.

  - Handing over the Millawa Estate with 812.63 acres (320 hectares) in extent and was revenue generating and owned by the Land Reforms Commission was handed over by the Decision of Cabinet Ministers dated 2 1 December 2016 authorized the Urban Development Authority to acquire to establish the proposed Horana Industrial Park and the ownership has been undertaken by Extraordinary Gazette on 14 June 2017. Millawa Watta, Horana Industrial Estate had been acquired for development without doing any feasibility study on the environmental impact of the said Project and without looking into alternative lands and the Urban Development Authority had borne an amount of Rs. 1360 million only for the acquisition of the land. At present, the said land was being used for various purposes of the government (such as relocating the jail) apart from the purpose for which it was acquired. Under the Galle City Development Plan, actions had been taken from 30 May 2006 to acquire the Dadella land with an area of 6.782 hectares where several people have settled and engaged in business activities for the construction of Aloysius National School Stadium, International Cricket Stadium and Sports Complex and removed from the aim of using it for that purpose, only a sports complex on a small part of the land had been constructed by 26 September 2020 and a sum of Rs.281.57 million had been paid as compensation and interest as at 31 December 2021 for the settlement of compensation for completion of land acquisition process and Rs. 400 million had been approved by the cabinet on 07 December 2016 for payment from the Treasury for the compensation and interest payments

– The land of 2 acres 2 roods 2 perches 21.4 in extent bordering Fort D.R Wijewardena Mawatha owned by the Authority had been given to a private company for the construction of a multi-storied commercial building complex without public bidding before receiving the approval of the Cabinet of Ministers and later, under a Memorandum of Understanding, it had entered Rs.1,300 million long-term lease base for the land for 30 years. But without doing any development activities, a car park was run on that land and generated income and despite the revenue due to the Authority has not been provided from the revenue earned as per the agreement and only Rs. 557 million out of the agreed Rs. 1,300 million paid to the Authority by 28 February 2013, re-contracted in the name of another company owned by the original company owner , it had agreed to pay Rs. 3,352 million which was the value of the Government Valuer as at the date. Despite this, due to agreeing to lease out a Rs. 330 million less than the government's assessed value without the having formal approval of the Board of Directors of the Authority, a loss of Rs. 330 million and long-term loss of income had occurred in leasing out this land and no development work whatsoever has been done up to now .

– Three plots of land located at Sri Jayawardenepura Mawatha, Rajagiriya had been acquired to the Urban Development Authority on 09 October 2013 for the implementation of an urban development project consisting of financial and administrative institutions. But the extent of 02 acres, 02 roods, 01 perches of the land thus taken over was returned to the original owners on 2 February 2015 and 18 November 2016 without doing any development work and the land area of 12 rood 01 perches had not been utilized for any development purpose.

- Although constructing of 13,580 houses and handed over for low income families at a cost of Rs.48,090 million under 21 sub-projects of the Urban Revitalization Project from the year 2013 to 2021 , the Authority had to incur a huge amount of money for maintenance cost for 12,875 houses amounting to Rs. 813.15 million due to they were not entitled for maintenance works as a result of failure to complete requirements and obtain Condominium

Management Authority Certificates as per Section 3(2) (b) of Public Facilities Board (Amendment) Act No. 24 of 2003 and due to the fact that the ownership of those houses cannot be transferred.

- The Authority had issued debentures valued at Rs.10 billion in October 2010, to be redeemed in 5 years with the aim of providing funds for the National Programme to build 68,000 permanent houses for slum dwellers in Colombo city, which is a project of the Urban Development Authority Act. A loan facility of Rs. 11 billion had been obtained from the Bank of Ceylon in 2015 to release those debentures. A sum Rs. 8.5 billion had been obtained in 2017 from the Treasury to pay the debt. Nevertheless, even though 5 years had elapsed since the debentures were issued, actions had not been taken develop 142 acres of land within the city of Colombo and prepare a business plan which were the expected objectives of it and out of the proposed 68,000 housing units, 12,657 housing units have been built and only 8407 of them had been handed over to the people by 31 December 2019 . At present, the Cabinet of Ministers had approved the issuance of Rs. 25 billion debentures.

- Despite the beneficiaries of the Oval View Housing Project consisting of 608 middle income housing units had paid an amount of 4,756.32 million totally to the Urban Development Authority and despite the payment of Rs.816.3 million had been totally paid by the residencies of the Angoda Lake Crest Housing Project to the Urban Development Authority. The transfer of legal ownership to those residents was not done even by September 2021. The Condominium Authority Certificate has also not been obtained for this project even by now.

- Planning to build an urban park under the Meethotamulla Revitalization Project after the garbage dump landslide in 2017, leveling the landfill from 30 meters to 12 meters and applying a blanket layer for trial compaction and the contract for installation of greenhouse gas emission units had been given for a Rs. 269.5 million to a private institution on 09 June 2020. The Authority had paid an amount of Rs.432.95 million for this Project and although the handover certificate has also been issued on 25

November 2020, a park had not been built as planned. Further, trial compaction waste site has remained without proper management and supervision at present and it was observed at the physical inspection carried out on 23 December 2021 that the preventing of discharge of waste water from this site from entering canals and ground water and also gas collection system through continuous gas emission center had covered with weeds and abandoned.

Waters Edge Company

- Although the Water's Edge Company had completed the construction of a traditional dance hall in 2018, which was a two development projects contracted by with third parties, the operations have not been implemented and although the construction of a children's park should be completed in the year 2018, as it was not completed by 2020, the Company had lost an annual income of Rs. 43.2 million from those projects.

- The Company had entered into an agreement in the year 2018 for a period of 18 years with a locally incorporated foreign private company on the basis of payment of an annual amount of Sri Lanka Rupees equal to US$ 20000 calculated at the central rate of Rs.153.74 at the exchange rates prevailing on the date of execution of the agreement to construct, finance, operate, maintain and manage an amusement park within the Company Premises. However, the relevant contractor company had paid only USD 9956 to the Company even by the end of the year 2021 and the construction works of the amusement park had been stopped halfway .

- The company had incurred a sum of Rs. 11.46 million as initial expenses for the renovation work of the Acland House building, which the company has not received legal ownership of and later the Project had been terminated. The expenditure made, had become an uneconomic expenditure.

- A number of 16,000 orchid plants valued at Rs. 14.8 million had been purchased from abroad and another amount locally for commercial purposes in 2018 .Even though a sum of Rs. 68 million had been spent for this Project, the proper maintenance had not been done even by at present and it was observed that at present, it was observed that there was no income generation apart from the commercial purpose.

Sri Lanka Land Development Corporation

Although the Corporation has been empowered to identify low-lying swamps, barren or mud lands at the provincial level throughout the island and publish them through gazette notices in order to be able to control and monitor unauthorized land reclamations as per Section 2 (b) 1 of the Sri Lanka Land Development Corporation Act No. 15 of 1968, the number of provinces so Gazetted by the Corporation was limited to 06 by the end of 2020 . The Corporation had failed to prevent illegal dumping and illegal settlements in those land areas where the boundaries had been Gazetted. Similarly, although the land taken over for reclamation and development in terms of Section 8 (a) of the above Act should be developed by the Corporation for the purpose of construction of buildings, industry, commerce and agriculture, and also 24 years had elapsed by the end of 2020, in the amount of 800 acres of land in Muthurajawela and Mudun Ela areas, which were taken over so by the Corporation in 1995 for reclamation and development activities, the improved area out of that was 400 acres, that is a 50 per cent decrease.

- Although the Corporation has identified 1,104 unauthorized constructions and reclamations in 400 hectares in 9 water catchment areas in relation to 05 Divisional Secretariats from 1996 to 2019, the Corporation had failed to remove the identified unauthorized constructions even by 31 December 2020 .

- Due to the delay in the payment of compensation related to the lands taken over by the Corporation during the period from 1981 to 2005, the compensation to be paid for those lands on 31 December 2020 was Rs. 47.11 million and the interest payable in respect thereof was Rs. 109.29 million. Accordingly, the interest to be paid at the end of 2020 had increased by Rs. 1.84 million as compared to preceding year. Similarly, due to the fact that a period of 14 to 39 years had passed for land acquisition, it was further revealed that the occupation of encroachers in these lands had increased.

- Although the Corporation should take steps to protect the Reservations of the canals located in the Western Province as per the Gazette Notification No. 1662/17 issued on 14 July 2010 , the Corporation had not taken productive measures to identify the Reservations or to remove the unauthorized encroachers residing in the Reservations from the year 2010 to the end of the year 2021 .

- Actions has been taken against the reclamation of the low-lying area of about 6 hectares located on the Ja ela, Dalathura "Suhada" Mawatha, which is close to the Muthurajawela Sanctuary, which mainly contributes to flood control and has high biodiversity, even by 31 December, 2020 in accordance with Section 2 of the Corporation Act No. 35 of 2006 .

- More than 7 years had elapsed since the commencement of the land acquisition process of the Weras Ganga Rainwater Drainage and Environment Improvement Project implemented by the Corporation and although Rs. 2,387.6 million had been spent for that, its work had not been completed and the information about its physical progress was not en submitted to the audit. Similarly, the Corporation had paid Rs. 1.42 million as house rent during the year under review, for the affected families.

- As a result of the amount of Rs. 47.37 million which was the difference between the value reported to the court and the value shown in the accounts of the Corporation that should be charged further for the construction of Medamulana DA Rajapaksa Memorial Center had been shown as an expenditure not incurred for the Project, the Corporation had arranged to write it off from the books without carrying out further investigation regarding the expenditure incurred in addition and making recoveries from the responsible parties and without obtaining approval from the Treasury as per F.R.113 .

- An agreement had been entered into with a foreign company to mine 1,500,000 cubic meters of sea sand in 2018 and while performing that work, the this machine was released on 20 February 2020 for a coastal conservation project without obtaining formal approval. Although only 465,154 cubic meters of sand had been deposited at that time, due to the termination of the agreement by the Corporation with effect from 10 April 2020 before the expiry of the contractual period, the Corporation was responsible to pay the amount of Rs. 2.96 billion requested by the relevant company.

- The Board of Directors of the Sri Lanka Land Development Corporation had decided on 04 October 2018 to pay a loan amount of Rs. 200 million to Land Reclamation and Development Company by 07 May 2019 and a project evaluation or feasibility study had not been done prior to the initiation of such a high capital investment project. The company incurred Rs. The expenditure of 382.50 million incurred by the Company for Project had become a fruitless expenditure due to the Corporation giving the land to a private entity on a long-term lease basis after 2 years, by the end of 2020, determining as this project was a failed project, after starting as a long term commercial venture incurring Rs. 382.50 million by the Company.

Urban Settlement Development Authority

- Although the Authority was established in terms of the Urban Settlement Development Authority Act No. 36 of 2008 to prepare a national policy related to urban settlement development and to ensure that the policy is implemented, and also 13 years had passed since the establishment of the Authority, the Authority had failed to prepare and implement this national policy. Similarly, although the Authority had appointed an Advisory Committee of not more than 14 members including a Chairman by April 2017, as per Section 10 of the Act, the activities relating to the objectives of the Authority's such as proposals, plans, projects and action plans, etc. of the Authority had not been identified even by the end of the year 2021 .

- All monies collected by the Urban Development Authority as service charges from property developers to finance low-cost housing programs were to be credited to the Urban Settlement Development Authority Fund in terms of the provisions of sub-section 16 (1) (e) of the Urban Settlement Development Authority Act No. 36 of 2008 . Nevertheless, as per the Decision of the Cabinet of Ministers No. 10/2951/ 504/012 dated 14 December, 2010, the Urban Development Authority had stopped charging these service fees, the Urban Settlement Development Authority had lost that source of income. It had failed to charge the service charge of Rs. 207.33 to the Urban Development Authority even by the end of the year 2021 .

Sri Lanka Land Reclamation and Development Company

- An income of Rs. 46.8 million was expected from the Kerawalapitiya sea sand washing project in the year 2021. Accordingly, although it was planned to supply a product of 36,000 cubes of sand in the year 2021 from the project to supply sea sand to the corporation, the amount actually produced was 24,729 cubes. Likewise, thus the actual income received by the company from this Project in the year 2021 was only Rs. 32.10, it was 68 per cent of the expected income. Similarly, the backhoes and tippers required for the project were obtained on rental basis and a sum of Rs. 4.48 million was incurred for that and it was about 15 per cent of the total income.

- The above project which was commenced as a long term commercial business by providing loan of Rs 200 million by deciding the Board of Directors of the Sri Lanka Land Development Corporation on 04 October 2018 ; the parent body of the company, and incurring Rs. 382.50 million including that loan amount, was decided as an unsuccessful project and the Corporation had arranged to give the land on a long term lease basis to a private entity after 2 years, by the end of the year 2020 and the expenditure made by the Company for the Project amounting to Rs. 382.50 accordingly, had become a fruitless expenditure.

National Housing Development Authority

Model Village Project

Although the National Housing Development Authority had commenced the Model Village Project in 2017 and planned to construct 500 projects consisting of 12,500 housing units in the same year, only 368 villages had been completed construction and the number of houses that had been built was 10,159 . The amount spent for that was Rs. 4,798 million. Although the amount allocated for this project in the year 2021 was Rs. 176.4 million, out of the Rs. 84.3 million allocated to 07 Districts, only Rs. 47 million had been spent. Further, the construction of 957 housing units in 44 model villages, which had started construction, had been stopped halfway.

Housing projects that did not achieve the Desired Target / were not Implemented

- Even though it had been planned to start work on 2,000 housing units and complete work on 500 housing units in the year 2021 for the Mihindu Housing Programme at a cost of Rs. 750 million, works on 1,242 housing units had not been commenced and 299 works had not been completed. Further, Even though Rs. 587.86 million had been allocated for the completion of 1,245 housing units under the projects of Viru Sumithuru Houses, Houses for families affected by Easter Sunday attacks, and Sevana House Aid projects, no construction work whatsoever was done.

- Even though Rs. 110 million has been allocated in the year 2021 for the repair and housing compensation of old housing complexes, those activities had not been done. In addition, out of the 150,770 housing units that had been started to build houses related to 13 other housing loan and assistance programmes that had been implemented from 2016 to 2019, the number of completed housing units was only 55,225 and the construction works of 4,987 housing units that was commenced under these programmes had been stopped.

Mixed Development Projects

The National Housing Development Authority had entered into agreements with private sector organizations to construct 02 mixed development projects of houses and commercial complexes on the land of 05 acres 10 perches and 01 acres 26.5 perches land located at Darley Road, Colombo 10 in the years 2004 and 2005 respectively . Those project tasks had remained unfulfilled even by September 2022 and as those institutions had earned money by mortgaging those lands to the banks, the Authority had to resort to legal proceedings to re-acquire the ownership of those lands.

Condominium Management Authority

- Although investigations should be conducted and timely action should be taken regarding complaints received regarding unauthorized construction in a condominium property in terms of Section 09 (a)(1) of the Act, actions had not been taken in respect of 16 complaints received from the year 2013 to 2021 .

- Although the actions can be taken in terms of Section 9 (b) of the Act in respect of a written complaint made by a purchaser who has taken a share of a condominium property in respect of common facilities, actions had not been so taken with regard to 75 complaints .

- Although the Authority should manage and control the affairs of the Management Corporation established for the condominium property according to 5 (e) of the Public Facilities Board (Amendment) Act No. 24 of 2003, 1,079 Management Corporations had been established under the authority as at 31 December 2020 and it had reduced to 951 by 31 December 2021 . Out of those 951, a number of 557 were at an inactive level and accordingly, it was observed that the Authority had not carried out proper regulations.

- Annual General Meetings of Management Corporations should be held in terms of section 3 (2) of the addition of the Schedule to the Principal Statute of the Condominium (Amendment) Act No. 45 of 1982 under the Condominium Property Law and according to its 8 (4) (a), a copy of the Audited Annual Accounts of the Corporation should be submitted to the Authority. However, the Annual General Meetings of 101 Management Corporations had not been held even after a period of 15 to 37 months. Furthermore, the Authority had not conducted an investigation and supervision regarding the submission of Audited Annual Accounts Reports.

Department of National Physical Planning

- Preparation of National Physical Design Policy and National Physical Plan should be made and completed by 31January 2022 in terms of Section 07 of the Town and Country Planning (Amendment) Act No. 49 of 2000 and a sum of Rs. 1,240,938 had been spent for physical planning activities. But it was not completed by 31 March 2022 .

- A total of Rs.634.7 million has been allocated from 2016 to 2021 for the Lolugaswewa City Planning Project to limit the expansion of settlements and remove unauthorized constructions in the Anuradhapura Pooja area and only the feasibility study, construction of the project office and demarcation of the land had been done by incurring Rs. 13.41 million that is 2.1 per cent only , spent in 05 years, by the year 2021. Due to failure to draw attention to the social problems related to the transferring of the residents of the Pooja site to Lolugaswewa city, desired objectives of the Project could not be achieved.

- Although it has been included in the Action Plan of 2021 to prepare 03 Regional Physical Plans in Eastern, Uva and Northern Provinces, these plans had not been prepared. In addition to that, Preparation of 13 physical plans out of 20 (small towns or service centers) given for processing by local bodies, had not been done even by the end of the year.

Introduction to Provincial Councils

Introduction to Provincial Councils

Provincial Councils are established by Article 154 A (1) added to the Constitution of the Democratic Socialist Republic of Sri Lanka by the 13th Constitutional Amendment passed by the Parliament in 1987. The number of provincial councils is 09. That are Western, North West, Uva, Sabaragamuwa. Central, East, South, North Central, North.

A provincial council is under the control of the governor, and a chief secretary acts as the administrative officer. A Chief Minister act as the head of the Legislature, and a Provincial Council will consist of 05 Ministers including the Chief Minister.

The Provincial Council Act No. 42 of 1987 has been passed by the Parliament to make arrangements regarding the working procedure to be followed by the Provincial Councils, matters related to the service of the Provincial Council Government and related or ancillary matters. As the term of the 09 provincial councils has ended, the councils have been considered as dissolved in accordance with the provisions of Article 154(e) of the Constitution. Accordingly, Provincial Councils have been run by the Governors of each Provincial Council in accordance with the provisions of Section 2 (1) (a) of the Provincial Councils (Ancillary Provisions) Act No. 12 of 1989, from the following dates without "Council". The dates on which the last “Provincial Assembly” held in each province was inaugurated and its term ended are given below.

Provincial Council	Last Council’s Commencement Date	Last date of the last Council
West	2014.04.22	2019.04.21
North West	2013.10.11	2018.10.10
Uva	2014.10.09	2019.10.08
Sabaragamuwa	2012.09.27	2017.09.26
Central	2013.10.09	2018.10.08
East	2012.10.01	2017.09.30
South	2014.04.11	2019.04.10
North Central	2012.10.02	2017.10.01
North	2013.10.25	2018.10.23

Each Provincial Council shall prepare and submit to the Auditor General financial statements reflecting the financial position of the Council's fund. The Auditor General shall audit the accounts in terms of Article 154(3) of the Constitution and Section 23(1) of the Provincial Council Act No. 42 of 1987.

It was also observed that the provincial councils used different bases such as accrual basis, cash basis or improved cash basis while preparing the financial statements. Furthermore, some provincial councils had prepared financial statements according to generally accepted accounting principles and some provincial councils according to public sector accounting standards. Accordingly, there was no possibility of comparative use of financial statements.

The income of a provincial council mainly consists of various sources such as government grants, tax income and non-tax income. The total income of 09 Provincial Councils in 2021 was Rs.383,222 million, which is an increase of 11 percent over the total income of 09 Provincial Councils in 2020 which was Rs.346,561 million. Also, the total expenditure of the 09 Provincial Councils in the year 2021 was Rs. 361,937 million, which is an increase of 8 percent over the total expenditure of the 09 Provincial Councils in the year 2020 which was Rs. 335,001 million.

In the year 2021, Rs. 310,852 million were given from the treasury for the 09 provincial councils, which is a 9 percent increase over the Rs.284,395 million given in the year 2020. Also, 85 percent of the expenses of the provincial councils were contributed by the treasury grants.

The financial statements reveal that the total non-current assets of the provincial councils were Rs.247,355 million as at December 31, 2020, and Rs.316,256 million as at December 31 of the year under review.

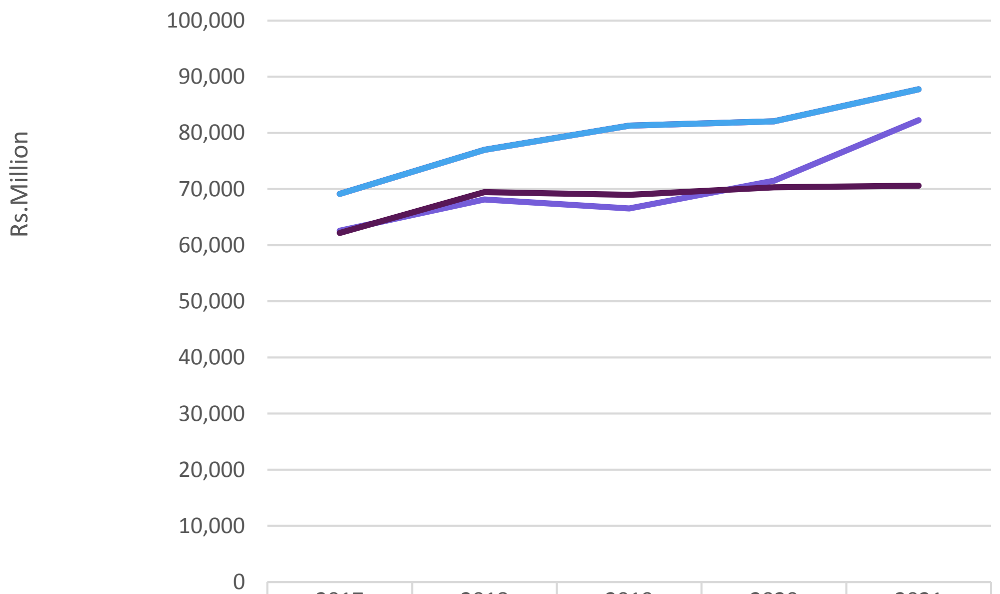
Western Provincial Council

Audit Observations

- Underutilized assets
- Informal transactions
- Uneconomic transactions
- Human resource management

Western Provincial Council

A revenue totaling Rs. 87,775 million had been estimated by the Western Provincial Council for the year 2021 comprising Government grants amounting to Rs.54,478 million, through internal channels amounting to Rs. 8,377 million and through government revenue transfers amounting to Rs. 6,720 million and stamp duty and court fine receipts of Rs. 18,200 million. A sum totaling Rs. 87,775 million including recurrent expenditure amounting to Rs. 79,497 million and capital expenditure amounting to Rs. 8,278 million had been estimated. In the year 2021, a total revenue of Rs. 82,252 million comprising a sum of Rs. 48,965 million through government grants and a sum of Rs. 33,287 million through internal channels, had been earned. Recurrent expenditure of Rs. 66,424 million and the capital expenditure of Rs.4,178 million, a total of Rs.70,602 million had been utilized. The details of estimated and actual income and expenditure for the year under review and for the last 4 years are shown in Figure 63.



	2017	2018	2019	2020	2021
Estimated Income Rs.Million	69,135	76,984	81,281	82,058	87,775
Actual Income Rs.Million	62,584	68,132	66,530	71,471	82,252
Estimated Expenditure Rs.Million	69,135	76,984	81,281	82,058	87,775
Actual Expenditure Rs.Million	62,181	69,454	68,971	70,300	70,602

Figure 63 : Estimated and Actual Income and Expenditure

Source - Western Provincial Council Financial Statements

The important audit observations revealed in the audit conducted in the year 2021 related to the Western Provincial Council are summarized below.

Underutilized assets

- A sum of Rs. 19.42 million had been spent in years 2020 and 2021 for the purchase of necessary machinery and equipment for the production of canned fish related to the project to introduce fish and shrimp value-added products to the market under the development projects implemented by the Ministry of Agriculture, Lands, Irrigation, Fisheries, Animal Production and Health and Agricultural Development of the Western Province.

  The construction work of the building which was being constructed on the site of the proposed Walpita Training Center to start the production related to this project, had not been completed by June 30, 2022. But the machines and equipment needed for the installation of the building had been purchased in December 2020. The purchased machines and equipment remained unprotected in the open area in the training center until January 2022. Also, the warranty period of these machines and equipment was also exceeding, and due to not being used in an unsafe place for a long time, the machines were rusted and there was a possibility of a problematic situation and risk in their operation.

- 17 parcels of land of 1,698.3 perches with no original transfer value located in various places assigned to the authority since 1990 by the Provincial Road Development Authority and government-related institutions, arrangements to be effectively used by the authority, regulated or reassigned to land reassignment agencies that are not useful to the authority had not been done and necessary measures had not been taken by the end of the year under review in respect of 12 plots of land amounting to 1,173.1 perches which were being used by squatters.

- A sum of Rs. 2.13 million had been spent as at 31 December 2021, for the construction project of the Horana Mawak Oya Facility Center and Hela Bojunhala, which theproject No. N207183144502 that the Local Government Commissioner was the project authority. However, by 30 June 2022, the objectives of the project had not been fulfilled due to the non-commencement of business activities in Hela Bojunhala.

Informal transactions

In accordance with the Management Services Circular No. 03/2018 dated 18 July 2018, without obtaining the recommendations of the National Salary and Cadre Commission and the prior approval of the Management Services Department of the Treasury, they should refrain from determining the salaries and allowances paid to the staff of their institutions, and although it was informed that the Chief Secretary should bear the responsibility in case of failure to act according to the instructions, contrary to that, since 01 August 2004, an allowance of 1/3 was paid to the officers of the Western Provincial Council Secretariat in addition to the salary. The value of the allowances paid from 2020 to July 2021was Rs. 5.11 million. Furthermore, according to the letter of the President's Secretary addressed to all governors dated 29 March 2019 No. PS/PCMD/SD/01/08, as per the directives of the Cabinet of Ministers, in determining the allowances paid in addition to the salary for provincial government officials, notifying that efforts should be made to obtain the recommendations of the National salary and Cadre Commission and the Finance Commission, the above allowances were paid without obtaining the recommendations of the National salary and Cadre Commission.

Uneconomic transactions

- The Bureau of Engineering had paid Rs.7.5 million on 28 December 2018 and Rs.6.42 million on 31 December 2021, totaling Rs.13.92 million to the Western Provincial Information Technology Resource Development Institute for setting up a document management system and establishing a process automation system. The establishment of this document management system, which was scheduled to be completed in the year 2019, had not been completed by 30 June 2022 and the Bureau had not achieved any physical progress in using the document management system for its intended purposes.

- The Department of Business Name Registration had purchased a software for issuing business registration certificates on 16 June 2020 at a cost of Rs.8.63 million. However, due to the fact that the Divisional secretariat offices have not been given the facility to enter information into the software and due to the fact that the information about the business organizations currently registered in the Western Province has not been entered, the objectives of purchasing the software have not been fulfilled even as at 30 June 2022.

Human resource management

The approved staff of the Western Provincial Road Development Authority for various projects and functions were 346. But in addition to this staff, 556 employees were employed in excess of the approved staff for the work of the authority as 396 employees under the ad hoc basis and 160 under the contract basis and no steps had been taken to prepare a manpower plan and get the staff approved accordingly even by 30 June 2022.

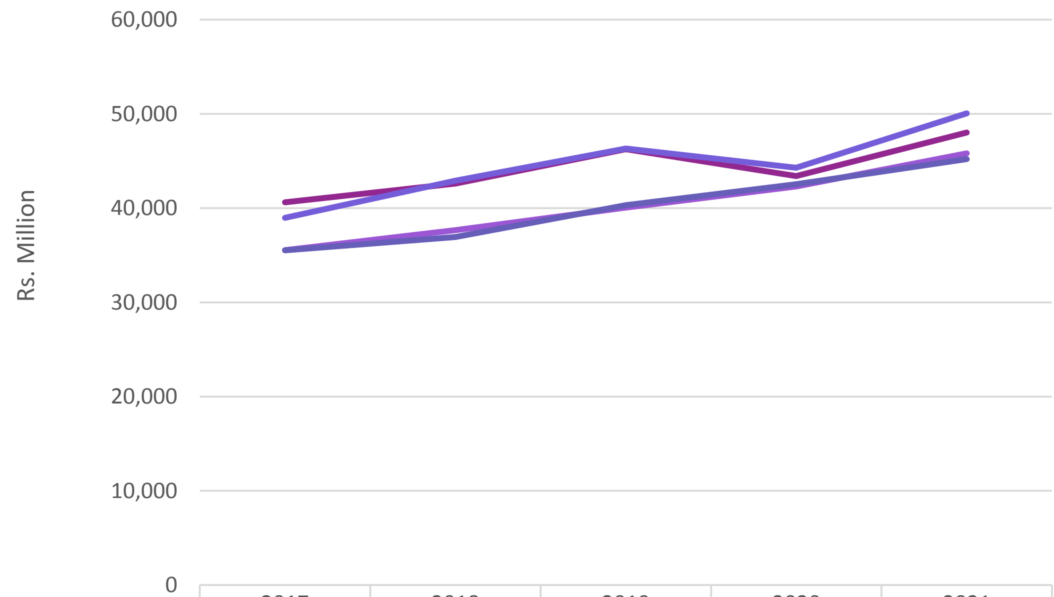
Central Provincial Council

Audit Observations

- Financial results
- Provincial Development
- Overpaid allowances
- Non settlement of loan balance
- Erroneous Payments
- Losses and damages
- Controversial Transactions
- Idle/underutilized
- Procurement
- Internal Audit
- Unresolved audit paragraphs

Central Provincial Council

The Central Provincial Council had estimated a total revenue of Rs.48,021 million for the year 2021 in the form of government grants of Rs.42,070 million and internal channels of Rs.5,951 million. A total of Rs.50,060 million was estimated to be utilized in the year 2021, with Rs.43,175 million as recurrent expenditure and Rs.6,885 million as capital expenditure. However, a total of Rs.45,811 million had been collected in the year 2021 through government grants of Rs.40,906 million and internal channels of Rs.4,905 million. A total of Rs.45,203 million had been utilized in the year 2021 as recurrent expenditure of Rs.41,676 million and capital expenditure of Rs.3,527 million. The details of the estimated and actual income and expenditure of the year under review and of the previous 04 years are shown in the figure 64.



	2017	2018	2019	2020	2021
Estimated Income	40,620	42,610	46,256	43,403	48,021
Actual Income	35,538	37,664	40,066	42,304	45,811
Estimated Expenditure	38,972	42,918	46,335	44,281	50,060
Actual Expenditure	35,519	36,941	40,312	42,538	45,203

Figure 64 - Estimated and Actual Income and Expenditure

Source - Financial Statements of Central Provincial Council

The important audit observations revealed in the audit conducted in the year 2021 in relation to the Central Provincial Council are mentioned in following.

Financial results

According to the presented financial statements, the expenditure exceeding the income of the Provincial Council for the year ended 31 December 2021 was Rs.40,297 million, and correspondingly, the expenditure exceeding the income of the previous year was Rs.38,096 million, as a result, it had a decline of Rs.2,201 million in the financial result.

Out of the total income of Rs.45,811 million of the Central Provincial Council, Rs.40,906 million were government grants, and the capital expenditure was Rs.3,526 million out of the total expenditure of Rs.45,203 million for the year 2021.

Provincial Development

- According to the Central Provincial Development Plan, out of 1783 work proposals with an estimated value of Rs. 2,962 million, 08 new work proposals of Rs. 16.31 million had not been started and the progress of 29 new work proposals with an estimated value of Rs.166.37 million remained below 50 percent as at 31 December 2021. There were 54 work proposals with an estimated value of Rs.273.26 million that were incomplete and listed as “more than 50 percent complete”.

- An amount of Rs. 2.88 million to be collected from the beneficiaries for the equipment and materials distributed in connection with the development projects implemented under the provincial specific grants in the year 2021 by the Provincial Agriculture Department, has not been collected from the beneficiaries by 26 May 2022.

Overpaid allowances

- According to the letter No. NSCC/3/01 Allowances dated 05 December 2006 of the Co-Chairman of the National Salary and Cadre Commission, the monthly allowance of the Chairman and Members of the Provincial Public Service Commission was Rs.15,000 and Rs.10,000 respectively. In accordance with paragraphs (i) b and (ii) of the Management Services Circular No. 03/2018 dated 18 July 2018 of the Secretary to the Ministry of Treasury, Finance and Mass Media addressed to the Provincial Chief Secretaries, without the recommendations of the National

Salary and Cadre Commission and without the prior approval of the General Treasury, on the approval of the Governor, monthly allowances of Rs. 1.28 million were overpaid to the chairman and members only for the year 2021.

- After one of the two vehicles given to the Chairman of the Council Secretariat suffered a technical fault on 21 March 2018, a monthly allowance of Rs.95,000 was paid with the approval of the Governor from 04 June 2018 until a suitable vehicle was provided. On 05 June 2018, the Chief Secretary had informed that a vehicle could be attached to the Chairman, and on 24 January 2020, the Secretary to the Governor had informed the Council Secretary to repair the jeep and attach it to the Chairman. Also, on 01 June 2020, the Chief Secretary had also informed the Secretary to the Governor to assign a cab to the Chairman until the Jeep is repaired. However, regardless of any of these alternatives, an amount of Rs.3.8 million was paid to the Chairman as vehicle allowances from August 2018 to November 2021 at the rate of Rs.95,000 per month.

Non settlement of loan balance

- According to National Budget Circular No. 118 dated 11 October 2004, even though the loan balances of the transferred officers were informed to be settled so as not to be shown after 03 months, a total of 422 officers who have been transferred to other ministries/departments, local government bodies and other institutions within and outside the Central Provincial Council have outstanding balances of Rs.21.12 million which have not been settled by the Provincial Department of Health Services, for more than 05 years from 03 months.

- According to the National Budget Circular No. 118 dated October 11, 2004, it had been informed that the loan balances of the officials who came on transfers should be settled so as not to be shown after 02 months. However, the loan balance amounting to Rs. 20.33 million of 345 officials transferred from other ministries/departments, local government bodies and other institutions within and outside the Central Provincial Council was not settled by the Department of Health

Services for more than 03 months to 05 years.

Erroneous Payments

- A total amount of Rs.13.34 million, as 8.14 million to his 06 personal bank accounts, 1.88 million to his wife's 02 bank accounts, 0.79 million per a bank account of office assistant in accounts department and Rs.2.53 million to 21 unidentified bank accounts, had been misused the provincial council current account of the People's Bank of the People's Bank of Hanguranketha, by using proerty loan reduction and balance salaries, over a period of 10 consecutive years, by the officer who was engaged in the salary preparation work of the Hunguranketha Zone Education Office. An amount of Rs. 2.8 million was to be recovered by 07 September 2022 from this amount.

- Two officers working in the salary department of the Provincial Health Services Directors' office, Rs.51.96 million to 14 personal bank accounts of themselves and their relatives, and Rs.1.07 million to unconfirmed bank account numbers, totaling Rs.53.03 million had been erroneously transferred when the payment of salaries, during the period from 2016 to 2021.

Losses and damages

- According to the statement of losses to be further recovered or written off or waived by the Provincial Education Department, the sum of 90 cases between 5 years to 10 years and more than 10 years as on the last date of the year under review was Rs.7.71 million.

- The Drug surplus caused by failure to recognize and order the need for drugs, due to failure to identify and distribute the hospitals in need or to contact and send the medical supply department, the stocks of drugs worth Rs. 15.41 million in Kandy Medical Supply Division, Kandy Chest Hospital and Matale General Hospital had expired as at 31 December of the year under review and a period of 14 years from 03 years had passed since some of the medicines had expired. Also, it was observed that medicines worth Rs. 10.43 million which are about to expire are available in the above institutions.

- According to the information presented by the Central Provincial Health Department, regarding the total loss of Rs.32.53 million in relation to 65 vehicular accidents attached to the department, no action had been taken in this regard even though 01 to 15 years had passed since the accidents occurred.

Controversial Transactions

Salaries and Wages amounting to Rs.9.25 million had been paid to 22 private staff employees of the Governor and Chairman of the Central Provincial Council, during the year under review, without verifying the arrival and departure by fingerprint machine records as per Public Administration Circular No. 09/2009(i) dated 17 June 2009 or without maintaining an arrival or departure register as per paragraph 07 of Public Administration Circular 02/2021(v) dated 01 October 2021.

Idle/underutilized

- The Mazda van used by the Provincial Passenger Transport Service Authority belonging to the Provincial Education Department was considered as a condemned vehicle due to the need to incur a cost of Rs. 1.01 million for repairs, and it was kept at the office premises for almost 03 years without being destroyed.

- Although people with special needs should be identified and arrangements should be made to purchase the necessary equipment and provide it to those beneficiaries, the equipment worth Rs. 14.61 million, which had been purchased without doing so, had been kept in the warehouse of the Central Provincial Department of Social Welfare Probation and Child Care Services for a period of 63 days to 04 years and 08 months as of the audit date of 04 March 2022.

- The Divisional Education Office Building completed on 30 June 2017 at a cost of Rs.6.99 million in the CP/Koth/Ratanasara College had remained underutilized till 29 July 2021, the date of audit.

- The Auto clave (50ml) machine, which was received from the National Tuberculosis Research Laboratory (NTRL) in Welisara on 20 August 2020, for euthanizing the blood tissue samples and equipment used in the laboratory and for releasing them to the outside environment, and it is remained unused in the Kandy Chest Hospital for more than a year due to lack of knowledge to operate it.

Procurement

- According to the agreements entered into with the suppliers regarding the purchases under the ongoing development projects in the year 2021, the Department of Agriculture had not taken action to collect the late fees of Rs.1.27 million that should have been collected for the delays in providing the equipment by the suppliers.

- As per Guideline 4.2 of the Code of Government Procurement Guidelines, the Office of the Governor of Central Provinces had procured goods amounting to Rs.3.77 million without preparing a master procurement plan or an annual detailed procurement plan in relation to the year under review.

Internal Audit

Although it is planned to conduct internal audit of 554 institutions out of 2551 institutions to be audited by the Central Provincial Council, 360 institutions were included in the annual action plan of the year 2021, of which only 194 institutions were audited.

Unresolved audit paragraphs

- According to the police report and the Motor Vehicle Inspector's report regarding the accident involving the ambulance attached to Theldeniya Base Hospital which was involved in an accident on 19 November 2018, despite the fact that the accident occurred due to the driver not being able to control the vehicle due to the high speed of the vehicle, without any mechanical fault in the vehicle, those reports regardless, the Secretary to the Ministry recommended that the amount of Rs. 7.41 million due to the related accident be written off from the book through the Financial Regulation 104(4) inspection report, and after submitting to the Chief Secretary, it was approved on 13 August 2020 and the loss is being written off.

- On 08 June 2018, the Secretary of the Ministry of Health of Central Province informed the Director of Health Services of Central Province to recover the amount of Rs. 3.11 million which had erroneously paid by the Office of the Director of Health Services, Kandy, from 14 related officials and on 07 May 2019, the Chief Secretary had informed the Secretary of Central Provincial Health Ministry to implement the recommendations immediately. However, the amount of Rs.2.98 million was not recovered from 13 officials by 12 July 2022.

- 9 motorcycles valued of Rs. 0.9 million and 06 motorcycles of undisclosed value which were given to the Department of Social Welfare Probation and Child Care Services in the Central Province by UNICEF, during the period from 2006 to 2013, had assigned to 14 probation officers and a development officer from the head office to engage in field investigation activities during the same period. Except for one of those officers, the remaining 14 had not returned the motorcycles they had received to the department due to the fact that they had received the motorcycles provided for the field officers by the budget proposals of 2014.

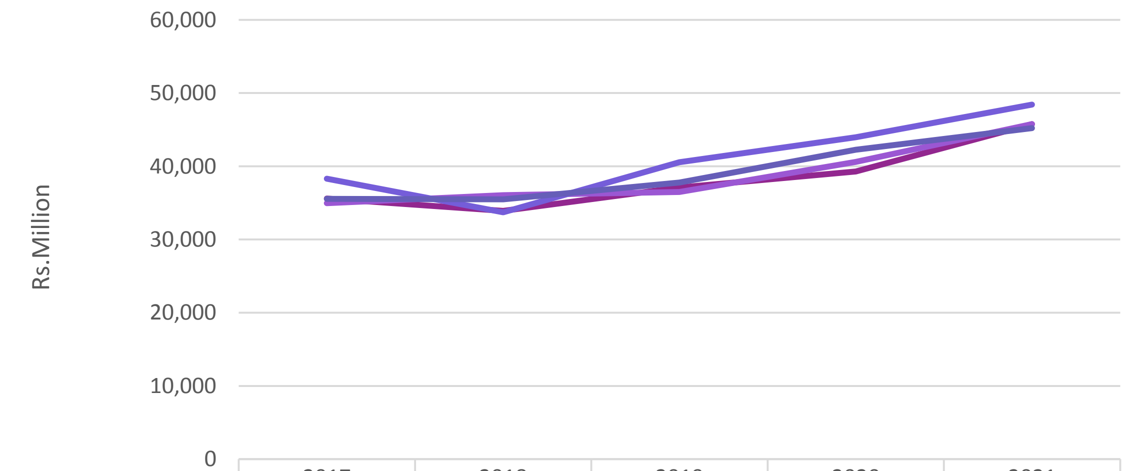
Southern Provincial Council

Audit Observations

- Defects in debt collection
- Asset management
- Idle and underutilized assets
- Defects in fee collection
- Losses incurred
- Non-presentation of evidence
- Contract administration
- Contrary to the contracts

Southern Provincial Council

The Southern Provincial Council had estimated a total revenue of Rs.45,757 million for the year 2021 from Rs.40,614 million through government grants and Rs.5,143 million through internal channels. Out of that income, Rs. 42,064 million as recurrent expenditure and Rs.6,370 million as capital expenditure, totaling Rs. 48,434 million was estimated to be utilized. Accordingly, a total of Rs. 45,764 million had been collected in the year 2021, through government grants of Rs. 39,506 million and Rs. 6,258 million through internal channels. In the year 2021, a total of Rs.45,205 million had been utilized in the form of recurring expenditure of Rs.40,985 million and capital expenditure of Rs.4,220 million. Thus, the income exceeding the expenditure was Rs. 559 million.



	2017	2018	2019	2020	2021
Estimated Income	35,585	33,911	37,107	39,286	45,757
Actual Income	34,970	36,061	36,492	40,599	45,764
Estimated Expenditure	38,296	33,711	40,561	43,964	48,434
Actual Expenditure	35,548	35,475	37,772	42,254	45,205

Figure 65 - Estimated and Actual Income and Expenditure of Southern Provincial Council

Source - Southern Provincial Council Financial Statements 2017-2021

The important audit observations revealed in the audit conducted in the year 2021 related to the Southern Provincial Council are summarized below.

Defects in debt collection

There is a non-performing loan balance of Rs.3.61 million to be recovered by the Southern Provincial Development Authority since 2001 as at 31 December 2021, and the recovery progress has not been satisfactory. The local seed production loan balance of Rs.1.65 million and the local seed loan balance of Rs.0.55 million included in the non-current receivables of the institution date back to the year 2002, and no proper action was taken for recovery.

Asset management

The Southern Provincial Development Authority had developed the 52 acres 02 Rood 01 Perches Hungama-South Batatatha Integrated Farm project site since 2009 at a cost of Rs.40 million, owned by the Ambalantota Divisional Secretary, which the Southern Provincial Development Authority does not own, and 30 acres of that land had been leased for a period of 25 years for an amount of Rs. 0.28 million per year. The remaining 22 acres 02 roods and 01 perches of the land had not been used for any other purpose and the necessary actions to take over the land had not been done so far.

Idle and underutilized assets

03 assets worth Rs. 103 million in the assets of Ruhunu Tourism Bureau remained inactive and underutilized from the years 2018 and 2019 till 31 December 2021. Also, Rs. 3.7 million had been spent for the Ambalangoda Godahena Information Center belonging to the Bureau as at 31 December 2021, and no action had been taken to start the information center's operations until 31 December 2021.

Defects in fee collection

- The Akuressa Divisional Secretariat had given government land to the Akuressa Multipurpose services Co-operative Society from the year 1965 to 11 January 1995 under long-term lease No. L/2940. After the year 1995, until 09 March 2022, which was the audit date, i.e. up to 26 years, the land is being used without permission, without a long-term lease agreement and without paying rent, and the total long-term rent to be charged from 1995 to 2009 is Rs. 5.23 million and the tax rent based on the new assessment reports was also not collected from the year 2010 to the year 2021. Also, in accordance with 228 of 04 of the Code of Government Lands, anyone should be prevented from settling in the reserved lands, the Divisional Secretary had not taken action in accordance with the Recovery of Possession Act No. 07 of 1979 regarding the unauthorized construction of a building which had been completed by the Co-operative Society up to the laying of the concrete slab of the first floor in the Nilwala River Reserve.

- In the audit examination of appeals sent by a person dissatisfied with an assessment made by a provincial assessor in accordance with Chapter xxiv of Part 03 of the Finance Statute No. 07 of 1990 in relation to appeals on the collection of stamp duty in the year 2021 in the Galle district of the Southern Provincial Revenue Department, 325 people who had to pay stamp duty of Rs.19.87 million and fines of Rs.8.26 million had been filed appeals regarding stamp duty, and after submission of appeals, the stamp duty was reduced to Rs.8.88 million and the penalty imposed on stamp duty was reduced to Rs.1.2 million. Accordingly, the stamp duties and fines imposed on the Southern Provincial Revenue Department were reduced by 53 percent and 85 percent respectively after the appeals.

Losses incurred

The Ministry of Economic Development had provided an asphalt production machine to the Southern Provincial Road Development Authority in the year 2015, and this machine had been used to produce asphalt from the year 2015 to 09 July 2018. But no technical fault or any other reason was mentioned in the machine to stop production. Later, the machine was valued at Rs.10.4 million by a valuation panel and auctioned for Rs.21.1 million in 2021. Although 28,599 liters of tar and 4,028 liters of diesel were included in the machine for the purpose of using it for the production of asphalt, this was not taken into account in the assessment. Thus, the value of tar in the tank was approximately Rs. 2.86 million, and the value of diesel was approximately Rs. 0.4 million. The total loss incurred by the authority due to the delivery of the machine to the buyer along with the stock of tar and diesel was approximately Rs. 3.26 million.

Non-presentation of evidence

Although an amount of Rs. 3.56 million was paid for the electronic waste removal project implemented by the Ministry of

Fisheries of the Southern Province for the year 2021, formal evidence of how the waste was collected and handed over to the relevant institutions was not submitted to the audit.

Contract administration

An estimate of Rs.90.53 million was prepared under the Dayata Kirula program for Phase I and II of the Ramya Mohotti Chest Clinic under the office of the Matara District Health Services Director, and contracts were awarded to two private contractors for a contract amount of Rs.70.13 million. Although an amount of Rs. 39.28 million had been paid to the contractors as at 07 October 2021, which was the date of audit, the chest clinic had to be run on rental basis due to the halting of the construction of the building, and Rs. 3.82 million was paid as rent to the lessee as at the date of audit.

Contrary to the contracts

According to the Southern Provincial Roads Development Authority Charter, any member of the Authority who has any relationship directly or otherwise with any agreement entered into or proposed to be entered into by the Authority shall disclose the nature of his relationship at a meeting of the Authority, and such disclosure should be recorded in the minutes of the meeting of the Authority. Further, in the consideration of such agreements by the Authority or in reaching a decision thereon, the member shall not participate. Also, in accordance with section 1.4.3 of the procurement guidelines, the officers should declare that there is no compliance in the relationship during the procurement process, and if there is a need for such doubt, the concerned officer should declare his/her relationship and withdraw from the procurement process. However, contrary to the said Charter and Code of Procurement Guidelines, 06 contracts totalling Rs. 26.47 million had been awarded in the year 2021 for 02 contracting entities having a relative relationship with the Authority's Deputy General Manager (Roads and Bridges), and the Deputy General Manager (Roads and Bridges) was involved as a member of the procurement board related to the award of the contract as well as in reaching decisions related to the contract.

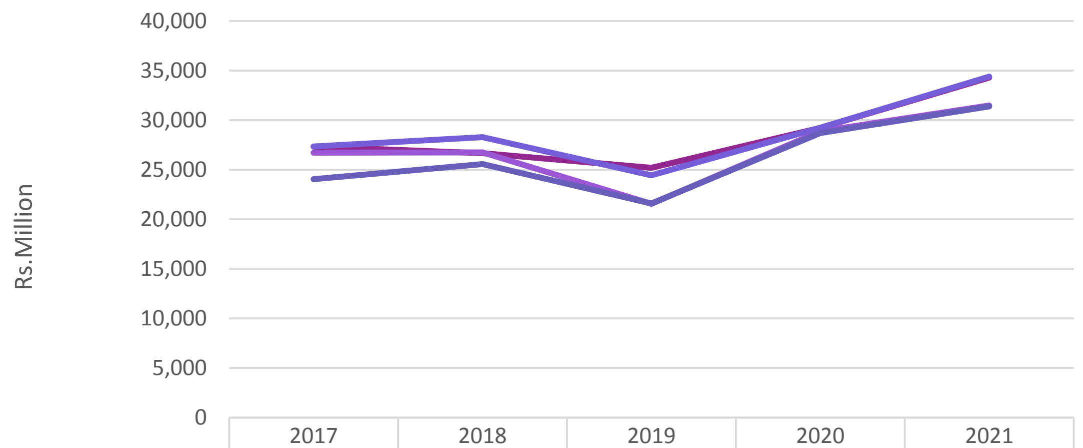
Northern Provincial Council

Audit Observations

- Award of contract without contract
- Transactions without sufficient authority
- Deficiencies in contract administration
- Implementations of Projects
- Idle / Underutilized Assets

Northern Provincial Council

Northern Provincial Council had estimated a total revenue of Rs. 34,291 million for the year 2021, as Rs. 32,556 million from government grants and Rs. 1,735 million from internal channels. Total expenditure was estimated at Rs.34,395 million, including Rs.28,534 million for recurrent expenditure and Rs.5,861 million for capital expenditure. Government grants of Rs. 30,071 million and Rs.1,415 million from internal channels, totaling Rs. 31,486 million revenue was raised in the year 2021. A recurring expenditure of Rs.27,583 million and capital expenditure of Rs. 3,866 million, totaling Rs. 31,389 million had been utilized. Figure 66 shows the details of the estimated and actual income and expenditure for the year under review and for the last 4 years.



	2017	2018	2019	2020	2021
Estimated Income	27,331	26,669	25,200	29,222	34,291
Actual Income	26,713	26,744	21,558	28,878	31,486
Estimated Expenditure	27,351	28,289	24,445	29,242	34,395
Actual Expenditure	24,044	25,572	21,599	28,710	31,389

Figure 66 - Estimated and Actual Income and Expenditure of the Northern Provincial Council

Source - Northern Provincial Council Financial Statements 2017-2021

The important audit observations revealed in the sample audit conducted in the year 2021 in relation to the Northern Provincial Council are summarized and presented below.

Award of contract without contract

Contracts had not been signed for 10 procurements aggregating to Rs.44.92 Million, awarded by the Northern

Provincial Ministry of Finance and Procurement and the Department of Health Services, and the value of each procurement being higher than Rs.500,000.

Transactions without sufficient authority

Contrary to the Public Administration Circular No. 22/99, a sum of Rs 3.6 million had been paid to a Medical Officer who holding the post of Medical Superintendent under the Deputy Medical Administrative Class of the First Grade of the Medical Officer Service, for the monthly travel allowance for the reserved vehicle, from November 2015 to July 2020.

Deficiencies in contract administration

Although Rs. 7.35 million were spent for submitting the issues for adjudication and arbitration during the implementation of 18 projects in the Northern Province from 2018 to 2021, and those issues have not been resolved yet.

Implementations of Projects

- Although Rs.18.26 million had been spent on 08 construction projects under the Provincial Irrigation Department during the year under review, all those projects had been abandoned without completion.

- Although the Northern Provincial Irrigation Department spent Rs. 32 million on the irrigation scheme for mechanically conveying water from the Puludiyaru lake to the high farmlands, and it was completed in the year 2015, but the project remained inactive until now.

Idle / Underutilized Assets

- 13 dilapidated machineries worth Rs. 20.37 million belonging to the Northern Provincial Road Development Department had been kept without repair for a period of 05 years and 04 machineries worth Rs.9.23 million that can be utilized remained idle during the period from year 01 to year 04.

- The incinerator installed in October 2016 at the Pedurutuduwa Base Hospital under the control of the Northern Province Health Services Department had inactivated. It was also not possible to repair it due to public protests against the environmental pollution caused by it. Later, the building where the machine was installed was damaged due to the fall of a tree in 2020, and the machine, which cost Rs. 8 million, is decaying in an unsafe manner since 02 years. Lack of adequate attention and security, lack of proper maintenance after the warranty period and installation of the machine in an urbanized area without proper feasibility study had led to such a situation.

Eastern Provincial Council

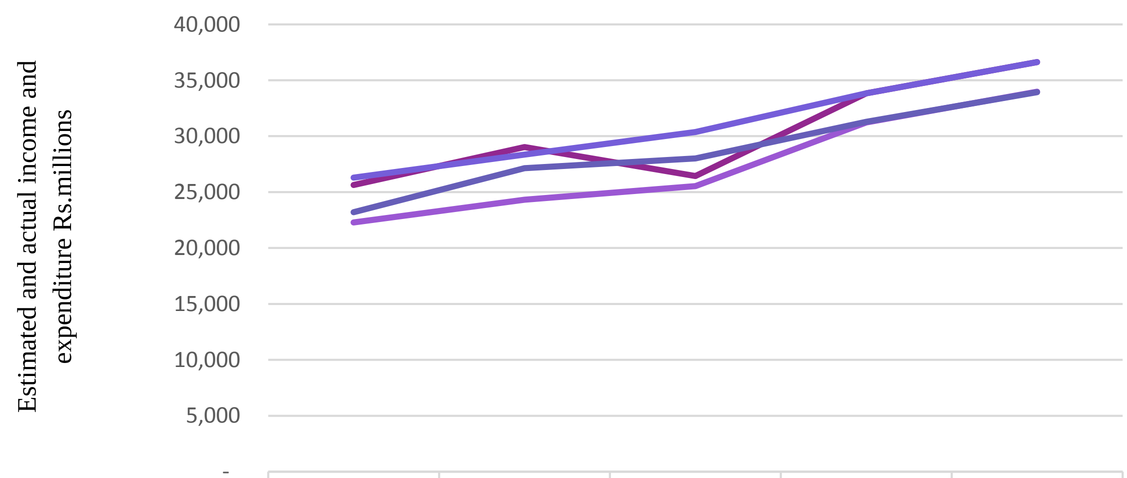
Audit Observations

- Revenue collection
- Utilization of Annual Provisions
- Performance of bodies established under Provincial Council statutes
- Vacancies in Principal/ Teacher Service

Eastern Provincial Council

Eastern Provincial Council had estimated a total revenue of Rs. 36,626 million for the year 2021 with Rs. 34,146 million from government grants and Rs.2,480 million from internal channels. Out of that income, Rs. 30,643 million as recurrent expenditure and Rs.5,983 million as capital expenditure, totaling Rs. 36,626 million was estimated to be utilized. Accordingly, the total revenue of Rs.33,983 million was raised in the year 2021 as Rs. 31,680 million through government grants and Rs. 2,303 million through internal channels. A total of Rs.33,932 million had been utilized in the year 2021 as recurring expenses of Rs.30,424 million and capital expenses of Rs. 3,508 million.

The details of the income and utilization in Provincial Council in the year under review and in the last 4 years are shown in the figure 67.



	2017	2018	2019	2020	2021
Estimated Income	25,629	29,022	26,442	33,838	36,626
Actual income	22,281	24,320	25,533	31,225	33,983
Estimated Expenditure	26,295	28,355	30,371	33,838	36,626
Actual Expenditure	23,209	27,143	28,008	31,282	33,932

Figure 67 - Estimated and Actual Income and Expenditure

Source - Eastern Provincial Council financial statements 2017-2021

The quantitative and important audit observations revealed in the sample audit conducted in the year 2021 in relation to the Eastern Provincial Council are summarized and presented below.

Revenue collection

Although revenue collection is the backbone of the Provincial Council Fund, the Eastern Provincial Council had not taken actions to identify different types of provincial revenue sources and enact by-laws for 5 years. Thus, the functions of the Provincial Council were mainly funded by the Block Grant of the General Treasury, and it increased from Rs. 18,668 million to Rs. 28,163 million during the period from 2017 to 2021, i.e. by 50 percent, and the revenue collection of the Provincial Council had declined significantly from Rs. 3,613 million to Rs. 2,303 million, i.e. by 36 percent, and had also failed to collect the estimated miscellaneous income of 426 million rupees in the year under review. Also, recurring expenses had increased by 38 percent from Rs.22,052 million to Rs. 30,424 million.

Utilization of Annual Provisions

- Although the budget allocation of Rs.5,983 million was allocated in the year under review for capital expenditure of various sectoral activities in the Eastern Province without estimates, only Rs. 3,517 million had been spent. Provincial development programs such as agricultural improvement, livelihood development activities, expected to be accomplished in the year under review amounting to Rs. 2,466 million were left unimplemented, due to the failure of the council to timely review the action plan and procurement plan for the year under review.

Although an allocation of Rs.1,000 million was given for the development of the organic agriculture industry under the "Sustainable Agriculture Culture" program in the year under review, Rs. 228.74 million, i.e. 23 percent of the total value of the allocation, was utilized and Rs. 459.08 million had retained as unused deposits.

Also, the remaining allocation amounting to Rs. 312.18 million was unused and sent to the treasury of the Eastern Provincial Council. Due to this, the production of organic fertilizers was at a low efficiency level by the end of the year under review. Furthermore, 32 tractors amounting to Rs. 14.81 million purchased under this program in 2021 remained idle for about 08 months without taking any action to provide them to the farmers even by August 2022.

Performance of bodies established under Provincial Council statutes

02 statutory bodies such as Tourism Bureau and Housing Authority have been established according to the statutes of the Provincial Council, without starting a self-fund during the period from 2019 to 2021, Rs. 159 million had been obtained as imprest from the provincial council fund for various activities of the institutions and the performance of these statutory bodies was poor due to lack of coordination with national agencies in the tourism and housing sector. Also, without approving the carder for 03 years and without any recruitment scheme, a sum of Rs. 44 million had been paid as salaries and allowances during the year under review for 59 staff appointed by the Board of Directors on contract/casual basis..

Vacancies in Principal/ Teacher Service

Although there were 566 principals and 1509 teacher vacancies related to 15 regional education offices in the Eastern Province, 20 principals under 02 zonal education offices in Ampara district and 664 teachers in 06 zonal education offices in Eastern Province were employed redundantly by the end of the year under review.

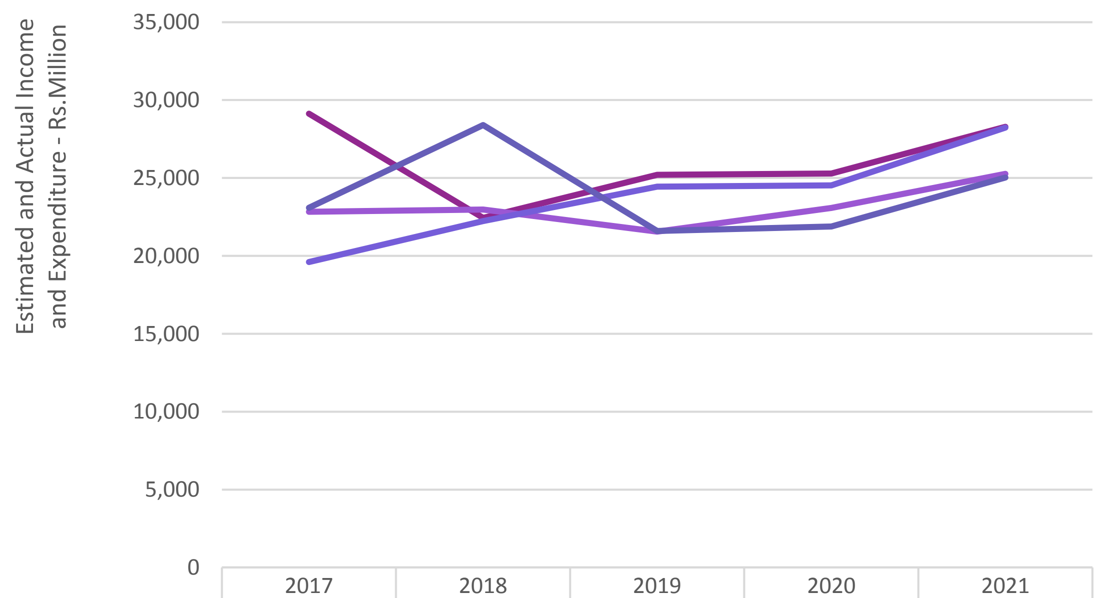
North Central Provincial Council

Audit Observations

- North Central Provincial Road Development Authority
- North Central Province Development Design and Machinery Agency
- Cash lying idle in funds and institutions set up under statutes
- Provincial Development Plan
- Transactions not confirmed by sufficient authority
- Management inefficiencies
- Operational inefficiencies
- Repair of Warehouse Complex of Provincial Medical Supply Division
- Construction of Office of Medical Officer of Health
- Construction of a classroom building in a school
- Underutilization of funds
- Failure to maintain and repair
- Income due from assets
- Idle / Underutilized Assets
- Extracurricular activities
- Not getting the desired output
- Not getting the expected outcome

North Central Provincial Council

The North Central Provincial Council had estimated a total revenue of Rs.28,288 million for the year 2021 of Rs.25,637 million through government grants and Rs.2,651 million from internal channels. Out of that, a total of Rs.28,236 million was estimated to be utilized in the year 2021, with Rs.22,721 million as recurrent expenditure and Rs.5,515 million as capital expenditure. Accordingly, in the year 2021, a total of Rs. 25,270.1 million had been collected through government grants, Rs. 22,865.8 million, and Rs. 2,404.3 million through internal channels. In the year 2021, a total of Rs.25,024.4 million had been utilized as recurrent expenditure of Rs.24,980.5 million and capital expenditure of Rs.43.9 million. Figure 68 shows the details of revenue collected and utilization by the Provincial Council in the year under review and in the last 4 years.



	2017	2018	2019	2020	2021
Estimated income	29,131	22,440	25,200	25,289	28,288
Actual income	22,827	22,974	21,558	23,077	25,270
Estimated cost	19,606	22,236	24,445	24,524	28,236
Actual cost	23,083	28,401	21,599	21,883	25,024

Figure 68 - Estimated and Actual Cost

Source - North Central Provincial Council Annual Financial Statements 2027-2020

The important and quantitative audit observations revealed in the sample audit conducted in the year 2021 in relation to the North Central Provincial Council are summarized and given below.

North Central Provincial Road Development Authority

- Even though it was confirmed that the education certificates submitted by two officials who were recruited to the North Central Provincial Road Development Authority were fake, the said officials were paid an amount of Rs.8.5 million as salaries and allowances. Also, the total salary and allowances paid to the said two officers from the date of recruitment to 31 December 2021 was Rs. 12.1 million.

- An officer who was recruited as a management assistant in the North Central Provincial Road Development Authority with effect from 01 August 2004, was assigned to various ministries between that date and 31 December 2021 and was paid Rs. 8.2 million by the authority as salary and allowances and the said amount was not reimbursed by the ministries to which the officer was attached. Also, Rs. 1 million as road development authority allowance paid to the employees of the Provincial Road Development Authority was also paid to the said officer for the time he worked outside the authority.
- By the end of the year under review, the authority had not been taken an action to collected an amount of Rs. 35.9 million due for the advisory services provided by the authority in the year 2019 for the Pibidemu Polonnaruwa project which was completed in the year 2019.

North Central Province Development Design and Machinery Agency

- In relation to the period from 2015 to 31 December 2021, Rs. 7.2 million of printing revenues, Rs.5.8 million of Machine rental income, Rs. 6.3 million in the security sector, Rs.10.3 million in the vehicle repair sector, Rs. 3.7 million in vehicle servicing income and tire service centers' revenueof Rs.1.8 million due from government institutions remained uncollected, and of which, Rs. 6.2 million which was 87 percent, Rs. 1.2 million which was 21 percent, Rs. 3.5 million which was 56 percent, Rs. 1.5 million which was 15 percent, Rs. 0.6 million which was 17 percent and Rs. 0.7 million which was

37 percent were in the range of 02 years to 06 years.

- Value added tax amounting to Rs.16 million and goods and services tax amounting to Rs.9 million, outstanding for over 13 years, had not been remitted to the Commissioner General of Inland Revenue.

Cash lying idle in funds and institutions set up under statutes

An amount of Rs.56.8 million as at 31 December of the year under review of the North Central Province Contingency Fund, North Central Provincial Rural Development Fund, North Central Province Chief Minister's Fund, North Central Province Education Development Fund and North Central Province Library Service Board maintained by the North Central Provincial Council, was passively retained in the bank accounts without being utilized for the purposes of the said institutions.

Provincial Development Plan

The Provincial Council had made an allocation of Rs. 4313.32 million in the year under review, for the implementation of 2440 proposals as new work proposals and undivided work proposals. Out of the provisions made in the year under review, Rs.2431.05 million were utilized and the activities of 1999 proposals were fully completed. Out of those work proposals, 124 had not been started at the end of the year under review and the allocation of Rs. 129.63 million that was made for tha had been underutilized. Although a provision of Rs.603.78 million was made for the completion of 107 work proposals, less than 50 percent of the work proposals were implemented. Table 29 shows the progress of work proposals.

Description	Number of new work proposals	Number of non-discipline work proposals	Total number of work proposals	Estimated value of total works Rs.Million
Fully Completed	1973	26	1999	2431.05
More than 50% completed	207	03	210	1148.86
Less than 50% completed	107	-	107	603.78
Had not been initiated	124	-	124	129.63
Total	**2411**	**29**	**2440**	**4313.32**

Table 29 - Progress of work proposals

Source - North Central Provincial Council performance report

Transactions not confirmed by sufficient authority

- Although the Director General of Management Services had approved 11 Grade III/II Income Assessor/Senior Income Assessor posts for the North Central Province Revenue Department, in the scheme of recruitment and promotion of officials of the North Central Province Revenue Service, effective from 01 January 2016, the grade of Income Assessor/Senior Income Assessor posts was mentioned as II/I. By doing so, 04 senior assessors were promoted to Grade I, and the dates of appointment antedated for three officers to 07 April 2015, and one officer to 17 September 2015, before the date of implementation of the recruitment and promotion procedure.

- In the financial statements of the year under review, outstanding imprest balances of Rs.27.9 million had been outstanding for more than 05 years to the North Central Provincial Treasury in respect of 04 provincial ministries/departments. A balance of Rs. 26.4 million, which is 95 percent of those balances that has existed for more than 10 years, should have been settled by the Chief Ministry.

Management inefficiencies

- In the financial statements of the North Central Provincial Council of the year under review, the sum of deposit account balances as at 31 December of the year under review was Rs. 543.4 million, of which the sum of the balances that exceeded more than 02 years was Rs. 43.4 million.

- With the aim of constructing a long-distance service bus station, without following measures such as obtaining approval of the council, conducting feasibility studies, preparing estimates, obtaining environmental permits and following formal financial procedures, for the demolition of a granite block located in front of Bakamoona Mahaweli Stadium, Alahera Regional Council had spent an amount of Rs. 15.7 million during the period 2015-2018, but the Local Government Department of the North Central Province had not taken any action on it.

- According to paragraph 9.6 of Chapter VIII of the Establishment Code, travel for duty on a public holiday shall not be counted as work for the purpose of payment of holiday pay, and only compensatory leave may be obtained if the travel is strictly for the performance of duty. However, the provincial Ministry of Transport, Sports and Youth Affairs, Cooperatives, Trade, Food and Industrial Development and the Provincial Department of Cooperative Development had paid holiday wages of Rs.368,267 on 23 occasions for leaving the office for field duties.

- It was not possible to transfer the ownership of the 27 acre Galadivulvewa Herbal Garden, 03 acres Nandun Sewana, Telihiriya Herbal Garden and 02 Rood and 12 Perches of Palugaswewa Herbal Garden to the Provincial Ayurvedic Department During the year under review, which were developed and maintaining with government funds.

- A credit balances totaling Rs.6.98 million in relation to 39 officers who were transferred to the Ministries/Departments of the North Central Provincial Council at 31 December 2021, to 04 officials who had transferred to provincial ministries and departments of other provincial councils, to an officer who had died while serving, to 05 retired officers and to two suspended officers in North Central Province Education Department Subject No. 61211 (Office Staff) Government Officers Advance Account were in arrears for between 03 months and 07 years. Also, in relation to 08 officials who had transferred from other ministries/departments of the North Central Provincial Council, between 03 months and 07 years had passed without taking steps to settle a loan balance of Rs.1.05 million.

- In relation to 91 officers transferred to ministries/departments of the North Central Provincial Council, 505 officials who were transferred to provincial ministries and departments of other provincial councils, 295 officers who have been transferred to Central Government Ministries, Departments, Corporations and Boards, 21 officers who have died while serving, 146 retired officers, 20 suspended officers, 19 officers who left the service and 93 officers whose information could not be disclosed, in the Advance Account to Government Officials bearing Subject No. 61201 (School Staff) of the North Central Province Education Department, as on 31 December 2021, total credit balances of Rs.75.5 million had been arrears for a period of 03 months to 31 years. Also, in relation to 13 officers transferred from ministries/departments of other provincial councils and 295 officers transferred from central government ministries, departments, corporations and boards, the loan balances of Rs.26.5 million have not been settled between 03 months and 24 years.

Operational inefficiencies

- System Verification of physical stock balances of Anuradhapura Regional Pharmaceutical Supply Division against Medical Supply Management Information System (MSMIS) balances was not done after 31st December 2018 and actions were not taken to establish Medical Supply Management Information Systems (MSMIS) in 22 regional hospitals in the North Central Province.

- In the period of 05 years from 2016 to 2020, according to the provinces, the North Central Province, which was in 05th place in G.C.E. (O/L) examination results in the years 2018 and 2019, had fallen back to the 07th place in the year 2020. Also, from the G.E.C. (A/L) examination results of the same period, according to the provinces, the North Central Province, which was at the 07th position in the years 2018 and 2019, has fallen to the 08th position in the year 2020. Considering the results of the G.E.C. (A/L) examination, the gap between the national level pass percentage which was 02 percent in the year 2019 and the pass percentage in the North Central Province had increased to 03 percent in the year 2020. However, no optimal program has been implemented at the school level to increase the examination results in the province.

- When there were teacher and principal vacancies in schools in the North Central Province, 58 teachers were released to other institutions for a period of 01 months to 27 years and salaries and allowances of Rs.147.35 million paid to them for the period from the date of release to 31 December 2021 had not been reimbursed. Also, although the North Central Provincial Education Director's letter dated 30 June 2021 advised that the details of attendance and leave must be obtained for the teachers who have been released to other institutions when paying their salaries, the records of the attendance and leave related to

55 teachers and the reports of the allowances paid by the released institutions have not been obtained.

Repair of Warehouse Complex of Provincial Medical Supply Division

Rs. 4 million was paid for the repair of the Anuradhapura Provincial Medical Supply Department warehouse complex in the year 2020 based on the provisions of the Ministry of Health and Local Medicine, and the engineering estimate for this repair was Rs. 4.2 million. Although the contract was based on the minimum bid of Rs.3.4 million, Rs.4 million had been paid to the contractor, exceeding the contracted amount by 18 percent i.e. Rs.0.6 million. However, the bid values submitted by the remaining bidders were lower than the amount paid to the contractor by between Rs.9,029 and Rs.478,219.

Construction of Office of Medical Officer of Health

The engineering estimate for the construction of Nachchaduwa Medical Officer of Health office was Rs.37.33 million and the only bid submitted was Rs.43.04 million. The bid exceeded the engineering estimate by Rs. 5.71 million, but without getting the contractor to agree to perform the works related to the engineering estimate or call for bids again, the North Central Provincial Department of Health Services agreed to the value of the bidder on 28 October 2021, and had also paid an advance of Rs. 12.7 million. Due to insufficient legal and administrative consideration of the ownership of the land proposed for construction, the construction work was not started on the basis of a later problem and a permanent construction was carried out by a local authority. However, the advance amount of Rs. 12.7 million paid had not been recovered.

Construction of a classroom building in a school

A classroom building measuring 80'x20' in Horowpathana Dutuwewa Vidyalaya was built with a private donation of Rs. 2.4 million and the following facts were revealed in this regard.

- The construction of this building was approved by the Chief Ministry Secretary on 23 October 2019, but the construction work was started on 18 October 2018, and the construction was done against the recommendations of the Chief Ministry Secretary and without taking technical advice.

- The committee consisting of 12 members, including the principal, which was appointed to purchase materials for construction work, had purchased 18.4 cube of sand worth Rs. 120,700 more than the estimated amounts approved by the Chief Ministry Secretary.

- Although 12 rows of 56 steel purlins of length 19 feet at spacing of 02 feet 06 inches for covering the roof using Amano sheets with a gap of 03 feet 06 inches had been approved in the work subject No. 06 of the estimate, on the contrary, 08 rows of purlins had been used with a gap of 03 feet 09 inches. Asbestos sheets were also covered over it, and the lack of strength in the roof of the school building posed a threat to the safety of the students. 19 unused 19 feet steel purlins for the roof were resold for Rs. 73,682, only Rs. 30,500 of that amount was credited to the School Development Society account on 14 February 2020, and Rs. 43,182 were misused.

- Under work subject No. 17 of the approved estimate, a sheet roll of 100 feet length and 02 feet width had been purchased at a cost of Rs. 12,000 to apply ZN/Al Color bond ridge capping to cover a distance of 90 feet on the top of the roof of the building, instead of using the sheet roll for the roof of the building, it had been resold to the company that bought it and misused the money.

- According to the circular No. 05/2015 dated 29 January 2015 of the Secretary of the Ministry of Education, despite the prohibition of informal collection of money in schools, it was mentioned in the report of the meeting of the School Development Society held on 17 August 2020, that a total of Rs.60,000 has been collected from a family of children studying in the school for the construction of this new building, Rs.400 each and that no receipts have been issued for that, and the money had misplaced.

Underutilization of funds

- In the year 2021, the North Central Provincial Council had received an imprest of Rs.1,595 million from sources such as ministries/departments, foreign projects, national budget department, etc., but the imprest amount of Rs. 422.1 million received from 07 sources was remained, and the balance was in the range of 06 percent to 100 percent of the total amount received.

- In the year 2021, the estimated imprest in relation to 04 projects namely

Climate Friendly Project, Small Scale Agribusiness Participation Program (SAPP), Soubhagya Agriculture Development Program and Wari Soubhaga was Rs.1,525.6 million, but the total imprest received during the year was Rs. 278.1 million due to poor implementation progress. It was 18 percent of the estimated imprest.

Failure to maintain and repair

Of the 1510 teacher and principal quarters located in 592 schools in the North Central Province Education Department, 981 quarters of 831004 square feet were in a condition that needed to be repaired, and 225 quarters of 206719 square feet were in an unusable condition, and there was no focus on identifying the need and repairing those teacher and principal houses and giving them to the principals and teachers or demolishing unnecessary quarters.

Income due from assets

The rental income of Rs. 1.7 million due from the 42 showroom shops maintained in the Viskam Piyasa building of the Industrial Development Department, for the period from the year 2016 to 31 December 2021 remained in arrears, and adequate measures had not taken to collect the shop rent.

Idle / Underutilized Assets

The construction works of 05 buildings belonging to 03 schools in the North Central Province, which had signed contracts in October 2016, should have been completed before 04 April 2017, but the construction was not completed by 31 July 2022. Therefore, an amount of Rs. 27.2 million that was paid for the construction of that building had been remained idle for more than 05 years.

Extracurricular activities

21 machines that can be attached to two-wheeled (02) tractors at a cost of Rs. 682,500 each, and 90 machines that can be mounted on four-wheel (04) tractors at a cost of Rs.710,000 each, a total of Rs.77.6 million had been spent by the Provincial Ministry of Agriculture for the production of high-quality organic fertilizers, with the aim of increasing the production of organic food in the province, creating employment opportunities and providing food free of toxic chemical ingredients to the consumers to create a healthy, healthy generation. However, 06 machines were not used for the production of organic fertilizers, and one machine was used for the production of only organic fertilizers required for their crops. Also, it was revealed during the inspection of a sample of 11 machines that it was not possible to

sell the organic fertilizers produced by 02 machines due to the fact that no specific method was prepared to check the quality of the fertilizers and the said fertilizers were stored by the concerned beneficiaries due to the fact that there was no fixed price for the organic fertilizers produced, and the Ministry had not prepared a system to buy them and distribute them to the farmers.

Not getting the desired output

- Out of 140 schools in Kekirawa and Kebithigollewa education zones that were planned to be supervised in the year 2021, only 27 schools were supervised and the progress was at 19 percent.

- In the year 2021, out of 41 schools that were reviewed in Tambuttegama, Kekirawa and Kebithigollewa educational zones, the qualitative index value of 38 schools was below 70 percent.

Not getting the expected outcome

Under the Alternative Energy Program, during the period from 2016 to 2021, the Chief Ministry of North Central Province had installed 646 solar street lamps with a total value of Rs.41.8 million in selected public places and tourist attractions in the North Central Province. The Chief Ministry had handed over these 646 solar street lamps to the local authorities, but the local authorities had not followed up on their physical existence and safety, that they were properly maintained, operated with the required standard. As a result, 128 solar street lamps were not in use due to reasons such as street lamps not being installed, being removed after installation, malfunctioning, escape by thieves, damage by wild animals and damage from vehicular accidents and the expenditure of Rs. 9.2 million incurred for that had been useless.

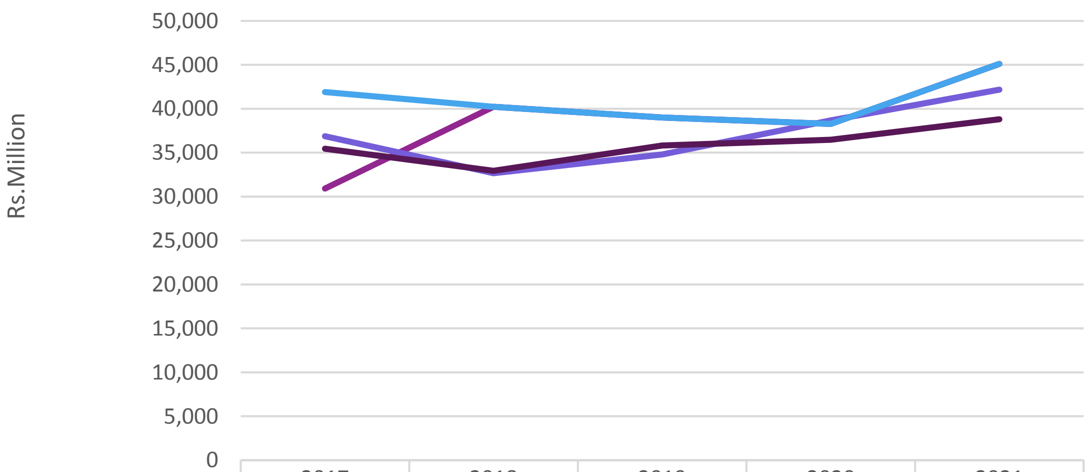
North West Provincial Council

Audit Observations

- Deficit income
- Operational inefficiencies
- Not achieving the expected output
- Deficiencies in contract administration
- Management inefficiencies
- Controversial Transactions

North West Provincial Council

The North West Provincial Council had estimated a total revenue of Rs.45,096 million for the year 2021 with Rs.38,726 million from government grants and Rs.6,370 million from internal routes. The total expenditure was estimated at Rs.45,096 million, in the year 2021, as recurrent and capital expenditure of Rs.40,424 million and Rs.4,672 million respectively. A total revenue of Rs.42,176 million was raised during the year under review, including Rs.35,385 million through government grants and Rs.6,791 million through internal channels. Rs. 38,804 million had been utilized as capital expenditure of Rs. 36,945 million and capital expenditure of Rs. 1,859 million. Accordingly, the spending of provisions for the development of the provincial council was at a very low level, due to the fact that only 4 percent of the total revenue of the province was allocated for capital expenditure.



	2017	2018	2019	2020	2021
Estimated Income	30,918	40,227	38,999	38,278	45,096
Actual Income	36,863	32,669	34,791	38,675	42,176
Estimated Expenditure	41,889	40,227	38,999	38,277	45,096
Actual Expenditure	35,456	32,944	35,818	36,474	38,804

Figure 69 - Estimated and Actual Income and Expenditure of the North West Provincial Council
Source - North West Provincial Council Financial Statements 2017-2021

The important audit observations revealed in the sample audit tests carried out in relation to the roles performed by the North West Provincial Council in the year under review are summarized below.

Deficit income

The revenue amounting to Rs. 266.7 million to be collected for 07 revenue symbols by the Chief Secretariat, Provincial Revenue Department and Land Commissioner Department remained outstanding, as at 31 December 2021. Of which Rs. 143.5 million had been outstanding for more than 3 years.

Operational inefficiencies

There were low quality medicines worth of 12.9 million rupees in Kurunegala district and 7.4 million rupees in Puttalam district, totaling Rs.20.3 million and Rs.29.3 million in Kurunegala district and Rs.4.6 million in Puttalam district, a total of Rs.33.9 million worth of medicines had expired in the North West Provincial Health Services Department, from the year 2017 to the year 2021.

Not achieving the expected output

The North West Provincial Council had received an allocation of Rs. 45 million and Rs. 230 million for the years 2020 and 2021, respectively, based on the World Bank's funding for the General Education Modernization Project, which is aimed at reforming, diversifying, strengthening and improving the education system in Sri Lanka.

- Although the annual estimate of 2019 provided provision for general education modernization programs, the World Bank provision had received the funds from the year 2020. However, although no grant was made for the said project in 2019, according to the annual account summaries for the General Education Modernization Project (GEMP), Rs. 0.5 million for buildings and constructions under expenditure subject No. 210-86-04-2001(WB), 12.7 million rupees for staff training under expenditure subject No. 210-86-04-2401(WB) and 0.4 million rupees for other expenditure subject number 210-86-04-2509(WB) , a total value of Rs.13.6 million had been spent in the year 2019. Accordingly, it was observed that the funds provided for a specific development project should only be used for corresponding expenses, but when funds were not provided under World Bank assistance, the funds provided for other sources were used for non-corresponding activities.

- It was observed that the staff training cost of 12.6 million rupees, which was debited to the expenditure subject 210-86-4-2401 in the year 2019, , was the payment made to another party for the induction training activities carried out at the military training centers for the new teachers recruited in the year 2019. Funds for the Education Modernization Project had been received since 2020. Accordingly, the information that the training for new teachers recruited in 2019 was in the plans related to the training for this project was not submitted to the audit. The training for new teachers was carried out to achieve another purpose on the orders of the governor in 2019, and then it was included in the 2020 plan, it is clear that this expenditure is an unplanned expenditure for the General Education Modernization Program, and since there is no other method to cover the expenditure since it is not included in the said project and it was written off as an expense of the project, referring to the project's cost indicators.
- The primary objective of the Education Modernization Project is to improve English language, mathematics and digital learning among students at the primary and secondary levels of education. However, due to its lack of understanding, Rs. 26.2 million in the year 2020 and Rs.49.7 million in the year 2021 were spent for the buildings and construction of educational institutions in the province. It was 83 percent and 43 percent of the total expenditure in the above years respectively.

Although 135 houses and 10 fishing piers in Uchchamani fishing village were provided solar panels on 21 December 2018 at a cost of Rs.12.2 million, under the Ministry of North West Province Cooperatives, it was observed that during the audit conducted on 20 January 2022, the solar cell system had completely inactive, and the entire project had been failed.

- A total of Rs 1.2 million was paid to the contractor as deposit for the failed project for a total of 135 houses and 10 piers for 100 beneficiary houses and 10 piers and for 35 houses on a follow-up report by Kalpitiya Divisional Secretariat officials, without a Technical Officer's report to be prepared as per the prescribed procedure of the North West Province Department of Engineering while refunding the retention money to the contractor.

- Although the warranty period of the devices related to the solar electricity system has been noted as 01 year, and the supplied Company has submitted the warranty certificate to the residents and a copy thereof to the Ministry of North West Provincial Cooperative Development and Trade, Land, Power and Energy, Sports and Youth Affairs, and according to the specifications approved by the Technical Evaluation Committee, the warranty period should be at least 02 years for the battery, 10 to 20 years for the Solar Panel, and at least 02 years for the LED Lamp, and none of the malfunctioning devices had been replaced within the warranty period or by the supplier, and the Ministry had failed to formally intervene in the matter.

Deficiencies in contract administration

On August 24, 2016, the Chief Ministry had entered into an agreement with a consultancy firm for obtaining advisory services in the redevelopment of the Wayamba Janakala Kendraya. Although the said organization should prepare plans, prepare contract documents and award the contract according to the tasks of the agreement by 27 November 2016, and the completion of construction should be done by 27 November 2017, the total loss incurred by the government was Rs. 8.5 million of Rs.3.6 million as price increase and Rs.4.9 million as loss of inability to collect late charges, due to the delay in providing the plans till September 2018, due to delay in completion of construction till 23 July 2019.

Furthermore, out of the work items mentioned in the BOQs prepared by the consulting firm, only Rs.38.7 million have been completed and Rs.100.6 million as additional work, with a total cost of Rs.139.4 million and the project has been named as Phase 1, but the project was not fully completed.

Management inefficiencies

The following observations were made regarding the project of distribution of exercise books at subsidized price to school children which was implemented under the exercise book distribution program to build the North West Provincial Education Development Fund under the Chief Ministry.

- Although exercise books amounting to Rs. 33.3 million were given to education offices, schools and various institutions for sale and the amount received for the sale of those books was only Rs. 18.7 million as at 31 December 2021. Accordingly, Rs. 14.6 million, i.e. 44 percent of the value of the books that had been distributed, remained in arrears.

- Although the purpose of implementing the project is to credit the profit earned from the sale of books to the Education Development Fund and thereby provide relief to children with economic difficulties for education, it was observed that the project has not been able to achieve the desired goals as no relief was provided to the children in the year 2021.

Although the work of the project should be completed by 31 March 2019 from the allocation of Rs. 5.6 million received to the Provincial Planning and Operations Division on 23 October 2017 for the project of creating an Internet-based information management system for the Provincial Investment Program, it was observed that the project was not completed and remained in the same state of completion as it was in 2020 even as at 31 December 2021. Although Rs. 3.8 million had been spent as at 31 December 2020, and the expenses for the project had not been incurred in the year 2021, and even after more than 04 years, the project had not been completed and Rs. 1.8 million had been remained.

The construction of the Pambala Education Development Center, which was completed with 25 million rupees of North Western Provincial Council funds, was started in 2016, and the work on the lecture hall was completed and handed over to the Halawata Regional Education Office by the contracting company in 2019 under the supervision of the Wennappuwa Regional Engineering Office. Although there is a capacity of 200 seats for conducting educational development training programs, according to the information document about conducting programs in the period of 03 years from the beginning of 2019 when the building was handed over to the end of 2021, only one program was held in March 2021 with the participation of 90 people with the signature of the session supervisor.

Controversial Transactions

In order to achieve the goals of physical, mental and moral development, welfare and protection of the needy and abandoned children in the North-West Province, priority was given to sustainable development objectives in the preparation and implementation of the annual action plan and development plan.

In here, an allocation of Rs.3.9 million had been allocated for the purchase of sports equipment for day care centers under ensuring comprehensive, equitable quality education and lifelong learning opportunities for all, under SDG 04. Although the accounting officer is responsible for that the goods have been inspected and accepted in terms of Financial Regulation 137(5) while approving the payment and the correctness and completeness of the voucher in every particular in terms of Financial Regulation 138(8), an amount of Rs. 3.9 million was paid through voucher number 372 and 373, where it was wrongly stated that the goods had been duly received and the voucher entered in the surface goods stock book. According to Provincial Finance Rule 164 (b), although the said goods were taken in the stock books as received, in fact the goods have not been received by 27 May 2022, so the above objectives were also not fulfilled.

Sabaragamuwa Provincial Council

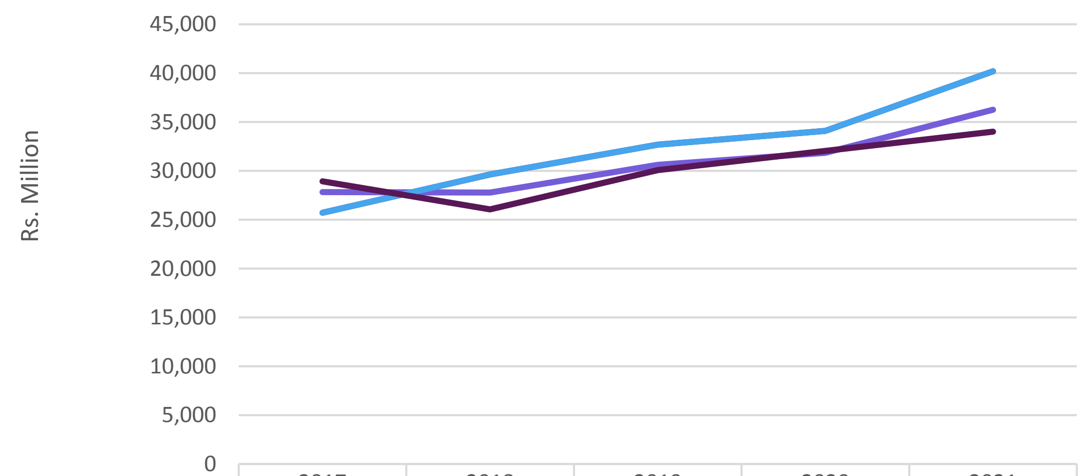
Audit Observations

- Outstanding income
- Acting contrary to Cabinet decisions
- Underutilization of funds
- Activities outside of the objectives
- Not getting the expected benefits
- Idle/underutilized assets

Sabaragamuwa Provincial Council

A total of revenue Rs. 40,191 million was estimated for the year 2021 in Sabaragamuwa Provincial Council as Rs.36,991 million through government grants and Rs. 3,200 million through internal channels. A total of Rs.40,191 million was estimated to be utilized in the year 2021 with Rs.33,408 million as recurrent expenditure and Rs.6,783 million as capital expenditure. Accordingly, a total of Rs. 36,250 million were earned in the year 2021, Rs. 33,191 million through government grants and Rs. 3,059 million through internal channels and included in that, the income due on 31 December 2021 was Rs.128 million. A total of Rs. 34,015 million had been utilized in the year 2021 as the recurring expenditure is Rs. 31,411 million and as the capital expenditure of Rs.2,604 million and included in that, the accrued expenses on 31 December 2021 were Rs. 742 million.

The details of the estimated and actual income and expenditure of the year under review and of the previous 04 years are shown in the figure 70.



	2017	2018	2019	2020	2021
Estimated Income	25,709	29,636	32,683	34,083	40,191
Actual Income	27,821	27,774	30,622	31,836	36,250
Estimated Expenditure	25,709	29,636	32,683	34,083	40,191
Actual Expenditure	28,931	26,062	30,071	32,039	34,015

Figure 70 - Estimated and actual income and expenditure during the year under review and for the last 4 years

Source - Sabaragamuwa Provincial Council Financial Statements - 2017 - 2021

Following are the important audit observations revealed in the audit conducted in the year 2021 related to the Sabaragamuwa Provincial Council.

Outstanding income

- In terms of paragraph 6.1 of the Land Commissioner's Circular No. 96/5 and dated 01 August 1996, although the annual tax is payable on or before 01 January of a particular year, actions have not been taken to collect updated annual tax amounting to Rs.39.92 million and fine amounting to Rs.8.67 million as on 31 December 2021 from the 18 Divisional Secretariat Offices of Ratnapura District and according to paragraph 7 (i) of that circular, actions should be taken to take back the possession of the land in cases of tax default, but the divisional secretariats had not acted according to the said provisions. Also, according to paragraph 6.11 of the said circular, actions had not been taken to recover the long-term outstanding tax amount of Rs. 10.09 million related to 07 Divisional Secretariat Offices in Ratnapura District and Rs. 5.74 million related to 06 Divisional Secretariat Offices in Kegalle District, as at 31 December 2021.

Acting contrary to Cabinet decisions

According to paragraph 02 (vi) of the Finance Minister's Cabinet Memorandum dated 28 August 2021 which had been approved by the Cabinet under the Cabinet Decision No. CP/21/1596/304/134 dated 07 September 2021, the distribution of various material goods and equipment made using the allocations allocated under capital development programs was reviewed and it was proposed to suspend them. In spite of this, under the description of expenditure "Development Assistance", provision was made in the Second Supplementary Statement of Accounts, whereby goods and equipment were purchased for distribution to voluntary organizations at a cost of Rs.11.6 million.

Underutilization of funds

22 Projects totaling Rs.1.32 million approved by the State Ministry of Livestock, Farm Promotion and Dairy and Egg Related Industries to be implemented in Rambukkana, Deraniyagala and Balangoda Veterinary Divisions under the programs of production of pure dairy and establishment and modernization of dairy processing centers, were not implemented.

Activities outside of the objectives

In the year under review, 100 million rupees was approved through a supplementary cash statement to the Chief

Ministry for the purchase of equipment required for proper and standardized development of compost fertilizer produced by local authorities in Sabaragamuwa province. The Chief Ministry had spent Rs. 9.5 million from that provision and purchased 10 equipments required for non-biodegradable waste management not related to compost fertilizer production on 31 December 2021. Also, although the machines were given to 10 local authorities, they could not be used till 10 July 2022 due to the lack of three-phase electricity connection.

Not getting the expected benefits

The relevant beneficiaries had not received the expected benefits by the end of the year under review, of 05 community water projects which had been constructed by the Chief Ministry, during the period from 2017 to 2020, at a total cost of Rs. 6.38 million due to not properly identified and constructed according to a formal plan.

Idle/underutilized assets

Namaldeniya Tourist Resort was built in the year 2005 along the Ratnapura-Colombo main road with the aim of creating a place with facilities for local and foreign tourists traveling through the province for the growth of the provincial tourism industry. The Ministry of Roads has allocated a total of Rs. 12.64 million had been incurred for this building during the period from 2004 to September 2021, which was constructed without proper feasibility study, the building had been open for only 5 years, and the building had been closed and unused for any purpose for 12 years by the end of 2021.

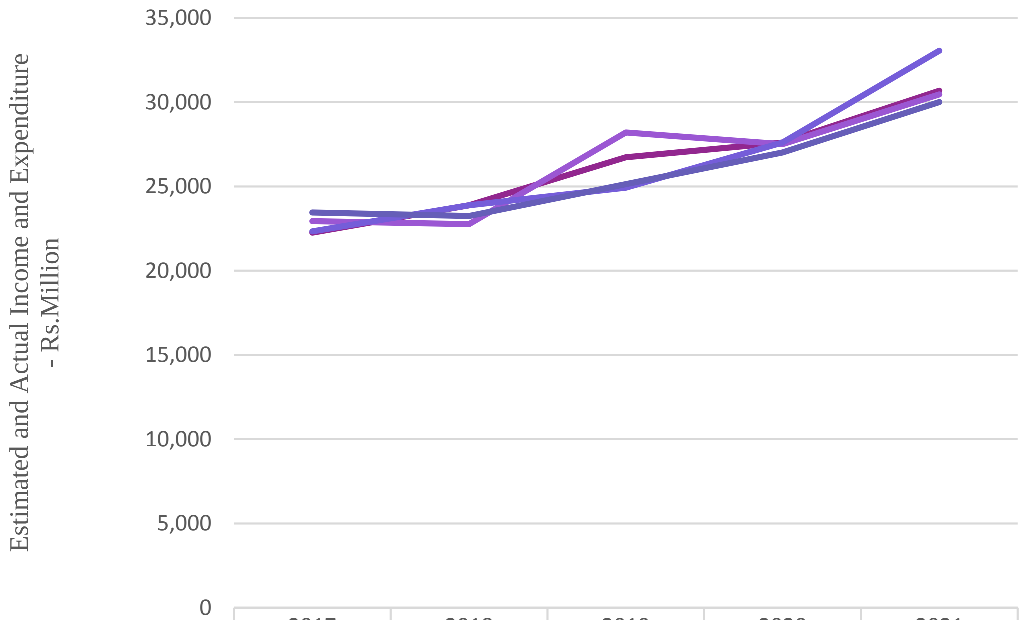
Uva Provincial Council

Audit Observation

- Transactions of Contentious Nature
- Irregular payments
- Identified losses / Uneconomical transactions

Uva Provincial Council

Uva Provincial Council had estimated a total revenue Rs. 30,683 million for the year 2021. Out of which, Rs. 28,984 million to be obtained through government grants and Rs. 1,699 million to be collected through internal channels had also estimated. Out of the revenue so collected, Rs. 28,176 million for recurring expenses and Rs. 4,885 million for capital expenditure to be incurred had also estimated. During the year under review, Government grants of Rs. 28,806 million had been received and Rs. 1,663 million had been collected through internal channels. Out of the revenue so collected, Rs. 26,867 million for recurring expenditure and Rs. 3,146 million for capital expenditure had been incurred. Figure 71 compares the estimated and actual income and expenditure of the year under review with the previous four years.



	2017	2018	2019	2020	2021
Estimated Income	22,261	23,887	26,732	27,607	30,683
Actual Income	22,944	22,761	28,202	27,507	30,469
Estimated Expenditure	22,333	23,887	24,926	27,607	33,061
Actual Expenditure	23,460	23,244	25,134	27,014	30,013

Figure 71 : Estimated and Actual Income and Expenditure

Source - Financial Statements of Uva Provincial Council

Important audit observations revealed in the audit conducted in the year 2021 related to the Uva Provincial Council are summarized below.

Transactions of Contentious Nature

- According to the Public Administration Circulars No. 6/2006 dated 25 April 2006 and No. 6/2006(ii) dated 10 November 2006, from 01 January 2006, when making new recruitments to the public service, the relevant officials should be placed in the starting step of the salary scale prescribed for the appointed position. However, instead of setting the starting salary step of grade III for the 778 positions of school library workers, school laboratory workers and school watcher recruited by the Uva Provincial Council from 2006 to 2017, they were recruited in grade II and set in the starting salary step of that grade and sum of Rs. 132.8 million had been overpaid to them as the basic salary from November 2006 to September of the year under review.

- According to the approval given by the Director General of Management Services in letters dated October 18, 2018 and December 14, 2018, the number of posts in the non-academic primary non-technical category in the schools of the Uva Provincial Education Department should not exceed 2466, but according to the staff information submitted by 10 regional education offices, the actual staff was 2596 as at 30 September 2020, and it was observed that 130 staff members were recruited without obtaining approval.

- According to paragraph 9.4 of the procedure for the recruitment and promotion of non-academic primary non-technical staff in the schools of the Uva Provincial Education Department, on the vacancies arising in the recruitment for the positions of school library worker, school laboratory worker and school watchman, 60 percent of the eligible employees from among the currently employed school general workers, school garden workers, school agriculture workers and school sanitation workers and 40 percent as direct recruitment should be recruited as non-academic non-technical staff. However, contrary to that, 466 employees should be recruited from the above internal employees during the period from

2006 to 2017 were not recruited as non-academic non-technical staff and the same number were recruited on direct basis.

Irregular payments

- After the end of the term of office of the 6th Uva Provincial Council, while the position of the Chairman of the Provincial Council was a nominal position and the Provincial Council had vehicles, Instead of reducing costs by providing suitable vehicles to the Chairman, a monthly transport allowance was paid during the entire period from 08 October2019 to the date of issue of this report. However, it was observed that the Chairman did not visit the Provincial Council nor did any work done by him during that period.

- By the paragraph 4.1 of the President's Office Circular under the heading "Management of Public Expenditure" No. PS/CSA/11-18 dated 12 October 2018, an allowance related to the monthly maximum amount of fuel has been given to the Governor, contrary to the said circular, Rs.1.04 million had been paid for 7895.25 liters of fuel as additional fuel from September 2020 to the end of February 2022 and in the same way, Rs. 0.5 million had been paid for additional 3,924 liters of fuel to the Governor's Coordinating Secretary in addition to the fuel allowance paid monthly contrary to the circular. Furthermore, although the bills related to the fuel purchased in the first few days of each month cannot be considered as additional fuel purchases, such bills were also paid as additional fuel and from the amount of fuel that can be obtained from the money paid as fuel allowances to the governor and his coordination secretary, payments were made for bills presented as additional fuel purchases without calculating the maximum distance that can be driven is calculated based on the average fuel consumption of the official vehicles that were given to them, and the maximum distance that can be driven is calculated, even if it has not been driven or not.

- Although Management Services Circular No. 03/2018 dated 18 July 2018 states that the Provincial Council should refrain from deciding the allowances paid to its staff without obtaining the prior approval of the

Treasury, contrary to that, a sum of Rs. 0.2 million were paid to the officials for attending the progress review meetings of UNICEF projects organized by the Office of the Deputy General Secretary (Planning) less than 2 hours during normal working hours on normal working days.

- Paragraph 2 of the Management Services Circular No. 03/2018 dated 18 July 2018 stated that they should refrain from deciding the allowances paid to the staff of their institutions without obtaining the prior approval of the Management Services Department of the General Treasury, a special allowance of 25 per cent of their basic salary, totaling Rs. 13.2 million had been paid to 30 staff officers of the Council Secretariat of the Uva Provincial Council from August 2017 to the date of issue of this report. Out of the Rs.7.6 million had been paid after the end of the official term of the Provincial Council, i.e. from 08 October 2019 to 30 June 2022, when the duties to be performed by the said staff are not sufficient and it had been paid a special allowance of 25 percent of the basic salary, even though some of the officials of that office had been worked for only a few days like 4 days a month during the covid-19 epidemic situation in the country.

- As per paragraph 03(1) of the Public Administration Circular No.03/2018 dated 20 February 2018, where an officer who has retired from Government service is re-employed in the same post held by him with or without break in service, it is stated that, he may be paid a monthly allowance equal to his last salary in public service; and according to paragraph 04 “last drawn salary” means the salary which the officer was drawing at the time of retirement, and it does not include the earned part of the increment from the date of last increment to the date of retirement. Also, there is no possibility of revising the pension of any officer employed on contract basis as per clause 12 of the circular, unless the salary received by the retired officers at the time of their retirement is subsequently revised as per clause 5 of the circular. Nevertheless, contrary to the circular, Rs. 3.7 million had been paid to 14 retired and reinstated officers of the Uva Provincial Council.

- 12 percent of the monthly allowance given to those officers and according to the number of months they served, a sum of Rs.8.9 million had been paid as a gratuity, as a final payment to 187 personal staff officers of all provincial councilors who were in the 6th Uva Provincial Council for the termination of their service, and the payment had been made irregularly without complying with Section 5 of the Gratuity Payment Act No. 12 of 1983.

- Also, having been notified by section 2.1 of the Cabinet Memorandum No. 21/1596/304/134 and dated 28 August 2021 regarding the review of public expenditure, although allocations have been set aside under due approvals, taking into account the financial difficulties faced by the government, actions should be taken to temporarily suspend the programs, purchases, constructions, building renovations and improvements, etc. that have not been started, and also to stop entering into agreements for those activities if they have not been contracted, Ignoring that, 26 institutes of the Uva Provincial Council spent Rs. 248.3 million worth of equipment purchases and Rs. 867 million had been invested in construction regarding not essential at the time.

Identified losses / Uneconomical transactions

After the end of the official term of the 6th Uva Provincial Council, on behalf of 11 officers of the personal staff of the Chairman of the Provincial Council, who became a nominal position, Rs. 18.20 million had been paid without receiving any service to the Uva Provincial Council from 08 October 2019 to the date of issue of this report, and at least no register was maintained to record their arrival and departure.