THE EIGHTH PARLIAMENT OF THE
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA
(FIRST SESSION)

P.S. No. 2015/12

ANNUAL REPORT OF THE AUDITOR GENERAL

2014

Mr. W.P.C. Wickramaratne

Acting Auditor General

Mr. W.P.C. Wickramaratne was appointed as the Acting Auditor General by His Excellency the President in terms of Provisions in Article 153(4) of the Constitution of the Democratic Socialist Republic of Sri Lanka with effect from 1st November 2014. He has commenced his career as an Audit Examiner in the Auditor General's Department in 1988 and left the Department in 1992 to serve as a Government Accountant for nearly one year. He rejoined the Auditor General's Department as a Superintendent of Audit in the same year and appointed as a Deputy Auditor General in 2007 and later on promoted to the post of Additional Auditor General. He was granted no pay leave and worked in Saudi Arabia as a Divisional Accountant in a Private Company for nearly four years.

Mr. Wickramaratne has graduated with Honours from the Kelaniya University in Commerce and later qualified as a Chartered Accountant. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka (ACA), A Qualified Accountant Member of the Chartered Institute of Public Finance and Accountancy (UK), an Associate Member of the Institute of Certified Management Accountants of Sri Lanka (ACMA).

Auditor General's Message

I am pleased to present my report for the year 2014 on the performance and discharge of the duties and functions devolved on the Auditor General in pursuance of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka for the direction of the independent examination on the effective and efficient maintenance of the Parliamentary control on the Public Finance devolved on Parliament in pursuance of provisions in Article 148 of the Constitution. The Annual Report is presented as the seventh Installment of my report presented to the Parliament and arrangements have already been taken to table the other reports under the following seven installments.

First Installment	Ministries and Departments
Second Installment	State Corporations, Authorities and Boards
Third Installment	Statutory and Other Funds
Fourth Installment	Foreign Funded Projects
Fifth Installment	Provincial Councils
Sixth Installment	Local Authorities
Eighth Installment	Performance Audits and other Special Investigations

This was a remarkable year for the Auditor General's Department as its performance and the statutory role has widely been discussed in the public arena. As a result it was accepted by the Government that the Auditor General and his staff should be given more powers and to secure his independence not only in the operational aspect but also in the context of financing and administration. This became a reality when the Nineteenth Amendment to the Constitution was passed in Parliament. The long awaited Audit Service Commission will be established in due course and the appointments, promotions, transfers disciplinary control and dismissal of staff of the Sri Lanka State Audit Service will be taken over by this Commission from the Public Service Commission. The other major change was that the Companies incorporated under the Companies Act with 50 per cent or more shareholding by the Government or a Corporation or a Local Authority was brought under the Auditor General's scrutiny.

The long awaited National Audit Bill was drafted in consultation with the Attorney General, the Legal Draftsman and number of other professionals in different fields. It is proposed to further expand the limited Surcharge powers at present devolved on the Auditor General encompassing the entire public sector.

It was also a great achievement of the Department that the Cabinet of Ministers have recognized the valuable contribution of the service performed by the members of the Sri Lanka Audit Service and the Audit Examiners Service and approved the establishment of a new service called “the Sri Lanka State Audit Service” and to absorb the officers of the above two services to the new unified service.

To meet the above challenges in a constantly changing and more demanding environment, including pressures arising from being part of the accounting and auditing professions reorganizing the Department is vital. The restructuring of the organization has already been initiated and the audit and supportive services will be organized under 59 Divisions to enable the expansion of the audit scope and to ensure close supervision and review. The Auditor General’s Department has implemented a range of initiatives to ensure that the Department well understand the key issues facing the public sector as well as important concerns of the Parliament. The Department is also committed to continually reviewing and improving its operations which support the effective and efficient delivery of our audit reports. Finally the audit independence provided under the Constitution is recognized explicitly as the key of the Department’s effectiveness.

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

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

W.P.C.Wickramaratne
Auditor General (Acting)

Contents

Our Organization

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
- Innovative
- Leadership
- Integrity

Our History

The beginning of the present Auditor General's Department of Sri Lanka then known as Ceylon, can be traced to early British times. From the records available it would appear that there had been an Accountant and Auditor General by the name of Cecil Smith as far back as the early 1799 just three years after the British occupation of the Island in 1776. Since then, the existence of the Auditor General's Department continued to function as an independent organization under thirty nine Auditors General as the Supreme Audit Institution of Sri Lanka.

Our Authority to Audit

The authority for the Auditor General to audit of accounts of Public Sector Institutions is primarily derived from Article 154 of the Constitution. Under the Nineteenth Amendment to the Constitution the authority has been further extended to cover Companies incorporated under the Companies Act in which the Government or a Public Corporation or Local Authority holds fifty per centum or more of the shares of that company as quoted below.

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

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

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

The Constitution also empowers the Auditor General to carry out any other duties as specified in any law passed by the Parliament as required. In the performance and discharge of his duties and functions, the Auditor General has been given powers under the Constitution to engage the services of qualified auditors to assist him in his work. He has also the power to obtain the assistance of specialists in the examination of any technical, professional or scientific problems relevant to the audit.

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

Our Clients

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

59 Ministries

93 Departments

25 District Secretariats

127 Corporations

73 Universities, Research and other Training Institutions

07 State Banks

69 Statutory and other Funds

121 Foreign Funded Projects

22 Other Independent Institutions

09 Provincial Councils

335 Local Authorities

559 Agrarian Service Centers

46 Sport Associations

Our Scope

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

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

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

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

(c) Whether there has been economy and efficiency in the commitment of funds and utilization of such funds;

(d) Whether systems of keeping moneys and the safeguarding of property are satisfactory;

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

(f) Any such other matters as the Auditor General may deem necessary.

Our Independence

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

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

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

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

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

Legal Reforms

The requirement for Legal Reforms

Though the functional independence of the Auditor General has been hitherto safeguarded by the Constitution, financial and administrative independence of the Auditor General was constrained by the Executive due to Constitutional and legislative provisions on the subject. It is also of the view that the dependence of the Auditor General on the Executive for his resources in terms of both manpower and finance would harm the truly independent nature of the audit performed on behalf of the Parliament as he must be completely free from all obligations to any individual or institution and must be free from arbitrary retaliation.

Elaborate safeguards have to be provided by the Parliament through legislation to ensure the Auditor General's independence, including functional and financial. At present the Auditor General depends on the General Treasury for his budget, and the resource allocation for his department is not linked to fiduciary risks. Unlike in other advanced Commonwealth Countries, the budget of the Auditor General in Sri Lanka is not subject to scrutiny or approval by a legislative committee, nor are there any safeguards against executive control over his budget.

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

Further, as the Constitution was included the Auditor General in the 'Public Officers' Exception List, all administrative regulations of the Government, as described in the Establishments Code, are applicable to the Auditor General himself and to his staff. This further constrains the administrative independence of the Auditor General. There have been many instances where this lack of administrative control over his officers had significantly hampered the audit work.

In the year 1977, the "Lima Declaration" of the International Organization of Supreme Audit Institutions (INTOSAI) also determined the principle of independence of the Government Auditing in methodological and professional terms. In the "Mexico Declaration" after 30 years, the 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 Institutions which has already been recognized by the United Nations on 22 December 2011 at their 66th General Assembly by adopting a resolution A/RES/66/209, "promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening Supreme Audit Institutions (SAIs)".

1. In order to guarantee the appropriate and effective legal position of SAIs within the state, independence of Supreme Audit Institution (SAIs) has to be defined clearly in the Constitution and the legislation, including provisions for its de facto application

2. SAI should have available necessary and reasonable Human, Material and Monetary resources and should manage their own budgets without interference or control from Government and its authorities

3. The condition for appointment of SAI Heads and the members of collegial institutions should be specified in legislation. The independence of Heads of the SAI and members of collegial institutions can only be ensured if they are given appointments with *sufficiently long and fixed terms with removal only by a process independent from the executive. This allows them to carry out their mandates without fear of retaliation*

4. In order to fulfill their Mandate effectively, SAI have to be independent in the choice of audit issues, in their audit planning and in the implemented audit methods, as well as in the conduct of their audits and in the Organization and management of their officers. Therefore SAIs should be free from direction or interference from the legislature or the Executive while fulfilling their audit tasks.

5. Auditors are entitled to be granted free, timely and unrestricted access to all documents and information they might need for the proper discharge of their responsibilities.

6. SAIs should report on the results of their audit work at least once a year, however they are free to report more often, if considered necessary.

7. SAIs should be free to decide the content of their audit reports and to publish and disseminate their reports, once they have been formally tabled to deliver to the appropriate authority.

8. SAIs should have independent procedures for follow-up audits to ensure that audited entities properly address their observations and recommendations and that corrective actions are taken.

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

The Auditor-General can only examine the affairs of public entities. However wholly or partly owned Government companies incorporated under the Companies Act were not coming under Auditor General's purview. There are over 200 such companies with a capital infusion either by the General Treasury or by a Public Enterprise which held more than 50 per cent of the share capital. There were also considerable number of companies formed by public enterprises. Further the Auditor General cannot inquire into private organisations, including organisations that may have received funding from a public entity.

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

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

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

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

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

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

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

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

Proposed National Audit Bill

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

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

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

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

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

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

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

- *The Auditor General will be given the authority to charge a fee for auditing the accounts of any person or body for the purpose of recovery of the cost of Audit.*

- *Authority will be given to the Auditor General to disallow the value of the deficiency or loss in every transaction of an audited entity, where the Auditor General is of the opinion that such transaction has been made contrary to any written law, and has caused any deficiency or loss due to the fraud, negligence, wastage of public resources or misconduct of those involved in that transaction or that any transaction which ought to have been included has been omitted in the accounts of such audited entity and given powers to impose on these transactions , a sum not exceeding the value of such deficiency or loss, (surcharge), against any defrauder, either jointly or severally.*

- *Any person, who is aggrieved by a decision made to impose a surcharge, has the right to make an appeal against the surcharge to the Audit Service Commission and the final decision will be made by the Commission.*

- *Time frames will be fixed to submit audit reports to the Parliament.*

- *A National Audit Office will be established as the Supreme Audit Institution of the Country, and all the audit staff in the Auditor General's Department will be absorbed to the National Audit Office.*

- *The Commission will appoint an independent qualified auditor to audit the National Audit Office and the report will be tabled in Parliament.*

- *Responsibilities of the Chief Accounting Officers will be fixed by this Act.*

- *The existence of internal audits and their functions are defined in this Act.*

- *Submission of annual financial statements of the Republic is emphasized.*

- *Existence and effective functioning of the Audit and Management Committees emphasized.*

- *Protection of persons giving information to the Auditor General is emphasized.*

- *Immunity from legal action is given to the Auditor General or any member of his staff for any act which is in good faith is done or is purported to be done by him in the performance of his duties or in the discharge of full lawful functions under the Constitution*

Our Organization Structure

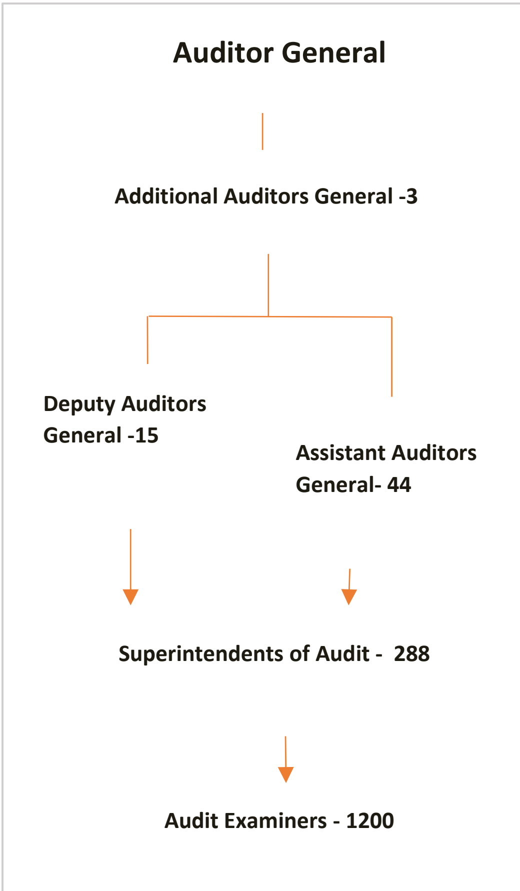
The Auditor General is the Head of the Department and for all the remunerative and administrative purposes he is on par with a Secretary to a Ministry. The present organizational structure of the Department comprises four levels in its hierarchy with specified numbers of officials in each level, in conformity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

The first layer comprises of three Additional Auditors General who supervises the audit functions of the Central Government, Provinces and Development and administrative functions of the Department.

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

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

The majority of our staff are located in Colombo and rest of the staff are located in regional sub-offices all over the island. The organization and senior management structure of the AGDSL along with the approved number of positions of each category as at 30 September 2015 is shown below.



According to the cadre approved on 14 November 2011 by the Department of Management Services after an evaluation on the responsibilities and role of the Auditor General's Department, the total number of officers in the Sri Lanka Audit Service stood at 350 and the officers in the Audit Examiners' Service stood at 1200. According to the approved cadre, a special Grade had been created for the Sri Lanka Audit Service and that Grade consists of three posts of Additional Auditor General. Including these three posts of Additional Auditor General, the new cadre had been increased by 08 posts of Deputy Auditor General, 30 posts of Assistant Auditor General, 70 posts of Superintendent of Audit and 121 posts of Audit Examiner.

At this stage, the Service Minute of the Sri Lanka Audit Service was being formulated in terms of Public Administration Circular No.6/2006 and it was approved by the Public Service Commission in November 2012 with the concurrence of the Department of Management Services, then Salary and Cadre Commission and the Ministry of Public Administration. Even though that Service Minute had been submitted to the Presidential Secretariat to obtain the clearance for Service Minute from the Cabinet of Ministers, submission to the Cabinet of Ministers had been delaying due to various reasons. Even though the new Service Minute should come into effect with the approval of the Public Service Commission, the vacancies existed at that time could not be filled due to the delay in obtaining the clearance from the Cabinet of Ministers as mentioned above.

Under the circumstances, the number of vacancies existed in each post of the Department at the beginning and the end of the year 2014 and as at 30 June 2015 was as follows.

Post	As at 01 January 2014			As at 31 December 2014			As at 30 June 2015		
	Approved Cadre	Actual	Vacant	Approved Cadre	Actual	Vacant	Approved Cadre	Actual	Vacant
Additional Auditors General	03	-	03	03	03*	-	03	03*	-
Deputy Auditors General	15	06	09	15	12	03	15	12	03
Assistant Auditors General	44	32	12	44	21	23	44	20	24
Superintendents of Audit	288	172	116	288	175	113	288	174	114
Audit Examiners	1200	815	385	1200	791	409	1200	1085	115

* *Promoted to the post of Additional Auditor General on acting basis*

As mentioned above, the existence of the large number of vacancies in the cadre of every post of the Department was an impediment to discharge the statutory function of the Department and after having informed this situation to the Public Service Commission, the validity period of the existing Service Minute effective at that time was extended up to a future date on which the new Service Minute approved in terms of the circular 6/2006 come into effect. Accordingly, the opportunity was provided to make the recruitments for the above vacancies, thus the vacancies existed in 08 posts of Deputy Auditor General and 20 posts of Assistant Auditor General could be filled during the year 2014. Further, interviews had been held to fill 13 vacancies arisen due to the retirement and promotion of Assistant Auditors General to the posts of Deputy Auditor General and due to the retirement of two Deputy Auditors General while the list of qualified officers had been referred with the recommendations to the Public Service Commission in May 2015. Nevertheless, the administration and financial authority of the Auditor General's Department is vested with the Audit Service Commission in accordance with the 19th Amendment to the Constitution and until the Commission is established, such authority is vested with the Cabinet of Ministers. As such, it has been forwarded to obtain the approval of the Cabinet of Ministers for the above appointments. After the urgent requirement of filling vacancies in the 03 posts of Additional Auditor General in the approved cadre was identified by the Public Service Commission, approval had been granted to fill those vacancies on acting basis. Further, the approval and instructions had been received from the Public Service Commission to amend the Service Minute effective at present so as to make the provision for filling the vacancies in those posts permanently. Accordingly, action has been taken to publish those provisions in the Gazette notification and to fill those vacancies permanently.Applications for filling the 316 vacancies in the Audit Examiners' Service existed by the year 2013 were called by the Gazette notification dated 28 March 2014 and that competitive examination was held in October 2014. The results of that examination were issued in March 2015 and the qualified applicants were subjected to the interview in the same month itself. Those qualified applicants who were interviewed were appointed to the posts of Audit Examiner with effect from 22 April 2015.

Formulation of the Service Minute

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

The establishment of "Sri Lanka State Audit Service" proposed to be set up by combining the Sri Lanka Audit Service and Audit Examiners' Service in accordance with the aforesaid Cabinet Decision had been accepted by the Government as a policy. Accordingly, a Service Minute for the new Service is being formulated and it will pave the way for the maintenance of a staff of more extensive professional level for the efficient performance of duties and functions assigned to the Auditor General. Moreover, the Audit Service Commission is the Appointing and Disciplinary Authority of the new service and as such the capability of discharging those functions without delay will be immensely helpful for the upliftment of the performance of the Depart ment.

Staff Training

The AGDSL is continued to provide the training to its staff in order to develop the professional and technical skills of the staff and to successfully facing the changes and challenges in the accounting and auditing environment. In view of conducting effective and result base training programs, the AGDSL had established a separate training Centre (Centre for Public Auditing Training and Development "CPATD") in Ratnapura at a cost of Rs. 150 million utilizing the fund provided by World Bank under the Public Sector Capacity Building Project (PSCBP). It had been declared opened by the Honorable Speaker on 29 October 2014 with the participation of Hon. Chairman to the Committee on Public Enterprises (COPE), the Auditor General, former Auditor General and the staff of the AGDSL. The training center was fully equipped with a computer laboratory, a library, an auditorium, hostel complex and other infrastructure facilities as enable to carry out the training activities more efficiently and effectively.

An in house training program had been conducted as inaugural in the field of financial audit relating to Local Authorities at the CPATD. The hands on computer program for Local Authorities, induction training program for newly recruited audit examiners, new financial audit methodologies for Local Authorities, Tamil language proficiency programs, training on procurement procedure and civil construction works related to Asian Development Bank funded projects were the other major in house training programs conducted at the CPATD during the year under review. All these training programs designed in considering the enhancement of physical and mental fitness of the staff. Therefore it's includes morning warm up activities, meditations, team building and leadership skill development activities as well as other personal development activities.

The roll out program of the new audit methodologies throughout the department which was commenced in the year 2011 has been further expanded during the year 2014 as well. Accordingly, three 6 days training programmes for 83 officers on financial audit methodology and a 3 day training programme for 30 officers on performance audit methodology were conducted and refreshment training programmes are in progress to address the issues in implementing the new audit methodology.

The particulars of main training Programmes conducted in the year under review are given below.

Field of Training	Number of Officers Trained	Number of Training Hours
Financial Audit	442	7,809
Procurement and Civil Constructions	40	1,600
Performance Audit	30	720
Induction Training programme for newly Appointed Audit Superintendents	35	1,680
Local Authorities – Financial Audit	300	2,400
Total	**847**	**14,209**

Engagement of Qualified Auditors to Assist the Auditor General

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 in need of specialized services, especially in the case of State Bank Audits. Auditor General is vested with the authority to deploy qualified auditors by Article 154 of the Constitution.

Total sums paid by the respective Auditee Institutions on the approval of the Audit Fees Fixing Committee of the Department for the audit services rendered by the Department for the year 2014 amounted to Rs. 32,469,326 and for the year 2013 amounted to Rs. 33,094,818. The selection criteria adopted had been 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, International affiliation of the firm serves as a factor to consider the standard and quality of professional services rendered by them.

Generally a particular audit assignment is entrusted to a particular firm to continue only for a maximum period of five consecutive years. The same firm could be entrusted with the same audit assignment thereafter only after a lapse of the minimum period of 5 years.

Services of 135 firms of auditors in public practice were engaged during the year 2014 as compared with 158 in the year 2013 to assist me in carrying 174 audit assignments in the year 2014 and 174 institutions including branches of three State Banks in the year 2013.

Assistance given to COPA and COPE

The Committee on Public Accounts (COPA) and Committee on Public Enterprises (COPE) are established by the Parliament under Standing Orders 125 and 126 respectively. The main task of the COPA is to probe the managerial efficiency and financial discipline of the Government, its Ministries, Departments, Provincial Councils and Local Authorities and the task of the COPE is to report to Parliament on accounts examined, budgets and estimates, financial procedures, performance and management of Corporations and other Government Business Undertakings.

These two Committees review reports issued by the Auditor-General and determine issues for further examination. During this process the Auditor General gives guidance on issues for discussion. The Committees take evidence from Accounting Officers and other senior government official entrusted with stewardship of public funds and make recommendations for the management and use of those funds. The two Committees issue their own reports to Parliament. One of the responsibilities of the Auditor General is to assist Parliamentary Committees on Public Accounts and Public Enterprises to examine the manner in which the public sector institutions are managed with a view to improving the quality of governance and to assess the situation and ensure the public accountability.

The two Committees regularly hold hearings based on the Auditor General's reports tabled in Parliament and taking evidence from the senior officials responsible for managing resources of their Institutions.

The year 2014 was a remarkable year in this regard as 105 Public Institutions have been examined by the Committee on Public Enterprises. Although this was a great challenge to the Department, I myself and my officers actively participated in all these secessions and assisted the Committee to examine the affairs of these institutions to a great extent.

During the year 2014 the Auditor General and his staff also actively participated and assisted the Committee on Public Accounts (COPA) to examine 44 Ministries and Departments.

Other than attending the above two Parliamentary oversight Committees, Assistant Auditor Generals who are in charge of the audit of nine Provincial Councils also assisted the Provincial Accounts Committees to examine the affairs of the institutions of the Provincial Councils. In this context my officers have attended 120 sessions during the year 2014.

Surcharges imposed by the Auditor General

The Auditor General audits the affairs of 335 Local Authorities in Sri Lanka comprising 23 Municipal Councils, 41 Urban Councils and 271 Pradeshiya Sabhas, in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka and the respective Statutes.

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 respective Statutes. Though the recovery process of surcharges imposed had functioned smoothly in the past, the authorities concerned do not take the necessary follow – up action for the recovery of surcharges at present.

According to the interpretation of the Attorney General the Minister of the Central Government in charge of the subject of Local Government has the power to waive surcharges relating to Municipal Councils and Urban Councils and the Secretary to the Ministry of the Minister of the Central Government in charge of the subject of Local Government is vested with the power to waive surcharges relating to Pradeshiya Sabhas.

Nevertheless surcharges totaling Rs. 6.73 million issued up to 31 December 2014 had been waived by Provincial Ministers and Secretaries to Provincial Ministers in charge of the subject of Local Government. Seven surcharge certificates amounting Rs. 5.81 million were imposed on 33 parties relating local authorities during the year 2014 remain recoverable up to date. Seventeen Surcharge Notices amounting to Rs. 294.75 million were issued on 178 parties up to end of the year 2014.

Performance Audits carried out by the Auditor General

Performance Audits undertaken by the Department are done concurrently with the financial audit to ascertain the economy, efficiency and effectiveness as well as the impact on the environment of the activities undertaken by the institutions of the Government.

This activity functions in the Department as a separate unit since the year 2011 and the performance audits are carried out on the basis of proposals made by other audit units relating to various areas of operations as well as according to the areas selected by this unit and in other instance as is determined by the Auditor General.

The reports on these activities carried out apart from the financial audits are tabled in Parliament. The training of officers for the purposes of the sector is being done.

Even though a results based budgetary system is very important in connection with the implementations of the performance audit, such result based budgetary system is not in operation in Sri Lanka. As such the criteria for the respective Sectors have to be determined by us.

Operations of the Sri Lanka Transport Board and the Utilisation of Government Funds

The Sri Lanka Transport Board established in the year 2005 as a successor to the Ceylon Transport Board established in the year 1957 functions with 120 Depots, 12 Regional Officers, 11 Regional Workshops and 07 Driver Training Schools spread throughout the Island for providing an efficient transport system to the general public.

Even though the Board had a fleet of 7,900 buses in the year 2012, only 4,400 buses representing 56 per cent of the fleet could be run. Even though the Board had earned ticket income of Rs.18,357 million and received Rs.1,508 million from the Treasury, the loss for the year 2012 amounted to Rs.2,458 million.

In addition to the major observations given above, the reasons such as poor maintenance of the bus fleet, the challenge from the private bus services, poor performance of workshops, high use of fuel, disposal of buses needing repairs without carrying out repairs, lack of follow up of procurement procedure in the purchase of spare parts, lack of attention paid to alternative sources of income, disregard to environmental matters, lack of concern for settlement of problems existing in relation to the ownership of lands and buildings belonging to the Board, lack of approved staff and schemes of recruitment and promotion, problems relating to payment of salaries, non-settlement of dues to Employees' Provident Fund, delays in the payment of retirement gratuity and lack of adequate funds for the operating activities of the Board resulting in the frequent intervention of the Treasury were among the major observations made.

Performance Audit of the Manufacture of Bottled or Packaged Drinking Water

The consumption of drinking water abundantly available in the form of Bottled or Packaged Water has rapidly increased at present due to reasons such as the expansion of urbanization, industrialization, increase in population, changes in the consumer preference and difficulties in the supply of domestic water.

Attention in the connection was paid to the roles of the Government institutions such as the Food Control Administration Unit of the Ministry of Health charged with the responsibility of controlling the institutions manufacturing bottled or packaged water and that of the Regional Health Authorities in the Water sources used for the purpose are situated.

According to the Food Act, No. 26 of 1980 water is introduced as an item of food. As such, according to the methodology adopted by the Food Control Administration Unit of the Ministry of Health envisages for the prevention of food poisoning caused by the microbiological organisms usage of good health habits and the proper planning of the food process during the entire process of manufacturing up to the consumption stage. Prevention of possible damage of food by microbiological organisms from the manufacturing stage to the consumption stage for the chemical protection is expected.

Concerns relating to the physical safety could take place during the entire process of manufacture, storage, transport or in the process of manufacture and packaging. Labeling the necessary information which would not mislead the consumer is expected under the authentic presentation.

The main objective of the audit was to evaluate the satisfactory intervention of the Government institutions for the manufacture of quality drinking water by taking into consideration the above facts. The observations made in this connection included lack of proper implementation of the laws and rules in force for the Bottled Water manufacturing institutions, lack of adequate supervision, expiry of registration and failure to renew registration in time, import of bottled water without a valid registration, differences in the level of specified components for bottled water of quality, lack of proper supervision on import of bottled water, etc. As such it was observed that the weaknesses in this field can be remedied by enforcing the law on the products of poor quality revealed through proper supervisions of the market and random checks of the products.

Issue of Annual Conformity Certificates on Smoke Emission Tests of Motor Vehicles.

Due to the increase in the emission of Carbon Monoxide, Nitrogen Dioxide and Sulphur Dioxide and other gases to the atmosphere had been the reason for the increased global warning.

The Smoke Emission Testing Programme had been launched in Sri Lanka in the year 2008 as the best course of action to be taken to ensure the fuel efficiency of motor vehicles through proper maintenance and for the discharge of the social responsibility for the maintenance of a salubrious environment through minimising the noxious gases released to the environment from the fossil fuel.

The primary role of the Smoke Emission Programme is performed by the Central Environmental Authority and the Department of Motor Traffic while the supply of laboratory facilities and information data are provided by the National Building Research Organisation.

A special Fund for the purposes of the Smoke Emission Programme had been established in March 2010 and the surplus of the Fund for the year 2012 amounted to Rs.108.12 million and an interest income of Rs.36.5 million had been earned by investing Rs.326.91 million in the Treasury. An adequate staff for the maintenance of the Fund was not available. The information on the penalties payable on the money to be remitted to the Department of Motor Traffic by the two companies carrying out smoke emission tests had not been maintained.

Even though the two companies carrying out smoke emission tests had established 61 Testing Centres in the Western Province, only 16 Centres had obtained the permits in terms of the provisions in the Central Environmental Authority Act, No. 47 of 1980.

Even though Smoke Emission test certificates should be produced for obtaining Revenue Licences for motor vehicles, the examinations of the Western Provincial Department of Motor Traffic revealed that certain motor vehicles had been released from this requirement without adducing justifiable reasons while the control over those certificates and other Forms was unsatisfactory.

The Smoke Emission Test Fund should take action for the rectification of the deficiencies in the following areas of its operation.

- Identification of garages suitable for carrying out tests of motor vehicles and providing necessary technical knowledge.
- Proper supervision of such garages.
- Regulate mobile testing process

- Ensure accuracy of data maintained by the Fund.
- Getting rid of the general idea prevailing that the Test Certificates can be obtained through fraudulent methods.

Evaluation of the Role of the Government Institutions intervening in solving the Problems of Migrant Labour Leaving to the Middle East.

The total labour force out of the 20.5 million population of Sri Lanka is about 8.8 million and out of that 95.6 per cent represent those employed and the unemployed ratio is 4.4 per cent. Unemployed ratio of Sri Lanka had increased by 6.6 per cent males and 3.2 per cent females. Under such conditions 293, 218 persons had proceeded abroad in the year 2013 for employment and 48 per cent of that represented women. Out of those leaving for domestic employment more than 93 per cent leave for the Middle east countries. Out of the foreign exchange earned by the total labour force employed abroad, the earnings of those employed in the Middle East countries amounted to 55.6 per cent.

With the rapid increase in the number of people proceeding abroad for employment, the number of complaints of problems encountered by women had also increased. The Ministry of Foreign Employment Promotion and Welfare and the Sri Lanka Bureau of Foreign Employment interverse in connection with such complaints.

In view of the substantial contribution of the migrant labour to the foreign exchange earnings of Sri Lanka, the State institutions should look after their welfare prior to departure for employment, during employment and after the termination of employment.

Even though complaints received are from about 5 per cent of the total migrant labour, a larger portion of that relate to the women who are in domestic employment. Such complaints relate to physical and mental offences, breach of agreements, actions contrary to the laws of the country concerned and not being suitable for the job. Instances where the intervention of the Sri Lanka Bureau of Foreign Employment and the Sri Lanka Missions on the countries concerned was inadequate were observed.

Even though most of the complaints had been settled, in certain instances, unsettled files had been closed and new files had been opened as a new complaint. Certain files relating to cases had been incomplete mainly due to lack of co-operation from the Agencies for settlement.

The results expected from the training provided prior to the departure of migrant labour had not been achieved. Further improvements are necessary in areas such as the identification during training the mothers with small children and those with mental and physical disabilities and blacklisting of such persons, detection of expectant mothers during medical examinations, detection of symptoms of diseases, submission of fake medical certificates and imparting a knowledge of laws and language of the countries concerned.

There were instances of sending under-age persons abroad by fraudulently obtaining fake Passports. The possibility of obtaining such fake Passports existed due to the lack of a combined data base maintained in collaboration with the Department of Registration of Persons, Department of Registrar General and the Department of Immigration and Emigration. The institutional role in this connection should be strengthened to prevent sending unsuitable persons abroad.

Intervention of Government Institutions in the Import of Quality Foods

Intervention of Government institution in the import of food required for the country had been relaxed since the introduction of the Open Economy and the intervention of the private sector for the import of food has become a noticeable feature. The media had highlighted instances of import of food unfit for consumption as well as lacking in quality.

The Chief Authority to determine whether the food imported to Sri Lanka are fit for consumption and of good quality is the Director General of Health Services while the Food Authority is the Director General of Customs.

There were reports of problems relating to the assistance in the form of laboratory services for testing of foods imported, provided by the institutions such as the Department of Government Analyst, Sri Lanka Standards Institutions and the Medical Research Institute.

The release of the following items of food imported into Sri Lanka which did not conform to the standards or the quality levels to the market were observed.

- Ten instances of fish with higher content of formalin imported in the years 2011, 2012 and 2013.
- Five instances of salt with iodine content less than required level released in the year 2011, 2012, and 2013.
- Three instances of fish with high aerobic plate count imported in 3 instances in the year 2013.
- Four instances of milk powder without the specified fat content imported in the years 2012 and 2013
- Stock of 1,425 crates of chicken determined as unfit for consumption due to contamination with salmonella and 4,768 bags of cuttlefish contaminated with staphylococcus determined as unfit for consumption in the year 2013.
- Thirty nine and 83 stocks of milk powder and salmon without the required laboratory reports of the Atomic Energy Authority in the years 2012 and 2013 respectively.

Further it was observed that 113,993 metric tonnes and 150,889 metric tonnes of red dhall imported in the years 2012 and 2013 had been subjected to the standards testing only in one instance.

In addition, 145,912 and 168,874 metric tonnes of big onions and 110,823 and 123,204 metric tonnes of potatoes imported to Sri Lanka in the years 2012 and 2013 respectively had not been subjected to testing for pesticide.

Frequent repairs needed for the laboratory equipment of the Sri Lanka Standards Institution, the lack of competent staff and adequate laboratory facilities with the Medical Research Institute and the lack of facilities for certain tests at the Department of Government Analyst had resulted in delays in release of food stuff imported to the market.

Investigation Audits carried out by the Auditor General

The investigation audit is carried out focusing its prime attention on the risk of intentional acts which use deceptions for gaining unfair or unlawful benefits by one or more persons from among the persons, employees or third party who are responsible for the management control. In this context, the investigation audit examine as to how the systems can be strengthened so as to prevent and disclose the frauds.

Action has already been taken to enhance the capacity of the Investigation Audit Division by way of increasing particularly the staff of the Investigation Audit Division from 08 to 20 by 150 per cent in order to shoulder the process of bringing about state good governance in a circumstance where action had been taken to strengthen the Auditor General's Department by the 19^{th} amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka while the priority is given for the concept of good governance of Sri Lanka.

The Investigation Audit Division had examined and reported the recent controversial incidents such as subsidiary fertilizer utility, illegal possession of wild elephants, erection of electric fence for the control of wild elephant trespass to villages, weaknesses in the purchase and storage of paddy, irregular financial control in the school system and irregular collection of money from school students, construction of flats to shanty dwellers by the Urban Development Authority and provide houses, misuse of State properties for elections and misuses relating to the procurement activities of the petroleum production.

In relation to the above observations, expenditure amounting to Rs.13.86 billion had been examined and it had been observed that the value of the misuse of assets, irregular transactions or transactions contrary to the laws and rules amounted to Rs.12.85 billion. During the year under review the Department had received 806 public representations and those had been referred to the relevant divisions of the Department for examination. Out of that 87 special representations had been referred to the

Investigation Division and in the examination of 30 important representations and an expenditure amounting to Rs.4.12 billion, it was observed that the estimated loss incurred to the Government amounted to Rs.3.77 billion. The significant observations relating to the examinations conducted during the year under review have been summarized below.

Sri Lanka Bureau of Foreign Employment

At the audit test check conducted on the transactions of the Bureau during the years 2013 and 2014, it was disclosed that misappropriation of public funds exceeding Rs.113 million had taken place in 16 instances due to the reasons such as misappropriation of money through the preparation of forged documents, taking action contrary to the Procurement Guidelines, incurring losses due to irregular and excess payments, financial misappropriation for political and personal affairs, misuse of money on television advertisements and programmes and making expenses for the activities extraneous to the objectives.

Sri Lanka Football Federation- Receipt of Donations and Financial Assistance

A financial fraud amounting to Rs.12.70 million had been committed by forwarding forged order papers to the bank in order to fraudulently obtain the donation amounting to Rs.6.29 million (€ 40,400) received from the Italy Football Players Association for the renovation of the Kalutara football playground and the host aid amounting to Rs.6.41 million (US$ 59,900) received for the Asian Football Federation Chairman's Trophy tournament to the bank accounts.

An aid amounting to Rs.5 million received for the construction of houses damaged by the Tsunami disaster had not been paid for the construction of houses and thereby financial irregularities had occurred.

National Transport Commission- Issue of permanent passenger bus service permits in the Southern Expressway.

Without following a proper method, 13 passenger bus service permits had been issued on temporary basis for the festive period from 09 to 22 April 2014.

Without approval of the Director Board of the National Transport Commission and at the discretion of the Chairman, the period of the temporary permits had been irregularly extended up to 02 September 2014 for more than in 10 instances during the period of 05 months. Further, no legal provisions had been made for the extension of the period of the temporary permits.

Bus owners who had not engaged in the permanent passenger service had been issued 07 temporary permits by giving reasons such as bus repairs, substitution of new bus or another bus and transfer of the ownership etc.

Department of Prisons- Financial Control Weaknesses

In terms of the provisions of the Pubic Administration Circular No.09/2009 dated 16 April 2009, instructions had been issued to the effect that finger printing machines should be used to record the arrival and the departure of the officers. However, despite the installation of finger printing machines at Welikada Prison and Prison Hospital in September 2009, those had not been properly maintained in an operative condition and overtime of Rs.20,506,988 had been paid during the year 2013 based on the attendance registers maintained under the control of the officers. As such, the accuracy of the overtime payments could not be confirmed.

Ministry of Education- Irregular Financial and Operating Control of the School System

In terms of Sub-section 15.2 of the Education Ministry Circular No.1982/2 dated 30 March 1982, the prior approval of the Regional Director of Education should be obtained for the estimates, plans and work sheets, whereas the canteen of the Colombo Thurston College had been renovated spending a sum of Rs.3.32 million and most repairs had been carried out without applying proper standard and as such the works had been unsuccessful.

Contrary to the provisions of the Education Ministry Circulars No. 2012/19 and 2013/23 dated 28 May 2012 and 23 May 2013, an amount aggregating to Rs.15.46 million had been collected from the parents at the time of admission of the children to the Grade One classes of the Thurston college in the years 2013 and 2014 and that amount had been credited to the Old Boys Association Account.

Ceylon Phosphate Limited- Non-utilization of Resources

The Eppawala Phosphate deposit with the capacity of 60 million tons of phosphate had not been utilized for the production of Super Phosphate and Triple Super Phosphate required for the agriculture and as a result an opportunity for minimizing the Government expenditure of Rs.3,220 million and the saving of foreign exchange of US$. 45.9 Dollar million per annum had deprived.

Eastern Provincial Road Development Department – Procurement Irregularities

Eleven out of 59 provincial roads development projects packages implemented in Batticaloa under the aid of the Japan International Corporation Agency, the payment rates for the item of works of bid documents had been fraudulently increased and thereby a financial loss exceeding Rs.174 million had incurred.

Department of Wildlife- Weaknesses in the Implementation of Activities for the Minimization of Human Elephant Conflict.

The following weaknesses were observed in the implementation of activities relating to erection of electric fence and distribution of elephant- crackers on which the Department of Wildlife had focused more attention from among the strategies meant for the minimization of human-elephant conflict.

In accordance with the Cabinet decision dated 06 January 2012 and the instructions of the President, a decision had been taken to obtain assistance of the Department of Civil Security for the construction and proper maintenance of electric fence and provision amounting to Rs.67.92 million had been made to the Department of Civil Security for the erection of electric fence of 710 kilometers and out of which 68 per cent had remained idle in a deposit account without being utilized.

According to the expenditure incurred for the construction and maintenance of electric fence by the Department of Wildlife Conservation, higher financial performance was shown, whereas the comparative physical performance of the construction had been at a minimal level. The purchase of equipment for constructions and release of money for the civil work before the completion of the constructions to the Department of Civil Security had given rise to the improvement of the financial performance. Out of the electric fence of 1,020 kilometers belongs to 33 works scheduled to be completed as at 01 January 2014, the electric fence of 490 kilometers belongs to 14 works had only been completed by 15 May 2014 representing the physical performance of 48 per cent. It was observed at the sample physical verification that substandard timber posts had been purchased and constructions had been done without being compiled with the prescribed specifications.

According to the audit test check, the equipment valued at Rs.28.4 million purchased for 09 works relating to the construction of electric fence of 155 kilometers in the years 2012 and 2013 had remained without being utilized for the relevant purposes even by 15 May 2015.

Sri Lanka Tourism Development Authority- The Promotional Programme for Local Tourists – Uva Province.

Without proper authority and an approval, a sum of Rs.5.74 million had been paid to the Welfare Association of the Authority by stating that the said money was meant for the implementation of a promotional programme for educating local tourists. Out of that money, a sum of Rs.4.77 million had been utilized for the Uva Provincial Council election.

Without paying the balance sum of the above programme amounting to Rs. 0.97 million to the Authority, the Association had retained that money in the Account of the Association.

Sri Lanka Tourism Promotion Bureau

Stating the fact that for the production of 8,000 T-shirts for the celebration of World Tourism Day, 2014, a sum of Rs.5.82 million had been spent contrary to the Government Procurement Guidelines by preparing forged documents with the intention of promoting one election party contrary to the objective of the Bureau and the Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Having selected 02 institutions for the implementation of programmes with an estimate of Rs.166.75 million under the Social Responsibility Promotional Campaign in Tourism in the year 2014, a sum of Rs.55.45 million had been paid in 06 instances. In the selection of the above two institutions, it had been done contrary to the Government Procurement Guidelines while erroneously calling quotations and the contracts had been awarded to two institutions registered under a same owners. Moreover, despite the failure to achieve the objective of the Bureau, 55.76 per cent of the total contract value had been paid in respect of the completed amount of the works without proper evaluation and an approval of the Technical Evaluation Committee.

Municipal Council, Sri Jayawardenapura Kotte - Mixed Building Construction Project

Contrary to the Government Procurement Guidelines, contracts valued at Rs.90.67 million had been awarded to a private company.

The scope of the construction of the originally planned building with 28 floors had dropped up to 11 floors by 42 per cent and the estimated expenditure had decreased by Rs.448 million from Rs.2,015 million to Rs.1,567 million. Nevertheless, since consultancy service charges had not been revised based on the expenditure, an estimated loss amounting to Rs.8.53 million had incurred.

Delays of the construction activities relating to the project and the amendments could be observed due to the reasons such as non-preparation of the project report, failure to conduct of the market survey, and failure to take action for the fulfilment of the requirements such as initial environmental inspection and assessment of environmental impact and social impact.

Paddy Marketing Board- Processing Paddy into Rice

Examination with regard to the supply of paddy stocks purchased for 2012/2013 Maha seasons and 2013 Yala season to the private mill owners on the recommendation of the Cooperative Wholesale Establishment and the distribution of that stock of rice through the market of the Lanka Sathosa Limited.

The material observations disclosed at the above examination are given below.

On the recommendation of the Cooperative Wholesale Establishment, paddy stocks had been issued to 133 private mill owners out of the 154 private mill owners registered for the year 2013 and only 10 of such mill owners had entered into an agreements. Paddy stocks of 112,092 MT valued at Rs.2, 906.12 million had been supplied to 123 mill owners.

After making adjustments of the balances receivable from the mill owners for the year 2012, Rs.2,962 million remained receivable for 61,767 MT of five varieties of rice as at 31 December 2013. Further, in the inspection carried out with regard to taking over of rice from the mill owners by the Cooperative Wholesale Establishment it was observed that handing over and the rejection of substandard rice had abundantly taken place.

Handing over the rice or the payment of money in respect of paddy valued at Rs.262 million supplied to the 95 private mill owners by the Paddy Marketing Board under the export of rice programme in the years 2010, 2011 and 2012 had been defaulted. Further, as a result of defaulting payments for the stock of paddy supplied to 65 mill owners under the supply of rice to the market after paddy being processed in to rice in the years 2010 and 2011, a sum of Rs.88.60 million including the Government charge of Rs.17.72 remained receivable to the Board as at 31 December 2013.

A stock of 258,272 kilogram of broken rice received in the year 2012 as a by-product form the two rice mills operated under the Cooperative Wholesale Establishment had been sold at a lower price without following the procurement process.

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR 2014

Annual Financial Statements

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

Annual Appropriations

The total provision made for the Department for the year 2014 amounted to Rs.1,042 million as compared with the provision of Rs. 1,024 million for the preceding year. Out of the total provision, a sum of Rs.210 million was allocated for the implementation of the Capacity Building Project funded by the International Development Agency. The actual Expenditure of the project for the year 2014 amounted to Rs.59 million as compared with the corresponding expenditure of Rs.153 million for the preceding year.

A sum of Rs.100 million was credited to the Consolidated Fund in the year 2014 as audit fees from Public Corporations, Statutory Boards, Local Authorities, Universities and Statutory Funds and as compared with the budgeted amount of Rs.90 million shows an over collection of Rs.10 million.

Preparation of Financial Statements of the AGDSL

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

Statement of Financial Performance for the year ended 31 December 2014

Estimate 2014		Note	2014	2013
Rs.000			*Rs.000*	*Rs.000*
	Revenue			
90,000	Audit Fees	1	117,238	104,185
200	Rent		232	134
9,000	Interest		10,110	10,303
-	Fines and Forfeits		69	-
2,000	Others		2,714	2,225
	Profit on disposal of Assets	2	3,637	571
101,200	**Total Operating Revenue**		**134,000**	**117,418**
711,183	Treasury Grant for Recurrent Expenditure	3	780,973	740,296
812,383	**Total Revenue**		**914,973**	**857,714**
	Expenditure			
700,650	Personal Emoluments	4	670,988	635,327
21,900	Staff Travelling	5	13,611	19,425
16,500	Supplies	6	21,033	15,498
14,200	Maintenance	7	14,954	9,746
48,519	Services	8	52,693	42,268
10,114	Transfers	9	10,326	10,054
500	Training and Capacity Building		251	316
	Depreciation	10	79,530	72,843
	Recurrent Expenditure – Public Sector Capacity Building Project		1,788	25,058
	Public Officers Advances written off		-	67
	Amortization of the cost of developing Audit Methodologies	11	24,904	24,904
812,383	**Total Expenditure**		**890,078**	**855,506**
	Excess/ (Deficit) of Revenue over Expenditure		**24,895**	**2,208**

Statement of Financial Position as at 31 December 2014

	Note	31 December 2014		31 December 2013	
		Rs.000	*Rs.000*	*Rs.000*	*Rs.000*
Current Assets					
Cash Balance		-		-	
Inventory	12	6,577		5,449	
Advances to Public Officers	13	231,840		251,605	
Audit Fees Receivable	14	214,810		189,456	
Total Current Assets			**453,227**		**446,510**
Development of Audit Methodologies	11		176,284		201,188
Non-Current Assets					
Property, Plant and Equipment	10	1,151,089		1,027,340	
Work-in-progress		-	1,151,089	139,188	1,166,528
Total Assets			**1,780,600**		**1,814,226**
Current Liabilities					
Payables	15	2,897		115,310	
Deposits		18,221		8,456	
Total Current Liabilities			**21,118**		**123,766**
Accumulated Fund					
Balance as at 1st January		193,595		191,387	
Surplus/(Deficit) for the year		**24,895**		**2,208**	
Balance as at 31st December			218,490		193,595
Contribution					
General Treasury	16	623,327		662,610	
Treasury Grant to implement Public Sector Capacity Building Project	17	917,665		834,255	
			1,540,992		1,496,865
Total Tax Payers' Equity			**1,780,600**		**1,814,226**

W.P.C.Wickramaratne
Auditor General (Acting)
28 October 2015

S.G. Senarathna
Chief Accountant.

Accounting Policies

1. Reporting Entity

There is no specific law with regard to the establishment of the Auditor General's Department. However, Article 153 of the Constitution of the Democratic Socialist Republic of Sri Lanka states that there should be an Auditor General. The main activity of the Auditor General's Department is to provide audit services to Public Institutions specified in Article 154(1) and (3) of the Constitution. These financial statements are for the year ended 31 December 2014.

2. Reporting Period

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

3. Basis for Preparation

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

4. Income

The Treasury Grant received for recurrent expenditure, Audit fees, interest on loans, building rent, circuit bungalow charges, profit from disposal of assets, fines and charges will be considered as the main sources of revenue of the department and these are brought to account under the accrual basis. Income is calculated on fair basis according to the consideration received.

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

Even though the Revenue Accounting Officer for the interest on loans, rent of buildings, circuit bungalow charges, fines and charges and revenue from disposal of assets is the Head of another Department, as such the Auditor General is the officer collecting such revenue relating to the Department and as the revenue collected represents a small percentage of the overall revenue, that revenue is stated in the financial statements. Even though the Treasury Grants for recurrent expenditure are brought to accounts on cash basis.

5. Expenditure

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

6. Foreign Currency Transactions

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

7. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and highly liquid short- term deposits with Banks.

8. Debtors and other Receivables

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

9. Property, Plant and Equipment

Property, Plant and Equipment consist of land, buildings, furniture and fittings, office equipment including computers, and motor vehicles etc. Property, Plant and Equipment are shown at cost, less accumulated depreciation and losses from disposal. The financial statements have been prepared for the first time based on the carried forward balances of the year 2009 and all the lands and buildings that existed on 01 January 2010 have been brought to account according to the plans of the Department of Surveyor General and the value assessed by the Department of Valuation. All motor vehicles have been brought to account on the basis of revaluation done by the Chief Government Valuer while the furniture and computers and other items have been brought to account on the basis of the valuation done by an independent team of assessors.

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

9.1 Disposals

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

9.2 Subsequent Cost

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

9.3 Depreciation

Depreciation is provided on the straight line basis on all plant and equipment, at rates that will write off the cost less estimated residual values of the plant and equipment over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows.

Assets	Useful Lives	Depreciation Rates
	(Years)	Percentage
Buildings	50	2.0
Mini Press	20	5.0
Electric Passengers Lifts	20	5.0
Motor Vehicles	8	12.5
Furniture and Equipment	5	20.0
Computers and Hardware	4	25.0

10. Payables

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

11. Annual Estimates

The main estimates figures are those included in the annual budget estimates approved by the Parliament under the Annual Appropriation Act. The figures shown are final figures after making adjustments for Virement transfers under Financial Regulation 66 and 69 or Supplementary Estimates and Supplementary provisions.

12. Judgments and Estimations

The presentation of these financial statements requires judgments, estimations and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

Notes to Financial Statements

Note No.1 Audit Fees

Estimate 2014	Description	2014	2013
Rs.000		*Rs.000*	*Rs.000*
90,000	**Receipts**		
	Public Corporations, Boards and Other Public Institutions	38,809	42,986
	Local Authorities	15,025	16,324
	Agrarian Service Centres	725	489
90,000	**Total**	**54,559**	**59,799**
	Receivable		
	Public Corporations, Boards and Other Public Institutions	32,852	16,004
	Local Authorities	28,171	26,704
	Agrarian Service Centres	1,656	1,678
	Total	**62,679**	**44,386**
90,000	**Grand Total**	**117,238**	**104,185**

Note No.2 Disposal of Assets

Estimate 2014	Description	2014	2013
Rs.000		*Rs.000*	*Rs.000*
	Disposal of Vehicles		
-	Sales value of vehicles	7,241	-
-	Cost	(3,610)	-
-	**Profit/(Loss) on disposal of vehicles**	**3,631**	**-**
	Disposal of Furniture and Equipment		
-	Sales value of Office Furniture	8	710
-	Cost	(2)	(139)
-	**Profit/(Loss) on disposal of Furniture and Equipment**	**6**	**571**
-	**Profit/(Loss) on Disposal of Assets**	**3,637**	**571**

Note No.3 **Treasury Contribution for Recurrent Expenditure**

Estimate 2014	Description	2014	2013
Rs.000		*Rs.000*	*Rs.000*
711,183	Imprest received from Treasury for recurrent expenditure	676,539	637,100
-	Prior year Adjustment – Inventory	-	5,449
-	Imprest receivable for depreciation for the year 2014	79,530	72,843
-	Cost of the development of Audit Methodologies	24,904	24,904
711,183	**Treasury contribution for recurrent expenditure**	**780,973**	**740,296**

Note No. 4 **Personal Emoluments**

Estimate 2014	Description	2014	2013
Rs.000		*Rs.000*	*Rs.000*
370,650	Salaries and Wages	341,291	340,820
3,000	Overtime and Holiday Payments	2,999	2,584
327,000	Other Allowances	326,698	291,923
700,650	**Total**	**670,988**	**635,327**

Note No. 5 **Travelling Expenses**

Estimate 2014	Description	2014	2013
Rs.000		*Rs.000*	*Rs.000*
12,000	Domestic	11,226	12,555
2,713	Foreign	2,385	6,870
14,713	**Total**	**13,611**	**19,425**

Note No 6 **Supplies**

Estimate 2014	Description	2014	2013
Rs.000		*Rs.000*	*Rs.000*
9,000	Stationery and Office Requisites	9,131	8,652
12,000	Fuel	11,454	6,398
450	Diets and Uniforms	448	448
21,450	**Total**	**21,033**	**15,498**

Note No 7	Maintenance Expenses		
Estimate 2014	Description	2014	2013
Rs.000		*Rs.000*	*Rs.000*
8,500	Motor Vehicles	6,238	5,406
5,250	Plant, Machinery and Equipment	4,662	1,016
4,500	Buildings and Structures	4,054	3,324
18,250	**Total**	**14,954**	**9,746**

Note No.8	Services		
Estimate 2014	Description	2014	2013
Rs.000		*Rs.000*	*Rs.000*
11,200	Transport	10,920	4,110
10,500	Postal and Communication	10,118	7,915
12,500	Electricity and Water	11,518	11,212
1,500	Rent and Local Taxes	548	622
19,600	Others	19,589	18,409
55,300	**Total**	**52,693**	**42,268**

Note No. 9	Transfers		
Estimate 2014	Description	2014	2013
Rs.000		*Rs.000*	*Rs.000*
600	Subscription and Contribution Fees	468	440
9,900	Interest on Loans to Public Officers	9,858	9,614
-	Others	-	-
10,500	**Total**	**10,326**	**10,054**

Note No. 10 Property, Plant and Equipment

	Land	Buildings	Motor Vehicles	Computer and Software	Furniture and Equipment	Mini Press	Passen ger Lift	Total
	Rs.000	*Rs.000*	*Rs.000*	*Rs.000*	*Rs.000*	*Rs.000*	*Rs.000*	*Rs.000*
Cost								
Balance as at 1 January 2014	256,147	581,513	88,208	131,057	82,388	26,023	8,828	1,174,164
Additions	-	193,515	-	1,337	12,039	-	-	206,891
Disposals	-	-	(5,775)	-	(6)	-	-	(5,781)
Balance as at 31 December 2014	256,147	775,028	82,433	132,394	94,421	26,023	8,828	1,375,274
Depreciation								
Balance as at 1 January 2014	-	24,361	30,381	59,761	28,580	2,602	1,139	146,824
Depreciation on disposed assets	-	-	(2,165)	-	(4)	-	-	(2,169)
Additions	-	15,501	10,304	33,099	18,884	1,301	441	79,530
Balance as at 31 December 2014	-	39,862	38,520	92,860	47,460	3,903	1,580	224,185
Net Value as at 31 December 2014	**256,147**	**735,166**	**43,913**	**39,534**	**46,961**	**22,120**	**7,248**	**1,151,089**

Note No. 11 Cost of the development of Audit Methodologies

Description	2014	2013
	Rs.000	*Rs.000*
Balance as at 01.01.2014	201,188	206,497
Expenditure for the year 2014	-	19,595
Amortization cost for the year 2014 (10% of the total cost)	(24,904)	(24,904)
Balance as at 31 December 2014	**176,284**	**201,188**

Note No. 12 Inventory

Description	2014	2013
	Rs.000	*Rs.000*
Building Maintenance Materials	367	284
Stationery and Requisites	4,973	4,846
Tyres and Tubes	1,237	319
Total	**6,577**	**5,449**

Note No. 13 Advances to Public Officers

Description	2014	2013	
	Rs.000	*Rs.000*	*Rs.(*
Total amount due from officers serving in the Department	228,663	248,265	
Total amount due from officers transferred out of the Department	187	1,730	
From retired and deceased officers	1,917	435	
From officers who vacated their posts	475	580	
From service terminated officers	598	595	
Total	**231,840**	**251,605**	

Note No. 14 Audit Fees Receivable

Description	2014	2013
	Rs.000	*Rs.000*
Development Councils	30	30
Municipal Councils	24,493	22,706
Urban Councils	50,187	47,732
Pradeshiya Sabhas	24,601	24,443
Public Corporations, Boards and Other Public Institutions	105,207	86,153
Agrarian Service Centres	10,254	8,392
Economic Centres	38	-
Total	**214,810**	**189,456**

Note No. 15 Accrued Expenses

Description	2014	2013
	Rs.000	*Rs.000*
Railway Warrant – Leave	416	105
Railway Warrant – Travelling Expenses	44	5
Fuel Expenses	-	33
Postal Charges	21	15
Telephone Bills	844	163
Electricity Bills	808	945
Water Bills	60	34
Vehicle Maintenance	296	10
Rathnapura Building – Consultancy Fees	-	3,556
Public Addressing System Charges	-	441
Furniture for Rathnapura Building	-	13,541
Audit Methodology	-	19,595
Rathnapura Building - Construction	-	76,867
Stationary & Office Requisits	355	-
Plant & Machinery Maintenance	53	-
Total	**2,897**	**115,310**

Note No.16 Treasury Contribution for Capital Expenditure and General Deposit Account

Description	2014	2013
	Rs.000	*Rs.000*
For Advance to Public Officers	231,840	251,605
For Deposit Account	(18,221)	(8,456)
For Fixed Assets	409,708	419,461
Total	**623,327**	**662,610**

Note No.17 Public Sector Capacity Building Project Contribution

Description	2014	2013
	Rs.000	*Rs.000*
For Fixed Assets	741,381	652,662
For Audit Methodology	176,284	181,593
Total	**917,665**	**834,255**

Summary of the Audit Observations (Sector wise)

Consolidated Fund

The payments into the Consolidated Fund and withdrawals from the Fund are subject to the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Financial Regulations.

The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of the Government in terms of the Financial Regulation 124. He or the Treasury, on his behalf, therefore lays down the broad frame work within which the Departmental financial transactions of all kinds devolved on the Minister of Finance may be undertaken. It is the duty of the Minister of Finance to account to Parliament for all receipts and payments. He therefore appoints each Secretary to a Ministry to be the Chief Accounting Officer of his Ministry and delegates to him as the Chief Accounting Officer the responsibility for supervising Departmental financial transactions subject to the directions of the Treasury. In addition to the Secretaries to Ministries, the Officers in charge of the Departments specified in Article 52(7) of the Constitution and other Departments not supervised by Secretaries to Ministries will be Chief Accounting Officers.

In terms of the Article 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka "Parliament shall have full control over public finance". The provisions required for the public expenditure for the year 2014 had been made by the Appropriation Act, No. 36 of 2013 and that had been amended by the Appropriation (Amendment) Act, No.42 of 2014. Accordingly, provision amounting to Rs.1,692.55 billion comprising Rs.992.5 billion for recurrent expenditure and Rs.700.05 billion for capital expenditure in respect of 208 Heads had been made. Expenditure amounting to Rs.1,058.45 billion comprising recurrent expenditure amounting to Rs.610.12 billion and capital expenditure amounting to Rs.448.33 billion, as approved by the existing laws to be charged to the Consolidated Fund should have been incurred in the year under review. As such provisions amounting to Rs.2,750.99 billion had been made in the Annual Budget Estimate. Together with the additional provision of Rs.16.04 billion made for Special Law Services, the annual provisions for the year 2014 amounted to Rs.2,767.04 billion. Parliament had made provision amounting to Rs.28.24 billion comprising Rs.8.13 billion for recurrent expenditure and Rs.20.12 billion for capital expenditure under Head 240 Department of National Budget-Programme No. 2 Development Work Programme. The financial resources so made from the Appropriations Act, had been utilized by 22 Special Spending Units, 59 Government Ministries, 93 Government Departments, 25 District Secretariats and 9 Provincial Councils. The total expenditure incurred up to 31 December 2014 amounted to Rs.2,601.72 billion comprising capital expenditure amounting to Rs.595.71 billion and recurrent expenditure amounting to Rs.2,006.01 billion.

Revenue amounting to Rs.1,331.45 billion, inclusive of the revisions, had been estimated for the year 2014 under 99 Revenue Codes for financing the provisions made for the year 2014. Out of the revenue estimates for the year, revenue amounting to Rs.1,127.63 billion had been collected during the year. In addition to the above, estimates had been made for collection of Rs.646.01 billion from foreign borrowings, Rs.13.4 billion from foreign grants, Rs.989.23 billion from domestic non-banking borrowings, Rs.14.75 billion from the recoveries on lending and Rs.0.30 billion from the sale of capital assets and revenue amounting to Rs.422.54 billion, Rs.9.41 billion, Rs.965.45 billion, Rs.14.89 billion and Rs.17.6 billion respectively and Rs.16.92 billion from the net changes in the deposits and liabilities and Rs.27.27 billion from increase in cash and equivalents. The Government had resorted to the issue of Treasury Bonds and Treasury Bills as the major source of supply of funds under the non-banking domestic borrowings.

Public Revenue and Budget Deficit

According to the Financial Statements of the Republic, the recurrent expenditure and the capital expenditure of the Government for the year 2014 amounted to Rs.1,370.05 billion and Rs.595.71 billion respectively. Nevertheless, the overall revenue earned by the Government amounted to Rs.1,127.63 billion and as such it was not sufficient even to meet the recurrent expenditure for the year 2014. As such the recurrent expenditure incurred exceeding the overall Public Revenue amounted to Rs.242.42 billion. Therefore, recourse to domestic and foreign financing sources was further required to meet the overall budget deficit of Rs.838.13 billion inclusive of the capital expenditure amounting to Rs.595.71 billion. Accordingly, the total foreign financing inclusive of foreign grants during the year 2014 had increased by 211.64 per cent to Rs.324.98 billion. The net domestic borrowings, as compared with the year 2013, had decreased by 9.46 per cent to Rs.436.46 billion.

The impact on the Public Revenue from the following reasons arising in the preparation of the estimates relating to the Public Revenue Management and the evaluation of the performance of the institutions generating revenue cannot be ruled out.

- Tax revisions made from time to time
- Increase in the quantities of goods and services imported
- Fluctuations in the foreign exchange rates

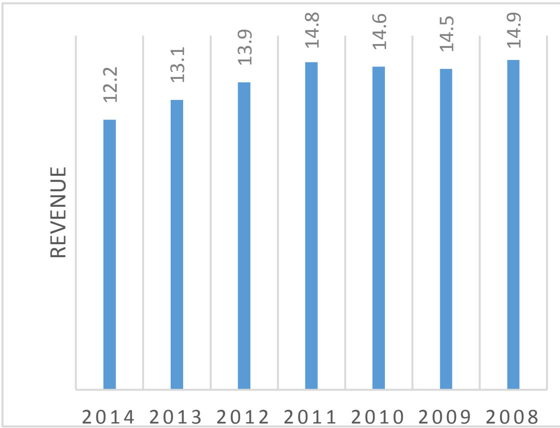
- Fluctuations in the prices of goods and services imported

Fund Utilisation

Provision amounting to Rs.2,767.04 billion had been made for the year 2014 and the utilization amounted to Rs.2,601.72 billion, thus resulting in a saving of Rs.165.31 billion. That as compared with the saving of Rs.191.37 billion in the preceding year indicated a decrease of the savings by Rs.26.05 billion. Even though the provisions amounting to Rs.2,767.04 billion referred to above had been transferred to the Heads and utilized, the entire net provisions of 41 Objects of the year under review amounting to Rs.9.78 billion had been saved and that represented 5.9 per cent of the overall savings. The savings, ranging from 76.0 per cent to 99.0 per cent of the net provisions amounted to Rs.14.87 billion and that represented 9.0 per cent of the overall savings. Similarly, the savings ranging from 51.0 per cent to 75.0 per cent of the net provisions amounted to Rs.62.75 billion and represented 37.9 per cent of the overall savings. Out of the overall savings amounting to Rs.165.31 billion, 40.3 per cent or Rs.66.62 billion represented recurrent provisions, while the savings of capital provision amounting to Rs.98.7 billion represented 59.7 per cent of the overall savings. The estimated capital expenditure for the year 2014, excluding the repayment of loans, amounted to Rs.671.66 billion and the utilization amounted to 88.7 per cent or Rs.595.71 billion. That, as compared with the utilization of capital provision for the preceding year amounting to Rs.455.58 billion indicated as increase of Rs.140.13 billion.

Gross Domestic Product and Public Revenue

The Public Revenue for the year under review represented 12.2 per cent of the Gross Domestic
Product and the corresponding percentage for the preceding year had been 13.1 per cent. It was observed that such decrease had resulted continuously in the year under review and the two preceding years. Such decrease had been due to the decrease in the revenue from all categories of income taxes other than the Pay As You Earn Tax.



Public Revenue as a Percentage of the Gross Domestic Product
Source - Annual Report of the Central Bank of Sri Lanka – 2014

The following observations are made in connection with the collection of Public Revenue, provisions made and the expenditure incurred referred to above.

- Even though the premium received as the surplus the issue of Treasury Bonds at a price above their interest income and the full value should be brought to account as revenue separately, the interest revenue and the surplus earned from the sale of Bonds in the year under review amounting to Rs.17.89 billion and Rs.35.25 billion respectively had been credited to the Interest Account on the Domestic Borrowings.

- The surplus received by the Government in the year under review on the issue of Treasury Bonds at a premium above the face value amounted to Rs.35.25 billion and the deficit resulting from the issue of Treasury Bonds at a value below the face value amounted to Rs.3.09 billion.

- In the issue of Treasury Bonds below the face value of the Treasury Bonds, the sales value of the Bonds had been credited to the Treasury Bonds Account instead of crediting the face value of Treasury Bonds to the Treasury Bonds Account. As such the value of the Treasury Bonds issued as at 31 December 2014 had been understated by a sum of Rs.609.97 billion in the Financial Statements of the Republic.

- Even though it was stated in the financial statements that the Government had contributed Rs.323.37 billion to the capital contribution of 08 businesses of the Government, the actual capital contribution made according to the direct confirmation made by the institutions concerned to the audit totalled Rs.373.87 billion. As such understatements totaling Rs.50.49 billion had been made in the financial statements in respect of the 08 institutions.

- According to the Board of Survey conducted on the Investment Certificates, the value of investments relating to 07 institutions had been understated by a sum of Rs.19.5 billion and the value of investments in 14 institutions had been overstated by a sum of Rs.20.93 billion in the financial statements.

- The share certificates relating to the investments of Rs.9.69 billion made by the Government in 49 businesses had not been produced for verification by the Board of Survey. Accordingly, the Board of Survey had not confirmed that investment.

- Even though investments totaling Rs.397.84 had been made in 121 institutions comprising 92 Government Institutions, 24 Plantation Companies, 02 Development Banks and 03 Corporations quoted in US Dollars, out of that, dividends amounting to Rs.4.68 billion had been received during the year under review, only from 40 institutions in which a sum of Rs.91.32 billion had been invested. That sum represented a very low of 1.17 per cent of the investment made.

- Reconciliation of the foreign debt payable as appearing under the liabilities in the financial statements for the year under review with the balance of the foreign debt appearing in Report 854-1 of the Department of Public Debt revealed overstatements of Rs.2.92 billion in respect of 81 loan agreements and understatements of Rs.3.33 billion in respect of 90 loan agreements.

- According to the information on the liabilities for unsettled recurrent expenditure as at 31 December 2014 as reported on the Forms DGSA 8(i), 8(ii) and 8(iii) of the Appropriation Accounts relating to 206 Heads of the year amounting to Rs.85.32 billion and Rs.94.86 billion relating to Capital expenditure totaling Rs.180.18 billion had not disclosed in the Financial Statements of the Republic.

- The total liabilities incurred by the General Treasury in the year under review in connection with the lease purchase of 24,017 motor vehicles (including 21,498 motor cycles) amounting to Rs.10.06 billion had not been disclosed in the Financial Statements of the Republic.

- Interest amounting to Rs.11.87 billion had been paid in the year under review on the overdraft balances of 03 Bank Accounts of the Deputy Secretary to the Treasury. Thus, as compared with the preceding year indicated an increase of Rs.1.6 billion.

- According to the letter No. PF/FD/04/148 dated 31 October 2014 of the Director General of Public Finance, a sum of Rs.0.3 billion out of the Object 277-1-1-0-2502 had been transferred to the Deposit Account No.

6000/0000/00/0011/0602 for the establishment of a Revolving Fund for production of grains. That deposit remained idle as action in terms of the above letter had not been taken.

- The value of losses and damage of the year under review as shown in the Financial Statements of the Republic amounted to Rs.0.38 billion and that represented an increase of Rs.0.16 billion over the value of losses and damage in respect of the preceding year of Rs.0.23 billion or 69.02 per cent. The sum of Rs.0.54 billion further remaining recoverable as reported on Form DGSA 7 of the Appropriation Accounts of 26 Heads had not been disclosed in the Financial Statements of the Republic.

- Even though the value of the loans provided to the local institutions under 09 on-lending agreements as at 31 December 2014 had been shown as Rs.1.23 billion in the Financial Statements of the Republic, the value of loans confirmed by the institutions concerned amounted to Rs.0.81 billion. As such an overstatement of Rs.0.42 billion had been made in respect of those 09 institutions.

- A sum of Rs.8.68 billion recognized as arrears of Revenue as at 31 December 2014 according to the Return on Arrears of Revenue prepared by the Department of Treasury Operations had not been shown in the Financial Statements of the Republic.

- A sum of Rs.1.08 billion earned by the Sri Lanka Navy in the years 2013 and 2014 from the services supplied to external parties had not been credited to the Consolidated Fund.

- The revised budget deficit for the year under review amounted to Rs.777 billion and as the actual budget deficit amounted to Rs.838 billion, it represented an unfavorable position of Rs.61 billion as against the estimated budget deficit. The actual budget deficit for the year under review represented 8.5 per cent of the Gross Domestic Product.

- According to the Financial Statements of the Republic, the gross liability of the Republic as at 31 December 2014 amounted to Rs.6,971.18 billion and as compared with the gross liability of Rs.6,344.94 billion for the preceding year, that represented an increase of Rs.626.23 billion or 9.9 per cent.

Special Investigations on the Public Revenue Management conducted by the Auditor General's Department and their Impact on Public Revenue

The errors, weaknesses, inefficiencies and uneconomic features prevailing in the Public Revenue Management detected at the Special Investigations of the Public Revenue Management undertaken by the Auditor General's Department from time to time were pointed out. Even though observations on these have been made continuously through audit queries and reports, it has to be pointed out that the slow progress in the action taken to minimize those deficiencies had adversely impacted the Public Revenue Management. The significant audit observations made at the audit of the affairs of the four main institutions, namely the Department of Inland Revenue, Sri Lanka Customs, the Department of Excise and the Department of Motor Traffic which contributed 85.35 per cent to the Public Revenue in the year under review, appear below.

Department of Inland Revenue

- Arrears of Revenue amounting to Rs.210.08 billion had not been included in the Revenue Accounts.

- A sum of Rs.8.334 billion out of the total Stamp Duty Revenue amounting to Rs.11.93 billion and a sum of Rs.13.1 billion out of the total Nation Building Tax amounting to Rs.57.68 billion had not been included in the Revenue Accounts.

- The difference of Rs.0.66 billion between the Tax Revenue for the year under review under three Control Accounts of the Treasury and the Tax Revenue according to the Departmental books had not been identified and brought to account correctly.

- Even though the Commissioner General of Inland Revenue is the authority for the refund of the Nation Building Tax. The Treasury had indicated a sum of Rs.7.66 billion as refunds of the Nation Building Tax. The particulars thereof had not been furnished.

- The remittance forms for 04 categories of taxes amounting to Rs.0.07 billion had not been received even by the end of the year under review and as such those taxes had not been recorded in the accounts of the respective tax payers.

- According to the revised Revenue the Tax Revenue due for collection in the year under review amounted to Rs.605.33 billion. However a sum of Rs.485.39 billion or 80 per cent only had been collected.

- As a result of three audit queries on the non-submission of Value Added Tax Returns, under-computation of tax and defaulting the payment of taxes issued to the Commissioner General of Inland Revenue during the year under review, an additional Tax Revenue of Rs.0.12 billion could be recovered from 13 tax payers.

- The monthly Returns on the Pay As You Earn Tax recovered from the emoluments which should be furnished to the Commissioner General of Inland Revenue in terms of Section 120 of the Inland Revenue Act, No. 6 of 2006 had not been furnished by 226 State Institutions.

Sri Lanka Customs

- Out of 192,848 Customs Entries on the containers imported in the year 2014, about 88 per cent or 170,120 Entries had been released without formal inspection by the Customs. Accordingly, the possibility of importing goods prohibited under the provisions in the Customs Ordinance existed.

- Even though the nature of the Customs inspection is determined according to the experience of the Customs Officers attached to the Screening Division and the history of the importer, such information system is not established in the Screening Divisions and the methodology is determined at the discretion of the officers concerned.

- In most instances the contents of containers had not been subjected to a detailed examination.

- As duties had been charged on the Toyota Hilux Vigo Model motor cars outside the classification according to the manufactured model, customs duty of Rs.0.002 billion had been deprived of to the Government per motor car. More than 3,000 motor cars of this category had been released by the Customs.

- As the importers of motor vehicles under the Concessionary Motor Vehicle Licences had paid the duty by under-valuation, tax revenue of about Rs.0.72 billion had been lost.

- An information system containing specific customs values had not been made use of for determining the value of goods brought into the country by post as gifts.

- Lack of a proper procedure for the identification of new institutions from which Excise Duty should be collected, non-updating of legal provisions relating to the collection of Excise Duty, the very slow process of collection of arrears of Excise Duty, lack of proper organization of the raids and investigations relating to the Excise Duty, the failure to implement properly the legal steps taken on the defaulted payment of the Excise Duty and the lack of a proper internal control system for the improvement of the performance of the officers of the Excise Duty Division to a high level were observed.

- Use of the Passenger Terminal of the Airport for the import of commercial level goods was observed. Goods of commercial level valued at Rs.0.02 billion brought in 391 instances by 06 air travel passengers in the year 2014 were pointed out.

- Weaknesses in the storage, valuation and sales process of confiscated goods were observed.

- There were instances in while the Public Revenue had not been well protected in connection with the goods imported and abandoned by the importers due to reasons such as determining the penalties according to the discretion of the Customs Officers, the under-valuation of goods, release of goods to the importer who committed the Customs offence, delays in Customs investigations resulting in destruction or outdating of goods, etc. Revenue amounting to Rs.0.05 billion had been lost in 02 instances.
- Vessels, Drivers and Lascar Officers are not deployed in adequate numbers for the marine surveillance work. As such it was observed that the role of the Regional Customs Preventive Officers is inadequate for the control of smuggling.

- Sri Lanka Customs had collected revenue amounting to Rs.2.982 billion and Rs.2.63 billion in the years 2013 and 2014 respectively by imposing penalties for Customs offences and frauds and from the sale of confiscated goods and out of that revenue, only 30 per cent, that is, Rs.0.89 billion and Rs.0.79 billion respectively had been credited to the Public Revenue. The allocation of the balance 70.0per cent, that is, Rs.2.09 billion and Rs.1.84 billion respectively for the rewards and welfare activities of the Customs Officers was a noticeable point.

Department of Excise

- The arrears of Excise Duty Revenue amounting to Rs.0.5 billion as at 31 December 2010 had rapidly increased to Rs.1.53 billion by 31 December 2014. Nevertheless, the progress of recovery of the revenue in arrears had not been satisfactory while no meaningful and timely steps had been taken for the recovery of the arrears of revenue.

- In the grant of rebates of taxes for the export of liquor, the Department uses only the Customs Export Entry as the basis and the Department had not formulated a methodology to ascertain the actual quality exported.

- The revenue collection function performed by the officers attached to the companies manufacturing had not been subjected to a continuous system of test checks by the Department.

- Even though the Department issued licenses for the export of cigarettes, the Department did not have a methodology to ascertain whether the quantity of cigarettes approved for export is actually exported.

- Even though the Withholding Tax retained in the local purchase or the import of spirit is allowed for set off for the payment of the Excise Duty on the liquor manufactured from such spirits, Withholding Tax amounting to Rs.0.51 billion had been brought to account as Excise Duty Revenue.

- An appropriate Computer Network System designed for the easy and accurate collection of Excise Duty had not been introduced.

Department of Motor Traffic

- Necessary courses of action had not been taken on 18 Insurance Companies which had not properly carried out the collection of Luxury Tax.

- The provisions in the Act had not been enforced on 371 owners of motor vehicles who had defaulted the payment of Luxury Tax.

- Action in terms of the provision in the Act had not been taken on motor vehicle fully taken off the road due to tsunami, terrorist activities or accident or other cause and cancel the registration of those motor vehicles.

- A Register of Registration Cancelled Motor Vehicles had not been maintained.

- Registers had not been maintained in a manner to facilitate obtaining the statistical information on the actual number of motor vehicles used for running in the Island.

- Even though it is the primary duty of the Department to ensure that the original files of the motor vehicles registered duly by the Department are kept in safe custody it was pointed out in audit over and over again during the past several years on the unavailability of a large number of original files on motor vehicles or misplacing such documents. Nevertheless, the officers had not paid their responsibility to ensure the security of the official documents.

- Even though 597 files essential for audit purposes / connected to fraudulent activities were called for during the last 04 years, those files had not been furnished to audit.

- The failure of the officers responsible to ensure the security of the original files had been the main reason for the large scale loss of revenue as well as the frauds and irregularities pointed out in audit.

- Eighty five Custom Entries for the import of 141 motor cycles and 07 Customs Entries on which the motor cycles had been imported had been used to enter 2,577 motor Cycles and 2,098 motor cycles respectively to the computer systems of the Department with the intention of making fraudulent registrations.

- Even though it was pointed out in audit that illegally imported or assembled motor vehicles had been registered continuously under the identification numbers of the motor vehicles taken off the road due to accidents or other causes, the Department had not taken action in connection with 29 such motor vehicles.

- Even though it was pointed out in audit that the use of modern motor vehicles had been allowed to run with the registration numbers and the chassis numbers of the old motor vehicles already registered with the Department, the Department had not taken action on 05 such motor vehicles.

- According to Section 16 of the Motor Traffic (Amendment) Act, No. 8 of 2009 no person shall fabricate, manufacture, assemble, innovate, adopt, modify or change the construction of a motor vehicle in Sri Lanka except with the prior written approval of the Commissioner General. It was pointed out in audit that the appearance of 26 motor vehicles had been totally altered by violating all those provisions. Instead of examining such motor vehicles and taking action in accordance with the legal provisions against the officers responsible, action had taken action to regularize this situation.

- Action had not been taken for the recovery of Luxury Tax amounting to Rs.0.004 billion from 18 motor vehicles initially registered in the Department as single cab motor vehicles and subsequently converted as Jeeps.

- Out of the special purposes motor vehicles imported on the payment of lesser Customs Duty, 22 and 56 motor vehicles had been registered as Dual Purpose vans and motor lorries respectively, thus resulting in large scale loss of revenue. It was also observed that motor vehicles old up to 07 years had been imported.

- A large amount of Tax Revenue is deprived of to the Government daily due to the fraudulent registration of a large number of illegally imported or assembled motor cycles. It was observed that 108 such motor cycles had been registered on 05 days in June 2014.

- Even though such illegal activities were pointed out in audit over and over again, the officers responsible had not taken appropriate courses of action to prevent such illegal activities. In addition, disciplinary action had not been taken against the officers connected to such illegal activities.

Public Enterprises

Public Enterprises (PE) in Sri Lanka are engaged in the provision of goods and services and operate in strategic sectors of the national economy such as electricity, water, petroleum etc. Therefore the financial as well as the operational performance of such enterprises have a direct impact on the macroeconomic stability of the country. The deferent Funds also have been established for several specific or common purposes. This Chapter comprises the analysis of the financial performance of the Public Corporation including Funds for the year 2014.

As defined by the Constitution of the Democratic Socialist Republic of Sri Lanka a Public Corporation is "any Corporation, Board or any other body which was or is established by or under any written law other than the Companies Act, where the Government has the controlling interest with the capital wholly or partly provided by the Government by way of grant, loan or any other form".

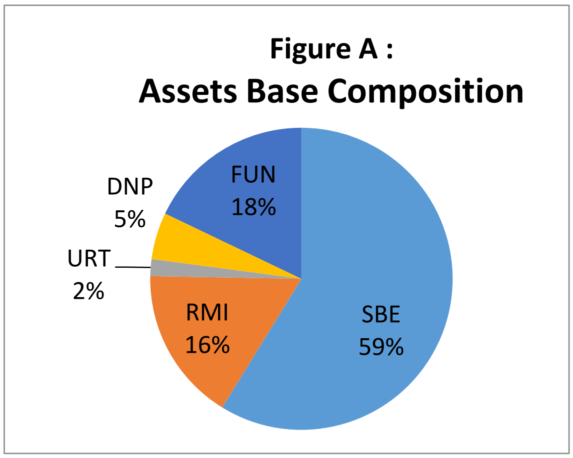
In this analysis, 276 Public Corporation including Funds and State Owned Universities have been broadly treated as Public Enterprises and categorized under five segments based on their nature, size, operations etc. as follows.

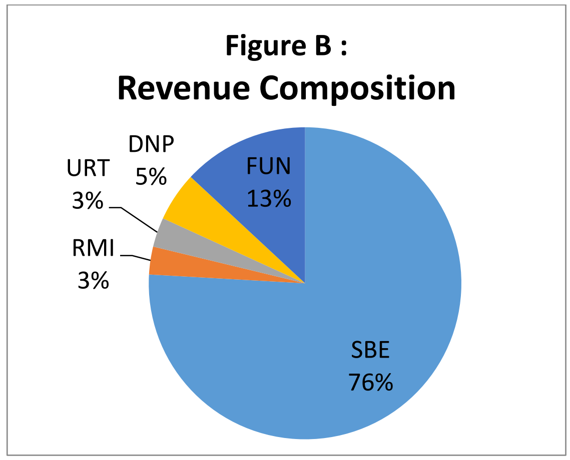
Category	No.of Entities
Specified Business Enterprises (SBE)	53
Regulatory and Monitory Institutions (RMI)	22
Universities, Research and Other Training Institutions (URT)	74
Other Development and Non Profit Oriented Institutions (DNP)	64
Funds (FUN)	69
Total	282

However the above mentioned analysis is based on the annual financial statements submitted to the Auditor General. The financial statements of 43 PEs and Funds which includes 13 SBE, 1 RMI, 6 URT, 15 DNP and 8 Fund had not been submitted financial statements for the year ended 31 December 2014 to the Auditor General as at 20 October 2015. Two PEs namely Janadiriya Fund and Shipping Development Fund were not in operating during the year under review. Samurdi Authority of Sri Lanka has been merged with Divineguma Department. Hence it is not further considered as public enterprise. Institute of

Geology which had been formed during the year is considered as public enterprise.

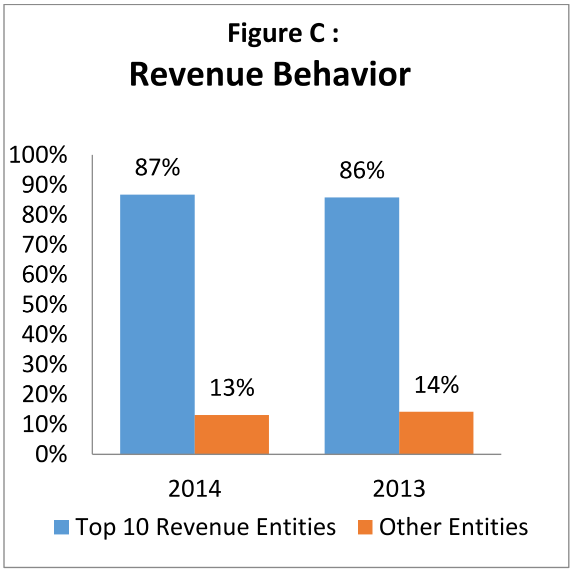
The total revenue earned by the PEs during the year 2014 is over Rs. 1,431 billion which exceeded the total revenue earned by the Government, and represented an increase of 9 percent compared with the previous year. Total Asset Base of PEs is around Rs. 9,000 billion and it was an increase of 15 percent compared with the assets based as at 31 December 2013. The composition of the revenue and Assets Base of each category of PEs as at 31 December 2014 are depicted in the Figure A and B below.

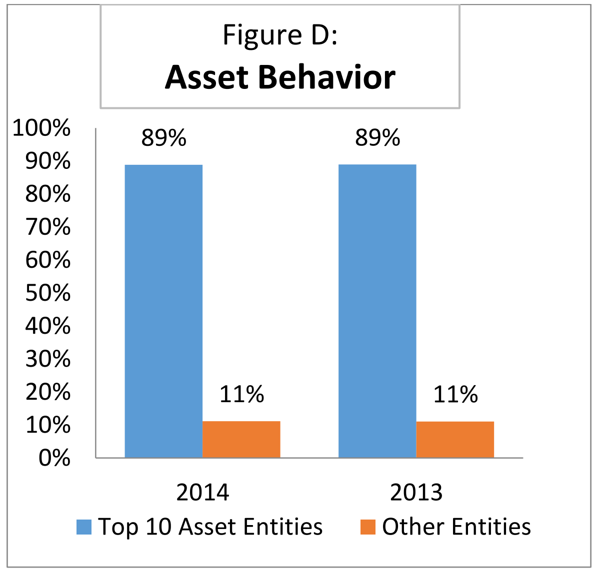




According to the Figure A, SBEs have the largest Asset Base representing the 59 percent of total Asset Base of PE while the Funds represented the second place with 18 percent of total Asset Base. As same as, shown in the Figure B, SBE has the largest revenue base representing 76 percent of total revenue and the Funds represented 13 percent. It shows, both SBEs and Funds earn 89 percent of total revenue and hold 77 percent of total asset base. Therefore, the strategic decisions taken in relation to the operation of these two categories is significantly influenced to the financial performance of the PEs.

Further, as depicted in the figure C and D, below 10 PEs earn 87 percent of total revenue except the government grant received during the year under review compared with 86 percent in previous year. Further 10 PEs represent 89 percent of total Asset Base of the year under review and previous year too. Ceylon Petroleum Corporation (CPC) has earned the highest revenue which represents over 39 percent of total revenue of PEs while Employees Provident Fund has the largest Asset Base representing over 16 percent of total Asset of the PEs. When considering about the financial management of the PEs, the great attention should be paid to these entities. Proper financial management of these entities will make greater impact to the efficiency of the economic operations of the country.





Profitability

According to the financial statements presented the Profit Before Tax (PBT) of PEs had been increased by 14 percent compared to 2013. However, PBT of SBEs was increased only by 11 percent. Further, 71 of PEs had earned negative PBT for the year 2014 while 77 PEs had suffered losses in 2013. It includes 7 SBE, 7 RMI, 32 URT, 20 DNP and 5 funds. It is remarkable that 24 PEs which suffered losses in 2013 have earned profits in 2014 while 18 PEs earned profits have suffered losses in 2014.

Several PEs categorized under DNP and URT such as Sri Lanka Mahaweli Authority, Road Development Authority and Central Bank of Sri Lanka had incurred severe losses of more than Rs. 30 Billion. However, some PEs categorized under SBE including Ceylon Electricity Board had incurred huge losses. According to the review most of these PEs which make loss continuously due to many factors such as problems in administration and good governance practice, low productivity of employees, poor financial management, weaknesses in internal controls and structural deficiencies. Profitability and growth perspectives are not the matters concerned by such PEs due to less competitions faced by other institutions such as private firms. Generally there were no succession plans and focus on early on short term targets basically due to changing environment. Management of certain PEs tends to make decisions which are not socially or economically viable, violating government policies and regulations.

Other Income

Public enterprises are not authorized to invest their excess funds without the approval of the General Treasury and required to transfer their excess funds to the General Treasury according to the Finance Act No. 38 of 1971. However with contrary to this provision, many of PEs have earned interest income on investments made. Some PEs tends to cover their routine expenses from that income rather than from their revenue from principal activities which limits the value addition to the country. Further the management of those PEs mostly focus on managing the fund investment rather than for their principal activities.

Many of PEs are depend on the annual contribution made by the Government to cover more than 50 percent of their total expenses such enterprises which include many URTs and 03 SBEs. However, SBEs and Funds had received less than 1 percent of recurrent grant comparing to their total income while URT receive the grant which is more than 50 percent of their total income.

Expenditure

Personal emolument of PEs is represented significant portion of administration expenses. However only 101 PEs are presented the personal cost clearly in their financial statements. Out of those entities, expenditure on personal emoluments had been increased by 11 percent in the year under review compared with the previous year. It was observed that 56 of PEs spent more than 53 percent of total expenses for personal emoluments including 8 SBEs and 3 Funds. In addition, personal emoluments of 67 PEs were higher than their total revenue earned from principal activities including 3 SBEs and a Fund. It proved that such institution were unable to survive without government assistance. However revenue from value addition activity or principal activity of SBE has been increased only by 7 percent during the year under review compared to previous year. It indicates that the employees of these PEs should increase their efficiency by way of proper training as well as rebuilding of their attitude towards the development of the public sector. Certain SBEs which are profit oriented entities even spends for personal emoluments more than their revenue earned for the year.

It was observed that the research and development expenses of PEs are remained at below 0.1 percent of total expenditure which is very low compared to the research and development expenses of other developing countries. URT category of PEs had spent the highest cost for Research and Development which is 1.21 percent of its expenses. It includes the majority of research institutions and universities whilst such URTs have received grant of more than 50 percent of total revenue. When considering these factors, URTs have not spent a significant amount for Research and Development when compared with total expenditure of that category. SBEs spend minimum amount for Research and Development representing 0.01 percent of its total expenses. Accordingly it was observed that PEs have spent for Research and Development with a view to introduce innovative products and services for the customers.

Finance cost of PEs represents 2.73 percent of total expenditure. DNP category had spent more than 8 percent of total expenditure which is the highest percentage of finance cost from its total expenditure among other categories. Several PEs enjoyed bank overdraft with interest rate higher than other sources of lending to finance their needs while possessing adequate investments. Therefore, these PEs should pay greater attention over proper financial management to get maximum advantage for the funds invested by the Government.

PEs had contributed their support to the Government by way of income taxes and approximately Rs. 5,099 million had been contributed in 2014 out of which the major portion was contributed by SBEs.

Financial Structure

According to the financial structure of the PEs the, current assets ratio is maintained at 0.72 reflecting that current liabilities remained over current asset and showed an adverse situation to meeting the short term financial obligations due to shortage of enough liquid assets to settle immediate liabilities. The worst situation reflects in RMI category representing 0.44 of current ratio. SBE also has the current ratio at 0.78 reflecting a critical situation.

According to the financial statements of the PEs it represents 40 percent of current assets and 60 percent of non-current assets. Those have been financed by 55 percent of short term sources of funding and 45 percent of long term sources of funding. It reflects that part of long term assets have been financed by short term funds i.e. 25 percent of non-current assets had been financed by short term financing sources. The imbalance of short term assets with short term financing sources may cause to a problem of long term stability of the PEs as well as short term liquidity. This is an aggressive approach of financing.

Managing the long term assets and part of short term assets with long term financing sources and balance with the short term financing sources is required. However the imbalance between current assets and current liabilities basically reflects in SBE and RMI categories. More than 34 percent and 72 percent of non-current assets have been financed by short term financing sources in SBE and RMI respectively. However PEs should pay attention to manage their long term and short term assets and liabilities in accordance with the an approach which the entity finances all funds requirements with long term funds and uses short term financing only for emergencies or unexpected outflows.

PEs had more than 1.7 Debt Equity Ratios which reflect an adverse situation for entities in the financial stability in the long term and they will incur a huge finance cost. However SBE has maintain Debt Equity Ratio at 3 while RMI at 15. This effect in RMI has been created almost by CBSL.

Some of public enterprises had negative net asset position while they had earned positive PBT such as CPC. Most of PEs continue with adverse situation for long period. It indicates that those entities are highly depending on the government grants for their day to day operations. Some of those entities are non profit oriented and mainly focusing on the provision of essential services to the public on free of charge or as subsidies. However there are some SBEs which are profit oriented entities with high negative net asset position.

Some PEs especially in DNP and URT categories have not identified their stated capital separately. Government assistance provided at the incorporation of the PEs which could be identified as the stated capital and presented together with the Government grants received from time to time for special tasks which amortized annually. Hence stated capital is always changing and most of the cases it reflects a decreasing situation because of amortization of grants. This practice is not recommended by the Financial Reporting Framework which should be followed in preparation and presentation of financial statements of PEs.

Preparation and submission of financial statements

Sri Lanka Public Sector Accounting Standards (SLPSAS) and Sri Lanka Accounting Standards (LKAS and SLFRS) is the frame work for preparation and presentation of financial statements of PEs. However Specified Business Enterprises require to apply Sri Lanka Accounting Standards (LKAS and SLFRS). Accordingly, annual financial statements comprising the Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flow, Statement of Changes in Equity and a summary of significant accounting policies and other explanatory information shall submitted to Auditor General by each PEs within two months after the end of the accounting year in accordance with the provision of Public Enterprises Circular No PED/12 of 2 June 2003.
Out of 236 PEs submitted these financial statements for the year ended 31 December 2014, only 66 PEs had submitted their financial statements on due dates and 170 PEs had submitted financial statements after the due dates. Out of that 65 PEs had delayed their submission of financial statements by more than 03 months.
In accordance with SLPSAS, LKAS & SLFRSs, there shall be followed a common framework for the preparation and presentation of financial statements, it was

observed that different entities in same category had presented financial statements completely different by each other. It emphasized the necessity to introduce a common format for the financial statements of the PEs to be applied to ensure consistency.

Audit Opinion

Auditor General's Reports are focused on financial and operational aspects of the PEs including financing performance, economy, efficiency and effectiveness of the operations of the entity as well as the presentation of the financial information. In the first part of the report, it provides a reasonable assurance by way of expressing an opinion on the financial statements of public enterprises whether it gives true and fair view in accordance with the Sri Lanka Accounting standards or Sri Lanka Public Sector Accounting Standards. In many cases, those opinions are modified based on the materiality and pervasiveness of the misstatements. There are four types of audit opinions which are expressed on the financial statements namely unqualified, qualified, adverse audit opinions and disclaimer of audit report. Unqualified opinion reflects that the financial statements of public enterprises give a true and fair view or free from material misstatement. Other than the unqualified opinion, other types of opinions reflect a negative impression of the financial statements of the entity. Accordingly, the sever pervasiveness of the scope limitation would lead to disclaim the opinion while the severe pervasiveness of the disagreement with management would lead to express an adverse audit opinion which have a severe influence to the management. A qualified opinion expresses when an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation of the scope is not so material and pervasive as to require an expression of adverse opinion or a disclaimer of opinion. A qualified opinion is expressed as being 'except for' the effects of the matter to which the qualification relates.

Audit opinions expressed on the financial statements of the PEs on which the audit reports were issued for the year 2014 as compared with the preceding year are as follows.

Type of Audit Opinion	2014	2013
Unqualified	41	43
Qualified	151	181
Disclaimer	12	9
Adverse	8	7
Not Decided as at 20 October 2015	27	12
Financial Statement not Submitted	43	30

The governing boards of the several PEs had withdrawn their financial statements after pointing out the misstatements by the Auditor General due to serious misstatements which may lead to express an adverse opinion or disclaimer of audit opinion. These institutions were advised to prepare a fresh set of financial statement and submit to the Auditor General for his scrutiny. Some of the PEs had either not yet submitted their financial statements for audit or done so with considerable delay. Due to these reasons the audit opinion had remain undecided as at 20 October 2015.

Other General Highlights

It is observed that many of PEs continuously follows the unacceptable practices, even though the Auditor General continuously highlighted in the audit report. It is further emphasized that such issues needed to be rectified.

Maintenance of proper records such as Registers of Fixed Assets, schedules and other records on Non-Current Assets such as land and building, motor vehicles, furniture, plant and machinery, is generally poor. As a result the physical verification of fixed assets becomes a futile exercise. It was also observed that there were considerable delays in capitalization of fixed assets from work-in progress due to delays in issuing completion certificates by the responsible officers. Further the records of lands belonging to many of PEs were remained incompleted and were not even in a position to produce a detailed schedule with the location and extent to audit to confirm the existence and ownership.

As numerous approvals are required, limited opportunities were existed for commercial decisions and recruiting skilled staff for the PEs. Hence professionals are recruited by the PEs on contract basis with higher salaries and struggling to retain qualified professional due to poor salary structure as compared with the private sector. Further, several key managerial positions of large PEs are vacant for long period without taking action to fill the vacancies due to failure in preparing succession plan to cover those positions.

It was observed that several large PEs have been paying Pay As You Earn (PAYE) Tax on behalf of their employees. It is further emphasized that the General Treasury should take a firm decision to adopt fair practices on reimbursement of PAYE taxes from the earnings of PEs as fair treatment to all public officers is required.

The Considerable amount of money had remained in the accounts as advances for long period without been charged as expenses even though the goods had already been purchased or services had already been rented. Further, there were many such instances revealed that granting subsequent purchase and other advances without settling previous advances.

Large PEs had formed limited liability companies incorporated under the Companies Act, without the approval of the Cabinet of Ministers. It caused to dilute the functions of the parent PEs. Even though some PEs hold number of subsidiary and associated companies, the excising the controlling power by the respective PEs was very poor.

In addition to the above issues which were highlighted in the previous Auditor General's reports following common issues were also observed.

- Property Plant and Equipment which are still in usable condition had been shown in the financial statements as fully depreciated assets without taking action to reassess the useful lifetime of such assets and show the fair value in the financial statements.

- It was observed that the balance receivable and payable shown in the individual financial statements of related parties are different from each other such as CPC. It seems that the coordination among the related parties such as subsidiaries is poor. Therefore there is a possibility to hide the real picture in the financial statements.

- Some PEs had invested massive amounts to procure lands even though those assets remain idle since the acquisition. Further some PEs have given advances to implement number of large projects for private companies many years ago. Those companies had not implemented such projects, rather had invested and earned huge interest income such as National Gem and Jewellery Authority. Because of these reasons, PEs were unable to get maximum benefit from those funds on which had incurred huge opportunity cost.

- It was observed that many PEs were not given priority for human resource management. Maintaining of excess staff without enhancing the capacity/ production of the entity was a major problem and had resulted the declining of the efficiency of the entity. Even though there are qualified applicants for the responsible positions such as Directors, certain entities had recruited persons who were unable to fulfill minimum required qualifications. Further certain entities had procured consultancy and professional services from private firms while having competent and qualified staff on their own.

Local Authorities

There are 335 Local Authorities established in Sri Lanka, 23 Municipal Councils function after being established under the Municipal Councils Ordinance No. 16 of 1947 and the amendments made thereto, whereas 41 Urban Councils function after being established under the Urban Councils Ordinance No. 61 of 1939 and the amendments. The number of Pradeshiya Sabhas that functioned after being established under Pradeshiya Sabhas Act, No. 15 of 1987 and the amendments made thereto, is 271, whereas the that number was 335 as at 31 December 2014. A summary on the accounts of those Local Authorities presented to audit, audits carried out, and audit opinions on the accounts, is as follows.

Category of Local Authority	Accounts should be submitted	Accounts presented as at 30 Sep. 2015	Audit Reports Issued	Audit Opinion according to Reports as at 30 Sep. 2015			
				Qualified	Un qualified	Disclaimer	Adverse Opinion
Municipal Councils	23	22	19	16	-	03	-
Urban Councils	41	40	40	36	01	03	-
Pradeshiya Sabhas	271	267	261	240	12	02	07
	335	329	320	292	13	08	07

Deficiencies observed during the course of audit were brought to the notice of the Commissioners of the Pradeshiya Sabhas and Local Authorities in each year nevertheless; the deficiencies brought to the notice earlier had to be pointed out each year during the audit. As action had not been taken to rectify the deficiencies pointed out, the same deficiency had to be reported continuously. Upon being informed by the organizations providing aids for the Local Authorities, that they would continue with aids only if the deficiencies being pointed out through the audit reports were rectified, a situation had arisen where requests for certifications on the rectification of deficiencies had been made for the purpose of receiving aids.

The supervision of the Local Authorities is assigned to the Provincial Councils in terms of Section 4.2 of Schedule 9 of the 13th amendment to the constitution of the Democratic Socialist Republic of Sri Lanka. However, the Provincial Council had not executed a proper methodology for the supervision of Local Authorities. Matters revealed in the audits carried out on accounts of the Local Authorities were brought to the notice of the Heads of the Local Government Authorities.

- Attention to discuss the weaknesses in Local Authorities was drawn by the detailed report presented annually to the Provincial Councils by the Auditor General. As the Mayor of the Urban Council, Moratuwa expressed that , pursuant to an opinion obtained from the Attorney General, Provincial Councils had no authority to discuss the reports of the Auditor General, the Western Provincial Council had desisted discussing the audit reports relating to Local Authorities. Under those circumstances, it has to be decided whether the detailed report relating to Local Authorities should be discussed at Parliament or the Provincial Council.

- Since the inception of Provincial Councils up to 2012 (except Local Authorities in Jaffna and Mannar Districts) the Auditor General had tabled the reports relating to Local Authorities at Parliament in terms of Article 154(6) of the Constitution though it has not so far been summoned for discussion. It is proposed that those reports be discussed at Parliament. In this context, the common deficiencies observed in audits carried out on the accounts of the Local Government Authorities are listed from (a) to (h) below.

(a) Generating income by issuing licenses to the telecommunication towers established in areas under the scope of a Local Authority Local Authorities though, an opportunity to generate a large income had lost, as the relevant Provincial Councils had not formulated by-laws governing the issue of licenses.

(b) As per the regulations of the Local Government Authorities, approval for the appointment of employees should be sought from the Provincial Public Services Commission, whilst reimbursement of salaries should be obtained from the Provincial Council. As appointments had been given by many Local Authorities in an inappropriate manner contrary to the above reimbursements for salaries could not be obtained. Hence, salaries had been paid through overdrafts, or other sources of funding as the financial position of the Provincial Councils had been deteriorated.

(c) In spite of requests made to the Provincial Council by the officers for approval to collect income as per powers granted to the Local Authorities for their direct involvement in collecting income and increasing the income collected, following the Circulars issued by the Commissioner of Local Authorities under the Central Government prior to establishment of Provincial Councils, the possible income that could have been collected had been lost as certain Local Authorities had not obtained such an approval. For instance, failure to recover rentals on shops.

(d) Once the shops owned by the Local Authorities had been given to the primary owners, they had sub-leased those shops later. Most of the a Local Authorities had been not taken actions to formalize those sub-leases.

(e) Prior to the establishment of the system of Local Authorities, it was possible to obtain the stamp duties and fines belonging to the Local Authorities promptly though, a delay in receiving those incomes by the Local Authorities, was observed as the said incomes had been remitted through the Revenue Department of the Provincial Council.

(f) With the establishment of Provincial Council system, the Municipal Council Ordinance, the Urban Council Ordinance and the Pradeshiya Sabha Act relevant to the Local Authorities had to be amended so as to suit to that system on timely basis. Nevertheless, action had not been taken accordingly and it had resulted in the difficulties found in the preparation of future development plan.

(g) Implementation of development schemes within the area of authority had been done with the agreement of making provisions to the Local Authorities by the various Ministries, Departments and institutions of the Government. Nevertheless, there were instances where the grant of funds had been rejected due to the weaknesses found in the implementation of those development schemes. But, those money had been continually shown as debtors in the accounts.

(h) According to 4.2 of the Provincial Council list, that is the 1st list of the 9th schedule of the 13th amendment to the Constitution, the powers of the Provincial

Council cannot be nullified. Nevertheless, the Government or Provincial Councils had not implemented suitable methods to grant the charges recovered for the licences separately issued for the sale of liquor within the limits of a Municipal Council according to the Excise Ordinance referred to in the 2nd schedule of the Section 185(2) of the Municipal Council Ordinance to the 23 Municipal Councils presently in operation.

Further, the significant observations revealed by the audit queries issued by the Auditor General on the accounts of the Local Government Authorities are given below.

- The income in arrears remained recoverable as at 31 December 2014 in respect of 335 Local Authorities amounted to Rs.15,466.67 million and the arrears of the contribution payable to the Local Government Services Pension Fund amounted to Rs.733.88 million.

- The overdraft balance that existed in a Bank Current Account of the Colombo Municipal Council as at 31 December 2014 amounted to Rs. 935.02 million and the overdraft interest paid thereon during the year under review had been Rs.31.75 million. In addition, since there was an overdraft balances of Rs. 844.9 million in the Current Accounts of the Council as at the end of the year, the financial control position had been at a weak level.

- Having obtained the service of a private contractor for the solid waste management in an area of the Colombo Municipal Council, a sum of Rs.101.29 million had been paid from January to October 2014, whereas the contractor could not be influenced on the implementation of the tender conditions due to the absence of an agreement.

- A Land Rover purchased by the Colombo Municipal Council about 23 years ago had been repaired at a cost of Rs. 2.17 million and after the repair it had been parked at the Council premises without being utilized for running.

- Without preparing a cost estimate for the Municipal Council Building Construction Project in the land belongs to the Kotte Municipal council situated close to the Welikada Police Station, the project estimate amounting to Rs. 900.27 million submitted by the relevant service supplier institution had been accepted. The following observations are

  (i) It had not been disclosed as to how the expenditure for the construction of new building would be funded and a feasibility study had not been done.

(ii) This land had been utilized for a non-commercial project violating the conditions of the Transfer order.

(iii) It was observed that since a sum of Rs. 15,21 million payable to the service supplier institute had not been paid, a legal action could have been taken against the Council by the said institute under the general condition 06 of the Agreement.

- The Water Project had been implemented by the Kuliyapitiya Urban Council by using a water purification plant belonging to the Council and water had been supplied for 1,855 water consumers as at the end of the year under review. However, the evaluation of the productivity of the Water Project could not be done due to non- availability of information such as non-availability of stock water meters, monthly production and distribution etc. As such, the outstanding balance of the water bills amounted to Rs.3.69 million as at the end of the year under review and it represented 81 per cent of the income earned by billing during the year.

- Having acquired a block of land containing 01 Acre 03 Roods and 30 Perches in extent owned by the Maharagama Municipal Council to the Sri Jayawardenapura Municipal Council, a sum of Rs.8.60 million had been paid to the Urban Development Authority by the Kotte Municipal Council without being entered into a memorandum of understanding for the establishment of Delkanda Fair therein. Even though business activities were carried out within the said premises during the year under review, no income whatsoever had been earned and action had not been taken to take over the title of that land to the Kotte Municipal Council.

- Provisions amounting to Rs.2.60 million had been made to the Balangoda Pradeshiya Sabha under the Dorin Dorata Gamin Gamata Programme and agreements had been signed with 08 societies for the implementation of 08 products for Rs.2.56 million. Those industries had to be concluded as at 31 December 2014. The value of the works carried out by those industries amounted to Rs 0.92 million and the completion of the said projects had been stopped half way without any fair reason.

- The old fair building constructed by the Homagama Pradeshiya Sabha in the heart of the Homagama town utilizing a loan amounting to Rs.4.62 million obtained from the Local Loan Development Fund in the year 2007 had been demolished and removed at a cost of Rs. 0.2 million in October 2014 and thereby a loss amounting to Rs.4.82 million had incurred. In order to set up temporary huts instead of the removed weekly fair, a sum of Rs. 3.51 million had been paid at the rate of Rs. 0. 58 million per month up to March 2015 and when comparing that amount with the income of Rs.2.12 million earned by the Pradeshiya Sabhe from this weekly fair during that period, the Pradeshiya Sabha had occurred a loss of Rs.1.39 million. Even though renovation of the fair had been completed at a cost of Rs.70 million by the Urban Development Authority by 15 May 2015, payments had been continually made for the temporary huts without opening the weekly fair.

- According to the decision of a case filed by a lessee at the Kuliyapitiya District Court regarding the prejudice caused to him as a result of renting out of meat stalls improperly relating to the year1988 by the Kuliyapitiya Pradeshiya Sabha, the Pradeshiya Sabha had been ordered to pay a sum of Rs.657,000 at the rate of Rs.1,800 per day from 01 January 1988 to 31 December 1988 and the relevant legal charges to the relevant party.

- The income receivable by renting out of the compactor owned by the Galgamuwa Pradeshiya Sabha amounted to Rs.499,554 as at the end of the year under review and out of that a sum of Rs.457,940 was recoverable from external parties. Further, a sum of Rs. 2.68 million remained recoverable as at the end of the year under review in respect of renting out the JCB machine.

- In accordance with the tender conditions of the Nikaweratiya Pradeshiya Sabha , the payment of Key Money should be completed within a period of 05 months, whereas a sum of Rs.1.42 million remained recoverable in respect of 09 trade stalls even as at 31 December 2014 although a period exceeding 05 years had elapsed from the date of tendering.

- The rest house and the land belonging to the Seethawakapura Pradeshiya Sabha had been granted to the Urban Development Authority for the management, whereas action had not been taken either to recover the rental of Rs.11.24 million recoverable from the year 2001 or to take over the said property to the Pradeshiya Sabha.

Foreign Funded Projects

According to the statistics of the Ministry of Finance, the total foreign borrowings of Sri Lanka as at 31 December 2014 amounted to Rs. 3,131 billion and out of that, the foreign borrowings on concessionary terms amounted to Rs.1,491 million. As compared with the foreign borrowings amounting to Rs.1,467.6 billion obtained on non-concessionary terms as at 31 December 2013, those borrowings as at 31 December 2014 amounted to Rs.1,622 billion. This indicated that the foreign borrowings on non-concessionary terms had increased. The foreign borrowings obtained directly from the Loan Market as at 31 December 2014 amounted to Rs.1,164.5 million thus indicating an increase of 12.94 per cent as compared with the position existed at the end of the year 2012.

Out of the foreign borrowings obtained on concessionary terms, a sum of Rs.786 billion had been received from the bilateral sources and out of that a sum of Rs. 416 billion had been contributed by the Government of Japan. The foreign aid from the Government of India amounted to Rs.120 billion. Out of the foreign borrowings obtained from the multilateral sources, sums of Rs.471 billion and Rs.363 billion had been received from the Asian Development Bank and the International Development Agency respectively.

The foreign borrowings obtained on concessionary terms had been invested mainly in the sectors of Power and Energy, Water Supply, Roads, Bridges, Ports, Agriculture and Irrigation for purposes such as poverty alleviation, improvement of infrastructure facilities, livelihood support, social welfare, education and health.

The manner in which the foreign borrowings obtained in the year 2014 on concessionary terms and non-concessionary terms had been invested in various sectors of the Economy is given in the table below.

Field	Investment as a Percentage
Development of Roads and Bridges	64
Water Supply and Sanitation	6
Disaster Management	5
Labour and Vocational Training	5
Housing and Urban Development	3
Education and Media	3
Power and Energy	3
Other	11

The financial statements of 121 projects implemented on foreign loans obtained from the multilateral sources on concessionary terms in 2014 had been presented for audit and out of that, 27 projects were funded by the Asian Development Bank and while 25 projects were funded by International Development Agency. Significant audit observations included in audit reports presented in respect of those projects are summarized as follows.

- Substantial increases in the estimated cost as well as a instances where the functions of the foreign projects could not be completed during the expected period, were observed in audit due to subsequent changes of the scope of work of the foreign funded projects. Significant observations are as follows.
  - (i) The Athurugiriya Interchange of the Colombo Outer Circular Highway which consists of 2 stages from Kottawa to Kadawatha commenced at an estimated cost of Rs.72.92 billion had not been included in the original plans of the Project. However, the Athurugiriya Interchange Centre had been completed at a cost of Rs.475 million as a variation of the original estimate.
  - (ii) The construction work of a building for the Highways Secretariat had been commenced in August 2010 under the National Roads Sector Project and the scope of this building planned for 08 storeys had been altered up to 10 storeys subsequently. As a result, the original estimate of Rs.1,167.44 million had increased up to Rs.1,963.17 million by 31 December 2014. Constructions of this building had not been fully completed even by 31 December 2014.
  - (iii) The Cost of the road from Matara to Godagama rehabilitated under the National Roads Sector (Additional Financing) Project had increased by Rs.14 million due to variations extraneous to the original plan.
  - (iv) The scope of the work of the Dry Zone Urban Water and Sanitation Project had been altered as a result of weaknesses of the original estimate. And estimated cost of the project had been increased from Rs.113 million to Rs.163 million by 44 per cent.

- A large number of foreign funded projects implemented without preparing an overall plan or Annual Action Plans were observed in audit. A summary on such main Projects is given below.

Name of the Project	Estimated Cost
	Rs.Millions
Southern Expressway Extension Project	187,010
Climate Resilience Improvement Project	14,617
Secondary Towns and Community Based Water Supply and Sanitation Project	2,290
Southern Expressway Connectivity Project	791
North East Water Supply and Sanitation Project	220
Dry Zone Urban Water Supply and Sanitation Project	113

- The staff of any Project should be selected by calling applications on a public notification and those appointments should be limited for a period of three years on contract basis in terms of provisions of the Circular No.33 of 05 April 2007 of the Department of Management Services. However, it was observed that the officers who are in the permanent services of the Road Development Authority and Water Supply and Drainage Board had been deployed part time basis without selecting through public notifications for Projects of the Road Development and Water Supply Sectors. It was further observed that at the closer of the period of one project, those officers are attached to a staff of another project and remain in the service continuously in project offices.

- Several instances where the project activities could not be implemented as planned due to public objections, were disclosed during the course of audit. Activities of the Water Supply and Sanitation Project in Jaffna and Kilinochchi commenced in May 2011 could not be commenced even by 31 December 2014 due to public objections. The development activities of the Road from Kirulapana to Colombo – Horana under the Baseline Road Development Project had stopped halfway by 31 December 2014.

- Delays in submission of the audited financial statements to the Lending Agencies had been occurred due to late submission of the financial statements on foreign projects for audit. Even though the financial statements for the year ended 31 December 2014 in respect of 03 Projects implemented by the Ceylon Electricity Board should be presented to audit as at 31 March 2015, such financial statements had been presented to audit in July 2015. In addition, the financial statements for the year ended 31 December 2014 relating to 07 Projects implemented by the National Water Supply and Drainage Board had not been presented to audit even by 31 August 2015.

- Action had been taken to construct a temporary Interchange at a cost of Rs.259 million due to delay in construction of buildings of the Kottawa Interchange of Colombo Outer Circular Expressway in line with the date of the Southern Expressway was opened. Subsequently, this temporary Interchange had been removed by incurring a cost of Rs.8.27 million and the permanent Interchange had been constructed at a cost of Rs.945 million. In addition, a temporary Interchange had been constructed at a cost of Rs.176 million at Kothalawala, Kaduwela and action had been taken to remove it by incurring a cost of Rs. 10 million in March 2015. Such costs had been brought to account as expenditure of Colombo Outer Circular Highway Project – Part 1.

Banking

Bank of Ceylon

The total asset base of Bank of Ceylon grew by 10.9 percent to Rs.1, 323 billion in 2014 in comparison to Rs.1, 193 billion in 2013 mainly due to increase in investments by Rs.99.5 billion or 29 percent to Rs. 446 billion. The net interest income of the bank increased by 14 percent in 2014 due to improvement in net interest margin from 29.3 percent in 2013 to 34.8 percent in 2014. Bank had recorded a net profit before tax of Rs.20.8 billion in comparison to Rs.15.2 billion in 2013. It had been contributed Rs. 6.8 billion to the consolidated fund in 2014. The deposit base grew only by 11.8 percent in 2014 which is below the growth of 21 percent recorded in 2013.

Non-performing loan ratio (NPL) of the bank has improved by 3.8 percent in 2014 in comparison to 4.3 percent in 2013 mainly due to decrease in non-performing pawning advances by Rs. 7.8 billion to Rs. 4.1 billion at the end of year 2014.

During the year 2014, it had opened 6 new branches and 2 SME centers to expand its branch network. It has retained its AA+ long term rating from Fitch Ratings (Lanka) 2014 as well.

People's Bank

The Rs. 1 trillion asset base at the end of 2014 and recorded a growth of 10.6 percent from Rs.927 billion in 2013 to Rs.1, 026 billion in 2014. Despite the decrease in net interest income by Rs. 6.8 billion or 18.6 percent over 2013, pre-tax profits of the Bank increased to Rs. 17.2 billion mainly due to the increase in other income and reversal of impairment for loans and other losses. It has recorded a lower deposit growth rate of 4.0 percent in 2014 compared to growth rate of 11.4 percent in 2013.

Non-performing loan ratio of the bank has improved by the end of 2014 to 3.2 percent over 5.3 percent in 2013, mainly due to reduction in non-performing pawning by Rs.12.7 billion to Rs.0.95 billion.

It comprises with 348 branches, 391 service centers and 463 Automated Teller Machines ATM locations covering almost all parts of the island. Fitch Ratings (Lanka) has affirmed AA+ (lka) national long term rating for People's Bank for the third consecutive year.

National Savings Bank

The bank's asset base grew by 19 percent to Rs.779 billion at the end of 2014. An increase in interest income together with improvement in net interest margin to 3.0 percent in 2014 over 1.7 percent in 2013 and recorded a profit before tax of Rs.10.5 billion in comparison to Rs.2.3 billion in 2013. Its deposit base grew by 10.4 percent to Rs.554 billion at the end of 2014 which is above the growth of 9 percent recorded in 2013.

The non-performing loan ratio has marginally decreased to 7.8 percent in 2014 in comparison to 7.0 percent in 2013 mainly due to increase in pawning non-performing loans by 103 percent to Rs.13.4 billion at the end of 2014. It expanded its branch network to 236 branches with the opening of 7 new branches in 2014 and retained the AAA (lka) national long term rating by Fitch Ratings (Lanka) for the 12 th consecutive year in 2014.

Pradheshiya Sanwardana Bank (RDB)

The objective of the establishment of the Pradheshiya Sanwardana Bank (PSB) is to improve the living standards of the rural masses by providing them with accessible and affordable credit facilities which in turn contribute to strengthen the rural economy.

The net profit had been increased by 84 percent in 2014 due to decline in interest expense and increase in interest income. The interest expenses declined by 10.6 percent to Rs. 5,312 million in 2014 due to the adjustment of the higher interest rates offered for the deposits.

The deposit base of the bank had increased by 15.8 percent.

Non-performing loans ratio increased to 7.6 percent in 2014 from 7.3 percent in 2013 mainly due to losses in the pawning portfolio.

The bank relocated 19 branches, expanded 8 branches and opened 8 SME centers during the year 2014.

State Mortgage and Investment Bank

The net interest margin of the bank increased to 4.96 percent in 2014 from 4.76 percent in 2013. Hence the profit increased by 42 percent. Deposits, loan and advances increased by the same percentage to 14 percent as against the industry rates of 12.4 and 13.7 percent respectively.

The non-performing loan (NPL) ratio decreased to 34.06 percent in 2014 from 37.11 percent in 2013.

During the year 2014, the bank has expanded its branch network by opening of two new branches.

Housing Development and Finance Corporation Bank (HDFC Bank)

Being the only state bank listed on the Colombo Stock Exchange, the HDFC Bank is primarily engaged in granting loans or credit facilities for housing purposes.

The asset base of the bank grew by 25 percent in 2014 to Rs.35 billion mainly due to increase in investments and loans & advances.

Due to increase in interest income coupled with improvement in net interest margin to 5.94 percent in 2014 over 4.38 percent in 2013, the bank's profit before tax recorded an increase of 165 percent to Rs.818 million.

The deposit base of the bank has increased by Rs.5.5 billion or 29.5 percent to Rs.24.5 billion
by the end of 2014, of which 87 percent represent time deposits.

The non-performing loans (NPL) ratio had increased to 22.57 percent in 2014 in comparison with 19.85 percent in 2013.

The bank's branch network has expanded to 36 with the opening of new 3 branches during the year 2014. It has retained the Fitch Ratings (Lanka) national long term rating of BBB+ in 2014 as well.

Source Ministry of Finance Sri Lanka – Annual Report 2014

Major Audit Observations

Central Bank of Sri Lanka (CBSL)

- According to the provisions in the Section 39 of Monetary Law Act,(MLA), the profits earned by the CBSL after the appropriations and making settlement of dues from the Government of Sri Lanka should be transferred to the General Treasury within 60 days after the closure of the financial year. Accordingly, a sum of Rs. 8.5 billion had been remitted to the General Treasury in 2 instances in 2014 as advance payments from the profit of first two quarters of the year under review even though, there was a loss of Rs. 32.31 billion. Further, the distributable profit had been calculated by the CBSL after taking into account the net foreign exchange revaluation loss of Rs.32.27 billion and "marked-to- market" gain/loss on foreign assets of Rs. 7.97 billion. In addition to that the balance of the retained earnings as at the end of the year under review remained a negative value of Rs. 5.7 billion.

- The CBSL had purchased a property in Brazil by spending a sum of Rs. 122.81 million during the year under review for the purpose of its future operations. The Cabinet approval before purchase of this property had not been obtained by the CBSL and the future plan for utilization of the property had not been decided up to the end of the year under review as well. However, this property had been rented out to the Ministry of Foreign Affairs for a period of two (02) years from 01 February 2015 and the Embassy of Sri Lanka in Brazil had functioned in this premise since that date.

- The CBSL had acquired a building in New York by spending a sum of US$ 6,207,116 (Rs. 607,121,953) on 24 August 2011 and it had been rented out to the Ministry of Foreign Affairs for three years period from 01 June 2012 at a monthly rental of US$ 68,000 without being utilized for the intended purposes. However, according to Section 117 of Monetary Law Act, " the CBSL should not engaged in trade or otherwise have a direct interest in any commercial, industrial or other undertaking except such interest as it may in any way acquire in the course of the satisfaction of any of its claims".

- The CBSL had paid a sum of Rs. 1,396.22 million during the year under review on behalf of the Government of Sri Lanka to three Foreign Service providers for obtaining consultancy services on reimbursable basis from Treasury. The said amount had been treated as expenditure of the CBSL in 2014 without claiming it from the General Treasury. Further, it represented 68 per cent of the total consultancy advisory professional service expenses amounting to Rs. 2,050.62 million incurred during the year under review.

- The CBSL had entered into an agreement with a foreign company to establish an International Financial Centre in Sri Lanka. According to the agreement, the first installment of US$ 250,000 had been paid in October 2014. Thereafter, the CBSL had decided to suspend obtaining the services from this company without being recovered the above amount.

Bank of Ceylon

Bank of Ceylon Seychelles Branch

Opening of Accounts in USD and Euro with correspondent Banks in New York and Frankfurt for Bank of Ceylon

All forex transactions of Seychelles Branch are channeled through Offshore Banking Division and Bank of Ceylon (UK) Limited. Therefore, the Bank customers are not satisfied with the situation because there could be more charges levied by the intermediary Banks and delays in the processes. It will be beneficial to the Seychelles Branch to have a direct correspondence bank relationship with the banks in USA and EU.

Even though the memorandum dated 21 May 2014 submitted by the Assistant

General Manager (Overseas Branches) and the Senior Deputy Manager (International and Treasury) to the Board of Director had given approval to open USD accounts with Standard Charted Bank in New York and Deutsche Bank Trust Company America, New York and Euro accounts with Deutsche Bank in Frankfurt.

The Bank had tried to open an account in USD and EURO with correspondent Banks in New York and Frankfurt after obtaining the Board approval. However, it was futile due to non-compliance with the laws and regulations in Seychelles. Therefore, the Branch had faced difficulties of enhancing business operations in Seychelles.

Deposits from Customers – Dependency on few customers

During the review of deposits, it was observed that three major customers amounted to 62 per cent of the total deposits and ten major deposits customers amounted to 77 per cent of the total deposits of the Branch as at 30 April 2015. This indicates that the Branch was more dependent on very limited depositors and exposed to high liquidity risk. Hence, it was observed that this situation would adversely affect the going concern of the Branch.

Advance Payment of VAT amounting to Rs. 750 Million

The Bank had made a payment amounting to Rs. 750 million as a Value Added Tax (VAT) advance to the Department of Inland Revenue on 30 December 2014. The above advance payment would be recovered from the future tax liabilities of Value Added Tax on financial services. According to the VAT guidelines, the VAT can be only charged after the service has performed based on the taxable activities carried out by the Bank. However, the above tax advance had paid using the profit/income made by the Bank during the accounting year 2014. Therefore, it had badly affected the future cash flows of the Bank. As a result of the above transaction, the opportunities of making profits or income through short term investment had forgone.

Direct recruitment of management trainees

Despite the fact that the second written examination for the above recruitment ought to had been conducted by the Examinations Department of Sri Lanka as per Board paper dated 03 October 2013 it had been accomplished utilizing a private institution which operates on private tuition classes that had no experience in conducting examinations.

In taking approval for the above private institution, the Assistant General Manager (Training and Development) had submitted wrong information as a University to mislead the higher management.

Although the private institution was selected for the purpose of holding the second written examination the said institution had carried out the setting up of question papers and evaluation and its supervision and holding the examination had been handled by the Bank of Ceylon staff. Nevertheless a sum of Rs. 2.1 million had been made for only these two functions.

The Assistant General Manager (Training and Development) who had conducted all duties of the above recruitment, a daughter of him who had appeared for the said examination and successful which fact had not been apprised to the higher management. Accordingly, the impartiality of the situation under these circumstances is questionable.

People's Bank

- The outstanding balance of the loans transferred to non performing category without paying even one installment as at 31 December 2014 was Rs.361.69 million against 74 loans over one million within 18 branches.

- Non-performing loans and overdrafts amounting to Rs.6,176.16 million and Rs.601.26 million respectively of the major ten customers had remained as at 31 December 2014 for a long period without recovering.

- Since no proper policy had been prepared for the recovery of Non Performing staff loans, Even though non performing staff loan balance has been increased from Rs.260 million to Rs.336 million during the year 2014, the management had not taken effective action for recovery of the non performing balances.

National Savings Bank

- The Bank had made an overpayment of Rs. 510.96 million contrary to the dividend policy of at least 30 percent of profits after tax or 15 percent of equity whichever is higher. As a result, equity and assets of the Bank had been understated by Rs. 510.96 million as at 31 December 2014.

- Out of the total project loans value of Rs.55,371 million approved to the Road Development Authority (RDA), Rs.49,218 million had been disbursed up to the end of the year. In that Rs.11,711 million or 24 percent had been disbursed during the month of December of year 2014. However, the Bank had not obtained any physical progress report from the RDA in each disbursement of the project before releasing the instalments as per the Project Finance Manual.

- Fraudulent withdrawals and Cashier's shortages as at 31 December 2014 were amounting to Rs.26.53 million and Rs. 1.51 million, out of them Rs.17.64 million had remained outstanding for more than one year and Rs.1.4 million were outstanding for more than three years respectively.

Pradeshiya Sanwardhana Bank (RDB)

- As per Section 31 of the Pawn Broker's Ordinance No. 13 of 1942, a pawnbroker may bid for and purchase at a sale by auction made or purporting to be made under this Ordinance, a pledged pawned with him, and on such purchase the pawned broker shall be deemed to be the absolute owner of the pledged purchase. In contrary to this 23.95 kilograms of unsold pawned articles had been smelted without obtaining the absolute ownership of such articles. Total pawning outstanding of the Bank was settled by disposing gold bars made out of smelted gold and thereby preventing customers from being entitled to the excesses as stated in the section 28 of the said article.

- Competitive bidding procedures had not been followed on smelting process for smelting chargers, gold transportation chargers and selling prices of smelted gold.

- Contrary to the Public Administration Circular No. 03/ 2012 dated 23 February 2012, a vehicle had been handed over to the retired General Manager without being obtained the appropriate approval from the General Treasury.

- The value of variation orders as a percentage of total contract award price on two construction contracts namely repair to existing branch office building at Mihintale and construction of Thirappane building was 217 per cent and 46 per cent respectively. Though the percentages were higher than the minimum, the relevant approval from the Secretary to the Line Ministry had not been obtained before issuing such variation orders as stipulate in section 8.13.4 of the Government Procurement Guideline – 2006.

State Mortgage and Investment Bank

- Sums aggregating Rs.7.06 million deposited by the customers during the period from 01 July 2013 to 31 December 2014 in the Gampaha Branch had been omitted from the accounts.

- Loan installment (Estate) recovered from the Central Bank of Sri Lanka by the Kandy Branch amounting to Rs. 13.73 million had not been transferred to relevant account. As such the income and loan balances had been understated and overstated by Rs. 5.57 million and Rs. 6.16 million respectively.

- There was a debit balance in cheque on realization account as at 31 December 2014 due to an error in posting. Thus the other debtors shown in the financial statements had been overstated by Rs.22.81 million.

- Even though the Bank had reconciled a balance of Rs. 1.12 million remained in the cheque on realization account-004/1/09/1607 of the Gampaha Branch as at 31 December 2013, the entries thereon had not been made in the accounts up to 31 December 2014.

- An unreconciled opening difference of Rs.18.58 million was observed between the current account with the Branches and the current account with the Head Office held in Branches.

- A difference of Rs. 69.96 million had been observed between the amount shown in the financial statements and the balances generated by the computerized systems with regard to the fixed deposits, savings accounts, unappropriated accounts, loans against fixed deposits etc. as at 31 December 2014.

- A balance of Rs.4.21 million had been shown in the advance account without being identified and adjusted in the accounts.

Housing Development Finance Corporation Bank (HDFC Bank)

- Out of total customer deposits of the Bank, more than 49 percent was owned by twenty depositors as at 31 December 2014 and it was 42 percent in the preceding year, thus indicates that the Bank was more dependent on very limited depositors and exposed to high liquidity risk.

- The Bank had entered in to an agreement with a Finance Company to collect fixed deposits on behalf of the bank and agreed to pay a commission of 0.5 percent per annum on the deposits value and for any renewals of the fixed deposits thereafter.

- Even though the bank had two separate divisions as Treasury and Marketing headed by two Chief Managers, the Bank had incurred an additional cost of Rs. 1.29 million over the period of three years for collecting the funds through a third party.

- According to the agreement entered with the above Finance Company, the bank had agreed to pay a special rate for high value deposits of over Rs. 3 million. However, without considering the value of deposits, the bank had offered the special rate for the deposits less than Rs. 3 million too.

- The bank had issued the secured debentures valued at Rs. 2 billion during the month of October 2013 at the interest rate ranging from 14.5 percent to 15.5 percent. In the meantime, the bank had purchased Rs. 850 million worth of unsecured debentures in the year 2014 at the interest rates ranging from 8 percent to 9.75 percent and as such the financial market forecast made by the management is open to question.

- Even though the Bank had invested a sum of Rs. 850 million in debentures during the period from September 2014 to December 2014, the Bank had incurred an estimated loss of Rs.9.87 million due to decrease of fair value of debentures as at 31 December 2014.

Agriculture and Land

Ministry of Agriculture

The Ministry consisted with the Department of Agriculture and 05 statutory institutes namely, Hadabima Authority, Hector Kobbekaduwa Agrarian Research and Training Institute, Sri Lanka Council for Agricultural Research Policy, Institute of Post- Harvest Technology, National Food Promotion Board and two companies owned by the Government namely, Ceylon Fertilizer Company Ltd and Colombo Commercial Fertilizer Company. The key functions of the Ministry are designing and implementing policy programmes and projects, agricultural diversification and improvement of products, promoting the use of organic fertilizer, administration of the Soil Conservation Act, Felling of Trees Control Act, Plant Protection Act, Provisions in the Fertilizer Act and the Pesticides Act, Agricultural Education, Research and Project Services, Agro Enterprises, Livestock Products Technology and Development of High Technological Activities. Provisions of Rs.41,004 million had been made in the year under review for the Ministry of Agriculture and the Department of Agriculture and a sum of Rs.37,757 million had been spent.

The matters observed at the inspection of projects implemented by the Ministry are as follows.

- A sum of Rs.72 million had been allocated by the Annual Estimate for the year 2014 for the implementation of the Supplementary Crops Production Programme and a sum of Rs.9.8 million had been provided to the Institute of Post- Harvest Technology for the implementation of programmes for introduction and promotion of ice cream made of rice, soya and associated pulses. Even though the approval of the Cabinet of Ministers had been granted to provide Government contribution of 50 per cent only to the beneficiaries contrary to that 20 ice cream producing machines had been procured on 10 December 2014 at a cost of Rs. 4.2 million. Nevertheless, those machines had not been distributed up to 30 September 2015.

- Even though provisions had been made since the year 2012 to commence a programme for promotion of export of rice, a feasibility study had not been carried out in that connection before the commencement of that programme and not identified the possibilities and problems thereto. Even though 04 rice export zones had been planned to be established according to the Action Plan of the year 2014 for this programme, only 02 zones had been established.

- Under the Programme for Improvement of Packaging and Transporting to minimize the Post-Harvest Damage of Vegetables and Fruits 5,448 tomato packings and plastic baskets at procured at a cost of Rs. 2.17 million purchased in the year 2011 had been remained idle in the stores of the Institute of Post- Harvest Technology even by 30 July 2015.

- The Ministry had held the "Jathika Govi Sathiya" exhibition from year 2006 to year 2014, and a sum of Rs. 26.19 million had been spent thereon during the year under review. However, this was not identified as a special project and not making provisions by the Annual Estimate. Further, out of the provisions made for the two programmes, namely Programme for Production of Supplementary Crops and Promotion Programme for Organic Fertilizer Production amounting to Rs. 13.2 million had been used to spend for these expenses without obtaining proper authority.

- It was informed to select farmers who cultivate vegetables, fruits and supplementary crops to be provided a contribution of 50 per cent by the Government under the Commercial Farm Programme, by the Circular No.4/3/2/8/1 of 11 December 2013 of the Secretary to the Ministry of Agriculture, 12 horticulturists had been selected from the districts of Ratnapura and Colombo and paid a sum of Rs. 2.76 million as Government contribution.

- Action had been taken by 12 private companies including the Colombo Commercial Fertilizer Company and the Ceylon Fertilizer Company to import and distribute 300,000 metric tons of fertilizer islandwide under the Fertilizer Subsidy Programme of the Government. The Government had spent a sum of approximately Rs.32 billion annually for this programme and it included a large amount of interest paid for loans obtained from banks due to unsettling of credit bills on the due date by the Fertilizer Companies. A sum of Rs. 4,922.12 million had been spent as interest and bank charges for short term and long term loans obtained by the two above mentioned Government Companies during the period from 01 April 2013 to 30 June 2014 and out of that, a sum of Rs.4,752.06 million had been reimbursed by the Treasury.

Ministry of Lands

The Ministry of Lands and the Land Commissioner General's Department, Survey Department, Department of Lands Settlement, Land Use Policy Planning Department and the statutory institutes of Land Survey Council and Land Reform Commission under the purview of that

Ministry are operative in fulfilling the prime objectives such as updating and implementing of the National Land Policy, protecting the territorial environment, assuring the protection of lands, implementing and updating of the land use policy, proper management of state land and distribution of suitable land among the people without land and development and granting land for development projects and assuring the ownership and registration of all lands in the country. The total net provisions allocated for the Ministry and the Departments under the Ministry for the year under review was Rs. 6,150.3 million and out of it, a sum of Rs.6,025.1 had been utilized.

Significant audit observations relating to the year 2014 are given below.

- Out of 4,408 active Land Acquisition Files of the Ministry during the period from 2008 - 2014, activities of 122 files had been completed and 298 files relating to payment of compensation remain inactive. The Ministry had paid a sum of Rs. 1,704.69 million as compensation and a sum of Rs. 525.03 million as interest for acquisition of land in the year 2014. An interest of Rs. 110.37 million as well had been included in that amount only for the lands acquired in the year 2005. A large cost had to be incurred by the Ministry for interest due to the delay in payment of compensation in the acquisition of lands.

- The Ministry had allocated a sum of Rs. 50 million to the Land Commissioner General's Department in the year 2014 for the implementation of recommendations of the Lessons Learnt and Reconciliation Commission and out of that the Department had spent a sum of Rs. 41.68 million out of 199,641 issues presented in the year 2014, 81,954 issues had been solved and as such, the overall physical progress had been remained lower.

- The overall progress of the Bim Saviya Programme conducted by the Ministry during the past 4 years was as follows.

Year	Provision Rs. million	Expenditure Rs. million	Targeted No. of Title	No. of blocks	No. of blocks	Amount of ownerships
2011	1,000	481	200,000	157,470	79,678	25,697
2012	1,100	416	200,000	124,717	62,130	26,386
2013	800	670	500,000	110,630	58,690	63,943
2014	446	445	500,000	121,973	66,759	50,672
	3,346	**2,012**	**1,400,000**	**514,790**	**267,257**	**166,698**

- Even though the Bim Saviya Programme was due to be completed after issuing the Title Certificates for all the landowners by the end of the year 2021, the overall progress of the programme was only 12 per cent. Even though work had been commenced in 97 divisions, from the year 2007 to 31 December 2014, only the work of 05 divisions had been completed even by the end of the year 2014.

- It was observed that out of the 310 official quarters belonging to the Land Commissioner General's Department, 90 quarters had been rented out, and out of 220 quarters 70 quarters in repairable condition, 22 quarters under destruction condition and 23 quarters remained vacant. Further, 37 official quarters are occupied by encroachers and action had not been taken to remove the encroachers from those quarters up to the end of the year under review.

- Even though the Survey Department had decided on the Monthly Norms of a Surveyor in making incentive payments of the Surveys General Department, incentives and supervision fees had been paid in the year 2014 same as in the years 2012 and 2013 without deciding on the maximum number of plots per month relevant to the payment of incentives or a limit payable as a percentage of the basic salary. As such, it was observed that incentive payments had been made to 207 officers from 50 per cent to twice of the annual basic salary as incentives and supervision fees in the year 2014. At present, the survey activities are carried out using modern equipment as well as methodologies such as satellite and computer technology and the Survey Department had procured adequate measuring equipment, to carry out duties. Therefore, limit of a minimum measurement of 30 per month by a Surveyor, which is an old methodology over thirty years is not a fair basis for the incentive scheme. It was observed that this methodology had mainly contributed to the aforesaid irregularity in payment of incentives.

- The Land Use Policy Planning Department had conducted a workshop to provide instruction to implement the 2014 action plan in Polgolla area and a sum of Rs. 1.87 million had been spent. According to the Agenda, only 01 hour had been allocated to discuss the Action Plan. As such, it was observed that public funds had not been used in an effective manner.

Culture and Arts

The Ministry of Culture and the Arts and the Ministry of National Heritage had been established for the conservation, promotion, and protection of the Cultural Heritage of Sri Lanka through the formulation and implementation of the policies and programmes required for the purpose.

The above objectives had been identified by considering the Culture and the Arts and the National Heritage as the main tools which influence the behavior of the people. Five institutions under the Ministry of Culture and the Arts and four institutions under the Ministry of National Heritage had been established in order to achieve these objectives.

An allocation of Rs. 2,186 million had been made in the year 2014 for the capital and recurrent expenditure of the Ministry of Culture and the Arts and 4 institutions under its purview and a sum of Rs. 1,675 million out of that had been utilized. The Central Cultural Fund had earned an income of Rs. 2,309 million in the year 2014, mainly from the sale of Tourist Admission Tickets and out of that a sum of Rs.1,830 million had been utilized.

Review of Performance

Ministry of Culture and the Arts

- Even though a sum of Rs.2,177 million had been allocated since the year 2011 for the establishment of the SAARC Cultural Centre under the Cultural Exchange Programme for the improvement of Co-operation among the SAARC Countries, the financial progress of the project as at 31 December 2014 amounted to Rs.648.59 million or 29.79 per cent.

- A sum of Rs. 11 million had been spent for the construction of 03 Cultural Centers on lands, the title of which had not been transferred to the Ministry.

- Even though work on the construction of a Cultural Centre and a Tsunami Research Institute with an estimate of Rs.323 million had been commenced in the year 2011 the expenditure incurred up to 31 December 2014 amounted only to Rs.82.91 million on 20 per cent of the overall provision.

Department of Cultural Affairs

The professor Ediriweera Sarathchandra Drama Training School had been constructed in the year 2014 at a cost of Rs. 11.3 million, in order to remedy the lack of study of drama as an art and for the Sinhala and Tamil Cultural Co-existence. Provision had not been made in this connection in the Annual Budget Estimates and it had not been included in the Action Plan. The work had been done by granting ad hoc sub-imprests. Such imprests of Rs. 2.27 million obtained by the Director of Cultural Affairs in 59 instances had been settled after delays ranging from one month to 08 months while ad hoc sub-imprests amounting to Rs.4.3 million granted in 247 instances to 40 non-staff grade officers had been settled after delays ranging from two months to 12 months.

Central Cultural Fund

Even though the cost of materials and the direct labour for 301 Archaeology work sites amounted to Rs. 211 million and Rs. 368 million respectively. the labour cost incurred on the actual cost of materials amounting to Rs. 52 million and the cost of labour amounted to Rs.402 million, thus rendering such high cost of labour a questionable issue. Contrary to the objectives of the Fund a sum of Rs. 60 million had been given on loan basis during 03 years to a Trust not established legally for the construction of the National Heritage Concepts Museum, Kahawilgoda. It was observed in audit that the money had been misappropriated.

Out of a sum of Rs. 70.7 million spent in the year 2014 and the previous years for the production of Software Discs on National Heritage which was not related to the Fund, a sum of about Rs. 50 million had been misappropriated.

Tower Hall Theatre Foundation

An agreement had not been entered into with the Department of Civil Security for the supply of labour for the modernization of the Elphinstone Theatre from 31 May 2012 up to the end of the year under review and a sum of Rs. 17 million had been paid to that Department for the services of 37,549 man days obtained up to 31 December of the year under review. The Fundation had lost an annual income of about Rs. 6 million due to the Theater remaining closed over period exceeding 03 years.

Ministry of National Heritage

Even though provision of Rs. 60 million had been made for the creation of documentary programmes on 100 well-known and not so well-known archaeological sites, the live performance programmes of traditional low country rituals, and broadcasting those in the television channels, the programmes / projects costing about Rs. 30 million had not been planned in the year 2014. Even though a sum of Rs. 13.69 million had been spent for the preparation of compact discs with the documentary programmes on 100 well-known and not so well-known archaeological sites and for preparation for trailer action had not been taken for broadcasting them on television channels.

Department of Archeology

Even though 377,000 bricks valued at Rs. 6 million had been supplied in the year 2014 to the Dighawapi Stupa Construction site for the conservation of the Dighawapiya, Neelagiriya and Yudhanganawa Stupas, construction work had not been commenced even by June 2015 due to problems relating to the standards of the bricks and the non-preparation of estimates.

Even though a sum of Rs. 6.5 million had been given in the year 2014 for the conservation of the two-storeyed building situated on a hillock in the Ratnapura City Centre declared as an archaeological monument on 22 November 2002, construction work had not been begun even by May 2015.

Even though the Archeological Rewards Fund established under Section 46(1) of the Antiquities Ordinance No.9 of 1940 as amended by the Antiquities (Amendment) Act, No. 24 of 1998 had received Rs. 64 million from the year 2010 to 31 December 2014 out of the fines imposed by Courts situated in different regions of the Island, the money had been retained in the General Deposit Account without being utilized for the purpose in respect of which the Fund was established.

Department of National Museums

Reconstruction work of the Colombo Museum

The left side section of the main stairway of the Colombo Museum had collapsed on 28 March 2013 due to lack of proper maintenance of the building and 9 out of 14 Galleries of the Museum only could be kept open for viewing by the general public due to carrying out repairs. This had resulted in the decrease of the annual revenue of the Museum by about Rs. 4 million in the years 2013 and 2014 as compared with the year 2012.

Security of the Colombo Museum

The number of Museum pieces lost due to the robbery of the National Museum committed on 16 March 2012 had been 221 and the value of those had been assessed at Rs. 4,440,140. Out of that, 94 museum pieces had been recovered in their original condition while 57 had been recovered in parts and stones the others had been destroyed as those had been cut into pieces and hammered. The Courts action had not been finalized even by June 2014.

Even though an unauthorized entry had been made to the Textile and Pottery Gallery in the year 2014 by breaking the door locks, no suspects had been identified.

Department of National Archives

The new building constructed under the expansion of the building of the Department, at a cost of Rs. 637 million and opened in November 2012 remained underutilized due to the delay in the purchase of 285 items of furniture, 105 computers for the department sections and the mobile racking system needed for all storeys.

Education

Many institutions affiliated to the Ministry of Education keep functioning with the aim of the mission to develop the human resources of Sri Lanka through the creation of a citizen who love their mother country, parents and teachers alike, with the empowerment of knowledge, benevolence, strength, and health. These institutions include, Provincial Departments of Education, Department of Examinations, Educational Publications Department, National Institute of Education, and Sri Lanka National Commission for UNESCO. Additionally, foreign aids and foreign funded loans have contributed to achieve the goals in education sector.

The allocation for recurrent and capital expenditure for the education in the year 2009 amounted to Rs. 85,198 million and Rs. 7,511 million respectively, whereas the said allocation amounted to Rs. 107,740 million and Rs. 10,726 million respectively for the year 2013. For the year 2014, the allocation for the recurrent and capital expenditure amounted to Rs. 118,982 million, and Rs. 17,202 million respectively and it included a sum of Rs. 2,907 million received as foreign loans and aids. As compared with the year 2013, the allocation for recurrent and capital expenditure had been increased by 10 per cent and 60 per cent respectively.

Schools, Students and Teachers

There were 9,410 government schools in the year 2009. it was increased up to 10,119 by the end of the year 2014. The student population of government schools in the year 2009 was 3,860,176 and this number had increased up to 4,078,037 by the end of the year 2014. There were 213,694 teachers in the schools, whereas this number had been increased up to 232,989 by the end of the year 2014. Accordingly, it was reported that the average number of students per school was 410 for the year 2009, and a trend in declining of average to 403 students per school was observed by the year 2014. Furthermore, the teacher-student ratio for the year 2009 was 18 and trend of improving the ratio up to 17 by the year 2014 was observed.

Achievement of objectives

Implementation of Transfers of Teachers

As a result of the objective of preparation and implementation of a scheme for the transfer of school teachers in a manner that maximizes the welfare of both teachers and students paving the way for an optimized process of education was properly been achieved, the test checks revealed that there were dearth of 2,248 teachers in 193 national schools , and a surplus of 1,387 teachers in 163 national schools respectively as at 31 December 2014, without taking action to minimize and 4,268 teachers of 200 national schools had remained at the same schools for a period ranging from 12-35 years without being transferred , appointing of 118 teachers recruited and trained for sector of education for special needs for 72 national schools which were no units for special needs education, and 58 trained teachers for special needs appointed to 40 schools equipped with units for special needs education had been assigned to teach for the classes for ordinary students.

Admission of Children

A sample check revealed that contrary to the objective of fair education for every child, and by exceeding the limits authorized by the provisions of Circulars that the maximum number of students in a class parallel to the primary grades , and secondary grades of a national school should be 40 , and 45 respectively , 9,329 students had been admitted to 20 national schools of popular fame.

Introduction of Technology Stream of Education

The total cost estimate for the construction of 250 *Mahindodaya* technical faculties to facilitate the Technology subject stream newly introduced into the GCE Advanced Level examination in the year 2013 , was Rs. 7,000 million. As of 31 December 2014, 02 faculties had been fully constructed, whereas, 248 had been built halfway by incurring a sum of Rs. 2,791 million. As the technical instruments and furniture had been purchased for those 250 faculties during the year 2014 at a cost of Rs. 970 million before the construction of laboratories had been concluded , those assets remained idle for more than one year ,thus warranties had expired. As students had been enrolled for the technology stream before providing facilities of physical and human resources , infrastructure, it was revealed that the students are directed to the Advanced Level examination to be conducted in August 2015 depriving them of 15 per cent of practical session of the syllabus , none of the students of 13 schools chose technical stream, number of students reading for technology stream at 20-62 schools is as low as 1-9, and the overall shortage of teachers with regard to each subject was 165. Hence, the importance of preparing a proper methodology promptly to complete the construction of faculties required for the technology stream by enrolling students and utilizing the instruments properly, is observed.

Construction of Mahindodaya technical laboratories

Allocations amounting to Rs. 8,557 million for constructing 860 *Mahindodaya* technical laboratories had been made in the years 2012, 2013 and 2014, whereas the actual expenditure as at 31 December 2014 was Rs. 8,519 million. The construction of 822 laboratories were completed and construction of other 38 buildings were remained halfway as at that date.

Improvement of 457 New Model Schools

Improvement of 457 new model schools had been commenced in the year 2008 with the objectives of improving schools with lesser number of students despite ample resources located in the vicinity of the schools of popular fame, minimizing the discrepancies among schools, minimizing competition for the so-called popular schools, decreasing the number of school dropouts and improving the relationship between the school and the community. Allocation amounting to Rs. 316 million had been made over 04 years since then up to the year 2011 under this program and, only a sum of Rs. 118 million had been allocated for the entire 03 years of 2012, 2013 , and 2014 , of which , only a sum of Rs. 73 million had been spent. It was not possible to review the performance of this program as the performance reports showing the financial and physical progress of each year had not been prepared. Further it was not possible to ascertain as to whether the provisions had been gradually decreased due to the unsuccessfulness of the project achievement of initial goals of the program already.

Payment of Bursaries to the 5th Grade Scholarship Holders

A test check made on a sample of 50 out of 97 overall Zonal Educational Offices , had revealed that the total value of the unpaid bursaries contrary to the provisions of the Circular issued by the Secretary to the Ministry of Education related to the payment of bursaries to scholarship holders of Grade-5, amounted to Rs. 57 million including a sum of Rs. 52 million payable to 24,506 scholarship holders of 119 national schools due to inability of the Ministry of Education to make allocation and imprests as at 31 December 2014, and another sum of Rs. 4 million remained payable to 1,813 scholarship holders of 29 national schools due to failure in furnishing the vouchers properly. Therefore It was observed that education and mentality of children of parents with low income suffering from the deprivation of bursaries , had been degraded.

Library Aids and Donations to the Students in Pirivenas

As a result in failure of introducing a proper mechanism to prepare and obtain annual reports on the student's attendance , follow-up actions, lack of attention to make adequate allocation, and failure to introduce a methodology for the distribution of donations and aids proper and fair manner according to an Action Plan, donations to the students and library aids due for every registered *Pirivena* had not been duly granted in accordance with a decision made by the Cabinet and the ordinance on *Pirivena* education to registered Pirivenas. The arrears as at 31 December 2014 amounted Rs. 3 million.

Procurement of Computers, Laptops and Accessories for 775 Computer Labs

Contrary to the procurement procedure and the decision made by the Cabinet to purchase computers, laptops, and other accessories from a model of international fame, a sum of Rs. 5,618 million had been spent to supply and install of computers , laptops and other accessories, that had not conformed to internationally-acclaimed standards. Despite a sum of Rs. 7.2 million spent on laptops and computers purchased for one laboratory, only a sum of Rs. 6.9 million had been spent per laboratory in purchasing laptops and computers of international fame for other 40 laboratories following procurement guidelines.

Use of Information Technology in Schools

A sum of Rs. 855 million had been spent on the operations, supply of equipment, and settlement of telephone bills of the school computer network linked to 1,724 schools and educational institutions, during 2008-2014 , telephone bills aggregation Rs. 814 million related to years 2012, 2013, and 2014 had been settled without obtaining recommendations on its efficiency and productivity, and without identifying the school or the institution to which the bill belongs. Many schools had given up using "Schoolnet" due to various reasons such as, drops in speed, and lack of signal strength.

Moreover, despite a total sum of Rs. 64 million had been incurred from the year 2011 to 31 December 2014 , to install the installation of an Information System on education management, so as to achieve objectives, including, -access to information related to human and physical resources, and financial activities of all educational institutions at school, divisional, zonal, provincial and Ministerial levels, gaining access directly to the personal files of teachers through Internet, enabling teachers to browse and update their information and apply for transfers and training opportunities, and obtaining statistical reports required by the Ministry, it was revealed that the expenditure had not been productive without a performance , and objectives in that connection could not be achieved.

Environment

The institutions such as the Department of Forest Conservation, the Department of Wildlife Conservation, the Central Environmental Authority and the Marine Environment Protection Authority which were under the purview of the Ministry of Environment and Renewable Energy and the Ministry of Wildlife Resources Development, had taken measures in respect of protection of the environment by preventing the environmental pollution and maintenance of favourable environmental situation within Sri Lanka.

Wildlife Conservation Department

The main functions of the Department are the establishment and management of the network of Wildlife Protected Areas for protection of the extensive biodiversity heritage and ecosystems which Sri Lanka is endowed with, conservation of threatened fauna and flora species and planning and implementation of social and economic programmes for the people who utilize the forest resources. This Department which holds the trusteeship of the Wildlife Protected Areas of this country, had earned an income of Rs. 2.5 billion in the year 2014 from sale of tickets for entry into the national parks and other activities and credited to the Wildlife Conservation Fund. In addition, the General Treasury had granted a sum of Rs.1,243 million as well to the Department.

The audit had pointed out the matters on issue of licenses illegally for the elephant calves captured from the forest in preceding years and subsequently, legal action had been taken against the persons who kept 6 elephant calves illegally in the year 2014.

An elephant kraal had been constructed in a land with an extent of 1,117 hectares by spending Rs. 189 million as a remedy to minimize the human-elephant conflict and a loss of Rs. 81.2 million had been caused due to shortcomings of the constructions. The elephant kraal had been constructed without a proper feasibility study and a scientific basis and a specific arrangement had not been made for maintenance of that elephant kraal. As such, it was observed in audit that there is a minimum possibility of success in the activities of herding of elephants which is the key function thereof. A sum of Rs. 15 million had been overpaid to the contractor in respect of a circuit bungalow constructed by the Wildlife Conservation Fund owned by the Department.

Forest Conservation Department

Encroachments in 116 instances within the area belonging to the Nuwara Eliya District of the Hakgala Strict Nature Reserve and other encroachments in 103 instances within the areas belonging to the Badulla

District had been reported and no action had been taken to protect these Reserves which are environment sensitive areas, that is, no legal action had been taken in respect of encroachments.

Central Environmental Authority

One of the main objectives of the Central Environmental Authority is to order to a certain Local Government Authority to perform in terms of recommendations on the environmental protection within the control of the area of Authority of that Local Government Authority and to enforce those recommendations in terms of the National Environment Act, No. 47 of 1980. The progress of several main Projects implemented by the Authority was as follows.

A sum of Rs. 6.2 million had been spent for procurement of a Polythene Film Making Machine and a Plastic Polythene Grain Making Machine under the Reusable Plastic Recycling Projects and a loss amounting to Rs. 1.2 million had been caused due to transportation of the machine by air considering as an emergency requirement without a plan.

It was observed in the physical verification carried out on 06 March 2015 that the Sanitary Landfill Project at Dompe which was constructed spending Rs.395 million and handed over to the Authority had remained idle for over a period of one year without commencing the operations thereof. Further, necessary action had not been taken to recover the loss of Rs. 49.6 million caused to the constructions of the Project.

The Authority had failed to commence the constructions of 4 Land Filling sites proposed to make solid waste disposal facilities under the Loan facilities of the Economic Development Cooperative Fund since November 2013. As such, a sum of US$ 1,340,608 which had been agreed to be provided by the Korean Government in the year 2014 had not been made use of for the project.

Even though the Pilisaru Project was scheduled to be completed in the year 2010, it had not been completed up to the end of August 2015. Out of the provisions amounting to Rs. 5.633 billion made for that Project, only 42 per cent had been spent up to the end of the year under review. The Project had provided financial support amounting to Rs. 1,601 million to construct the Compost Yards in 121 Local Government Authorities under the Solid Waste Management Component of the Project. It was observed that out of those yards, there are 06 yards where composting is not carried out, 05 yards under constructions, 05 yards not in operation and 02 yards not constructed.

No action whatsoever had been taken by the Authority in respect of the complaints received on environmental damages caused to the nature reserve as a result of the construction of the Powerhouse by erecting an anicut and diverting water in the Samanala Adaviya Nature Reserve by the Nayaganga Mini Hydro Project. It was confirmed in field inspections and follow up action tests that the Project Proponent, Ministry of Irrigation and Water Management had failed to fulfill the relevant conditions for granting the environment approval for the Uma Oya Multipurpose Development Project. Nevertheless, the approval of the Environmental Impact Assessment (EIA) had been granted from 12 April 2011 to 12 April 2017 without considering those observations. Even though 113 complaints had been received from people's representatives, the Management had not paid attention thereon. Accordingly, such environmental damages had been caused due to neglecting the situations of risks in the environment in granting approval for the Preliminary Environmental Test Reports. As such, it was observed that the Authority had deviated from the primary social responsibility.

The complaints of 2013 on the environment had been received in the year 2014 and out of that 1614 or 79 per cent of that had not been settled. As such, it was observed that the progress of the settlement of the complaints remained very low.

Amendments of the Act had not been made for 18 identified sectors required to improve by amending the National Environment Act No.47 of 1980.

Marine Environment Protection Authority

The functions of prevention, reduction, control and management of pollution arising out of ship based activities and shore based marine related activities in the territorial waters of Sri Lanka or any other maritime zones or the coastal zone of Sri Lanka are remained under the main objectives of the Marine Environment Protection Authority.

Even though the Cabinet of Ministers had granted the approval to recover all expenses amounting to Rs. 1.55 million incurred by the Authority from the ship owners to prevent from a possible marine pollution due to oil leakage from a ship in the year 2012 had not been recovered even in the year 2014. A sum of Rs. 31.16 million had been spent by 31 December of the year under review only to procure equipment for the laboratory of the Authority, established in the year 2009 and no action had been taken to publish the reports of the researches carried out by the laboratory hitherto or to prevent marine pollution based on those reports. An expenditure aggregating Rs. 10.04 million comprising Rs. 5.58 million and Rs.4.46 million had been incurred respectively in the year 2013 and in the year under review for the Project for Management of Introduction of Invasive Alien Species into Sri Lankan waters through ship's Ballast water. However, the final report of the Project had not been prepared up to the end of June 2015.

External Affairs

There were 67 Missions Abroad comprising 14 High Commissions, 37 Embassies and 11 Consulates functioning under the Ministry of External Affairs in the year 2014.

The provision made for the year 2014 had been Rs.10,063.39 million, of which Rs.9,769.53 million had been utilized. The expenditure of the Missions Abroad amounted to Rs.7,966.34 million and represented 82 per cent of the total expenditure. The Sri Lankan Mission in London had spent the largest amount of Rs. 436 million followed by the Mission in Geneva which had spent Rs.426 million. The rent payable as at 31 December 2014 to the Central Bank of Sri Lanka in connection with the Mission in New York amounted to Rs.26.671 million.

Material deficiencies revealed during the audit of the activities of the Ministry of External Affairs:

- Regular payment of penalties for delays in the clearing of the heavy baggages of officers those who return to Sri Lanka after the completion of their postings abroad was revealed. Such payments made in the year 2014 amounted to Rs.3.73 million or 29 per cent of the sum of Rs.12.78 million paid as heavy baggage clearance charges.

- Even though two super luxury buses costing Rs. 35.9 million had been purchased in November 2013 on lease basis for Rs. 55 million payable in 60 installments, the two buses remained idle parked without protection in the vehicle park of the Ministry.

- Non- settlement of imprest balances amounting to Rs. 87 million older than 5 years.

- The difference of Rs.75 million between the actual imprest balance of the Ministry including the unsettled advances and cash balances of the Missions Abroad and the balance appearing in the books had not been adjusted.

- The balances of unsettled advances of the Ministry and the Missions Abroad as at 31 December 2014 amounted to Rs.365 million and included unsettled advances of the Missions Abroad older than 06 years amounting to Rs. 91 million.

- Two buildings valued at Australian $ 2,589,000 of the Sri Lankan High Commission in Canberra, Australia had been idlying over a period of 1 year and 6 years.

Foreign Employment

Sri Lanka Bureau of Foreign Employment

The total number of persons who migrated in the year 2014 for the foreign employment market had been about 300,413 and the Central Bank of Sri Lanka had estimated that Sri Lanka would receive an inflow of foreign remittances amounting to Rs. 916,344 million. Even though the Sri Lanka Bureau of Foreign Employment is the regulatory authority in relation to matters of the foreign employment market, material differences contrary to the objectives of the Bureau revealed in the audit of the Bureau are given below.

- A sum of Rs. 12.45 million deposited from the year 2008 to the year 2013 by the Employment Agencies for the settlement of 252 of complaints / disputes of the migrant labour had been retained by the Bureau without being paid to the parties concerned.

- Out of the money paid by the migrant labour for the Provident Fund Scheme implemented by the Bureau for the migrant labour from the year 1989 to the year 1996, sixty per cent had been deposited with the Employees' Trust Fund in the names of the respective migrant labour. The balance sum of Rs. 6.11 million had been retained by the Bureau without being paid to the parties concerned.

- Out of the money received from the United Nations Compensation Commission for the payment of compensation for the distress caused to the Sri Lankans employed in Kuwait from the invasion of Kuwait by Iraq, a sum of Rs. 2,975.5 million had been retained by the Bureau even by 31 December 2014 without being paid to the parties concerned.

- Long delays in the settlement of dues payable to the migrant labour.
  - Insurance indemnity older than 24 months amounting to Rs. 3.45 million
  - A sum of Rs. 18.35 million recovered as refundable deposits from the migrants at the rate of Rs. 50,000
  - Insurance indemnity older than one year amounting to Rs. 2.06 million.

- Even though an advance of Rs. 20 million had been paid in the year 2013 for obtaining 99 year lease of a land valued at Rs. 95 million, action had not been taken up to date to finalise the transaction and utilize, the land for the intended purpose.

- Even though the expenditure on the Foreign Welfare Division for the year under review amounted to Rs. 727.56 million a sum of Rs. 232.97 million or 32 per cent only had been spent on the welfare of the migrants. The balance 68 per cent amounting to Rs. 494,581,991 represented salaries and establishment and administration expenses.

- The Bureau had spent a sum of Rs. 134.48 million in the years 2013 and 2014 for the Musical Shows held in connection with the implementation of a project which did not fall under the ambit of the objectives as specified in the Act on the incorporation of the Bureau. The intended project had been abounded, thus rendering the expenditure incurred fruitless.

- A sum of Rs. 38.31 million had been paid for the supply of food and drinks to the resident Korean trainees without following the procedure under the shopping method. A further payment of Rs. 9.53 million had been made without entering into a contract agreement on the approval of the Procurement Committee for the supply of food to 1,244 participants of 28 resident Korean training programmes.

- Even though the Committee on Public Enterprises had, at the meeting held on 14 August 2012, directed that the loan granted to the Subsidiary Company in the year 2012 should be recovered and that it is not necessary to grant loans to the company, a further loan of Rs. 20 million had been granted again in the year 2014. No dividends had been received up to the year 2009 for the investment made in the Company. Even the dividends amounting to Rs. 3.5 million receivable up to the year 2014 had been surrendered to the Company.

Fisheries and Livestock

Ministry of Fisheries and Aquatic Resources Development

The fisheries sector occupies a major place in the upliftment of nutrition level of the general public in Sri Lanka and the responsibility with regard to the activities related to the fisheries industry rests on the Ministry of Fisheries and Aquatic Resources Development. The Ministry, the vision of which being the management of fisheries and aquatic resources utilization for the wellbeing of the present and future generation, expects to achieve those objectives through the supervision of the institutions namely the Department of Fisheries and Aquatic Resources Development (Management of Fisheries Resources), National Aquaculture Development Authority (Development of Fresh Water Fisheries Industry and Aquaculture) , Ceylon Fishery Harbours Corporation (Harbour, Anchorages and Berthing Management and Development) National Aquatic Resources Research and Development Agency (Scientific Researches), Ceylon Fisheries Corporation (Marketing Management) CEYNOR Foundation Ltd. (Input Supply), and the Peliyagoda Central Fish Market Complex Management Trust which are functioning under the purview of the Ministry.

Even though the provisions amounting Rs.9,416 million had been received for the Ministry of Fisheries and Aquatic Resources Development and the institutions functioning under the Ministry including the Department of Fisheries and Aquatic Resources Development for the year 2014, only Rs.8,069 million had been spent and provisions amounting to Rs.1,347 million had been saved.

The significant matters observed at the audit of the Ministry and the institutions functioning under the Ministry are specified below.

Purchase of two mother vessels

In order to purchase 02 mother vessels at a cost of Rs.326.01 million, the Ministry had entered into an agreement with a foreign supplier in the year 2007 and a sum of Rs.113.55 million had been paid up to 31 August 2015. Even though provisions had been annually made for this project from the year 2006 to 2013, out of that allocation of Rs. 541.01 million had been transferred to another items of expenditure in each year and due to the failure on the part of the Ministry to utilize those funds effectively, the Secretary to the Ministry had been emphasized by the Cabinet Decision dated 22 August 2013 that the effective utilization of the available resources should be ensured and a strict supervision on that connection should be carried out. However, even after period of 08 years elapsed from the inauguration of the project, mother vessels had not been purchased and as such the Ministry had failed to achieve objectives of this project.

Dikovita Fishery Harbour Construction Project

This project initiated on foreign aid by the Ministry in the year 2009 and completed in 2011 had been further expanded and constructions had been carried out with the local funds from the year 2011 on an estimated value of Rs.792 million. For the purpose of improvement of the Mattkkuliya boat yard belongs to the CEYNOR Foundation Ltd as a vessels repairing centre of this harbor, a sum of Rs. 180 million had been spent from the project funds as at the end of the year under review. As it had been agreed to carry out boats and vessels repairs on concessionary prices to the fishermen, the Committee on Public Enterprises had directed on 13 January 2013 to prepare a scheme for that purpose. Nevertheless, such a scheme had not been prepared even up to 31 August 2015 and the CEYNOR Foundation had manufactured vessels on commercial basis. As a result, the benefits of the funds spend by the Treasury for the development of the fisheries industry had not infiltrated to the fisheries community.

Further, having entered into an agreement for the purchase of computer software licence utilized for manufacturing boats in the year 2013, that is irrelevant to the purpose project, a sum of Rs.9. 66 million had been paid in the year 2014. Although a period of 02 years and 08 months had elapsed as at 31 August 2015 from the date of obtaining this licence of which the period of validity is due to be expired on 17 January 2018, it had not been utilized.

Fishery Harbour and Anchorages Development Project

This Project which had been initiated for the development purposes of 06 fishery harbours and anchorages at a cost of Rs.2,000 million in the year 2013 had been included the construction of additional 08 fishery harbours and anchorages in the year 2014 and the cost had been increased up to Rs. 5,789 million.

- The approval of the General Treasury and the Cabinet of Ministers had not been obtained for the construction of additional 08 fishery harbours and anchorages. Further, approval of the Central Environmental Authority and the Coastal Conservation and Coastal Resources Management Department had also not been obtained for this purpose.

- Instead of carrying out procurement activities of 04 constructions under the project through the Cabinet Appointed Procurement Committee according to the Procurement Guideline 2.14.1, it had been carried out through the Ministry

Procurement Committee after segmenting the cost.

- Since Project activities could not be practically activities, all the activities of the Project had been assigned to a single Entity at the time of awarding the contract and a sum of Rs.1.01 million had been paid as allowances to Procurement and Technical Evaluation Committees in respect of each activity.

- It is observed that spending Rs.9.9 million in respect of the ceremony of laying foundation stone for the commencement of 05 project activities under this Project is uneconomical and of 03 Project activities had not been commence of even up to 15 July 2015 for which foundation stones had been laid and it was remained questionable.

- While the Department of Management Services had approved a staff of 18 officers for the Project Operation and Implementation Unit, 29 officers had been recruited by the Project. Further, salaries and allowances amounting to Rs. 2.48 million had been paid in respect of the 11 officers recruited without approval.

Distribution of Instruments for Self-employments for Livelihood Development

- Instruments required for the industries non-related to the fishery such as sewing industry, food processing, spices production, poultry keeping, and flowery culture as the self-employments for the livelihood development of the fisheries community, had been procuring by Ministry at a cost of Rs.10.5 million. As a result of procuring of these instruments at higher price, a loss amounting to Rs.1.34 million had incurred.

- Although it had been stated that these instruments to be distributed through the District Fishery Office, Negoembo and had been handed over to the said office, no information whatsoever was found to the effect that such instruments had been taken over or distributed. The assets such as 121 sewing machines, 53 bicycles for women and 120 sets of school equipment were induced there in and distributions of such assets were remain questionable.

Erroneous Payments

Payments had been made for the invoices submitted by the private Security Service Company which provided the security to the Peliyagoda Central Fish Market Complex stating that excessive number of employees had been deployed than the actual number of officers so deployed and as such the Management Trust of that market complex had erroneously paid a sum of Rs.15.39 million as security services charges, Rs.1.88 million as the Value Added Tax (VAT) and Rs.0.31 million as the Nation Building Tax (NBT) for the year 2011, 2012 and up to November 2013 to the Company. The amount which had been erroneously paid to the security services company represented 45 per cent of the total amount paid to the aforesaid company.

Ceylon Fisheries Harbour Corporation

Providing facilities required for the fisheries community such as construction and maintenance of fisheries harbours, provision of facilities required for the repairs and maintenance of fishery vessels, provision of cold store facilities and supply of ice, development of fisheries harbours and anchorages are the main functions of the Corporation. However, out of 20 fishery harbours owned by the Corporation, vessels repairing facility of 07 harbours, fuel supply facility of 04 harbours and ice-supply and cold stores facilities of 06 harbours were not available. Further, 12 harbours out of 20 harbours were running at loss and the total loss suffered by the Corporation from the year 2010 up to the year 2014 amounted to Rs.323.51 million.

Ceylon Fishery Corporation

Engaging in the activities such as making higher contributions to the Gross Domestic Product, marketing and processing of fish and the production and sale of high quality fish and value added manufacturing at a fair value with using modern technology are the mission of the Corporation. However, 150 fish stalls were remained and out of that 49 stalls had been closed down as at 31 August 2015.

National Aquatic Resources Researches and Development Agency

To be the premier institution for scientific researches in conservation, management and development of aquatic resources in the region is the vision of the Agency and to provide innovative solutions for national development issues in the aquatic resources sector utilizing scientific and technical knowledge and resources is the mission of the Agency. Nevertheless, a research vessels constructed at a cost of Rs.15.69 million in the year 2011 had not been utilized for research activities even up to 31 August 2015. A sum of Rs.7.04 million had been paid as salaries and allowances from the year 2011 up to 31 December 2014 for the staff attached to this purpose.

Further, contrary to the objectives of the Agency Act, a fish market had been constructed at Beruwala at a cost of Rs.152.24 million in the year 2013, whereas this building had not been utilized even up to 31 August 2015.

Ministry of Livestock and Rural Community Development

Formulation and implementation of policies, programmes and projects, development of livestock industry, milk production and distribution, planning and implementation of veterinary medical services and researches, protection of animals from diseases and animal quarantining, administration and implementation of the Animal Act, Animal Disease Act and Animal Food Act and the improvement of the socio-economic standard of the rural community are the main functions of this Ministry. The technical expertise and support services required for the livestock development are provided by the Department of Animal Production and Health and Milco Private Company, National Livestock Development Board and Mahaweli Livestock Resources Development Company are the other institutions which contribute to this endeavor while functioning under the purview of the Ministry.

Provisions aggregating to Rs.5,789 million had been received for the Ministry and the Department of Animal Production and Health for the year 2014 and out of that Rs.5,438 million had been spent and provisions amounting to Rs.351 million had been saved.

Ministry of Livestock Resources and Rural Community Development

For the purpose of implementation of 07 projects required for the livestock development by the Ministry of Livestock Resources and Rural Community Development, provisions amounting to Rs.1,441.20 million had been made by the original estimate in the year under review. Since the performance report of those projects had not been prepared according to the Action Plan, progress thereon could not be examined in audit. Further, in accordance with the revised estimate prepared in October 2014, a sum of Rs.3,478 million had been received. Nevertheless, the Action Plan had not been amended so as to depict the manner in which the said money would be utilized.

Department of Animal Production and Health

In order to meet the drinking water requirement of the Seeppukulam Livestock Training Centre, the Department of Animal Production and Health had established a water purification unit at a cost of Rs.1.87 million in the years 2012/2013. However, it was unable to meet the water requirement as expected and action had been taken to fulfill the water requirement by spending Rs.15,000 per month from March 2015. An expenditure amounting to Rs.29, 000 had been incurred in March and April for that purpose. It was further observed that the requirement for the drinking water could not be fulfilled from that purification unit even by 10 June 2015.

National Livestock Development Board

Following audit observations are made.

- In the computation of the contribution in terms of Section 47 of the Employees' Provident Fund Act No.15 of 1958 and Section 44 of the Employees Trust Fund Act No.46 of 1980, only the basic salary of the employees had been considered.

- Even though it had been indicated in the financial statements that interests amounting to Rs.7.11 million and Rs.20.43 million for the year 2012 and 2013 respectively to be paid the General Treasury in respect of loan amounting to Rs. 1,600.8 miilion obtained for Wellard Dairy Cattle Project, provisions for the interests had not been made for the year 2014. Further, the Board had failed to prepare a proper plan for the repayment of this loan. In terms of the Letter of the Department of Foreign Resources dated 06 November 2012 the repayment should be commenced on or before 08 March 2013, whereas based on the self-evaluation as at 31 December 2014, only a sum of Rs.12 million had been paid during the year under review.

- A sum of Rs.9.45 million older than 5 years and a sum of Rs.1.51 million older than two years in respect of providing chicks to the Mahaweli Livestock Development Company and the Line Ministry respectively remained recoverable to the Board.

- As per the Cabinet Decision dated 28 June 2007, it was decided to hand over a block of 1000 acres in the Kanthale reserved for sugarcane cultivation to the National Livestock Development Board temporarility for cultivation of maize as a pilot project until a suitable entrepreneur is selected for sugarcane cultivation and a sum of Rs.37.5 million had been allocated to establish a Revolving Fund under the Negenehira Navodaya Programme. Since this project was unsuccessful, the land utilized for that Project had been re-transferred to the Kanthale Sugar Company on 01 September 2011. According to the comments of the Central Bank of Sri Lanka submitted to the Cabinet of Ministers, this project had been recommended under to the condition of remitting the balance of the revolving fund to the General Treasury when a suitable entrepreneur is selected for sugarcane cultivation. Nevertheless, the relevant land had been re-transferred to the Kanthale Sugar Company on 01 September 2011, However, a sum of Rs.13.29 million remained in the Revolving Fund as at 31 December 2014 had been retained in a Current Account by the Board without being remitted it to the General Treasury.

- The physical progress of 61 activities relating to 06 projects of 27 farms indicated in the Action Plan and the Progress Report was zero and the achieved physical target of 40 activities of 19 farms had been less than 50 per cent. Further, the progress of 293 activities of 31 farms included in the Action Plan had not been included in the Annual Performance Report and as such it could not be examined whether the relevant activities had been carried out during the year under review.

- A land of 150 acres of the Ridiyagama Farm had been encroached by 98 persons for unauthorized cultivation in the year 2001 and the Department had failed to evacuate them from the land, further unauthorized occupants who were not officers/ employees of the Board had enclosed 70 houses situated in the farms of the Board. Further, it was observed there were 145 houses suitable for residing and other 110 houses unsuitable for occupation purposes owned by the Board that although no one was occupied.

- In order to sale milk under the Milk project, 69 sales outlets had been maintained by the Head Office. But, 53 sales outlets had only remain in operation as at the end of the year under review. Out of the 69 sales outlets 25 outlets had sustained a loss of Rs.1.83 million and 44 outlets had earned a profit of Rs.17.06 million. Further, a net loss of Rs.152.39 million had incurred from 17 farms maintained by the Board during the year under review and out of which 07 farms had been running at loss since 2008. However, the Board had failed to bring those farms and sales outlets to a condition of gaining profits.

Health Services

The main activities are implementing plans for health sector, implementing programs and projects, implementing standards and rules, regulations for providing health services, development, management, planning of human resources and system development, distribution of resources, and execution, supervision and evaluation of programs and projects.

The number of hospitals all over Sri Lanka is 811 included 47 health ministry hospitals, 554 provincial council hospitals, 210 private hospitals and 341 health medical officers' offices for patient treatment services. A sum of Rs. 138,403 million had been spent by the government for health sector in the year 2014 and it was an increase of Rs. 18,873 million or 15 percent with compared to the sum of Rs. 119,530 million spent in the year 2013.

A sum of Rs.519,904 million had been spent during the last 05 years and a sum of Rs. 87,329 million and a sum Rs.432,655 million as capital and recurrent expenditure respectively. Per capita health cost of Rs.3,573 in the year 2010 had been increased up to Rs. 6,694 or 87 percent in the year 2014. It is shown an increase of the number of beds in private hospitals with compared to the contribution of private hospitals to health sector in the year 2010. Also it is shown an increase in the number of hospitals and the number of beds as well as the entire work force of the health sector. The number of doctors getting salaries from the head office of health ministry was 2845. Out of them 2638 doctors are trainee post graduate medical officers and 116 doctors are engaged in the posts of ministry administration sector.

Purchasing, Storing and Distributing Procedure

There are 26 district level divisional stores adjoining to stores complex network in Colombo to store and distribute all medicinal materials receiving to medical supplies unit. A part from this, 03 wholesale stores in Angoda and a wholesale store in Digana are belonging to medical supplies unit. Medicine and surgery materials required for hospitals controlled under provincial councils are distributed through these medical supplies units in district level. Even though it was proposed to construct a pharmacy drugs store by spending a sum of Rs. 199 million at Welisara chest hospital premises in the year 2013, construction had not been commenced even in the year under review due to lack of space. Private buildings had been used on rent basis to store medicine and the annual expenditure for this was Rs.9 million.

Medicine Purchasing Expenditure and Medicine Rejected/ Failure from Quality Test

The wholesale value of 3537 items of medicine and surgery materials supplied from State Pharmaceutical Corporation in the year under review was Rs. 17,386 million. Out of them, though 48 medicine and surgery materials valued at Rs. 218 million consisting of 10 million units had been decided to dispose due to quality failure, it was revealed that the 9 million units (valued at Rs. 186. million) of quality failed medicine had been issued to patients even before the notification made in this regard. It was 90 percent from the quality failed stocks which purchased. The amount as per the procurement conditions for quality failed stocks had not been recovered as the cash had been paid to suppliers and the stocks had been used. The actions had not been taken to recover the amount of Rs. 210 million from the suppliers for disposed stocks from 2010 to 2014. The value of 45 items disposed during the year 2014 due to the life expiry of the medicine was Rs. 218 million.

Incurring Additional Cost Occurred in Purchasing of Medicine Locally

State Pharmaceutical Corporation is mainly providing the national requirement of medical supplies and the procurement activities of the corporation is commenced by ordering one year before. However, Ministry had to do immediate purchasing locally due to non-receiving of medicine in due periods. In this reason, the additional cost had to be incurred is Rs. 2,013 million from the year 2007 to the year 2013. The cost had not been calculated for year 2014 and an additional cost of Rs. 174 million had been incurred only for the year 2013.

Supply of Medical Equipment- Bio Medical Engineering Service Unit

A sum of Rs. 2,646 million had been spent during the year under review to purchase medical equipment under this unit. Other than this, medical equipment had been purchased under foreign funded loan. Even though, it had been planned to purchase 3059 equipment units in 71 equipment categories in the year 2014, equipment planned in the years 2011, 2012, 2013 and other equipment had been purchased without purchasing anything planed during the year. Further, there were delays in installation of these purchased equipment in hospitals and therefore there were instances that the wasting of warranty periods.

Utilisation of Vehicles

According to the details in Motor Traffic Department as at 19 October 2014, out of the 2705 vehicles registered under Health Ministry, the ministry was not in a position to explain the things happen to 971 vehicles. The information with regards to persons used or the existing premises of those vehicles were not available and not updating the vehicle registers had been the main reason for this. It was observed that two government vehicles due to be auctioned (In good running condition) had been inappropriately purchased by two government officers without being auctioned.

Utilisation of Foreign Funds

The net provision of foreign fund was Rs. 11,696 million and expenditure was Rs. 9,860 million. According to the percentage of spending of foreign fund, it is observed that though the foreign loan expenditure is in higher percentage of 96 per cent, the percentage of spending foreign grant in 35 per cent is not convenient for the country. And also it was mainly observed that, actions had not been taken to utilized funds of non-refundable foreign grants in maximum capacity and prepare relevant work plans efficiently and not using effectively.

Contracts of Building Constructions

A sum of Rs. 1,610 million had been provided from local funds during the year 2014 for 38 various building construction projects connected to hospitals for patient treatment. Out of them, there were 02 construction projects without utilizing the funds and 02 were abandoned projects. (Construction of millennium ward complex in Colombo south teaching hospital, Mahamodara Maternity hospital in Galle) The number of projects which had less than 50 per cent financial progress from the allocation was 15. Matters such as non-presenting claims from related hospitals, incompletion of procurement activities, abandoned of work and taking legal actions on contract institutions, lack of fund to make payments for the vouchers presented had been presented as reasons for the low progress. Also the total cost estimation of the construction of maternity ward complex at Kurunegala teaching hospital amounted to Rs. 1,291 million and works of this had been commenced in the year 2007 and works should be completed in 10 February 2013. This contract is implementing under 03 stages and only 02 stages had been completed even after more than 08 years. The amount spent was Rs. 394 million.

Unnecessary delays due to Coordinating Inefficiencies

There were almost 90 divisions to perform duties within the Health Ministry and the inter connectivity between each other is in a poor level. Segregation of duties within divisions and staff are also in much irregular manner. Specially, more duties were taken on to higher level posts but files drifted on tables as inability to do in scheduled time period and therefore it was observed that much delays in Ministry administration activities. Sometimes, it had been taken several months to send a letter from one division to another division. Not granting proper authority and lack of supervision had been caused to this weakness.

State Pharmaceutical Corporation of Sri Lanka

A sum of Rs. 999 million or 4.7 per cent had been increased in overall turnover of the Corporation of Rs. 22,134 million in the year 2014 with compared to the turnover of Rs. 21,135million in year 2013. Seven new authorized pharmacies and three new state pharmacies were established and 31 state pharmacies with the 04 new distributors (excluding the 02 pharmacies closed during the year), 195 agency pharmacies, 54 distributors, and 10 authorized sellers are engaged in the open market. Following audit observations are made.

- The stock loss of Rs. 62 million had been occurred during the year under review including the medicine of Rs. 20 million taken to sell in the corporation and the medicine of Rs. 42 million taken to sell in the Medical Supplies Unit due to reasons such as quality failure, expiring etc.

- Out of the bank over draft interest incurred by the Ministry, the reimbursement of the over draft interest made on purchases in medical supplies unit had been made by the Treasury from year 2012 to April 2014. Therefore, over draft interest expenditure of Rs. 316 million relating to year 2012, Rs. 510 million in 2013, Rs. 179 million in 2014 had been incurred by the Treasury.

- Out of the 610 items of ordered medicine to medical supplies unit during the year under review, the Corporation had failed to supply 332.02 million units in 103 items. Out of them, the amount in which was unable to supply a single unit was 38.96 million units in 38 items.

- There were 33 active pharmacies in the Corporation including 03 pharmacies newly opened during the year and 02 pharmacies closed during the year loss of Rs.41.95 million had been incurred in 23 pharmacies and a profit of Rs. 113.88 million had been generated in 10 pharmacies. Therefore net profit of Rs. 71.93 million had been made from overall pharmacy operations and it is a decrease of Rs.18.36 million or 20.3 per cent with compared to the profit of Rs. 90.29 million in previous year.

Sri Lanka State Pharmaceutical Manufacturing Corporation

The operational profit of the Corporation in the year under review was Rs. 225 million and it was a decrease of Rs. 79 million or 26 per cent with compared to the operating profit of Rs. 304 million in year 2013.The sales income of the Corporation in the year under review was Rs.1,712.1 million and it had been decreased by Rs, 229 million or 11.8 per cent with compared to the overall sales income of Rs. 1,941.1 million in previous year. Further, out of the overall sales income, medicine amounted to Rs.

1,099.5 million had been sold to Health Services Director and it was 64.2 per cent from the overall sales. However, the sales made to Health Services Director in the year under review had been decreased by Rs. 312.6 million or 22.1 per cent with compared to previous year.

Out of the total production of 1,909.2 million units of manufactured 38 types of medicine, 1,303.8 million units or 68.3 per cent on 8 types and out of total production 605.4 million units or 31.7 per cent on 30 types had been subsisted.

Health Development Fund

According to the paragraph 7 of National Health Development Fund Act No. 13 of 1981, it was shown the money belongs to the fund should be utilized to implement activities such as development and promotion of institutions providing health-care services, the promotion of research among, and the advancement of the education or knowledge of persons engaged in or associated with, to finance any project for the purpose of taking necessary steps for, the prevention of disease among, or protection of the health, purchasing of medical equipment and essential medicine/drugs. However it was observed that, the money of this fund has being been invested continuously without being applied them to develop the heath sector. The balance of this fund was Rs. 205.4 million at the end of year 2014.

Ayurvedi Department

The net Allocation for Ayurvedic Department for the year 2014 was Rs. 1,347.51 million and, the expenditure was Rs. 1,179.12 million. Therefore the saving was Rs. 168.38million or 12.49 per cent.

Even though maintaining and promotion of Experimental Herbal Gardens were activities of the Ministry and the Department, 02 herbal gardens under the Ministry (44 acres in Wedagama herbal garden, 25 acres in Medirigiriya herbal garden), 05 herbal gardens under the Department (25 acres in Neelabemma, 50 acres in Dangolla Medawachchiya, 25 acres in Padaviya, 100 acres in Hiwalkandura, 69 acres in Ambanpola Peella) are become wilderness and maintenance had not been done. Raw medicine had been purchased from outside institutions by the Ayurveda Drugs Corporation and Department of Ayurveda due to providing insufficient raw materials from herbal gardens.

Even though the salary is paid by Vennappuwa provincial council for the doctor who was transferred to Vennappuwa provincial council, a gross salary of Rs. 548,376 had been paid by Ayurveda Department for 15 months. And that amount had not been recovered even at the end of the year under review and responsible parties had not been inquired with regard to erroneous salary payment.

Ayurveda Medical Council

As per the paragraph 11(1)(e) of section 111 of the Ayurveda Act No 31 of 1961, though the board comprise with 3 members elected from registered Ayurvedic doctors, no registered doctor had been appointed to the medical board.

As per the Ayurveda medical board paper No. (3) 08/13/14 of 05 July 2005, the registered doctors should be renewed their registration in 05 years with effect from 01 January 2006. Though it was decided to charge registration fees, only one out of the registered doctor at the end of the year under review had been paid and updated.

The total number of registered doctors in the medical board as at 31 December 2014 is 24,049 and out of them the dead amount is 3,001. And 2,545 registered doctors had not been updated even at the end of the year under review.

Homeopathic Medical Council

There were no medical board since year 2011 (Even as at 31 August 2015) and the activities are conducted by an interim committee. Implementation of the objectives mentioned in the Act was interrupted as such medical board was inactive.

Investment Promotion

In the context of Investment Promotion in Sri Lanka, a major role is being played by the Ministry of Investment Promotion and the Board of Investment collectively. The Board of Investment incorporated as the government principal agency for the purpose of promotion and coordination of industrial development in Sri Lanka since 1978. Encouraging and promoting Foreign Direct Investments (FDI), diversifying the source of foreign exchange earnings and increasing export earnings, fostering and generating the economic development, encouraging and fostering the establishment and development industrial and commercial enterprises are remained among the major objectives of the BOI.

Total attracted foreign direct investments in 2014 had increased from Rs. 1391.10 million up to Rs.1616.26 million representing 16 per cent increase compared with previous year. Infrastructure and Service Sector is the most significant sector of the FDIs and it represented 77 per cent of the total attracted FDIs through BOI projects in 2014. However, it was reported attracted investments for agricultural and manufacturing sectors had decreased by 32 per cent and 7 per cent respectively during the year under review as compared with the previous year.

Export earnings through BOI enterprises was increased by 15 per cent and 5 per cent in 2013 and 2014 respectively as compared with previous years. Import cost incurred by the BOI enterprises was increased by 2 per cent and 15 per cent in 2013 and 2014 respectively as compared with previous years.

The approvals granted for the commencement of projects had been reduced from 384 in 2009 to 181 in 2014 by 53 per cent. However it was increased by 3 per cent when compared with 176 projects in last year. The Commencement of the commercial operations of the projects had been decreased from 134 in 2009 to 87 in 2014. It was observed that number of cancelled, closed down or suspended projects also had remained at a considerable level. Even though 87 projects commenced commercial operation during the year under review, 125 numbers of projects had been cancelled, closed down or suspended.

Zones operation

BOI facilitates investors through 12 Export Processing Zones. However Wathupitiwala, Koggala and Malwatta Export Processing Zones had incurred losses continuously since 2008 due to huge administration cost and underutilization of lands for revenue generation. Accumulated loss of above three zones was Rs.250.65 million as at the end of the year 2014 and losses of Rs.47.76 million was incurred for the year 2014.

Underutilization of Asset

Maliduwakanda Estate with an extent of 122 acres of land, procured by the BOI on 08 January 2003 at a cost of Rs. 97.94 million had not been utilized the intended purposes up to end of May 2014. According to the Register of Fixed Asset, the book value of this land as at 31 December 2014 was Rs.100.8 million.

Investment Promotion activities

Out of the total expenses of the BOI amounting to Rs. 2,802.69 million, a sum of Rs.67.47 million respectively 2 per cent had been spent for investment promotion activities in 2014. Under Investment Promotion expenses, a sum of Rs.34.63 million or 51 per cent had incurred on Hambanthota Conclave-2014, exhibition held paralleled to the CHOGM and producing at 9.5 minutes documentary film on the recent development in the North era and East era provinces. The purposes of these expenses are questionable since these expenses are not related to investment promotion.

The BOI had paid Rs.100 million for construction of 15 houses within a block of land in extent of 72 hectares at Weliwewa Grama Niladari Division for people who lost their houses due to construction of access road to the Sooriyawewa International Cricket Stadium. Ownership of this land at Weliwewa had not been rested with the BOI until May 2015 at the date of audit examination. The obligation of the BOI regarding the construction of houses and handing over five houses to the parties nominated by the political authorities were remained questionable.

Irrigation

Department of Irrigation and three statutory bodies namely the Water Resources Board, Sri Lanka Mahaweli Authority and the Central Engineering Consultancy Bureau were under the purview of the Ministry and the key functions of the Ministry were the preparation of policy programmes and implementation of projects preparation of policies, programmes, and projects under the subjects of irrigation, reservoirs, water resources management and other activities under the preview of departments and institutions of the Ministry, promotion, construction, monitoring maintenance, reconstruction and management of irrigation system suarage, flood protection, disposal of salty water, avoiding of water pollution, collection of rain water, providing of engineering consultancy and implementation of lairs relations to Irrigation Act, Mahaweli Development Act, Water Resources Board Act, and other law related to other ministry and other projects of other Ministries ect. The total net provision made in respect of the Ministry and the Department of Irrigation for the year under review amounted to Rs.50,120 million, and out of that a sum of Rs.44,942 million had been utilized.

Significant audit observations relating to the year 2014 are given below.

- A sum of Rs.3,765.43 million had been spent out of the provision of Rs.3,765.51 million made during the year 2014 for the import of prefabricated buildings from the Government of China in respect of the state institutions not under the purview of the Ministry. Nevertheless, the details related to total number of houses handed over to the state institutions after installations up to 10 August 2015, the number of state institutions for which the houses were handed over, and the certificates obtained from the institutions confirming the satisfactory installation of number of houses handed over to each institution had not been presented for audit. It was observed that the total expenditure incurred on this purpose as at 31 December 2014 amounted to Rs.8,576.59 million.

- Out of the provision made for the rehabilitation of urgent infrastructure of main and medium irrigation schemes, a sum of Rs.12.84 million had been paid during the year 2014 by the Ministry to the Mahaweli Consultancy Service Bureau (private) Company for the establishment of micro irrigation systems and renovation of buildings. Further, assignment of those activities to that Company which do not possess the qualifications to perform such activities offered by deviating from the tender procedure and utilization of fund on the establishment of micro irrigation systems at farms in Moragahakanda, Rajanganaya, Niraviya etc. was remained questionable in audit.
- The payment of salaries totaling Rs.0.63 million made to the two Accountants of the Pro-Poor Economic Advancement and Community Enhancement (PEACE) Project which was winded up in May 2013 by utilizing the provision made for the feasibility studies of the

Ministry despite the non-availability of proper letters of appointment and the project being inactive had been observed as a payment of contentious nature.

- Out of the provision made during the year 2014 in respect of the feasibility studies of the projects for the development of Northern Province Canal / Moragahakanda / and Kaluganga Yatigan areas, a sum of Rs.11.14 million had been utilized for the feasibility studies of the North Western Canal Project. Nevertheless, that expenditure had been erroneously brought to account as expenditure on the projects above mentioned. These activities had been carried out by the Mahaweli Consultancy Service Bureau (private) Company and the awarding of these contracts had been made deviating from the tender procedure.

- Out of the provision made for the Ministry during the year 2014 in respect of the reconstruction of main and medium irrigation schemes, a sum of Rs.6.91 million had been utilized for the construction and repair of tube wells of the Water Resources Board and expenses of "Deyata Kirula" exhibition.

- In terms of Section 7.2 of the Drivers' Service Minute No.1101/9 of 13 October 1999, recruitment of employees to the Department of Irrigation should be made by the Director General of Irrigation. Nevertheless, recruitment of 75 drivers to the Department had been made by the Secretary to the Ministry of Irrigation. Further, calling applications for such recruitments should be done through Government Gazette, a public notice or by any other appropriate method in terms of Section 7.1 of the above Drivers' Service Minute. In contrary, calling applications for these recruitments had been done as informed the Director General of Irrigation by the Secretary to exhibit the relevant notice at Regional offices of the Department of Irrigation depriving of the opportunity to be applied by any applicant. As such, this recruitment was not observed as an appropriate method of recruitment approved by the Secretary to the Ministry of Public Administration.

- The entire provision of Rs. 55 million made for two Objects under the Development Programme of the Department of Irrigation had been transferred to other Objects. Making provision for projects that could not be implemented and transferring those provisions to other projects were matters of contentious nature.

Mass Media

The Ministry of Mass Media and Information which is performed to preparation of policies and strategies, supply of facilities ,implementation, supervision and follow up and contribution tasks for the establishment of a mass media of Sri Lankan identity with People-friendly, amenable to development, free and with responsibilities is control the country's public mass media institutions directly and the private mass media institutions indirectly. Department of Information, the Department of Government Printing, Sri Lanka Broadcasting Corporation, Sri Lanka Rupavahini Corporation, the State Printing Corporation, the Press Council, the National Film Corporation, the Associated Newspapers of Ceylon Ltd, and the Selasine, Press Institute of Ceylon Ltd, and the Independent Television Network are the Institutions relating to the Public Mass Media functioning under the direct supervision of the Ministry.

Even though Orders given by the Committee on Public Accounts to take action by paying attention of the Ministry on the sectors for revising the Press Complaints Commission Act of Sri Lanka as complaint could be made for electronic media also, preparing a draft relevant to confirm the right to obtain information easily on public safety and economy, adopting the Broadcast Development Authority Act and taking necessary action for transferring Sri Lanka to digital technology from analogue technology, preparing a methodology to supervise the activities of the private radio and television channel license holders for avoiding of outflow of public finance to the private parties anomalously and preparing license charging method, formulating new policy in relation to Rupavahini Institutions based on cable satellite and internet, establishing a Fund without delay for the income charged for imported Rupavahini Programmes, formulating a National Media Policy and taking action to control the Rupavahini advertisements, the Ministry had failed to fulfill the said activities. However, without formulating new policy on the institutions which are based on cable satellite and internet, a license had been given for maintaining a Rupavahini channel through satellite technology in November 2014.

Resource persons with the skills of the fields such as science, psychology and law had not been assigned for the Board of Review appointed in the year 2014 to obtain approval for telecast imported teledramas, commercial programmes, films and children's programmes and it was observed that it had not consider the future generation with social responsibility and dedication when getting approval of the telecasting children's movies and cartoons .

According to the test check done in relation to telecast the imported commercial advertisements without paying taxes ,an income of Rs.3 million had been lost from about 06 advertisements.

A loss of Rs.52 million had been incurred in the year 2014 from the operational activities in the Ranminitenna Tele Cinema Village which is under the Ministry, it induced a loss at Rs. 47 million incurred on supply of free facilities for an Indian Film Corporation.

Department of Government Information

The Department of Government Information had been established on 31 July 1948 with a view to determining the rights of the general public for accurate information by the Constitution of Sri Lanka.

Action had not been taken to recover the sum amounting to Rs.8.6 million overpaid on the construction of new media centre of the Department and action had been taken to grant the liquor permit even in the year 2014 without an agreement or charging for the outside person whom performs through the Attorney General since February 2014 for the recovery of a sum amounting to Rs.4.65 million on maintaining of the liquor shop in the media society of the Department.

Having being a Research Unit in the Department, a sum of Rs.3.38 million had been paid for an outside institute for 02 surveys in the year 2014 and a result obtained thereon was not observed.

Sri Lanka Broadcasting Corporation

There were 08 National Channels, 06 regional services and 02 community broadcasting services and 07 FM transmission centres, 01 medium wave transmission centre, 01 short wave transmission centre in the service net of the Sri Lanka Broadcasting Corporation during the previous year whereas it had reduced to 06 National Channels ,and 01 community broadcasting service as at in the year 2014.

The Corporation had been occurred continuous losses due to the reason of prominent activities such as transmission system of the Corporation was not in a satisfactory condition in general, the assets of the Corporation had not been managed properly, team work had not been improved, existing of employees exceeding the requirement, non- handing over of duties by appreciating the skills of employees, though a large amount of money had spent for technical equipment, proper management had not done and specific training had not given for use those equipment. The contribution granted by the Treasury to the Corporation during the last 5 years period was Rs.1,317 million due to the said losses.

As the continuous deterioration of the financial position of the Corporation is being existed , the bank overdraft of the Corporation at the end of the year 2014 was amounting to Rs.36.7 million and the interest paid in this connection during the year was amounted to Rs.5.7 million.

The buildings constructed in the lands which vested by the Corporation from through the Land Reclamation Commission and other assets had been remained idled and underutilized condition. It was observed that some lands had lost to the Corporation and the ownership had been handed over to another parties.

As an example, buildings of the Weeraketiya transmission station and the lands extent of 30 acres had been released for the Youth Corps Programme of the Marine University. Action had been taken to give 19 acres of the land out of 159 acres situated at Diyagama to the University of Moratuwa and 25 acres for the Stadium. The action taken for the rest 105 acres was not revealed at audit.

Sri Lanka Rupavahini Corporation

Even though the Corporation had earned a profit of Rs,36 million in the year 2013 ,it had been converted to a loss of Rs.175 million in the year 2014. The Corporation had given free air time of Rs.34.7 million for promotion activities of the Presidential Election for one candidate and an air time of Rs.2.2 million had been given as a scheduled Programmes of the Corporation. Further, the Corporation had been failed to advertise the advertisements valued of Rs.5.2 million in relation to the Presidential Election. Out of that, having being received the money amounting to Rs.1 million for advertisements, the same money had been re-paid due impossibility of allocation of the air time.

A sum of Rs.3.5 million had been paid for a private association for transmission of Jathika Rupavahini in foreign countries through the Satellite technique without entering in to a written Agreement contrary to the Procurement Process and neglecting the Order given by the Cabinet of Ministers to obtain the agreement of the Ministry of Finance and Planning, stating that an urgent necessity in December in the year under review.

Two used transmitters of Rs.16.93 million not suitable for the future technological transformations had been purchased on the Agreements with conditions which adverse to the Corporation.

Law and Order

The Department of Police and the Special Task Force are the institutions functioning in the Law and Order Sector and the scope of the Ministry includes providing policy guidance, the modern technology and the physical and human resources needed by the institutions under the purview of the Ministry to function at a high level of efficiency, supervision and evaluation of performance.
Audit observations.

- Failure of the Ministry to recover loan balances amounting to Rs. 6.30 million remaining outstanding over periods ranging from 01 year to 03 years.

- Failure to recovered or write off losses amounting to Rs. 3.90 million caused to 15 motor vehicles of the Special Task Force during the year by accidents.

- Failure of the Department of Police to recover loan balances amounting to Rs.133.39 million remaining outstanding over periods ranging from 01 year to 03 years.

- The Department of Police had conducted 71,215 raids in the year 2014 relating to cannabis, opium, hashish and heroin which cause severe harm to the community. That represent of an increase of 1.2 per cent increase in the number of raids conducted in the preceding year. The conducted of such raids in more formal and efficient manner for the benefit of the society was emphasized.

- Deficiencies in the procurement and storage processes were pointed out.

- The Department of Police had retained in the Deposit Accounts 218 deposits amounting to Rs.66 million and Rs.2.8 million relating to pensions for over 02 years contrary to Financial Regulations 571.

- In view of the defects in bill of quantities, contract agreements and weakness in the supervision, the constructions contract valued at Rs.354 million awarded in the year 2011 for completion within 18 months, the financial progress as at 31 December 2014 amounted only to Rs.184 million.

Ports and Nautical Operations

Port Operations

The main ports governed by the Sri Lanka Ports Authority can be named as the Port of Colombo, the New Colombo South Port, the Port of Galle, the Port of Hambanthota and the Port of Trincomalee. In addition, there were no operations carried out at the Oluwil Port from its inception while the nautical operations at the Kankasanthurei Nautical Jetty are carried out.

Noticeable changes observed in the operations of the Sri Lanka Ports Authority in the year under review of 2014 are given below.

- The total net income for the year 2014 amounted to Rs.41,088 million and that as compared with the preceding year indicated an increase of Rs.7,302 million. That represented an increase of 21.61 per cent as compared with the income of the preceding year.

- The total expenditure for the year under review of 2014 amounted to Rs.33,139 million and that as compared with the preceding year indicated a decrease of Rs.978 million for the year under review. That represented 3.04 per cent.

- The after tax profit for the year 2014 amounted to Rs.7,947 million and that as compared with the profit for the preceding year indicated an increase of Rs.6,322 million. That as compared with the after tax profit for the preceding year indicated an increase of 389 per cent in the after tax profit. The increase in the profit occurred due to adjusting the foreign exchange ratio by Rs.4,077 million as compared with the preceding year had mainly attributed to therefor.

- The total number of ship arrivals in Sri Lanka for the year 2014 had been 5,072 and that as compared with the preceding year indicated an increase of 5.68 per cent in ship arrivals.

- The Twenty Feet Units of Containers handled in the year 2014 had been 2,559 in thousands of units and that as compared with the preceding year indicated an improvement of 2.3 per cent. However, the conventional cargo handled in the year 2014 had been 6,339 in thousands of metric tonnes and that as compared with the preceding year indicated an increase of 11.91 per cent.

The Port of Trincomalee had been continuously incurring losses in the 08 preceding years and the cumulative loss amounted to Rs. 2,475 million.

Colombo South Port

The construction of Breakwater, the nautical approach channel and dredging the Colombo South Port had been carried out as a Colombo Port Expansion Project under a loan from the Asian Development Bank and the total expenditure incurred thereon amounted to Rs.42,055 million (Local Funds Rs.9,876 million and Foreign funds Rs.32,179 million).

However, construction of nautical jetty , the installation of Granti Cranes and operations of the port for the period of 35 years had been assigned on the Build Operate and Transfer basis to a newly registered company namely Colombo International Container Terminals Limited established with the contribution of a China Company. According to the agreement entered into between that company and the Sri Lanka Ports Authority, the Authority had to purchase shares of 15 per cent from the Share Capital of that company and a sum of Rs. 2,860 million had been spent thereon. However, no money whatsoever had been granted as dividends to the Sri Lanka Ports Authority yet.

According to the agreement entered into between the Sri Lanka Ports Authority and the Colombo International Container Terminals Limited, the Sri Lanka Ports Authority receives only a royalty for containers. It was observed that the royalty received for containers had not been adequate even for the payment of the interest of the loan obtained for the Colombo Port Expansion Project.

As the constructions and operations of the deepest basin out of the ports of Sri Lanka to which the largest ships of the world could arrive, had been assigned to a China Company for a period of 35 years, the Sri Lanka Ports Authority had to face a severe competition in calling ships at the Terminal.

Port of Hambanthota

The construction work of the first stage of the Hambanhota Port Construction Project was commenced on 15 February 2008 and the constructions of the first stage of the Port of Hambanthota had been completed by 31 December 2011. A sum of Rs. 53,272 million had been spent thereon. However, the number of ships calling at the port of Hambanthota had been limited only to the ships transporting motor vehicles due to the inability to handle the containers as granty cranes had not been installed in the port. The installation of nautical operating equipment and constructions of operating Terminal of the port of the second stage of the Hambanthota Port Development Project had been commenced by utilizing a foreign loan of US $ 808 million. The total expenditure incurred for stages 1 and 11 of the Hambanthota Port Construction Project by 31 December 2014 amounted to Rs. 105,962. That Project was scheduled to be completed on 14 April 2015 and action had been taken to obtain Funds necessary for the Project from the EXIM Bank of China.

However, no adequate earnings had been made for payment of interests and loan installments on the loan obtained for the constructions of the port. As such, the losses sustained by the operations of the port of Hambanthota in the years 2011 and 2012 amounted to Rs. 11.9 million and Rs. 25.5 million respectively. However, operating profit of the Port of Hambanthota for the year 2013 had not been prepared separately and the loss sustained by the operations of the port for the year 2014 amounted to Rs. 3,819 million.

Oluwil Port Construction Project

The construction of the Oluwil Port with a loan from the DANIDA Agency of the Government of the Denmark had been completed on 01 September 2013 and a sum of Euro 38.96 million (Rs. 6,780 million in Sri Lankan Currency) had been spent thereon. In addition to that Sri Lanka Ports Authority had incurred Rs. 444 million. Accordingly, the Oluwil nautical port and the fisheries harbour had been separately constructed. It was confirmed that only very small vessels can call at this port, as the Oluwil Port is a very shallow port of a depth of 8 meters. As the foreign loan obtained for construction of the port of Oluwil should be returned in 10 ensuing years and in view of the no income and the heavy expenditure needed for the maintenance of the operations of the Port, the possibility of the Ports Authority facing a financial crisis cannot be ruled out in audit in returning the installments on the foreign loan obtained. Further, no ships whatsoever had arrived in this port after constructing and opening the Oluwil Port and it was observed that the Oluwil Port had been filled with the sand and it had to be mined again.

Nautical Operations

Ceylon Shipping Corporation Ltd,

The Ceylon Shipping Corporation which owned 17 nautical vessels by the year 1983, maintains its operations without the ownership of any ship whatsoever by the year under review. The ability to expand the operations of the Ceylon Shipping Corporation had been minimized as transport affairs are carried out obtaining nautical vessels mainly on rental basis. The sole ship owned by the Ceylon Shipping Corporation in the year 2011 had been rented out to a private company and that rented company had not paid the rent from the year 2011 to the year 2013 and on behalf of that, the amount recoverable for the Ceylon Shipping Corporation Ltd, amounted to Rs. 87.6 million. Further, that ship had been retained at a port in Kenya by the rented company and embarkation charges and other charges had not been paid for that port. As such, that ship had been retained on Court Orders of the Government of Kenya. Accordingly, the Ceylon Shipping Corporation Ltd, had spent Rs. 57.42 million for harbor dues, legal charges and payment of salaries and allowances for the staff of the ship to release the ship from Kenya and that amount as well had not been paid by the rented company.

The Ceylon Shipping Lines Ltd, a subsidiary company of the Ceylon Shipping Corporation had been peoplized in the year 1992 and 51 per cent of the Share Capital of the company had been sold to the C&A Consultant Company and 39 per cent of the Share Capital had been saved by the Shipping Corporation Ltd. Even though the Ceylon Shipping Corporation Ltd, had invested Rs. 255 million in subsidiary and associated companies by the end of the year under review, the dividend income received from investment of shares from those companies had been at a very low level of Rs.300,000.

Road Construction and Rehabilitation

The Road Development Authority, Road Safety Fund, Maga Neguma Consultancy and Project Management Service Company, Maga Neguma Emulsion Production Company, Maga Neguma Construction and Equipment Company, Merchant Shipping Secretariat, Ceylon Shipping Corporation, and the Sri Lanka Ports Authority functioned under the purview of this Ministry during the year 2014.

Budgeted provision amounting to Rs.361.6 million had been made for the recurrent expenditure while the provision made for the capital expenditure of the Ministry for the year 2014 amounted to Rs.143,903.76 million. Out of that, sums amounting to Rs.91,605 million and Rs.1,994 million were foreign loans and foreign grants respectively while the domestic expenditure on projects proposed to be incurred amounted to Rs.50,282.66 million. According to the accounts, a sum of Rs.361.39 million had been incurred as the recurrent expenditure and the capital expenditure incurred during the year amounted to Rs.132,942 million out of which a sum of Rs.88,097 million had been received as foreign loans and grants. The entire staff during the year stood at 396. The total number of foreign loan projects implemented by the Ministry during the year 2014 stood at 37. The total foreign loans allocated during the year therefor amounted to Rs.93,599 million and the total foreign loans spent on all projects amounted to Rs.88,098 million. It was reported that the number of foreign loan projects completed during the year under review stood at 06.

The material observations made during the course of audit of accounts for the year ended 31 December 2014 and the transactions and activities of the Ministry and the institutions thereunder are given below.

- According to the accounts presented, liabilities amounting to Rs.53.5 billion exceeding the net provision made for 54 Objects had been committed by the Ministry of Highways, Ports and Shipping for its operations during the year 2014. It represented 37 per cent of the total budgeted provision of the Ministry for the year 2014 whereas a provision amounting to Rs.378.6 million made for 05 Objects had not been spent.

- Out of a loan obtained from the National Savings Bank by the Road Development Authority, a sum of Rs.7.86 billion had been obtained by the Ministry of Highways, Ports and Shipping and had utilized for projects of the Ministry and on projects implemented thereunder without an approval of Parliament contrary to the Article 148 of the

Constitution of the Democratic Socialist Republic of Sri Lanka.

Road Development Authority

The cadre of the Road Development Authority consisted of 5,964 officers including 79 officers in the top level management, 651 officers in the Engineering Service and 886 officers in the Technical Service. According to the financial statements as at 31 December 2014, the deficit of the Authority amounted to Rs.4,962.67 million and a provision of Rs.21,432.6 million had been made by the General Treasury for improvement and maintenance of roads. The income collected from the expressways during the year 2014 amounted to Rs.3,156.4 million.

Construction, rehabilitation and maintenance of expressways, highways and bridges are being carried out by the Maga Neguma Emulsion Production Company, Maga Neguma Road Construction and Equipment Company and Maga Neguma Consultancy and Project Management Company which established as associate companies under the Road Development Authority and the Companies Act and the projects implemented on domestic and foreign funds which executed by the Ministry and the Road Development Authority. The significant audit observations made during the year under review are summarized below.

- According to the accounts presented to audit by the Authority for the year under review, debtor balances totalling Rs.3,014.91 million not recovered from various parties by the Authority during a period from 1 to 10 years as at 31 December 2014 and creditor balances totalling Rs.1,492.38 million not paid by the Authority during a period from 1 to 10 years had not been settled even during the year under review.

- Approval of the Cabinet of Ministers had been granted to obtain loans amounting to Rs.151.77 billion from local banks for the rehabilitation of 64 roads with a length of 1,434 kilo meters which comes under the Road Development Authority. Accordingly, contracts valued at Rs.137.52 billion had been awarded for the rehabilitation of 64 roads, and the total loans obtained in cash from 07 local banks during the years 2012,2013 and 2014 for the rehabilitation of those roads amounted to Rs.108.25 billion. Even though contractors should be selected in accordance with the National Procurement Guidelines, these contracts had been directly awarded on the quotations submitted by the contractors. Nevertheless, it was observed that the quotations submitted were higher than the standard road rates. Out of the contracts awarded, the contract value of Rs.146.55 billion relating to 54 roads recommended by the Technical Evaluation Committee of the Ministry had been increased by Rs.9.24 billion by the Procurement Committee appointed by the Cabinet of Ministers. According to the above credit limit approved, the credit limit approved by the National Savings Bank had been Rs.55.37 billion. Further, a sum of Rs.28 billion had been obtained by the Road Development Authority for the rehabilitation of 28 roads under the 64 road contracts awarded as mentioned above, and those money had been spent by the Authority and the Ministry on activities extraneous to the rehabilitation of roads. Nevertheless, approval of the Cabinet of Ministers and the Treasury had not been obtained in this connection.

- Action had not been taken to utilize a provision of Rs.16,238 million made in respect of widening and improvement of 141 roads during the year 2014. Nevertheless, a sum of Rs.2,757 million had been spent on 33 roads not included in the Annual Action Plan, despite the non-availability of provision. Further, a sum of Rs.38,519 million had been spent on widening and improvement of 900 non-RDA roads. Nevertheless, it was observed that the progress of widening and improvement of 61 RDA roads and 234 non-RDA roads costing Rs.5,319 million and Rs.16,503 million respectively had been below 50 per cent as at 31 December 2014.

- A sum of Rs.705.39 million had been spent on 50 Projects for Road Rehabilitation of the Authority commenced during the period 2006-2014 by the Engineering offices of the Road Development Authority of which the estimated contract value amounted to Rs.5,891.05 million. Nevertheless, it was observed that the activities of those projects had been stopped halfway due to the delay of contractors, poor performance, shortages of funds and being non-RDA roads.

- Even though a provision of Rs.493.83 million had been made by the Annual Budget for the maintenance work of 186 roads included in the Maintenance Programme of the year 2014, such maintenance work had not been carried out. Nevertheless, a sum of Rs.1,248.14 million had been spent on the maintenance work of 281 non-RDA roads despite the non-availability of budgeted provision.

- Action had not been taken even during the year under review to recover a sum of Rs.63.27 million recoverable in respect of assets, materials and spare parts given to the Maga Neguma Road Construction and Equipment Company by the Road Development Authority during the period 2004-2007 and motor vehicle rent amounting to Rs.488.86 million recoverable in respect of motor vehicles given to Maga Neguma Companies during the period 2008-2013. Further, 20 motor vehicles given to Maga Neguma Companies but in unserviceable condition had not been returned to the Authority.

- Even though payments should be made after submitting the bills and measurements of work done, the Authority had granted advances amounting to Rs.6,126.37 million to the Maga Neguma Company during the year under review without checking the measurements of work done and bills in 55 instances.

Ministry of Highways and Investment Promotion – Projects (on Foreign Loans and Domestic Funds)

- A sum of Rs.10,068.30 million had been paid as compensation for 1,165.4 hectares of land acquired with regard to 06 projects during the year under review, while the payment of compensation has delayed. Thus, an interest amounting to Rs.1384.97 million had been paid.

- In addition to the initial contract cost of 10 projects for the construction of expressways and other main roads which established by utilizing foreign and domestic funds, a sum of Rs.4953.83 million had been allocated during the year under review by 166 Variance Orders deviating from the relevant Approval Procedure.

- The money allocated by the Lending Agency for the utilization of 02 Projects of Outer Circular Roads during the year under review had not been utilized within the due period. Thus, a Commitment Charge amounting to Rs.803.94 million had been recovered by that Lending Agency.

- Three projects established for the construction of roads on foreign and domestic loans had spent a sum of Rs. 161.33 million on activities extraneous to the objectives of those projects during the year under review. Further, another such 10 projects had incurred an expenditure of Rs.1,542 million out of the funds of those projects on uneconomic purposes.

- The contract had been awarded on the condition of ensuring the quality of the constructions of the Colombo Outer Circular Project I by the contractor himself. Nevertheless, it had not been properly fulfilled by the contractor, thus an expenditure amounting to Rs.7.22 million had been incurred by the Project to maintain the quality of the constructions during the year under review.

- Bills payable to the contractors of 05 projects had not been duly paid, thus liquidated damages amounting to Rs.204.09 million had to be paid therefor.

- Recruitment of the staff to all the projects established on foreign and domestic loans under the Ministry had been made contrary to the Circular No. 33 of 05 April 2007 of the Department of Management Services. Further, the payment of salaries had also been made based on a circular issued by the Road Development Authority contrary to the above Circular. As such, allowances and salaries had been overpaid to the project officers.

- Constructions valued at Rs.46,925.40 million pertaining to 02 projects had been awarded deviating from the Tender Procedure during the year under review. Further,11 consultants for Primary Education activities had been recruited by spending a sum of Rs.119.26 million from one project deviating from the Tender Procedure.

- The bid valued at Rs.62.041 billion submitted by the contractor in respect of the constructions of the road from Kaduwela to Kadawatha (8km) (Stage II) had exceeded the Engineer's Estimate amounting to Rs.31.334 billion. Thus, the Cabinet of Ministers had decided on 06 October 2010 to cancel the award of this contract. Nevertheless, that bid had been reduced to Rs.44.88 billion and awarded to the above contractor on 23 November 2011. According to the information made available, the Engineer's Estimates or the quotations submitted for the price reduced bid had not been approved by the Supervision Consultant and the Technical Evaluation Committee. Nevertheless, that bid submitted after being revised had been approved by the Cabinet of Ministers on 15 February 2011.

- The pipes and fittings purchased at a cost of Rs.84 million by the Project before two years for the reinstallation of pipe systems belonging to the Water Supply and Drainage Board in the roads widened and improved by the Road Sector Assistant Project had remained idle in the stores of the Project without being used even as at the end of the year 2014. Further, the National Highway Sector Project had spent a sum of Rs.74.8 million on the reinstallation of pipe systems belonging to the Water Supply and Drainage Board and Local Government Institutions. This capitalized expenditure does not come under the Scope of Project and action had not been taken to capitalize it by the relevant institutions.

Technical and Vocational Education

The Technical and Vocational Education Institutes are established with a view to facing the challenge of changing global socio- economic and technological needs, guiding, supervising and coordinating and identifying the needs and preparing of full time and part time programmes suitable for that requirements for the vocational education and training programmes for generating manpower for the sake of more beneficial living condition through quality and technical education and vocational training, producing and implementing the consultancy resources required for implementation of that programmes, developing the staff including teachers, administrators and managers for implementation of tertiary and vocational education fruitfully and efficiently .

Department of Technical Education and Training

The provisions allocated under the Department of Technical Education and Training for the year 2014 was amounting to Rs.1,543 million and the actual expenditure was amounting to Rs.1,500 million. Therefore, saving of 42.5 million was observed.

Nine Colleges of Technology and 30 Technical Colleges are existed under the Department of Technical Education and Training, whereas 85 courses had been held during the year 2014. Out of held courses of Technical Colleges and Colleges of Technology 679 courses should be accredited and only 341 had been accredited during the year 2014.

Vocational Training Authority

The Vocational Training Authority acts as to satisfy the global labour demand by developing skills of the persons through the modern methods and technology in the field of vocational training and education. However, the lands valued at Rs.1,703.75 million owned to the Authority had not been vested to the Authority. A sum of Rs.3.78 million in the year under review and a sum of Rs.3.22 million in preceding year had been paid for supply of the facility of mobile phone connection for 477 employees who had not entitled that facility .A cab belonging to the Authority had met with an accident in the year 2003 and action had not been taken to settle the loss amounted to Rs.556,000 thereon.

Even though a Vocational Training Development Fund could be established according to the Section 20 (I) of the Sri Lanka Vocational Training Authority Act, No.12 of 1995, a sum of Rs.12.34 million had been collected during the year under review by charging Rs.500 per each apprentice for an insurance fund contrary to the provisions of the Act, had not been credited to the same Fund. Further, a private company had been established improperly on 18 December 2013 with the approval of the Board of Directors of the Authority contrary to the Vocational Training Authority Act, and without approval of the Cabinet of Ministers.

Training equipment of Rs.97.75 million for the purpose of accreditation of the courses had been supplied to the Vocational Training Authority by the Skill Development Project. The deficiencies such as supply of equipment for the centers which not planned to supply such equipment, supply of equipment with larger capacity than needed, Lack of action to identify that equipment separately, supply of new equipment by removing the equipment in a repairable condition, re-supply of new equipment having being a good conditioned equipment, non- receiving of equipment to certain centers issued by main stores, records not available in bin cards on issuing of equipment and not entering in inventory books, underutilization of many of training equipment were observed during the audit examinations done in this connection.

National Apprentice and Industrial Training Authority.

The National Apprentice and Industrial Training Authority is performed with a view to developing youths suitable for the requirements of the vocational field. However, a lady officer who was alleged for a financial fraud and interdicted had been recruited for the post of the Director (Finance) which carries a higher responsibility on financial control of the Authority. Further, approvals for foreign visits had been granted to this officer in 02 occations during her probationary period and a sum of Rs. 921,102 had been paid therefore.

A sum of Rs.4.92 million in the year under review and a sum of Rs.2.78 million in the preceding years had been paid for 410 employees who were not entitled for the mobile phone connection facility. A sum of Rs.2.7 million had been provided as donations and rewards without approvals. Training equipment of Rs.1.46 million purchased for the “Nipunatha Abhisheka Programme” had not been used and the training equipment of Rs.8.89 million had been misplaced. Furthermore, action had been taken to obtain goods and services valued at a cost of Rs.44.81 million in 07 instances without calling tenders contrary to the provisions of the Government Procurement Guidelines.

Tertiary and Vocational Education Commission

As the apex body in the Tertiary and Vocational Education Commission is committed to establish and maintain an efficient, effective and quality assured technical education and vocational training system which is relevant to socio- economic goals and challenges of world market needs had granted a financial assistance of Rs.4.34

million in the year under review for 03 institutes in public sector, 06 private institutions and an other institute which conducted courses for the aggrieved youths. However, such institutions had not been made arrangements to accredit the courses in relation to issuing of National Vocational Qualifications (NVQ) in terms of the Agreement. Even though a sum of Rs.3.30 million had been paid for the 2 surveys relations to the Technical and Vocational Education Training Sector, those had not been completed during the year under review.

University of Vocational Technology

University of Vocational Technology established by the Parliamentary Act,No.31 of 2008 to provide opportunities for middle level technical personnel to obtain qualifications acceptable for admission to the higher education. The University has introduced the level seven of the National Vocational Qualifications (NVQ) system, that is Degree in Technology at present. Entry qualifications of the University admission as an under graduate is NVQ Level 5 or NVQ Level 6 qualifications in the Technical Colleges spread in the Island or the other institutes which the vocational courses are conducted as well as the Diploma Holders who followed non-NVQ Courses which produce the middle level technical personnel. The total number of students enrolled for the academic year of 2010/2013 of the University of Vocational Technology was 222. The Convocation for those students was held on 22 December 2014. The number of students graduated here as a percentage is 43 per cent.

According to Paragraph 01.02 (III) of the Trade and Investment Policy Circular No. 01/2013 of 02 August 2013 of the Ministry of Finance and Planning, it had been stated that the officers who had been appointed on the basis of salary scale of Senior Level, applicable on personal basis or with respect to the post eligible or on salary scales applicable for supernumerary posts, are not entitled to concessionary motor vehicle permits. Nevertheless, the Secretary to the Minister had taken action in improper way to issue permits to 8 Senior Lecturers to whom appointments had been made on personal basis. Necessary action had not been taken to recover tax-exempt allowance amounting to Rs.32.93 million to the Government granted for concessionary motor vehicle permits by the Government contrary to the provisions of that Circular.

Disaster Management

The Ministry of Disaster Management is involved in the disaster management activities in Sri Lanka with a view to facilitating the prosperity and dignity of human life through effective prevention and mitigation of natural and man-made disasters in Sri Lanka. In order to carry out the duties assigned to the Ministry, the institutions such as National Disaster Relief Services Centre, Department of Meteorology, National Building Research Organization and Disaster Management Centre were functioning under the Ministry. A sum of Rs.836 million for recurrent expenditure and Rs.1,894 million for capital expenditure had been allocated by the Budget Estimate to the Ministry of Disaster Management for the year 2014. A summary of the audit issues highlighted in the audit reports for the year 2014 are given below.

- The National Building Research Organization functioning under the Ministry, had been established under a decision of the meeting of Ministers of Cabinet held on 29 September 1993 and adequate actions had not been taken to establish it under a Parliament any Act, as an institute empowered to implement the regulatory activities relation to the buildings and other constructions made in natural disaster-prone areas in the Island. Accordingly, the validity of the orders issued by the Organization on various constructions carried out in disaster-prone areas was remained questionable.

- The Disaster Management Centre had been established under the Section 18 of Disaster Management Act, No.13 of 2005 and the Ministry had taken action to revise this Act with a view to regulate the powers vested to the Centre for implementing the disaster management activities more efficiently . Even though such amendments had been submitted to the Department of Legal Draftsman on 16 June 2014 for approval, the amended Bill had not been received even as at 31 August 2015.

- Even though an Information Communication Centre with equipment valued at Rs.72.47 million had been established in Padukka area in 2009 by the Disaster Management Centre , it was observed that the said Centre had not functioned from the since 2011 up to 31 August 2015.

- Even though the meteorology Department remained under continuous criticism presently relating to the accuracy of the weather forecast, the Dopler Radar System established at Deniyaya area at a cost of Rs.360 million with the advisory assistance of the World Meteorological Centre in 2008 had not been functioned by the

Department for obtaining weather information even as at 31 August 2015 .

- Even though provisions of Rs.60.15 million had been provided to the Ministry of Disaster Management for construction of 139 houses that withstand to the natural disasters, only the construction of 06 houses in Jaffna District had been completed by the end of the year.

Economic Development

Net provisions amounting to Rs.85,879 million had been made for the year 2014 for the key functions of the Ministry of Economic Development such as formulation and implementation of policies, programmes and projects in respect of poverty alleviation, tourism and rural and regional economic development and implementation of the livelihood development programmes and decentralized budget and a sum of Rs.85, 705 million had been utilized by 31 December 2014. Significant audit observations thereon are given below.

- Savings of the capital provisions of the Programme No. 01 of the Ministry amounting to Rs.29 million had been transferred to the capital expenditure of the Programme No. 02 contrary to provisions of the Financial Regulations. Out of the provisions made for details on foreign aids and direct foreign aids, a sum of Rs.2, 620 million had been transferred to the Gama Neguma Programme implemented under the Consolidated Fund. Further, the recurrent provisions amounting to Rs.9 million had been spent by the Divi Neguma Development Department for the acquisition of assets of capital nature.

- Out of the provisions made by the Ministry for the development projects of District Secretariats and other Ministries, 11 Divisional Secretariats had written 9,548 cheques valued at Rs.247 million by 31 December 2014 but not issued to the payees. However, those values had been entered in the Appropriation Account of the Ministry as payments for the year.
- Expenditure amounting to Rs.14 million and Rs.24 million incurred for the year 2014 by the Public Debt Management Division of the Department of Treasury Operations respectively for the Rural Bridges Project and the Conflict Affected Region Emergency Project in areas implemented by the Ministry, had not been brought to account in the year 2014 by stating "due to lack of savings of provisions in the Heads of Expenditure of the Ministry of the year 2014." However, sums of Rs.119 million and Rs.380 million of the provisions of the Rural Bridges Project and the Conflict Affected Region Emergency Project respectively had been transferred to other Heads of Expenditure under the Virement Procedure (FR 66) during the year under review.

- In the inspection carried out only in three foreign funded projects which are under the purview of the Ministry, it was observed that officers who perform duties of the projects based on the covering up duties, had obtained the special allowance of 5 per cent and 15 per cent each which is entitled to be obtained at a time by an officer, in two instances such as with the salary of the permanent post and with the project allowances. However, the allowance so obtained in excess in three projects from the year 2011 to the year 2014 amounted to Rs.3 million.

- Two officers who were attached to the Planning Division of the District Secretariat, Nuwara Eliya by the Ministry of Economic Development, served a people's representative without serving in that Division and obtained Rs.1 million as salaries from the District Secretariat during the period from the year 2010 to the year 2014.

- A sum of Rs.3 million had been spent for publication of advertisements on a full page of 9 local newspapers in respect of the opening ceremony of the 210 bridges constructed and commencement of constructions of new 1,000 bridges under the Rural Bridges Project which is a foreign funded Project. However, contrary to the instructions of the Elections Commissioner, those advertisements had been published with a photograph of a then presidential candidate and according to the progress reports, constructions of many bridges out of those 210 bridges, had not been completed and initial agreements as well had not been entered into for 1,000 bridges.

- Contrary to the circulars of the Elections Commissioner, distribution of different types of goods valued at Rs.3 billion, granting subsidies and loans and such programmes had been implemented by the Divi Neguma Development Department in 8 instances for purposes that may contribute to the publicity of a presidential candidate.

Establishment of the Divi Neguma Development Department

- The Divi Neguma Development Department had been established by amalgamating three institutions, the Samurdhi Authority, the Southern Development Authority and the Upcountry Development Authority so as to come into force with effect from 03 January 2014 by the Gazette Notification No. 1843/4 of 03 January 2014 in terms of the Divi Neguma Act, No.01 of 2013. However, those three Authorities had presented financial statements for the year 2013 and subsequently, no financial statement whatsoever had been presented for audit. According to the computer printouts of the Treasury, Expenditure of each Institute for the year 2014 amounted to Rs.9,501 million, Rs.134 million and Rs.45 million respectively.

- The value of the assets existed in the Institutions amalgamated in the establishment of the Divi Neguma Development Department as at 31 December 2013 aggregating Rs.24,580 million including Rs.24,232 million, Rs.283 million and Rs.65 million respectively and the position of transferring of those assets to the new Department as at 03 January 2014 had not been reported for audit and the Registers of Fixed Assets as well had not been maintained.

- Even though a sum of Rs.1,328 million had been paid by utilizing Funds of the Divi Neguma Community Based Bank Societies of those districts as compensation and gratuity by 31 December 2014 to 1237 officers who were employed in those three amalgamated institutions at the commencement of the Divi Neguma Development Department and resigned from the service of their own consent, that amount had not been reimbursed even by May 2015. Further, Fixed Deposits owned by the Divi Neguma Community Based Bank Societies had been utilized for those payments and as such, interests had been deprived of to those banks.

- Providing water containers for the people who were affected by drought spending a sum of Rs.106 million had not been included in the scope of the Divi Neguma Development Department.
- A sum of Rs.56 million of the amount spent, had been obtained from the Capital Provisions granted for "Lands and Land Development" of the Ministry of Economic Development without an approval of the Ministry or Treasury.

- The procurement proposal for these purchases with an estimated value of Rs.90 million had not been submitted to the Procurement Committee of the Cabinet of Ministers and action had been taken to obtain the relevant approvals from the same Procurement Committee of the Department itself.

- According to the information made available to audit, a sum of Rs.105 million had been paid for 224,694 water containers and confirmation that the 25,894 water containers out of that, valued at approximately Rs.13 million had been received to the relevant district, had not been presented to audit. Two institutions had been selected for transportation of distributed water containers to relevant districts without calling quotations and a sum of Rs.1 million had been paid for those institutions.

- The Divi Neguma Development Department had distributed 1 million of Forms to all the districts of the island spending Rs.2 million in December 2014 to collect necessary information for the introduction of Life Insurance and Pensions Scheme for all the Three Wheeler Drivers in the island. Provisions had not been made for implementation of this programme from the Budget Estimates of the year 2014 and any methodology and a plan whatsoever had not been prepared in respect of the manner of implementation of that programme. Details had not been summoned from District Offices up to 31 August 2015 and follow up action thereon as well had not been carried out and all the expenditure incurred had become fruitless.

- The Divi Neguma Development Department had spent Rs.8 million in December 2014 for printing of 2 million Forms relating to the survey of increase of subsidies of Samurdhi Beneficiaries and identification of families to which subsidies should be further given. Nevertheless, the Department had not collected comprehensive details on new beneficiaries identified by that Survey even by May 2015 and this programme had been completely abandoned by that time.

- This programme had not been approved by an Action Plan for the year 2014 and the specific financial provisions had not been made by the budget for implementation of the programme. However, all activities relating to the procurement including issue of procurement documents for printing of Forms had been carried out within one day.

- Action had not been taken to distribute 312,993 Forms costing Rs.907,680 and remained idle. Further, instances where the Forms issued to the District Offices had not been made use of and returned to the stores of the Department were observed.

- The following observations in respect of advertising activities carried out in November and December 2014 by the Divi Neguma Development Department, were made.

- A sum of Rs.5 million had been paid in terms of instructions of the Secretary to the Ministry to relevant Media Institutions for two Television Advertising programmes prepared namely “Programme for Development of 1210 Bridges” under the Rural Bridges Project of the Ministry of Economic Development.

- A sum of Rs.707, 625 had been paid to a Production Institution for three short Television advertisements of 30 seconds without a proper approval of the Procurement Committee of the Department by misstating that they had prepared those advertisements on the instructions of the Secretary to the Ministry of Economic Development and these programmes had not been advertised even by May 2015.

- The Department had made commitments for settlement of a sum of Rs.36 million for advertisements published in 7 newspapers with a photograph of the then President on the requirement of the Ministry of Economic Development.

- A sum of Rs.2,992 million had been paid in December 2014 at the rate of Rs.2,500 per family for a number of 1,197,111 beneficiary families by utilizing Funds of the Divi Neguma Community Based Societies under the programme of "Isurumath Nivahanak" implemented as a programme of development of houses of Divi Neguma beneficiaries, not approved by the approved Action plan of the Department for the year 2014. A sum of Rs.997, 476 had been spent for advertisements for making the entire public aware of this programme which is related only to a specific number of beneficiaries. In addition, contrary to the circular of the Commissioner of Elections, advertisements including the photograph of one Presidential Candidate had been published in the Print Media. The progress of the programme had not been reported even by March 2015 and a sum of approximately Rs.3 billion had been spent for this programme and it had been completely ended.

- The Social Safety Fund has been established through the abatement of subsidies granted by the Government to beneficiaries with an aim of safety of the Samurdhi beneficiaries and maintained as a Trust under control of the Board of Trust in terms of the Circular No. 96/3 of 06 December 1996 of the Samurdhi Commissioner General. Further, a balance amounting to Rs.7, 586 million existed in the Fund by 31 December 2013 and the value of investments made on that date amounted to Rs.6, 795 million.

- The Auditor General had notified the Secretary to the Ministry and the Director General by the Letters of 14 May 2004 and 15 October 2014 to make necessary provisions to give parliamentary directives in a manner that the Auditor General would be entitled to the Statutory Right to audit the Fund as there is appropriateness to cover this Fund with public audit. In addition, according to the directives of the Committee on Public Accounts as well held on 07 August 2007, it had been ordered to take prompt measures to pass an Act due to unavailability of an Act for the Fund and the Auditor General's inability to audit. However, the Divi Neguma Development Department had not taken action to convert this Fund into a Statutory Fund by now.

- One thousand seventy four Divi Neguma Community Based Banks had been established throughout the island and action had been taken to distribute subsidies granted to Divi Neguma Beneficiaries by the Government through the Savings Accounts existing in favour of beneficiaries. In addition, one of the key functions of these banks is the fulfilment of micro financial requirements of the low income earners and the value of the entire deposits owned by these banks amounted to Rs.48, 042 million and the total quantity of assets including investments of Rs.48,405 million amounted to Rs.83,200 million as at 31 December 2014. Entire operations of the Community Based Banks are carried out by the Community Based Banks Division which is under the purview of the Divi Neguma Development Department. However, those Community Based Banks had not reported the positions of the Community Based Banks and Community Based Banks Divisions existed at the end of the year 2014 to the General Treasury through the records or accounts of the Ministry of Economic Development.

- The Divi Neguma Development Department had purchased and distributed 32,976 galvanized pipes costing Rs.36 million in December 2014 to use as flag posts for 58 Local Government Authorities which was a function not belonging to the scope of the Divi Neguma Development Department, without a request from the Local Government Authorities. Out of that, 28,310 pipes had not been entered in the Stock Registers. Five thousand three hundred and ninety eight pipes provided to 17 institutions had been distributed to another 30 Local Government Authorities without a permission of the Department and 9,195 pipes provided to 33 institutions had been released to the Chairman, Vice – Chairman or members of those institutions. Two thousand seven hundred and thirty four pipes provided to 11 institutions had been given to external parties without a permission of the Department.

- The Divi Neguma Development Department had paid Rs.29 million in December 2014 for printing of 5,000,000 Divi Neguma Calendars to distribute among the Divi Neguma Beneficiary Families for the year 2015.
- The quantity of calendars had been printed in apportionments in 04 instances within a short period of 12 days without a prior plan and as a result, the Government had been deprived of the price benefit which could be obtained by ordering the entire stock at once.

- The total number of beneficiary families who receive Divi Neguma subsidies by 31 December 2014 had been 1,479,811. Nevertheless, 5,000,000 calendars had been printed and it is an increase of 338 per cent than the beneficiary families.

- That procurement valued at Rs.29 million had been made by the aforesaid Procurement Committee contrary to the Procurement Guidelines.

- Contrary to the circular of the Commissioner of Elections, those calendars had been printed and distributed with a photograph of a candidate who contests at the Presidential Election.

Sports

The audit examination of the utilization of the provisions made for the Ministry of Sports for the year 2014 and the financial statements and transactions of major Sports Bodies revealed the following irregularities.

Ministry of Sports

Fraudulent purchase of carom and Dham boards valued at Rs. 39 million said to be for distribution to Sports Societies. There was no evidence of distribution. Though the Storekeeper had acknowledged the receipt of goods, those had not been received by the Ministry.

Sports Fund

A sum of Rs. 1,617,000 had been paid for the transport of members of Sports Societies to Temple Trees for the distribution of 2,500 sets of sports goods. But only 10 sets had been distributed.

Department of Sports

- Department of Sports had procured accommodation facilities for the staff of the XL National Sports festival and 3,500 each of T Shirts, travelling bags, for distribution among sports persons and sports officers and sports goods costing Rs. 21 million without following the Procurement Procedure.
- A sum of Rs. 13.81 million valued sports goods had been purchased deviating from the tender procedures

Sugathadasa National Sports Complex

- Artificial Track of Sugathadasa Stadium constructed at a cost of Rs. 126.8 million had been peeled off due to substandard work done and construction during rainy weather.
- A Security Guard deployed to cover the duties of the Cashier since the year 2009 had committed a cash fraud of Rs.0. 8 million.
- The room occupancy of the Sports Hotel of 42 rooms with an annual capacity of 15,330 room days had been 27 per cent. Three room remained closed down over a period about one year while the Restaurant on the ground floor remained closed over a period of about 8 years.

Sri Lanka Football Federation

- The former President of the Management Committee of the Sri Lanka Football Federation had fraudulently obtained US $ 100,000, EURO 40,400 and Rs. 5,000,000 out of the donations received by the Federation.

- Out of US $ 30,000 withdrawn from the Bank Account of the Federation on 06 June 2008 by the former Chief Executive Officer a sum of US $ 12,533 had not been returned to the Federation even by 19 January 2015.

- The former Chief Executive Officer of the Football Federation had transferred US $ 60,000 through a fictitious Bank Order to the private account of the former President of the Management Committee for the settlement of a loan of Rs. 6,000,000 obtained from the former President on 06 June 2008 without the approval of the Executive Committee despite the availability of adequate funds in the Bank Account of the Federation.

Sri Lanka Cricket

- Even though Sri Lanka Cricket had incurred heavy losses in the preceding years and incurred net operating loss of Rs. 392.7 million in the year 2014 and being without liquid assets to settle existing liabilities amounting to Rs. 4,303.5 million, it had spent a sum of Rs. 26.7 million as salary increments for the year 2013. In addition Rs. 57.6 million had been spent as an urgent requirement for the purchase of 11 motor vehicles for which provision was not made in the budget.

- Sri Lanka Cricket had issued 46,742 complimentary tickets valued at Rs. 45 million, for 13 One Day Matches and 04 Test Matches in the year 2014 without the approval of the Executive Committee and 85 per cent of the recipients had not acknowledged the receipt of tickets.

- A sum of Rs. 11.4 million receivable from a private company for the Sri Lanka Premier League 2012 had been written off as bad debts without the approval of the Executive Committee.

Tourism

Priority has given for Tourism in the Five Year Plan 2011-2016 being implemented in Sri Lanka and it had been mentioned that an income exceeding US$ 2.75 billion and generating over 500,000 direct and indirect employment as the expected target of the Tourism Industry for the year 2016.

The Tourism Industry shown a smooth functioning in the year 2014 continuing the growth tendency in the aftermath of the internal conflict in the country and exceeded the annual target of 1.5 million of tourist arrivals . As a result of promotional programmes conducted by the public sector and private sector with an attraction for the Tourism Industry had helped to increase of tourism arrivals.

Arrival of tourists was increased in all major zones in the year 2014 so as in the previous year. Accordingly, a remarkable increase was shown as 53.2 per cent in East Asia, 22.6 per cent in East Europe, 13.8 per cent in West Europe, 13.4 per cent in South Asia. So also, as in previous year, maximum number of tourists had arrived from India. That was 242,734. Next highest arrival of tourists was reported as 144,168 from United States. The most attractive arrival in the current year had been reported from People's Republic of China and reported as 128,166 representing an increase of 136.1 per cent compared with the previous year.

Earning of high foreign exchange was expected from the Tourism Industry and therefore an income of US$ 2,431 million had been earned from this industry in 2014. That was a significant improvement of 41.7 per cent compared with previous year. Increase of the arrival of foreigners as well as the average daily expenditure of a foreigner and average number of days which a foreigner spent in Sri Lanka had been mainly affected for the growth of the income from tourism. Average daily expenditure of a foreigner in the year 2014 was US$ 160.8 and that amount had become US$ 156.5 in the year 2013. Further more, average number of days spent a foreigner in Sri Lanka was 9.9 days in the year 2014 and it was 8.6 days in previous year. However, the money spent by a foreigner in Maldives, our nearest competitive country in relation to the Tourism Industry was US$ 2208 compared with US$ 1592 Spending in Sri Lanka. In comparing those figures, it was observed that the effectiveness of the expenditure incurred by foreigners in our country is remained at very low.

The Chinese Magazine "Travel and Leisure" had introduced Sri Lanka as one of the best destinations in the World and the "Forbes" Magazine nominated Sri Lanka in 2015 as one of the 10 most comfortable countries in the world to travel . A sum of Rs.1950 million had been spent by the Sri Lanka

Tourism Promotion Bureau in 2014 to promote the tourism. However, it was revealed in examining of the progress of the implementation of the Action Plan thereon, Strategic Plans had not been implemented by the Bureau to obtain maximum advantages from favorable opportunities arisen in the Tourism Industry through the external environmental factors as mentioned above. A sum of Rs.2,837.4 million in the year 2014 had been financed by 14 per cent,70 per cent,12 per cent and 4 per cent each for the 4 institutions of Sri Lanka Tourism Development Authority, Sri Lanka Tourism Promotion Bureau , Sri Lanka Institute of Tourism and Hotel Management and Sri Lanka Convention Bureau . However, out of the duties and functions conveyed those 4 institutions by the Tourism Act,No.38 of 2005, activities such as enactment of rules for convict a person or persons for a fault who are engaged in visits or tourism services without being registered in Sri Lanka Tourism Authority , establishment of Tourists Advisory Committees ,establishment of Classical Affairs Trust Fund and affairs such as development of supporting industry and services according to the Act, promotion and establishment of institutions and firms for supporting thereto had not been done.

Certain audit observations in relation to the institutions established under the Tourism Act, are given below.

Sri Lanka Tourism Development Authority

- A sum of Rs. 10.19 million had been paid to the supplier for the materials such as 2016 cubes of granite and 40 cubes of gravel for the construction of the Jetty at Thoraiadi ,Kalpitiya without being taken over physically.

- The labour contract for maintaining the sewerage system at the Bentota Holiday Resort premises had been entrusted to the same contractor for several years without following procurement procedure. Therefore, a loss of Rs.6.89 million had been sustained by the Authority as at the end of the year 2014.

- An overpayment of Rs.11.08 million had been made for the contractor for the repairs carried out in the Kataragama Tourist Holiday Resort.

- A Hotel located at the site of Bentota Holiday Resort had obtained water for 97 months fraudulently through a defective water meter for long time had been revealed and pointed out by the audit and paid a sum of Rs. 8.4 million to the Authority subsequently.

- An overpayment of Rs.3,793,420 was revealed at the physical audit carried out on measurement records related to the construction of storm water drainage system in the Holoday Resort at Pasikudha.

- A sum of Rs.3,226,950 had been paid to a contractor who submitted fraudulent documents on usage of bulldozers for construction work at Kalpitiya Mohottuvarama Jetty .

Sri Lanka Tourism Promotion Bureau

- Advances amounting to Rs.14,500,000 had been made to a contractor for a contract of creation of a bogus promotional programme and after that the said amount had been recovered after 8 months based on the audit observations.

- A sum of Rs.7,800,000 had been spent to procure 12,000 T-shirts locally for the Tourism Promotion Programme held in Russia from 23 September to 07 October 2014. However, Such T-shirts had not been used for the Tourism Promotion Programme held in Russia.

- A sum of Rs.5,824,000 had been spent to procure 8000 T-shirts on which printed as “Dinana Uwa”and “Eksath Janatha Nidahas Sandhanaya” for the programme to commemorate the World Tourists Day on 27 September 2014.

- A sum of Rs.25,298,140 had been over paid to the contractor engage for 2 promotional programmes carried out on print and electronic media. A payment of Rs.2,540,275 had also been made for the activities performed which were not required quality.

Urban Development

The functions relating to the urban development had been discharged under the Ministry of Defence and Urban Development during the year 2014 and the activities relating to the formulation and implementation of policies on the programmes of urban development in Sri Lanka and protection and development of wetlands had been carried out by the main institutions of the Urban Development Authority and the Sri Lanka Land Reclamation and Development Corporation. The labour contribution made by the three armed forces for the city beautification and construction and maintenance of drainages carried out by the aforesaid institutions had been a distinguished feature during the year under review. As such, the operating costs of such institutions should be decreased. However operating cost of such institutions for the year under review had not been adequately decreased according to the financial statements presented.

The following audit observations are made.

Urban Development Authority

- Continuous delay was existed in presentation of financial statements of the Urban Development Authority for audit. Even though the financial statements of the year ended 31 December 2013 should be presented for audit before 28 February 2014, those financial statements had been presented for audit only on 02 July 2015. Moreover, the financial statements for the year ended 31 December 2014 had been presented to audit on 04 August 2015. As such, the Annual Reports of the Authority for the years 2013 and 2014 had been tabled in the parliament with delays.

- Consolidated financial statements of the Authority had been prepared based on the audited financial statements of three subsidiary companies and the unaudited financial statements of another subsidiary company. The administration of the Water's Edge Hotel Company, which is a subsidiary company of the Authority had been vested with the Authority by a Court Order and as such, the value of the investment had been shown as Rs.10 in the financial statements of the Authority. The revalued cost of the assets of the subsidiary company and the payables to previous owners had been separately shown as Rs.1,791 million and Rs.403.83 million respectively in the financial statements.

- Debentures value at Rs.10 billion to be redeemable in 10 years had been issued by the Urban Development Authority in October 2010 with a view to raising funds for the Programme for construction of 65,000 permanent houses for the shanty dwellers in Colombo City and the Treasury had agreed to pay the interest on debentures for the period of first 3 years. Even though these debentures should be redeemed in October 2015, neither a specific fund had been established nor a proper arrangement had been made to raise funds for redemption.

- Plans had been made to construct 20,500 houses with facilities by the end of the year 2013 under the first Phase of the Program of constructing 65,000 permanent houses for the shanty dwellers in Colombo City, thereby freeing of 150 acres of urban lands and to earn a sum of Rs.25 billion by leasing out of those lands. Nevertheless, according to the information furnished by the Authority, it was only possible to hand over 500 houses to the people and to free 9 acres by the end of the year under review.

Sri Lanka Land Reclamation and Development Corporation

- A loan amounting to Rs.14,227 million had been obtained from the National Savings Bank in 2013 to make funds for the implementation of the Weras Ganga Storm Water Drainage and Environment Improvement Project implemented by the Sri Lanka Land Reclamation and Development Corporation and out of that, a sum of Rs.1,600 million had been utilized as at 31 December 2014. As such, the capital Debt ratio of 18.5 per cent of the Corporation remained at the end of the year 2013 had been increased up to 62.89 per cent by the end of the year 2014. Nevertheless, out of the Loan obtained for the Project, a sum of Rs.453 million had been invested in Treasury Bills as at 31 December 2014 without being utilized for intended purposes.

- It was observed in audit that the activities of the Projects for the construction of Weeraketiya Memorial Museum, reconstruction of Kumbichchankulama Tank in Anuradhapura, construction of the Bolawalana Cultural Center etc. implemented at a cost of Rs.178.1 million by the Corporation during the year under review were not connected to the objectives of the Corporation for the prevention of flood damage and protection and development of wetlands. In addition, it was observed in audit that a sum of Rs.18.9 million had been spent uneconomically by the Corporation on awarding souvenirs to the members of the armed forces holding ceremonies.

- According to the financial statements of the Corporation for the year ended 31 December 2014, a foreign company had mined 3,756,595 cubic meters of sea sand and out of that, 2,269,563 cubic meters of sea sand valued at Rs.1,879 million had remained in the stock as at 31 December 2014.

- In terms of the Mines and Minerals Act No.33 of 1992, a valid license from the Geological Survey and Mines Bureau should be obtained to explore , mine, transport, process, or trade minerals. Nevertheless, it was observed that the Corporation had not obtained a proper license to mine sea sand.

Trade and Commerce

Cement Corporation of Sri Lanka

Even though the key objectives of the Cement Corporation of Sri Lanka which was incorporated by the State Industrial Corporations Act, No.49 of 1957, are to manufacture and sale of cement in Sri Lanka, the manufacturing of cement had completely ceased for over a period of 20 years in the Corporation and a trivial amount of the country's requirement is imported at present.

The Corporation as well as the Ceylon Cement Company which is a subsidiary of the Corporation is engaged in the import and sale of cement at present and both these Institutes are continuously running at a loss. The accumulated losses of the Corporation and the Company by 31 December 2014 amounted to Rs.80.97 million and Rs.2,341.85 million respectively. The deficit of the Corporation for the year 2014 amounted to Rs.14.49 million as compared with the corresponding deficit of Rs.424.67 million for the preceding year. The loss of the Company for the year under review and the preceding year amounted to Rs.1.84 million and Rs.192.92 million respectively. As such, it was observed that there was a risk of going concern of the Institute. The Corporation owns a large amount of land and property and those had not been entered in the Register of Assets.

Sri Lanka Handicrafts Board

The total sales income of the Board for the year 2014 was Rs.881.03 million and out of that, the amount representing 33 per cent of the income had been paid to the manufacturer. The administrative and financial expenditure of the Board was 64.7 per cent of the sales income. The net profit was only 1.7 per cent of the income. Even though a loan of Rs.698 million had been obtained by mortgaging the Head Office building of the Board, showrooms had been constructed in the lands obtained on long term and short term lease deviating from the procurement procedure without repairing and using of the Head Office building. A sum of Rs. 80 million had been paid as interest during the year for payment of loan interest for the above loan of Rs.698 million.

Department of Registrar of Companies

Books valued at Rs.0.68 million procured for distribution among school libraries in line with Deyata Kirula Programme in the year 2015 had been remained in the stores without being distributed. No action whatsoever had been taken to distribute those books even by 27 March 2015.

The number of Limited Liabilities Companies registered as at the end of the year under review was 71,110 and the number of Limited Liabilities Companies that should submit the Annual Reports on that day was 59,113. Nevertheless, the number of limited companies that submitted Annual Reports on that day was 14,886. As such, the number of limited companies which failed to submit Annual Reports was 44,227. Therefore, the outstanding income from registration of Annual Reports unrecovered for the year under review was Rs.221.13 million and the total outstanding income from registration of Annual Reports at the end of the year under review including the preceding year was Rs.287.29 million.

The contract for the Project for Computerizing the Registration of Limited Companies had been awarded to a private entity at a cost of Rs.88.81 million on 21 January 2014 and the works should be completed before 20 October 2014 in terms of the contract agreement. However, the contractor had abandoned the work half way. It was observed that the Department had failed to monitor and supervise the works of the contract in a proper manner and the contract had been awarded without obtaining a performance bond from the contractor in terms of Section 5.4.8 (a) of the Procurement Guidelines. It was observed in audit that the sum of Rs.13.62 million incurred for this purpose up to now, was a fruitless expenditure.

Sri Lanka Institute of Textile and Apparel

- A total of Rs. 2.92 million had been paid as allowances for Engineers, Course Coordinators, Secretaries and Accountants during the year under review without the approval of the Cabinet of Ministers or the Ministry of Public Administration or the General Treasury in accordance with the Public Enterprises Circular No.95 of 14 June 1994 and Section 2.1.5 of the National Budget Circular No. 1/2014 of 01 January 2014.

- Even though the selection of Consultants for Government Institutions should be carried out according to the Government Procurement Guidelines and Guidance of appointing Public Consultants. Contrary to that provision a member of the Board of Directors of the Institute had been appointed as a Consultant of the Research and Training Unit. A sum of Rs.1.32 million had been paid as allowances for this purpose during the year under review and the preceding year.

- A sum of Rs.1.12 million had been spent for the establishment of a branch of the Institute in Mannar by 31 December 2014 and this branch had remained idle by the end of the year under review. It was observed that expenses exceeding Rs.160,000 is incurred monthly for the maintenance of this branch and that money as well was remained fruitless.

Ministry of Industries and Commerce

- Even though only Rs.4.28 million, representing 7.12 per cent had been spent out of Rs.25 million allocated for 17 programmes for the progress of Divisions such as rubber products, boats, machinery, timber, moulds and press moulds under Development Division II, no significant progress had been reported in those divisions as well.

- Even though the Cabinet approval had been granted in 2006 to establish a separate zone for uplifting the leather industry under Development Division III and a sum of Rs.120 million had been allocated in 2014 for the development activities of that industrial zone, that project as well had been unsuccessful due to failure in taking action by the relevant authorities to release that land.

Co-operative Wholesale Establishment

A situation existed for the past 5 years up to the year 2010, for which the Auditor General was unable to express an audit opinion on the annual financial statements of the Cooperative Wholesale Establishment and the Auditor General had expressed an adverse audit opinion on the financial statements of the year 2011. As a result, the assistance of a firm of Chartered Accountants had been obtained for the preparation of accounts for the years 2012, 2013 and 2014 the Establishment was able to present the financial statements for the years 2012 and 2013 to audit only at the end of the year 2015.

As such, continuous losses amounting to Rs.649 million and Rs.177 million had been incurred in 2012 and 2013 respectively. Even though sums of Rs.217 million and Rs.159 million had been received from trade affairs, rent income amounting to Rs.186.5 million and Rs.185.2 million and income of Rs.37 million and Rs.177 million from the Paddy Hulling Project in the years 2012 and 2013 respectively, the aforesaid unprofitable situation had continuously existed due to excessive administrative and financial expenses incurred on poor decisions taken by the Management.

A deterioration of the Equity at the Establishment amounting to Rs.7,587 million had indicated in the year under review due to the continuous accumulated losses of the Establishment and as compared with the preceding year, the corresponding deterioration had been Rs.7,407 million.

As indicated in the Audit Report for the year 2011, issued most recently several major deficiencies which were not rectified continuously by the Establishment are given as follows.

Preparation of financial statements not done as required by the Sri Lanka

Accounting Standards, income totaling Rs.72 million not induced in the financial statements, understatement of debtors of the Cooperative Wholesale Establishment by Rs.546 million, construction of paddy mills at a cost of Rs.79 million in a contentious nature at a store not owned by the Establishment, Lack of evidence for audit relating to transactions valued at Rs.4,725 million, failure of action to settle bond liabilities of Rs.4,597 million payable to 3 commercial banks for a long period, fruitless investments valued at Rs.544 million in 2 entities made by the Establishment, 140 rice processing machines valued at Rs. 15 million remained idle, Use of project funds amounting to Rs.45 million contrary to the objectives and the inefficiency in handling of transactions and assets exceeding the value of Rs.57 million by the management and as such, it was observed that the Establishment had been deprived of those values as well.

Food Commissioner's Department

Out of 66 stores rented out to external institutions by the Food Department, rents totaling Rs.51.82 million had been outstanding as at 31 December 2014. Even though 24 stores out of that had been vested at present, the total outstanding rents of Rs.31.88 million recoverable from them had not been recovered up to now.

Paddy Marketing Board

The Sri Lanka Agro Products Marketing Authority had been established by immobilizing the activities of the Paddy Marketing Board in 2006 by the Cabinet Decision No. අමප/06/0238/218/10 of 08 February 2006 and the activities of the Paddy Marketing Board had been assigned to that Authority. Subsequently, the Sri Lanka Agro Products Marketing Authority had been liquidated in 2007 by the Cabinet Decision No. අමප/ 07/1199/315/031 of 25 July 2007 and the Paddy Marketing Board had been remobilized. As such, the Paddy Marketing Board had established 07 zones namely Anuradhapura, Polonnaruwa, Ampara, South, North West, East and North and recommenced operations of purchase of paddy from the "Yala" season in the year 2008. Following observations are made on the affairs of the Board.

- According to the stock verification carried out on the existing stocks as at 31 October 2013 in respect of 235 stores belonging to 05 zones except the 02 zones of North and East of the Board, a loss of Rs.578.39 million had been caused in the purchase, storage and issue of paddy during the period of 2012/2013.

- A case had been filed against the store keeper in respect of the shortage of 777,453 kilo grams of a stock of paddy valued at Rs.23.2 million occurred in 06 stores of the zone in Polonnaruwa in 2012 and the total loss sustained by the Board was Rs.24.07 million including the cost of stock verification amounting to Rs.873,236.

- The price of paddy had been determined by a three member committee appointed in the year 2013 for calling quotations without considering the selling price of stocks of paddy had determined the paddy prices boned on false information areas. As such, the loss caused to the Board by sale of stocks of paddy in the zones of Polonnaruwa, Anuradhapura and Southern had been Rs.54.86 million.

- Instances of non-compliance with instructions issued by the Circular No.PMB/2013/Y/AGR/CR of the Board on 24 July 2013 are as follows.

    (a) Even though it is mentioned in the Circular that the paddy should be in approved standard and the quantity of empty paddy seeds is 9 per cent (according to the volume) at the maximum in the purchase of paddy, no mechanism had been used to measure it.

    (b) Even though it had been informed by the Circular that the No. of the leaflet relevant to each farmer should be marked on every packed bundle with permanent ink before stacking stocks of paddy, it had not been so done in any of the stores.

    (c) Even though stacking should be carried out separately according to the type of paddy for the convenience of issuance of stocks of paddy taken over, it had not been so done in some stores.

    (d) Even though the standard weight of every bundle of paddy purchased according to the instructions of the Circular had been indicated as 50 to 250 kilogrammes, the weight of bundles of paddy purchased had remained in the range of weightage from 40 to 69 kilogrammes.

    (e) Even though the maximum quantity of paddy that could be purchased from a farmer in the "Maha" season is of 2012/2013 was limited to 2000 kilogrammes according to the instructions of the Circular, there were instances in which 5000 kilogrammes of paddy had been purchased without proper written instructions.

    (f) Even though paddy should be purchased subject to the maximum moisture of 14 per cent according to the instructions of the Circular, the moisture of “Sudu Nadu” paddy of the Yodha Kandiya store in the Southern Zone had remained ranging from 15.5 per cent to 17.9 per cent and the moisture of “Rathu Nadu” and “Sudu Nadu” of the Weeraketiya store had remained ranging from 14.6 per cent to 16.8 per cent and 14 per cent to 15 per cent respectively.

- Eight paddy stores of the stores complexes of Anamaduwa, Galewela, Warawewa and Nikaweratiya belonging to the Board had been allowed for the use of private institutions and out of these 05 stores had been provided without charging annual rent.

- Rice at the weight of 1,281,937 kilogrammes valued at Rs.54.38 million for the stock of paddy issued to the mill owners for obtaining rice required for the grant at State of Somalia had not been received by the Board even by 31 July 2015.

- Even though His Excellency the President had temporarily stopped to export rice in 2013, a quantity of 12,019,045 kilogrammes of “Nadu” rice had been issued to rice mills by the stores of the Paddy Marketing Board to export of 15,000 metric tons of rice to the United Arab Emirates in 2014 on the authority granted to the Chairman of the Paddy Marketing Board by the Secretary to the relevant Line Ministry. A sum of Rs.469.34 million had been incurred by the Board for purchase of this stock of paddy and other expenses and only a sum of Rs.169.48 million had been received by the Board for providing with paddy for export purposes. As such, it was observed in audit that a financial loss of Rs.299.98 million had been incurred by the Board due to supply of these stocks.

- A sum of Rs.65.48 million had been spent by the Paddy Marketing Board for 09 contracts carried out in 2013 and all these contracts had been awarded to the Cooperative Wholesale Establishment deviating from the provisions made in the Government Procurement Guidelines. The works had been carried out through private contractors and payments had been made to the CWE construction company ltd.

- Even though provisions had not been made in the estimate for urgent requirements for changes in quantities and payments for extra work, a sum of Rs.3.42 million had been paid for extra works of 02 contracts. The Paddy Marketing Board had not obtained the recommendations from the Consultant appointed for the supervision of these contracts before carrying out the said extra work or the approval of the Tender Board in that connection.

- Even though the financial statements for a financial year should be presented to audit within 60 days of completion of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED 12 of 02 June 2003, the financial statements for the years 2013 and 2014 had not been presented even up to 25 September 2015.

- According to the Audit Report of 2011, several accounting deficiencies in the financial statements for the year 2011 are as follows.
  - (a) No action taken to comply with the requirement of Sri Lanka Accounting Standard Nos.05, 16 and 18.
  - (b) Retention of a total of assets and a total of liabilities amounting to Rs.277.91 million and Rs.166.99 million respectively that existed before the year 2008 in a Suspense Account without identification.
  - (c) A sum of Rs.57.60 million saved after making the relevant charges, out of the amount received from the Treasury for the payment of loan interest and rent for hulling of paddy and transport charges had been treated as an income.
  - (d) Overstating the cost of sales by Rs.601.55 million due to computing the errors in cost of sales of rice in the Income Statement.

Export Development Board of Sri Lanka

The Integrated Agri Models, Agri Zones and Agricultural Programmes had been identified as Export Promotion Programmes for the year 2014. Out of the annual allocation of the Government amounting to Rs.518 million, 58 per cent representing Rs.300.28 million had been spent as export development expenditure thereon. Further, criteria and procedures had not been stipulated and implemented for follow up action for evaluation and review on achievement of targeted objectives of such programmes. Evaluation and review of the export development activities and efficiency and productivity thereof had not been taken into consideration. Details on such several programmes are given below.

- A programme namely Skills Development Project had been implemented in the three districts of Mannar, Vavuniya and Mulathivu and a sum of Rs. 16.3 million had been approved thereon. The advance of Rs.845,000 released on 22 April 2014 to the District Secretary, Mannar had been given to a private drivers’ training institution by the District Secretary. As such, the trainings expected to be received from the National Youth Centre and the training in respect of the field of export given by the private driving training institution, had not been explained to audit.

- The Board of Directors had approved a sum of Rs. 15 million for implementation of a Chilly Cultivation Project in the districts of Vavuniya and Mannar with a view to provide chillies for the export market. Farmers had gathered the harvest in two occasions from the Chilly Cultivation Project commenced in the year 2014 in an area of 50 acres in extent spending Rs. 22.72 million exceeding that amount. Nevertheless, it was observed that no export whatsoever had been made to the export market up to now. It was observed that the Board had been involved in agricultural purposes through the export promotion programmes contrary to the objectives of the Board.

- No dividends had been received for investments of Rs.105.06 million made in preferential shares of 30 companies for the period from 1997-2014 and investments aggregating Rs.43.49 million made in normal shares of 31 companies for the period from 2001-2014. Action had not been taken to recover the investment value of Rs.17.31million made in ordinary shares of 3 liquidated companies in the year under review. The Board had not taken proper action to realize the value investments at Rs.34.59 million made in preferential shares of 16 companies and investments valued at Rs.5.13 million made in ordinary shares of 17 companies, out of the companies of which the name had been cut off from the Register of Companies based on the nonregistration of companies once again under the New Companies Act.

- Even though the Board had invested a sum of Rs.8 million in the year 2012 in the share capital of the CWG Hambanthota 2018 (Pvt.) Company established to achieve the objectives such as presentation of bids, promotion of sports in Sri Lanka, organization of sports events at the National and International Levels and investments in sports training facilities for the city of Hambanthota for the Commonwealth Games- 2018 to be held in the year 2018, no benefits whatsoever had been obtained thereon. The concurrence of the Minister of Finance for this investment had not been presented to audit.

Construction Industry

Institute for Construction Training and Development

- The financial results of the ICTAD for the year 2014 was a deficit of Rs.20 million. However, for the purpose of paying annual bonus to its employees, the Institute had prepared a separate income statement by showing a net profit of Rs 32 million for that year. Accordingly, annual bonus of Rs.3 million had been paid in contrary to the Department of Management Service Circular No 05/2014 of 21 November 2014.

- The Institute had incurred a sum of Rs.1.5 million for advertising of the National Development Deyatakirula Programme and World Habitat Day Programme on request made by the line Ministry.

- Five cheques value at Rs.4.7 million issued for advertising expenses of "Mahabhimani" Programme in 2014 had been subsequently cancelled in January 2015 and reason for cancellation were not made available for audit.

Central Engineering Consultancy Bureau (CECB)

- Out of the operating revenue of the Bureau for the year 2013, only 14 per cent had been earned from providing consultancy services and the rest of the revenue had been earned from construction work. Even though, there are number of state owned institutions to undertake construction works such as State Development and Construction Corporation, State Engineering Corporation, Building Department etc. the consultancy works are undertaken only by the CECB and SEC. Nevertheless, CECB had not strategically focused on engineering consultancy which has been the mandated task assigned at the inception of the Bureau.

- The Ministry of Economic Development had granted a sum of Rs.3,601 million of machineries and equipment to the Bureau in 2012 to expedite the road construction projects undertaken by the Bureau but subsequently, the Ministry had recovered a sum of Rs.250 million from the contract payments due to the Bureau. However, without carrying out any professional valuation of those assets and ignoring the grant portion of Rs.3,351 million, the Bureau had accounted them at Rs.250 million.

- Board of Directors of the Bureau had approved number of incentive schemes and incentive payments to employees of the Bureau without getting prior approval of the General Treasury. Total amount of such incentive paid in 2013 was Rs.100 million.

- Out of 90 per cent of the construction contracts undertaken by the CECB had been sub-contracted to the Central Engineering (Pvt) Ltd without allowing them to get contracts through competitive bidding, which is the main purpose in establishment of that Company.

  It was further observed that the above works had been carried out by the Company using human, physical and other resources belonging to the CECB. For instances, preparation of BOQs, estimates and invoices for both organizations are done by the same personnel of the CECB.

- Loss of Rs.60 million had been incurred by the Bureau during the year under review in respect of construction contract works undertaken due to poor contract administration.

State Development and Construction Corporation

- The Corporation had handled 67 construction contracts to the value of Rs.12,474 million in the year 2013. However, most of the construction works had delayed in the range of 6 to 82 months due to various reasons such as liquidity problems of the Corporation, non-receipt of the payments from clients in time, bad weather condition, design changed by the clients and management inefficiency etc and a total loss of Rs.70.3 million had occurred from the delayed Projects up to 2013.

- Incentive amounting to Rs.12.7 million had been paid to selected technical staff of the Construction Division of the Corporation in 2013 without assessing the individual performance.

- The Corporation had paid a sum of Rs.12 million as vehicle hiring charges to four officers who were appointed by the Ministry of Construction, Engineering services, Housing & Common Amenties, to inspect the works of the road Projects carried out by the Corporation in Kegalle under Janasewana Programme implemented by the Ministry during June 2012 to November 2014. However, the above payments had been made based on their uncompleted running charts without being obtained any inspection report.

- Seven debtor balances aggregating Rs.3.2 million had been written off during the year under review without being obtained the approval of the Board.

- Debtor balances of the Construction and Concrete Yard Divisions of the Corporation amounting to Rs.28 million and Rs.36 million respectively had remained outstanding for more than three years as at 31 December 2013. Of them, Rs.24 million and Rs.25 million respectively were remained outstanding for a period more than 05 years without being taken any recovery action. Further, age analysis for sundry debtor balance of Rs.38 million as at 31 December 2013 was not furnished to audit.

- Purchase advances for construction contract amounting to Rs. 5 million and Rs. 19 million had been remained outstanding for a period of more than 4 years and 02 years as at 31 December 2013 respectively without taking any recovery action. In addition to that the age analysis for purchase advance of Rs. 22 million relating to the Peliyagoda Office of the Corporation was not made available for audit.

State Engineering Corporation

- The operations of the Corporation during the year 2013 had resulted in a pre-tax net profit of Rs. 149 million as compared with the corresponding pre-tax net profit of Rs.226 million for the preceding year, thus indicating a deterioration of Rs. 77 million in the net profit as compared with the preceding year.

- The deterioration of the operating profits of the Special Operations Division and the Consultancy Division had indicated a deterioration of Rs. 216 million and Rs. 30 million respectively as compared with the year 2013 with the preceding year, and the operating loss of Rs. 45 million of the Machinery Division had mainly affected the deterioration of the net profit.

- The after tax net profit of the Corporation for all the years had decreased continuously except in the year 2011. The decrease of after tax net profit was 40 per cent in the year 2013 as compared with the preceding year.

- The net operating profits of the Consultancy, Special Operations and Machinery Divisions of the Corporation, for the year 2013 as compared with the preceding year had deteriorated by 24 per cent, 54 per cent and 1,205 per cent respectively.

- The operating profit for the year 2012 amounting to Rs. 41 million of the Ekala, Welikanda and Ratmalana work sites belonging to the Construction Components Division had deteriorated to Rs.7 million by 83 per cent in the year 2013. The increase of other expenses except the sales cost of the work sites had affected this position.

- The Brick and Carpentry Products Yard at Dankotuwa belonging to the Construction Components Division had incurred a loss of Rs.3 million in the year 2013 and 15 years out of the past 16 years had reported losses. The accumulated loss as at 31 December 2013 was Rs. 29 million. The increase of the sales cost over the percentage of increase in the income of the work site had affected this position.

- Regional Offices and 15 work sites including the Head Office of the Machinery Division and the Main Stores at Kolonnawa had sustained an accumulated loss of Rs. 98 million in the year 2013.

- Even though the Bank Overdraft Facility which can be obtained by the Corporation on Bank Bonds within the year under review had been limited to Rs. 474 million, there had been instances in which the facility of Bank Overdrafts had been obtained up to Rs. 556 million. Out of it, a sum of Rs. 150 million had been obtained as a Temporary Bank Overdraft at an interest rate of 30 per cent per annum. As such, the total Bank Overdraft interest paid by the Corporation for Bank Overdrafts in the year 2013 amounted to Rs.78 million.

- Machinery imported by the Ministry of Economic Development from China for Rs.1,339 million and received by the Corporation in the year 2012 had been valued by a licensed Valuation Officers for Rs.736 million in the year 2013. It was not possible to be satisfied in audit with regard to the reasonableness of the initial valuation in view of the decrease in value by 45 per cent within a short period of one year from the purchase.

- The Corporation had taken an interest from the year 2008 itself in earning income by carrying out construction works in foreign countries and had spent a sum of Rs.13 million in that connection. Nevertheless, the Corporation had failed to commence construction works in a foreign country, obtain contracts or earn any income whatsoever even by the end of the year 2013.

- The Corporation had to pay a sum of Rs. 20 million as liquidated damages as a result of non- completion of contracts of constructions within the specified period in the year 2013.

- A loss of Rs.187 million had been sustained on 34 projects as at the end of the year 2013 due to incurring of costs exceeding the contract value of the projects.

- A payment of Rs.159 million had been made as allowances for employees holding posts in the service categories such as Engineer, Architect and Quantity Surveyor for the year 2013 without the approval of the Department of Management Services and the recommendation of the Salaries and Cadre Commission.

- Out of the balance of trade debtors as at the end of the year 2013 amounting to Rs.4,656 million, over 95 per cent remained receivable from Government Institutions. Out of that, a sum of Rs.1,960 million represented balances older than 03 years.

Department of Government Factory

- The extent of 01 Rude, 16 Perches out of the total land extent of 15 Acres, where the Department located, had been encroached by unauthorized residents over a period more than 50 years but the Department had not taken adequate actions to get clear the land.

- The debtor balance of Rs.53 million, out of the total debtor balance as at 31 December 2013 amounting to Rs. 362 million, arisen during 1995 to 2007 from the supply of goods to the Government institution was still remained in the accounts without taking any recovery action.

Housing

Janasevana Housing and Housing Development Programme has been carried out with the objective of providing house for each family in the country since the year 2011 under the Ministry of Construction, Engineering Service and Common Amenities and other institution coming under the purview of the Ministry namely, the National Housing Development Authority, Urban Settlement Development Authority, and Condominium Management Authority.

National Housing Development Authority

- The following observations are made in connection with the Janasevana Millennium Housing Programme planned to carry out in the year 2014 and the achievements during the year under review.

    i. Even though the National Housing Development Authority had planned to achieve the target of completing 42,222 housing units in the year 2014 by harnessing the services performed by its staff attached to its island-wide network of District Offices, regional and village level, the actual number of housing units completed was 15,590, that is, 37 per cent of the target. But, 43 per cent of the total estimated cost of the targeted housing units had been utilized.

    ii. Considerable progress was not observed in other housing loan programmes except Janasevana Housing Loan Programme by the end of the year under review.

    iii. Even though the construction of 877 housing units in 5 Housing Schemes, under Public-Private Contributory Housing Project, had been planned, none of them had been constructed at the end of the year under review and the number of schemes the works commenced was two. The physical progress of those works was only two per cent.

    iv. Even though 60 housing units had been planned to construct, under Millennium Lanka Housing Programme, in the year under review by incurring Rs.75 million, no work on any housing unit whatsoever had been commenced.

v. The leader in the state sector for carrying out construction of one million housing units under the Janasevana Housing Programme introduced by the government in the year 2011 is the National Housing Development Authority which carried out island-wide housing construction with a network of 26 District Offices and 3 City Offices. However, the Authority had planned only 25 per cent of that target during the period 2014 – 2018. On that ground, achieving of that target under that Programme will not become a reality. However, the attention of the management towards the identification of barriers for achieving of the target to take precautionary actions was not paid, adequately.

- Even though the Authority had taken over the tenure of the compensation payable lands acquired under Section 38(b) of the Land Acquisition Act, a longer period had been taken in the course of taking over the land tenure of certain lands due to the various problems that had arisen. As such, the compensation payable as at the end of the year under review amounted to Rs.16 million and the outstanding interest payable thereon amounted to Rs.40 million.

- According to the Land Survey Report of the year 2010, lands with an extent of 645.66 hectares belonging to the Authority had been identified and out of that 208.75 hectares of land had been identified as encroached by unauthorized residents at the end of the year under review. Further, a survey relating to lands of the Authority in five districts of the Northern Province had also been not carried out even by the end of the year under review.

- There had been difficulties in obtaining the Certificates of Conformity relating to 1,986 housing units of 26 housing schemes as at the end of the year under review as houses had been constructed without obtaining the approval for the housing plans from the respective Local Authorities before the commencement of construction of Housing Schemes. As a result, the relevant houses of the Housing Schemes could not be transferred to the respective owners to establish Management Corporations. As such, the Authority had to carrying out repairs and maintenance of those Housing Schemes out of its owned funds, continuously. Thus, the spend a sum of Rs.12 million and Rs.771 million for maintenance and repairs of such Housing Schemes respectively in the year under review.

- Out of the total debtor of Rs.3,880 million balance at the end of the year under review, Rs.2,202 million or 56 per cent had been brought forward over a period exceeding five years without take adequate recovery action.

- Two houses in the Homagama Jalthara and Diyawanna Gardens Housing Schemes had been released to two individuals for occupation by the end of the year under review outside the normal housing disposal methodology of the Authority and without entering into agreements or even obtaining advances.

- In accordance with the decision of the Cabinet of Ministers No.14/0619/517/021-1 dated 08 August 2014, the number of housing units approved to be constructed under partnership with local investors had been decreased from 42 to 39 at the time of entering into contract with the private partner at Pallekele Estate owned by Authority without any justification. Further, the Authority had agreed to 10 per cent pre- determined profit instead of the actual profit earned.

- According to the Cabinet Decision No.140/98 dated 17 December 1998, the Authority should obtain current valuation in releasing properties to unauthorized occupants. However, in contrary to that, the house bearing No. D/V/2/2/L at Maning Town Housing Scheme had been released to an unauthorized occupant in the year under review based on the valuation of the year 1998. Due to that, the Authority had to incur a loss of Rs. 10 million.

  Similarly, the Authority had legalized three unauthorized occupants at Weveldeniya Housing Scheme in Gampaha District in contrary to the methods approved by the Cabinet of Ministers for legalizing the unauthorized occupants and as a result, the Authority had incurred a loss of Rs. 4 million.

Condominium Management Authority

The condominium Management Authority was established on 10 November 2003 in terms of provision in the Common Amenities Board Act, No. 10 of 1973 as amended by the Common Amenities (Amendment) Act, No.24 of 2003 for the control, management, causing repairs and administration of condominium properties, semi- condominium properties and temporary properties.

- According to the Section 5 (e) of the said Act, the Authority should manage and control the Condominium Property Management Corporations, after their incorporations. Further, according to the information furnished to audit by the Authority, the number of Management Corporations and Committees planned to incorporate since 2005 to end of the year under review was 1,080, but the actual number incorporated as at 31 December 2014 was 829 and 60 per cent of them had been inactive at the end of May 2015.

- According to the Section 5 (g) of the Act, the maintenance of common amenities of condominium properties should be handed over to the Local Authorities. However, the maintenance of the common amenities of the Maligawatta and Jaltara Housing Schemes had not been handed over to the respective Local Authorities even up to end of the year under review.

- As compared with the preceding year, the income of the Authority for the year under review had been increased by Rs.48 million or 77 percent, but after settlement of the expenditure, the financial result was a profit of Rs.449,155. Increase of the expenditure as compared with the increase of the income had resulted to show a marginal financial result of the year.
- Even though the net assets of the Authority had shown a favorable balance of Rs.12 million in the year under review, it had shown negative values amounting to 25 million 16 million and 32 million for the preceding three years respectively. Receiving of a sum of Rs.10 million from the General Treasury in the year under review for payment of employees' salaries and Rs. 29 million of prior year adjustment had mainly impacted to improve of the net asset position of the year under review. This position had adversely been affected to the going concern of the institution.

Urban Settlement Development Authority

- Despite incurring a deficiency of Rs. 10 million by the Authority during the year under review, annual bonuses of Rs. 1 million had been paid to 89 employees of the Authority with the approval of the Board of Directors on the basis of Management Services Department Circular No. 05/2014 dated 21 November 2014 on the payment of bonus to employees of government corporations and fully owned government companies which had recommended a bonus of Rs. 15,000 for employees of institutions which had made profits.

- Rs. 23 million had been spent on a drama titled "Colombo Children" and a programme for the promotion of street food items to mark the World Habitat Day.

- As per Cabinet decision No.CP/ 07/0140/226/013 dated 22nd February 2007, though Real Estate Exchange Private Company Limited should have been liquidated and its assets and liabilities as well as the staff should have been absorbed into the Urban Settlement Development Authority sooner than its establishment only the staff had been absorbed even by November 2014.

- Out of Rs 40 million provided by the Ministry for the 'Janasevana Swashakthi Participatory Environmental Programme, Rs. 14 million had been spent in breach of the objectives with Rs. 2 million being spent on the Anuradhapura Housing Project, Rs. 7 million on transport expenses and Rs. 5 million on the opening ceremony of the project.

- Though all money collected by the Urban Development Authority as service charges from property developers should have been credited to the Authority for financing low income housing programmes as per subsection 16(e) of the Urban Settlement Development Authority Act, No.36 of 2008, no such money had been credited after March 2010. The money that should have been received in this manner was Rs. 207 million. Further, in line with Cabinet decision No. 10/2951/504/012 dated 14 December 2010, the collection of the said service charge had been suspended thus depriving the Authority of its main source of income.

Commuter Transportation

About 58 per cent of Sri Lanka's passenger transport requirement is fulfilled by public transport services. The Ministry of Transport supervise and monitor those through the institutions such as the Department of Sri Lanka Railways, Sri Lanka Transport Board, Department of Motor Traffic, National Transport Commission, National Transport Medical Institute, Lakdiva Engineering Co. Ltd. and National Council for Road Safety.

Allocation of Rs. 7,557 million for recurrent expenditure and Rs. 17,453 million for capital expenditure had been made available in the Budget Estimate of the Ministry of Transport for the year 2014 and according to accounts, a sum of Rs. 7,548 million as recurrent expenditure and a sum of Rs. 13,023 million as capital expenditure had been incurred in the year. A foreign loan amounting to Rs. 11,002 million for the construction of railways lines received during the year under review had been included in the allocation for capital expenditure. The entire staff for that year was 138. The material observations observed in audit on the transactions and activities of the Ministry of Transport and institutions under its purview at the ministry during the year ended 31 December 2014 are as follows.

- A Foreign funded Project had been initiated by the Ministry for construction of a railway line from Matara to Beliatta and only a sum of Rs. 11,123 had been spent out of the estimated an amount of Rs. 36,166 million. Further, provisions of Rs. 376 million had been made during the year under review for the proposal of constructing 06 new railways. However, out of that, only a sum of Rs. 19.8 million had been spent for planning purposes. A Project Plan for physical and financial progress to be achieved annually had not been prepared for these projects.

- The test check revealed that the fruitless transactions aggregating Rs. 6.55 million had been made by the Railway Department recently and allocations amounting to Rs. 25 million made for 04 items of expenditure had not been utilized.

Department of Sri Lanka Railways

The railway network of Sri Lanka consists of 1,640 kilometers at present. The Department owns an extent of 13,980 hectares of land island wide. Out of that, the extent of land utilized for the railways and office building and stores etc are 8,616 acres. The staff of the Department in the year 2014 was 16,893. According to the accounts presented for the year under review, the income earned is Rs. 5,909 million and out of the allocation of the Government, the recurrent expenditure amounting to Rs. 16,943 and the capital expenditure amounting to Rs. 34,601 million respectively had been spent. Significant matters observed in audits carried out on the activities of the Department of Railways during the year under review are as follows.

- As per Revenue Account of the Department a sum of Rs. 1,571 million for railway warrants and a sum of Rs. 1.1 million as penalty for not accepting railway season tickets and as per Reconciliation statement Rs.84.84 million of outstanding sundry charges had remained unrecovered for over long period and the Department had not taken any action to recover them.

- No action whatsoever had been taken by the Department to recover outstanding loan balances of Rs. 52.23 million from 1047 deceased and retired employees, Rs. 21.417 million from 4071 officers who vacated of posts and Rs. 10.194 million from 462 interdicted employees over several years.

- The goods and services imported from foreign countries since 1998 up to the year under review, Letters of Credit amounted to Rs. 1,030.60 million had remained unsettled. Action had not been taken to settle the amount related to the preceding years even in the year under review.

- Even though 08 hours for normal duties should be deducted per day in terms of Section 5.6 of Chapter VIII of the Establishments Code, overtime allowances of Rs. 960,341 had been paid to 68 Railway Guards without deducting normal hours that should be performed per week.

- It was observed that 6,849 sleepers valued at Rs. 80 million used for the railway line for the reconstruction of the railway line from Omanthai to Palai had been cracked and the project had trusted only on the certification made by the supplier. The Department had not been equipped with a methodology for testing on the quality of these sleepers. Moreover, rails and sleepers at the value of Rs. 374.19 million had remained unused due to overestimation made by the project. The General Manager commented that an alternative usage had been identified to use them in the repairs of the existing railway lines. However, those rails and sleepers had not been used for the alternatives identified even by 31 May 2015. Even though there was no requirement of maintaining a project office once the project is completed, the project office had been maintained for a period of 09 months and a sum of Rs. 1.8 million paid at the rate of Rs. 3 million per month as salaries for that period.

- The Government had been deprived of an income of Rs. 1.93 million receivable from 145 houses relevant to 03 Sub-Departments due to failure in revising the house rent in terms of Public Administration Circular No.887 of 05 January 1987 the water supply had been made directly from the main water supply line of the Department without fixing a separate water meter for 680 official railway quarters located at Ratmalana. It was observed that the Department had spent a sum of Rs. 58.49 million for consumption of water during the year under review alone.

- Demurrage amounting to Rs. 1.29 million had been made only during first quarter of the year under review uneconomically, due to delays in release of imported goods from harbour by the stores Sub-Department.

Sri Lanka Transport Board

According to the financial statements presented, after the re-establishment of the Sri Lanka Transport Board in 2005, the board is continuously running at a loss. According to the information maintained by the Planning Division the total income was Rs. 33,665 million and the total expenditure was Rs. 35,528.02 million (including depreciations) in 2014 and a sum of Rs. 500 million had been received from the Government. The last financial statements had been presented for the audit for the year 2012 and according to those accounts, the gross loss as at 31 December 2012 was Rs. 3,966.54 million. The loss had decreased up to Rs. 2,458.34 million due to grant amounting to Rs. 1,508.2 million received from the Treasury. According to the financial statements at the end of the year 2012, the value of net assets had taken a negative value of Rs. 25,538.5 million due to continuous loss of the Board. The accounting Standards had not been followed in the preparation of financial statements for the year 2012. Even though 7,204 buses are generally required per day to fulfil the needs of the schedules allocated for the Board, the normal buses run per day in the year 2014 was 4,596 only. As such, approximately 37 per cent of the total scheduled requirement could not be achieved in the year 2014. Nevertheless, as compared with the preceding year, the total income per a kilometre run had increased from Rs. 87.84 to Rs .90.68 and the Board has informed that the removal of old buses of the Board and the addition of new buses had mainly contributed to this increase. As the average running expenditure of a bus was Rs .95.70 in the year, a loss of Rs. 5.02 is further suffered per kilometre. The entire staff as at 31 December 2014 is 34,303 and significant observations in the audit of financial statements had presented for the year ended 31 December 2012 and an audit of transactions of the years 2013, 2014 and 2015 are as follows.

- Even though an Organization Chart, an approved cadre and a promotion scheme should be prepared and the approval of the Department of Management Services should be obtained in terms of Chapter 9 of Public Enterprises Circular No. PED/12 of 02 June 2003, it had not been so done.

- The approval had been granted by the Public Enterprises Department of the Treasury in 2002 to carry out a complete Investigation and write off non- moving assets and liabilities of 66 debit balances of Rs. 3,232.23 million and 23 credit balances of Rs. 2,010.90 million respectively. However those balances had been written off from books in 2012 without the approval of the Board of Directors and a complete Investigation.

- The contributions of employees and employers that should be remitted by the Board for the Employees' Provident Fund and the Employees' Trust Fund as at 31 March 2015 amounted to Rs. 9,502.6 million and Rs. 45.18 million respectively. Due to failure of remitting of contributions on time a surcharge from 5 to 50 per cent had to be paid.

- Sixteen thousand two hundred and eighty bus turns had been provided for transport of passengers for public rallies of the Presidential Elections held in the year 2015 without a request or approval made by an accepted political party and that political party had evaded the payment of the sum of Rs. 142.52 million further recoverable. An income of Rs.94.52 million had been lost due to charging a less amount than the amount charged in renting of buses and renting these buses improperly as well by the Board.

- At the inspection held on the written notification made by the Commissioner of Elections that buses owned by the Transport Board had been provided for a publicity rally of the Western Provincial Election held in the year 2014, 47 buses had been provided for a function held in Matugama by 5 depots belonging to the Kalutara Regional Office. Nevertheless, the decision taken by the Management to provide them had not been presented to audit. According to the information presented to audit, it was observed in the inspection of the details relevant to 20 buses presented by two depots that those buses had run without charges.

National Transport Commission

The total staff of the National Transport Commission in the year 2014 was 162 and the recurrent expenditure and capital expenditure in that year amounted to Rs. 735.53 million and Rs. 130.93 million respectively. According to the final accounts presented to audit for the year 2014, the net surplus of the year amounts to Rs. 109.2 million and the significant matters observed in audit on the transactions and activities of the Commission in that year are as follows.

- Thirty one Gami Sariya bus services and 136 Nisi Sariya bus services had been maintained by the end of the preceding year and it had been planned to maintain the same number in the year under review as well. Nevertheless, it had been decreased to 21 bus services and 114 bus services respectively by the end of the year.

- A sum of Rs. 40 million had been allocated for the year under review in respect of establishment of a Control Room for expanding the inter provincial monitoring of buses based on GPS Technology and it had been planned to complete the work by the end of the year 2014. However, only the building had been completed and a sum of Rs. 18,189,547 had been incurred thereon as at 10 April 2015.

- Even though 07 electronic display boards had been erected in various cities by the Commission spending a sum of Rs.62.41 million with the objective of displaying the schedules of inter provincial buses and buses run in the province, all those boards are inactive by now. Even though those boards had not been functioned, a sum of Rs.1.49 million had been paid for electricity and internet facilities for 11 days obtained up to the end of May 2015 and a further sum of Rs.0.43 million was payable.

- Even though a CCTV Camera System had been installed spending a sum of Rs.0.47 million so as to enable the Manager of the Bus Terminal at Bastian Mawatha and the Chairman to supervise its activities from their offices, it was not in operation in the year under review.

- GPS equipment had been installed in 2,095 buses so as to enable the direct supervision of inter provincial bus running activities using Satellite Technology and a sum of Rs.79.06 million had been incurred thereon. Moreover, a sum of Rs.8.31 million had been payable to the institution which maintains those equipment and all the GPS equipment had been inoperative by May 2015 and the Management had not taken action to restore them back to normal condition.

Department of Motor Traffic

According to the accounts presented to audit, the earnings of the Department in the year was Rs.9,290.58 million and a sum of Rs.1,463.51 million for recurrent expenditure and a sum of Rs.922.54 million for capital grants had been spent from budget provisions. The significant matters observed in the year under review are as follows.

- Auditing had been largely obstructed due to failure in providing with necessary information, files and registers and the delay in providing them by the Department of Motor Traffic and auditing could not be properly carried out. A number of over 500 files demanded for auditing from the year

2013 to the year 2015 had not been presented to audit even by 31 July 2015.

- The Department had not taken action to cancel the registration of vehicles condemned timely from running by the Department and vehicles condemned from running after being met with accidents. As such, there was a possibility of engaging in irregularities using the numbers of condemned vehicles to evade paying custom duty and including the data of illegally imported vehicles and fabricated vehicles or using the identification numbers of these vehicles and as a result the fraudulent registration of vehicles had increased and the vehicle tax income had decreased considerably. Brand new jeeps had been registered under old serial numbers including starting numbers 24, 25 ,31, 32 ,40, 50, 51, 64 and 65 used in the registration of vehicles and it was observed in 5 audit test checks carried out that vehicles so registered and run on the roads had existed.

- Even though fabricating, manufacturing, assembling, innovating, adapting, modifying or changing the condition should not be carried out without the prior approval of the Commissioner of Motor Traffic, 26 such converted vehicles were observed at the inspection of vehicles running on the road. According to the Motor Traffic Act, the Department had not paid attention to fulfill the functions that could be carried out easily such as cancelling the registration of such vehicles, taking action to avoid issuing of annual vehicle licences and notifying the Sri Lanka Police and Criminal Investigation Department, the details of these vehicles.

- Even though a sum of Rs. 4.32 million should be charged as luxury tax from 18 vehicles registered as single cab vehicles at the Department and afterwards converted into jeeps, action had not been taken to recover it.

- A sound method of internal control had not been established to prevent various fraudulent acts in the registration of new motor vehicles at the Department. Even though the relevant particulars of import had been transmitted to the computer system of the Department of Motor Traffic by the computer system of Customs in the registration of new vehicles, 22 dual purpose vehicles and 56 lorries registered without examining the relevant particulars were observed in audit.

- An adequate and proper process had not been followed by the Department to avoid deviating from the said specific objective in the registration of vehicles used for specific objectives such as ambulances and hearses. As such, several irregularities had occurred and 4 such instances were observed at the audit test check.

- The Department had not paid attention in respect of significant functions such as failure in maintenance of proper reports on tax recovery relating to Luxury Tax and outstanding tax receivable, taking action in respect of insurance institutions which had not properly fulfilled the task of recovering tax and implementing the provisions of the relevant Act relating to vehicle owners who had evaded paying income tax and maintaining relevant control accounts etc.

Youth Affairs

The National youth Services Council makes a significant contribution to the Youth Development and the Council had received funds amounting to Rs.1,483.86 million for the year 2014 from the Annual Budget Estimates and other external donors for the performance and discharge of its duties and functions to achieve the objectives. The overall expenditure for the year amounted to Rs.1,626 million.

Out of the allocation of Rs.432.669 million made for 10 Divisions for the implementation of programmes which provide a direct contribution to the achievement of the objectives of the Council Rs.236.280 million had been saved without being utilized for the intended purposes. Out of the total extent of 294 acres of the 14 farms of the Council about 90 acres had not been utilized for farming.

Most of the programmes planned by the National Youth Service Council at the level of the youth clubs are implemented by the voluntary organization called Sri Lanka Youth Clubs Federation, and the Council had paid a sum of Rs.3,949,682 to the Federation for carrying out 3 such programmes during the year under review. As the organization is a voluntary entity it is not being audited by the Auditor General.

Eighteen Special programmes for youth development had been implemented during the year at a cost of Rs.857.84 million. The summarized information several programmes in given below.

World Youth Conference 2014

The Council had spent a sum of Rs.547.78 million including the provision from the Ministry. The main objective of the conference was to link the youth to the Post Development Agenda Beyond 2015. Even though a policy statement called Colombo Declaration had been issued for the achievement of the objectives, the Development Plan / Action Plan for the year 2015 had not been prepared in a manner to provide a positive contribution for its achievement.

Sri Lanka Youth Housing Project

Even though provision of Rs.46.123 million had been made in the year 2014 for the construction of houses for 246 youths with housing problems, selected at each per Divisional Secretary's area, not even a single house had been constructed.

Home Garden Project

Even though the Foreign Aid Programme amounting to Rs.1.143 million received in connection with the implementation of the Home Garden Project for the build up of the economic strength of the youth by diverting the members of the youth clubs to agriculture and create model home gardens had been entrusted to the Youth Clubs Ferderation for implementation, it had not been implemented.

Sri Lanka Youth Dream Project

This Project had been commenced with the objective of evaluation at national and international level and improvement of the capacity of the youth with different capacity in the fields of aesthetics, sports, educational, economic, social and political skills and a sum of Rs.7.841 million had been spent in the year 2014 for the implementation of the Project. Activities to be done according to the Project Proposals, such as the conduct of district youth camps, producing compact discs of songs of the winners of the Project and the award of cash prices to the 12 competitors of the final round had not been done in the year under review.

Youth University Project

The Youth University Programme organised in 15 districts in the year 2010 to provide higher educational opportunities to the youth without being a financial burden to the Government, had been organized only in the Western Province during the year 2014. The expenditure ratio of 66 per cent to income in the year 2010 had increased to 230 per cent by the year 2014.

Youth Parliament

The Youth Parliament had been established with the objective of arming the Youth with the political concepts. Six Parliamentary Sessions had been held in the year under review and out of the expected participation of 2,884, only 1,924 had participated. The expenditure incurred amounted to Rs.46.203 millions and cost of dismantling and assembling the Model Parliament amounted to Rs.15.403 million.

Political Academy

Ministry provision of Rs.3 million had been made for the Political Academy Programme commenced with the objective of identifying the skills and leadership qualities for the creation of a political culture of good governance. The Programme planned for implementation at the national level had not been implemented as expected.

Construction of Murukkandi Temple Railway Station

The sum of Rs.2.824 million collected for the construction of the Murukkandi Temple Railway Station had been lying idle for over 10 years. Even though the money had been released to the Sri Lanka Youth Clubs Conference for conducting additional classes for the students. Who could not sit the General Certificate of Education Ordinary Level and Advanced Level Examinations due to the war, programme had not been implemented as planned and the balance sum of Rs.2.627 million had not been refunded.

Youth Revolt Programme

A programme called the Youth Revolt had been commenced in the year under review with a provision of Rs.15.930 million, with the primary objective of improving the trends of youth to the youth societies. The provision made had been increased to Rs.48.040 million by transfers from other objects and a sum of Rs.39.798 had been spent during the year. According to the records of expenditure maintained, only 2 per cent of the expenditure had been incurred on matters directly related to the objectives of the Programme.

Youth Welfare Fund

The Youth Welfare Fund had been established under the Orders of the Youth Welfare Fund No. 1 of 1993 made by the President in the year 1993 in terms of provisions in Section 5 of the Public Security Act. The assets confiscated in terms of the Orders made under the Public Security Act had been transferred to the Fund.

Since the Public Security Act had been repealed in August 1994, the Orders made thereunder as well remained repealed. Even though the liquidations of the Youth Welfare Fund should have been commenced in that year. The liquidation accounts of the Fund had not been furnished to audit even by 31 December 2014.

Even though the Attorney General had stated, in his letter dated 09 August 1999, that there is no objections to the transfer of the immovable property of the Fund to the Council, it had not been so done. The information on the action taken on 877 units of gold jewelry of which the price had not been computed, 8,135 items of gold jewelry valued at Rs.27,502,301 , a sum of Rs.8.997 million deposited with the Treasury and all other assets including 02 motor vehicles and 06 motor cycles had not been furnished to audit up to date.

Social Services

The material deficiencies observed in the audit of the activities carried out by the Ministry of Social Services to achieve its objectives are given below.

The Ministry should pay greater attention to the enactment of the following legislation.

- The new Act, on the Protection of the Rights of Persons with Disabilities.
- Draft Act on Sign Languages.
- Draft Act on providing Legal Protection for Persons Using White Cane.
- The National Action Plan on Disabilities in Sri Lanka.
- Proper implementation of activities laid down in the Protection of the Rights of Person with Disabilities Act, No.28 of 1966 and the Protection of the Rights of Elders Act, No. 9 of 2006.
- Preparation of an accurate and updated database on the communities with disabilities and elders.
- Paying attention to the providing of aid whatever to the low income group persons only to those who apply through the normal channels.

- The last date for providing access facilities to all public buildings, public places and places where public services are provided in accordance with the orders made in the year 2009 has already expired on 16 November 2014. The legal provision for taking legal action against those who do not comply with in required had not been formulated.

- Despite the availability of a recognized methodology for the distribution of spectacles and wheelchairs to the low income persons with disabilities, it had been done through the intervention of external parties. A sum of Rs. 29,962,902 had been spent in that connection in the year 2014. The matters revealed at an inspection of such activities are given below.

  - A sum of Rs. 979,950 had been defrauded by producing fraudulent documents in support of distribution of 6,493 spectacles.
  - Even though records had been made in the registers that 1,950 spectacles valued at Rs. 1,267,500 had been handed over to the coordinating Secretary to the former Minister of Social Services, there was no evidence in support of the distribution of the spectacles.
  - A survey of the requirements of the beneficiaries had not been carried out prior to the purchase the spectacles.

- Disregarding the request made through the normal channels by the persons who were eligible for obtaining wheelchairs made through the normal channels, 181 wheel chairs valued at Rs. 2.7 million had been issued to politically very important persons. Nevertheless the information on the distribution of those wheel chairs was not available in the Office.

- In the payment of Rs. 3,000 per low income group person in the year 2014, the selection of beneficiaries should have been done at 5 persons per Divisional Secretariat Division. But it had not been so done. A sum of Rs. 32,928,000 had been released in the year 2013 for 2,213 beneficiaries in 13 areas of Divisional Secretariats in the Gampaha District. An extra expenditure amounting to Rs. 9,352,347 had been incurred for distributing aid in the Gampaha District.

Technology

The major audit findings revealed at the audit of institutions under the purview of the Ministry of Technology and Research are given below.

Vidatha Programme

- Sixty eight Vidatha Resources Centers had been constructional at a cost of Rs.306 million since the year 2005 on lands belonging to the Government without securing the title to the lands.

- Proposed construction of 10 Vidatha Centres had been postponed due to various reasons and the construction of another Centre scheduled for completion in September 2012 had not been completed even by 31 December 2014.

Conversion of Plastic Waste to Petroleum

- Even though Treasury funds amounting to Rs. 155.57 million had been spent during a period exceeding six years up to the year 2015 on the above project, it had not been possible to commence production on commercial basis.

- Though recycling of plastic in economically feasible, production of fuel is a costly process and the fuel produced cannot be used for running motor vehicles.

- The project had been paying monthly allowances of Rs. 75,000 and Rs. 125,000 to the person who is said to be the inventor of the technology and the Chief Executive Officer respectively.

Sri Lanka Planetarium

Even though the planetarium had purchased a projector valued at Rs. 151.2 million for the public to view digital images of Exploration of the Universe, it could not be used for the purpose due to technical defects. According to a report of the University of Colombo certain accessories of the computer system are used items and according to Engineering Report of the Sri Lanka Rupavahini Corporation, the projector itself is a used projector.

National Nanotechnology Programme

- The Nanotechnology Park had been created at a cost of Rs. 823.6 million on a land, the title to which had not been secured despite the payment of a sum of Rs. 304 million for the land.

- Even though the Nanotechnology Park had been constructed and the Sri Lanka

Nanotechnology Institution had been established at a cost of Rs. 2,207 million, the objectives of those institutions had not been achieved up to date.

Sri Lanka Standards Institution

Even though the Sri Lanka Standards Institutions had been established for the Standardization and Quality Certification of all sectors, promotion thereof and providing facilities among other things, the following action taken contrary to its objectives were revealed in audit.

- Release of 12,060,000 kilogrammes of cement not conforming to the specifications laid down in Sri Lanka Standard No. 107:2008

- Delay of about 90 days in the issue of "stocks of cement may be allowed" certificate for a stock of 336,500 kilogrammes of cement, of which the manufacturer had marked valid for 90 from the date of packaging, contrary to paragraph 5.1 (h) of Sri Lanka Standard No.107:208 on cement.

- Release to the marked 13,944,000 kilogrammes of cement imported in the years 2013 and 2014 before the receipt of the test reports.

- Release of a stock of 234,640 kilogrammes of fluorescent lamps imported at a cost of US $ 2,951,574 which did not confirm to Harmonic Current Limits and SDCM Value under Sri Lanka Standard No. 1231:2002

Higher Education

The University Grants Commission, established under the Ministry of Higher Education , and the Universities Act, No. 16 of 1978 facilitates the provision of resources required for a system of universities responsible to the general public, and paves the way for the capacity to create the lecturing and research activities optimally in order to ensure the diversity and quality of courses in collaboration with the parties with a penchant for higher education. In order for those objectives to be fruitful, 15 universities had been established under the Universities Act, No. 16 of 1978 by the end of the year 2014. Seventeen affiliated institutions, together with 03 campuses affiliated to those 15 universities, function under the orchestration supervision and monitoring of the University Grants Commission. Audit observations of particular importance relating to this field, are as follows.

Ranking of Universities

Of the 15 universities in Sri Lanka, University of Colombo, Moratuwa, and Peradeniya had been ranked between 2251 – 2810 according to the world university rankings for the year 2014. Universities of Ruhuna, Kelaniya , and Sri Jayawardhanapura had been ranked between 3000 – 5000, whereas the other Universities had been ranked between 6097 – 16071. As compared with the rankings for the year 2013, it was observed that 12 universities had received lower ranks.

Opportunities for Higher Education.

For the academic year 2013/2014, 25,200 out of 143, 740 students qualified in the old and new syllabi had entered the university representing 17.5 percent of the qualified students. Comparatively, 144,816 students had qualified in the previous year, of whom 24,198 had entered the universities representing 16.7 percent. Accordingly, an improvement of 0.8 percent in the enrolments had been indicated.

In order to earn degrees from foreign universities, local students had been conferred with foreign scholarships. Two hundred and forty two foreign scholarship holders for bachelors and post graduate degrees , and 38 foreign students had been conferred with local scholarships in the year 2014. Provisions totaling Rs. 31,786 million inclusive of Rs. 20,841 million and Rs. 10,945 million for recurrent and capital expenditure respectively, had been granted to universities for the year 2014. In comparison with recurrent and capital grants for the year 2013, it was an increase by Rs. 2,525 million and Rs. 2,421 million respectively.

Student Welfare

Bursaries and Scholarships

According to the information made available, Mahapola Scholarships had been granted to 28,214 students from 12 universities in the year 2014, whereas 27,488 students had been granted Mahapola Scholarships in the year 2013, thus indicating an increase of 726 students in the year 2014 as compared with the year 2013, and the expenditure of the year under review amounted to Rs. 604 million. Bursaries had been granted to 22,730 and 20,009 students in the years 2014 and 2013 respectively. An increase of 2721 students had been observed in the year 2014 as compared with the year 2013, and an expenditure of Rs. 254 million had been incurred in that connection during the year under review.

Hostels

With the primary objective of increasing the number of residential students in the State universities up to 12,000, the Ministry of Higher Education had launched a project in the year 2013 to construct 60 hostels at the universities by estimating an average expenditure of Rs. 220 million per hostel , and provisions amounting to Rs. 13,200 million had been allocated. As per the information furnished by 31 December 2014, it was observed that construction of 30 hostels at an expenditure of Rs. 5,856 million had been completed, construction of 24 hostels had not yet been completed, and construction of 06 hostels had not yet been commenced. However, it was also informed that the project should be completed by 31 December 2015 in accordance with the Cabinet decision.

Hostel facilities had been provided for 35,585 female students from 12 universities in the year 2014 representing 43 percent of the total student population, and an expenditure of Rs. 258 million had been incurred in that connection. In the year 2013, hostel facilities had been provided for 21,416 students from 12 universities equivalent to 27 percent of the total student population at an expenditure of Rs. 305 million, and 14,169 more students had been facilitated in the year 2014 as compared with the year 2013.

Arrivals and Exits

The University Grants Commission and higher educational institutions should maintain registers for arrivals , departures and leaves of both academic and non-academic staff in terms of Section 3.1 of Chapter XX , and Section 1.6.1 of Chapter X of the Establishments code. Nevertheless, registers containing arrivals, departures, and leaves relating to the academic staff of the Universities and higher educational institutions affiliated to the universities, had not been maintained. As per the information obtained in the year 2013, a sum of Rs. 6,500 million had been obtained by 4,070 lecturers from 09 universities as salaries and allowances without registering their arrivals and departures, whereas 4,149 lecturers from the said 09 universities had obtained a sum totaling Rs. 7,135 million as salaries and allowances in the year 2014 without registering arrivals and departures. It was observed that those amounts represented 36 percent and 40 percent respectively of the expenditure incurred by the said 09 universities as salaries and allowances. Accordingly, it was not possible to satisfactorily vouch the salaries and allowances paid to the academic staff in audit.

Cost per Student

The average expenditure incurred per student with regard to 11 universities except for the Open University in the year 2014 amounted to Rs. 285,594. The maximum expenditure incurred per student amounting to Rs. 365,475 was reported from the University of Peradeniya, whereas the minimum amounting to Rs. 112,803 was reported from the Rajarata University.

Performance

Leadership training programs had been commenced with a view to developing the skills of the students enrolled for the universities. In the year 2014 , training had been carried out for 18,740 students at an expenditure of Rs. 265 million, whereas, an expenditure of Rs. 136 million had been incurred on the program in the year 2013 for 17,568 students. As compared with the year 2013, leadership training had been provided for 1,172 more students in the year 2014 with an increase of expenditure by a sum of Rs. 129 million as well.

Opportunities for Higher Education

After completion of various degree courses, 32,905 and 22087 graduates had left in the years 2014 and 2013 respectively indicating an improvement of 49 percent as compared with the year 2013. However, it was observed that further improvement of the methodologies for introducing courses to be in line with the job market was even productive.

Income Earned

Conducting courses for degrees, post graduate degrees and doctorates so as to promote higher education is the main objective for establishing universities in terms of the Universities Act. In order to earn income on their own, all universities had adapted to the methodology of conducting courses for certificate diplomas, and post-graduate degrees through the affiliated institutions. According to the information presented, an income of Rs. 1,604 million had been earned by conducting 342 courses at the universities, and only 10 percent of the income had been credited to the general fund of the universities, whereas the balance had been credited with resource persons and miscellaneous funds. Instances , in which the universities and higher education institutions conducting external courses without the consent and follow-up actions of the University Grants Commission, had been observed.

Internal and External Researches

Notwithstanding a sum of Rs. 397 million paid to 2,230 lecturers from 09 universities as research allowances in the year 2014, the research proposals had not been presented to a committee approved by the Senate. A methodology should be prepared for the productive involvement of lecturers in research activities through reviews on progress.

Breach of Agreements

During the period 1980-2014, the number of lecturers from 11 universities who breached bonds was 129 , and a sum of Rs. 453 million remained to be recoverable from those lecturers. The sum included an unrecoverable balance due to the failure of the university to include conditions in the agreements in compliance with Acts, and action had not been taken to recover the said sum from the University Provident Fund as per Universities Act. Action had not properly been taken on the officers responsible for the loss incurred on the Universities Fund due to failure in entering agreements in compliance with the conditions stated in Acts.

Open University of Sri Lanka

During the year 2014, the number of student enrolments for 67 courses conducted by the Open University being operated with the main objective of providing university education for the students who could not enter the universities , was 41,344, and an income of Rs. 953 million had been earned during the year, whereas a sum of Rs. 611 million had been earned during the year 2013 by enrolling 38,294 students for 67 courses. Accordingly, student enrolments for the year 2014 had increased by 8 percent with the income increased by 56 percent as compared with the year 2013. Furthermore, 6,450 students , having completed various courses, had earned certificates during the year under review.

Sabbatical Leave

As the persons who obtained approval for sabbatical leaves in terms of Section 36.1 of Chapter 36 of the Universities Establishment Code, officiated temporarily at posts important for the administration of the universities, such as Bursar, Registrar, and Librarian, difficulties in the functioning of financial management and administration were observed. As many of those officers on sabbatical leaves served in Public Institutions, it was also observed that they had drawn salaries and allowances from the Consolidated Fund twice.

Defence

The mission of this Ministry is the formulation and implementation of the strategies required for the maintenance of the autonomy and territorial integrity of Sri Lanka, defence and law and order in the country. In order to achieve this objectives mainly three forces, the Department of Coast Guard and the Department of Civil Security are functioned under the Ministry of Defence.

The Sri Lanka Army, Sri Lanka Navy and Sri Lanka Air Force hold the responsibility for territorial integrity and national defence of the country.

With the end of the war prevailed in the North, the idled labour of the members of three forces had been devoted for small scale to large scale projects implemented by the Urban Development Authority and also indipendley, through military mechanism. The details of the expenditure incurred by the Ministry of Defence and the institutions functioning under the Ministry during the year ended 31 December 2014 and two preceding years are given below.

	2014	2013	2012
	Rs. million	Rs. million	Rs. million
Recurrent Expenditure	231,250.45	199,371.13	184,221.91
Capital Expenditure	38,041.20	29,809.87	16.049.34
Total	**269,291.65**	**229,181.00**	**200,271.25**

Instances of procuring goods and services in all institutions functioning under the Ministry contrary to the existing laws, rules and regulations were constantly observed and the issues relating to the liquidity problem of those institutions had mostly attributed to the said situation. Accordingly, the necessity for the strengthen of internal control of such process had been emphasized. Moreover, it had been observed that income earned by these institutions through the various projects had been utilized for welfare activities of the officers by maintaining separate funds,

The analysis of the above data reflects that the annual expenditure of the Ministry and each institution functioning under the Ministry had gone up.

without being credited to the Government in come.

Audit Observations

- According to the reconciliation statement of the Advances to Public Officers Account “B” of the Ministry of Defence furnished to audit, the total of the outstanding balances as at that date amounted to Rs.6, 058,093. Nevertheless, the Ministry had failed to recover those outstanding balances, although a period of 01 years to 27 years had elapsed.

- The machines including of the Photocopy Machine purchased at a cost of Rs.2,070,000 on 04 November 2008 had remained idle for approximately a period of 03 years without being utilized for any purpose.

- The land of Sri Lanka Army Headquarters had been sold to a foreign company at a sum of Rs.19,817,306,000 and proceeds of sales had been transferred to the Secretary to the Ministry for the of Defence by the General Treasury contrary to the Article 149 of the Construction of the new Army Headquarters of Akuregoda. The proceeds of sales had been invested in treasury bills and fixed deposits and a sum of Rs.925,925,814 of interest had been earned. Further, a sum of Rs.5,211,158,619 had been spent for the construction purposes.

- The Metro Colombo Development and Flood Control Project valued at Rs.42,032 million had been functioned under the Ministry and a project plan so as to cover the duration of the Project had not been prepared. At the time of the Project duration exceeds 50 per cent, the fund utilization had remained at 17.3 per cent and no expenditure whatsoever had been incurred in respect of 04 sub component out of 10 sub-components which could have been implemented at the commencement of the Project.

- Since 55 toners valued at Rs.577,170 procured during the years 2011,2012 and 2013 had become obsolete and such item on had been sold at Rs.1,200 in an auction held on 17 March 2013. This obsolescence had occurred as a result of purchase and use of new toners despite the availability of the stock of toners at the stores. Accordingly, the loss incurred to the Consolidated Fund had been identified as Rs.575,970.

- In order to computerize human resources information of the Ministry, a Server had been purchased at a cost of Rs.893,985. Although 07 months had been elapsed from the relevant purchase, the task had been abandoned due to the issues cropped up in computerizing information.

- The income earned by three Armed Forces and the Department of Civil Security out of the services supplied to the external parties required to be credited to the Consolidated Fund in terms of the Article 149 of the Constitution and the Cabinet decision dated 03 February 2009. However, no action had been taken by the Ministry to rectifying the issue of non-remitting of such income to consolidated fund.

Sri Lanka Army

The Sri Lanka Army had contributed towards 33 projects in the year 2014 for the economic development of the country and various programmes had been conducted in various parts of the island including Northern and Eastern provinces for the wellbeing of the general public. A sum of Rs.2, 379 million had been spent for urban development activities and machinery and troops had been deployed for road development and other projects. It was removed 2,909 anti-personal bombs, 32 anti-tank bombs, and 34,930 stocks of ammunitions. Further, in case of natural and unnatural disasters, labour contribution had been made in the process of providing relief to the general public during the year under review.

Audit Observation

- According to the reconciliation statement of the Advances to Public Officers Account "B" furnished to audit, the total of the outstanding balances as at that date amounted to Rs.422, 372,763. The follow up action taken thereon was remained poor, although a period from 01 month to 05 years had elapsed to recover those balances.

- Action in terms of Section 4.4 of Chapter XXIV of the Establishments Code had not been taken for the recovery of loan balances of Rs.5,685,203 due from the deceased officers and it was observed that the balances amounting to Rs.1,026,584 therein had remained over 05 years. Further, action in terms of Section 4.2.5 of Chapter XXIV of the Establishments Code had not been taken to recover loan balances of Rs.49,078,991 recoverable from the retired officers.

- It was observed at the audit that a sum of Rs.362,706,785 had been spent by Sri Lanka Army for the construction of its armory in the year 2014 without being obtained the free hold title of the land of 10 acres in extent belongs to Sri Lanka Railway Department in Ragama.

- In terms of Financial Regulation 94 (1) the commitments should not be made over the aggregated amount of provisions of Annual Estimate, supplementary allocation and transfers under Financial Regulation 66/69, However the Sri Lanka Army had incurred in to the commitments valued at Rs.91,586,470 for 06 items of expenditure over the savings made as above provisions.

Sri Lanka Navy

The Sri Lanka Navy had successfully protected Sri Lanka waters from Somalian pirates in the year 2014 and illegal immigrants and emigrants had been taken into custody. Further, 397.55 Kilograms of drugs and a stock of cigarettes that had been tried to be brought to the country had been taken into custody with 121 persons. Labour contribution valued at Rs.798.33 million had been made towards the constructions and repairs of the various Government Institutions and action had been taken to rescue 719 victims from flood disasters during the year 2014. Through the deployment of navy soldiers for the peace mission of the Haiti state, foreign exchange amounting to Rs.67.02 million had been earned during the year 2014.

Audit Observations

- According to the reconciliation statement of the Advances to Public Officers Account "B" of the Sri Lanka Navy, the total of the outstanding balances as at that date amounted to Rs.12.25 million. Nevertheless, the follow up action in connection with the recovery of the said balances was remained weak, although a period of 01 year to 05 years had elapsed for the respective outstanding balances.

- In terms of the matter 07 contained in the minutes of the Committee of Public Accounts held on 11 June 2011, it had been stated that since the prior payment remittance paper method of writing and issuance of cheques before the receipt of the goods expected to be purchased to the Sri Lanka Navy was completely wrongful, it should be rectified forthwith. Nevertheless, Sri Lanka Navy had purchased goods spending a sum of Rs.2,091.96 millon in 6,720 instances from July 2011 to April 2014 utilizing the said method.

- In terms of the decision of the Minister of Cabinet dated 03 February 2009, Letter of the Director General of Establishments dated 09 December 2013, Letter of the Director General of Public Finance dated 28 June 2008 and Article 149 of the Constitution, the income amounting to Rs.1,048.09 million earned by Sri Lanka Navy in respect of supplying services to external parties during the year under review is required to be credited to the Consolidated Fund. Nevertheless, action had not been taken accordingly.

- Recommended quotation called first instance to procure 7000 pair of shoes for the Sri Lanka Navy had been rejected and recalled quotation, However a loss of Rs.5.98 million had been incurred due to higher prices quoted in quotations called in second time.

- Since payments for the electricity bills had not been made on the due date, a delay charges amounting to Rs.4.83 million had been paid to the Ceylon Electricity Board.

- Contrary to the requirements of the Financial Regulations and without obtaining securities, a sum of Rs.15.91 million relevant to 05 Purchase orders had been paid by the Sri Lanka Navy in 2011. Value of the goods supplied end of the three years was Rs.10.76million. The balance amounting to Rs.5.15 million had to be recovered in 12 installments without interests since June 2014 through court proceedings. In a circumstance where a large interest is being paid by the Government in respect of the loans obtained to bridge the budget gap, money obtained on interest in that manner had been granted to a private institution as an interest free loan.

Sri Lanka Air Force

During the year under review, 13,209.55 air hours had been flown and out of induced 2,138.55 hours for air operations, 64.33 hours for the pilot-free aircraft observations and air transportation facilities for 25,970 personnel in all three forces. Further, in order to construct Mulathive runner way and air travelling units at Digana and Batticaloa, a sum of Rs.25.12 million Rs.21.69 million and Rs.21.55 million had been spent respectively. Moreover, foreign exchange of USD 576,890 had been earned through the deployment of officers for the Peace Mission in Haiti state during the year 2014 and an income of Rs.248.69 million had been earned through the provision of air transportation facilities.

In addition, an immense contribution had been made for “Api Wenuven Api Housing Project” implemented to construed homes for the officers by deploying 103,660 man days. Futher, the contribution had been made for construction and repairing of the Government Buildings.

Audit Observations

- In the collection of aircraft income, the Chief Air Marshal who is the Accounting Officer or an officer authorized by him should be responsible for such collection. Nevertheless, a company established by several Air Force Officers had carried out the relevant task. Out of the aircraft rental income collected, sum of Rs.23.04 had been credited to an internal fund of the Air force called Executive Welfare Fund which was not a Government Account, instead of being credited to the relevant revenue vote.

- Fixed assets of the Air Force had not been properly recorded in a Register of Fixed Assets and material differences were observed on values of fixed asset procured during 2014 shown in the movement of non – current asses report of Appropriation Account with the DGSA 4 From.

- A Register of Liabilities had not been maintained so as to obtain confirmation on the liabilities amounting to Rs.4,278,066,949 existed as at 01 January 2014 , the liabilities accumulated during that year and the liabilities amounting to Rs.3,949,117,296 existed as at 31 December 2014. Further, an age analysis on the liabilities as at the end of the year had not been furnished.

- Certain allowances granted to the officers had not been considered in the calculation of PAYE Tax. It was observed in test check carried a sum of Rs.16,069 taxes had been under paid related 50 officers.

- At the final stage of the Ranaviru Real Star programme organized by the Ministry of Defence and Urban Development, a sum of Rs.20.90 million out of the provisions made for Air Force had been spent for sending short messages for the relevant number of competitors represented the Air Force for the purpose of promoting them.

- Having recruited civil employees to the Air Force under the Financial Regulation 95, they had been employed for activities extraneous to the Air Force and those employees had been paid salaries and allowances of Rs.15.88 million during the year 2013 and Rs.15.65 million from January to August 2014 out of the provisions made of the Air Force.

- According to the letter of the Deputy Secretary to the Treasury No.BD/NF/103/03/09/30 dated 19 November 2014, the income earned from the supply of services to external parties should be credited to the Consolidated Fund. The income earned through 96 funds maintained using of physical and human resources of the Air Force had not been thus credited to the Consolidated Fund and such income had been credited to the Air Force Funds Accounts.

- In the preparation of Procurement Plan pertaining to the year 2014 in terms of the National Budget Circular No.128 dated 24 March 2006, capital expenditure of Rs.1,245.61 million and recurrent expenditure of Rs.8,131.97 million estimated for procurement activities had not been included in the Plan. Further, reports and control mechanism had not been maintained so as to confirm whether the procurement activities were carried out according to the mechanism planned on the capital expenditure included in that procurement plan.
- Agreements had been entered into for a period of one years at the time of renting 15 vehicles at a monthly rental of Rs.50,000 to provide transport facilities to the Officers. A sum of Rs.9 million had been paid as advances for 15 suppliers at the rate of Rs.0.6 million per whole year before obtaining the service even though it was agreed not to pay advances.

Department of Civil Security

During the year 2014, the Department of Civil Security had earned an income of Rs.371.54 million by deploying 17,676 soldiers for the projects maintained by platoons and 23 training camps for the economy development of the country. This Department had engaged in the provision of security services to the public institutions for the interest of the general public and contribution for the social hospitality programmes and religious events, too, had been made by the Department.

Audit Observations

- Although a ceremony had been conducted and a sum of Rs.13.18 million spent to awarding Letters of Appointments, actions had not been taken to award the Letters of Appointment and placed them in permanent service.

- Although a sum of Rs.2.73 million had been spent for the renovation of the ceiling of the Garden Hall of the Department Headquarters maintained in a rented building, action had not been taken to deduct this expenditure from the building rental.

- Although a sub-imprest given under any circumstance, in accordance with the Financial Regulation 371 (5) should be settled before 31 December of the financial year action had not been taken accordingly in respect of advances totaling Rs.2.85 million granted in 18 instances. Further, it was observed that a period of 12 months had been spent for the settlement of these advances.

- A sum of Rs.39.57 million granted by other Ministries and Departments for various purposes had been retained in the Deposit Account without being carried out the relevant activities.

- The Presidential Secretariat had given 16 vehicles to the Department of Civil Security in 2006 without proper approval and those vehicles had not been taken over as yet.

- Two air conditioners valued at Rs. 0.77 million purchased for the use of Ranaviru Real Star Programme conducted in Sri Lanka Air Force Studio Complex and had remained idle for a period of 18 months after using for that event.

Plantation Industry

Seven statutory bodies namely, Rubber Development Department and Rubber Research Institute, Tea Research Institute, Sri Lanka Tea Board, Tea Small Holdings Development Authority, Tea Shakthi Fund, Thurusaviya Fund, and National Institute of Plantation Management, and Kalubovitiyana Tea Factory Limited are functioned under the purview of the Ministry of Plantation Industries. The functions of the Ministry includes enhancing the productivity, profitability and sustainability of the plantation industry through economically, socially and environmentally established plantation sector, promotion and development of the tea, rubber and palm tree cultivation, and research activities. Furthermore, the total net provision allocated to the Ministry and the Rubber Development Department for the year under review amounted to Rs.4, 276.81 million, out of which a sum of Rs. 3,914.67 million had been utilized.

The important observations on affairs of the Ministry for 2014 are as follows.

- It was observed in audit that adequate actions had not been taken to recover losses of Rs.7.74million caused due to accidents fo 11 vehicles belonging to the Ministry.

- Outstanding Lease rent of Rs.439.76 million for 06 years period from 2009 to 2014 had not been recovered even as at 31 December of the year under review. The clauses on recovering delay charges had not been included in the lease agreements.

- The Rubber Department had failed even up to 31 December 2014 to conclude the process of liquidation of Rubber Control Fund, and Rubber Replanting Subsidy Fund which were not in operation since 1994 and remained under the Rubber Development Department.

Rubber Research Institute of Sri Lanka

This institution is functioned with the objectives of conducting researches relating to the biological aspects on rubber cultivation, chemistry of natural latex and the technology in making products. The cadre of the Institute of 04 posts of Research Divisional Heads with professional competence, 03 posts of Chief Research Officer, 12 posts of Senior Research Officer, and 14 posts of Research Officer were remained vacant.

- Due to a fire that broke out in January 2014, the loss incurred on partly damaged Dartonfield Rubber Factory of which was estimated as Rs.4.28 million and the value of the stock of rubber that had been destroyed, amounted to Rs.1.6 million Nevertheless, only a sum of Rs.0.70 million had been received as indemnity as the fact that the insurance cover had not been obtained at correct values of the assets.

- Out of the trade and sundry debtors balances aggregating Rs.34.96 million remained as at the end of 2014, the balances aggregating Rs.18.33 million receivable from 497 debtors representing 52.4 per cent were remained outstanding for over 5 years. It includes balance of Rs. 8.05 million remained for over 10-20 years and other balances of Rs.2.55 million remained for over 20 years.

Thurusaviya Fund

With the objective of uplifting the socio-economic status of the owners of small rubber estates who vastly contribute to the production in the field of rubber, 696 *Thurusaviya* societies had been established with the participation of small rubber estate owners at the village level in 12 districts. However, out of 696 societies,315 societies were not in functioning and difficulties on recovering membership fees had been faced due to poor management of the fund.

At the time of placing permanent state of 5 employees who recruited on contract basis, the provisions of the Management Services Circular No. 30 (1) had been violated and over payment of salaries amounting to Rs. 517,530 had been paid.

Sri Lanka Tea Board

It is the vision of the Board to promote Sri Lankan tea to be the most attractive drink in the global market. The main functions of the Board include the development of tea industry in Sri Lanka and promoting Sri Lankan tea globally. In order to achieve those objectives, registration fees, renewal of registration fees and license fees are charged from tea manufacturers, tea packaging suppliers, and tea exporters. Those fees had been increased by the Board on 29 July 2010 without Cabinet approval and without making notices in the Gazette Notification contrary to Tea Board Act. Furthermore, the provisions of the Act had not been amended for the establishment and execution of Cess Fund.

- A tax amounting to Rs. 5,818.67 million had been collected for the promotion of tea and market strategies from tea exporters during the period from 01 November 2010 to 31 December 2014 at Rs.3.50 per kilogram of tea exported. Of that, only a sum of Rs.876.48 million had been spent on promotional activities by the end of the year 2014, whereas the balance had been invested on short term basis.

- The Board had spent a sum of Rs. 58.369 million in 2014 to establish a Tea House in the building at the Colombo

Racecourse. However, the Board had incurred a net loss of Rs. 13.5 million thereon during a period of 10 months from March – December 2014. However, it was observed in audit that a feasibility study had not been conducted on this project that had been launched for promoting tea.

- Janatha Estate Development Board and Sri Lanka Tea Board had reached a conclusion at the COPE meeting held on 19 June 2012 to take over the ownership of Ceylon Tea Museum in Hantana valued at Rs. 16 million in substitution of a sum of Rs. 25 million that remained receivable for more than 05 years from Janatha Estate Development Board, and to write off the balance of Rs. 8 million. However, this process had not been concluded even up to 31 August 2015.

Tea Research Institute

- Reimbursement of a monthly labor allowance for the maintenance of official quarters of Director, Deputy Director, and officers in charge of the divisional offices had been approved by the Board of Directors on 24 May 2007 without the concurrence of the Line Ministry and the Treasury. The Institute had reimbursed sums of Rs. 2.72 million and Rs.2.73 million to 13 officers in 2013 and 2014 respectively.

- A sum of Rs.22.03 million had not been recovered even up to 30 June 2015 from 09 officers who obtained full pay study leave and left the service without serving during the obligatory period.

Tea Shakthi Fund

- The financial statements for the years 2013 and 2014 had not been presented for audit even up to 23 September 2015, and 05 out of 13 factories owned by the Fund had incurred losses continuously during a period of 05 years from 2008-2012. All factories excluding the factory at Passara, had incurred losses in 2012. Accordingly, the losses of the factories in 2012 amounted to Rs. 57.65 million, and the production with respect to all factories, except for one, had plummeted as well.

- Having agreed to obtain a plot of land in extent of 40 perches valued at Rs.28 million on lease for a period of 50 years from the Urban Development Authority for construction of the head office building of the Fund, the Authority had been paid a sum of Rs. 8.08million as an advance on 31 March 2010. Even though it was later decided to construct the building other location as per the decision of the Board of Directors in 2012, action had not been taken to recover the advances paid even as at 31 August 2010.

Tea Small Holdings Development Authority

- The Authority had spent a sum of Rs.345.10 million as development expenditure during the year 2014 and out of that a sum of Rs.331.21 million had been granted to tea cultivators as subsidies. The rest of expenditure include a sum of Rs.5.65 million incurred on a tea cultivator meeting held at the Temple Trees on 12 November 2014 a sum of Rs.2.84 million as cheque book fees for granting subsidies amounting to Rs.406.34 million to 190,123 tea cultivators under the special program to promote the productivity in the conservation of soil and water, and a sum of Rs.1.58 million incurred on applications and posters. It was observed in audit that above mention expenditure were un-economical.

- In order to optimum production, and maintain the tea lands, 2,300 hectares of land should be re-cultivated annually as a national requirements. Nevertheless, only 720 hectares of land, representing 0.62 per cent of entire tea lands in extent of 116,492 hectares had been re-cultivated under subsidy scheme during the year under review. It was also observed that out of that matured tea cultivation, 21,613 hectares of cultivation had exceeded 25 years.

Sri Lanka State Plantations Corporation and Janatha Estate Development Board

- The extent of land, vested with Sri Lanka State Plantations Corporation, Janatha Estate Development Board, and Elkaduwa Plantations Ltd, had been vested lands of 27.242.76 hectares, and out of that 15,825.35 of land representing 58 per cent had been utilized for cultivation. Despite 22 per cent of total land with an extent of 6,064.18 hectares could have been utilized for cultivation, the said area had not been used either for cultivation or any other economically productive activity.

- From the total area of land with an extent of 8,008.95 hectares, 5135.44 hectares had been used for seed tea, whereas 2,873.51 hectares had been used for twig tea. The cultivation of seed tea represented 64 per cent of total area of tea and said cultivation was about 100 years old, the effective life time had expired. The production form that was remained very low as compared with the production of twig tea cultivation.

- Out of the estimated requirement of fertilizer, the Janatha Estate Development Board had used 17-25 per cent, whereas the Elkaduwa Plantations Ltd. had used 29-92 per cent during the period 2011-2014. As the fertilizer had not been used with the proper standard, the quality and quantity of the tea harvest had remained at a low level.

- Replanting activities had not been carried out by Sri Lanka State Plantations Corporation, Elkaduwa Plantations Ltd , and Janatha Estate Development Board during the period from 2011 to August 2014.

- The Ministers of Cabinet had decided on 17 October 2013 to remove 62,440 trees in the estates owned by Janatha Estate Development Board and Sri Lanka State Plantations Corporation and sell to State Timber Corporation to finance unpaid contributions to Employee Provident Fund, Employee Trust Fund, and gratuity aggregating Rs.1,549 million. However, this project had not been properly implemented. The Janatha Estate Development Board had received an income of Rs. 28 million from the sales of timber. Of that, only a sum of Rs. 16 million had been utilized for the settlement of statutory liabilities , whereas the balance had been utilized to meet general expenses of the Board. The project had not been implemented by the Sri Lanka State Plantations Corporation.

- At the request of the lessee , the Janatha Estate Development Board had agreed to write off a sum of Rs.34.85 million from the outstanding balance of rent recoverable from a private institution that obtained a building of the warehouse complex in Darley Road, Colombo 10, owned the Board on rent basis.

- A fire had destroyed the tea factory in Alkolla Estate owned by the Sri Lanka State Plantations Corporation. Rs.4.55 million stock of tea valued at Rs.327,285 fresh tea leaves, valued at 327,285 firewood valued at Rs.98,314, and paper sacks valued at Rs.140,599. The report prepared in that connection by the Institute had not stated the recommendations relating to the recovery of losses in terms of Financial Regulation 104, and whether it was proposed to take disciplinary actions.

Ministry of Coconut Development and Janatha Estate

Three statutory institutions namely, Coconut Cultivation Board, Coconut Development Authority, and Coconut Research Institute, together with 02 Public companies namely, Kurunegala Plantations Ltd, and Chilaw Plantations Ltd. are under preview of the Ministry. The main duties of the Ministry includes, preparation, implementation and supervision of policies, programmes, and projects, providing services to the public in an efficient people-friendly manner, reformation of all the methodologies through the utilization of modern technological breakthroughs by eradicating corruption and wastage, maximum utilization of lands through multi-crop cultivation and integrated farming by paving the way for the maximization of production and employment, and activities relating to the researches , development and promotion of coconut industry. The total net provision allocated to the Ministry for the year under review amounted to Rs.1,941 million of which, a sum of Rs.1,717 had been utilized.

- Out of a provision of Rs. 200 million allocated by the annual Budget Estimate of 2014 for the programme implemented to control the Weligama coconut leaf wilt disease, a sum of Rs. 5 million had been granted to the Coconut Cultivation Board without approval in terms of Financial Regulations. It was observed in audit that the Board had spent Rs. 4.9 million of that sum for the development of *Dakshina Lanka* Coconut Development Training Centre, Medamulana , Hambanthota.
- The Coconut Development Authority , with a view to maximizing the coconut export income by minimizing the wastage that occur domestically, had selected Sri Lanka Rupavahini Corporation and Sri Lanka Broadcasting Corporation to promote the usage of coconut milk, coconut milk powder, and coconut cream instead of nuts. The Authority had paid a sum of Rs.9.34 million to the Sri Lanka Rupavahini Corporation from 14 August 2014 to 13 April 2015, whereas a sum of Rs.3.94 million had been paid to the Sri Lanka Broadcasting Corporation from 01 September 2014 to 31 December 2014. Despite the Authority being informed by Sri Lanka Rupavahini Corporation and Sri Lanka Broadcasting Corporation that sums of Rs.8.80 million and Rs.136,970 respectively had been remained unutilized, according to the financial statements of the Rupavahini Corporation, there was no amount to be paid back to the Authority, and a sum of Rs. 1.27 million remained as receivable to the Authority from the Sri Lanka Broadcasting Corporation. Moreover, the Authority had not furnished the audit with adequate information to verify that the Sri Lanka Rupavahini Corporation and Sri Lanka Broadcasting Corporation had involved in promotional activities.
- It was observed in audit that total sum of Rs. 16.71 million had been paid an allowances equivalent to monthly salary of two labours to the Senior Executive officers of the coconut cultivation Board attached to the Head office, an allowance equivalent to the monthly salary of labour for Assistant Estate Managers and Assistant General Managers of the Head office of coconut cultivation Board and allowance equivalent to a monthly salary of a labourer for Estate Managers and Assistant Estate Manager of model coconut farms etc. without obtaining the approval of the General Treasury as per Section 9.8.2 of Public Enterprises Circular No. PED 12 of 02 of 2013. It was observed that 02 check roll labour had been deployed for the works at official quarters in model coconut farms.

Power and Energy

Ceylon Electricity Board

The operations of the Board during the year under review had resulted in a loss of Rs. 13,154 million before taxation as against the corresponding profit of Rs.22,264 million before taxation for the preceding year thus showing an deterioration in operating result of the year under review by Rs. 35,418 million. One of the main reasons for the above deterioration was reduction in hydro power generation in 2014 by 2,372 GWh or 34 per cent as compared with 6,906 GWh generated in 2013 due to low water level in hydro reservoirs which resulted to increase in the thermal and Coal power generation by 2,778 GWh or 59 per cent to meet the increased demand of 459 GWh as given in the following table.

Source	2014	2013	Change	
	GWh	**GWh**	**GWh**	**%**
Hydro	4,534	6,906	-2,372	-34
Thermal	4,305	3,260	1,045	32
Coal	3,202	1,469	1,733	118
Non-Conventional Renewable Energy	315	263	52	20
Total	**12,356**	**11,898**	**458**	**4**

Accordingly, the Board had incurred higher expenditure on thermal power purchase from Independent Power Producers (IPP) and coal purchase from Lanka Coal Company (LCC) in 2014 as against the previous year. The cost increase from those two factors in 2014 as compared with the previous year was Rs.37,997 million and Rs. 6,354 million respectively.

The table below shows a summary of direct cost incurred for supplying of electricity during the year under review as compared with the previous year.

	2014		2013	
	Rs. million	%	Rs. million	%
Fuel	46,582	22	29,425	18
Power Purchase	101,149	48	80,308	48
Coal	17,031	8	10,677	6
Operation and Maintenance	24,913	12	26,196	16
Depreciation	21,174	10	20,319	12
Total	210,849	100	166,925	100

According to the above analysis, 78 per cent and 72 per cent of the total operational cost of the year 2014 and 2013 respectively was directly related to power generation which represented 37 per cent increase as compared with the previous year.

The total assets of the year under review had increased by 2 per cent. Meanwhile, the net current assets had become a negative figure of Rs. 5.8 billion in 2014 as compared with the positive figure of Rs. 737 million in the previous year which represented 887 per cent decrease. The main reason for the decrease of current assets was not because of the improvement of the debt recovery process but because of the recovery of mobilization advances. Thirty two per cent or Rs. 220 billion of the total capital employed of the Board as at 31 December 2014 had been financed through borrowed funds whereas the previous year borrowed portion was fifty four per cent.

Operations of Lak Vijaya Power Station

- The Lak Vijaya Power Station (LVPS) had not maintained records in relating to the coal stock levels, i.e. re-order level, maximum stock level, minimum stock level, re-order quantity etc. Further, the accuracy and reliability of the documents and the records maintained for coal handling could not be ensured due to following lapses.
- No reliable intake measuring of coal
- No reliable input calibration of coal to the plant
- Unloading from the ship is neither monitored by LCC nor CEB
- Store keeper is just doing the recording activity rather than stock controlling as dominated by the engineers.

For instance, 181,016 MT of coal used during the first nine months of the year under review had not been taken into the stock records.

- The existing storage capacity of coal yard of Lakvijaya Power Station is 738,720 MT. As the average monthly coal consumption is 195,000 MT, the stock yard is adequate to store only 3.788 months requirement. However, in the Monsoon period during April to September (6 month) every year, coal cannot be unloaded due to the adverse weather and sea condition and therefore, sufficient storage capacity to store total coal requirement is not available.

- The coal stock as at 31 December 2014 had been physically verified by an independent survey company and based on the report issued by that company, the verification team had identified an excess of 32,323 Metric Tons amounting to Rs. 375 million. However, said excess had not been recommended to bring the stock records and accounts due to the doubt on the accuracy and the lapses stated in above (i).

Accordingly, it was observed that the LVPS is responsible to establish and maintain appropriate controls over the coal stock handling.

- The value of the over consumption of coal as against the generated electricity during the year 2014 was Rs. 2,144 million.

- Even though Rs. 103 million had been paid to Local Authorities and Divisional Secretariats in relation to mitigate the dispute of the fishermen at Norichchole for laying transmission line through Puttlam Lagoon as advances had been recognized in the accounts as work-in-progress with the purpose of capitalizing. But, no evidence or source documents were provided to the audit to ensure the reasonability, transparency and the accountability of these expenses. In audit test check revealed that a sum of Rs. 18 million given to such organizations out of the above sum have been remained idling over a period of more than 06 months as at 25 June 2015 and therefore, the real requirement of such payments was not ensure to audit.

Impact of the Operations of the Lanka Coal Company (Pvt) Ltd.(LCC)

- Gross Calorific Value (GCV) of coal received on three shipments had discrepancies in quality reports issued by three individual quality inspectors. Accordingly, GCV of coal as per independent test report was lower than the Standard Values of the plant and therefore, the report issued by the quality inspector of the supplier at the loading port was inaccurate and it was further observed that the said inspector is a company blacklisted by the Indian Court. Due to these lapses, the CEB had to incur a loss approximately Rs. 345 million from firing the low GCV coal stock of 143,932 MT acknowledged from the above mentioned three shipments.
- Due to consumption of low GVC values of coal as stated in (i) above, the CEB had to incur an additional cost approximately Rs. 508 million for supplement of the yield energy shortage of 25 MW power from alternate energy sources.

- Even though LCC and Ceylon Shipping Corporation (CSC) had agreed to supply short delivery of 29,896 MT of coal, from the payment made for shipment Nos. 16 and 17 within 6 months from the date of short delivery of 04 April 2012, they had failed to do so. The value of the short delivery was Rs. 654 million. The CEB had not taken any action to recover that over payment even by 31 December 2014 and the opportunity cost of the capital tied-up, estimated based on the overdraft interest rate was Rs 229 million.

- In case the calorific value of coal is less than the plant recommended value, the General Manager had informed the Additional General Manager (Generation) to obtain the permission of the consultant or the manufacturer of the plant on using them, as the plant is within the defect liability period. However, obtaining of such opinion from respective personnel was not observed in audit. Further, CEB had not taken any action to recover the losses sustained by the Board from the parties involved to arrive wrong decisions as instructed by the Attorney General by his letter dated 21 December 2012, even at the end of July 2015.

- In making decisions by the Procurement Appeal Board and Standard Cabinet Appointed Procurement Committee, a wrong supplier had been selected due to improper evaluation of the bid prices offered by two bidders which caused the CEB to an additional cost of Rs.264 million (USD 2,310,263).

- According to the agreement entered into between the CEB and LCC, the cost of weight determination shall be for the LCC's account. It is questionable about the independency of the Marine Surveyor as the selection had been done by the LCC. However, all expenses of the LCC relating to the coal handling get reimbursed from the CEB, but the certificate of the weight is not sent to the CEB as direct confirmation. This can be treated as severe control weakness in procuring of coal.

- Strategy or technique used in the international context to measure the coal stock had not been followed or introduced by the CEB to physically verify the coal stocks either at the coal yard or at the ship.

- As the CEB does not have a method to weight the acknowledge quantity of coal accurately, the CEB accepts the weight measured by Ceylon Shipping Corporation and independent survey agent. But, it was identified in certain occasions at which same independent party measured in both loading and unloading ports. Therefore, the accuracy and the transparency of the measurements could not be ensured in audit. Further, the weigh measuring equipment (Weight Bridge) was inaccurate and the Board had not taken actions to repair them or take alternative method to measure the weight of coal acknowledged. Therefore, there were considerable differences between the invoiced and unloaded quantities. Further, CEB had taken the invoiced quantities to stock records and therefore, the accuracy of the stock records regarding both quantity and value is in doubt.

- Two tugs boats, three barges, and one line boat belongs to Lak Vijaya Power Station, had been parked in Trincomalee and Colombo Ports since the procuring year of 2009 as they are not suit for the operation of coal unloading operations. However, CEB purchased those lightering equipment from the foreign loan obtained for the Coal Power Project with the recommendation of the Project Director, CEB representative, and under the supervision of the line Ministry. Due to wrong decisions of those officials, the CEB had to incur a cost of Rs. 1,250 million as at 31 December 2014 which has become uneconomical.

- Normally, the CEB pays the LCC for opening of letters of credit for procuring of coal based on commercial invoices , and in most instances the values therein are higher than the actual invoice amounts. Further, the LCC takes considerably longer period for settling of the overpaid amounts. For instance, the number of days taken for settling the overpaid sum of Rs. 97 million for shipment Nos. 43 and 44 was 196 and 171 respectively. The opportunity cost of the capital tied-up computed for those unsettled over payments as at 31 December 2014 based on the overdraft interest rate of 14 per cent per annum was Rs. 7 million.

- Details, such as a list of bids received, bid opening minutes, technical evaluation reports, procurement committee reports etc. in relation to the bid Nos. 03, 04 and 05 for the procurement of Rs. 15,697 million worth of coal were not made available for audit to ensure the proper functioning of procurement process.

The construction activities of the proposed building called "Vidulakpaya" for the Head Office of the CEB had been stopped with immediate effect on the decision taken by the Board of Directors on 07 October 2014. However, the reasons for stoppage of the construction neither included in that Board decision not made available to audit. The construction cost up to the date of stoppage was Rs. 380 million and the total cost incurred for that was not made available to audit.

The value of insulators procured under Iranian Loan for Rural Electrification Project which had been rejected by the quality inspectors due to imperior quality was Rs. 2 million. Only the action that had been taken by the Board for that miss-procurement was to transfer them to warehouse at Kotugoda as unusable items.

The Board had paid the PAYE tax on behalf of its employees which should be borne by the employees by overruling the Cabinet Decision taken on 13 December 2007 to shift the PAYE tax liability to employees since the next salary revision which should have been effected since 2009. The PAYE tax paid by the Board overruling said Cabinet Decision as at 31 December 2014 was Rs.1,407 million.

Thirty nine different staff allowances had been paid from time to time to the staff of the Board on the approval of the Board of Directors without obtaining the approval of the Cabinet of Ministers as specified in the Public Enterprises Circular No 95 of 04 June 1994. It was observed that such allowances amounting to Rs. 849 million had been paid in the year 2014 compared to Rs. 642 million paid in 2013.

Scheme of Recruitment (SOR) of the Board had not been updated for a longer period.

Three thousand six hundred and fifty five employees had been outsourced as at 31 December 2014 by superseding the latest carder approved by the Board in 2012. The outsourced personnel was 20 per cent of the total staff strength of the Board.

Ceylon Petroleum Corporation

The total cost of importation of petroleum products for the year 2014 was Rs. 600 billion (US$ 4,597 million) and representing approximately 6 per cent of the Gross Domestic Product (GDP) of Rs. 9,785 billion in 2014 valued at current market price. It represented approximately 24 per cent of the total imports of Rs. 2,535 billion (US$ 19,417 million) in the year 2014.

Financial Result

According to the financial statements presented, the operation of the Corporation for the year under review had resulted in a pre-tax net profit of Rs. 1,854 million as against with the pre-tax net loss of Rs. 7,889 million for the preceding year, thus indicating an improvement of Rs. 9,743 million in the financial results. Accounting of kerosene subsidy amounting to Rs. 2,715 million as an income of the year under review, the decrease of finance cost by Rs. 4,578 million as compared with the previous year, improvement of efficiency in the procurement process of petroleum products of the Corporation, etc. had mainly attributed for the improvement in the financial results of the Corporation for the year under review. Further, gaining of a higher profit margin from the declined global fuel prices during the second half of the year without a full adjustment of domestic fuel prices, improvement in debt recovery which had helped Corporation to reduce outstanding trade receivables to Rs. 37 billion at the end of the year 2014 from Rs. 53 billion at the end of the year 2013 were the other contributory factors for the improvement in the financial position of the Corporation.

The operations of the Corporation had resulted in a markup of 4.88 per cent for the year under review thus indicating an improvement of 0.02 per cent in financial results as compared with the markup of 4.86 per cent in the preceding year. Similarly, the gross profit for the year under review had increased to Rs. 24,447 million by Rs. 1,703 million or 7.5 per cent as compared with the corresponding gross profit of Rs. 22,744 million in the preceding year.

However, the Corporation had a negative net assets position of Rs. 231,532 million at the end of the year under review, although the operations of the Corporation had resulted in a net profit of Rs. 1,741 million for the year under review. Further, the negative impact of heavy losses incurred by the Corporation due to Hedging transactions taken place in 2012 had caused to increase the net losses for previous years. Even though the financial performance of the Corporation had improved during the year under review, occurring heavy losses since 2008 had resulted to sustain a negative net assets position of the Corporation continuously. Thus, the ability of the Corporation to continue as a going concern without the financial assistance from the Government is doubtful.

Sector-wise Performance

However, the Corporation had continuously sustained gross losses from the following petroleum products which had a negative impact on the profitability of the Corporation.

Sector	Gross Losses for the Year			
	2014 Rs. Million	2013 Rs. Million	2012 Rs. Million	2011 Rs. Million
Power Generation				
Naphtha	413	1,081	1,048	798
Domestic				
LP Gas (K.G)	312	436	377	224
Kerosene	1,775	2,449	3,525	6,886
Export				
Naphtha	1,700	976	43	675
Furnace 1500	1,530	2,690	70	329
Bunkering				
Diesel	168	67	-	-
Fuel Oil 1500	1,123	729	-	-
Fuel oil 3500	19	-		

The main contributory factors for the above continuous financial losses and capital erosion of the Corporation were inefficiency of refinery operations with low margin, poor yields and frequent stoppages, and as a result importation of refined petroleum products to meet the demand of the country, export of Naphtha and Furnace Oil 1500 at the price below the refined cost, the provision of fuel to SriLankan Airlines Ltd and Mihin Lanka (Pvt.) Ltd at concessionary rates which were lower than the contract customer price, provision of fuel (Furnace Oil and Naphtha) at subsidized rate to the Ceylon Electricity Board (CEB), poor maintenance of storage facilities, payment of demurrages, depreciation of the Rupee value continuously against the US Dollar, etc.

Even though an effective pricing strategy reflecting the international oil price movements and aligning with Government objectives had not been designed and implemented by the Corporation, domestic retail prices of petroleum products had been revised upward continuously up to September 2014 in order to address these financial difficulties of the Corporation. However, in response to the decline in oil prices in the international market, the domestic retail prices of petroleum products had been reduced twice during 2014, i.e. in September and in December 2014, and again in January 2015 as international oil prices had continued to be on a declining trend and the above price revisions had not reflected the actual reductions in international market prices in full. To pass on the benefit of the global oil price reduction to electricity consumers, price of furnace oil used for power generation (High Sulphur and Low Sulphur) had been reduced by Rs. 10 per litre during the first quarter of 2015.

As per the Annual Report of Central Bank of Sri Lanka (CBSL) for the year 2014, although the import price index of fuel had increased during the first half of 2014, it had continued to decline during the second half of the year amidst lower demand due to weak global economic activity and ample supply especially from Non-OPEC (Organization of Petroleum Exporting Countries) countries and it had led to a decline in import price index of fuel by 6.3 per cent in 2014. Despite the significant decline in fuel prices in the international market during the latter part of the year 2014, higher import volumes had resulted in the increase in expenditure on imports of refined products by 8.6 per cent in 2014 over the previous year to a value of Rs. 269,449 million.

Import of refined petroleum products had increased during the year under review to meet the demand as the local production was insufficient. Therefore, the Refinery needs to be modified at the earliest to avoid some failures of old equipment and to avoid frequent regenerations while enhancing the profitability and operational flexibility.

Inefficiency of Refinery Operations

The existing 45 years old Refinery, which was commissioned in 1969, is not able to cater the increasing demand of petroleum products in the country and this Refinery is operating with low margin when compared with the modern world refineries operating with advanced technologies including facilities to produce petroleum products at lower cost whereby maximizing the refinery operating efficiency. This, along with other factors, highlights the need to expedite the Sapugaskanda Oil Refinery Expansion and Modernization (SOREM) Project enabling the supply of petroleum products in a cost effective manner. However, the Corporation was not yet able to implement the proposed Sapugaskanda SOREM Project in order to ensure the petroleum products are supplied to the market in a cost effective manner. Moreover, the expenditure incurred by the Corporation amounting to Rs. 837.6 million for this project up to 31 December 2014 was observed as an uneconomic transaction.

Even though the volume of crude oil refined (intake) by the Corporation had increased to 1,760,170 metric tons in 2014 as compared with 1,643,218 metric tons in 2013, the processing levels had not reached the production capacity of 6,900 tons per stream day or 2,415,000 metric tons in the year 2014.

The average international crude oil price (Brent) had fallen to US Dollars 99.68 per barrel in 2014 from US Dollars 109.15 per barrel in 2013. Oil prices had remained high during the first half of 2014 and it had fallen down by around 50 per cent during the remainder of the year. Mostly following the international price trends, the average price of crude oil imported (DES) by Ceylon Petroleum Corporation (CPC) also had declined by 4.7 per cent to US Dollars 104.83 per barrel in 2014 from US Dollars 109.96 per barrel in 2013. In general, average crude oil import price is higher than the international Brent crude price due to term contracts signed by the CPC to ensure regular supplies of petroleum products and the necessity of importing two types of crude oil to blend, [CPC is processing different crude mixes (Murban + Oman Blend) in different periods] to suit the specifications of the refinery that is designed to refine Iranian Light crude. However, the import price of crude oil during the latter part of the year was far below the average price level for the year. Nevertheless, without Refinery modifications, cost of locally refined fuel cannot be reduced.

Accounts Receivable

Total trade receivables as at 31 December 2014 was Rs. 37,060 million including Rs. 6,078 million and Rs. 30,982 million due from government institutions and private institutions respectively.

Hedging Transactions

According to the Hedging transactions, the Corporation was cited as a party in the arbitration proceeding pertaining to hedging contracts entered into with several Commercial Banks and a sum of US Dollars 60 million (Rs. 7,612 million) had been paid to the Standard Chartered Bank (SCB) on 3 June 2013 under the Deed of Settlement entered into between the parties. According to the information made available, the total losses incurred by the Corporation as at 31 December 2014 including the travelling expenses of Rs. 5,261,827 was Rs. 9,780 million.

The Central Bank of Sri Lanka (CBSL) had incurred legal expenses of Rs. 571 million with regard to the Hedging transactions of the Corporation and out of that a sum of Rs. 568 million had already been reimbursed to the CBSL during the period from the year 2011 to 2014. In addition to that, the CBSL had paid a sum of Rs. 379 million up to 31 December 2014 for the services obtained from the foreign lawyers who had appeared in the arbitration proceedings initiated by the Deutsche Bank against the Government of Sri Lanka.

Management Inefficiencies

Enterprise Resource Planning (ERP) System

It was observed that there was no any agreement or a Memorandum of Understanding (MoU) among the Corporation, Ceylon Petroleum Storage Terminal Ltd (CPSTL) and Lanka Indian Oil Company (LIOC) with regard to their individual responsibilities in respect of the involvement of the Enterprise Resource Planning (ERP) System introduced by the CPSTL, and as such, this system is not adequately utilized, especially, for fuel stock reviewing purposes.

Provision of Fuel to Sri Lankan Airlines Ltd (SLA) and Mihin Lanka (Pvt) Ltd at Concessionary Rates

Even though Sri Lankan Airlines Ltd. (SLA) and Mihin Lanka (Pvt) Ltd. were contract customers, the Corporation had incurred losses of Rs. 670 million, Rs. 457 million, Rs. 2,010 million and Rs. 1,903 million during the years of 2011, 2012, 2013 and 2014 respectively, on sale of Aviation Turbine Fuel to the above companies at extraordinary concessionary prices as detail given below.

Name of the Company	Loss incurred by the Corporation during the Year			
	2014 Rs. Million	2013 Rs. Million	2012 Rs. Million	2011 Rs. Million
Sri Lankan Airlines Ltd	1,762	1,866	424	627
Mihin Lanka (Pvt.) Ltd	141	143	33	43
Total	1,903	2,009	457	670

Despite providing fuel at concessionary prices to those two companies, the settlement of outstanding fuel bills were also very poor due to their weak financial performance i.e. as per the Annual Report of the Central Bank of Sri Lanka for the year 2014, the Sri Lankan Airlines Ltd had recorded an operational loss of Rs. 29 billion meanwhile Mihin Lanka (Pvt.) Ltd had recorded a marginal operating profit of Rs. 652 million.

The trend of the outstanding balances since 2010 is given below.

Name of the Company	Outstanding Balance as at 31 December				
	2014 Rs. Million	2013 Rs. Million	2012 Rs. Million	2011 Rs. Million	2010 Rs. million
Sri Lankan Airlines Ltd	20,900*	29,520*	25,890*	12,351	541
Mihin Lanka (Pvt.) Ltd	1,339	4,314	3,416	1,227	361

*A sum of US Dollars 121.17 million receivable from Sri Lankan Airlines Ltd. had been converted to a loan on 05 July 2012 at the interest rate of 4 per cent plus LIBOR in USD terms, payable quarterly within 4 years, in order to settle the outstanding balance of trade receivables, and out of which, the outstanding loan balances as at 31 December 2012, 2013 and 2014 amounting to Rs. 14,728 million, Rs. 10,020 million and Rs. 6,391 million respectively had been included in these balances.

More than 60 per cent of the total trade receivable balance of Rs. 37,060 million as at 31 December 2014 were represented the trade receivable balance outstanding from the above mentioned two aviation companies.

Increase of Borrowings from the Banking Sector

The Corporation had sustained its borrowings from the Banking sector to finance its oil bills and it had also resulted to decrease profits and sustain negative net assets position of the Corporation. Further, it was observed that the Corporation had continuously incurred huge finance cost during last consecutive five years as depicted below.

Year	Bank Borrowings for the year ended 31 December Rs. Million	Finance Cost Rs. Million
2010	168,020	6,859
2011	310,060	9,001
2012	399,520	18,360
2013	406,850	18,540
2014	376,607	13,962

Pipeline Network for Oil Transportation

The pipelines installed several decades back to transport of finished petroleum products such as petrol, diesel, kerosene and furnace oil from the Colombo Port to the Kolonnawa Petroleum Installation are in a state of repair and it was revealed that some of them have already been abandoned due to the deteriorated condition beyond repairs. Renovation and modernization of those pipelines have been a very urgent need, as a large quantity of the national requirement of the petroleum products is being carried into Kolonnawa fuel Storage Terminal through those deteriorated pipelines. The possibility of paralyzing the whole country with a severe fuel crisis due to transporting the imported finished petroleum products through those deteriorated pipelines cannot be ruled out in audit.

The Muthurajawela installation is fed through a Single Point Buoy Mooring (SPBM) facility located in the mid sea about 6 km from the shore and 7.2 km from Muthurajawela Terminal and there was no alternative supply source in case of rough sea conditions or when the SPBM facility is under maintenance. At the same time, there was no linkage between the Muthurajawela Terminal and Kolonnawa Installation for inter-terminal product transfers, which had also hampered the optimum utilization of those Terminals due to those constraints.

Even though, the approval of the Cabinet of Ministers for the implementation of "Cross Country Pipeline Project" had been granted on 13 September 2012, it has not yet been implemented.

Fisheries Coupon System

Fisheries coupon system had been introduced in the year 2012 by the Government and it had been implemented by the Department of Fisheries and Aquatic Resources collaboration with the Ceylon Petroleum Corporation and the General Treasury, in view of facilitating the fishermen to purchase fuel at subsidized price. However, the expected outcome of that programme could not be achieved due to poor control over implementation of that coupon system. Some of such failures are given below.

- The Government had stopped that system in September 2013 due to misuse and malpractices done by the fishermen, fuel dealers and certain other persons involved in implementation of that coupon system.
- A sum of Rs. 24 million claimed by the dealers had been hold by the Corporation due to various reasons such as fraudulent coupons attached with the claims, duel claiming, etc.
- The Corporation had reimbursed a sum of Rs. 3 million to dealers based on duplicated and fraudulent coupons.
- A sum of Rs. 1 million had been paid to a dealer in excess of the amount claimed during the period from 20 July 2012 to 30 April 2013.
- An amount of Rs. 176 million had been excessively reimbursed to the Corporation from the Department of Fisheries and Aquatic Resources on 31 December 2013. However, this

was not settled even up to the year under review, and it had been included in trade and other payables in the financial statements of the Corporation for the year under review.

Bunkering Business

The loss incurred from issuing of fuel oil 1500, generated through the crude oil processing system of the Refinery, to licensed bunker brokers during the year under review was Rs. 1,277 million and the amount receivable from those brokers as at 31 December 2014 was Rs. 1,665 million.

The following observations are made in this regard.

- There was no proper plan to handle this product more economically to avoid the losses to the Corporation. The loss incurred in 2014 by selling of 54,796 Metric Tons and 44,138 metric tons to local and foreign customers were Rs. 1,277 million (loss per Metric Ton was Rs. 23,296) and Rs. 3,219 million (loss per Metric Ton was Rs. 72,936) respectively.

- Any marketing promotions for improving the bunkering fuel business had not been carried out.

Water Supply and Sanitation

The main objective of the National Water Supply and Drainage Board is to produce and sell purified drinking water obtained by safeguarding water sources while maintaining the environmental equilibrium. The amount invested as at 31 December 2014 on behalf of the supply of pipe borne water to 44 per cent of the entire population of the country was Rs.283 billion. Accordingly, 56 per cent of the total population still continues to fulfill their needs for water through unsafe ways such as wells, streams, rivers and ponds etc. It is proposed to supply pipe borne water to 60 per cent of the population of the country by the year 2020.

Certain main observations revealed in audit during the year 2014 with regard to the Water Supply and Drainage Sector appear below.

- Very often, the pipe borne water needed for distribution is obtained from rivers and the Board incurs heavy cost on purifying the impure water. The government incurs extensive capital to provide facilities for safe drinking water and adequate sanitary facilities which is financed by local and foreign loans and grants. The expenditure incurred in this regard by the state during the past 5 years appears below.

Year	Rs.Million
2010	26,442
2011	27,222
2012	31,279
2013	26,076
2014	27,249

Accordingly, important observations made in audit with regard to projects implemented under local funds and foreign aid appears below.

(i) The expected date of completion of projects had been determined according to the original plan and studies made. However, more than 90 per cent of the projects subjected to sample checks had not been completed during the expected period. Although there were various reasons for this, finally the government had to incur heavy cost on behalf of extra work carried out and price escalations.

(ii) Accounts should have been prepared for each project and furnished for audit as per agreement entered into with funding agencies regarding foreign projects and according to the circulars and directives of the Treasury. But this requirement had not been complied with in the case of 12 projects. The accounts furnished too, had not been furnished within the period specified.

(iii) Seventeen projects implemented without sub loan agreements entered into between the Government of Sri Lanka and the Water Supply and Drainage Board on behalf of foreign funded projects were observed during the audit test checks.

(iv) The difficulties experienced in financing made by foreign projects as well as the high cost expected to be incurred when constructions are carried out by foreign contractors were referred to the attention of the Board and accordingly the approval of the Cabinet of Ministers was obtained to implement 52 water and sanitation schemes at an estimated cost of Rs.62.7 billion, with Treasury Bonds, through local Banks as per technical and financial proposals of local contractors. However, it was observed that the expected economic, effective and efficient fund utilization had not occurred, as the interest on loans payable was high along with the abnormal increase in the estimated cost.

- The observations made on unsuccessful projects implemented under foreign aid appear below.

  (i) Spanish Aid (SETA) amounting to Rs.12.90 Euro Million had been obtained to construct the Drinking Water Purification Centre at Ambathale and the Sea Water Purification Centre in Negombo. The General Treasury had not specifically instructed the Board whether this should accounted for, as loan or grant. The projects had become inactive since 2010 as the circulation of the tube well supplying water to the Sea Water Purification Centre of the project was low and the iron and chemical contents of the water were less than the recommended level. The amount spent on behalf of the water purification centre was Rs.363 million.
  Although 5 years had elapsed since the work completion of the water purification centre, the Board had failed to provide 3,000 drinking water connections to consumers, as expected.

  (ii) Iranamadu Reservoir is the main source of water supply to the Jaffna Killinochchi Water Supply Project. But, this had become a failure up to now due to the protests made by the public and due to the improper basic feasibility studies made. In order to solve this, it was planned to supply purified sea water. However, the fishing folk of the area had made protests and this too could not materialize resulting in extending the period of completion of the Project and escalation of total cost.

(iii) The main contractor of Moratuwa, Ratmalana, Ja-ela and Ekala Waste Water Project became bankrupt and the contract had been suspended. According to paragraphs 5.4.6 and 5.4.7 of the Government Procurement Guideline, a local Bank should confirm the retention and the performance bond of a foreign Bank. However, financial loss had occurred to the Board as a result of acting in contravention of this requirement. The Board had failed to encash the performance and the retention money bond on construction contract amounting to US Dollars 9,065,048 and US Dollars 7,959,086 respectively so as to meet the financial loss. Further, taking legal action against in this regard had not been initiated as instructed by the General Treasury.

- Out of the 2,255 rural water scheme implemented for supplying water to the rural masses, 308 schemes had either been abandoned or were not functioning as at 31 December 2014. It was observed that weaknesses such as water sources getting dried up, the quality of water being not upto standard, lack of proper maintenance activities by Community Based Organizations, damages to pipe lines, lack of technical assistance to the Community Based Organizations by the Board etc. had attributed to this.

- Extensive time is spent on acquiring land for various water projects and a sum of Rs.13 million had been deposited as advances in various Divisional Secretariats since 2010 in order to acquire 6 lands. However, these had not been acquired even by 31 December 2014.

- 1.123 hectares of land had been acquired in 2011 by paying Rs.17 million for the Greater Galle Water Supply Project. However, the land concerned had not been utilized for any purpose even by 31 December 2014.

- Although 0.3895 hectares of land had been acquired in 1994 for the Kakkapalliya Water Scheme, this land too had not been utilized for any purpose for a long time.

- Assets valued at Rs.24 million had not been accounted for, at the Gampaha and Kurunegala Regional Support Centre. Assets received from foreign projects, valued at Rs.11 million remained as stock at the Kurunegala Regional Stores without being capitalized.

- Income had not been derived during the year in respect of 29 per cent of the total water produced, that is 575 million units and 47 per cent of 57 million units of water distributed within the city of Colombo due to reasons such as, leakage of water, illegal water connections, water supplied free of charge and administrative problems etc.

- In order to ease this, an expenditure of Rs.1,440 million had been incurred under 3 foreign funded projects. But, it was observed from the following information that there was no significant decrease in the rate of non-revenue water. Accordingly, the additional unit cost to a consumer in the year 2014 was Rs.7.86 as compared with the previous year additional cost per unit of Rs.8.05, the amount of cost decrease was two per cent.

Year	2008	2009	2010	2011	2012	2013	2014
Overall Percentage of Non-Revenue Water (NRW)	32	31	32	30	30	30	29

Further, during the year under review, it was expected to decrease the non-revenue water rate by 7 per cent, that is, from 48 to 41 per cent, the actual rate reduced within the city of Colombo was 47 per cent.

- Further, the pipes laid within the city of Colombo dates back to about 80 years and timely need is necessitated either to reform or restructure the system. But, the action taken in this regard was slow.

- It is the responsibility of the Board to Supply drainage facilities too to the public similar to the drinking water along with the modernization while safeguarding the health of the public and safeguarding the drinking water. By now, 7 drainage projects had been commenced with a foreign aid of 22 billion. However, due to the delay in work and delay in awarding contracts, much progress had not been observed in the drainage service provided by the Board.

- The operating profit of Rs.1, 426 million of the year 2014 had increased by 5 per cent as compared with that of the previous year. However, the improvement in net profit was 42 per cent. This was mainly due to the increase in income of the year and other operating income by 10 and 21 per cent respectively. 48 per cent of the operating expenditure had been incurred on salaries to employees. Meanwhile, there was an increase of 9 per cent in employees' expenditure who had been directly involved in the water supply. The increase in employees' cost could be attributed to 5 per cent increase in new recruitments during the year under review and the increase in salaries and wages to employees.

Retirement Benefit for Public Service

Provision of constant active support necessary for uplifting and maintenance of living standards of life in retirement of those who have shouldered the public service by assuring their service terminal benefits is the mission of the Department of Pensions.

The number of pensioners receiving pension benefits from the Department of Pensions by 31 December 2014 is 546,379 and the public pensions expenditure during the year amounted to Rs.145,293 million. It represents 11 per cent when considered as a percentage of the total state recurrent expenditure and the Government incurs approximately 12 per cent of the total state revenue annually for payment of pensions.

A computerized data base for payment of pensions is established and implemented in the Department to achieve this mission and to bring the objectives and functions of the Department to a level of more quality and efficiency. Even though the pensioners had received more efficient service through this computerized system, it had been confirmed during the course of audit that errors and shortcomings in the payment of pensions and benefits is at a high level due to weaknesses in the internal control systems of the relevant computer programme.

The audit observations in respect of internal control weaknesses existed and existing in the process of payment of pensions and over payment of pensions and irregularities are as follows.

- Incorrect information had been entered into the Pensions Data Base. As such, double payments and other irregularities had occurred, thus indicating that a misappropriation of money amounting to Rs.30.6 million had been committed in the year 2014 as revealed by the Internal Audit Unit. The circumstances that prevailed had enabled to commit these errors and frauds due to unavailability of a centralized Pension Data Base and the ability of the Divisional Secretariats that pay the pensions to change the information entered and process them.

- The following improper situations as well arisen due to establishment of the Pension Payment Process through the Banking System based on incorrect information entered into the Pensions Data Base and weak control of the information of the system had attributed to the irregularities of Pensions.

    (i) Issue of the same pension number to many pensioners due to existence in issuing pension numbers by two means as centralized and decentralized during a certain period and non-availability of a definite method in issuing pension numbers.

(ii) A certain information entered into the pensions database, had not been used as a unique key.

(iii) Failure in the proper assigning of duties (relating to the payment of pensions) to the staff grade officers those who work of the Divisional Secretariats and District Secretariats in terms of provisions of the Financial Regulation 145 (2) (3).

(iv) Issuing awards for the Widows and Orphans Pension Scheme in a manner beyond the control of the Department of Pensions.

(v) The increase in paying the arrears of Widows and Orphans Pensions due to failure in taking actions to complete the Widows and Orphans Pension files at the time of retirement, and a delay in the payment of Widows and Orphans Pensions accordingly.

(vi) The presence of officers performing same duties at the same division over a long period of time due to failure in making use of the transfer policy as an instrument of control which affects the pensions officers, and officers involved in that regard.

(vii) Failure in assigning duties to the pension's officers attached to the Divisional Secretariats, in a manner that an internal control is ensured by a supervising officer examining the relevant assignment and vesting of excessive powers to them.

(viii) Failure in taking proper disciplinary actions as per Financial Regulations against the officers responsible for the identified overpayments and frauds on pensions.

(ix) Payment of pensions without establishing a Consolidated Control Account interconnecting the institutions paying pensions, namely Divisional Secretariats, District

Secretariats, and Department of Pensions.

(x) Failure to establish a methodology together with the banking system in order to ensure that the pension is credited to the relevant pensioner accurately when pensions are paid through the banks.

- Payment of pensions to the pensioners who had not furnished life certificates, failure to cease the pensions of the pensioners whose certificates of death had been furnished, and Grama Niladhari's failure to take actions to furnish the relevant certificates on time. The sum credited to the bank accounts of the deceased pensioners even after their death certificates had been furnished amounted to Rs.2.49 million in years 2012 and 2013 without withholding pensions. That money had been withdrawn by the dependents of the pensioners.

- Differences between the number of actual pensioners and the number of files, non-availability of essential documents that should be included in the pension files, and discrepancies in the files in calculating pensions with regard to similar payments.

- Data relating to the payment of pensions pertaining to the periods from July - December 2009 and October – December 2010 had been totally deleted from the computerized information system.

- Even though all of the essential data with regard to a pensioner had not been entered to the information system of pensions, the application and payment processes of pensions had not been hindered. According to the information system of pensions relating to July 2014, a large number of pensioners to whom pensions had been paid, could be identified regardless of incomplete data fields, such as 100,915 pensioners without a bank account number, 148,248 pensioners without a national identity card number, 134,974 pensioners without a bank code (for the purpose of identifying the bank, to which the pension is credited)

- Reports relating to the expenses had not properly been obtained in releasing money to the armed forces and police under the Object of the Department for paying pensions to the war heroes who died in the battlefront and paying those who were disabled, up to the completion of 55 years of age. As the payment of this money had not been coordinated or supervised by the Department, the cost of living allowance had been erroneously overpaid together with the salary and the pension or widows' pension.

- The audit test check carried out concerning the aforesaid matter on the data pertaining to Navy and Air Force revealed that a sum of Rs. 21.51 million had been erroneously overpaid since the year 2008 including a sum of Rs. 17.12 million to 301 disabled and deceased airmen, and a sum of Rs. 4.39 million to 36 seamen.

  As the information system for pensions had been in existence since the year 2008, the position prior to that could not be examined. The number of naval and air force war heroes, that did not tally with the information system of pensions, was 1,679 due to lack of information. Data pertaining to war heroes whose salaries had been discontinued with the completion of 55 years of age, should be further examined.

  In considering all these matters in respect of the Police and the Army as well, the Department of Pensions had not carried out coordination in respect of the above matters for the Armed forces and Police Officers. As a result, the Government is suffering a great loss annually due to erroneous over payment of pensions.

- Even though a sum of Rs.188.96 million existed in the Appropriation Account as overpayment of pensions as at 31 December 2014, the Department had not taken action to hold an inquiry into that overpayment and determine the responsible persons.

- The Piolet Project of the e-Pensions Project had been successfully completed on 20 September 2011 and after incurring an expenditure of Rs.182 million, except for the expenditure incurred on training and other purposes by the Department of Pensions, this Project had been completely discontinued from 01 November 2013 indicating technical faults arisen in the data base.

- In the discontinuation of payment of outstanding pensions by the Divisional Secretariats from June 2014, a study had not been carried out on the above matter and the Departmental Structure, prepared accordingly. It was observed that an overpayment of Rs. 14.78 million had been made for 58 pensioners during the course of audit carried out on payment of outstanding pensions.

- The payment particulars of civil and army officers who are retired from service are entered into a centralized data base by the Department of Pensions and the first monthly pension of the pensioners who had retired after 01 October 2014 commenced payment from November 2014 in terms of Pensions Circular No. 14/2014 of 18 November 2014, and it had been observed during the course of audit that an overpayment of Rs. 339,631 had been made to 7 pensioners as double payments in the payment of pensions.

(n) Personal Identification Numbers had not been used so as to identify the person who entered pensions payment data into the Pensions Data base. In certain instances incorrect information had been entered into the computer database due to engaging two computer assistants who are being trained to enter data into the database and no validation of data being carried out by a competent officer.

Weaknesses in the Payment of Gratuity

As the Department had taken actions to credit the total sum of gratuity directly to the bank accounts of the pensioners without recovering the deductions that remained recoverable to the Government from certain retired Public Officers, a large sum receivable to the Government from the relevant pensioner could not be recovered. For instance, an audit test check revealed that a total sum of Rs. 8.22 million including a sum of Rs. 7.68 million receivable to the Government from 141 pensioners of 09 Zonal Educational Offices in Southern Provincial Council, and a sum of Rs.0.54 million receivable from 24 pensioners of 03 District Director of Health Service offices, had been overpaid to the pensioners.

Summary of Audit Observations on Provincial Councils

Western Provincial Council

A revenue totaling Rs. 45,803 million had been estimated to obtain as a sum of Rs. 14,526 million through Government Grants and a sum of Rs. 31,277 million through internal sources. It was expected to spend a sum of Rs. 39,024 million for recurrent expenditure and a sum of Rs. 6,799 million for capital expenditure out of that. Accordingly, a sum of Rs. 13,306 million had been received through Government Grants during t year under review, while a sum of Rs. 31,092 million had been collected through internal sources. A sum of Rs. 38,582 million for recurrent expenditure and a sum of Rs. 5,863 million for capital expenditure had been spent.

Important audit observations relating to the activities of the Western Provincial Council relevant to the year under review are shown below.

- Action had not been taken to get confirmations through the Department of Inland Revenue with regard to the registration numbers and names of the contractors who had been named as dormant VAT tax payers by the Department of Inland Revenue in making payments of Value Added Tax (VAT) mentioned in the invoices by the Provincial Roads Development Authority and due to that, a sum of Rs. 3.89 million and a sum of Rs. 6.65 million had been paid as value added tax for 25 contractors during the years 2013 and 2014 respectively.

- Although three years had elapsed after the purchase of two concrete laying machines having spent a sum of Rs. 158.03 million during the year 2012 by the Provincial Road Development Authority, those machines had not been used for any road construction work except using those in one instance on trial basis. It was observed that those machines had become idle due to lack of carrying out a feasibility study based on correct specifications with regard to the possibility of using those for road construction works in Sri Lanka.

- The monthly Professional Allowance of Rs. 15,000 approved to be paid to the officers of the Sri Lanka Engineering Service through the Public Administration Circular No. 28/2011 dated 12 December 2011 according to the 2012 budget proposals had been made applicable to the Western Provincial Council. A sum of Rs. 11.34 million had been paid as professional allowance during the period from January 2012 to December 2014 to 23 engineers of the Provincial Roads Development Authority who do not belong to the Sri Lanka Engineering Service.

- One hundred and thirty eight Road Development Projects valued at Rs. 05 billion had been awarded under the package system to 03 private contract firms through four Executive Engineers' Divisions in the Gampaha District of the Provincial Roads Development Authority. In examining each of the Projects awarded in this manner, it was observed that any project had not been completed within the agreement period and action had not been taken to recover liquidated damages amounting to Rs. 365.95 million which should be recovered in terms of the agreements. While a sum of Rs. 768.71 million had been paid as work advances, for these Projects, out of these, advance bonds had not been obtained for advances amounting to Rs. 342.39 million.

- The Cuber Machine purchased for a sum of Rs. 6.20 million during the year 2012 by the Provincial Roads Development Authority had been kept in the Divulapitiya Concrete Yard without being assembled to an useable condition.

- It was observed in audit that a bogus business was in operation in the Western Province by brokers to obtain money from the general public who come to get the motor vehicle revenue licenses by providing fake information, according to the number of fake revenue licenses that had been issued. Although fake licenses like these had been provided over a number of years, a methodology to introduce an awareness programme among the general public about the gathering of deceptive individuals around the office area had not been implemented and legal action had not been taken so far with regard to such licenses that have been already identified.

- Certain provisions enabling the entitlement of revenue to Private Health Services Regulatory Council had been published in the Extra Ordinary Gazette Notification dated 22 March 2007. of the Democratic Socialist Republic of Sri Lanka contravening the authority to collect revenue vested in the Director of Health Services in each Province in terms of Clause 3(5) of the Registration of Private Medical Institutions Act No. 21 of 2006 which is receivable to the to the Provincial Council.

- While work relating to the construction of a building for the accidents unit in the Kiribathgoda Base Hospital had been commenced during the year 2006, a sum of Rs. 37.26 million had been spent under 08 stages of the Project on construction works and other activities. These works had not been completed even as at end of July 2015 and due to that benefits to the general public had been delayed further out of the money spent.

- Although posts of consultants had not been included in the approved private cadre for the Provincial Ministers, on a decision of the Provincial Board of Ministers and approval of the Governor, consultants had been appointed from time to time during January 2008 to January 2014 for all the Ministers including the Chief Minister. A monthly allowance of Rs. 30,000, vehicles, fuel, telephone allowance and other privileges had been provided to the consultant appointed in this manner.

- in terms of the provisions of the Garbage Management Statute No. 01 of 2007 of the Western Provincial Council, it had been aimed to made necessary provisions to avoid garbage accumulation to a maximum level in the urban and rural area and to keep a clean environment for the benefit of the general public as well as that of the animals and plants. While approximately 500 tons garbage collected daily by the Local Authorities and other Institutions, those garbage had been improperly dropped to the land at Karadiyana. The income earned thorough that had been 90% of the total income of the Authority. In spite of the objections made by the general public and other institutions with regard to the damage to the environment due to improper disposal of garage to the Karadiyana Land , a proper course of action had not been taken by the authority in that connection.

- In terms of the provisions of the Western Province Social Services Statute No. 03 of 2006 in operation of the Western Province, Homes for the Aged and Disables and all institutions providing services for them should be should be registered in the Department of Social Services. While 73 Homes for the Aged and 39 Homes for the Disables had been registered as at December 2014, there are large number of unregistered Homes for the Aged and Homes for the Disables in operation in the Western Province. However, a suitable scheme to register those institutions had not been implemented by the Department of Social Services.

- While a considerable number of officers retired having served in senior management posts of the Ministries and Departments of the Provincial Council had been reemployed on contract basis on approval of the Governor and the Provincial Board of Ministers,, appointment of acting officers in the vacant posts of higher grades had been taken place continuously.

- Although there was no post of accountant in the approved cadre of certain departments / Regional Offices of the Provincial Council, the accountants in other officers had been appointed on the basis of acting /attending to covering up of duties with the approval of the Governor and allowances had been paid to them.

- Subjects of Finance, and Planning, Law and Order, Local Administration and Economic Development which had been assigned to the Chief Minister from the inception of the Provincial Council gad been assigned to the Chief Secretary on the approval of the Governor. Accordingly, conducting meetings of the Board of Ministers, and issue of Board of Ministers Papers included in the scope of work of the Secretary to the Chief Minister had been assigned to the Chief Secretary. Since the Chief Secretary is representing the Provincial Accounts Committee as Secretary to the Provincial Treasury, it was not proper for him to conduct the meetings of the Board of Ministers and signing the Board of Ministers Papers. Although this position had been accepted by the Secretary to the Governor, action had not been taken to rectify the position up to December 2014.

Central Provincial Council

A revenue totaling Rs. 24,752 million had been estimated to obtain as a sum of Rs. 19,527 million through Government Grants and a sum of Rs. 5,225 millions through internal sources. It was expected to spend a sum of Rs. 20,825 million for recurrent expenditure and a sum of Rs. 3,927 million for capital expenditure out of that. Accordingly, a sum of Rs. 21,824 million had been received through Government Grants during the year under review, while a sum of Rs. 5,285 had been collected through internal sources. A sum of Rs. 21,661 million for recurrent expenditure and a sum of Rs. 4,565 million for capital expenditure had been spent.

Important audit observations relating to the activities of the Central Provincial Council relevant to the year under review are shown below.

- While a sum of Rs. 12,108.41 million had been spent during the year 2014 in order
  fulfill the basic objectives of the Central Province Education Department under the Departmental Expenditure Head, out of that a sum of Rs. 116.58 million had been spent for preliminary and secondary quality inputs. However, subjects oriented review had not been carried out in order to promote the examination results, or there was no evidence to support that procedures necessary to promote results were identified. Summarized information relating to the examination results during the year 2014 are shown below. Information relating to 54 National schools too are included in these results.

Examination	Number Sat	Number Passed	Total Number Failed	Number Failed in all Subjects
Scholarship 5th Year	43,595	4,891	38,704	-
G.C.E. (O. L.)	34,085	22,481	11,604	1,255
G.C.E. (A.L.)	25,975	15,547	10,428	1,862

According to the overall provincial results 6th place for the G.C.E. (O.L.) and 7th place for the G.C.E. (A.L.) had been received to the Central Province.

- A sum of Rs. 31.3 million had been paid to the Ceylon Electricity Board on 28 January 2013 for supply and fixing two Electricity Generators of 300 KVA and 400 KVA for the Central Provincial Council Administrative Complex. An Electricity Generator of 400 KVA valued at Rs. 16.49 million only had been supplied and fixed after about two years delay in February 2015.

- According to the Board of Ministers Memorandum No. CPC/CM/CB/2014/32 dated 23 April 2014, 03 houses had been allocated for the members holding posts in the Central Provincial Council and lodgings facilities had been completed having supplied furniture valued at Rs. 2.19 million. However, those houses had been kept under utilized.

- Out of the provision of Rs. 10 million made available under Item of Expenditure called "Maintenance of assets vested from the Mahavali "bearing No. 550-60-4-0-2602 under the Chief Ministry, a sum of Rs. 4.43 million had been spent for development of playground situated in Janasavigama, Pallekele and construction of walking foot paths. Although the total estimate for the Project had been Rs. 4.07 million, a sum of Rs. 4.44 million had been spent to complete 60 percent of the work as at 31 December 2014. It was an excess of the total estimate in a sum of Rs. 355,516.

- Although the recovery of Turnover Tax had been stopped since the year 2013, revenue in arrears amounting to Rs. 175.14 million including Turnover Tax amounting to Rs. 64.65 million had not been recovered by the Central Province Department of Revenue.

- In terms of the Circular no. CSA/P1/40 dated 04 January 2014 under the Heading, Public Expenditure Management of the Secretary to the President, the number of vehicles to be kept for a Chief Minister and his Private Staff was 07. However, 12 vehicles and 02 pool vehicles had been attached to the Central Province Chief Minister's Office.

North Central Provincial Council

A revenue totaling Rs. 15,666 million had been estimated to obtain as a sum of Rs. 12,628 million through Government Grants and a sum of Rs. 3,038 million through internal sources. It was expected to spend a sum of Rs. 11,286 million for recurrent expenditure and a sum of Rs. 4,071 million for capital expenditure out of that. Accordingly, a sum of Rs. 12,077 million had been received through Government Grants during t year under review, while a sum of Rs. 2,752 had been collected through internal sources. A sum of Rs. 11,672 million for recurrent expenditure and a sum of Rs. 3,219 million for capital expenditure had been spent.

Important audit observations relating to the activities of the North Central Provincial Council relevant to the year under review are shown below.

The audit for the year under review was not finalized even as at 24 April 2015 due to the delay or default in providing required information for the audit including 106 vouchers totalling Rs. 8 million by the staff of the Chief Ministry,

- Although a sum of Rs. 5.83 million had been paid by the Provincial Council Secretariat as salaries during the year under review for the Personal Staff of the Holders of the Post of Leader of the house, the Speaker, Leader of the Opposition, adequate evidence was not furnished to audit to confirm their attendance and when those offices were examined, it was confirmed that they were not engaged in service in the offices.

- Four posts as Leader of the House, Leader of the Opposition, Chief Organizer of the Governing Party and Chief Organizer of the Opposition had been created non-complying with the provisions of the Provincial Councils Act No. 42 of 1987 and privileges exceeding the privileges entitle to Provincial Council Member had been provided to holders of those posts. A sum of Rs. 6.46 million during the year 2014 and a sum of Rs. 11.05 million during the preceding year had been in connection with those privileges to the holders of the relevant posts.
- Although the Imprest balance as at 31 December should be refunded before 10 January of the ensuing year or before the date specified by the Provincial Treasury, according to notes given together with the Financial Statements for the year under review, the total of the unsettled balances of Imprest of 18 Imprest Accounts as at 31 December amounted to Rs. 374.62 million.

- Out of the 1892 new development projects amounting to Rs. 1,615.59 million approved under Provincial Councils Development Grants, Provincial Criteria Based Development Grants, World bank Aids and Group Grants, 1881 projects had been implemented a sum of Rs. 1,055.22 million had been utilized for those. However, only

1291 projects had been completed during the year. Similarly, out of the 719 development projects continued to the year under review amounting to Rs. 1,011.22 million only 568 projects had been implemented and 501 projects out those had been finalized.

- Value of Land in extent of 540 acres, 33 vehicles, 124 buildings a large quantity of house hold furniture, office equipment and machinery equipment shown in the Fixed Assets Register of the Provincial Council had not been assessed.

- Allowances of the Chief Minister of the Provincial Council and allowances of their personal staff had been paid in full out of the provisions made available under Expenditure Heads of each Ministry. However, Drivers Allowances and Allowances of the Personal Staff amounting to Rs. 4.88 million had been paid in addition to those payments under the Expenditure Head of the Provincial Council and Council Secretariat during the year 2014 and the value of those allowances paid during the preceding two years amounted to Rs. 8.05 million.

- Although the maximum number of vehicles that could be allocated to the Hon. Chief Minister's use and his security works are three in terms of paragraph 2.1 of the Circular Letter No. CSA/P1/40 dated 04 January 2006 as amended by Circular Letter of even number dated 19 November 2007 of His Excellency the President, the Hon. Chief Minister of the North Central Province had used 15 vehicles exceeding that limit and 44,850 liters of fuel valued at Rs. 5.99 million had been used for running those vehicles. Similarly, 13250 liters of fuel had been obtained in excess of the limit entitle for the two official diesel vehicles and the security vehicle and a sum of Rs. 1.8 million had been paid for that.

- Although the authority for issue of fuel orders for vehicles should be granted in the fuel requisitions obtained from the officers in charge of vehicles by the Head of the Establishment or by an officer with delegated authority, the Chief Minister or an officer of his personal staff had issued fuel orders having placed the official frank of the Secretary to the Ministry and fuel had been obtained for the vehicles allocated to them.

- In spite of the fact that 20 officers had been engaged in service in excess of the approved cadre for the personal staff of the Chief Minister, a sum of Rs. 9.80 million had been paid as holiday pay and over time to the personal staff during the year under review. Accordingly, the monthly cost of overtime and holiday pay per one post had been Rs. 54, 467.

- While life insurance premiums amounting to Rs. 1.39 million had been paid annually on behalf of the Hon. Ministers and the Governor, receipts or other documents received from the Sri Lanka Insurance

Corporation in support of those payments were not submitted to audit.

- While the approved cadre of the Provincial Ministries, Departments Schools, and Hospitals, as at 31 December of the year under review had been 27,270; and number of vacancies had been 5,985.

Southern Provincial Council

A revenue totalling Rs. 21,523 million had been estimated for the year 2014 to obtain as a sum of Rs. 15,895 million through Government Grants and a sum of Rs. 5,628 million through internal sources. It was expected to spend a sum of Rs. 18,812 million for recurrent expenditure and a sum of Rs. 2,711 million for capital expenditure out of that. Accordingly, a sum of Rs. 17,332 million had been received through Government Grants during t year under review, while a sum of Rs. 5,410 million had been collected through internal sources. A sum of Rs. 20,147 million for recurrent expenditure and a sum of Rs. 2,368 million for capital expenditure had been spent.

Important audit observations relating to the activities of the Southern Provincial Council relevant to the year under review are shown below.

- Following matters were revealed in the audit examination carried out with regard to salary conversions made on promotions in relation to the employees of the Southern Province Roads Development Authority.
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(i) Salary conversions had been made contrary to the recommendations given through the Letter No. DMS//B/03/01/03/01/SA dated 26 December 26 by the Department of Management Service relevant to payment of salary increase in terms of Management Services Circular No.30 dated 22 September 2006t to the employees of the Southern Province Roads Development Authority.

(ii) A salary increase of 4 increments had been given to all Non-staff Grade officers from 01 July 2008 on a decision of the Board of Directors without a proper approval.

(iii) Sixty employees had been recruited during the period from 01 January 2006 to January 2012 contrary to the provisions in the Management Services Circulars No. 28 dated 10 April 2006, No. 28(1) dated 26 May 2006, No. 28(11) dated 1 August 2006, No. 36 dated 01 August 2007, No.36 (1) dated 15 October 2007 and provisions in the Public Administration Circulars No. 15/90 dated 09 March 1990 and No. 15/90(1) dated 15 June 1990.

- Twenty one casual labourers had been recruited through the Southern Province Roads Development during the period from January 2013 to November 2014 and they had been released to the to the southern Province Minister of Education, Land and Land Development, Highways and Information . While any duty relevant to the Authority had not been performed by them, a sum of Rs. 5.45 million had been paid as salaries up to May 2015.

While 12 employees recruited for Southern Province Education Service too had been attached to this Minister in addition to that, a sum of Rs. 2.86 million for the year 2014 had been paid as salaries on behalf of them.

- A Member of the Kotagala Pradeshiya Sabah who got an appointment as a School Peon in a college belongs to the Matara Education Department with effect from 14 October 2013 had attended the school only for two days during the period from that date to 28 February 2015 and a sum of Rs. 406,798 had been obtained as salaries from November 2013 to March 2015. In addition to this, he had obtained members allowance of Rs. 135,000 as a member of the Kotapola Pradeshiya Sabah for the same period. While a Driver attached to the Southern Education Department had been functioning as a Pradeshiya Sabah Member, since 2006 he had obtained a sum of Rs. 1.99 million as salaries up to 31 August 2015, without signing attendance at the own percent service station or performing any duty.

- Salary conversions of the academic and non-academic staff serving in Galle, Matara and Hambantota Districts belong to the Southern Province Education Department had not been properly done on the revisions of salaries made from time to time and provisions for payments had not been sufficient. Due to these reasons, arrears of salaries outstanding to be paid as at 31 July 2015 had been Rs.1,212.4 million. It was observed that, this position has caused an injustice to the staff engaged in the Southern Province Educational Service and it could cause an unfavorable effect to the quality of Provincial Education Service.

- Without following a proper procurement procedure, 380,000 greeting cards for the year 2015 had been printed under the theme "A Happy South - Safeguard the Victory Achieved "and had been distributed among the all school students in the Southern Province two days before the Presidential Election held on 08 January 2015. All Principals of the Schools had been informed that they should personally satisfied to ensure that all the relevant greetings cards are handed over to the parents of the students vide letter dated 31 December 2014 issued by the Secretary to the Southern Provincial Ministry of Education, Land and Land Development, Highways, and Information.

- A sum of Rs. 20.20 million being the total of the balance of the advance amounting to Rs. 8.58 million not re-settled out of the advance given to one Nursery- keeper through the Project for New Variety of Tea Plants implemented by the Southern Province Development Authority, the relevant interest for that amounting to Rs. 5.68 million and including departmental charges amounting to Rs. 5.93 million was receivable at the commencement of the year 2014. Any action had not been taken by the Authority to recover that amount and without any proper approval a land in the extent of 1 Acre and 25 perches belongs to him had been taken over for a valuation of Rs.7.02 million. While this land had been exchanged for a sum of Rs. 17,500 on 02 December 1998 and a further exchange for a sum of Rs. 50,000 on 25 February 2001, it had been purchased for a sum of Rs. 300,000 by the nursery-keeper on 24 March 2009 and had been sold for a sum of Rs. 350,000 on 03 March 2013. Instead of getting transferred that land to the Authority after paying sum of Rs. 600,000 to that buyer on 24^{th} October 2014, action had been taken to transfer it to the Nursery-keeper. It was reveled in audit that the land had been transferred to the Authority after 18 days to that transaction, for a sum of Rs. 7.07 million based on a valuation of the Southern Province Commissioner of Revenue without obtaining a valuation from the Government Valuer and that a sum of Rs. 7.67 million had been paid by the authority for the land accordingly.

Eastern Provincial Council

The Eastern Provincial Council had estimated an income amounting to Rs. 23,781 million for the year 2014 which consist of Rs. 21,271 million from the Government Grant and Rs. 2,510 million from other internal sources of income and it was expected to spend a total sum of Rs.21,141 consisting of Rs. 16,115 million for recurrent expenditure and Rs. 5,026 million for capital expenditure out of the income estimated for the year 2014. However, total expenditure aggregating Rs. 20,415 million consisting of Rs. 15,754 million for recurrent expenditure and Rs. 4,661,million for capital expenditure had been incurred during the year 2014 out of the income aggregating Rs. 20,649 recovered for the year 2014 consisting of Rs.18,148 million from the Government Grant and Rs. 2,501 million from other internal source of income.

Important audit observations for the year 2014 relating to the activities of the Eastern Provincial Council are given below.

- Capital provisions amounting to Rs. 26.55 million made under 36 Object Codes of 03 Provincial Ministries and 15 Provincial Departments had not been fully utilized during the year 2014.

- The estimated revenue from liquor licence fees for the year 2014, amounted to Rs. 25 million. However, only a sum of Rs.16.30 million had been collected during the year under review as liquor licence fees.

- A total sum of Rs. 783.64 million collected by the Provincial Council relating to fines imposed by the courts in terms of statutory provisions and the stamp duties imposed relating to transfer of properties had been retained in the savings account of the Provincial Department of Revenue up to 31 December 2014 without being remitted to the relevant Local Authorities.

- Arrears of income of 03 Municipal Councils, 05 Urban Councils and 36 Pradeshiya Sabhas of the Eastern Province totaling Rs. 522.11 million from the major sources of income such as rates, tax, rents, and lease had remained unrecovered up to 31 December 2014.

- Lease income for government lands relating to 05 Divisional Secretariats totaling Rs.73.17 million had remained unrecovered from year 2009 up to 30 June 2015.

- Sixty two medical institutions functioning in the Province had obtained excess drugs to the value of Rs. 21.64 million without considering the actual requirements. However, the above mentioned drugs cannot be used as those had expired.

- One hundred and sixty categories of quality failed drugs to the value of Rs. 8.36 million had remained at the stores of a Base

Hospital and the Regional Medical Supplies Division, Trincomalee as at 31 December 2014 without taking any action in this regard.

- Five categories of drugs purchased by the Livestock Farm of a Provincial Department at the total value of Rs. 576,660 had been expired due to non-utilization of those drugs before the date of expiry.

- Sportswear to the value of Rs.1.12 million purchased during the period from 2011 to 2013 by the Provincial Department of Sports had been kept at the stores even up to 26 January 2015 without distributing to the relevant sports clubs.

- Funds amounting to Rs.36.68 million received during the year 2014 from the Second Health Sector Development Project to carryout activities on Health Sector Development Programme had been kept in the Deposits Account without being utilized for the intended purposes.

- There were several instances where funds allocated for each Provincial Ministry and Department under the Provincial Specific Development Grant (PSDG) to carry out development activities had been released to other Ministries and Departments for other purposes without carrying out the activities for which they were allocated.

- Thirteen Mahindodaya Laboratories constructed in selected schools in the Eastern Province at a total cost of Rs. 108.20 million under the Transforming School Education as the Foundation of Knowledge Hub Project (TSEP) and handed over to the relevant schools during the year 2014 had not been utilized even up to 14 August 2015.

- Three hundred and twenty five computers, furniture and equipment supplied to the Mahindodaya Laboratories at a total cost of Rs.82.64 million during the year 2014 had remained idle for over one year.

- Sales Centre constructed at Alayadivembu, Akkaraipattu by a Provincial Department in 2012 at a cost of Rs 5.25 million in order to provide marketing facilities for dairy products in the area had not been utilized even up to 07 July 2015 for that purpose.

- A building to the value of Rs. 18 million constructed and handed over to the Department of Social Services in the year 2012 to establish a Safe House in Trincomalee to provide safe residential facilities for the victim of domestic violence had not been utilized for the relevant purpose up to the month of April 2015.

- An ICT Education Centre constructed at Allainagar in Muthur at a cost of Rs. 1.99 million in the year 2013 had remained idle even up to 04 August 2015.

- The Department of Agriculture had constructed an office Building at Ampara in 2010 at a total cost of Rs.12.02 million without obtaining required approval and clearance certificates prior to the construction of this building. As a result, the Department had paid a service charge of Rs.1.01 million for not obtaining prior approval from the UDA and also a sum of Rs. 16,000 had to be paid as lawyer's fees with regard to a court case instituted by the UDA against the Department.

- Staff loan balances of 21 Ministries and Departments aggregating Rs.51.44 million had remained unrecovered for periods ranging from 2 to 10 years. These balances consisted of balances aggregating Rs.46.25 million due from officers who had gone on transfers, balances aggregating Rs. 4.17 million due from officers deceased and retired and balances aggregating Rs. 1.02 million due from 20 Ex-members of the Provincial Council.

- Various types of 620 vehicles belonging to the Provincial Council had not been valued and brought to accounts.

- Seven schools in the Trincomalee District had not allowed 88 students to sit for G.C.E O/L examination in the year 2014 in order to maintain the higher rate of percentage of passes in the examination compare to other schools in the district. This practice had badly affected the higher education of the relevant students.

Northern Provincial Council

Northern Provincial Council had estimated an income amounting to Rs. 16,596 million for the year 2014 which consist of Rs. 14,647 million from the Government Grant and Rs. 1,949 million from other internal sources of income and it was expected to spend a total sum of Rs. 16,596 million consisting of Rs. 14,591 million for recurrent expenditure and Rs. 2,005 million for capital expenditure out of the income estimated for the year 2014. However, total expenditure aggregating Rs. 15,892 million consisting of Rs. 13,925 million for recurrent expenditure and Rs. 1,967 million for capital expenditure had been incurred during the year 2014 out of the income aggregating Rs. 16,248 million recovered for the year 2014 consisting of Rs.14,382 million from the Government Grant and Rs. 1,866 million from other internal source of income.

Important audit observations for the year 2014 relating to the activities of the Northern Provincial Council are given below.

- Even though the elected Northern Provincial Council was established on 25 October 2013, the Auditor General's reports on the financial statements of the Northern Provincial Council for the years 2007 - 2013 (7 years) had not been tabled in the Assembly of the Council up to 31 August 2015 in terms of Section 23 (2) of the Provincial Councils Act No. 42 of 1987. As a result there was no mechanism adopted by the Provincial Council to rectify the matters pointed out in the Auditor General's reports since 2007.

- The Governor's Trust Fund of the Northern Province had been established without either a memorandum passed by the Governor, Northern Province or statue passed by the Provincial Council for the creation of fund. This fund had been operated with effect from 01 January 2007. However, the Governor of the then North East Province had on his own initiative created the Governor's Trust Fund. In terms of Paragraph 03 of the Governor's Memorandum No. 01/2007 dated 01 January 2007, the Governor's Trust Fund should be consisted of donations or contributions received from the members of the public, Organizations, Societies and income generated from projects undertaken. However, no such contribution had been received from the above sources during the year under review and financial statements of the Governor's Trust Fund for the year under review had been rendered to audit on 22 April 2015. Although a sum of Rs. 138.86 million had been kept in the Governors Fund for the year 2014 the authority given for Audit to the Auditor General had been canceled unilaterally by the Governor's Memorandum No. 1/2014 dated 10 January 2014.

- Several funds kept in the Provincial Ministries and Departments deposit account for specific purposes had been transferred without obtaining relevant authority to create Governors Discretionary Fund. The transfer of funds from the deposit account was considered as unauthorized as there is no provision in the Provincial Councils Act or any other Act to create a discretionary fund by the Governor without statute being passed in the Provincial Council. Further, it was observed that the approval for the transfer of funds to create Governors Discretionary Fund had been given by the Governor himself and the money transferred to the Governors Discretionary Fund had been idle for over two years.

- Although the Governor is entitled for a monthly fuel allowance of Rs. 100,200 only, monthly fuel allowances ranging from Rs. 247,400 to Rs. 497,600 had been paid to the Governor contrary to the Circular No. PCMD/1/4/23/4/4 dated 19 December 2011 of the Presidential Secretariat. As a result a sum of Rs. 3.68 million had been overpaid during the year 2014. Further it was observed that payment had been made for purchase of super petrol and normal petrol though there was no provision in the Circular to supply super petrol to the Government vehicles. PAYE tax on fuel allowance paid in excess of the limit to the Governor also had not been recovered.

- A sum of Rs. 430,000 had been paid as news editing charges during the year under review by the Secretary to the Governor to the Media Coordinator based on amount fixed by the Governor without complying with any circular instructions.

- Following matters were observed on Implementation of Establishment Matters contrary to the Policies of the Central Government.

    i. According to the Circular No. PD/BP/9 dated 01 June 1999 issued by the Ministry of Provincial Councils and Local Government, the implementation of establishment matters of the officers of the Provincial Public Service should as far as possible be in accordance with the procedures relating to the officers in the corresponding posts of the Public Service.

    ii. Over 14 nos. of buildings had been taken on rent basis by the Provincial Council for official purpose since January 2011 without following proper procurement procedure and a sum of Rs. 25 million approximately had been paid as rent during the years 2011 to 2014. In this regard, valuation had not been obtained from the Chief Valuer of the Valuation Department for the payment of rent and only a monthly rent of Rs. 500 had been recovered from the Secretaries who had occupied these houses contrary to the provisions of the Establishments Code. These houses were fully furnished with household items to the value of over Rs 150,000 (approximately) per Secretary and electricity and water bills of those houses also had been paid from the Provincial Council Funds. Action had not been taken in terms of Section 5:3 of Chapter XIX of the Establishments Code to recover rent from the Secretaries for occupation of rented house and the electricity and water bills which have to be settled by them.

iii. Although cadres for Regional Commissioners were approved in the year 2013, at that time elected Provincial Council had not been established. The Service of the Regional Commissioners had been carried out by re-employed non Sri Lanka Administrative Service Officers appointed as Regional Commissioners on contract basis to Kilinochchi, Jaffna, Vavuniya and Mullaitivu. In this connection a sum of Rs. 9.09 million had been paid as salaries and allowances to them in addition to the vehicle maintenance, fuel and other office maintenance expenditure contrary to Public Administration Circular No. 9/2007 dated 11 May 2011. Further performance/ duties performed by the Regional Commissioners were not made available for audit.

- Sixteen vehicles belonging to the Northern Provincial Council had been sold for Rs.5.41 million through public auction based on valuation at Rs.5.09 million and these vehicles had not been indicated in the board of survey report as unserviceable. However the ownership of 10 vehicles had not been transferred to the buyers of the vehicles even after a lapse of 39 months due to administrative lapses. Subsequently two buyers had filed a case against the Chief Secretary in the Human Rights Commission of Sri Lanka for non-rendition of books and documents relating to the transfer of owner ship.
- Garbage collected from 34 Local Authorities in the Northern Province had been destroyed through either burning or burying without implementing a compost project. In this connection a sum of Rs. 3.2 million had been spent by the Urban Council Chavakachcheri to construct buildings and a sum of Rs. 4.73 million had been spent by the Valikamam South Pradeshiya Sabha to construct a boundary wall for solid waste management and these assets had not been utilized for the intended purpose.

- The Chunnakam water intake site is located very close to the Chunnakam fossil fuel power station and in year 2012 the National

Water Supply and Drainage Board (NWSDB) had noticed fuel smell in Chunnakam water intake site. In November 2013 NWSDB had analysed around 100 wells in the areas of Uduvil and Kopay DS divisions surrounding the Chunnakam power station, and had found that about 80% of the wells had been polluted with waste oil with the range from 0.33 to 19.40 mg/l (SLS limit 0.2mg/l – 1.0 mg/l). Further area office of the Ceylon Electricity Board (Chunnakam) also had tested 16 wells and that reports also indicated the oil grease contamination in the area. In this connection no meaning full action had been taken by the Provincial Council over three years to overcome the badly affected drinking water problem in the Northern Province.

- Five hundred and seventy water pumps had been issued by the Food and Agriculture Organization to the Deputy Director of Agriculture at a 50 per cent concession on cost of purchase. Out of 570 water pumps, 264 Nos. of water pumps only had been distributed to the farmers and the sum of Rs. 2.88 million collected from the farmers during the period from 15 August to 12 September 2011 had been deposited in a private bank account without being remitted to the Government account. As a result, the entire amount of Rs.2.88 million deposited in the private bank account had been misappropriated by the Deputy Director of Agriculture.

Sabaragamuwa Provincial Council

A revenue totaling Rs.22,726 million had been estimated to obtain as a sum of Rs.19,766 million through Government Grants and a sum of Rs.2,960 million through internal sources. It was expected to spend a sum of Rs.16,970 million for recurrent expenditure and a sum of Rs. 5,756 million for capital expenditure and a sum of Rs.5,756 million for capital expenditure out of that. Accordingly, a sum of Rs.16,865 million had been received through Government Grants during the year under review, while a sum of Rs.3,071 million had been collected through internal sources. A sum of Rs.15,729 million for recurrent expenditure and a sum of Rs.2,792 million for capital expenditure had been spent.

Important audit observations revealed in Audit carried out during the year 2014 relating to the activities of the Sabaragamuwa Provincial Council are shown below.

- While the total value of Fixed Assets representing the total value of Short Term Investments shown in Statement of Financial position as at 31 December 2014 had been Rs.3,607.93 million according to the letter of confirmation submitted by the Bank to the audit, it was revealed that three were 11 fixed deposits and one savings account representing a sum of Rs.3,634.52 million. Accordingly, value of short term Investments had been understated in a sum of Rs.26.58 million in the Statement of Financial Position presented. Provisions had been allocated at the rate of Rs.3 million per annum for an Expenditure Item named as Provincial Council Maintenance Fund from the year 2009 to the year 2012 and it was further revealed in audit that the entire provision had been invested in fixed deposits having debited that Item of Expenditure.

  It had been informed vide letter No.CSAC/AP/04/01 dated 22 February 2007 of the Deputy Chief Secretary (Financial Management) of the Sabaragamuwa Province to retain a sum of Rs.100,000 in the bank accounts for Cash belongs to the Provincial Council in the Divisional Secretariats and to remit balance cash monthly to the Provincial Council. However, the Divisional Secretariats in the Ratnapura Districts had acted contrary to that and it was observed that there was a bank balance totaling a sum of Rs.213.48 million in the bank of accounts of the respective Divisional Secretariats at the end of the year 2013 and at the end of September, October or November months of 2014. Due to that, it was also observed that a sum of money that could have been utilized the development work in the province, had remained idle in the bank current account without any interest being earned.

- A consultant had been appointed with effect from 02 April 2014 vide letter No. ආ/ලේ.ස/.කා.2/1 dated 20 March 2014 of the Secretary to the Governor to the post of

"Consultant to the Chief Minister" which is a post not included in the approved private Cadre by the Department of Management Service for the Chief Minister of the Sabaragamuwa Province as at 31 December 2008. He had been paid a total sum of Rs.938,417 as allowances from that date to February 2015.

While three officers of the private staff of the Chief Minister and two individuals who do not belong to the private staff had utilized 04 pool vehicles with the approval of the Secretary to the Ministry and without such approval in certain instances. Claming as for duties of the Chief Minister, a sum of Rs.692,516 had been spent for fuel for those vehicles.

- Long term lease money and fines totaling Rs.18.42 million outstanding as at 31 December 2014 in respect of land given on lease to various institutions of 09 Divisional Secretariate in Sabaragamuwa Province, annual taxes and fines totaling Rs.4.44 million and yield taxes totalling Rs.175,984 relevant to the Divisional Secretariats were in arrears. Action in terms of clause 07 of the Circular No.96/05 dated 01 August 1996 of the Land Commissioner had not been taken in that connection. Further, Water Taxes and fines totaling Rs.7.14 million relevant to two Divisional Secretariats too were outstanding to be recovered. Although two years have elapsed after establishing Special Standing Committees for the promotion of revenue generation in the Sabaragamuwa Province, it was observed in examination of the Committee meeting reports and the progress relating to the collection of revenue of the Provincial Department of Revenue during past years that none of the objectives of that had been achieved. However, a total sum of Rs.1.39 million had been paid as participation allowances monthly allowances and incentive allowances to the members of the Committee relating to the period from February 2013 to 31 March 2015. When appointing the Secretary of this Committee, action had been taken contrary to the provision in the Public Administration Circular No. 2007/09 dated 11 May 2007 and Circular No.2007/09(1) dated 24 August 2007, issued with regard to the re-employment of retired officers.

- In a situation of non-availability of any Ayurvedic Treatment Centre in 10 Divisional Secretariats in Ratnapura District and in 02 Divisional Secretariats in Kegalle District during the year 2014, provision amounting to Rs.1.5 million had been made under Provincial Criteria based Development Grants for construction of Central Dispensaries using schools and Textile Centers closed down in 05 Divisional Secretariats in the Sabaragamuwa Province. However, that Project had not been implemented during the year 2014.

  Out of the provision of Rs.6.88 million made available to the office of the Director of Health Services, Ratnapura, for implementation of 07 awareness and training progrmmes in the field of health sector, a sum of Rs.2.3 million had remained un-spent and remitted to the Ministry. While the savings in those programmes were in a range between 06 to 80 percent, Office of the Regional Director of Health Service, Ratnapura had failed to plan and implement the relevant Health Programmes to the optimum level utilizing the funds.

- In terms of Clause 3.1 of the Circular No.01/2001 dated 28 March 2001 of the Ministry of Local Governments and Provincial Councils maximum level of loans obtainable by a Provincial Council Member had been shown as Rs. 250,000. It was revealed in audit that loans had been given at the rate of Rs.500,000 per Member by the Council Secretariat on a decision taken by the Board of Ministers of the of the Sabaragamuwa Provincial Council, contrary to the provisions. It was further observed in audit that, out of the loans granted in excess of the approved limit as mentioned above, loan balances totaling Rs.1.42 million relevant to 12 members who had lost the membership on 17 June 2012 remained dormant continuously and a proper course of action had not been taken to recover those loans through the guarantors or bonds.

  While goods had been purchased by the former Governor during the year 2014, to award prizes spending a sum of Rs.18.55 million through the office of the Governor, those purchases had been made contrary to the guidelines 3.4, 5.6, 7.8 and 7.9 of the Code of Procurement Guidelines. It was revealed in audit that the taking over of goods from the suppliers and making payments had been made improperly, while these goods had been distributed at the discretion of the former Governor as his personal gifts to various parties. Any written evidences containing information relating to the parties to whom these goods were distributed were not submitted to the audit.

- A sum of Rs. 2.15 million had been caused to be overpaid due to performance of activities such as preparation of technical specifications, technical evaluations and taking over of goods after examining the specifications in a fraudulent manner in purchasing 236 computers having spent a total sum of Rs.23.48 million for the Electronic Internal Morbility and Mortality Register (EIMMR) project implemented under the World Bank Aids by the Chief Ministry and for requirements of other departments under the Chief Ministry.

  Purchase of 589 computers had been made having spent a total sum of Rs.60.37 million in connection with supplying and installing information technology related equipment and science laboratory furniture items for 09 Mahindodaya Technical Laboratories provided under the project for converting the education system as a center of knowledge. In that, activities such as preparation of technical specifications carrying out technical evaluations and taking over of goods after examining specifications had been fulfilled improperly and contrary to the provisions in the Code of Procurement Guidelines. Due to that , a sum of Rs.7.96 million had to be over paid to the supplier out of the Provincial Council Fund.

- Although a total expenditure amounting to Rs.8.97 million had been incurred in 10 instances in respect of foreign tours during the years 2011, 2012 and 2013 on behalf of various projects and programmes with the objective of development of Sabaragamuwa Province in collaboration with foreign countries, none of those progrmmes were in an operational position. Although it had been seen that there was no proper authority for implementation and lack of a complete feasibility study relating to respective development programmes and projects, it was revealed that foreign tours had been made continuously under those programmes. Approval of this Excellency the President too had not been obtained for leaving the Island by the Chief Minister relating to 04 programmes.

  In 04 instances during the year 2012 and 2013m foreign trips had been made for various religious and cultural programmes on the invitation of foreign countries spending a sum of Rs.2.62 million out of Provincial Council Fund by the Chief Minister and the Private Secretary.

- Although a full insurance cover equal to the agreement value should be obtained by the Contractor in terms of the agreement, such action had not been taken in connection with 03 contracts implemented by Ministries of the Provincial Council during the year under review and previous years. Due to lack of such insurance cover, in one instances a sum of Rs.2.62 million had been spent by the Ministry of Land, Provincial Irrigation, Agriculture, Animal Products and Animal Health and Fisheries industry for restoration of a construction work damaged due natural disasters.

  Only two official vehicles and one security vehicle should have been allocated to the Chief Minister in terms of State Expenditure Management Circular No.CSA/PI/40 dated 18 March 2006 and His Excellency the President's letter No.CSA/PI/40 dated 23 October 2006. However, 12 vehicles had been used by the Chief Minister during the year 2013 and 2014 contrary to those provisions while a sum of Rs. 3.03 million had been spent by the Chief Ministry for maintenance and repair works during the year 2014.

North Western Provincial Council

A revenue totalling Rs.26,727 million had been estimated to obtain as a sum of Rs.20,672 million through Government Grants and a sum of Rs.6,055 million through internal sources. It was expected to spend a sum of Rs.22,119 million for recurrent expenditure and a sum of Rs.4,608 million for capital expenditure out of that. Accordingly, a sum of Rs.19,393 million had been received through Government Grants during the year under review, while a sum of Rs.5,719 million had been collected through internal sources. A sum of Rs. 21,198 million for recurrent expenditure and a sum of Rs. 2,980 million for capital expenditure had been spent.

- Although 500 red clay filters valued at Rs. 1.25 million had been purchased by the Chief Ministry with the objectives of providing clean water for Kidney patients, 144 filters valued at Rs. 358,848 out of those had been kept idle in the stores. It was observed that those clay filters had been distributed among the employees of a Local Authority without diagnosing the illness as well. It was further observed that there were number of deficiencies in those clay filters due to non-consideration of the standard of the filters.

- While 15,000 plastic chairs, 20 sets of saucepans, 50 amplifier sets, 200 steel cabinets and 1324 asbestos sheets valued at Rs. 21.47 million had been purchased utilizing the criteria based provisions for the year 2014 of the Chief Ministry, it had been decided to distribute those goods to Rural Community Level Voluntary Organizations. Following matters were revealed in the audit sample checks carried out with regard to the distribution of these goods.

(i.) There were no evidence to support that goods valued at Rs. 658,163 were received by the relevant parties.

(ii.) There were discrepancies in the signatures and official franks with regards to acknowledgement of the varieties of goods valued at Rs. 701,634 reported as distributed in 21 instances.

(iii.) While it had been reported that, 289 roofing sheets valued at Rs.436,900 were distributed among 10 individuals, it was not confirmed that the relevant parties were residents of that area or voters entitle to vote according to the electoral list.

(iv.) It had been reported the 600 plastic chairs and 16 steel cabinets valued at Rs.739,000 had been provided to only one selected society.

(v.) Goods purchased for distribution among voluntary organizations in the North Western Province had not been given to any voluntary organization in the Puttalam District and distributions had been made among only selected voluntary organizations in the Kurunegala District.

- Repair works of broken desks and chairs in certain schools of the North Western Province Education Department had been carried out through the North Western Provincial Machinery and Equipment Authority; however, a proper rate and specification in terms of the Provincial Financial Rules had not been submitted by the North Western Provincial Machinery and Equipment Authority. It was observed that, parts to be repaired in respect of each equipment to be repaired had not been pre-identified through the relevant schools or through the North Western Provincial Machinery and Equipment Authority. Accordingly a sum of Rs.4.21million had been paid to the North Western Provincial Machinery and Equipment Authority considering as the full repairs were carried out without making payment according to the parts repaired in relation to nature of repairs to each item.

- While action had been taken to close down 126 schools in the North Western Province by the year 2014 out of those 72 schools had been handed over to the divisional secretaries, the balance 54 schools had not been handed over. While there were 295 official quarters belong to the Provincial Educational Department officers were in occupation of 60 quarters out of those. Although 107 Quarters were in unusable condition, proper course of action had not been taken to convert those to usable condition.

- It was observed that low grade principals were performing the duties in 337 schools belong to the Provincial Education Department in place of principals of appropriate grade, and that higher grade principals were performing the duties in 206 schools in place of principals of appropriate grade. In 10 schools belong to the department, in place of deputy principals of appropriate grade, Deputy Principals in a grade lower than the appropriate grade had been performing the duties. Although there should be deputy principals of appropriate grade in 150 schools, deputy principals of appropriate grade had not been attached to those schools. Similarly, it was observed that acting principals were performing the duties in 147 schools belong to the department, while these were no principals in 112 schools.

- While action had not been taken to obtain proper approval relating to excess cadre of 80 posts in preliminary level recruited for the Provincial Education Department and Institutions under the Department, action had not been taken to fill 4927 vacant posts in the school staff as at its end of the year under review.

- Drugs, surgical equipment, 3,880,075 units of consumable stocks consisting of 253 varieties of stocks valued at Rs.11.97 million and another stock of drugs, surgical equipment 1,210,385 units of consumable stock consisting 199 varieties of stocks value of which could not be computed in 04 hospitals, an office of Medical Officer of Health, stores of the District Health Services Directors Office Puttalam. And Regional Medical Supplies Unit belong to the Provincial Health Services Department had been removed from use. It was due to reasons such as expiry of validity period, failure to meet the sample tests, change of colour and smell etc.

- An Incinerator had been installed in the top floor of five floor building of the Kuliyapitiya Hospital for burning clinical waste having spent a sum of Rs.1.25 million on 23 December 2011. While this construction had not been recommended by the Kuliyapitiya Regional Engineer as it was harmful to the existence of the building, all Divisional Heads Including Medical Specialists of the Hospital had informed that it cannot be approved. However, construction had been made disregarding those objections and environmental effects and work therein had been stopped on the basis of the objections of the medical officers of the Hospital after Officer burning waste material for 14 days only, during the period from 11 June to 14 August. Accordingly relevant equipment had been underutilized up to 05 June 2015, date of audit. In spite of this situation, a sum of Rs.2.5 million had been allocated on 27 June 2014under the Second Health Development Programme and it had been informed to carryout construction work to prepare the Incinerator again. It was observed in audit that Government Funds had been wasted through installing Waste Incinerator disregarding the objections of all sections of the Hospital, causing idle existence of assets and re-allocation of funds.

- Although 50 per cent of the charges, that is Rs.5.6 million recovered by the Provincial Director of Health Services should be remitted to the Provincial Council in terms of clause 3.5 of the private Medical Institutions (Registration) Act No.21 of 2006, a sum of Rs.3.61million had been credited to Special account of the Provincial Director of Health Services without action being taken in terms of the provisions.

- Action had not been taken to fill 1,577 vacant posts relevant to the Department of Health Services as at the end of the year under review.

- While works relating to vesting the lands where 09 Ayurvedic Hospitals and 18 Central Dispensaries are located had not been completed even as at the end of the year 2014, it had become an obstacle to repairs and development work in those buildings of the Hospitals and dispensaries.

- When 14 varieties of drugs produced by the Provincial Ayurvedic Department is taken into consideration, a quantity ranging from 4 per cent to 450 per cent of quantity produced had been purchased from outside. Similarly, when 11 varieties of drugs purchased during the year 2014 are taken into consideration, the amount that could have been saved during the year 2014 to the department, if those drugs were produced in the department, would approximately amounts to Rs.1.62 million. It had not been possible to produce the required quantity of drugs within the Department due to lack of adequate human and physical resources.

- While two officers who were appointed to the North Western Development Authority with effect from 01 January 2014 had been attached to the private staff of the Chief Minister, a sum at the rate of Rs. 20,000 per month totalling to Rs. 480,000 had been paid for that from the Authority during the year under review. It was observed that payment of these allowances as an idle payment of salaries.

- Although a sum of Rs.95.53 million had been spent throughout a period of 08 years out of Provincial Criteria Based Development Provisions under North Western Provincial Council for construction of buildings and purchases of equipment in order to conduct a Hotel School, the relevant properties had been transferred to another outside non-government institution through a memorandum of understanding without receiving any benefit to the North Western Provincial Council. While matters relating to conducting courses, recruitment of students, conducting examinations, award of certificates, referring for the practical training and further education are performed by the Sri Lanka Tourism and Hotel Management Institute, it was observed that any benefit out of the income earned by that Institute had not been recovered to the Council.

- While 10 boats had been purchased having incurred expenditure amounting to Rs.1.17 million on 31 December 2009 for establishing a Tourists Centre in Talgaswewa, Ibbagamuwa by the North Western Development Authority, a sum of Rs. 238,925 had been spent as architectural expenditure. Although an expenditure totalling Rs.1.41 million had been incurred accordingly, it had not been in operation during the year under review. Due to that, it was observed that it had become a fruitless expenditure.

- While two Incubators had been purchased having paid a sum of Rs.1.48 million during the year 2012 by the North Western Industrial Services Bureau, those had not been received to the Bureau even up to 06 June 2015.

- Although the Withholding Tax should be recovered based on the fixed charge and should be remitted to the Commissioner General of Inland Revenue on or before 15th of its ensuing month from the month of deduction in terms of Inland Revenue Tax Act No.10 of 2006, tax valued at Rs.13.28 million had not been paid during the specified time over a number of years by the North Western Machinery and Equipment Authority.

- Although the abatements of Provident Funds and Employees' Trust Funds should be remitted during the ensuing month, in terms of Provident Fund Act No.15 of 1958 and Employees Trust Fund Act No.46 of 1980, abatement balances totalling Rs.16.16 million had not been remitted as specified by the North Western Machinery and Equipment Authority. Further a sum of Rs. 3.96 million was payable as surcharges and fines as at the end of the year under review due to non-payment of EPF and ETF contribution on the specified dates. A sum of Rs. 544,634 too had been paid as surcharge and fines during the year under review.

- A sum of Rs.571,141 had been paid as overdraft interest due to unsatisfactory financial management of the North Western Machinery and Equipment Authority.

- Fifteen items of machinery and Equipment valued at Rs.19.66 million removed from business operation activities due to unserviceable condition over a number of years had been shown as assets of the Machinery and Equipment Authority during the year under review. Action had not been taken to remove those or to follow any other procedure.

- It was observed in audit checks that, 08 vehicles costing Rs.16.84 million belong to the North Western Machinery and Equipment Authority had remained idle due to lack of planning to obtain an adequate demand for service over a number of years. Similarly 11 Vehicles valued at Rs.25.38 million had remained idle due to failure in carrying out minor service works or failures in obtaining required components.

- While the Construction works of the North Western Janakala Foundation Assembly Hall had been commenced during the year 2010, it had not been able to convert it to a full usable condition even at the end of the year under review, although a sum of Rs.10.75 million had been spent under 02 stages.

- Although the requirement to take action in conformity With the National Policy in deciding the salaries and cadre of the provincial public Service had been insisted in the letters No CA/09/NSPC/GEN dated 07 October 2010 and No.PCMS/1/4/23/1/14 dated 20 august 2012 of the Secretary to the President salary scales relevant to the staff of the North Western Provincial Council Secretariat had been placed on higher salary steps on a decision taken based on recommendation of the Cadre Consultancy Committee of the Council.

- A total sum of Rs.140.33 million as Stamp Fees amounting to Rs.113.63 million and as Court Fines amounting to Rs.26.7 million relevant to the year 2014 and years prior to that payable to the Pradeshiya Sabhas by the North Western Child Secretariat had not been paid to the relevant institutions.

- Out of the Turn Over Tax recoverable by the Provincial Department of Revenue for the period from the year 2011 to the year 2014, the amount collected had taken a very low percentage ranging 11.43 percent to 0.6 percent respectively.

- While advances totalling Rs.8.06 million had been provided to officers for various works during the year 2014 by the Provincial Education office, value of bills submitted in settlement of those advances amounted to Rs. 6.01million. Accordingly, advances provided to officers in excess of the required amount had been Rs.2.05 million and it was 25 per cent of the total advances. Out of the advances amounting to Rs.1.65 million provided to 32 officers, balance left in hand had taken a percentage in a range between 24 percent to 84 percent when compared with the advances provided.

- Out of the advances given contrary to financial rules of the Provincial Education Office amount retained in hand and settled later had been Rs.2.05 million while there had been a time delay in a range between 20 and 62 days in settlement of the bills for balance sum of Rs.6.01 million. Advances amounting to Rs.4.76 million to 16 officers of the provincial Education Office and advance amounting to Rs.344,250 to 08 officers of the Nikerweratiya Zonal office had been given before settlement of the advances obtained by them previously.

Uva Provincial Council

A revenue totaling Rs.17,253 million had been estimated to obtain as a sum of Rs.14,873 million through Government grants and Rs.2,380 million through internal sources. It was expected to spend a sum of rs.13,380 million for recurrent expenditure and a sum of Rs.3.873 million for capital expenditures out of that. According a sum of Rs.16.433 million had been received through Government grants while a sum of Rs. 2,596 million had been collected through internal sources. A sum of Rs. 13.869 million for recurrent expenditure and a sum of Rs. 4,448 million for capital expenditure had been spent.

Important Audit observations relating to the activities of the Uva provincial council relevant to the year under review are shown below.

- While the balance of the Seeds Potatoes Account of the Uva provincial Agricultural Department as at 31 December of the year under review had been Rs. 41.01 million balances had been represented as assets in the provincial financial statements over a period of more than 10 years. Although this balance should be recovered from the relevant officers monthly recoveries during the year under review and last 5 years had been 05 percent and therefore it was observed that work had not seen performed systematically.

- While the overall recurrent expenditure of the Provincial Council for the year under review according to the financial statements was Rs.13,869.33 million and overall capital expenditure was Rs.4,447.95 million, according to the Appropriation Accounts submitted to the Audit by the offices of the Provincial Ministries and Departments, the overall recurrent expenditure was Rs.13,705.07 million and the overall capital expenditure was Rs.4,453.69 million. Therefore differences of Rs.164.26 million and Rs.5.74 million were observed respectively between the recurrent expenditure and the capital expenditure.

- Imprest balances totaling Rs.170.18 million as at 31 December 2014 relevant to 32 offices of the Ministries and Departments of the provincial council including 09 Divisional Secretariat had not been settled.

- While annual lease charges amounting to Rs.5.96 million and interest money amounting to Rs.556,259 had not been recovered from 48 lessees in lands leased out on long term basis in the Divisional Secretariats of Badulla, Uva Paranagama , Haputale, Mahiyangana and Bandarawela, annual license fees and lease money had been under recovered from 14 lessees in a sum of Rs. 9.94 million by the Divisional Secretariats of Haputale and Haliela.

- Out of the quotations called for sale of Toddy Tavern No.02 at Lunugaola for the year 2014, the highest the quotations of Rs.7.03 million of the tenderer who submitted highest amount out of the two quotations received had been less than the assessed value of Rs.9.5 million of the Commissioner of Excise. According to the gazette notification, it is required to enquire from the tenderer weather he is agreeable to obtain the right to have the Toddy Tavern for the assessed amount and if he refuses, action should be taken to re-sale. Instead of taking action according to those provisions, tender had been awarded for a sum of Rs.8.55 million or an amount less than 10 percent of the assessed value. Due to that, excise revenue of Rs.950,000 obtainable had been lost.

- Action had not been taken to recover revenue in arrears amounting is Rs.9.97 million brought forward from the year 2011 in the Advance Account for the Regional Mechanical work-shop, even as at 31 December 2014.

- Quality input money amounting to Rs.1.75 million of 12 schools belong Monaragala zonal Education Office had been retained in the accounts without being spent even as at 31 August 2014.

- While 40 programmers valued at Rs.2.21million to be conducted out of capital provisions during the year 2014 in the Welimada Zonal Education office had not been implemented even as at 12 December 2014, 03 programmes valued at Rs.121,560 aimed at G.C.E.Odinary level of the year 2014 were included in that.

- Quality input amounting to Rs.15.85 million received for 78 school belong to the Bibile Zonal Education Office had not been made use of even as at 31 March 2015.

- Although a sum of Rs.2.28 million had been paid to the Badulla, Divisional Secretary by the Provincial Public Service Commission for acquisition of the land named Kuda Muththettuwa in extent of 3 roods and 18.5 perches, action had not been taken to acquire this land even as at 30 march 2015. The opportunity to utilize that money for other fruitful work had been missed due to idle deposit made in the Badulla Divisional Secretariat during a period of 05 years.