

## Auditor General's Message

I am pleased to present my report for the year 2015 on the performance and discharge of the duties and functions devolved on the Auditor General in pursuance of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka for the direction of the independent examination on the effective and efficient maintenance of the Parliamentary control on the Public Finance devolved on Parliament in pursuance of provisions in Article 148 of the Constitution. The Annual Report is presented as the seventh installment of my report presented to the Parliament and arrangements have already been taken to table the other reports under the following seven installments.

First Installment	Ministries and Departments
Second Installment	Public Corporations, Authorities 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 very busy year for the Auditor General's Department as its performance and the statutory role has widely been discussed in the public arena. Even though the post of the Auditor General remained vacant from 01 November 2014, His Excellency the President appointed me permanently as the Auditor General on 27 November 2015. According to the Nineteenth Amendment to the Constitution it was accepted by the Government that the Auditor General and his staff should be given more powers and to secure his independence not only in the operational aspect but also in the context of financing and administration. The long awaited Audit Service Commission was established in December 2015 and the appointments, promotions, transfers disciplinary control and dismissal of staff of the Sri Lanka State Audit Service should have been done by that Commission. As the National Audit Bill has not been presented to Parliament for assent, it had not been possible to establish the Sri Lanka State Audit Service. As such the affairs of the Sri Lanka Audit Service and the Audit Examiners' Service continued to be handled further by the Public Service Commission. The Cabinet of Ministers had recognized the valuable contribution of the service performed by the members of the Sri Lanka Audit Service and the Audit Examiners' Service and approved the establishment of a new service called the Sri Lanka State Audit Service. The absorption of the officers of the above two services to the new unified service. The other major change was that Companies incorporated under the Companies Act with 50 per cent

or more shareholding by the Government or a Corporation or a Local Authority were brought under the Auditor General's scope.

The long awaited National Audit Bill was drafted in consultation with the Attorney General, the Legal Draftsman and a number of other professionals in different fields. It proposes to further expand the limited Surcharge powers at present devolved on the Auditor General encompassing the entire public sector. Restructuring the Department to meet the challenges emerging in a constantly changing and more demanding environment, including the pressure arising from being a part of the accounting and auditing professions, is vital. The organization structure of the Department has already been prepared and the audit and supportive services will be organized under 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 understands the key issues facing the public sector as well as important concerns of the Parliament. The Department is also committed to continually reviewing and improving its operations which support the effective and efficient delivery of our audit reports. Finally the audit independence provided under the Constitution is recognized explicitly as the key of the Department's effectiveness.

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

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



**H.M. Gamini Wijesinghe**  
**Auditor General**  
**28 October 2016**

## **Appointment of the New Auditor General**

Mr. H.M. Gamini Wijesinghe assumed duties as the Fortieth Auditor General of Sri Lanka on 27 November 2015 upon being appointed by His Excellency the President on the recommendation of the Constitutional Council to fill the post of Auditor General vacant since 01 November 2014.

He holds a Masters in Economics from the University of Kyung Hee in the Republic of Korea and B.Sc in Public Administration (Special) Degree from the University of Sri Jayawardenepura. He is a fellow member of the Institution of Chartered Accountants of Sri Lanka and also the member of the Society of Certified Management Accountants of Sri Lanka and the Association of Accounting Technicians of Sri Lanka.

He has been serving in the Public Administration Service in the Special Grade. He has 30 years of experience in various capacities as Senior Assessor, Deputy Commissioner, Commissioner and Senior Commissioner in the Department of Inland Revenue, Sri Lanka.

Mr. H.M. Gamini Wijesinghe has not only excelled the experience in the Public Sector but also in the Private Sector. He was working at Mathew & Company Chartered Accountants and was the Director General of the Sri Lanka Accounting and Auditing Standard Monitoring Board before joining the Auditor General's Department.

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# **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
- Innovation
- Leadership

## **Our History**

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

## **Our Authority to Audit**

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

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

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

The authority conferred on the Auditor General in the Constitution had been

further amplified or expanded by the following Statutes.

- Part II of the Finance Act, No. 38 of 1971 which provides for audit of Public Corporations.
- Provincial Councils Act, No. 42 of 1987 – (Section 23) which provides for Audit of Provincial Councils.
- Section 219 of the Municipal Councils Ordinance – (Cap. 252) which provides for Audit of Municipal Councils.
- Section 181 of the Urban Councils Ordinance – (Cap. 255) which provides for Audit of Urban Councils.
- Pradeshiya Sabhas Act, No. 15 of 1987 – (Section 172) which provides for Audit of Pradeshiya 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

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

## Our Clients

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

Ministries	50
Departments	95
District Secretariats	25
Corporations	163
State Companies	134
(Brought under the scope of the Auditor General under the Nineteenth Amendment to the Constitution)	
Universities and Postgraduate Institutes, Research and other Training Institute	75
State Banks	08
Statutory and other Funds	77
Foreign Funded Projects	128
Other Independent Institutions	19
Provincial Councils	09
Local Authorities	335

## Our Scope

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

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the corporation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the conduct of the corporation has been in accordance with the laws, rules and regulations relevant to the corporation and whether there has been fairness in the administration of the corporation;
- Whether there has been economy and efficiency in the commitment of funds and utilization of such funds;
- Whether systems of keeping moneys and the safeguarding of property are satisfactory;
- Whether the accounts audited have been so designed as to present a true and fair view of the affairs of the corporation in respect of the period under consideration with due regard being given to principles of accountancy, financing and valuations; and
- Any such other matters as the Auditor General may deem necessary.

## Our Independence

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

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

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

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

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

# **Legal Reforms**

## **The requirement for Legal Reforms**

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

The administrative independence of the Auditor General and his staff also needs to be secured. Control over administrative matters relating to the appointment, promotion, transfer, disciplinary issues, salaries and other Congress of INTOSAI (2007 in Mexico) defined these requirements in more

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

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

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

independence of the Supreme Audit Institution which has already been recognized by the United Nations on 22 December 2011 at their 66th General Assembly by adopting a resolution A/RES/66/209, “promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening Supreme Audit Institutions (SAIs)”.

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

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

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

- Auditor General shall be a qualified auditor and subject to the approval of the Constitutional Council, appointed by the President and shall hold office during good behavior.
- To form an **Audit Service Commission** which will be chaired by of Finance to incorporate in the National Budget to make sure that

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

- *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 submitted to the Minister in charge of the subject adequate funds are provided to carry out the Auditor General's functions*

*without any interference from the Executive.*

## **Proposed National Audit Bill**

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

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

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

- *The Auditor General will be given the discretion to inquire into any matter relating to an audited entity brought to his notice by any member of the public, and report thereon to Parliament.*
- *The Sri Lanka Auditing Standards determined by the Auditing Standards Committee established under the Sri Lanka Accounting and Auditing Standards Act, No.15 of 1995 will be made applicable to all audits undertaken by the National Audit Office.*
- *It is provided in the Bill that failure to assist the Auditor General or his authorized officer be an offence.*
- *Powers of the Auditor General have been expanded to allow access to written or electronic records, books, documents or information irrespective of secrecy.*
- *The Auditor General will be given the authority to charge a fee for auditing the accounts of any person or body for the purpose of recovery of the cost of Audit.*
- *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 power 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 are emphasized.*
- *Protection of persons giving information to the Auditor General is emphasized.*
- *Immunity from legal action is given to the Auditor General or any member of his staff for any act which is in good faith is done or is purported to be done by him in the performance of his duties or in the discharge of full lawful functions under the Constitution.*

## Our Organization Structure

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

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

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

Accordingly the fourth level comprises those field officers who assists Branch Heads by conducting audit of the affairs

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

Out of 52 Divisional Heads referred to above, 12 Divisional Heads are in charge of Regional Sub-office at Provincial level. The administrative function of the Department are under the Director (Administration) and the Financial functions are under the Chief Accountant.

## Auditor General



According to the cadre approved on 14 November 2011 by the Department of Management of Services after an evaluation of the responsibilities and role of the Auditor General's Department, the total number of officers in the Sri Lanka Audit Service stood at 350 and the officers in the Audit Examiners' Service stood at 1200. Sri Lanka Audit Commission established in terms of the Nineteenth Amending to the Constitution of the Democratic Socialist Republic of Sri Lanka could not come into operation as the Draft

National Audit Bill has not been passed by Parliament. As such it was not possible to obtain approval for this Draft Service Minute prepared for the Department staff and the filling of vacancies created as done by the Public Service Commission according to the old Minute.

The vacancies in the respective posts in the Department that existed as at the beginning of the year 2015, as at the end of year 2015 and as at 30 June 2016 under such circumstances are given the Table 01 below.

Post	As at 01 January 2015			As at 31 December 2015			As at 30 June 2016		
	Approved Cadre	Actual	Vacant	Approved Cadre	Actual	Vacant	Approved Cadre	Actual	Vacant
<b>Audit Staff</b>									
Additional Auditors General	03	03	-	03	02*	01	03	02	01
Deputy Auditors General	15	09	06	15	09	06	15	09	06
Assistant Auditors General	44	21	23	44	32	12	44	31	13
Superintendents of Audit	288	116	172	288	160	128	288	219	69
Audit Examiners	1,200	791	409	1,200	1,022	178	1,200	941	259
<b>Non-Audit Staff</b>									
Director Administration	01	01	-	01	01	-	01	01	-
Chief Accountant	01	01	-	01	01	-	01	01	-
Other Staff Officers	04	02	02	04	02	02	04	02	02
Public Management Assistants'	184	147	37	183	151	32	183	160	23
<b>Service and allied Grades</b>									
Junior Employees	183	139	44	183	143	40	183	157	26
<b>Total</b>	<b>1,923</b>	<b>1,230</b>	<b>693</b>	<b>1,922</b>	<b>1,523</b>	<b>399</b>	<b>1,922</b>	<b>1,523</b>	<b>399</b>

Table 01 Cadre position as at 01 January 2015, 31 December 2015 and 30 June 2016

As mentioned above, the existence of a large number of vacancies in the cadre of every post of the Department was an

impediment to discharge the statutory function of the Department. As such, the following courses of action have been

taken at the Departmental level for filling the existing vacancies.

- Approval has been sought for filling of one vacancy existing a post of Additional Auditor General.
- Approval has been sought for filling of 03 vacancies existing in the posts of Deputy Auditor General in Class I Grade I of the Sri Lanka Audit Service.
- Approval has been sought for direct recruitment to the post of Deputy Auditor General in Class I Grade I of the Sri Lanka Audit Service.
- Approval has been sought for filling of 04 vacancies existing in the post of Assistant Auditor General in Class I Grade II of Sri Lanka Audit Service.
- The Gazette Notifications for recruitment to the Audit Examiners' Grade was issued on 06 may 2016.
- Approval has been sought for recruitment in one stage for the posts of Circuit Bungalow Keepers approved after filling of the vacancies in the 09 posts approved.
- The Scheme of Recruitment for the posts of Plumber/Electrician has been prepared and sent to the Director General of Establishments.

## **Approval of the Service Minute**

The audit staff of the Auditor General's Department consists of officers of the Sri Lanka Audit Service and Audit Examiner's Service. Under the circumstances at that time, even though Parliament even by 20 September 2016 to enable this Audit Service Commission coming into operation. The approval of

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

The establishment of "Sri Lanka State Audit Service" proposed to be set up by combining the Sri Lanka Audit Service and Audit Examiners' Service in accordance with the aforesaid Cabinet Decision had been accepted by the Government as a policy. Accordingly. A Service Minute for the new Service was formulated Even though the Audit Service Commission has been appointed, the approval for the formulated Service Minute could not be obtained as the National Audit Bill has not been approved by the new Service Minute will pave the way for the maintenance of a staff of more extensive professional level for the

efficient performance of duties and functions assigned to the Auditor General. Moreover, the Audit Service Commission is the Appointing and Disciplinary Authority of the new service and as such the capability of discharging those functions without delay will be immensely helpful for the upliftment of the performance of the Department.

## **Staff Training**

A Staff of not less than 1,523 consisting of audit and non-audit officers are deployed for the discharge of the functions in the Auditor General Department to examine whether the operational functions of the State Institutions have been discharged with due regard for economy, efficiency and effectiveness to ensure accountability and report to Parliament with the objective providing a quality and reliable service to the Sri Lankan Nation. Nevertheless a labour force endowed with skills in modern technology and knowledge is an essential requirement of the Department. With emphasis on that requirement every officer is provided a training of not less than 80 hours annually. Such training is provided on residential and non-residential bases and the Department has its own Training Centre with air-conditioned Lecture Halls, Discussion Rooms, Computer Laboratory, Library, etc. Lectures are conducted in Lecture Halls installed with Multimedia projectors and Audio System and the trainees are

provided with high quality literature on training. The Training Centre has a fully equipped Cafeteria for the Lecturers and Trainees.

The Officers are trained through lectures, discussions, field tours and workshops for the achievement of the following objectives.

- Development of knowledge and technical skills of officers.
- Upgrading the efficiency and performance of officers.
- Improvement of management capacity of officers.
- Providing the knowledge, tools and technical skills required for performance of duties.
- Providing the knowledge on financial and service laws.
- Conduct of programmes has for creating an attitude-wise change in officers.

Invitation are extended to the officers of the Department, Universities and other Institutions who are well versed in lecture delivery, to be the Resource Person as and when necessary for the conduct of Training Programmes.

The Training Division of the Department had conducted 14 programmes covering 6 subjects during the year 2015 for 36 Superintendents of Audit and 431 Audit Examiners for the advancement of the above objectives. Detail appear in Table 02 below.

Programme	Officers Participated			Number of Days
	Superintendent of Audit	Audit Examiner	Total	
<b>1.Financial Audit Methodology</b>	04	29	33	05
<b>2.Preliminary Training Programmes for newly recruited Audit Examiners</b>	-	246	246	70
<b>3.Procurement Process and Civil Construction</b>	14	28	42	08
<b>4.Basic Computer Training</b>	10	50	60	04
<b>5.Training related to Provincial Councils</b>	08	38	46	05
<b>6.Training on Special Investigations</b>	-	40	40	03
<b>Total</b>	36	431	467	95

Table 02- Training provided to Officers of the Auditor General's Department in the year 2015.

## 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 due to the 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(4) of the Constitution.

The Audit fees payable for the services of the Audit Firms are determined as approved by the Audit Fees Fixing Committee of the Department comprising representatives of the Auditee Institutions, line Ministry, Ministry of Finance, Auditor Generals Department and the Audit Firm. Total sums paid by the respective Auditee Institutions for the audit services rendered to the Department for the year 2014 amounted to Rs.32.47 Million and for the year 2015 amounted to Rs. 37.94 Million. Fee payable in deploying

the qualified auditors, 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 serving 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.

One hundred and thirty five and 89 Audit Firms engaged in Public Practice assisted me in the years 2014 and 2015 respectively in the audit of 174 Institutions in the year 2014 and 139 Institutions in the year 2015 which consisted of 3 major State Banks and Companies with State Shareholding of 50 per cent or more brought under the scope of the Auditor General through the Nineteenth Amendment to the Constitution.

## **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. 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.

Other than attending the above two Parliamentary oversight Committees, Assistant Auditor General 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.

## **Surcharges imposed by the Auditor General**

The Auditor General audits of 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.

Sixteen Recharge Certificates amounting to Rs.13.78 Million had been issued from 01 January 2015 to 31 December 2015 on 70 parties related to the Local Authorities functioning under the Councils. Out of that, a sum of Rs.157,017 only had been recovered even by 30 May 2016. A sum of Rs.13.63 Million remained recoverable in respect of the Surcharge Certificated issued during the under review.

## **Performance Audits Perform by the Auditor General**

Apart from the Financial Audit, Economy, Efficiency, Effectiveness and Environmental impact of specific areas of the government entities are evaluated by the performance audits and report to the Parliament with the recommendations there on.

Performance Audit unit is functioned as a separate unit of the department since year 2011. It considers the suggestions

on special areas make by the relevant audit branches and areas decided by the Performance Audit unit itself. As well as the Financial Audit reports, Performance and environmental Audit reports are also tabled in the parliament. Furthermore training programs on Performance Audits are conducted simultaneous by the Performance Audit division while upgrading the knowledge of the officers in the department.

Implementation of performance base budgetary system and identify key performance indicators (KPIs) for each Audit entities are very important requirement in this regard. But such a budgetary system is not available up to now and the Audit entities too have not been identified their key performance indicators. Due to this reasons, the key performance indicators are identified and performed by the performance Audits at present. The observations made by the Performance Audit unit are briefed as follows.

## **Using of Inventions for National Economy**

Special attention should be drawn on innovations for the rapid growth of economic development in Sri Lanka. Most of the countries have become as developed countries throughout their inventions. Manufacturing of medical equipment, agricultural and industrial equipment are made by those countries are very essential for our country. Those are imported by spending huge amount of foreign currency.

But majority of those items are manufactured by those countries targeting a profit whereas the quality of those products may not in an expected level of health and environmental aspects. So if a country could able to manufacturing of quality goods by their own would more beneficial for the future development of the country and they should be encouraged for more inventions. Under the Act no 53 of 1979 Sri Lanka Invention Commission have been established whereas Intellectual Property act no. 36 of 2003 were established for secure the inventors of the country. In respect of the affairs of government entities which make a big responsible role in these affairs, following observations are made in this regard.

### **Non Utilization of Funds**

Among the 11 numbers of institutions under the Ministry of Technical and Research, Sri Lanka invention commission is one of the entity perform a big role and provision allocated for this entity only 3 percentage, 1 percentage and 3 percentages of fund for the years of 2012, 2013 and 2014 respectively to perform their role. But the commission has used this money for encourage inventors in the above years amounting only Rs.25.96 million, Rs.13.48 million and Rs.27.57 million respectively. Out of the provision made under the ministry 29 percentage, 61 percentage and 31 percentages were not used in the above years.

### **Commercialization of Inventions**

In the year 2013 and 2014 amounting to Rs.2.94 million, have been granted only for 8 inventors as financial aids. Due to the matters of insufficiency of financial aids, non-availability of relevant approvals and non-availability of technical assistance for their invention, they have not been commercialized. Few numbers of instances are as follows.

- An inventor who invented an equipment for the recovery of the pain on the Back Born was paid only Rs.1.27 million as a financial aid. Furthermore, the Assistant Commissioner (Technical) in the department of Ayurvedic has been recommended that equipment was a successful one. But this invention was unable to commercialize until year 2015, due to the approval has not been granted by the Department of Ayurvedic.
- According to the Act, preference to be given on providing other technical facilities including laboratory for inventions which can be identified as major responsibility of Sri Lanka invention commission. Furthermore, providing technical assistance for improvements of inventions will help to get Patent Certificate which are most essential in this process and safe guard of ownership on their inventions. Accordingly, though the 6 numbers of inventors have been made request for have technical assistance for their inventions, it was observed that the Commission had not been actively participating in this matter. As well as 07 inventors out of

08 numbers had needed technical assistance to improve their inventions as they were unable to commercialized their inventions due to non-availability of such government entities.

### **Legal Assistance**

It was observed that inventors have not been facilitated to get legal assistance to secure their innovations due to non-availability of separate legal division in Sri Lanka Invention Commission. As a result, Inventors have not been provided any legal assistance from legal officers with the help of the commission.

### **Improve the inventions in school level**

The circular no. 2006/23 dated 6<sup>th</sup> June 2006 issued by the Ministry of Education with the purpose of establishment of invention societies in the school level with the view of make a initial basement to innovate students. But initial actions have not been taken to start such societies in the schools so as students are not encouraged to involve with inventions.

### **Judgments in the Invention Competitions**

Identify the importance of inventions is a basic requirement and it is expected to be a fair judgment on every inventions and also it help to develop their confidence. Furthermore fair judgment will help to provincial council schools and 350 numbers of National schools in the year 2014. The total numbers of students were 4,078,037 and teachers were 232,993. Therefore overall expenditure on the

encourage for further inventions. But it would not happen and leads to discourage them. According to the information gathered from inventors, instances where diminished their confidence on injustice in the competitions organized, were identified.

### **Involvement of relevant government entities for innovations**

It was observed that the involvement of relevant government entities performing for this purpose is not sufficient for giving contribution to the national economy of the country. A suitable environment for innovations should be developed in the education system of the country. But the contribution is still getting slowly inventions can be used effectively in the national economy by way of facilitate to identify basis needs required for inventions, implementation of their needs, encourage them and help to commercialized them.

### **Evaluate for Performance of Teachers in Government Schools**

The huge task for conversion of Sri Lanka as in focal point of the knowledge of Asia is accomplished in the provincial level together with the leadership of Ministry of Education. There were 10121 numbers of overall schools comprising 9771 numbers of

education of the country in the period from year 2005 to 2014 have been increased within the range of amounting to Rs.53,148 million and Rs.117,000 million. Only the total recurrent

expenditure approximately more than 50 percent of money has spent for the primary and secondary education in the country. Accordingly, a big provision of money has been spent for salaries of teachers and development programs of teachers out of that money. The teachers are the most important resource that is needed to achieve the objectives of education. Hence the quality and the efficiency of teachers are essential. Following observations are made for the affairs of recruiting, attaching, training transferring, assigning and supervising of government teachers in Western Province are as follows.

### **Attachment of government teachers**

Following observation are made for attachment of teachers in Western Province.

- There were 561 number of excess teachers and 3886 number of shortage in the 11 no of education zone in Western Province by 31March 2016. Accordingly, action have not been taken to balance those excess and shortage within the provide.
- It is observed that the teachers are trained formally through the teachers colleges. Teachers who have been trained from those schools have been attached as a higher percentage. When attaching those to the government school, 8,476 numbers of teachers have been attached for 350 numbers of national schools whereas for 9,771 numbers of provincial

schools it was only 19,307 numbers of teachers during the period from year 2005 to year 2012. Accordingly trained teachers from teachers college have not been attached to the National and Provincial schools under of a reasonable basis.

- According to circulars number 2007/20 of Ministry of Education dated 15 December 2007 and the cabinet decision dated 28 October 2010, teachers who are serving more than 10 years in the same school should have to be transferred. A sample audit was carried out in 6 numbers of schools in the Western Province and observation were made that 12 Teachers were serving more than 20 years in the same school and the range of years 15 to 20 were 14 numbers of teaches and years range of 10 to 15 were 6 number of teachers were serving in the same schools without any transfers.
- Subject Directors and instructors of teachers are also doing a big role together with teachers in the schools. Accordingly, there were 68 numbers of vacancies of subject directors and 33 number of Instructor of Teacher were remaining without filling by the end of the year 2014. Furthermore 586 numbers of Principal Service were remaining unfilled due to the vacancies on Principal Service and Sri Lanka Education Administration Service for a long period of time.

## **Performing Duties**

An annual time table is the main plan of teachers when performing their duties. The preparation of curriculums, record of reports, records of classes and summaries of marks, help to get an assurance of whether the teachers have performed their duties according to that time table. Following observations were made on the sample audit carried out on these records.

- The Director of Education of Western Province has ordered to maintain the progress reports of students and teachers as a mandatory requirement which helps to carry out the educational activities of schools in an organized way. Therefore a sum of Rs.3,440,436 has been spent for printing of 45,000 of those books in 2014. The teachers in the range of 19 percent to 84 percent in 6 schools in Western Province had not submitted those books for the audit when carrying out the audit in those schools. Marks of school based evaluation, records pertaining to usage of quality inputs and co-curriculum activities were not stated in those record books properly which were forwarded for auditing.
- When carrying out the audit in 10 schools of Western Province on sample basis the records in relation to

the engage in teaching activities within the specified time period and the supervisions made there on by the supervising officers had not been kept in the class record books.

- According to the responses given by students in schools which were undergone for examination on sample basis, the checking of exercise books by the teachers, were not in a satisfactory level.
- It was revealed that in case of 30 teachers who were in the 10 schools which undergone for examination on sample basis that not getting of prior approvals when they are on leave, not giving assignments for relevant classes in such situation, getting leave contrary to the circulars requirements and non-updating of leave and short leave registers .
- According to the information obtained from the student in grade 10 and 11, favorable responses had not been given by them with regard to the arrival and departure of teachers on time, teaching of subject matters in clear way, doing exercises in relation to relevant subjects, checking of exercises books and completing curriculum before the examination by the teachers.

## **Supervision of Teachers**

The management and standard units of Ministry of Education had been established from the date of 15 January

2004 on a decision of the cabinet. This Section had made aware all the parties regarding the supervision of teachers through their circular no. ED/03/44/05/CIR/2008 and dated 10 March 2008. Following observations were made using the data obtained from the schools in Western Province regarding the supervision of teachers.

- The overall supervision over the school level was very effective. The internal evaluators had not been appointed for that purpose and some deficiencies were there in the evaluating process.
- A proper guidance had not been given to the teachers through the supervision done in divisional level.
- Therefore follow up actions had not been taken to get an assurance for whether the corrective actions have been taken for mistakes shown. Further some schools were not undergone for supervision.
- The supervision as made by the Instructor Teachers and the method of teaching assistance done had not been made properly.

- All the schools had not been covered when doing the supervision in zonal level. Supervisions had not been made over all the teachers and the follow up action had not been taken for the teachers who have undergone for supervision.
- The deficiencies regarding the supervision of annual progress in provincial level, the deficiencies regarding the guidance given and follow up actions made, the deficiencies regarding the indicators used for evaluation were observed.

## Achieving Targeted Examination Results

The attention had been paid to increase the results of few goals out of the 11 goals stated in the International Convention for Education for all and Millennium Development Goals. Accordingly the examination results of G.C.E (Ordinary level) should be in the level of 75 percent for year 2016 as expected and it was only 72.67 for Western Province at the end of the year 2015. When comparing with the other provinces, achievement of this objective was slow in case of Colombo district and it was observed that this situation could be improved by increasing the performance of teachers.

## **The Environmental Impact of the Steel Corporation of Athurugiriya**

The Steel Corporation of Athurugiriya has started as a donation of the Government of China under the Act No. 49 of 1957 of, establishing State Industrial Corporations. The domestic requirement of iron and steel had been produced by this and it had been privatized in the year 1996. There after the ownership had been changed in several instances and at present a local investor is being carried out it as private company.

This factory had been started as an environmental friendly one and an area about 1 km away from the factory had been kept as a reservation area. The production of galvanized tubes has been started it in addition to the production of steel wire under the name of Ceylon Steel Corporation Ltd and as a project approved by the Board of Investment. The Environmental protection license for production of galvanized tubes has been issued by the Central Environment Authority for the period from 20 November 2013 to 19 November 2014. The issuance of Environmental Protection License has been started by Central Environmental Authority together with Board of Investment by 2015. However the issuance of this license has continuously delayed due to not taking corrective measure to rectify some errors.

The housing scheme of millennium city had started in 1999 as another project approved by Board of Investment in the nearby area of steel corporation including the reservation area. This housing scheme was in an area of 97.3 acres and comprised with 1,575 middle level houses graded as ABC. Latterly some disputes had been arisen between the management of the factory and the residents in the Millennium City Housing Scheme over the problems made by this factory on the environment. Accordingly, the relevant parties had been made aware of the large smoke and the noise emitted by the factory.

The following observation are made in this regard

### **Occurring of Problems to Housing Projects when developing the factory**

It was identified in the paragraph „2“ of report of working committee of Ministry of Housing and Urban Development, held on 28 October 1998 that problems would occur relating to the housing project when development activities are carried out in the factory. However the Ministry of Housing and Urban Development had granted the approval for this housing project with the approval of Central Environment Authority in 1999, without paying attention to that situation. Therefore the approval for the plans for buildings and plans for layout had been given by the Board of Investment.

## **Impact of Noise**

The examination about the noise level of the factory had been done at in several instances during day and night times with the officers of the Central Environmental Authority and observations were made in the area where the noise level was highly affected. It was confirmed that the noise level was gradually increasing when observations are made residing in a house of 3 storied building.

## **Implementation of Millennium City Housing Project Contrary to the conditions Imposed**

Some conditions for constructions had been imposed by the Board of Investment for utilizing the reservation of factory for the housing project of Millennium city. Accordingly, the houses nearby the factory should be one storied. However that condition had been changed by Municipal Council of Kaduwela by approving to construction of 3 storied buildings instead of 1 storied building in the zone 5 area where the relevant conditions are applied for.

## **Smoke Emitted by the Factory**

The smoke emitted by the factory have been observed and, due to the spread of those smoke in the lower level atmosphere in the surrounding area of the factory may harm to the lives of the residents.

## **Health Problems of Residents**

According to explanation made by the medical unit of Kaduwela Municipal Council specific health problems to the residents in the housing scheme are not been reported.

## **Actions taken by the factory to minimize the environmental Problems**

Few numbers specific measure has been taken by the factory management to control of smoke and noise coming out from the factory and also there were further measures to be taken.

Considering the above facts it was caused to make several environmental problems owing to use this reservation at the beginning of initials this housing scheme even under some conditions. However this would have results to the problem of the plans by Municipal Council of Kaduwela ignoring these condition had to be followed.

## **Performance Audit on Construction of Oluvil Port**

Sri Lanka holds a major position in maritime transport from the past as it is being centred in the Indian Ocean.

The contributions to the economy through port activities can be increased through the ability of getting connect into nourishing naval routes and deep basin in the harbours of oceans in subcontinents.

The provincial development, catering to the naval vessel, development of fisheries industry and reduction of harmful effects to the environment were among the objectives of construction of Oluvil Port in the Eastern Coastal area of Sri Lanka. A sum of Euro 86,100 as a grant and a sum of Euro 46,009,269 as an interest free loan had been granted to this project by a Bank in Denmark in 2008. This loan had been granted on the condition of paying in 20 installments starting from the date of 31 March 2011. In the month of June 2008, the construction contract of this project had been awarded to the company which had offered the lowest price after calling the quotation from companies in Denmark as per the conditions of loan. Agreement Sum of Euro 23,004,634 of loan was left to be paid as at 30 September 2015. A sum of Rs.426.49 million had been paid by the ports Authority to various parities from year 2000-2010 in addition to the above loan.

### **Feasibility and Environmental Impact study report**

The preliminary studies in relation to the feasibility and environmental impacts assessment of this project had been carried out by a private institution and the Central Engineering Consultancy Bureau during the periods from year 1995 to 2001. A Sum of Rs.24.48 million and Rs.1.22 million had been spent respectively in this regard. In addition to that, the approvals of the

Coastal Conservation Department and the Central Environment Authority had been granted subject to conditions.

The basic problem which had been arisen in relation to this project arisen of present had not been stated in these preliminary studies. Hence those studies had not been contributed sufficiently to implementation of this project.

### **The Master plan for Project Management**

A master plan had not been prepared deciding the time frame for performing the relevant activities. Therefore a period of more than 18 years had been spent from planning to construction of this port.

### **Arrival of Commercial Ships to the port**

Although this port had been vested on the people in year 2013, no commercial ship had come to this port until 31 December 2015. Being blocked of the mouth area of the port due to filling of sand and being shallow of the basin of the port due to collection of sand had been observed as the reasons for this situation. Therefore the high sea erosion being occurred in the land strip to the Northern direction of the port caused severe damages to the paddy and coconut cultivations of the area.



Port entrance blocked by sand



Sea erosion and destroying of coconut cultivation



Destroyed paddy cultivation



### **Paying Compensation for Acquired Lands**

The payment of compensation or giving alternate land to the persons whom the lands had been acquired is being delayed. As a result of that no contribution had been done by this project for the development of the area. Therefore non resolution of problems in relation to payment of compensation caused to non-achievement of development of the region.

### **Handing Over of the Part of Fisheries Harbour to Ceylon fisheries Harbour Corporation.**

One sector of project had been constructed as a fisheries harbour and it was observed that only this part is functioning out of the whole project. Accordingly about 100-200 fishery crafts can be operated at present in this harbor. A little income had been earned by Ports Authority by supplying electricity, water and fuel to these crafts. Construction of fisheries harbours, maintenance and operations are not belong to the establishment objectives of the ports Authority. Hence, no action had been taken up 31 December 2015 to vest this part to Ceylon Fisheries Harbour Corporation which controls and maintain the fisheries harbours.

## **Buildings Constructed by the Project**

The administration building, engineering staff building, quarters of staff and cooling plant are the main buildings belong to port project. A sum of Euro 4.33 million had been spent for create the

facilities including these buildings. Accordingly a sum of Euro 2.12 million had been spent only for the cooling plant and valuable machinery and equipment were being idling there. Although the construction of this project had been completed more than two years, all the buildings were in idle condition.



Idle cooling plant Machineries being faced to destroy



## **Taking Actions to make the Port Productive**

Sufficient attention had not been paid to the alternate actions that can be taken to make the port productive. Although the lending agency had given their consent to study the alternate actions that can be taken to make in port productive, those activities had not been started until 31 December 2015.

## **Performance Audit on welfare of Disable persons**

The functions perform by the Central Government, Ministries of Provincial Educations and the Ministry of Social Services in relation to the Development of education , health and other welfare facilities of disabled person in order to rise up item their own effort through suitable vocational training courses were evaluated here. The special observations

in this connection are summarized below.

The disabled person should be equally considered as same as the other members of the society although there some discrepancies with them.

## **Establishment of special Education Units**

The special education units were established in 111 National Schools and 603 Provincial Schools in year 2014.The number of students studying in those units of National Schools and in the units of Provincial Schools were 1092 and 9410 respectively. It had been decided in the circular of the Ministry of Education No.42/2012 and dated 23 November 2012 that there should be one specially trained teacher for every 5 student in those units.

Accordingly, the requirement for teachers who have obtained special education training was identified as 2112 as an approximation figure while it was identified as 1352 as according to the information provided by Ministry of Education in 2014. However, the actual number of teachers who were engage in this field was only 941. Accordingly, it was identified that the number of vacancies existed in this field as 411 and the number of teachers who have obtained special education training but not engage in teaching in special education units as 355. If these teachers were engaged in the special education units, this number of vacancies could be reduced by 56. In addition to that there are 25 special schools of operated under the Ministry of Education and the number of vacancies had been identified separately per each of this school.

However, it was observed that no action had been taken to fill those vacancies by attaching the teachers who have obtained training of special education into those units as necessary.

### **Facilitate to Special Education Units**

According to the circular No.2007/07 and dated 14 May 2008 of Ministry of Education, it was identified that providing facilities to special education unit as a mandatory requirement. Therefore, this requirement had been confirmed by the government extra

ordinary gazette No.1467/15 and dated 17 October 2006. However it was observed that access facilities in relation to 13 schools, building and equipment facilities for 3 schools and medical and educational equipments for 22 schools had not been provided for.

### **Standard Sign Language**

There was not standard sign language for the children who use sign language in the special schools of government. Accordingly, they had faced problems in relation to non-existence of standard sign language. Although the teachers who are participating for reading the examination papers of grade five scholarships and General Certificate in (Ordinary level) had trained in relation to special education. Some problems had been arisen due to lack of subject knowledge of those teachers with regard to the relevant subject.

Therefore this had been caused to the reduction of examination results and non-completion of relevant curriculum within the expected time period. Although, the text books had been provided for blind students in brail medium, the inability of presenting the pictures in brail medium and inability to answer questions in relation to brail medium were identified as problems. Further, lack of subject knowledge of teachers in the relevant fields who are participating in regarding examination papers had been adversely affected to the children.

## **The Functions of Instructor Teachers**

The unsatisfactory level of attendance of instructor-teachers and the non performing of the task of getting participation of teachers for the training programmes, when curriculum changes are made and non-printing of enough amount of teachers guides and not distribution of them in a proper manner and not engaging of enough amount of attendance staff for children had caused to give quality education to the children in schools where we have collected information from.

## **Abandonment of Vocational Training courses**

There were some considerable amounts of students who have abandoned the vocational training courses while the courses are going on. Although 429 numbers of students had been enrolled for vocational training schools in the year 2014 only 227 number of students had completed the courses. There were some vacancies for vocational training instructors for some interesting subject areas. The details regarding the students who had been occupied were not in the possession of social services department. The operating of giving most suitable set of equipment to trained students had been lost as that equipment had been given through Divisional Secretariat Office.

## **Investigation Audit and Audit of Public Representation**

The Investigation audit focuses its attention to the risks arising from unfair or illegal acts committed by individuals or a group of person for deriving unduly gains or benefits. In such circumstances, the investigation audit considers ways and means of strengthening of systems for the prevention and detection of frauds.

The recent Nineteenth Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka provides for the strengthening of the State Audit to ensure the proper management of the public finance. In this exercise, in addition to the examination of the official documents of the auditee institutions to achieve the efficient management of public finance, attention is paid for carrying out investigations audits based on public representations. The Department is taking action to develop this field by improvement of methodologies, training of officers to enhance their investigation skills, physical resources, installing a hot line, e-mail, etc.

Department regularly received public representations and those have to be sifted carefully to select the important cases which need immediate attention with the introduction of this new aspect of audit, the Department had carried out such audits of

different Investigative audits of 37 public representations involving expenditure totalling Rs.59.50 Billion revealed an estimated loss of Rs.10.56 Billion . A summary of important observations revealed during such investigation audits is given below.

### **Urban Resuscitation Project**

The Project had conducted a survey of the tenement garden houses in the city of Colombo at a cost of Rs.16.9 million. According to that survey, there are 1,500 tenement gardens on lands 900 acres in extent, occupied by 68,812 families and about 84 per cent of those lands of high economic value is State Lands.

A summary of the important observations contained in the Report of the Urban Resuscitation Project is given below.

- Plans have been made for the use of 950 acres of land including the lands released referred to above for Housing Construction Projects.
- Construction of 10,475 houses of 400 square feet under the First Stage and 8,960 houses of 500 square feet under the second stage had been proposed.
- Cabinet approval had been granted for raising Rs.50.0 Billion for capital requires by issuing debentures from the year 2010 to 2017 for earning an income of Rs.68.9 Billion from long term lease of lands released.

A summary of deficiencies in the implementation of the Project revealed in audit is given below.

- Annual Procurement Plans, Procurement Time Schedules and the strategic Plans for generation of funds for the Project from issuing those lands for investment purposes.
- The title to lands 11.23 hectares in extent related to 13 Housing Projects in progress and those released by settling the occupants had not been secured.
- Twenty six contracts valued at Rs.57.4 Billion had been awarded on unsolicited Proposals.
- Agreements for construction of 14 housing complexes costing Rs.32.5 Billion had been entered into after the elapse 9 months to 33 months from the date of award of contracts.
- The Chairman and the Director General had entered into contract agreements exceeding Rs.500 million instead of the Secretary to the Line Ministry.
- Performance Guarantees covering the entire contract period had not been obtained.
- Non-recovery of advances amounting to Rs.315.3 million granted despite ceasing work after completion of preliminary work.
- Non-recovery of liquidated damages for delay.

- Stoppage of work for over 4 years due to difficulties in the supply of funds.
- Payment of additional commission of Rs.183.3 million on debentures during the period of stopped.
- Legal expenses of Rs.3.1 million had been paid to an external Legal Consultant deployed for taking legal action on the breach of the terms of construction contracts instead of the Legal Division of the Authority.
- Action had not been taken to enter into agreements with 4,676 housing beneficiaries settled in 10 Housing Complexes and for the recovery of monthly rent installments amounting to Rs.333.2 million.
- Action had not been taken for obtaining the Preliminary Settlement Approval of the Condominium Management Authority in terms of provisions in the Common Amenities (Amendment) Act, No. 39 of 2003 in connection with 10 Housing complexes Consisting of 4,685 houses distributed among 4,486 beneficiary occupants.
- Contrary to the Project Criteria 201 additional houses valued at Rs.1,342.68 million comprising 177 houses allocated in addition to the first house and 24 houses in addition in 12 instances had been allocated.
- Six houses had been allocated in place of unauthorized businesses run on State Lands while 39 houses had been allocated contrary to the approved procedure.
- As security fences had not been erected around 0.1012 hectares of 6 released lands and the old houses of 131 housing recipients had not been demolished those houses are being used again for unauthorised occupation.

### **Road Development Projects – Eastern Provincial Road Development Authority**

Financial irregularities amounting to Rs.174 million had been committed in connection with 13 projects out of 59 packages implemented in the Batticaloa District under the JICA financing, by increasing the rates quoted by the bidders during the Procurement Process.

- A reconciliation of the rates and quantities in the Bills of Quantities agreed with the contractors and the Revised Rates and Quantities revealed significant variances. As a result of the failure of the Procurement Entity to prepare proper Bills of Quantities an overpayment of Rs.827,994 had been made to the contractor.
- An overpayment of Rs.51.8 million had been made for 4 kinds of construction materials as materials exceeding the quantities in the Bill of Quantities had been supplied for the construction of the Amarawathiya – Thennawaramadi Road.

## **Land Grants for State Lands**

Even though 910 Land Grants signed by the President had been sent to the Divisional Secretary, Galenbinduwewa, Anuradhapura District from the year 1997 to the year 2001 for handing over to the farmers who held the tenure of State Lands in his area of authority, those had not been handed over to the farmers. In view of this situation, the farmers could not possess the unencumbered title to the lands to which they held tenure and had caused various land disputes among the farmers.

According to a selected sample of the farmers in the Dutuwewa Colony who held the tenure of State Lands subjected to audit, the documents supporting the tenure had been misplaced by retaining the Land Grants over a number of years, action had been taken to prepare forged documents to register the initial ownership and cancel the subsequent ownership by giving wrong interpretations to the provisions in the Act by obtaining irregular benefits.

## **Stock Shortages of Colombo Commercial Fertilizer Company Ltd**

The value of shortages of the Regional Fertilizer Store, Negama amounting to Rs.3,741,917 comprising Rs.86,412 according to the stock verification of 25

February 2014, stock shortage of Rs.3,352,358 according to the stock verification of 31 December 2014 and Rs.303,146 due to entering counterfeit issue entries in the stock book and the departmental of 25 per cent thereon amounting to Rs.935,479 had not been recovered.

## **Corruption and Irregularities of Milco Company**

- A financial loss Rs.19.88 million had been incurred in the purchase of 160,690 kilogrammes of milk powder packs at higher prices rejecting the lowest quotation contrary to provisions in the Government Procurement Guidelines.
- A financial loss of Rs.472,606 had been incurred by the purchase of a stock of Yoghurt from a supplier not approved by the Procurement Committee.
- Disregarding the established methodology for the distribution of financial and material benefits to the members of the Milco Milk Farmers Social Security Fund, a sum of Rs.728,703 had been spent on holding celebrations for the handover of school equipment valued at Rs.1.06 million to children.

- The company had misused a sum of Rs.6.20 million on holding a political meeting with the participation of 4,200 farmers approximately for a very short time of two hours under the guise of holding a meeting of the farmers.
- Government money amounting to Rs.3.38 million had been misused by designating a motor car racing Driver as the Brand Ambassador for popularizing a new product of the Company among the school children.

### **Restructure of Cattle Fodder Factory, Polgahawela**

- A loss of Rs.1.61 million incurred due to the non-implementation of the second proposal instead of the third proposal recommended by the Committee on the Restructure of the Cattle Fodder Factory, Polgahawela, to lease out the Factory and recover monthly rental of Rs.100,000.
- A loss of Rs.2.26 million had been incurred as income had been collected based on low production as the monthly capacity of 25,000 kilogrammes of the Factory had not been fully utilized.

### **Purchase of Motor Vehicles Under the Financial Leasing System**

According to the National Budget Circular No. 150 of 07 December 2010, instructions had been issued for the disposal of the motor vehicles of the Government Institutions which are older than 10 years and those not useful economically and giving priority for the removal of hired motor vehicles, if any, and for the purchase of motor vehicles under the Financial Leasing System. According, to the information forwarded by the Department of National Budget, 3,950 motor vehicles had been obtained from the inception of the Financial Leasing System to 30 April 2016. Discussions between the Secretary to the Treasury, the Officers of the Department of National Budget and the representations of the Bank of Ceylon had been held on 14 December 2010 and agreement had been reached for obtaining motor vehicles under the Financial Leasing System at an interest rate of 12 per cent per year. Nevertheless, according to the information obtained from the Bank of Ceylon, the interest rate thereof ranged from 10.5 per cent to 14.5 per cent. The information thereon appears in Table 03 below.

Particulars	Capital	Interest	Total
	Rs. Millions	Rs. Millions	Rs. Millions
<b>Cost of Motor Vehicles purchased</b>	12,745.51	4,074.86	16,820.37
<b>Amount paid</b>	7,230.82	3,044.86	10,275.68
<b>Amount payable</b>	5,514.69	1,030.00	6,544.69

Table 03 - Value of Motor Vehicles obtained under the Financial Leasing System and the payable Amount

### **Failure to take Action in terms of Circulars**

According to paragraph 2 of the National Budget Circular No. 150 of 07 December 2010 the Department of National prices and terms and conditions most favourable to the Government. Minutes had been made in the files that the purchase is urgent and should be expedited. Accordingly, the purchase had been made without obtaining the approval of the Technical Evaluation Committee or without obtaining the formal approval for the deviation.

According to paragraph 3 and 4 of the above Circular when the Heads of Institutions of Government Institutions forward the applications with the recommendation of the Secretary to the Line Ministry, to the Department of National Budget, such applications should be studied, prioritized and approval granted for the purchase of motor vehicles from the selected Leasing Company. The Government Institutions so obtaining the approval

Budget should discuss with the State Banks and the Companies affiliated to those Banks and take action in terms of the Guideline 3.3 of the Government Procurement Guidelines to select the Leasing Company which submits the should have obtained the motor vehicles from the relevant Leasing Company. Nevertheless, the Department of National Budget had entered into agreements with the relevant company from time to time according to the application and purchased the motor vehicles.

### **Failure to obtain the Discount Benefit**

According to letter No. BD/1/1/II/1/Sub I/2016 dated 09 March 2016 and 26 May 2016, it was observed in audit that, for the purchase of more than 50 motor vehicles in one transaction for all Government Institutions, discounts will be given. An examination of the Financial Leasing Agreements revealed that agreements had been entered into for

or 3 or 4 motor vehicles, etc. As such action had not been taken in a manner for obtaining the benefit of discounts to the Government.

### **Non-furnishing Evidence to Audit**

Subsequent to informing that the selected companies had agreed to give discounts when more than 50 motor vehicle are purchased the information called for was not furnished to audit. Nevertheless, the information obtained

### **Purchased Motor Vehicles not given to Government Institutions**

Eighty three motor vehicles purchased under the Finance Leasing Scheme by the Department of National Budget for Government Institutions had been held in vehicle yards without being released to the respective institutions even by 16 June 2016.

### **Obtaining Motor Vehicles under the Operating Lease Scheme**

The ownership of motor vehicles purchased under the Operating Lease System will never pass on to the institution paying the lease installments whereas in the case of the Finance Lease System the ownership passes completely to the institution concerned on the payment of lease installments for a period of 5 years. In view of that reason and due to the spread of the

from the Bank revealed that free units had been received in the import of motor vehicles. In response to enquiries, by Audit Query dated 04 July 2016 made from the Director General of National Budget, a file related to 17 free units of Toyota Hiace Vans was furnished to audit. The information on the balance vehicles had not been furnished to audit even by 30 June 2016.

financial impact of the Financial Loan System over a long period, despite the cost of maintenance has to be borne by the party paying the lease installments, the cost of maintenance of new motor vehicles during the initial 5 year period being at the minimal level, the purchase of motor vehicles under the Financial Lease System had been recommended in December 2010. Nevertheless, the Operating Lease System had been recommended in February 2016 with the objective of avoiding the weaknesses in the system, reducing the high maintenance costs incurred by the Government Institutions and for the promotion of the leasing industry. Nevertheless, it was observed that in obtaining motor vehicles under the Operating Lease System on the payment of a fixed hire basis on the "Use and Return" method the ownership of motor vehicles will never pass on to the Government.

## **Foreign Scholarships**

The Department of External Resources of the Ministry of National Policy and Economic Affairs had made arrangements for 1,243 training facilities comprising 69 long term training courses and 1,173 short term training courses for the officers of Ministries and

Departments in the year 2015 in collaboration with 15 foreign countries and institutions. All application forwarded for 90 training courses had been rejected and 85 training opportunities had been lost due to the non-receipt of applications during the year 2015.

# **Financial Statement of Year 2015**



# **Annual Financial Statements**

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

## **Annual Appropriations**

The total provision made for the Department for the year 2015 amounted to Rs.1186 million as compared with the provision of Rs. 1,042 million for the preceding year.

A sum of Rs.109 million was credited to the Consolidated Fund in the year 2015 as audit fees from Public Corporations, Statutory Boards, Local Authorities, Universities and Statutory Funds. Though the estimated revenue from audit fees for the year amounted to Rs.110 million, collection of audit fees during the year under review decreased the estimate by a sum of Rs.1 million.

## **Preparation of Financial Statements**

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

## **Accounting Policies**

### **1. Reporting Entity**

There is no specific law with regard to the establishment of the Auditor General's Department. However, Article 153 of the constitution of the Democratic Socialist Republic of Sri Lanka states that there shall be an Auditor General. The main activity of Auditor General's Department is to provide audit services to Public Institutions specified in Article 154(1) and (3) of the constitution. These Financial Statements are for the year ended 31 December 2015.

## **2. Reporting Period**

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

## **3. Basis for Preparation**

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

## **4. Income**

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

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

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

## **5. Expenditure**

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

## **6. Foreign Currency Transactions**

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

## **7. Cash and Cash Equivalents**

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

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

### **9.1 Disposals**

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

### **9.2 Subsequent Cost**

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

### **9.3 Depreciation**

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

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

## 10. Payables

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

## 11. Annual Estimates

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

## 12. Judgments and Estimations

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

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED  
31 DECEMBER 2015**

Estimate <b>2015</b>		Note	<b>2015</b>	<b>2014</b>
	<b>Rs.000</b>		<b>Rs.000</b>	<b>Rs.000</b>
<b>Revenue</b>				
110,000	Audit Fees	1	104,025	117,238
150	Rent		280	232
9,000	Interest		9,384	10,110
-	Fines and Forfeits		15	69
2,000	Other		3,053	2,714
-	Profit on Disposal Assets	2	3,255	3,372
121,150	<b>Total Operating Revenue</b>		<b>120,012</b>	<b>133,735</b>
711,183	Treasury Grant for Recurrent Expenditure	3	1,134,428	784,682
812,383	<b>Total Revenue</b>		<b>1,254,440</b>	<b>914,973</b>
<b>Expenditure</b>				
1,022,850	Personal Emoluments	4	1,015,033	670,988
15,000	Staff Travelling	5	14,663	13,611
21,000	Supplies	6	18,133	21,033
20,700	Maintenance	7	16,510	14,954
72,500	Services	8	68,283	52,693
13,100	Transfers	9	10,379	10,326
1,900	Training and Capacity Building		1,889	251
-	Depreciation	10	85,715	82,974
-	Recurrent Expenditure - Capacity Building Project		-	1,788
-	Amortization of the cost of developing Audit methodologies	11	24,904	24,904
812,383	<b>Total Expenditure</b>		<b>1,255,509</b>	<b>893,522</b>
0	<b>Excess /Deficit of Revenue Over Expenditure</b>		(1,069)	24,895

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	31 December 2015 <i>Rs.000</i>	31 December 2014 <i>Rs.000</i>
<b>Current Assets</b>			
Cash Balance		-	-
Inventory	12	5,225	6,577
Advance to Public Officers	13	218,238	231,840
Audit Fees Receivable	14	214,429	214,810
<b>Total Current Assets</b>		<b>437,892</b>	<b>453,227</b>
Development of Audit Methodologies	11	151,380	176,284
<b>Non-Current Assets</b>			
<b>Property, Plant and Equipment</b>	10	<b>1,116,592</b>	<b>1,175,360</b>
<b>Total Assets</b>		<b>1,705,864</b>	<b>1,804,871</b>
<b>Current Liabilities</b>			
Expenses Payable	15	2,232	2,897
Deposits Payable		24,990	18,221
<b>Total Current Liabilities</b>		<b>27,222</b>	<b>21,118</b>
<b>Accumulated Fund</b>			
Balance as at 01 <sup>st</sup> January		218,490	193,595
Surplus/(Deficit) for the Year		(1,069)	24,895
<b>Balance as at 31<sup>t</sup> December</b>		<b>217,421</b>	<b>218,490</b>
<b>Contribution</b>			
Treasury	16	625,135	644,906
Public Sector Capacity Building Project	17	836,086	1,461,221
<b>Total Tax Payers' Equity</b>		<b>1,705,864</b>	<b>1,804,871</b>

H.M. Gamini Wijesingha  
Auditor General

S.G. Senarathna  
Chief Accountant

28 October 2016

## NOTES TO ACCOUNTS

Note 01	Audit Fee		
Estimate	Description	2015	2014
<b>2015</b>			
<b>Rs.000</b>		<b>Rs.000</b>	<b>Rs.000</b>
<b>110,000</b>	<b>Receipts</b>		
	Public Corporation, Boards and Other Public Institutions	32,787	38,809
	Local Authorities	26,307	15,025
	Agrarian Service Centre	1,225	725
<b>110,000</b>	<b>Total</b>	<b>60,319</b>	<b>54,559</b>
	<b>Receivables</b>		
	Public Corporation, Boards and Other Public Institutions	20,850	32,852
	Local Authorities	19,986	28,171
	Agrarian Service Centre	2,870	1,656
-	<b>Total</b>	<b>43,706</b>	<b>62,679</b>
<b>110,000</b>	<b>Grand Total</b>	<b>104,025</b>	<b>117,238</b>

## Note 02 Disposal of Assets

Estimate	Description	2015	2014
<b>2015</b>			
<b>Rs.000</b>		<b>Rs.000</b>	<b>Rs.000</b>
	<b>Disposal of Vehicles</b>		
-	Sales value of vehicles	6,349	7,241
-	Net book value	(3,212)	(3,875)
-	<b>Profit / (Loss) on disposal of Vehicles</b>	<b>3,137</b>	<b>3,366</b>
-	<b>Disposal of Furniture and Equipment</b>		
-	Sales value of furniture and equipment	133	8
-	Net book value	(46)	(2)
-	<b>Profit / (Loss) on disposal of Furniture and Equipment</b>	<b>87</b>	<b>6</b>
	<b>Disposal of Computer and Hardware</b>		
-	Sales value of computer and hardware	31	-
-	Net book value	-	-
-	<b>Profit / (Loss) on disposal of Computer and Hardware</b>	<b>31</b>	<b>-</b>
-	<b>Profit / (Loss) on disposal of Assets</b>	<b>3,255</b>	<b>3,372</b>

**Note 03 Treasury Grant for Recurrent Expenditure**

<b>Estimate</b>	<b>Description</b>	<b>2015</b>	<b>2014</b>
<b>2015</b>			
<b>Rs.000</b>			
711,183	Imprest received from treasury	1,023,809	676,804
-	Imprest receivable for depreciation	85,715	82,974
-	Cost of the development of audit methodology	24,904	24,904
<b>711,183</b>	<b>Treasury Contribution for Recurrent Expenditure</b>	<b>1,134,428</b>	<b>784,682</b>

**Note 04 Personal Emoluments**

<b>Estimate</b>	<b>Description</b>	<b>2015</b>	<b>2014</b>
<b>2015</b>			
<b>Rs.000</b>			
388,650	Salaries and wages	384,461	341,291
3,200	Overtime and holiday payments	3,196	2,999
631,000	Other allowances	627,376	326,698
<b>1,022,850</b>	<b>Total</b>	<b>1,015,033</b>	<b>670,988</b>

**Note 05 Travelling Expenses**

<b>Estimate</b>	<b>Description</b>	<b>2015</b>	<b>2014</b>
<b>2015</b>			
<b>Rs.000</b>			
11,000	Domestic	10,945	11,226
4,000	Foreign	3,718	2,385
<b>15,000</b>	<b>Total</b>	<b>14,663</b>	<b>13,611</b>

**Note 06 Supplies**

<b>Estimate</b>	<b>Description</b>	<b>2015</b>	<b>2014</b>
<b>2015</b>			
<b>Rs.000</b>			
9,500	Stationary and office requisites	9,080	9,131
11,000	Fuel	8,599	11,454
500	Diets and Uniforms	454	448
<b>21,000</b>	<b>Total</b>	<b>18,133</b>	<b>21,033</b>

<b>Note 07</b>	<b>Maintenance</b>		
<b>Estimate</b>	<b>Description</b>	<b>2015</b>	<b>2014</b>
<b>2015</b>			
<b>Rs.000</b>		<b>Rs.000</b>	<b>Rs.000</b>
9,000	Motor vehicles	7,727	6,238
5,500	Plant, machinery and equipment	4,714	4,662
6,200	Building and structures	4,069	4,054
<b>20,700</b>	<b>Total</b>	<b>16,510</b>	<b>14,954</b>

<b>Note 08</b>	<b>Services</b>		
<b>Estimate</b>	<b>Description</b>	<b>2015</b>	<b>2014</b>
<b>2015</b>			
<b>Rs.000</b>		<b>Rs.000</b>	<b>Rs.000</b>
11,500	Transport	9,491	10,920
16,500	Postal and communication	16,144	10,118
13,300	Electricity and water	12,201	11,518
1,200	Rent and local taxes	339	548
30,000	Other	30,108	19,589
<b>72,500</b>	<b>Total</b>	<b>68,283</b>	<b>52,693</b>

<b>Note 09</b>	<b>Transfers</b>		
<b>Estimate</b>	<b>Description</b>	<b>2015</b>	<b>2014</b>
<b>2015</b>			
<b>Rs.000</b>		<b>Rs.000</b>	<b>Rs.000</b>
600	Subscription and contribution fees	270	468
12,500	Interest on loans to public officers	10,109	9,858
<b>13,100</b>	<b>Total</b>	<b>10,379</b>	<b>10,326</b>

#### **Note 10 Property Plant and Equipment**

	<b>Land</b>	<b>Buildings</b>	<b>Motor Vehicles</b>	<b>Computer and Hardware</b>	<b>Furniture and Equipment</b>	<b>Mini Press</b>	<b>Passenger Lift and Generator</b>	<b>Total</b>
	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>
<b>Cost</b>								
Balance as at 1 January 2015	256,147	775,028	109,988	132,394	94,421	26,023	8,828	1,402,829
Additions	-	657	15,950	1,944	4,653	-	7,002	30,206
Disposals	-	-	(6,425)	(741)	(229)	-	-	(7,395)
Balance as at 31 December 2015	<b>256,147</b>	<b>775,685</b>	<b>119,513</b>	<b>133,597</b>	<b>98,845</b>	<b>26,023</b>	<b>15,830</b>	<b>1,425,640</b>

<b>Depreciations</b>									
Balance as at 1 January 2015	-	39,862	41,804	92,860	47,460	3,903	1,580	227,469	
Depreciations on disposal of assets	-	-	(3,212)	(741)	(183)	-	-	(4,136)	
Additions	-	15,514	14,939	33,400	19,769	1,301	792	85,715	
Balance as at 31 December 2015	-	55,376	53,531	125,519	67,046	5,204	2,372	309,048	
<b>Net value as at 31 December 2015</b>	<b>256,147</b>	<b>720,309</b>	<b>65,982</b>	<b>8,078</b>	<b>31,799</b>	<b>20,819</b>	<b>13,458</b>	<b>1,116,592</b>	

#### Note 11 Cost of the Development of Audit Methodologies

Description	2015	2014
	Rs.000	Rs.000
Balance as at 1 January 2015	176,284	201,108
Amortization cost for the year 2015 ( 10% of the total cost)	(24,904)	(24,904)
<b>Balance as at 31 December 2015</b>	<b>151,380</b>	<b>176,284</b>

#### Note 12 Inventory

Description	2015	2014
	Rs.000	Rs.000
Building maintenance materials	273	367
Stationary and requisites	4,396	4,973
Tyre and tubes	556	1,237
<b>Total</b>	<b>5,225</b>	<b>6,577</b>

#### Note 13 Advances to Public Officers

Description	2015	2014
	Rs.000	Rs.000
Total amount due from officers serving in the department	210,890	228,663
Total amount due from officers transferred out of the department	3,284	187
From retired and deceased officers	3,069	1,917
From officers who vacated their posts	456	475
From service terminated officers	539	598
<b>Total</b>	<b>218,238</b>	<b>231,840</b>

**Note 14      Audit fees Receivables**

<b>Description</b>	<b>2015</b>	<b>2014</b>
	<b>Rs.000</b>	<b>Rs.000</b>
Development Councils	30	30
Municipal Councils	25,044	24,493
Urban Councils	46,054	50,187
Pradeshiya Saba	23,105	24,601
Public Corporations, Boards and Public Institutions	108,056	105,207
Agrarian Service Centers	12140	10254
Economic Centers		38
<b>Total</b>	<b>214,429</b>	<b>214,810</b>

**Note 15      Payables**

<b>Description</b>	<b>2015</b>	<b>2014</b>
	<b>Rs.000</b>	<b>Rs.000</b>
Railway warrant – Leave	351	416
Railway warrant – Travelling Expenses	3	44
Other Expenses	138	-
Postal Charges	15	21
Telephone Bills	500	844
Electricity Bills	1,026	808
Water Bills	76	60
Vehicle maintenance	46	296
Stationery and Office Requisites	3	355
Plant and machinery maintenance	74	53
<b>Total</b>	<b>2,232</b>	<b>2,897</b>

**Note 16      Treasury Contribution for Capital Expenditure and General Deposit Account**

<b>Description</b>	<b>2015</b>	<b>2014</b>
	<b>Rs.000</b>	<b>Rs.000</b>
For advance to public officers	218,238	231,840
For deposit account	(24,990)	(18,221)
For fixed assets	431,887	431,287
<b>Total</b>	<b>625,135</b>	<b>644,906</b>

**Notes 17      Public Sector Capacity Building Project Contribution**

<b>Description</b>	<b>2015</b>	<b>2014</b>
	<b>Rs.000</b>	<b>Rs.000</b>
For fixed assets	684,706	744,073
For audit methodology	151,380	176,284
<b>Total</b>	<b>836,086</b>	<b>920,357</b>

# **Sector Report**



## **Consolidated Fund**

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

The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as the general oversight of all the financial operations of the Government by Financial Regulation 124. He or the Treasury on him behalf lays down broad framework within which the Departmental transactions of all kinds 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 and delegates to him the responsibility for supervising Departmental transactions, subject to the direction of the Treasury. In addition to the Secretaries to the Ministries, the officers in charge of the Departments specified in Article 52(4) of the Constitution and other Departments not supervised by Secretaries to Ministries are also appointed by the Minister of Finance as the Chief Accounting Officers.

### **Provisions made for the year 2015**

According to the Appropriation Act, No. 41 of 2014 as amended by the Appropriation (Amendment) Act, No. 15 of 2015 and the Appropriation (Amendment) Act, No. 1 of 2015, provisions totalling Rs.2,101 Billion comprising Rs.869 Billion for recurrent expenditure and Rs.1,232 Billion for capital expenditure had been made for the year 2015. Provisions totalling Rs.1,237 Billion comprising recurrent expenditure of Rs.434 Billion and Capital expenditure of Rs.803 Billion as approved by the existing laws to be charged to the Consolidated Fund had been made. Accordingly, provisions of Rs.3,338 Billion had been shown in the Annual Budget Estimates for the year 2015. In addition, together with the provision of Rs.137 Billion made for the special law services, the annual provisions for the year 2015 amounted to Rs.3,475 Billion.

Provisions totalling Rs.201 Billion comprising Rs.63 Billion for recurrent expenditure and Rs.138 Billion for capital expenditure had been made for Budgetary Support Service and Contingent Liabilities Project in terms of Section 6 of the Appropriation Act, No. 41 of 2014.

## Utilisation of Provisions

Out of the provisions amounting to Rs.3,475 Billion made for the year 2015, Rs.3,204 Billion had been utilized. Accordingly, provisions amounting to Rs.271 Billion had been saved. As compared with the saving of Rs.126 Billion in the preceding year an increase of Rs.145 Billion in the savings was observed. The estimated capital expenditure for the year 2015, excluding the repayment of loans, amounted to Rs.835 Billion and had the utilization amounted to 81.9 per cent or Rs.684 Billion. That as compared with the utilization of capital provision of Rs.596 Billion in the preceding year, indicated an increase of Rs.88 Billion. The recurrent expenditure, the capital expenditure and the total expenditure of 5 preceding years appear in Figure 01 below.

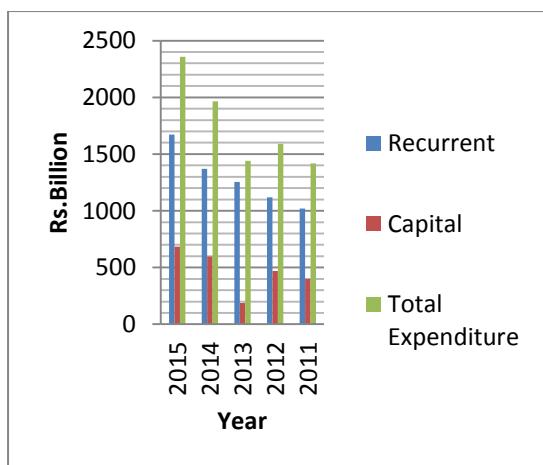


Figure 01- Expenditure of Year 2015

Source- Financial Statements of the Republic and Annual Reports of the Ministry of Finance

Even though the recurrent expenditure in the year 2011 amounted to Rs.1,020 Billion that had increased to Rs.1,673 Billion in the year 2015. The increase in each year as compared with the preceding year ranged between 7.26 per cent to 22.12 per cent. Even though the increased in the year 2013 had been 12.16 per cent, the increase in the year 2015 had been 22.12 per cent. Details appear in Figure 02. Even though the capital expenditure in the year 2011 had been Rs.399 Billion, that had increased to Rs.684 Billion in the year 2015. The increase in the years 2011 to 2015 (except the year 2013) ranged from 14.77 per cent to 218.72 per cent. As compared with the year 2012 there was a decrease of 60.30 per cent in the year 2013. Nevertheless, the increase in the capital expenditure for the year 2014 as compared with the year 2013 had been 218.72 per cent. Details appear in Figure 02 below.

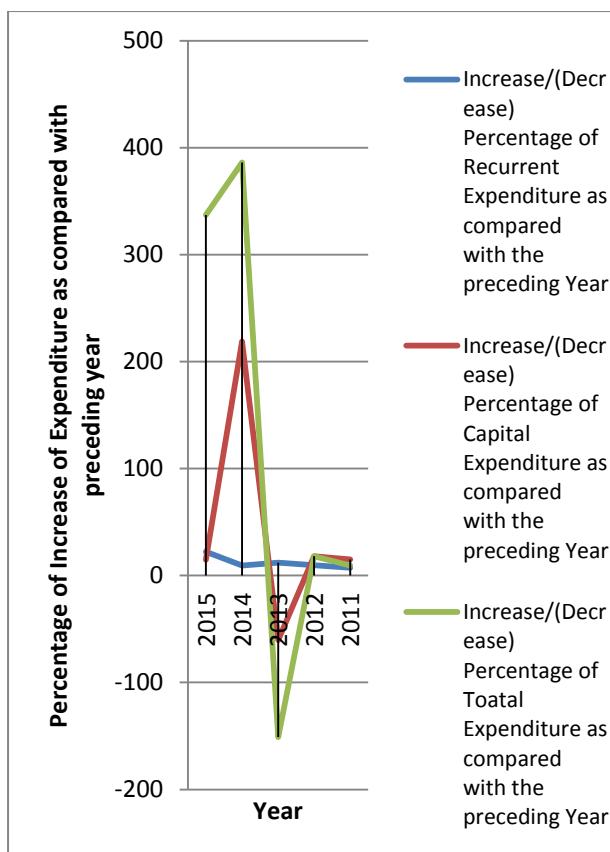


Figure 02- Increase/(Decrease) Percentage of Capital, Recurrent and Total Expenditure  
Source – Financial Statements of the Republic

The recurrent and capital expenditure incurred and loan repayments made from the Consolidated Fund in the year 2015 totalled Rs.3,203 Billion. That expenditure identified under 16 sectors appears in Figure 03. Out of the overall expenditure, 76 per cent and 16 per cent respectively had been spent on the repayment of loans and the payment of interest.

The total expenditure incurred from the provisions of the Central Government included of 9.2 per cent for Defence, 7.09 per cent for Provincial Councils and Local Government, 5.19 per cent for Public Administration and Pensions, 4.09 per cent for Health and Nutrition and 3.19 per cent for Education and High Education

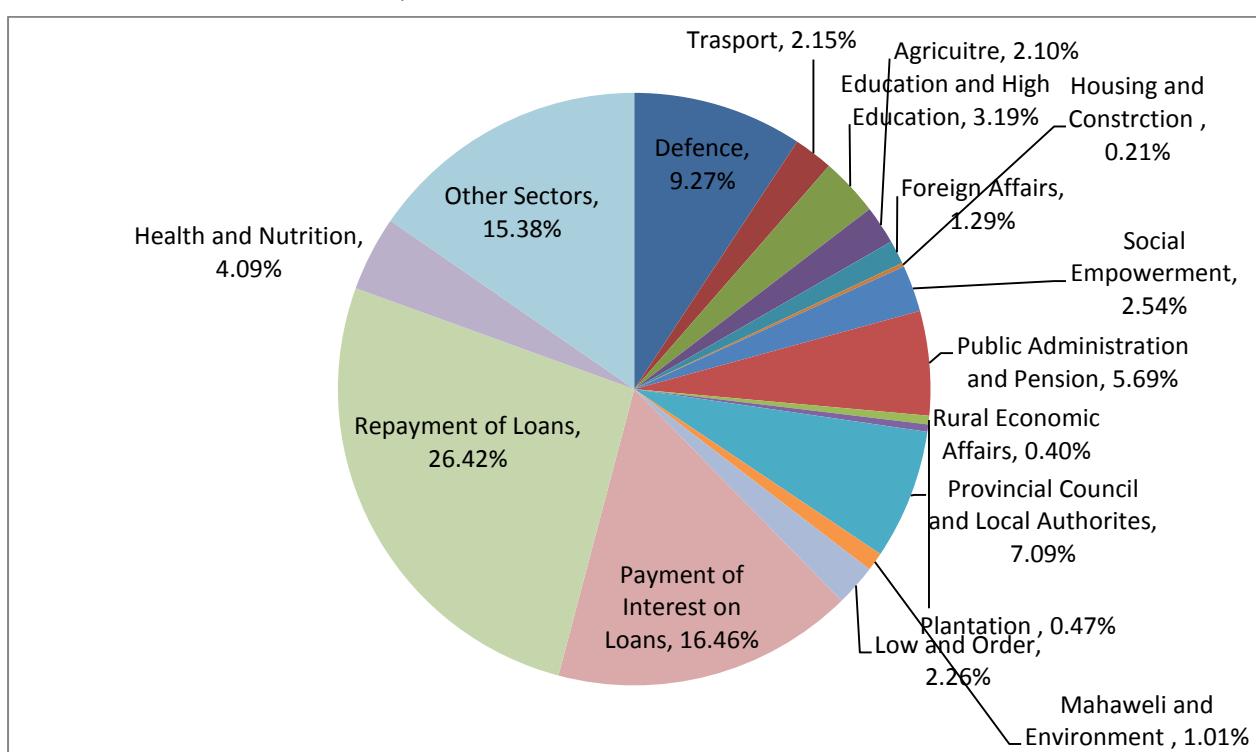


Figure 03- Expenditure identified under 16 sectors appears  
Source – Financial Statement of the Republic - 2015

## Revenue

According to the Annual Budget Estimates for the year 2015 approved by the Parliament of Sri Lanka, the public revenue estimated for the year 2015, excluding domestic and foreign borrowings, amounted to Rs.1,440.6 Billion. That as compared with the estimated revenue of Rs.1,331.4 Billion for the preceding year indicated an increase of Rs.109.2 Billion or 8.20 per cent. Out of the revenue estimated for the year 2015, revenue amounting to 1,394.2 Billion or 96.78 per cent had been collected. That as compared with the collection of Rs.1,127.6 Billion or 84.96 per cent of the revenue estimated for the preceding year indicated that a noticeable revenue had been collected in the year 2015. The revenue collected in the year 2015 as compared with the preceding year indicated an improvement of Rs.266.6 Billion or 23.64 per cent. The public revenue compared as a percentage of Gross Domestic Product indicated 11.52 per cent in the preceding year, that had improved to 12.47 per cent in the year 2015. Particulars appear in Figure 04 below.

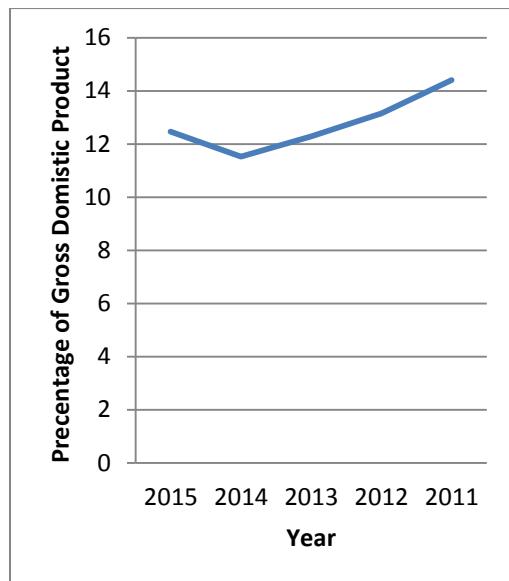


Figure 04 – Total Public Revenue as a Percentage of GDP

Source – Financial Statement of the Republic 2015

## Budget Deficit

According to the Financial Statements of the Republic, the estimated Budget Deficit for the year 2015 had been Rs.1,170.9 Billion and that amounted to Rs.776.9 Billion in the preceding year. Accordingly, the estimated Budget Deficit of the preceding year had been increased by Rs.394 Billion or 50.7 per cent in the year 2015. According to Section 3(a) of the Fiscal Management (Responsibility) Act, No. 3 of 2003, the estimated Budget Deficit should not exceed 5 per cent of the estimated Gross Domestic Product and that amounted to 10.4 in the year 2015 and as compared with 7.4 per cent of the preceding year indicated an increase of 3 per cent. The estimated Budget Deficit as a percentage of the estimated Gross Domestic Product during the period of 5 preceding years is given the Figure 05.

Action had been taken even during the year under review to exceed the maximum estimated Budget Deficit that should be maintained in terms of the Fiscal Management (Responsibility) Act, No. 3 of 2003.

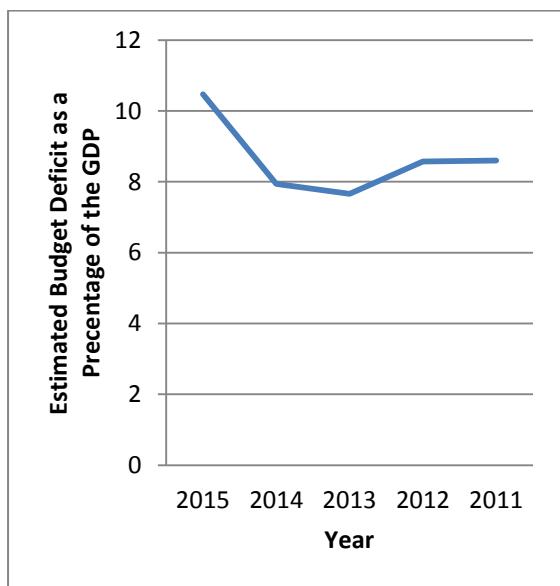


Figure- 05- Estimated Budget Deficit as a Percentage of the Gross Domestic Product  
Source – Financial Statements of the Republic and Annual Reports of the Ministry of Finance

According to the Financial Statements of the Republic, the recurrent expenditure of the Government for the year 2015 amounted to Rs.1,673 Billion and the capital expenditure of the Government amounted to Rs.684 Billion. Nevertheless, the revenue collected by the Government amounted to Rs.1,394.2 Billion and that revenue was not adequate even for the settlement of the recurrent expenditure of the year 2015. Accordingly, expenditure exceeding the overall revenue by a sum of Rs.278.8 Billion had been incurred.

## Financing the Expenditure

The expenditure of Rs.3,475 Billion estimated for the year 2015 had been expected to be financed from Domestic funds amounting to Rs.3,156 Billion and foreign funds amounting to Rs.340 Billion. Foreign loans amounting to Rs.562 Billion had been received in the year 2015 and out of that Rs.258 Billion or 45.9 per cent had been utilized.

The collection of Rs.321.6 Billion as foreign loans had been expected for the year 2015 and a sum of Rs.234 Billion exceeding the expected amount from that financing source had been collected. Out of the expected target of Rs.18 Billion from foreign grants Rs.6 Billion had been received and as such the receipts from foreign grants had been less by Rs.12 Billion. Even though it was expected to collect Rs.3,156 Billion from Domestic funds, only Rs.2,594 Billion or 82.2 per cent had been collected. The overall position is that the Treasury had failed to obtain the financing required for the fulfillment of the expected targets of the Budget for the year 2015 as expected.

The Public Expenditure during the year 2015 represented 28.64 per cent of the Gross Domestic Product and as compared with 24.89 per cent of the preceding year indicate an increase of 3.75 per cent in the year under review.

The recurrent expenditure of the year under review amounted to Rs.1,672.9 Billion and that represented 52.22 per cent of the total public expenditure while that represented 14.95 per cent of the Gross Domestic Product. As compared with 14.00 per cent of the preceding year that indicated an increase in the year under review. The public investment had been Rs.683.9 Billion and represented 21.35 per cent of the total expenditure. The interest payments of the year under review amounted to Rs.527.2 Billion or 31.51 per cent of the total recurrent expenditure. That as compared with Rs.446.4 Billion for the preceding year indicated an increase of Rs.80.8 Billion. The recurrent expenditure on subsidies, grants and transfers as compared with the preceding year had increased by Rs.140.2 Billion and Rs.552.8 Billion had been spent in the year under review. As in the preceding years, the personal emoluments for the year under review represented 25.68 per cent of the total recurrent expenditure or Rs.429.7 Billion had been spent. That had increased by Rs.95.9 Billion over the expenditure of the preceding year. Out of the total recurrent expenditure Rs.1,509.7 Billion had to be spent on interest, subsidies, grants, transfers and personal emoluments. The above expenditure amounted to a high percentage of the recurrent expenditure and the revenue collected had failed to settle the overall recurrent expenditure.

Despite the inadequacy of the revenue collected to meet the recurrent expenditure, Rs.683.9 Billion had been spent on public investments in the year under review. That, as compared with Rs.595.7 Billion for the preceding year, had increased by Rs.88.2 Billion. The public investments in the year under review as compared with the Gross Domestic Product represented 6.1 per cent.

Domestic loans and foreign loans and grants had to be obtained to meet a part of the recurrent expenditure, public investments and for the payment of loan installments. A large sum of money has to be spent for the payment of annual interest and loan installments and it was observed as an annually increasing cost.

Expenditure of Rs.3,012.4 million which exceeded the provision of Rs.40 million made under Head 198 programmes 2 Object 2502 (Project for Diversion of Gin Nilwala Rivers) of the Ministry of Irrigation and Water Management, by Rs.2,972.4 million had been spent.

## **Investments**

Investments amounting to Rs.397.8 Billion had been made by 01 January 2015 in the shares and capital contribution of 121 State Commercial Corporations, Government owned Companies, Plantation Companies and Development Banks. Investments of

Rs.94.2 Billion had been made in 7 Due to the favourable foreign exchange fluctuation in the investments in shares quoted in the American and Singapore Dollars, the Rupee value of those had increased by Rs.23 million. In addition, due to the decrease in the shares of an institution in the year under review, the total value of the investment had been reduced by Rs.41 million. As such the value of investments in 121 institutions as at 31 December 2015 amounted to Rs.492.1 Billion.

Even though investments had been made in the Capital of 121 institutions including 35 Public Corporations, 57 Government Owned Institutions, 24 Plantation Companies, 02 Development Banks and 3 Corporations quoted in American Dollars, profits and dividends amounting to Rs.32.1 Billion had been received in the year under review from 9 Public Corporations, 35 Institutions owned by the Government, 12 companies and 01 Development Bank. That revenue represented 6.5 per cent of the total value of investments.

## Public Revenue Management

Out of the overall public revenue 89 per cent is collected by the Department of Inland Revenue, Sri Lanka Customs, the Department of Excise and the Department of Motor Traffic. Sri Lanka

institutions in the year 2015. Customs had planned to collect Rs.612 Billion in the year 2015 according to the Revised Estimate of Revenue and Rs.616 Billion which exceeded revised estimate of revenue by Rs.4 Billion had been collected. Even though the Department of Inland Revenue had planned to collect revenue of Rs.537 Billion in the year 2015 according to the Revised Estimate of Revenue, revenue of Rs.525 Billion which is less than the estimate by Rs.12 Billion had been collected. The Revised Estimates of Revenue and the actual revenue of the 4 Departments referred to above for the year 2015 appear in Figure 06

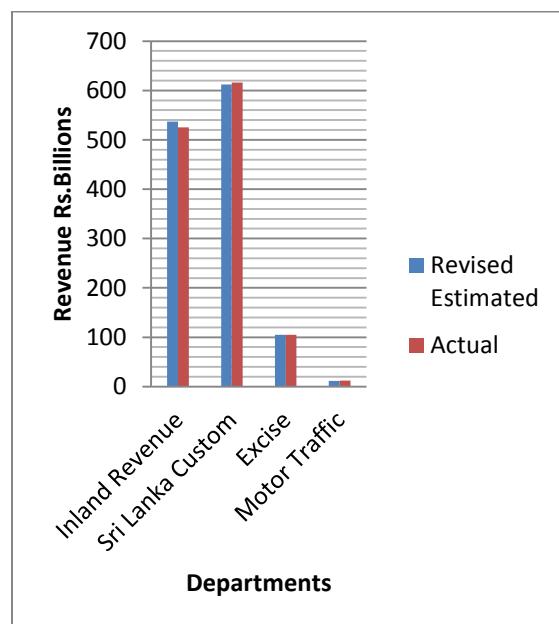


Figure 06 - Revised Estimated and Actual Revenue according to the Departments  
Source – Financial Statements of the Republic 2015

## Public Debt Management

In terms of Article 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka, the full control over public finance including the Public Debt is vested in Parliament. The approval of Parliament should be obtained for all borrowings of the Republic. In terms of Section 2.1(b) of the Appropriation Act, No. 41 of 2014, the Parliamentary approval has been granted raise loans subject to a limit of Rs.1,780 Billion in or outside Sri Lanka for and on behalf of the Government.

According to the Financial Statements of the Republic, loans amounting to Rs.3,349 Billion comprising foreign loans amounting to Rs.556 Billion and domestic non-banking loans amounting to Rs.2,793 Billion had been obtained during the year under review. That had exceeded the approved limit of Rs.1,780 Billion by a sum of Rs.1,569 Billion. The Parliamentary approval in this connection had also not been obtained. This as compared with the excess on the limit by Rs.1,164 Billion in the preceding year indicated an increase of Rs.405 Billion. Obtaining loans exceeding the limit approved by the Parliament had been resorted to by the Government from the year 2006. Such increase in that year amounted to Rs.64 Billion and the limit had increased to Rs.1,569 Billion by the year 2015. The excesses during past 11 years appear in Figure 07 below.

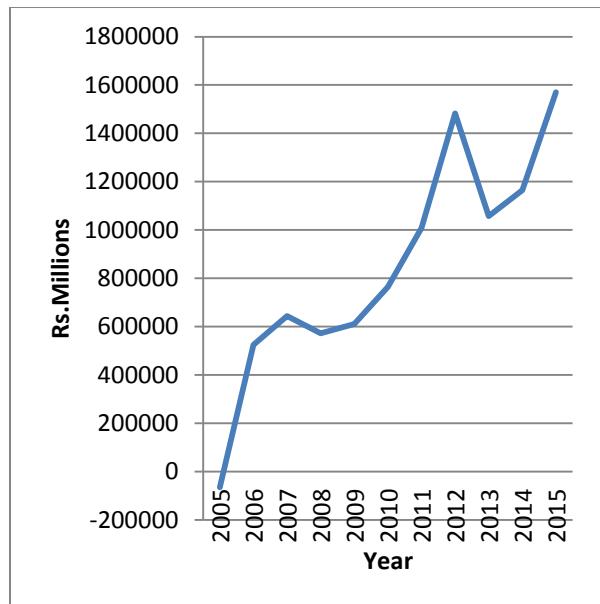


Figure 07 - Loans Obtained by the Estimated exceeding the Limit approved by Parliament  
Source – Annual Appropriation Acts and Financial Statements of the Republic

The Government had paid greater attention to the domestic borrowings and the domestic borrowings in the year 2015 totalled Rs.2,793 Billion and that as compared with the domestic borrowings of Rs.2,020 Billion in the preceding year indicated an increase of Rs.773 Billion or 38.3 per cent.

Expenditure totalling Rs.2,715 Billion comprising Rs.2,265 Billion for the repayment of borrowings and Rs.450 Billion for the payment of interest had been incurred in the year under review. That expenditure represented 97.2 per cent of the total domestic borrowings in the year under review. As such a very insignificant percentage of 2.8 only had been utilized for the development work of the Republic.

The local borrowings and the payment of loan installments and interest

payments during the 5 preceding years had been as shown in Table 04 below.

Year	2015 Rs.Billions	2014 Rs.Billions	2013 Rs.Billions	2012 Rs.Billions	2011 Rs.Billions
<b>Domestic Borrowings</b>	2,793	2,020	2,178	2,256	1,719
<b>Payment of Loan Installments</b>	2,265	1,583	1,696	1,980	1,493
<b>Loan Interest Payments</b>	450	376	401	351	312
<b>Loans Utilised for Development Work</b>	78	61	81	-	-
<b>Utilised Amount as a Percentage</b>	2.8	3.0	3.7	-	-

Table 04- Domestic Borrowings, Payment of Loan Installments and Loan Utilisation

Source - Financial Statements of the Republic 2015

Expenditure totalling Rs.264 Billion comprising Rs.187 Billion for repayment of foreign borrowings and Rs.77 Billion for payment of interest had been incurred in the year under review.

The amounts utilized for the development work of the Republic from the foreign borrowings during the 05 preceding years after the adjustment of repayment of foreign loan installments and interest appear in Table 05 below.

Year	2015 Rs.Billions	2014 Rs.Billions	2013 Rs.Billions	2012 Rs.Billions	2011 Rs.Billions	Total Rs. Billions
<b>Foreign Borrowings</b>	556	423	183	365	287	1,814
<b>Payment of Loan Installments</b>	187	107	95	153	72	614
<b>Loan Interest Payments</b>	77	70	63	58	40	308
<b>Amount Utilised for Development Works</b>	292	246	25	154	175	892
<b>Utilised Amount as a Percentage</b>	52.5	58.1	13.7	42.2	60.4	49.2

Table 05- Foreign Borrowings, payment of Loan Installments and Interest and Loan utilization

Source : Financial Statements of the Republic

According to the Financial Statements of the Republic for the year 2015, the loan balance payable by the Government as at 31 December 2015 amounted to Rs.7,685 Billion and that as compared with the loan balance of Rs.6,577 Billion as at 31 December of the preceding year

indicated an increase of Rs.1,108 Billion or 16.8 per cent. Nevertheless, according to the economic classification of the Ministry of Finance the loan balance as at 31 December 2015 amounted of Rs.8,503.2 Billion.

That as compared with the loan balance of the preceding year according to the economic classification amounting to Rs.7,390.9 Billion indicated an increase of Rs.1,112.3 Billion. The particulars of

loans according to the economic classification for the year under review and the preceding 4 years appear in the following Table No. 06 below.

Item	2015 Rs.Billions	2014 Rs.Billions	2013 Rs.Billions	2012 Rs.Billions	2011 Rs.Billions
<b>Total Domestic Debt</b>	4,959	4,278	3,833	3,233	2,804
Rupee Loans	24	56	56	59	62
Treasury Bills	658	695	700	629	591
Treasury Bonds	3,305	2,844	2,452	2,095	1,819
Sri Lanka Development Bonds	669	391	369	223	184
Advances from Central Bank of Sri Lanka	151	144	109	111	95
Others	152	148	147	116	53
<b>Total Foreign Debt</b>	3,544	3,113	2,960	2,767	2,329
<b>Total unsettled Public Debt</b>	8,503	7,391	6,793	6,000	5,133
<b>Gross Domestic Product</b>	11,183.2	9,785	8,674	7,582	6,543
Unsettled Public Debt as a Percentage of Gross Domestic Product	76.03	75.53	78.31	79.13	78.45

Table 06- Information of Loans according to Economic Classification

Source : Annual Report of the Ministry of Finance 2015

The overall unsettled loan balance of the year under review amounted to 76.03 per cent of the Gross Domestic Product and that had increased over the preceding year by 0.5 per cent.

The value of the total liabilities of the Government for the year under review including the total loans of the Government amounted to Rs.8,125 Billion. The total liabilities of the Government as a percentage of the Gross Domestic Product had been 72.65 per cent and that indicated an increase of 1.40 per cent over 71.25 per cent of the preceding year. According to Section 2(b) of the Fiscal Management (Responsibility) Act, No. 3 of 2003 as amended by the Fiscal Management

(Responsibility) (Amendment) Act, No. 15 of 2013, the value of total liabilities, beginning from the year commencing on 01 January 2013 should not exceed 80 per cent of the Gross Domestic Product of each respective year. As these loans do not include the loans obtained by the Public Enterprises on the Guarantees of the General Treasury and the loans transferred by the Government to Public Enterprises, it was observed that the information as to whether such limit of liabilities would be exceeded was not reflected in the Financial Statements.

The amount of loans as at 31 December 2015 according to the Financial statements of the Republic as compared with the population of the year indicated a per capita debt of R.331,655.

That, as compared with the per capita debt of R.296,106 for the preceding year, indicated an increase of Rs.35,549.

## **Financial Statements of Republic**

A summary of the audit observations revealed in connection with the Financial Statements of Republic are given below

- According to the Financial Statements, the loan balance payable by the Government as at 31 December 2015 amounted to Rs.7,684,954 million. Nevertheless, according to the impact of the following observations revealed during the course of audit test checks, that loan balance had been understated by Rs.1,025,180 million.
- Even though the Department of Treasury Operations had confirmed the Face Value of the Treasury Bonds as at 31 December 2015 as Rs.3,695,541 million, that balance had been understated by Rs.508,763 million in the Financial Statements.
- Even though the Department of Treasury Operations had confirmed the Face Value of the Treasury Bills as at 31 December 2015 as Rs.663,285 million, that balance had been understated by Rs.30,000 million in the Financial Statements.
- The loan balance amounting to Rs.338,141 million payable by the Republic as at 31 December 2015 in connection with 07 Loan Agreements entered into by the Republic with Foreign Lending Institutions had not been included in the Financial Statements.
- According to the information obtained from the Department of National Budget, the Financial Lease Liability as at 31 December 2015 had been confirmed as Rs.19,376 million, the liability relating to the motor cycles purchased on financial lease system from the year 2014 had been understated by Rs.13,807 million.
- The loan balance of Rs.7,550 million obtained by the Ministry of Defence from 04 domestic Banks for the construction of the building for the Department of Registration of Persons had not been included in the Financial Statements.
- Sums totalling Rs.12,031 million comprising Rs.2,469 million as installments and Rs.9,562 million as interest had been paid on the loans obtained by a Ministry in the year 2014 from domestic Banks on Government Guarantees. Even though the Government had paid those loans and interest, the loan balance of Rs.126,919 million had not been included in the Financial Statements.

- Even though Rs.527,227 million had been paid as interest for the year under review in accordance with the Financial Statements, the net results of the following observations revealed during the course of the audit test checks carried out in that connection, Rs.16,818 million had been overstated.
  - The interest revenue amounting to Rs.13,998 million earned from the issue of Treasury Bonds had been surcharged to the Interest Payment Account, and as such the interest revenue received and interest payments in the year 2015 had been understated by that amount in the Financial Statements.
  - In the issue of the Treasury Bonds at a price less than the Face Value of the Treasury Bonds, the sale value of the Bonds only had been credited to the Bonds Account instead of crediting the Face Value of Bonds to the Bonds Account and the release of the Face Value of those Bonds in the year under review by paying cash, the Bonds discount of Rs.40,378 million had been debited to the Interest Account, thus overstating the interest shown in the Financial Statements by Rs.40,378 million.
  - According to the Return 854-1 prepared by the Department of External Resources, the interest on foreign loans in respect of the year under review amounted to Rs.83,063 million whereas according to Note No. 08 of the Financial Statements, the interest payments amounted to Rs.77,174 million. Accordingly, the interest payments had been understated by Rs.5,889 million in the Financial Statements.
- Even though interest amounting to Rs.9,562 million had been paid on the loans obtained from Banks on Government Guarantees by a Ministry, that had been brought to account as Government Investments instead of being brought to account as payment of interest. Thus, the interest payments had been understated by Rs.9,562 million.
- According to the Financial Statements, the Government had paid sub-loans amounting to Rs.174,196 million to various State Institutions. According to the net impact of the following observations revealed during the course of the audit test carried out in this connection, the value thereof had been understated by Rs.2,682 million in the financial statements.
  - Even though the sub-loan balance receivable as at 31 December 2015 from 14 State Institutions had been shown in the Financial Statements as Rs.8,390 million,

the Institutions concerned had confirmed those loan balances as Rs.7,215 million, thus the sub-loan balances of those 14 Institutions had been overstated by Rs.1,175 million.

- According to the Financial Statements, the value of the Sub-loans of 07 Institutions as at 31 December 2015 amounted to Rs.5,726 million, and those Institutions had confirmed those loan balances as Rs.9,333 million. As such, the loan balances of those 07 Institutions had been understated by Rs.3,607 million in the Financial Statements.
- The sub-loan of Rs.250 million granted at 9 per cent interest in the year 2001 to the State Mortgage and Investment Bank and the interest amounting to Rs.337 million receivable from the year 2001 to 31 December 2015 had not been included in the Financial Statements.
- Instead of separately recording the Premium earned from the issue of Bonds in the year 2015 in the Financial Statements, that had been credited to the Treasury Bonds Account. As such the value of the Treasury Bonds had been overstated by Rs.18,846 million.
- Even though the receipts and payments of Foreign Loans had been shown in the Financial Statements as Rs.556,370 million and Rs.187,113 million respectively, according to the impact of the audit observations revealed during the course of the audit test check carried out in that connection, receipts of Foreign Loans had been understated by Rs.34,003 million and the payment of Foreign Loans had been understated by Rs.4,605 million.
- The Foreign Loans amounting to Rs.10,697 million received in the year 2015 under 07 Foreign Loan Agreements and the payments of Foreign Loans amounting to Rs.4,605 million during the year 2015 had not been included in the Financial Statements.
- Out of the Foreign Loans received under 41 Loan Agreements during the year under review, a sum of Rs.23,306 million had not been included in the Financial Statements.
- Even though a sum of Rs.187,113 million had been shown in the Financial Statements as the repayments of Foreign Loans, according to the Note No. 30(i) thereof (Statement of Foreign Loan Balances) the repayments of Foreign Loans amounted to Rs.174,800 million. As such, a difference of Rs.12,313 million was observed.

- The value of investment made by the Government in the Public Enterprises appearing in the Financial Statements amounted to Rs.492,192 million. According to the net impact of the following observations revealed during the course of the audit test check carried out in that connections, that value had been understated by Rs.105,068 million.
  - Even though the capitalized value of the State lands vested in the Hotels Development (Lanka) Co. Ltd amounted to Rs.7,000 million, that value had not been disclosed in the Financial Statements.
  - The capital contribution of Rs.100 million made by the General Treasury in the year 2011 in a private company had not been shown in the Financial Statements.
  - According to the Financial Statements, the capital contribution made by the General Treasury in 06 Enterprises out of the 121 Enterprises owned by the Government had been shown as Rs.305,152 million, and the Institutions concerned had shown capital contributions totalling Rs.339,069 million. As such, the capital contributions totalling Rs.33,917 million relating to those 06 Enterprises had been understated in the accounts.
- According to the Financial Statements, the capital contribution made by the General Treasury in 02 Enterprises out of the 121 Enterprises owned by the Government had been shown as Rs.349 million, the confirmation of balances had established that the General Treasury had not invested in the capital of the respective Institutions. Accordingly, a sum of Rs.349 million had been overstated in the Financial Statements.
- The General Treasury had made capital contributions of Rs.50,500 million in the Ceylon Petroleum Corporation and Rs.13,900 million in the National Water Supply and Drainage Board in the year 2015 through the issue of Treasury Bonds. But that amount had not been shown in the Financial Statements of the Republic for the year 2015.
- Disclosure had not been made in the Financial Statements in regard to the arrears of revenue totalling Rs.55,408 million in respect of the year under review relating to three major revenue earning Institutions.
- Even though the Telecommunications Regulatory Commission of Sri Lanka had obtained a Commercial Loan of U.S.\$ 104.3 million or Rs.15,238 million from a Company in China on the Guarantee of the Ministry of Finance for the Construction

of the Lotus Tower Multifunctioning TV and Telecommunications Tower, that contingent liability had not been included in the Financial Statements of the Republic.

- A balance of Rs.400 million existed in the Suspense Account No.8533 in the Financial Statements of the Republic for the year under review and that balance included the expenditure incurred for the purchase of motor vehicles for the Commonwealth Conference. That balance had not been settled by the end of the year under review by obtaining provision and amounting for that expenditure. In addition to that, a credit balance existed of Rs,1,269 million in the Suspense Account No. 8233 and action had not been taken even by the end of the year under review for the settlement of that balance.
- The Financial Statements of the Republic had been prepared on cash basis. Even though action had been taken over several years for the preparation of the Financial Statements on the accrual basis, it had not been possible to do so. Even though the performance and the financial position of the Provincial Councils should have been included in the Financial Statements, it had also not been done.

## **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 relating to the Public Revenue Management detected at the special Investigations on the Public Revenue Management undertaken by the Auditor General' Department from time to time have been pointed out. Even though the observations on these have been made continuously through audit queries and audit reports, it has to be pointed out that the slow progress in the action taken for minimizing those deficiencies had adversely impacted the Public Revenue Management. Specially the Department of Inland Revenue, Sri Lanka Custom, the Department of Excise and the Department of Motor Traffic had contributed 89 per cent of the total revenue collected in the year 2015 and a summary of the observations revealed at the audit of the activities of those 04 Departments is given below.

### **Department of Inland Revenue**

- The Commissioner General of Inland Revenue had been empowered by the Finance Act, No. 10 of 2015 for the collection of 04 new item of Revenue in order to implement the Budget Proposals of the year under review.

As such, the Department of Inland Revenue had taken action for the collection of only the Super Gains Tax. Accordingly the Department had not taken action for the collection of the following taxes during the year under review.

- Levying of a Casino Industry Levy of Rs.1,000 million from every person engaged in the business of a casino as at 29 January 2015.
- Levying a Mansion Tax of Rs.1 million from every owner of a mansion constructed on or after 1 April 2000, commencing on or after 1 April 2015.
- Levying of a Migrating Tax at the rate of 20 per cent on the foreign exchange released to a citizen of Sri Lanka who permanently leaves Sri Lanka, commencing with effect from 1 November 2015.
- Even though the net revenue for the year under review as compared with the preceding year had increased by Rs.39.45 Billion or 8.1 per cent, it was observed in audit that amounting to Rs.47.36 Billion collected from the new tax on Super Gains introduced in the year under review had been the reason for the increase. When the revenue collected from the Super Gains Tax is deducted from the total revenue,

the contribution from all other taxes administered by the Department amounts to Rs.477.47 Billion and that as compared with the preceding year indicated a deterioration of Rs.7.91 Billion or 1.6 per cent.

- Concurrently with the increase in the limit of income subject to the Value Added Tax in the year 2012, the Value Added Tax files of about 17,000 tax payers had been made temporarily dormant by the Department. Nevertheless, tax had been collected by issuing tax invoices to certain taxpayers. There were instances in which those persons or institutions had not furnished Tax Returns or paid the tax to the Department. As revealed in the audit test check, though 54 taxpayers had collected the Value Added Tax amounting to Rs.175.09 million from Government Institutions they had neither furnished the Tax Returns nor paid the tax to the Department. The Department had not introduced a proper methodology to control the situation. It was observed in audit that such situation could result the decreasing the tax revenue and increase in the price level.

## Sri Lanka Customs

The following matters had an impact on the variances between the actual revenue for the year 2015 and the actual revenue for the preceding year.

## **Changes in the Duty Rates**

- **Excise Duty on Motor Vehicles**

- The Excise Duty on motor vehicles which contributes 36.28 per cent to the overall Customs Revenue as compared with the preceding year had increased by 192 per cent.
- In the recovery of duty on motor vehicles imported from the year 2015 the Excise Duty is recovered in place of all other duties.
- Due to the reduction of the assessed value specified by the Customs Pricing Committee for certain class of motor vehicles in the number of motor vehicles imported has increased.
- Due to the increase in the exchange value of other currencies as against the Sri Lanka Rupee, import cost of motor vehicles increase resulting in the increased tax revenue computed on increased costs.

- **Increase in the Units of Goods imported**

The increase of the number of units of goods which contribute a higher contribution to the overall Customs Revenue in the year under review as compared with the preceding year had resulted in the increase of Customs Duty Revenue.

- **Waiver of Duty**

The Ministry of Finance had decided to remove completely the Custom Duty on imported Wheat grains with effect from 30 January 2015 and as a result the import of wheat as compared with the preceding year had increased by 11.1 per cent. Despite the increase on imports, the tax revenue collected had decreased by 65.7 per cent or Rs.7,101 million.

- **Tax Concessions granted**

- The Government had introduced the charging of a concessionary duty for motor vehicles manufactured with not less than 30 per cent local value addition with a view to uplifting the local motor vehicle manufacturing industry. Accordingly, the motor vehicles subject to 150 per cent to 240 per cent duty, manufactured with local value addition were charged a concessionary duty of 15 per cent. Such duty concession allowed for 5,873 motor vehicles manufactured locally in the year 2015 amounted to Rs.13,800 million approximately.
- In terms of the Trade , Tariff and Investment Policy Circular No. 01/2010 dated 10 December 2010 and the subsequent amendments thereto, permits had been issued to public officers for the import of motor vehicles

- under concessionary terms / purchased of motor vehicles manufactured locally with new parts and accessories. The tax concession granted for 4,558 motor vehicles imported in the year 2015 amounted to Rs.20,938 million and the tax revenue earned from those by the Government amounted to Rs.16,649 million.
- In addition to the duty concessions permits given to the officers in the public services, duty concession of Rs.7,011 million had been granted for 893 concessionary motor vehicle permits issued to other parties, namely the retired public officers, Taxpayers, Government Institutions, members of Provincial Councils and Diplomatic Officers.
  - The duty concessions granted for motor vehicles imported in the year 2015 for Government and Semi-Government Institutions, Private Institutions, Foreign embassies and High Commissions and for the Projects implemented in this country by Japan and People's Republic of China amounted to Rs.19,047 million, Rs.17,858 million, Rs.1,715 million and Rs.1,544 million respectively totalling Rs.40,164 million.

- **Concessions granted to Tax Exempt Trade Agreements**

The value of goods imported to Sri Lanka in the year 2015 related to 05 Tax Exempt Trade Agreements entered into by Sri Lanka with foreign countries amounted to Rs.40,021 million approximately and the duty concessions granted to those institutions amounted to Rs.7,123 million.

- **Arrears of Tax Revenue**

According to the Statement of Arrears of Revenue as at 31 December 2015 furnished by Sri Lanka Customs, the total Tax Revenue recoverable amounted to Rs.19,493.54 million and out of that 59 per cent of arrears of revenue related to preceding years.

- It was observed that frequent changes of the assessment of value for Customs duty purposes by the Sri Lanka Customs result in heavy losses of revenue. For example the assessed value of TRJ 150 W make motor vehicles amounting to US\$ 36,800 on 15 August 2014 had been reduced to US\$ 27,944 (Japan Yen 3,375,000) by US\$ 8,856 by 23 March 2015 and had resulted in importing such motor vehicles under the duty concession permits.

If the auction prices of Japan had been adopted for the computation of duty on 407 motor vehicles imported the tax revenue received by the Government would have been Rs.3,000 million approximately.

- Even though the information on 7 BMW 520dSE motor vehicles of standard value of US\$ 30,300 at the time of import had been entered into the Customs Computer System, duty had not been paid for 23 days. Subsequently the standard price of such motor vehicles had been reduced in two instances to EURO 22,600 (US\$ 26,675), the Customs had allocated a special opportunity to the importers to pay the duty at the reduced standards price, thus resulting in a loss of tax revenue amounting to Rs.9.05 million.
- The Central Investigation Division of the Sri Lanka Customs had conducted an investigation of an airline passenger who had attempted to carry illegally foreign currency valued at Rs.18.83 million to Malaysia through the Departure Terminal of the Katunayaka Bandaranaike International Airport. After the Customs investigation the above said officer had imposed a fine of Rs.50.50 million against the above said passenger in terms of Section 130 of the Customs Ordinance and taken action later to reduce the fine to Rs.3 million in terms of Section

163 of the Ordinance. Subsequently, based on an appeal made by the passenger, the Director General of Customs had ordered the reduction of the fine to Rs.1.5 million. That action had been contrary to the provisions in the Customs Ordinance.

- Even though the Ceylon Petroleum Corporation which had imported under the bond facilities provided by the Sri Lanka Customs, bunker oil and lubricants during the years 1996 to 2002 for supply to ships and kept in storage had been disposed of from the stores, information on that had not been reported to the Sri Lanka Customs. Instead of taking action for the recovery of the bond value payable by the Ceylon Petroleum Corporation amounting to Rs.57.74 million, the Bonds Division of Sri Lanka Customs had commenced an investigation in the year 2015. After the conclusion of the investigation the bond value had been recovered as a fine. Out of that fine only Rs.17.32 million or 30 per cent had been credited to the public revenue and the balance 70 per cent or Rs.40.42 million had been credited to the Customs Officers Rewards Fund and the Customs Officers Management and Compensation Fund.

- In view of the weaknesses in the internal control methodologies in place for the physical verification of containers it had been possible for an importer to obtain release of containers of goods on which custom duties and charges exceeding Rs.17 million was payable, by paying Rs.549,622.

## **Department of Excise**

- According to the Return of Arrears of Revenue as at 31 December 2015 furnished by the Department of Excise, the total arrears of revenue including the penalty for the delays amounted to Rs.2,191.18 million and 66 per cent of the overall arrears of revenue had been in existence for more than 5 years.
- Even though the Withholding Tax recovered in the local purchase and import of spirits is allowed for set off in the payment of Excise Duty on liquor manufactured with those spirits, Withholding Tax amounting to Rs.821 million had been brought to account as Excise Duty Revenue.
- The arrears of revenue as at 31 December 2014 amounting to Rs.1,534.98 million had exceeded by Rs.656.20 million or 43 per cent to

Rs.2191.18 million as at 31 December 2015.

- A computer network system enabling easy and accurate Excise Duty Revenue had not been implemented.
- Even though the Tobacco Tax Act provides for charging duty on each cigarette, cigar, beedi and per kilogramme of pipe tobacco, the Department collects duty only on cigarettes.
- Even though the Department charges the Tobacco Tax, contrary to the Act, duty is charged per kilogramme of tobacco used for the production of cigarettes instead of charging per unit.
- The Department had not formulated a methodology for establishing the correctness of tobacco imported for the manufacture of beedies.
- Even though the Department issues permits for the export of cigarettes, a methodology to ascertain the correct quantity exported was not available with the Department.
- The arrangement made for the collection of revenue through the Departmental Officers attached to the companies to which the officers are attached had not been subjected to a continuous test check by the officers of the Department.

## **Department of Motor Traffic**

One of the objectives of the Department of Motor Traffic is the execution of all functions related to the Motor Traffic Act efficiently and effectively. Provision amounting to Rs.740 million including Rs.250 million in the year 2013 had been provided during the years 2009 to 2015 for the E-motoring Project planned with a view to preventing / detecting through

the use of technology the large scale errors, frauds and irregularities committed due to the weaknesses in the existing computer system. But no action had been taken to implement the Project by utilizing the provisions made. The provisions made for the project had been transferred continuously to other Objects and utilized for other purposes.

## **Defence**

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

### **Defence**

- Ensure the maintenance of the territorial integrity and defence of Sri Lanka
- Maintain the defence of the air, sea and land zones
- Directing the research and development activities related to defence
- Assist in maintaining the dignity and majesty of Sri Lanka
- Implementation of the policies on programmes and project related to defence

### **Civil security**

- To assist the Police in the maintenance of law and order when required
- To ensure the security of life and property
- Regulations of Small Arms

A summary of the deficiencies in the performance of the functions of the above institutions revealed in audit appear below.

### **Ministry of Defence Weaknesses in the Recovery of Explosive Licence Fees**

The licence fees on explosive had not been revised since the year 2000. According to the Revenue Account of the Licence Fees, the arrears of revenue, including the arrears of revenue for the year 2015 amounting to Rs.0.85 million, totaled Rs.1.42 million. The follow-up action on the recovery of the arrear had been remained at a weak level.

### **Weaknesses in the Recovery of Loans granted to Public Officers**

The outstanding balance of the Advances to Public Officers Account as at 31 December 2015 totalled Rs.9.89 million and those outstanding balances related to periods ranging from 01 year to 30 years. The follow-up action on the recovery of the outstanding loan balances had been remained at a weak level.

## **Loans obtained without Authority by the Ministry of Defence**

The construction of the Personal Identity Building consisting of 20 floors had been awarded to a local firm of contractors affiliated to an International Company on the basis of completion in 3 years commencing from July 2012. Agreements had been entered into in the year 2012 with 2 Private Banks and 2 State Banks for obtaining loans amounting to Rs.7,550 million without formal authority, on the basis of repayment within 15 years commencing from August 2015. Accordingly, loans amounting to Rs.8,295 million had been obtained. Interest amounting to Rs.7,004 million in this connection remained payable as at the end of the year 2015. The total loan and the interest amounted to Rs.14,752.75 million as at the end of the year 2015 and that liability had not been shown in the Statement of Liabilities of the Appropriation Account of the Ministry for the year 2015. The manner of granting the authority to the Secretary to the Ministry to obtain the loans and to enter into agreements and the information on the approval obtained from the Treasury and its concurrence for obtaining the loans had not been furnished to Audit. Nevertheless, the loan installment and the interest for the year 2015 had been paid from the recurrent and capital provision made under the Public Investment Object

under the Ministry of Defence in the Annual Appropriation Act.

## **Establishment of the Strategic Defence Communication Network**

Establishment of the Strategic Defence Communication Network had been planned with the objective of the supply of an unbroken continuous alternative communications network similar to the modern communications system operating among the Three Forces. The system with an estimated cost of Rs.1,192.25 million was proposed for implementation from the year 2014 to the year 2016. The original estimate had been revised to Rs.1,297.25 million and subsequently revised abnormally by Rs.661.75 million to Rs.1,854 million. In view of this situation there is a tendency to increase the consultancy fee payable to a Company under the purview of the Ministry. Even though 18 months of the project period had elapsed by the end of the year 2015, a sum of Rs.22.03 million out of the provision made had been utilized. The physical progress had been at 2 per cent level. There was an uncertainty with regard to the achievement of the expected objectives of the project due to reasons such as non-commencement of the construction of 22 communication towers being the primary activities, the project performance being in the preliminary stage and the inability to complete the project within the planned period and the estimated cost.

## **Construction of Defence Service Headquarters at Akuregoda**

The construction of the Defence Service Headquarters of 8 twenty storeyed buildings of 4.7 million square feet comprising an Auditorium, Communication Building, Defence Building and the Quarters of the members of the Three Forces had been commenced in the year 2012. Plans had been made for the supply of office accommodation for 10,250 officer of the Forces and residential facilities to 6,850. The construction was being done with the labour contribution from the Three Forces. The following observations were made in this connection.

- This construction had been commenced without a feasibility study of the economic, financial, environment and social requirement, a plan for minimizing the environmental problem and an environmental impact assessment. According to the estimates prepared in the year 2011, the expenditure amounted to Rs.25,401 million. After the revision of that estimate, the expenditure had been estimated as Rs.55,601 million. The bill of quantities had not been prepared for the construction and the approval of the Cabinet of Ministers for the revised estimate had not been obtained even upto 30 May 2016.
- The revenue of Rs.19,817.30 million obtained from the sale of the land on which the Headquarters of the Sri Lanka Army was situated previously to two foreign companies had not been credited to the Consolidated Fund in terms of Article 149 of the Constitution of the Democratic Socialist Republic of Sri Lanka. That revenue released contrary to the Constitution by the Treasury in 3 instances to the Ministry had been invested and an interest income of Rs.5,506.77 million had been earned. Out of the total amount including the interest earned, a sum of Rs.12,265.98 million had been spent contrary to the Financial Regulations. The sum of Rs.13,058.09 million that further remained with the Ministry as at 31 December 2014 had been remitted to the Treasury on 19 January 2015. The expenditure incurred on this project by the Ministry in the preceding years amounting to Rs.3,383.17million had been brought to account in March 2015.
- Even though provision of Rs.7,980.90 million had been made for provision requirement amounting to Rs.22,377.68 million according to the Action Plan, out of that a sum of Rs.1,761.29 million had been utilized.

- A fire protection arrangements had not been stabilized and a damage of Rs.12.31 million including damage to constructions amounting to Rs.6.53 million had been caused by a fire in the year 2014.
- In the selection of the Consultancy Companies, competitive quotations had not been invited in terms of the Government Procurement Guidelines. Instead, on the approval of the Cabinet of Member, a private company of Architects had been selected from the year 2011 for the architectural and engineering service without entering into an agreement for a fee of Rs.606.3 million. A sum of Rs.490.5 million had been paid in that connection. The Project Management Unit and the Construction Management Unit had identified that the professional skills and capacity of the Consultancy Firm for the consultancy services of the Project were not adequate. In further on the engineering consultancy service had been awarded to the Central Engineering Consultancy Bureau for a fee of Rs.1,556.9 million. A sum of Rs.1,199 million representing 77 per cent of the agreed fee had been paid in that connection.
- The construction works of the Project had been delayed and the overall Project Construction Progress had been remained at 35 per cent due to reasons such as carrying out the work of the Project commenced in April 2012 without an overall Project work plan, construction work not done within the expected time frames by introducing work targets, stoppage of construction works for about 18 months and delays in the supply of consultancy services and the procurement work.

## **Sri Lanka Army**

### **Non-crediting of Profits earned from the Profit Earning Projects maintained by Sri Lanka Army**

Out of the profit earning projects maintained by the Sri Lanka Army, all except Laya Beach, Wadduwa are being maintained on lands and buildings owned by the Government. Seven motor vehicles of the Government, 17 motor vehicles taken over on annual hire for Rs.14.90 million and 5 other machinery owned by the Government are deployed for the operation of the above projects. In further, a sum of Rs.5.44 million had been utilized out of the Government provisions annually while 2,063 Government servants had been deployed in service.

Nevertheless, the profits earned from those projects had not been credited to the public revenue.

## **Award of contracts to a Tax Defrauded Supplier**

Even though the Auditor General had revealed in the year 2011 the defrauding of tax amounting to Rs.1.09 million by a supplier of goods to the Sri Lanka Army, a contract for the purchase of Goods from the same supplier had been awarded in the year 2014. Even though he had been paid a sum of Rs.5.36 million of the Value Added Tax, that tax as well had been fraudulently retained.

## **Reimbursement made from Government Provisions for Goods Purchased by Other Funds**

The value of goods purchased by the Regiment Fund without inviting open bids contrary to the provision in the Government Procurement Guidelines amounting to Rs.36.67 million had been reimbursed from the provision made by the Government.

## **Sri Lanka Navy**

Sri Lanka Navy had taken into custody 20 illegal immigrants, 120 emigrants and 638 kilogrammes of narcotics during the year 2015. Labour contribution of Rs.306 million had been provided for the construction and repair works of various institutions of the Government and foreign exchange amounting to U.S.\$.280,993 had been earned by deploying Naval Ratings in the peace keeping duties in Haiti. Action had been

taken to rescue 3,372 persons affected by floods in the year 2015.

## **Non-compliance with the Recommendations of the Committee on Public Accounts**

According to the recommendation made at the meeting of the Committee on Public Accounts held on 11 June 2011, the Committee had stated that writing of cheques and handing over of cheques to the suppliers before the receipt by the Navy the goods intended for purchase is a completely wrong transaction and directed that it should be rectified immediately. Nevertheless, the Sri Lanka Navy had been totalling that system from July 2011 to April 2015 and purchased goods valued at Rs.2,730 million in 8,653 instances.

## **Purchase and Repairs of Naval Craft**

An agreement had been entered into with an Indian Company on 13 May 2013 for the purchase of 2 Naval Patrol Craft for U.S.\$.133.10 million. Even though Rs.8,800 million (U.S.\$. 66.55 million) had been paid up to June 2016, two craft had not been received by the Sri Lanka Navy up to date.

The total number of craft and ships owned by the Sri Lanka Navy as at 31 December 2015 had been 636 and 143 of those were not in working condition. That included 39 ships and craft purchased for U.S.\$. 86 million and 104 ships and craft purchased for Rs.558 million. The Navy had failed to repair these craft promptly.

## **Settlement of Electricity bills**

Interest amounting to Rs.29 million had been paid to the Ceylon Electricity Board during 4 years due to the failure to settle the electricity bills on the due dates.

## **Sri Lanka Air Force**

### **Purchase of Solar Power Street Lights**

Sri Lanka Air Force had entered into agreements with two private companies in May 2009 for the purchase of 187 solar power street lights of 15 years guarantee and 37 batteries of 3 years guarantee in the year 2009 for Rs.19.96 million. Out of the Street lights and batteries installed in the year 2009, one hundred and forty eight street lights and 33 batteries had not been worked condition by 20 April 2015. Even though the purchases had been made with the institution of reducing the expenditure on electricity, the loss amounted to Rs.19.96 million had been incurred by the Air Forces as at there by 20 August 2015.

### **Non-crediting of Aircraft Hire Charges to Public Revenue**

The total aircraft hire charge revenue collected during the year 2015

amounted to Rs.5.51 million. Instead of crediting that revenue to the relevant Revenue Code, that had been credited to an Executives Welfare Fund and force internal fund called which is not a Government Account.

According to the Fiscal Policy and Economic Affairs Circular No. 1/2002 dated 17 July 2002 the Commander of the Air Force had been designated as the Revenue Accounting Officer for the collection of revenue from the hire of the aircraft of the Air Force. Nevertheless the operation had been carried out by a company established under the names of several officers of the Air Force. Maintenance of records and the collection of revenue had not been done in accordance with the provisions in the Government Circulars. The information on the Bank Accounts of the Company, basic documents and other correspondence had not been furnished to the Auditor General.

## **Department of Civil Security**

Revenue amounting to Rs.497.70 million had been earned from the Agricultural, Livestock and other projects implemented by the Department of Civil Security. In addition, 401 kilometres of electric fence had been constructed at a cost of Rs.19.15 million.

## **Overpayments**

An overpayment of Rs.3.01 million had been made due to the purchase of 80,000 tins of shoe polish required for the year 2015 at the rate of Rs.98.80 per tin.

## **General Sir John Kotalawala Defence University**

Even though a loan of Rs.26 billion had been obtained from the National Savings Bank for the construction of Werahera Hospital of the University, the contractor work had not been completed even by the end of November 2016. Even though the approval of the Cabinet of Ministers had been obtained considering it as a Strategic Development Project, action had not been taken to obtain foreign loans for the project which does not come under the above category. However the construction work of the Project had been awarded to a company

in the People's Republic of China without inviting bids. The exchange loss caused to the University in the year 2015 due to the payments made to a foreign company from proceeds loans obtained from a Domestic Bank amounted to Rs.1,030.53 million. The interest on the above loan is paid by the General Treasury and provision for that purpose amounting to Rs.1,540.9 million had been made in the year 2015.

## **Payment of Advances Contrary to Procurement Guidelines**

Advances had been paid contrary to the provisions in the Procurement Guidelines to suppliers since the year 2011 for the purchase of goods. Advances amounting to Rs.274.56 million had been paid during the year 2015 and out of that advances amounting to Rs.57.39 million had not been settled even by 31 December 2015.

# Public Enterprises

A public enterprise is an entity wholly owned by the Government with a separate legal personality and separate accounts that earns revenue from the sale of its goods and services. Thus the entity has the potential to earn a return on its assets. Regulatory, promotional and educational public enterprises do not typically have this commercial potential and are considered as non-profit oriented organizations and their performance needs to be examined using differing criteria other than profitability. The Public Enterprises in Sri Lanka can be broadly categorized under the following headings.

- Specified Business Enterprises
- Statutory and Non statutory funds
- Government Owned Limited Liability Companies
- Regulatory and Monitoring Institutions

- Universities, Research and Other Training Institutions
- Other Development and Non-profit Oriented Institutions.

Strategically vital areas of the economy are operated by public enterprises such as electricity, water, petroleum products, telecommunications, and airlines, etc. The corporate governance of all public enterprises is of great importance to the overall equity and competitiveness of the economy. The composition of the total assets of each category of 243 Public Enterprises other than Government owned Companies incorporated under the Companies Act as at 31 December 2015 as compared with that as at the end of the preceding year is depicted in the following Figure 08

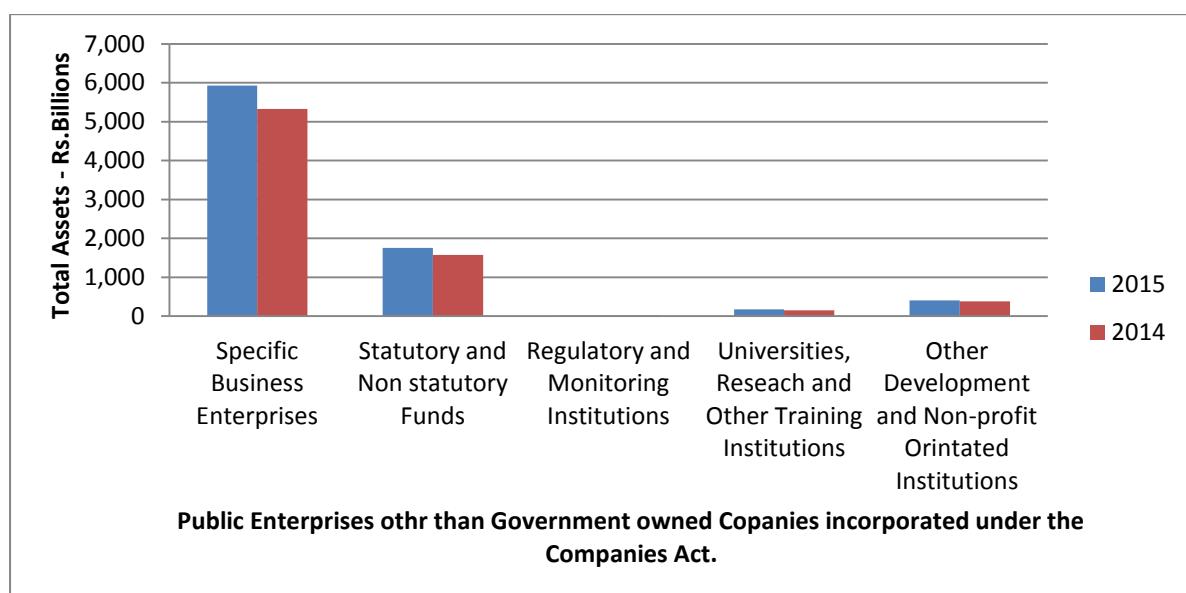


Figure 08- Total Assets of public Enterprises in the year 2015 as compared with year 2014

Government grants and subsidies to Public Enterprises accounted for Rs.50.8 billion in the year 2015 and represented 3.03 per cent of total Government Recurrent Expenditure as compared with the corresponding figure of Rs.44.7 billion and 3.8 per cent respectively. In addition to that, capital grant accounted for Rs.284.36 billion in the year 2015 and representing 41.57 per cent of total Government Capital Expenditure as compared with the corresponding figure of Rs.264.11 billion and 44.35 per cent respectively.

## Performance Evaluation

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

The efficiency and effectiveness audit of Public Enterprises is conducted on the basis of certain standards and criteria. Profit is not the key criterion of performance; management's performance in the economical and efficient use of public funds and achievement of objectives is more relevant. The objectives vary from enterprise to enterprise. The appraisal analyses whether the performance of an enterprise is to bring out the extent to which the objectives for which the enterprise was set up have been served. One of the first tasks of the Audit is to identify the

criteria for assessing the performance of an enterprise. In the case of a manufacturing enterprise such as CPC for example, the objective and the basis of investment, capacity, costs and time schedules, norms of consumption, yields, productivity, costs, rate of return, etc. are relevant. These provide yardsticks by which the performance is measured. The enterprises have their long and short term capital and operational plans and these provide another set of reference points for assessment of the performance.

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

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

## **Auditor General's Opinion on the Financial Statements**

Public Enterprises prepare financial statements annually comprising statement of financial position as at the end of the year, statement of income, cash flow statement, statement of changes in equity for the year then ended, a summary of significant accounting policies and other explanatory information. The Auditor

General provides independent assurance to Parliament as to whether the financial statements give a true and fair view of the state of affairs of the institutions. This assurance is provided in the form of expressing an opinion on the financial statements. The opinion simply states the Auditor General's conclusion that the financial statements do or do not fairly represent the financial position and financial performance of the Public Enterprises, and that they do or do not conform to the financial reporting standards either Sri Lanka Accounting Standards or Sri Lanka Public Sector Accounting Standards which are now in line with the respective International Accounting Standards.

Four types of audit opinion are expressed. Those are, the unqualified, qualified, adverse and the disclaimer of opinion which are expressed in instances of material uncertainty, management disagreement or limitation of work. The pervasiveness of the scope limitation would lead to express disclaimer of opinion whereas the pervasiveness of the disagreement would lead to express an adverse audit opinion.

The audit opinions expressed on 243 Public Enterprises on which the Audit Reports have been issued for the year 2015 as compared with the preceding year are as following Table 07

Type of Audit	2015	2014
Opinion		
Unqualified	29	30
Qualified	136	162
Disclaimer	12	20
Adverse	12	11
Not yet decided	38	16
Financial Statements not submitted	16	04

Table 07 - Auditor General's Opinion on the Financial Statements

The Governing Boards of certain Public Enterprises have withdrawn their financial statements as advised by the Auditor General due to serious misstatements which may lead to express an adverse opinion. These institutions were advised to prepare a fresh set of financial statements and submit to the Auditor General for his scrutiny. Certain institutions have either not yet submitted their financial statements for audit or done so after a considerable delay. Due to these reasons the audit opinion has not yet been decided.

By analyzing the above data it is clear that improvements are shown in the preparation of financial statements in compliance with the reporting standards by reducing the issue of qualified, adverse and disclaimer of audit opinion in respect of the year 2015.

## Maintaining records on Fixed Assets

Maintenance of proper records such as Registers of Fixed Assets (RFA),

schedules and other records on Non-current Assets is generally poor and in certain cases very poor. Non-current Asset, also known as property, plant, and equipment (PP&E), is a term used in accountancy for assets and property which cannot easily be converted into cash. Fixed assets normally include items such as land and buildings, motor vehicles, furniture, office equipment, computers, fixtures and fittings, and plant and machinery. In a large corporation, the task of identifying and locating a specific fixed asset could be difficult unless numbering is scientific, systematic, and up-to-date. A common problem in most enterprises is the improper maintenance of the Registers of Fixed Assets. As a result it was observed that physical verification of fixed assets becomes a futile exercise. The managements of the enterprises have the responsibility to maintain proper records and the safeguard of the assets owned by the institution. In most of the cases Annual Boards of Survey had not been conducted and as a result the existence and the condition of assets had not been confirmed.

It was also observed that there were considerable delays in capitalization of fixed assets from Work- in- progress due to delays in issuing completion certificates by the responsible officers. This situation was observed mainly in water projects of the National Water Supply and Drainage Board and electrification projects completed by the Ceylon Electricity Board.

This situation was also observed with regard to the National Expressways and other major road projects completed by the Road Development Authority (RDA) and was later rectified and the cost of these roads had been capitalized and reflected in the financial statements of the RDA after being shown by Audit the importance of capitalizing such assets.

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

It was also observed that records of lands belonging to Sri Lanka State Plantations Corporation, Janatha Estates Development Board and the Land Reform Commission were incomplete and were not even in a position to produce a detailed schedule with the location and extent to audit to confirm the existence and ownership.

However it was also observed that considerable number of entities have now moved to identify and get their assets valued through the Chief

Government Valuer with the adoption of the new Sri Lanka Accounting Standards which made compulsory to bring their assets to fair value basis.

### **Lack of Autonomy to Recruit and to retain Professional Staff**

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

### **Lack of a Succession Plan**

It was observed that in certain major institutions such as CEB and CPC, several key managerial positions had been vacant for long periods without action being taken to fill the vacancies with suitable officers. The main reason for this situation was that any succession plan had not been prepared to cover the key positions of the institution. This situation allowed such enterprises to continue with acting arrangements which ultimately results in delays in work.

## **PAYE Tax paid by the Institutions.**

It was observed that 102 Public Enterprises had paid Pay As You Earn (PAYE) Tax out of their own funds on behalf of their officers against the rationale behind the Income Tax Law. Therefore it is emphasized that the General Treasury should take a firm decision regarding the settlement of Payee Tax which does not vary from institution to institution. The total amount so paid for the year 2015 amounted to Rs.604,722 million as compared with Rs.314,458 million in the preceding year. As such the purpose of the PAYE Tax would not be fulfilled and on the other hand fair treatment to all public officers has been violated.

## **Preparation and submission of Annual Financial Statements**

The financial statements of 227 Public Enterprises for the year 2015 had been presented to the Auditor General for audit by 30 September 2016. However it was observed that 15 Institutions had not submitted their financial statements for the year ended 31 December 2015 even after the elapse of 9 months after the end of the financial year. These institutions are listed in Table 08 below. Further 4 institutions had not submitted their financial statements for the financial year 2014 even by 30 September 2016 after laps of 21 months. It is also emphasized that 59 institutions had withdrawn their financial statements after pointing out by me the serious misstatements in those statements to avoid issuing of adverse audit opinion.

Name of the Institution	Name of the Institution
National Library Documentation Services Board	Sri Lanka State Plantations Corporation
Ambuluwawa Biodiversity Complex	Sri Lanka Ayurvedic Drugs Corporation
Economic Centre - Kurunduwatta	Sri Lanka Handicraft Board
National Enterprises Development Authority	Sri Lanka Ceramics Corporation
Tea Shakthi Fund	Paddy Marketing Board
Mahapola Higher Education Trust Fund	National Institute of Fisheries and Nautical Engineering
State Engineering Corporation of Sri Lanka	The Institute of Valuers of Sri Lanka
Sri Lanka Transport Board	State Institutions Temporary Surplus Trust Fund

*Table 08-- Public Enterprises which had not submitted Financial Statements for the year 2015 to Audit*

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

## **Settlement of Advances**

It was observed that considerable amount of money had remained in the accounts as advances for a long period of time without been charged as an expense even though the goods have already been purchased or services have already been rendered. In certain instances same officer had been given several subsequent advances regardless of the non-settlement of the advances granted previously.

## **Incorporating Subsidiary Companies**

It was observed that certain institutions had formed limited liability companies incorporated under the Companies Act sometimes without the approval from the

Cabinet of Ministers. This action would dilute the functions of the main institution as well as its operations are not coming under the Auditor General's scrutiny. Certain strategic institutions such as CEB and CPC and some of the Universities hold a number of subsidiary and associated companies and represent in the Governing Boards as the major shareholder, but it was further noted that the exercising the controlling power by the respective enterprises is weak.

## **Specified Business exercising (SBEs)**

These are enterprises that are involved in business like other private companies by providing goods or services and in certain cases engage in active competition with the private sector. SBEs are commonly seen in areas of the economy normally considered as Monopolies which have little or no competition from the private sector. That is those activities are done only by the respective SBE and not readily open to competition and private sector involvement. There is widespread involvement in resource and utility based industries such as electricity, water, petroleum products, etc.

However there are certain SBEs which are open to competition with the private sector such as Sri Lanka Transport Board, State Banks, etc. Accordingly, 52 enterprises in operation (other than those incorporated under the Companies Act and not coming under the Auditor General's purview) at present can be categorized under Specified Business

Enterprises and only 45 enterprises have submitted their financial statements for the year 2015 for audit even by 30 September 2016. With the adoption of Sri Lanka Accounting Standards (SLFRS and LKAS) based on International Financial Reporting Standards (IFRS) in the year 2012, the SBEs were compelled to apply the same. However it was observed that most of these enterprises managed to prepare their annual financial statements in compliance with these new Standards to a great extent which are based on fair valuation. However there were certain enterprises that struggled to prepare their financial statements due to lack of competence and technical support. I must emphasize that I have given fair opportunities to these institutions to rectify their financial statements by pointing out material misstatements and non-compliances with the SLASs. Most of these entities have taken up this trend as a positive step and resubmitted their financial statements to a reasonable fairness which averted expressing adverse audit opinions. Due to this new arrangement there were considerable delays in the tabling of Annual Reports in Parliament. Even though delays were occurred in the submission of financial statements, with reasonable fairness it would ultimately enhance the accountability to a great extent.

In view of massive investments in these Specified Business Enterprises, it is expected that they generate adequate surplus for their own replacements, expansion and growth. Self-financing for expansion should be made a specific

obligation of Public Enterprises operating in industrial and commercial fields. Such enterprises should not only cover their cost but generate surplus for financing development plans of the entity.

The net assets as at the end of the year 2015 of those 45 enterprises which had submitted their financial statements for audit totaled Rs.1,039,446 million as compared with the net assets of Rs.898,188 million as at the end of the preceding year.

## **Adverse Net Asset Position**

Even though Ceylon Petroleum Corporation had made profits at the inception, enterprises was making continuous losses in the recent past. The aggregated accumulated losses had increased rapidly by 31 December 2015 which had badly affected the net assets position of these enterprises and had recorded an aggregate negative net worth of Rs. 229,152 million as at the end of the year 2015 as compared with that in the previous year amounting to Rs. 232,256 million. It was further observed that the current liabilities of these enterprises had exceeded their current assets by Rs.176,695 million. The adverse difference between current assets and current liabilities had been continuing for a long period of time. The inability of setting off the current liabilities by the current assets shows a suspense situation that these enterprises had faced a critical financial crisis as well as a doubt on their going concern without the assistance from the General Treasury.

## **Financial Performance**

According to the financial statements presented, the working of those 45 institutions for the year ended 31 December 2015 had resulted in a profits aggregating Rs.71,223 million as compared with the corresponding net profits aggregating Rs.70,746 million for the preceding year thus indicating an improvement of profits by Rs.477 million. This improvement of financial performance of these institutions in the year 2015 was mainly due to earning a profit of Rs.19,876 million by the Ceylon Electricity Board. Out of those 45 institutions 14 institutions had incurred losses aggregating Rs.39,884 million and 31 institutions had earned profits aggregating Rs.111,107 million in the year 2015. Two institutions namely Ceylon Fisheries Corporation and Janatha Estate Development Board had incurred continuous losses for the last four years whereas Ceylon Electricity Board had been able to show an improvement in its financial results for the year 2015 by earning a profit of Rs.19,876 million against the loss of Rs.15,003 million in the preceding year. Ceylon Petroleum Corporation had incurred loss amounting to Rs.20,176 for the year 2015 against the profit earn Rs.1,129 million in the preceding year. Only 18 entities were able to either improve their profits or earn profit as against losses in the previous year. Profits of 22 institutions had deteriorated by Rs. 47,501 million in the year 2015 as compared with the preceding year.

There has been a considerable variability in the performance amongst SBEs as shown by the rates of return. Return On Capital Employed (ROCE) on total assets of SBEs for the year 2015 vary from – 78 per cent to 136 per cent as compared with the range of - 33 per cent to 125 per cent in the year 2014. The average annual ROCE of 1.46 per cent for the year 2015 as compared with 1.38 per cent in the preceding year shows an improvement in the year 2015.

But in view of massive investments in these public enterprises, it is imperative that they generate adequate surpluses for their own replacements, expansion and growth as well as for financing the future developments. Self-financing for expansion should be made a specific obligation of Public Enterprises operating in industrial and commercial fields. Such enterprises should not only cover their cost but generate surplus for financing development plans of the country.

The losses and poor performance of SBE's are attributable to a variety of factors including the following

- Inadequate Treasury monitoring.
- Excessive staff, high overheads and low productivity
- An absence of clear accountability and performance assessments.
- Poor commercial practices.
- Government controls on prices.
- The pursuit of non-commercial activities at the Government's request.

- Inappropriate facilities, poor quality plant and equipment.
- Lack of skilled staff and high staff turnover.
- Lack of personal consequences of success and failure (motivation of staff).

## **Government owned Limited Liability Companies**

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

There were instances where certain companies have refused to appear before the Committee of Public Enterprises when they were summoned for

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

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

## **Other Non-Profit oriented Public Enterprises**

These enterprises consist of regulatory and monitoring institutions, Universities, research and other training institutions and other development and non-profit oriented institutions. The main feature of these institutions are that the main source of revenue is the annual Government grant or a levy imposed by the Government on certain goods or services. According to the financial statements of these entities 138 institutions had earned surpluses over

expenditure aggregating Rs.5,998 million after taking into consideration the recurrent grants provided to these institutions by the General Treasury in the year 2015 amounting to Rs.44,052 million. However 46 institutions had incurred net deficits aggregating Rs.2,566 million even after taking into consideration the recurrent grants from the General Treasury as compared with 52 institutions with net deficits aggregating Rs.6,878 million in the preceding year which show a remarkable decline in net deficits by Rs.4,307 million.

## Local Authorities

There are 335 Local Authorities comprising 23 Municipal Councils, 41 Urban Councils and 271 Pradeshiya Sabhas established in term of the Provisions in the Municipal Councils Ordinance (Cap.252) the Urban Councils Ordinance (Cap.255) and the Pradeshiya

Sabhas Act, No. 15 of 1987 respectively in Sri Lanka. A summary of the information on the presentation of the financial statements for the year 2015 by this Local Authorities and the audit opinions expressed on those financial statements is given table 09 below.

Category of Local Authority	Number of Accounts	Number of Accounts furnished by 30 September 2016	Number of Audit Reports issued	Audit Opinions expressed on the Reports issued up to 30 September 2016			
				Qualified	Clear	Disclaimer	Adverse
Municipal Councils	23	21	18	17	-	-	01
Urban Councils	41	39	36	34	-	01	01
Pradeshiya Sabhas	271	258	238	230	01	01	06
<b>Total</b>	<b>335</b>	<b>318</b>	<b>292</b>	<b>281</b>	<b>01</b>	<b>02</b>	<b>08</b>

Table 9 – Presentation of Financial Statements and Audit Opinion of Local Authorities

Even though the deficiencies detected annually during the course of audit are brought to the notice of the authorities concerned, those have to be reported over and over again as no steps had been taken to rectify the deficiencies. As the organizations providing aid to the Local Authorities have informed that such aid would be provided only after rectification of the deficiencies pointed out in Audit Reports. There were several requests made by the authorities of Local Authorities for certificates of settlement that the deficiencies pointed out in the Audit Reports have been rectified.

Even though the supervision of the Local Authorities is devolved on the Provincial Councils in terms of provisions in Section 4.2 of the Ninth Schedule of the Thirteenth Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka, the Provincial Councils had not implemented a formal course of action for the supervision of Local Authorities.

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

- The Overdraft balance of a Bank Account of the Colombo Municipal Council which amounted to Rs.742.9 Million as at 31 December 2011 had been continuously increasing due to the non-implementation of an efficient course of action for the collection of revenue by the Council and the lack of proper expenditure management. The overdraft balance as at 31 December 2015 amounted to Rs.1,231.05 Million and in overdraft interest paid during the year amounted to Rs.70.5 Million.
- Taxes amounting to Rs.25.9 Million collected by the Colombo Municipal Council under the Inland Revenue Act had been retained in a Deposit Account over a period exceeding 5 years without being remitted to the Commissioner General of Inland Revenue.
- According to the Urban Development Authority Circular No.08 of 20 September 1988, a Bank Account for the Urban Development Authority should be maintained and when sufficient amount of money is collected, the Council may apply for obtaining the money with a feasibility report for a project and utilize the money for such project. Even though a balance of Rs.650.42 Million in the State Agency Project Account of the Colombo Municipal Council and balance of Rs.1.95 Million in a Current Account of the Kotikawatta – Mulleriyawa Pradeshiya Sabha existed as at 31 December 2015 such money had not been utilized for a beneficial project.
- The total arrears of rates of the Colombo Municipal Council as at 31 December 2015 amounted to Rs.2,596.9 Million. That included 647 properties, each with arrears exceeding Rs.500,000 totalling Rs.1,302.2 Million.
- It was observed that a Land Rover Jeep of the Colombo Municipal Council repaired at a cost of Rs.2.7 Million in the year 2012 remained parked without being used up to December 2015.
- The Kaduwela Municipal Council had, at the General Meeting held on 23 July 2015, decided to rent out 54 trade stalls of the Megacity Shopping Complex at Athurugiriya at lesser monthly rentals disregarding the valuation done by the Department of Valuation in the year 2013. As such the revenue deprived of to the council in the year 2015 amounted to Rs.1.4 Million.
- The Geographical Information System costing Rs.3.44 Million designed by the Urban Development Authority which was due for delivery to the Kaduwela Municipal Council in the year 2013 had been handed over to the Council in the year 2015. Nevertheless action had not been taken for updating the information contained remain.

- Sri Jayawardanapura Kotte Municipal Council had paid a sum of Rs.63.00 Million for the purchase of 06 Compaction at Rs.10.50 Million per compactor from an intermediary institution which is not involved in selling Compactors. It was observed in audit that such Compaction could have been purchased at Rs.6.7 Million per unit from the Lanka Ashok Leyland and as such a sum of Rs.23.25 Million and as such an overpayment of Rs.23.25 Million had been made.
- Horana Pradeshiya Sabha had paid a penalty of Rs.1.07 Million to the Department of Inland Revenue failure to remit the Value Added Tax collected during the years 2002 to 2012.
- Nauala Pradeshiya Sabha had adopted the system of transporting about two tons of garbage collected in the area of authority and dump into pit-in a land. The building Constructed on that land in the year 2015 for garbage Management and the Compose Yard constructed in the year under review at a cost of Rs.750,000 had not been used for that purpose.
- The Solid Waste Management Centre constructed by the Thirrappane Pradeshiya Sabha in its area of authority in the year 2011 at a cost of Rs.5.57 Million from the financial provision of the Central Environmental Authority had not been operated properly and the officers of the Central Environmental Authority who had carried out a field inspection on 27 April 2016 had observed that it had caused environmental damage resulting in problems to the village to carry out their daily activities relating to their livelihood.
- Thalawakale – Lindula Urban Council had spent a sum of Rs.926,900 in the year 2013 for the purchase of boats and construction of a jetty for maintaining a recreational boat service in the Upper Kotmale Reservoir and had paid of the reservoir. But the project had not been commenced even by 15 March 2016.
- Contrary to the provisions in the Pradeshiya Sabhas Act No.15 of 1987 and the Instruction in the Circular dated 03 February 2010 of the Secretary to the President, the Nuwara Eliya Pradeshiya Sabha had sub-divided the land called Claryslers Farm 01 acre 02 roods 38.6 perches in extant into 37 blocks and allocated on monthly rental basis. Blocks of lands had been allocated 8 members and 21 officers of the Sabha.

- Kandy Municipal Council had constructed a retaining wall for the protection of a private house at a cost of Rs.1.62 Million by utilizing the provision made available by the Kandy District Disaster Management Unit and funds of the Kandy Municipal Council.
- Contrary to the Provisions in the Pradeshiya Sabhas Act, No 15 of 1987 and without obtaining the prior written approval of the Minister, Tangalla Pradeshiya Sabha had purchased goods by spending Rs.3.35 Million from the Sabha Fund and distributed among 13 Voluntary Organizations.

# **Foreign Funded Project**

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According to the Annual Report of the Ministry of Finance for 2015, borrowings amounted to Rs.1,188 million had been made from domestic sources whilst borrowings amounted to Rs.556 billion had been made from foreign sources, during the year under review, under the public borrowings programme. Out of the borrowings from the foreign sources, Rs.298 billion had been made by the issuance of Sovereign Bonds and Rs.258 billion had been borrowed as Foreign Aid Project and Programme borrowings.

Twenty three new Loan Agreements had been entered into with the foreign development partners and Lending Agencies during the year 2015 and through those US\$ 1,268 million are to be obtained in the ensuing years. In addition to that, a sum of US\$ 65 million is to be obtained under 10 Grant Aid Agreements during the ensuing years. Out of these borrowings and grants, 36 per cent, 19 per cent and 12 per cent are expected to be invested in the development of highways and bridges, development in the power and energy

sector and the water supply and sanitation sector respectively.

## **Utilisation of Foreign Loans and Grants**

Loans amounting to US\$ 1,441 million and Grant Aid amounting to US\$ 74 million received through Development Projects and Programmes from the Foreign Development partners and the Lending Agencies during the year 2015 had been utilized. It was observed that the utilization of loans and grants was declined when compared with the loan amounting to the US\$ 1694 million and grants amounting to US\$ 155 million utilized in 2014.

## **Presentation of Financial Statements and Audit Observations**

According to the information made available, US\$ 1,515.2 million had been received in the year 2015 for 172 Loans and grant projects. Out of those financial statements of 104 Loans and grant projects amounting to US\$ 1,043.3 million had been presented for audit by 30 June 2016. The details appear in the following Table No.10 and Figure No.11

Foreign Partner / Lending Agency	Development	Number of Projects funded with Loan and Grant Aid	Number of Projects which presented Financial Statements for Audit
<b>Asian Development Bank</b>		35	26
<b>World Bank</b>		26	25
<b>Japan</b>		21	13
<b>Republic of Korea</b>		14	03
<b>People's Republic of China</b>		15	09
<b>United Nations Development Programme</b>		08	06
<b>International Fund for Agricultural Development</b>		05	04
<b>Kuwait</b>		04	03
<b>France</b>		03	01
<b>Other</b>		41	14
<b>Total</b>		<b>171</b>	<b>104</b>

Table10 : Number of Projects which obtained loans and grants and presentation of Financial Statements

Source : Financial Statement of Projects and Ministry of Finance Annual Report 2015

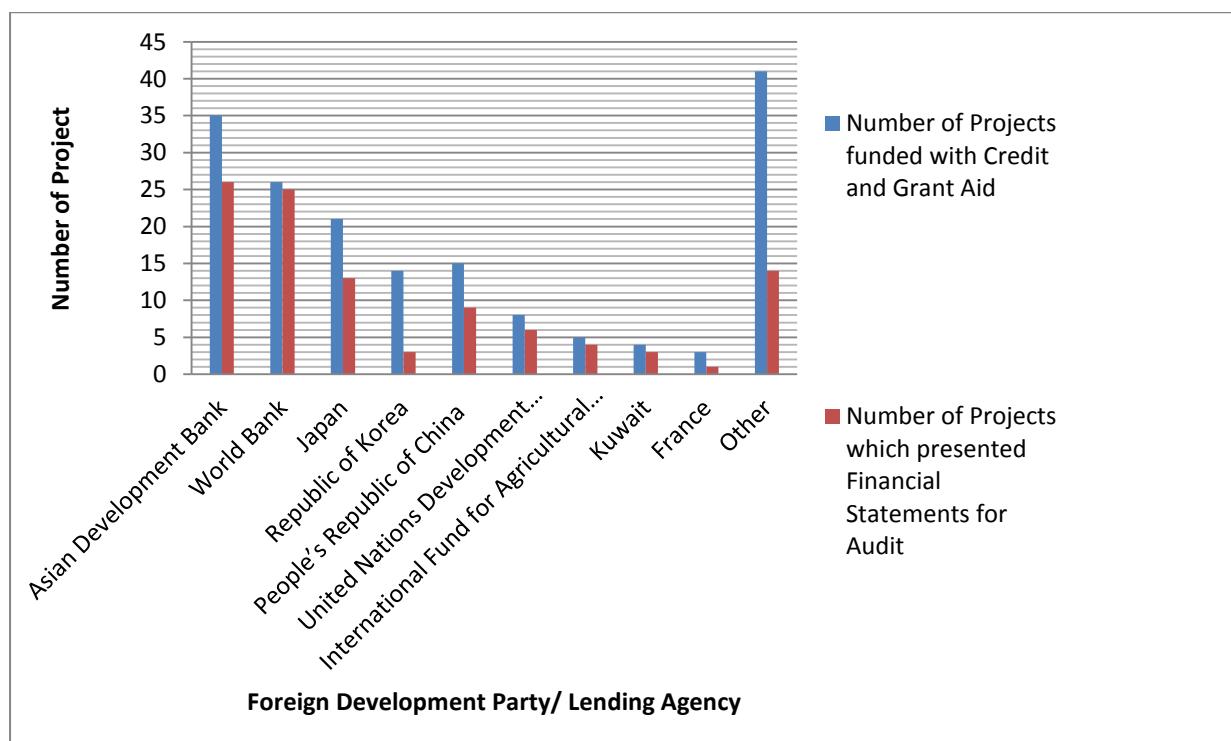


Chart No. 11- Number of Projects which obtained loans and grants and presentation of Financial Statements

Source- Financial Statement of Projects and Ministry of Finance Annual Report 2015

A summary of major audit observations related to the Loan and Grant Aid projects on which Audit Reports issued by 30 June 2016.

- The development of 36 kilometre section from Eluwankulama to Marichchakatti under the Project for the Development of Puttalam – Marichcakatti – Mannar Road implemented out of loan of US\$ 86.11 million equivalent to Rs.9,887 million obtained from the China Import and Export Bank, had been subsequently abandoned due to the Verdict of a Fundamental Rights Case filed based on by an outside party. The legal case had been the commencement of the Project activities without carrying and a proper environmental study and environment impacts on the wilpattu Sanctuary.
- The Jaffna – Kilinochchi Water Supply and Sanitation Facilities Improvement Project under loans from the Asian Development Bank and the Government of France, the Project could not be implemented as expected as the people in the area raised objections for the use of the Iranamadu Tank as a water source of the Project. In view of the failure to make the people of the area aware of the Project, only a sum of Rs.1,596 million equivalent to US\$ 12.59 million had been utilized up to 31 December 2015

from the provision of Rs.16,460 million equivalent to US\$ 142.32 million.

- Out of Rs.20.97 million equivalent to US\$ 2.16 million received under the United Nations Development Programme for the establishment of a Integrated National Development Information System with the objective of developing and improving the working of the functions Department of Project Management and Monitoring of the Ministry of National Policy and Economic Affairs, a sum of Rs.9.64 million equivalent to US\$ 72,422 only had been utilized up to the end of the year 2015. The Project Director informed that the Project was delayed due to the difficulty in carrying out an in depth study of the information system.
- The establishment of the Integrated Treasury Management Information System expected to implementation under the Fiscal Management Project funded by a Asian Development Bank loan of Rs.5,344 million equivalent to US\$ 40.8 million of Asian Development Bank had been delayed due to the failure to carry out an – dearth study. Accordingly, a sum of Rs.1,140 million equivalent to US\$ 8.8 million only had been utilized by 31 December 2015, that is, 5 years

- after the commencement of the Even though the 46 kilometers of the section of Udatenna – Mahiyanganaya of Kandy – Mahiyanganaya Road had been developed in 2013 under the National Road Sector Project implemented by the Road Development Authority at a cost of Rs.5,360 million from a loan from the Asian Development Bank there were subsequent disasters such as landslides had occurred due to the Road was planned with proper attention an the environmental protection methods. Futher Provision of Rs.648 million had been made under the Project for the Climate Resilience Improvement Project Implemented from the year 2014 from the World Bank loans for covering these impacts. This indicates that the implementing Agencies of the Foreign Aid Projects had not paid attention on the sustainable development aspects.

In addition to the above observations, a summary of common deficiencies observed during the course of the audit of foreign aid projects is given below.

- There were a large number of projects of which the project

implementation.

periods had expired in the year 2015. The financial statements of those, prepared on the going concern basis had been presented. As the Ministry of Finance had not provided the formal instructions on the manner of Presentation of the financial statements for the final year of the projects, financial statements on the winding up basis had not been prepared.

- It was observed that the physical progress and for utilization of a large number of major project was not at satisfactory level as enable to made contribution for the economic development. It was further observed that such situations would lead to the restructure of the activities, cancellation or extending the project periods. Further the financial plans of the project would be failed due to unnecessary time attentions. In additional the loan management cost would the increased due to payment of additional in tests an delays of fund utilization.

The details of the projects which had shown progress of physical progress and funds utilization are given table 11 below.

Name of Project	Allocation for the Project Rs. Billions	Loan Utilisation Progress as at 31 December 2015 Percentage	Balance Period for completion of the Project (Months)
<b>Education Sectoral Development Project</b>	200	27.0	32
<b>Southern Roads Connectivity Project 3027(S.R.P)</b>	1,002	6.7	03
<b>Southern Roads Connectivity Project 3028(S.R.P.)</b>	6.8	24.0	06
<b>Greater Colombo Waste Water Management Project</b>	109.12	39.0	30
<b>Dry Zone Urban Water and Sanitation Facilities Project</b>	103.33	51.3	06
<b>Greater Colombo Water and Waste Water Management Improvement Project</b>	112.0	22.2	12
<b>Dams Protection and Water Resources Planning Project</b>	82.50	17.8	30

Table 11- Physical Progress and Loan Utilisation of several Projects

- According to the provisions in the Management Services circular No. 33 of 05 April 2007, the Project staff should be recruited by formally inviting applications, for a contract period of 3 years. But it was observed that, contrary to the

above requirement, it were observed that the officers of the Road Development Authority and the National Water Supply and Drainage Board had recruited for the projects.

## **State Banks**

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Sri Lankan State Banking Sector consists of eight Banks including the Bank of Ceylon and the People's Bank being the two largest licensed commercial Banks. The other six licensed specialized State Banks are the National Savings Bank, the State Mortgage and Investment Bank, the Pradeshiya Sanwardana Bank, the Lankaputra Development Bank, the Sri Lanka Savings Bank and the Housing Development Finance Corporation Bank.

### **Performance of State Banks**

#### **Bank of Ceylon**

The net interest income of the Bank had increased by 24.16 per cent and had recorded a net profit before tax of Rs.25,279 Million in the year 2015, as compared with Rs.20,291 Million in the year 2014 with an improvement in net interest income from Rs.38,450 Million in the year 2014 to Rs.47,739 Million in the year 2015. As a result of increased profitability, Return on Average Assets Ratio and Return on Average Equity Ratio of the Bank had also increased in the year 2015.

The Loans and Advances of the Bank had recorded a growth of 11.5 per cent as at the end of year 2015, as compared with the preceding year.

Although the Bank's Capital Adequacy Ratio (Tier II) had declined from 13.6

Although the Bank's Capital Adequacy Ratio (Tier II) had declined from 14.3

per cent in the year 2014 to 13.1 per cent in the year 2015, it is above the minimum statutory requirement of 10 per cent.

Non-performing Loan Ratio (NPL) of the Bank had increased to 4.3 per cent in the year 2015 as compared with 3.8 per cent in the year 2014. During the year 2015, the Bank had added 05 new Branches to its Branch Network.

#### **People's Bank**

People's Bank being the State owned Licensed Commercial Bank in Sri Lanka with an asset base Rs.1,177 Billion had recorded a profit before tax of Rs.19.5 Billion in the year 2015. The Bank operates with a Branch Network of 346 Branches, 392 Service Centers and 23 SME Centers.

Bank had recorded an interest income of Rs.92.4 Billion in the year 2015, or an increase of 9.37 per cent over the preceding year. The net interest income of the People's Bank for the year 2015 had improved to Rs.43.67 Billion from Rs.30.12 Billion in the year 2014.

Loan Portfolio of the Bank had recorded a growth by 16.71 per cent in the year 2015. Non-performing Loan Ratio of the Bank had improved by the end of the year 2015 to 2.4 per cent as against 3.2 per cent for the year 2014.

per cent in the year 2014 to 12.5 per cent in the year 2015, it is above the

minimum statutory requirement of 10 per cent.

The Bank had recorded a deposit base growth of 13.35 per cent in the year 2015 compared with the preceding year.

### **National Savings Bank**

National Savings Bank is the premier Licensed Specialized Bank in Sri Lanka owned by the Government of Sri Lanka. The Bank operates with 245 Branches, including 12 Postal Banking Units and 06 Loan Centers. Banking network has been further strengthened by 4,063 Post Offices and Sub- Post Offices which function as Mini-branches. Asset base of the Bank grew by 9 per cent to Rs. 848 Billion at the end of the year 2015. Loan Portfolio of the Bank recorded a growth of 22 per cent to Rs. 271.7 Billion at the end of the year 2015.

Bank had achieved a net profit before tax of Rs.13 Billion in the year 2015 indicating an increase of 24.46 per cent over the preceding year. Bank had achieved an increase of net interest income by 26.2 per cent in the year 2015 as compared with the year 2014.

The deposit base of the Bank had grow by 7.5 per cent to Rs. 595.8 Billion at the end of the year 2015. The Bank's Non-performing Loan Ratio had significantly improved to 3.5 percent in the year 2015 as compared with 7.6 per cent in the year 2014.

Although the Bank's Capital Adequacy Ratio (Tier II) had declined from 18.98 per cent in the year 2014 to 16.4 in the year 2015, it is above the minimum statutory requirement of 10 per cent.

### **Housing Development Finance Corporation Bank**

This Bank was incorporated by the Government with the primary objective of providing housing finance and it is the only State Bank listed in the Colombo Stock Exchange. The Bank's lending portfolio had grown by 14 per cent and reached to Rs.27 Billion in the year 2015. Deposit base of the Bank had increased by 16.8 per cent to Rs.29 Billion by the end of the year 2015. Non-performing Loan Ratio of the Bank had improved from 22.6 per cent in the year 2014 to 20.8 per cent in the year 2015. Net interest income of the Bank had increased to Rs.2,121 Million in the year 2015 as compared with Rs.1,843 Million in the year 2014. The Bank's profit before tax had recorded an increase of 24 per cent to Rs.787 Million for the year 2015 resulting in a Return on Equity of 15.78 per cent as against 13.72 per cent in the year 2014. The Branch Network of the Bank had expanded to 38 Branches with the opening of 2 new Branches during the year 2015.

Although the Bank's Capital Adequacy Ratio (Tier II) had declined from 12.92 per cent in the year 2014 to 12.18 per cent in the year 2015, it is above the minimum statutory requirement of 10 per cent.

## **State Mortgage and Investment Bank**

The State Mortgage and Investment Bank is a Licensed Specialized Bank engaged in mortgage loan business for housing and housing related purposes since in the 1931. The net interest income had increased to Rs.1,822 Million in the year 2015 from Rs.1,419 Million in 2014 and accordingly the pre-tax net profit had increased by 65 per cent. Loans and Advances had increased by 10 per cent.

The Non-performing Loan Ratio had improved to 29.78 per cent in the year 2015 from 33.95 per cent in the year 2014, which includes Employees' Provident Fund related loans which can be recovered from the Central Bank of Sri Lanka within short period.

Although the Bank's Capital Adequacy Ratio (Tier II) had declined from 25.32 per cent in the year 2014 to 22.65 per cent in the year 2015, it is above the minimum statutory requirement of 10 per cent.

## **Pradeshiya Sanwardhana Bank**

The Pradeshiya Sanwardhana Bank was established by merging six Regional Development Banks to improve the living standards of the rural masses by providing them with accessible and

affordable credit facilities that would in turn contribute to strengthen the rural economy. The pre-tax net profit of the Bank had increased by 57 per cent in the year 2015 due to expansion of business activities. The net interest income had increased to Rs.6,590 Million in the year 2015 from Rs.5,282 Million in the year 2014.

The Non-performing Loan Ratio had improved to 4.0 per cent in the year 2015 from 7.6 per cent in the year 2014. The deposit base of the Bank had increased by 19 per cent and Loans and Advances had increased by 43 per cent.

The Bank's Capital Adequacy Ratio (Tier II) had increased from 9.3 per cent in the year 2014 to 10.5 per cent in the year 2015 and it is above the minimum statutory requirement of 10 per cent.

## **Lankaputra Development Bank**

The net interest income of the Bank had increased by 3.6 per cent to Rs.562 Million in the year 2015 from Rs.543 Million in the year 2014. Accordingly, the profit before tax increased by 3.87 per cent. The deposit base of the Bank increased by 37 per cent and Loans and Advances had increased by 26.5 per cent.

The Non-performing Loan Ratio had improved to 35.2 per cent in the year 2015 from 44.6 per cent in the year 2014.

## **Sri Lanka Savings Bank**

After the issue of audit concerns on the financial statements, the amended financial statements for the year 2015 were furnished in September 2016 and audit thereof is still in progress.

reduction of 940 grams of gold valued at Rs.118.40 Million in smelting.

- At the physical verification on 30 December 2015 at the Head Office main vault a shortage of 37.19 grams of the smelt gold was observed. According to Chairman's reply, "Gold weight of smelted gold bars stated in the stock book has been recorded according to the figures shown in weighing machines used by the service provider. Physical verification has been done by using the newly purchased weighing machine of the Ran Surekum Naya Sewa Unit, Consumer Product Management Department after calibration made by Measurement Units, Standards and Services Department. The weight resulted during the physical verification was 37.19 grams lower than the recorded weight using the weighing machine of the service provider".

## **Major Audit Findings**

### **Bank of Ceylon**

- **Smelting of Unredeemed Gold Jewellery**

The following observations were made.

- According to the Office Instruction Circular No. 46/2010 on pawning advance services dated 15 January 2010 as amended by Circular No. 21 of 18 June 2014 Branches have been instructed to transfer the gold jewellery remaining unsold after presenting to an auction to an account named Gold in Hand. Accordingly, the gold pawning loan value the Branches had transferred to the Gold in Hand Account as at 30 November 2014 amounted to Rs.19,965,835,972.

- Out of the gold transferred, 112.62 kilo grams valued at Rs.570.38 Million had been smelted and the weight and value of gold produced from smelting amounted to 111.68 kilo grams and Rs.451.98 Million respectively. Thus indicating a

- **Settlement of outstanding Import Bill transactions of Government of Sri Lanka**

The Bank of Ceylon gives special rates to its customers who apply for buying American Dollars 5,000 or more. These special rates are decided by the Bank according to American Dollar and Rupee exchange rate in the market at the time of customer application. Rates are decided by adding some cents to the market selling rate (e.g. 10 to 25 cents).

However, the Bank has earned an unjustifiable profit of Rs.268,122,303 which is beyond the profit that would have been earned from best customers applying special rates. In the view of above, the Government of Sri Lanka being the customer who contributes more than 40 per cent of Bank's business and the owner of the Bank should get the best rates from Bank of Ceylon for their transactions which amount to millions of dollars. However the above transaction of the Bank will make greater concerns over the inappropriate absorption of public money as profit.

- **Non-compliance with the Provisions Paragraph 2.2.2 in Public Debt Department Circular No. SSSS/04/2007 of 28 September 2007.**

As a Dealer Direct Participant, Bank of Ceylon has failed to record 111 Re-purchase (REPO) transactions valued at Rs.58,686,089,500 promptly and accurately in Lanka Secure ownership to show the change in legal ownership of the securities attached for such transactions contrary to the regulations imposed by the Central Bank of Sri Lanka. Even though the REPO transactions cannot be back-valued practically, the Treasury Division had accommodated this facility to its customers, exposing the Bank to a risk of "non-recording transaction charge on the Dealer Direct

Participant". The possible surcharge may amount to Rs.586,860,895 (1 per cent of the unrecorded transaction value). Since such transactions are unrecorded in the Lanka Secure, any transactions related to the unrecorded period can be treated as unsecured money market transactions.

## People's Bank

- The Bank had not remitted long outstanding Withholding Tax amounting to Rs.686,250,000 on interest paid for debentures issued to the Pension Trust Fund for the years 2009 to 2014 to the Department of Inland Revenue. In the year 2015 also the Bank had violated the provisions in the Inland Revenue Act in paying interest on above debentures without deducting 10 per cent Withholding Tax amounting to Rs.198,750,000 which should be remitted to Department of Inland Revenue.
- Out of 13 completed Branch Construction Projects, 10 Branches with the total cost of Rs.1,650,183,037 and 03 projects with the estimated cost of Rs.314,626,352 had been awarded to a Sub-subsidiary of the Bank without following Procurement Procedure and evaluating the contractor's professional competence and past performance history.

- The Bank had capitalized contractor's borrowing costs of Rs.136,436,283 (with taxes) as a part of assets of the Bank during the year violating SLAS 23 - Borrowing Costs. Due to that erroneous accounting treatment, the assets and profit of the Bank had been overstated.
- The Bank had purchased land and building for a Branch Office premises at Tangalle from a Sub-subsidiary of the Bank in October 2012 and capitalized at Rs.180,440,450. But the value of the property had been drastically dropped by Rs.110,440,450 at the valuation carried out by the Government Valuer on 30 June 2013, after 06 months from the purchase.
- As a Dealer Direct Participant, People's Bank has failed to record 53 REPO transactions valued at Rs.23,829,941,783 promptly and accurately in Lanka Secure ownership to show the change in legal ownership of the securities attached for such transactions contrary to the provisions in Public Debt Department's Circular No: SSSS/04/2007 of 28 September 2007. Even if the REPO transactions cannot be back-valued practically, the Treasury Division has accommodated that facility to its customers, exposing the Bank to a risk of "non-recording transaction charge on the Dealer Direct Participant". The possible surcharge may amount to Rs.238,299,418 (1 per cent of the

transaction value unrecorded). Since such transactions are unrecorded in the Lanka Secure, any transaction related to the unrecorded period can be treated as unsecured money market transactions.

## National Savings Bank

- An unreconciled difference of Rs. 2,542.14 Million was observed between the Head Office Inter Branch accounts and the balances at Branches.
- Out of the sum of Rs. 715.991 Million receivable from the General Treasury on account of dormant accounts, a sum of Rs.442.264 Million had remained outstanding for over five years without being settled.
- Fraudulent withdrawals amounting to Rs.94.35 Million were outstanding as at 31 December 2015 and indicated an increase of Rs.67.817 Million or 256 per cent as compared with the preceding year. Out of that a sum of Rs.42.985 Million or 63 per cent of the increase related to fraudulent ATM cash withdrawals.
- According to Section 47 of the National Savings Bank Act, No.30 of 1971, the Deposits which are inoperative over 10 years should be considered as dormant deposits and transfer to the "Unclaimed Deposits Reserves" Account. But it was observed that Rs.1,435.724 Million had been shown as dormant deposits in the

financial statements for the year ended 31 December 2015 without transferring to the said Reserves Account.

- The Bank had approved Rs.14, 227 Million loan facility to the Sri Lanka Land Reclamation and Development Corporation on 26 June 2013 and the Board had granted approval to the interest payment due for the years 2014 and 2015 and capitalized on half yearly basis. Accordingly the total outstanding amount as at 31 December 2015 amounted to Rs.2,799 Million and comprised the total disbursement of Rs.2,550 Million and capitalized Interest of Rs.249 Million. It was noted that this project loan had been identified as a proposal under international bond proceeds which will mature within five years and Bank had granted this loan with 14 year repayment period including a grace period of 2½ years.
- Total Pawning Advances given by the Bank as at 31 December 2015 amounted Rs.26,489.258 Million and market value thereof amounted to Rs.37,838.435 Million. Out of that Rs.5,484.748 Million represented Non-performing Pawning Advances as at 31 December 2015. As compared with the preceding year that indicated a decrease of 20 per cent and 18 per cent of value of Pawning Advances and Market value of those respectively due to the

substantial decrease in the market price of gold and capital write off of non-performing pawning advances amounting to Rs.380.710 Million. Further it was observed that 21 per cent of total Pawning Advances had been at non-performing level.

- The Bank had incurred expenditure amounting to Rs.83.561 Million for the construction of building on eight lands at Anuradhapura, Elpitiya, Galnewa, Katharagama, Kekirawa, Kiridiwela, Monaragala and Rathnapura without getting the legal ownership of the Lands in favour of the Bank.
- Out of the actual cadre, 2009 or 55 per cent represent posts of Banking Assistants and Bank had followed only the interview basis after the year 2005 instead of competitive examination basis which was followed before the year 2005 as the recruitment procedure for such posts. According to the examination rules suitable candidates should be below the age of 28 years and should have passed the competitive examination to be select for interview. But in the interview such candidates are select from the list provide by the management. Further under the new procedure, age limit had been reduced to 25 years and open advertisement and competitive examination had been abolished.

## **Housing Development Finance Corporation Bank**

- The Bank had collected cheques from the customers to recover the loan installments and those cheques had been credited to the Customers Loan Accounts on the same date. As a result, the Bank had recognized those cheques as realized cheques before realization. Further it was noted that Rs.1,397,191 were not adjusted over a period and they had still appeared as cheque deposited but not realized.
- Employee Provident Fund loans amounting to Rs.10,771,956 had been in arrears for more than 18 months. Although there was the possibility to recover those loans from Central Bank of Sri Lanka, the Bank had not taken any satisfactory action to recover those loan balances even up to end of December 2015.
- The Bank had invested in commercial papers a sum of Rs.100,000,000 at the rate of 11 per cent per annum in a private company for the period of 03 months and the investee company is not a rated company. Further it was noted that the one of the Director of that company is also a non-independent Director of the Bank.
- Out of total customer fixed deposits of the Bank, more than 41 per cent

was owned by eleven depositors as at 31 December 2015. Thus, it indicates that the Bank was more dependent on very limited depositors and exposed to high liquidity risk.

- Twenty officers had been promoted to the posts of senior manager and above with effect from 01 January 2015 without paying attention to the cadre positions existing in the Bank and these had not been approved.

## **State Mortgage and Investment Bank**

- Even though there were transactions aggregating Rs.52.66 Million involving the Key Management Personnel, their close family members and entities, the Bank had not disclosed the related party transactions in financial statements in terms of the requirement of LKAS 24
- Repayment of capital or interest had not been made to General Treasury up to 31 December 2015 for a loan of Rs.250 Million obtained at an interest rate of 9 per cent in the year 2001. However interest aggregating Rs.134.32 Million had been provided in the accounts up to end of the year 2006 and no provision for interest aggregating Rs.202.5 Million had been made in the accounts for the period 2007 to 2015.

- Deposits aggregating Rs.2.03 Million made by the customers during the period from 01 July 2013 to 31 December 2014 in a particular Branch had been omitted from the individual accounts and this amount had been transferred to Unreconciled Control Accounts in Head Office as an unidentified amount.
- Transactions aggregating Rs.4.15 Million relating to the Bank Accounts had been transferred to Unreconciled Control Account without being adjusted in the accounts.
- There was an unusual debit balance of Rs.17.72 Million in Cheques on Realization Account as at 31 December 2015 due to errors in posting. Thus the other debtors shown in the financial statements had been overstated by same amount.
- Long due balances in Unpresented Cheques Account amounting to Rs.3.06 Million had been carried forward without being cleared.
- Even though the Bank had reconciled balances between Current Account with the Branches and the Current Account with the Head Office held in Branches as at 31 December 2015, the entries aggregating to Rs.24.65 Million had not been made in the accounts.
- A difference of Rs.50.40 Million existed between the amount shown in the financial statements and the balances generated by the computerized systems with regard to the fixed deposits, savings accounts, loans against fixed deposits had been transferred to Unreconciled Control Account during the year 2015.
- A difference of Rs.13.32 Million existed between the financial statements and the balances generated by the computerized systems with regard to Refinance Loans, Mortgage Loans, Personal Loans, Estate Sector EPF Loans, EPF loans and unappropriated accounts as at 31 December 2015.
- A debit balance of Rs.7.55 Million and credit balance of Rs.2.12 Million had been shown over a long period in the Advance Accounts without being identified and adjusted in the accounts.
- Even though the Bank had confirmed the Rent Advance Account balance as Rs.2.9 Million as at 31 December 2015, a sum of Rs.5.59 Million is shown as the credit balances of that account in the financial statements.
- Unidentified sum of Rs.2.39 Million shown in the financial statements as other liabilities relating to the encashment of Head Office cheques had remained in the accounts without being identified and reconciled for more than one year.

## **Pradeshiya Sanwardhana Bank**

- Due to disputable Loss Given Default Ratios used by the Bank to calculate loan loss provision, caused for the reversal of impairment provision already made by Rs.1.2 Billion and Rs.611 Million during the year 2014 and 2015 respectively. Due to this reversal, the profit for the relevant years has increased by the same amount.
- In the procurement of 56 drop safes valued at Rs.1,604,400 , the Bank has placed an order to the supplier to purchase 56 drop safes. Though the order has not been completed up to 12 May 2016, the date of audit, the validity period of the bid bond and the performance bond had already expired. Action had not been taken by the Bank to extend the above validity period.
- According to the investigation report on repairs carried out to the Branch Office building at Mihintale, it was pointed out that there were deviations from Procurement Procedures under each stage of procurement such as appointing members to the Procurement Committee and the Technical Evaluation Committee, publishing advertisements, bid evaluations, bid opening, conducting of meetings and preparation of relevant documents. A total payment

of Rs.4,449,813 has been made to the contractor without proper invoices from the contractor and without a certificate of work done issued by the Project Engineer. No officer of the Bank had taken action to ensure that the work has been performed according to the agreement and the required standards before finalizing the payments. The building had been rendered unusable and the loss incurred by the Bank due to this contract still has not been estimated.

- According to the Office Circular No. 2010/10 (Development Loans) of the Bank, every article given as a pledge shall be redeemable within a period of 12 months commencing from the date of pawning. If the article is not redeemed within the redeemable period, the Pawnee shall sell the articles by public auction. The above instructions are common for the staff pawning advances as well. However pawning advances of Rs.2,529,750 issued to 04 staff members of the Bandarawela Branch during the years 2012-2014 are still remaining as unsettled.
- It was evidenced that the following transactions have been performed by relevant Branches of the Bank at the year end with the purpose of manipulating loans and advances and deposits to show high performance of the Branch.

## **Lankaputra Development Bank**

- A difference of Rs.6,826,769 was observed between the balance according to the general ledger and the balance according to the physical stock verification records in relation to the consumables, stationery and promotional items as at 31 December 2015 in Head Office.
- High Non-performing Loan Ratio which stood at 35.2 per cent as at 31 December 2015 which is far above the Bank's average of 6.4 per cent was observed. A high Statutory Liquid Asset Ratio of 888.2 per cent which is far above the minimum requirement of 20 per cent as at 31 December 2015 was also observed. This was due to maintenance of high liquid assets without investing in high yielding assets.
- During three days (29, 30 and 31 December 2015) at the year end 2015, fixed deposits of Rs.50.6 Million had been opened on 11 customer names and at the same date 90 per cent of the deposits amounting to Rs.45.54 Million had been granted as a loan against the deposits by Wennappuwa Branch. However all these deposits had been uplifted and settled the loans taken just few days after the placement of deposits (07

and 11 January 2016).

- When considering the total deposits canvassed and total loans disbursed by the Branch during the year 2015, it was revealed that, 83 per cent of the deposits and 23 per cent of the loans are canvassed and disbursed during the month of December which is highly unusual. It appears that there had been no physical cash movement for the subject transactions and only manipulation of new deposits and advances to boost the Branch performance.
- It was observed at the Branch inspection of the Wennappuwa Branch that, money from customers saving deposits has been withdrawn by forgery of customers' signatures on the deposits slips. The total amount fraudulently withdrawn from customer accounts in the selected sample amounted to Rs.738,138.
- According to Banking Act Direction No.12 of 2007 on Corporate Governance for Licensed Specialized Banks, the Chairman does not engage in activities involving direct supervision of Key Management Personnel or any executive duties. But being a member of several management level committees the Chairman's involvement with executive duties were observed.

## **Central Bank of Sri Lanka**

### **Consultancy Services Cost to the Advisory Council**

The Former President of the Democratic Socialist Republic of Sri Lanka had appointed three International Experts on 28 June 2014 to serve on an Advisory Council to advise the Presidential Commission to investigate into complaints regarding missing persons resident in the Northern and Eastern Provinces and this was notified by the Extraordinary Gazette No. 1871/18 dated 15 July 2014. Expenditure such as consultancy fees, accommodation and other charges of the above Advisory Council and their staff amounting to Rs.145 Million and Rs.111.5 Million for the year under review and for the preceding year respectively had been incurred by the Central Bank of Sri Lanka. Even though the above expenditure had been incurred by the Central Bank of Sri Lanka there were no contracts entered into between the Central Bank of Sri Lanka and the above mentioned Consultants. It was further observed that obtaining the services of above Consultants were not related to the functions or objectives of the Central Bank of Sri Lanka.

### **Payment to the foreign Lawyers and International Centre for Settlement of Investment Disputes**

The Ceylon Petroleum Corporation restrained from making payments on the

oil hedging agreements entered into with the Deutsche Bank A G (DB) under directions issued by the Monetary Board on 16 December 2008 because of oil hedging transactions had been found materially affected and substantially tainted. Accordingly, Deutsche Bank A G (DB) initiated arbitration proceedings in the International Centre for Settlement of Investment Disputes against the State. In this matter, the Arbitration award was delivered on 02 November 2012 in favor of Bank for sum of US\$ 78,469,623.

Annulment proceedings have been initiated at the International Centre for Settlement of Investment Disputes against same according to the decision of the Hon. Attorney General and the Legal Team.

Payments amounting to Rs.378,676,095 had been made to the foreign lawyers who appeared in the arbitration proceedings during the period of 2010 to 2014 and payments amounting Rs.25,617,480 had been made to the International Centre for Settlement of Investment Disputes as administrative costs of Annulment Proceedings for the year under review by the Central Bank of Sri Lanka. In addition, a provision of Rs.13,079,334 had to be made in the account with regard to the lawyers fee for 2015.

The above payments aggregating to Rs.417,372,909 had been made by the CBSL it was observed that these payments were not related to the functions of Central Bank of Sri Lanka.

# Agriculture

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The functions of the Ministry of Agriculture and the Departments and the Institutions under the purview of the Ministry are the formulation and implementation of Agricultural Policies, Programmes and Projects, Agricultural Diversification and Production Improvement, Promotion of use of Carbonic Fertilizer, the Administration of Soil Conservation Act, Felling of Trees (Control) Act, Seed Act, Pesticide Act, Regulation of Fertilizer Act and Plant Protection Act, Agricultural Education, Research and Extension, activities related to Paddy Lands, Agricultural Enterprises, Post-harvest Technology and High-Tech Agriculture with the objective of achieving an Entrepreneurial Agriculture producing globally competitive and socially accepted products of new and commercial trends through the sustainable management of the national resources.

These functions should have been performed by the Department of Agriculture, Department of Agrarian Development, Sri Lanka Council for Agricultural Research Policy, Ceylon Fertilizer Co. Ltd., Colombo Commercial Fertilizers Ltd., Lanka Phosphate Ltd, Hector Kobbekaduwa Agrarian Research and Training Institute, Institute of Post-Harvest Technology, Sri Lanka National Freedom from Hunger Campaign and the Agricultural and Agrarian Insurance

Board functioning under the purview of the Ministry of Agriculture.

Out of the total land area of the Island, approximately 65 per cent is used for agricultural purposes and the agriculture is the main livelihood of over 70 per cent of the total population. The Ministry of Agriculture had implemented 7 major development programmes in the year 2015, for which Rs.50,170 million had been spent. A sum of Rs.49,571 million had been spent by the end of the year under review solely for the Fertilizer Subsidy Scheme. The audit observations on the functions performed by the Ministry and the Institutions under its purview are given below.

## **Programme for Ensuring the Food Security**

This Programme had been implemented with the objective of saving foreign exchange through limiting import and increasing the production of food commodities that can be produced locally. Programmes such as the Production of Subsidiary Crops, the Youth Agri-Entrepreneurial Operation, Commercial Farms, the Awaraya Ahawarai and Soil Conservation Model Villages had been implemented. A sum of Rs.305 million had been spent thereon. The audit observations regarding those are given below.

## **Non-implementation of the Food Security Programme as expected**

Out of the provision made for the Commercial Farm and for the Youth Agri-Entrepreneurial Programme implemented under the Food Security Programme, 59.4 per cent and 65 per cent respectively had been saved. Further, the Commercial Farm Programme had not been implemented in 11 Districts.

## **Defects in the Sowers Purchased**

A sum of Rs.2.56 million had been spent for the purchase of 44 sowers under the Subsidiary Food Crops Production Programme. There were problems such as lack of uniformity in the seeds released by the sowers, damaging of seeds and in most instances bolt holes of the sowers not matching with those of the tractors used by farmers.

## **Failure to Distribute Seedlings as planned**

A Vegetable Cultivation Project had been started with the expectation of harvesting during May, June and July which are considered the out of season period. Plans had been made for the distribution of 566,650 sets of seedlings to the 11,333 Zones of Agricultural Research Assistants and 360,014 sets of

seedlings only had been distributed by the end of the year under review.

## **Selection of Beneficiaries outside the relevant Criteria**

The beneficiaries under the Programme for the Development of Commercial Farms had been selected outside the relevant criteria. A test check revealed that the benefits amounting to Rs.1,105,000 due to be given to 3 beneficiaries in the Colombo District had not been given even by the end of the year 2015.

## **Activities Contrary to Objectives**

Special Agricultural Development Programmes for ensuring the Food Security had been commenced and a sum of Rs.14.88 million out of the provision made for that purpose had been spent on 19 activities contrary to the objectives.

## **Production and Use of Carbonic Fertilizer**

The use of carbonic fertilizer results in minimising the use of chemical fertilizer, providing a strong layer of topsoil for the attachment of plants to the soil and increase the density of microbes living in the soil allowing for easy ingress of air needed for plant

roots into the soil. Accordingly, provision amounting to Rs.1,877 million had been made from the year 2008 to the year 2015 for popularizing the production and use of carbonic fertilizer for making the soil fertile. A sum of Rs.1,230 million had been spent through different programmes of the Ministry. The following deficiencies were observed in this connection.

### **Failure to Distribute Part of the Equipment and Inputs Purchased among Farmers**

A Project for popularizing of the production and use of Carbonic Fertilizer had been commenced in the year 2013 and equipment and inputs valued at Rs.100.05 million had been purchased for distribution among the farmers. Equipment and inputs valued at Rs.2.65 million had been retained at the stores of 24 Agrarian Service Centres in the Anuradhapura District even by 31 December 2015 without being distributed among the farmers. These included 204 equipment sets, 20 sheet huts, 19 grass mowers, 2,427.5 kilogrammes of polythene and 1,670 bags of phosphate of 50 kilogrammes.

### **Failure to train Farmers as expected**

Provisions of Rs.10 million had been made for the training of 10,000 selected farmers and officers at the Regional

Agricultural Research and Development Centre at Makandura and the training of 90,000 farmers in the field through those who received training. Nevertheless, only 4,593 farmers and 2,219 officers had been trained by 31 December 2015 while 24,860 farmers in the field had been trained. As such the expected performance had not been achieved.

### **Minimal Progress of the Project for Preparing Small Horticultural Gardens**

The progress of the Project for preparing 558 Agrarian Service Centers as Small Horticultural Gardens had been at the minimal level of 50 per cent.

## **Department of Agriculture**

The Department of Agriculture established with the objective of achieving excellence in agriculture for the national prosperity comprises 15 main Divisions. The Department of Agriculture being one of the largest Departments established prior to a century ago should have carried out research and development, other Horticultural crops cultivation, projects, training and communication programmes, certification of seeds and the programme for the production of planting materials. The following deficiencies were observed in this connection.

## **Minimal Level of Research on Agro-industry**

A sum of Rs.1,379 million had been spent on the Research Divisions during the years 2012 to 2015 and 2 per cent of the total capital expenditure of the year 2015 had been spent on research activities. Even though the Horticultural Research and Development Institutions, Gannoruwa had conducted research on vegetables such as tomatoes, long beans, brinjol, luffa and beans only even that had been at the minimal level.

## **Dependence on Imports for Seed requirements of abundantly used Vegetables**

A larger portion of seed requirements of the 5 kinds of much used vegetables in Sri Lanka such as beetroot, carrot, cabbage, nokol and leeks depend on imports.

## **Attachments of Foreign Trained Officers to Unrelated Fields**

The Department of Agriculture had utilised its provisions during the years 2011 to 2015 to provide training under foreign courses to 1,201 officers. A sum of Rs.11.59 million had been spent on 408 officers in the year 2015 and after

the completion of the courses the officers had been attached to fields not related to the training. As such the training acquired by the officers had not been effectively utilised.

## **Failure to make Farmers aware of varieties of Paddy Suitable for Climate Zones**

Even though different varieties of paddy suitable for the respective climate zones had been introduced through research, it was observed in audit that those are not being used in the respective regions. The Department had not taken courses of action to popularize those varieties of paddy among the farmers. Even at present, the most popular varieties among the farmers are the BG300 introduced in the year 1987 and BG352 introduced in the year 1992.

## **Failure of the Programme for Cultivation of Fallow Paddy Lands**

Provision of Rs.159.73 million had been made in the year 2015 for 12 Districts under the Programme for Cultivation of Fallow Paddy Lands and a sum of Rs.146.2 million out of that had been utilised. An examination of the progress as at 31 December 2015, revealed that only 9.2 per cent of the fallow paddy lands identified as fit for cultivation had been developed.

## **Plantation Industry**

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Improvement of productivity, profitability and sustainability of targeting the export market with the objective of achieving an accelerated economic development of the country is expected from the Plantations Sector.

The Ministry and 14 Departments and Institutions under the purview of the Ministry should have performed the following functions in order to achieve the expected results set out above.

- Formulation, follow-up and evaluation of policies, programmes and projects related to the Plantation Industries.
- Providing support and other facilities for increasing the productivity of plantation crops.
- Enhancing the international competitiveness for the productivity of the Plantation Industry.
- Taking necessary steps for uplifting the Industry for enhancing the value addition of the plantation crops.
- Issue of licences for tea and rubber
- Issue of licences for fragmentation of tea and rubber estates and control
- Optimum level use of plantation lands through multi-crop cultivation

and collective farms and achieving production and employment.

The following audit of observations are made in connection with the performance of the above functions by the Ministry and the institutions under the purview of Ministry.

## **Ministry of Plantation Industries**

### **Collection of Revenue**

According to the Annual Budget Estimates, the collection of revenue amounting to Rs.1,000 million under the Revenue Code had been estimated and revenue amounting to Rs.645 million or 65 per cent of the estimated revenue had been collected as at the end of the year 2015. The actual revenue for the year 2015 had decreased by Rs.88 million as compared with actual revenue for the preceding year.

### **Recovery of Arrears of Revenue**

According to the Revenue Account presented to audit, revenue amounting to Rs.439.76 million had been in arrears and the arrears related to periods ranging from 01 year to 06 years. Nevertheless, adequate action had not

been taken for the recovery of the arrears of revenue. Even though plans had been made for the recovery of Rs.148.97 million of those arrears, or 33.8 per cent in the year 2015, a sum of Rs.126.11 million out of that only had been collected.

## **Recover Lease Rent from Plantation Companies**

Twenty three Regional Plantation Companies had been incorporated under the Conversion of Public Corporations and Government Owned Business Undertakings into Public Companies Act, No. 23 of 1987 and 571 Estates owned by the Janatha Estates Development Board and the Sri Lanka State Plantations Corporation had been leased out to the Regional Plantation Companies on long term leases of 53 years. Out of those companies, lease rents had not been recovered from 45 Estates of the Agarapathana, Udupussellawa and Elkaduwa Companies from the year 1992. The Ministry informed that the lease rent was not recovered from those companies as the net assets of those companies according to the formula used for the computation of the lease rent, were less than Rs.200 million. Revision of the lease rent is possible only after the revision of the terms in the Lease Agreement and such revision is possible only with concurrence of the respective Companies. The Secretary to the Ministry informed further that the General Treasury was informed of the

revisions of the terms of the agreement signed with all the Plantation Companies. As the possibility of recovery of lease rent from those companies had not been reconsidered the lease rent recoverable by the Government had been deprived of.

## **Ascertain the Land Area of Estates transferred to Plantation Companies**

According to the information furnished by the Ministry, the land area of 535 Estates of the Plantation Companies had been 249,892 hectares. The Ministry or the Janatha Estates Development Board or the Sri Lanka State Plantations Corporation did not have any evidence to decide on the boundaries to ascertain the accurate land area of the Estates transferred. Lands for the purposes of Industrial Estates, water supply, other infrastructure facilities, 22 housing projects, 10 schools, 7 Estates hospitals, 45 places of religious worship, 25 cemeteries, playgrounds and other welfare activities had been released up to 31 December 2015. The specific information on the number of hectares released for those purposes had not been properly maintained by the Plantation Management Supervision Division. Action had not been taken with special attention to this matter and to establish the rightful ownership of State Lands. According to the Programme of

the Cabinet of Minister dated 13 it had been recommended that all surveys of lands should be completed within 3 years from the year 2006 and provision had been made in the Annual Budget Estimates. Nevertheless, the Secretary to the Ministry informed that the work could not be completed due to the lack of officers in the Department of Survey and the problems related to the payments to be made for the surveys.

### **Withdrawal from Government Intervention on Legal Action for Eviction of Unauthorised and Forceful Occupants in Estates**

There were 117 cases pending in the Courts as at the end of the year 2015 against 565 unauthorised occupants and forceful occupants of the Estates managed by 23 Plantation Companies on the allegation of unauthorized use of lands. According to the Power of Attorney granted concurrently with the leasing of the Estates to the Plantation Companies, lessors (Sri Lanka State Plantation Corporation / Janatha Estates Development Board) had given the power to the Plantation Companies, the lessee, to act as the plaintiff. According to the provisions in the Power of Attorney, the power of appearing in the Courts for the protection of the rights of the lessor party had also been given to the lessee parties. As such the Government intervention in legal

October 2006 on Leasing of State Lands, matters related to the Estates transferred had been withdrawn.

### **Breakdown of the Internet Operating System**

The Coconut Development Unit under the Ministry of Plantation Industries and the Janatha Estates Development Board had maintained an Internet operating System from the year 2012 for the management of Coconut Estates and a sum of Rs.1.12 million had been spent on the system. Subsequent to the transfer of the Coconut Development Unit of the Ministry to the Ministry of Coconut Development in the year 2015, and the withdrawal of the 2 estates there under that operating system had broken-down.

### **Loss caused to a Motor Vehicle**

The loss caused to a motor vehicle due to an accident on the Expressway in the night of 28 September 2014 had been estimated at Rs.3.81 million. Action for repairing the motor vehicle had not been taken even up to 31 August 2015. Even though the Secretary to the Ministry had informed the Internal Auditor on 15 October 2014 to conduct an inquiry in this connection and submit the final report within 3 weeks, he had not furnished the report even by 31 December 2015.

## **Department of Rubber Development**

### **Non-recovery of Erroneous Payment made for Purchase of Rubber**

A sum of Rs.329 million being the difference between the guaranteed prices and the prevailing market price had been paid to a private institution for the purchase of rubber. Even though a Committee had recommended the recovery of an erroneous payment of Rs.11.5 million included therein, action had not been taken for the recovery of the amount.

### **Purchase of Rubber under Guaranteed Price**

The following instances of overpayments of guaranteed price for rubber were observed.

- According to the Departmental Circular No. 2015/01 dated 12 march 2015 on the Methodology on the payment of guaranteed price, rubber cultivations having less than 50 acres of rubber only are entitled to that payment. Nevertheless, guaranteed price amounting to Rs.2.03 million had been paid in 06 instances to

owners having more than 50 acres of rubber.

- Two agencies had obtained over payment of guaranteed price amounting to Rs.3.25 million by overstating the guaranteed during the period December 2014 to January 2015.
- The RC14 Reports on 79,529 kilo grames of rubber supplied by 17 rubber cultivators had not been sent to the Kegalle Regional Unit of the Department of Rubber Development and guaranteed price of Rs.7.56 million had been paid without ascertaining the cultivators from whom the rubber was purchased.
- A sum of Rs.7.44 million had been overpaid in the payments of guaranteed price for the year 2015 without comparing the information price the RC 14 reports.

### **Payments made for Lorries with broken-down Meters**

According to the instructions on use of lorries for the transport of rubber plants lorries should have milometers in proper working order. But payments totaling Rs.1.05 million had been made for 3 lorries with broken-down meters.

## **Overpayment for Transport of Seedlings due to a Procurement Decision**

Due to the failure to select the lowest bidder for transport of rubber seedlings, a sum of Rs.2,051,745 had been overpaid.

## **Rubber Research Institute**

### **Failure to Recover Debtors and Receivables**

The Institute had failed to recover the following over due debtors and receivables even by the end of the year 2015.

- Sum of Rs.13.72 million remained receivable by the Institute as at 31 December 2015. Out of that the outstanding balance of Rs.6.25 million existed over a period exceeding 7 years.
- Out of the Trade Debtor balances amounting to Rs.22.55 million shown in the financial statements for the year ended 31 December 2015, more than 64 per cent of the balances had been outstanding over periods exceeding 10 years, while 27 per cent of the debtors balances had been outstanding

over periods ranging from 5 years to 10 years. The Institute had failed to recover those debtors balance even by the end of the year 2015.

## **Issuance of a Concessionary Duty Motor Vehicle Permit to a Non-entitled Officer**

An officer who had been recruited as an Estates Superintendent on contract basis had been given a permit for the import of a concessionary duty motor vehicle contrary to the provisions in the Trade, Tariff and Investment Policy Circular No. 1/2010 dated 10 December 2010. Even though a loss of Customs Duty and other taxes amounting to Rs.8.09 million had been caused to the Government through the import of that motor vehicle, the Institute had not taken action for the recovery of the loss from the party responsible.

## **Coconut Cultivation Board**

### **Payment of Incentive Allowance**

Incentive allowance of Rs.3.96 million had been paid for the year 2013 to the employees of the Estates Administration Service and the staff without obtaining the Treasury approval.

## **Failure to achieve the Minimum Coconut Crop**

According to the soil analysis of the model coconut gardens of the Board a minimum crop of 4000 coconuts should be harvested per acre. Nevertheless, the coconut harvest of 9 out of 12 model coconut gardens had been in the range of 1,119 to 3,788 coconuts per acre.

## **Coconut Development Authority**

### **Non-use of equipment Purchased for Production Purposes**

The capital equipment valued at Rs.1.32 million purchased by the Kandy Regional Office of the Authority for the production of Thavashi Brushes, remained without being used for productions even by the end of the year under review.

### **Idle Assets**

The following assets of the Coconut Development Board had been idling.

- Ten marching valued of Rs.13,886,542 installed in the laboratory of the Authority had been idling over a period of 10 years.
- Out of 625 Thavashi Brush production equipment valued at Rs.3 million received by the stores from time to time during the period from 11 August to 28 October 2015, issues up to 6 April 2016 had been 360 equipment valued at Rs.1.73 million. Accordingly 265 equipment had been idling in the stores.
- The Authority had purchased 5 double box (petti kuttam) used for coir production for Rs.3.07 million at the rate of Rs.614,400 per unit in the year 2013 for distribution among the industrialists for the promotion of Coir Industry Sector. In the installation of the equipment facilities such as stores and electricity and a land for retaining water are required. Nevertheless, 4 items of equipment had been issued to 4 entrepreneurs in Monaragala District in the Dry Zone. As those were not functioning at present, the other equipment are retained up to date at the Industrial Technology Institute.

## **Coconut Research Board**

### **Examination of the Progress of Research Projects**

- There were 16 research projects undertaken by the Board in the year 2015 due for completion by the end of the year. But more had not been completed. The progress achieved by 8 of more projects range between 10 per cent and 50 per cent.
- The Socio – Economic Impact Assessment of the Oil Palm Cultivation commenced in the year 2013 and scheduled for completion in the year 2015 had not been completed even by the end of the year 2015.
- There were three research project planned by the Board for commencement in the year 2015 but had not been commence even by the end of the year 2015.

## **Sri Lanka Tea Board**

Sri Lanka Tea Board established for the purpose of supporting the advancement of the Tea Industry of Sri Lanka functions to ensure the increase of foreign exchange earnings of the country through the sustainable development of the tea industry and engaged in the Plantation Industry. In the past Sri Lanka had achieved the honour of being the best tea manufacturer in the Global Tea Industry. Nevertheless, in view of the current problems faced by the industry such as the very high cost of

manufacture, annually decreasing manufacture, the changing preferences of the global customer, etc. depending on the manufacture of traditional tea has become a major challenge to the Tea Industry of Sri Lanka.

### **Decrease in Tea Manufacture and Export**

The manufacture of tea had been systematically decreasing during the preceding 3 year period. Even though 340 million kilogrammes of tea had been manufactured in the year 2013 that had decreased by 11 million kilogrammes to 329 million kilogrammes in the year 2015. Even though the export of 303 million kilogrammes in the year 2011 had increased to 318 million kilogrammes by the year 2014, it had decreased to 299 million kilogrammes in the year 2015. Details appear if Figure 12 below.

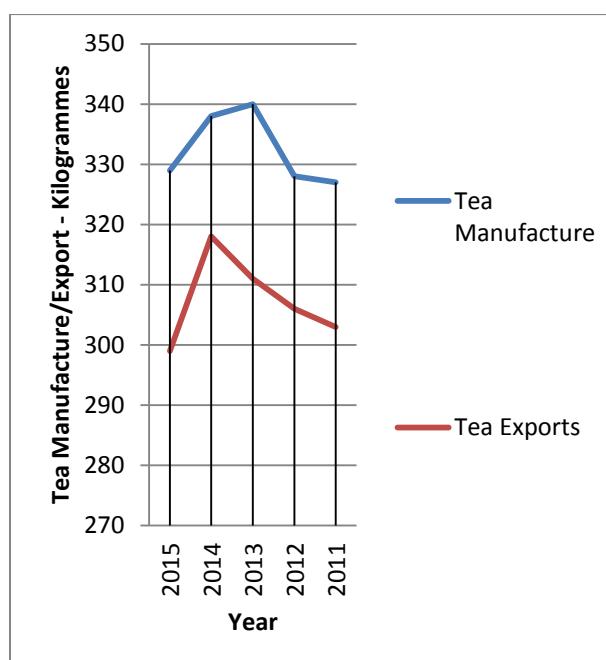


Figure 12 – Tea Manufacture and Export

## **Reducing the Cost of Tea Manufacture and Increasing Tea Manufacture**

A Programme for Tea promoted had been in the process of formulation spread over the years 2015 to 2018 by utilizing a sum of Rs.8 Billion from the Tea Promotion Fund established with the taxes for promotion of tea collected by the Sri Lanka Tea Board from Tea Exporters. As the cost of manufacture per kilogramme of tea exceeded the sale price per kilogramme of tea at present in the Colombo Tea Auctions, action had been taken to improve the price per kilogramme of tea by creating a high demand through promotion. Nevertheless, attention had not been paid for the utilization of such funds for more economical purposes such as minimising the cost of manufacture of tea subject to a decreasing trend at present and for the improvement of the quality of tea.

## **Minimising the Loss of Tea Sales Centre**

The Tea Sales Centre established in the year 2013 at the Colombo Race Course Building at a cost of Rs.58.37 million for popularizing tea among the foreigners coming to Sri Lanka had incurred losses from the inception and the loss for the year 2015 had been 19.69 million. The Board had not taken any courses of

action to minimize the losses of the Centre.

## **Tea Small Holdings Development Authority**

The objectives of the Authority are the development of Tea Small Holdings, increase the manufacture, advancement of productivity and the welfare of the Tea Small Holders. The following deficiencies were observed during the audit of the Authority.

- The contribution of the Tea Small Holders in the year 2015 to the total manufacture of tea in Sri Lanka had been 239.86 million kilogrammes or 72.91 per cent. The construction of the Tea Small Holders as compared with the preceding year indicated a decrease of 7.5 million kilogrammes.
- Even though plans had been made under the national policy to replant 2 per cent of existing land area with the grafted seedlings under the Cultivation Development Aid Scheme in place of the low yield old seed tea for the increase of tea manufacture and productivity of the Tea Small Holdings and the established maintenance of the existing tea lands, the progress thereof, according to the Progress Review of the Authority had been only 0.67 per cent.

- According to the Performance Report on the Tea New Planting Incentive Scheme, the completed acreage of new plantings in the year 2015 had been 479 hectares. But the expected target of the Action Plan had not been achieved. Nevertheless, the subsidy paid for new planting of tea had been increased in the year 2015 from Rs.250,000 per hectare to Rs.400,000 and the subsidy paid amounted to Rs.128.12 million. The subsidy paid as compared with the preceding year had increased by 9 per cent and the increase in the extent of new planting as compared with the preceding year had been 19 per cent.
- in the year 2014 and those Factories had incurred losses totalling Rs.115.48 million.
- Even though greenleaf had been paid at a higher prices with the objective of purchasing a larger quantity of greenleaf in order to minimize the losses of the Factories, that objective had not been achieved. Nevertheless, the cost had increased due to incurring additional cost for increasing the price.

### **Tea Shakthi Fund**

The tea Shakthi Fund had been established with the objectives of acquisition of Tea Factories and development, the sale and promotion of tea manufactured by the Factories and upliftment of the Tea Small Holders in the tea industry by inculcating savings habit and promotion. The following deficiencies were observed during the course of audit.

- Out of 14 Factories owned by the Fund, 10 had been in operation

### **Tea Research Board**

The functions of the Board are the conduct of researches related to the tea cultivation and manufacture, and providing encouragement nourishment and facilities thereto. Certain research works funded by the Board undertaken for the achievement of the above objectives had been ceased halfway due to reasons such as Research Officers leaving the Board, retirement or proceeding abroad. As such the institutional objective of improving the scientific knowledge and technology appropriate for the advancement of the productivity and quality of tea manufacture had not been achieved within the targeted periods.

# **Lands**

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The results expected from this sector is the optimum use of lands for sustainable development. Accordingly, the achievement of that is expected from the performance of the following functions by the Ministry and 4 Departments and a Statutory Body under the purview of the Ministry.

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

- Formulation of an Information System on all lands of the country

The material and important observations revealed during the audit of the performance of the above functions by the Ministry and institute are given below.

## **Ministry of Lands**

### **Non-formulation of an Information System on all Lands of the Country**

Even though formulation of an information system of all lands of the country is one of the key functions, it had not been achieved even by the end of the year 2015. In view of this situation, it has not been possible to ascertain the true position with regard to the total extent of the State Lands.

### **Non-computerisation of Land Parcels**

Action had been taken for the creation of the State Lands Information Management System for the easy and efficient performance of the State Land Management functions using the information technology.

A computer information system under the name e-slims had been created in this connection and the collection of data and entering the data to the information system had been done at the Divisional Secretariats Level. The e-slims project was in operation in 127 Divisional Secretariat Divisions by 31 December 2015, and the data on 144,725 land parcels had been entered to the computer system by 31 May 2016. Even though entering information on 200,000 land parcels had been expected according to the Action Plan for the year 2015 only 144,725 land parcels or 72 per cent of the expected number of land parcels had been achieved.

### **Register of State Lands Leased**

Even though the leasing of State Lands on long term or short term basis for the development and residential purposes is a function of the Department of Land Commissioner General, the information on the extent of State Lands had not been recorded in a register even by 31 December 2015.

### **High Costs incurred on Land Acquisitions**

The Land Acquisition Division of the Ministry had been following the legal procedure related to early acquisition of private lands for different development projects, the payment of compensation for the lands acquired for the

Government Departments and Ministries and regulating the implementation of the acquisition process. The extent of lands acquired for taking over the possession of lands in terms of Section 38(A) of the Land Acquisition Act had been 1,357.88 hectares of land. In the case of progress of land acquisitions the number of action acquisition files related to the years 2010 to 2015 had been 11,428 and 102 files had been closed after the payment of compensation while 305 inactive files had been discarded. Compensation for acquisition of lands amounting to Rs.1,191.45 million and interest on 99 files amounting to Rs.545.57 million had been paid during the year 2015. Out of that, the interest paid on the land acquired in the year 2005 and the lands acquired prior to the year 2005 amounted to Rs.92.99 million and Rs.225.49 million respectively. As such the payment of interest due to the delays in the payment of compensation on acquisition of lands under the Interim provision Order of Section 38(A) of the Land acquisition Act should be made up to date of completion of payment of compensation. As such the Government has to incur huge costs. Similarly, the release of lands to the Governments Ministries and Departments and the allocation of lands for industrial development expected according to the Action Plan for the year 2015 had not been done.

## **Bimsaviya Programme**

The Bimsaviya Programme is implemented with the objective of clearing the title to the land resources of Sri Lanka for the protection of the future generations. The formulation of the policies in this connection, the Co-ordination of the related Departments and Institutions as well as the progress review are done by the Ministry. The institutions providing contribution to the Programme are the Department of Surveyor General preparing the maps indicating borders, and the Department of Title Settlement investigating and settlement of titles while the Department of Land Commissioner General performs all functions related to the State Lands.

Out of the sum of Rs.141.00 million provided for the Ministry in respect of the year 2015 a sum of Rs.35.20 million had been utilized. As such a sum of Rs.105.80 million or 75 per cent out of the provisions had been saved. The following observations are relevant in this connection.

## **Delay in the Issue of Title Certificates**

Even though the issue of 206,580 Title Certificates during the year 2015 had been expected, the number of land parcels registered in the Office of the Lands Registry during the year had been only 43,132. Out of the number

registered, the Title Certificates of 29,043 land parcels only had been issued to the persons concerned.

## **Surveys carried out without Planning**

The supply of surveys services for all statutory purposes is one of the key functions of the Department of Surveyor General and surveys are done according to the survey orders received. Out of the survey orders received from the year 2009 to the year 2015, the outstanding balance had been 22,941. The Department had not implemented a special plan to complete the balance survey orders.

## **Land Reform Commission**

The Land Reform Commission is the Statutory Body under the purview of the Ministry. The Land Reform Commission had been established under the Land Reform Act, No. 1 of 1972 with the objective of ensuring that no person should retain the title to agricultural lands exceeding the maximum and for the use of those lands resulting in the increase of their production and the employments created by those lands. Providing the legal bindings of the landlords, as well as the payment of compensation, use of the lands taken over for productive investment and the collection of income receivable by the

Commission were matters of priority. Arrangements such as the transfer of lands belonging to the Commission by leasing, transfer by sale, transfer for construction of houses for residence, use for the purposes of farms, plantations or for common purposes, transfer to the Sri Lanka State Plantations Corporation, etc. had been provided for.

The following observations were revealed in this connection.

- The documented evidence indicating the extent of lands belonging to the Commission had not been updated even by 31 December 2015.

- Records had not been maintained for the collection of arrears of income.
- Collection of income on the lands transferred to Government Institutions had been at a weak level.
- A methodology for the collection of arrears of lease rental for the lands transferred up to the end of the year 2015 had not been prepared.
- As lease agreements had not been entered into in connection with collection of income from mineral resources even by 30 May 2016 it had not been possible to institute legal action for the collection of arrears of income.

## Culture and the Art

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The Ministry of Internal Affairs, Wayamba Development and Cultural Affairs and four Departments under the purview of the Ministry should have performed the following functions for the achievement of the expected result of the improvement of Cultural values of the Society.

- To take steps necessary for the improvement of all aspects of the national culture of Sri Lanka.
- To maintain cultural relations with foreign countries.
- To provide necessary co-operation for the improvement of the culture based tourism programmes without damaging the cultural and the archeological heritage.
- To take continuous steps necessary for producing the Sinhala Encyclopedia the Sinhala Dictionary and the Mahavanshaya.
- To identify the tendencies for the use of Cultural contribution for creation of Co-operation among nations and to take steps necessary for their implementation.

The material and important observations revealed during the audit of the performance of the above functions by the Ministry and the Departments are given below.

### **Construction of the Performing Arts Theatre, Anuradhapura**

A sum of Rs.0.32 million had been paid and further commitments amounting to Rs.23.84 million had been entered into during the period from the year 2012 to the year 2014 for the construction of a Performing Arts Theatre at Anuradhapura. But the title to the land on which it was constructed had not been cleared. A feasibility study on the construction had not been done and the approval of the Cabinet of Ministers had not been obtained.

### **Programme for the Preservation of Aboriginal People's Culture**

The Ministry had entered into a Memorandum of Understanding with the Bandaranaike Ayurveda Research Institute for the period 16 December 2009 to 31 August 2010 for the study and promotion of knowledge of traditional medical practice and other traditional practices of the aboriginal people. A sum of Rs.3.25 million had been spent thereon from the year 2011 to the year 2014. Even though the manuscript of the research book had been submitted to the Ministry on 06 November 2012, that book had not been printed and published even by 30 June 2016.

## **Education**

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The Ministry of Education and four Departments and 9 Statutory Boards under the purview of the Ministry should have performed the following functions for the development of the human resource of Sri Lanka by the production of Virtuous, Skillful and Creative Citizens enriched with Wisdom, Values, Strength and Health and fond of their parents, teachers and motherland and become resources to the globe.

- The creation of a national system of education that prepare the Sri Lankan Child and Youth to enter the World with confidence and assurance of success.
- Formulation and implementation of policies, programmes and projects with a view to achieving the relevant national objectives.
- Provision of physical and human resources for National Schools.
- Provision of School text books, uniforms, footwear and mid-day meals.
- Ensure quality of education and discipline among the students in the entire education system.
- Administration and personnel management of functions of Sri Lanka Education Administrative Service.
- Promotion of Buddhist and Pali Studies and upliftment of Pirivena education.
- Take necessary measured for the conservation of historical, archaeological and cultural heritages.
- Systematic management and conservation of State Documents

The important and material observations revealed during the audit of the performance of the above functions by the Ministry, the Departments and the Statutory Bodies under the purview of the Ministry are given below.

## **Increase in the Number of Students failing in all Subjects of the General Certificate of Education (Ordinary Level) Examination**

The number of students passing the General Certificate of Education (Ordinary Level) Examination and qualifying for the Advanced Level had been gradually increasing during several preceding years. Even though the number of students failing all subjects had been decreasing during several preceding years, the number of students failing all subjects in the year 2015 as compared with that of the year 2014 had increased by 551 students. The number of students failing in the two major subjects of Sinhala and Mathematics in the years 2013, 2014 and 2015 had been 142,357,136,070 and 144,879 respectively. Accordingly, the number of students in the year 2015 as compared with the year 2013 had increased by 2,522.

## **Admission of Students to the National Colleges of Education in the year 2015**

Except the Maharagama, the number of Teacher Students admitted to the other 18 Colleges of Education in the year 2014 had been 3,407. The year 2015 had been designated the National Colleges of Education Year. According to the

number of vacancies that would arise in the year obtained through the Divisional Secretariats, the number of Teacher Students for admission in the year 2015 had been determined as 3,720. Nevertheless, the admission of Teacher Students for the year 2015 had not been finalized even by 30 June 2016.

## **Attachment of Teachers without the Primary Teacher Training to Primary Grades**

In 83 National Schools 495 Teachers had been attached for teaching subjects other than the subjects for which they were appointed and specially in 32 National Schools 132 Teachers who had not undergone Primary Teacher Training had been attached to the Primary Grades.

## **Attachment of Deputy Principals and Assistant Principals exceeding the approved number to National Schools**

Ninety nine Deputy Principals exceeding the number of Deputy Principals per National School had been appointed to 55 National Schools. Sixty one Assistant Principals exceeding the number of Assistant Principals per National School had been appointed to 28 National Schools.

## **Teaching Periods not assigned or assigning a lesser**

### **Number of teaching Periods for Supervising Teachers**

Even though the Supervising Teachers of the National Schools should be assigned a minimum of 16 teaching periods of 40 minutes per week, teaching periods had not at all been assigned to 59 teachers in 14 National schools while 66 Teachers in 12 National Schools had been assigned less than 16 periods.

### **Higher Percentage of Schools without Drinking Water Facilities and Sanitary Facilities**

The schools without drinking water facilities in the preceding year had been 43.7 per cent and the schools without sanitary facilities had been 24.8 per cent. A sum of Rs.2,051 million had been paid in the year 2015 to 1,066 schools for the supply of sanitary facilities for a creating a Healthy School Community. The progress reports had not been furnished for carrying out a study of the work done by utilizing the money.

## **Shortages and Excesses in the Academic and Non-academic Staff of the Ministry of Education and the Schools**

- Action had not been taken for the minimization of shortage of 16 and excess of 22 Teachers in a National School at Nattandiya. Out of a total of 162 Teachers 52 Teachers had not covered the specified number of periods. In addition, there were vacancies of 15 Teachers of Sinhala Medium and English Medium for the 2016 Advanced Level subjects.
- Action had not been taken for the minimization of shortage of 04 Teachers and an excess of 24 Teachers in a Girl's School in Colombo 07.
- Action had not been taken to minimize 1,524 Teacher shortages and 770 Teacher excesses in 110 National Schools as at 31 December 2015.
- The Ministry of Education had failed to fill 6,858 vacancies as at the end of the year 2015 and to minimize 4,507 excesses.
- An adequate number of Teachers had not been attached to 37 National Schools for the teaching of Sinhala or Tamil as a second language. A sum of Rs.3.78 million had been paid in the year 2015 by the School Development Societies for 41 external Teachers recruited for that purpose.

- The number of members of the non-academic staff of 39 National Schools recruited as at 31 December 2015 and paid by the School Development Societies or other Funds had been 196 and the total of salaries and allowances paid during the year 2015 alone amounted to Rs.26.38 million.
- There were 143 excesses of the non-academic staff on 29 National schools as at 31 December 2015 while the shortages of non-academic staff of 73 National Schools had been 728.
- Even though the Assistant Principals should be assigned a minimum of 12 periods of 40 minute duration per week, 19 Assistant Principals of 12 National Schools had not been assigned with even a single period of teaching. The number of teaching periods assigned to 18 Assistant Principals of 12 National Schools ranged from 02 to 06.
- Even though the Teachers teaching subjects should engage themselves in teaching for a minimum of 35 periods of 40 minutes duration per week, not even a single period of teaching had been assigned to 442 teachers in 77 National Schools. Teaching periods less than 16 had been assigned to 906 Teachers of 79 National Schools. In addition, out of 171 Teachers of a school at Horana timetables had been assigned only to 16 Teachers.

### **Appointment of Teachers exceeding the Approved Number and Non-assignment of Timetables to Certain Teachers**

- Even though a minimum of 10 teaching periods per week should be assigned to the Deputy Principals of National Schools, 73 Deputy Principals of 35 National Schools had not been assigned with even a single period of teaching. The number of periods assigned to 10 Deputy Principals of 09 National Schools had been in the ranges of 02 to 06.
- The vacancies of Special Academic Teachers in the 9 provinces of the Island had been 411 whereas 355 Teachers who had undergone the Special Academic Teacher Training had been deployed in other schools or class rooms.

## **Salary obtained without performing Educational Duties**

According to the Internal Auditor's Report No. ED/S/84/6/2/1 dated 04 January 2011 in connection with the preliminary inquiry conducted on the Principal of a Girls' School at Nugegoda, the issue of a charge sheet and interdiction had been recommended. Disregarding that recommendation, action had been taken to send the Principal on compulsory leave with immediate effect from 07 February 2011. Since that date up to 31 December 2015 she had been paid salaries and allowances amounting to Rs.3.74 million without rendering any active service.

## **Availing of Leave by Teachers without Formality**

- Even though the provisions in the Establishments Code requires that formal approval should be obtained for leave, 128 members of the academic and the non-academic services of 27 National Schools had availed of 3,396 days of leaves in the year 2015 without obtaining formal approval.
- Even though 448 members of the academic and the non-academic staff of 86 National Schools had availed of 8,030 days of no pay leave

in the year 2015, the money recoverable for such leave had not been recovered from their salaries.

- Even though 19 members of the academic and 07 of the non-academic staff of a Girl's School in Colombo 07 had availed of no-pay leave in the years 2013, 2014 and 2015, the money recoverable for such leave had not been recovered from their salaries even by the end of February 2016.

## **Long Term Service in Same Station due to Lack of Proper Implementation of Teachers and other Transfer Policies**

- Even though all Principals who had service in a particular school continuously for 6 years are subjected to transfers, 48 Officers of the Sri Lanka Principal's Service who had been transferred in March 2015 had not taken action in accordance with the transfers even by the end of the year 2015. Even though a Notification published in the Gazette Extraordinary of the Democratic Socialist Republic of Sri Lanka No. 1589/30 dated 20 February 2009 specified that any officer not reporting at the new station of service is deemed to have willingly vacated the post, action accordingly had also not been taken.

- Even though the Teachers who have served for more than 8 years in any of the Government Schools should be transferred in terms of provisions in the related Circulars and the decision of the Cabinet of Ministers dated 28 October 2010 the following instances of transfers not made in accordance therewith were revealed at test checks.
  - The number of such Teachers in a Girl's School in Colombo 07 had been 76 and that represented 42 per cent of the Teaching Staff.
  - The number of Teachers who had not been transferred over periods ranging from 8 years to 20 years servicing in a Girl's School in Dehiwala had been 35.
  - The number of Teachers of a School at Nattandiya who had exceeded service periods ranging from 8 years to 25 years had been 45.
  - The number of Teachers of a National School at Horana who had served for more than 8 years in that school had been 94 and that represented 56 per cent of the total Teaching staff.
  - Even though the expectation from the circular had been formulation and implementation of Teacher Transfer Policy for the better effectiveness of the education process and to maximize the welfare of the students. 4,089 Teachers in 109 National Schools had been serving without being transferred over periods ranging from 8 years to 27 years due to the failure to implement its provisions properly.
  - Even though every officer should be transferred in accordance with the provisions in the Establishments Code, 46 officers of the Education Administration Service over periods ranging from 5 years to 22 years, 76 out of 84 Development Assistants for periods exceeding 10 years and 8 officers over periods ranging from 6 years to 9 years and 42 officers of the other non-academic services over periods ranging from 7 years to 25 years had not been transferred. Certain officers are deployed in the same Branch since the attachment while certain other officers are serving in the same Branch since the attachment to the Ministry of Education.

## **Lack of Proper Supervision of Schools**

There are 114,070 students receiving education in 78 Private Schools approved by the Government and 4,713 Teachers are deployed in those schools. There were 214 schools which had not been approved. A formal course of action for the regulation and supervision of those Private Schools had not been implemented.

## **Delays in Disciplinary Action on Teachers and Principals**

Even though speedy action should be taken on acts of misconduct and negligence and disciplinary action should be completed within a specified period, action had not been taken to finalise the disciplinary action against 21 officers despite the elapse of periods ranging from 3 years to 10 years.

## **Promotions of Teachers**

Even though the provisions in the Establishments Code provides for the appointment of acting officers as a temporary measure until making a permanent appointment, acting officers had been deployed for the vacancies of Principals of 49 of 350 National Schools throughout the Island from the year 2009 and up to 16 June 2016 in respect of 106 schools.

## **Inducing Children for Acts of Abuse**

Even though the disciplinary inquiries related to incidents of abuse of children should be conducted expeditiously and punishments meted out, due to the failure to take prompt action or release them to other schools or retaining them in the same school had adversely impacted the educational activities as well as the maintenance of the discipline of the relevant schools.

## **Irregularities Committed in the Admission of Students**

- According to the verdict on the Case No. SCFR232/2011 of 18 July 2011 the maximum number of students per class from the year 2016 had been determined as 35. Action had been taken on the assumption that the number of students for 2016 is 39 to reach that level reducing one student per year.
- In the case of admission of students to Grade I for the year 2016, by a National Boy's School in Maradana, contrary to the provisions in Circulars, additional marks had been awarded to 51 students comprising 29 instances without registration for voting, 3 instances on the nearly, 10 instances on the brother basis and 9 instances related to staff of institutions directly related to education.

- Additional 22 marks had been awarded to one student comprising 6 marks on the brother basis for the learning period of the brother, 4 marks on the co-operation extended the mother or the father to the school without supporting documents and 12 marks for the registration in the Voters' list.
- Even though the officers should sign the documents after completion of duties in support of performance of the duty, the officers who conducted the interviews had not signed the interview mark sheet for certifying the marks.
- Even though any fees or other assistance other than the Facilities and Services Fee and the membership fee for the School Development Society should be obtained in the admission of children to all Government and Private Schools, contrary to that a sum of Rs.1 million had been obtained from one child and a receipt from the School Development Society had been issued for a sum of Rs.0.6 million. The existence of other instances of obtaining money cannot be ruled out.
- Even though meeting chaired by the Provincial Director of Education should be held, to ensure that the names of children in school lists other than the list of high priority schools to be deleted to prevent the name of same child in the Lists of many schools and to provide opportunities to the children in the waiting lists, it had not been done.
- Even though the maximum number of students in a parallel class in the Primary Grades of National Schools should be 40, and the maximum number of students in a parallel class of the Secondary Grades should be 45 and the total number of students selected for admission per class for grade one should be 35, the total number of students admitted exceeding that limit by 66 National Schools had been 6,105. Out of that, the number of students admitted exceeding the limit by 32 National Schools considered as popular schools had been 5,373.
- The number of students of 58 National Schools who had participated in 646 different kinds of sports activities in the year 2015 had been 33,988. A sum of Rs.59.94 million had been paid to the external coaches while a sum of Rs.7.40 million had been collected from the students.

## **Failure to take Action for Eviction of Unauthorised Occupants of Lands belonging to the Ministry of Education**

External parties are enjoying the tenure of 80 parcels of land situated in the Urban limits, with extents ranging from 4 perches to 224 perches belonging to the National Schools, Teacher Centres and the National Colleges of Education, without approval and permission. The information on the extent and the current value of certain lands of high assessed value was not available with the Ministry.

## **Transactions without formal Approval**

Even though a sum of Rs.1,098.24 million out of the provisions amounting to Rs.1,191.97 million made for the Ministry from the year 2008, for the construction of buildings for the Security Services College, had been utilized for the construction of buildings on a land 1.9329 hectares in extent belonging to the Urban Development Authority. Nevertheless, action had not been taken to transfer the land of the College in favour of the Ministry of Education.

- A financial transaction of a Girls' School in Dehiwala had been carried out without approval, the

documentary evidence in support of the transaction and deviating from the Government Procurement Guidelines.

- The accounts and the progress review report for the year 2014 of a National School at Horana had not been prepared even by 31 December 2015.
- All work related to the accounts of the School Development Societies had been assigned to a Development Assistant Officer without distributing the work.
- The progress of the School Development Plan and the audited accounts related thereto for the year 2014 of a National School at Horana had not been forwarded to the Zonal Director of Education.
- The School Performance Report for the year 2014 of a National School at Horana had not been prepared in the format appearing in the Circular had not been prepared before 31 March 2015 and forwarded to the Director of National Schools.
- The following instances of action deviating from the Procurement Process taken by a National School at Horana were observed.

- Even though procurements of schools exceeding Rs.500,000 in value should be done at the Ministry level, contrary to that, purchases valued at Rs.208,815 had been made from a supplier selected after inviting quotations at the school level and goods valued at Rs.336,250 from another supplier, both totalling Rs.545,065.
- According to the circulars and the Guidelines, the construction works undertaken by the School Development Societies cannot be sub-contracted. But the Principal had awarded the overall construction work to a private contractor for an estimated cost of Rs.428,650 without approval. A sum of Rs.265,150 had been paid on a blank invoice prepared by the Principal.
- The construction of the Special Education Information Centre under the provision of Rs.5 million received from the Treasury in the year 2015 had to be commenced on 30 April 2015 and to be completed and a sum of Rs.243,000 had been spent for the foundation laying on 14 July 2015. A sum of Rs.1.38 million had been spent for the construction of the gate and the security fence while commitments amounting to Rs.3.15 had been incurred. It had not been possible to commence the construction of the Centre and to get the unencumbered title of the land to the Ministry even by 25 July 2016.

## **Weak Standards and Delays related to Constructions**

- A sum of Rs.6 million collected by National Boy's School in Colombo for a Swimming Pool Construction Fund had been deposited in a fixed deposit on 19 December 2007. The value of the investment as at 31 December 2015 amounted to Rs.20.20 million. Nevertheless, the construction of the Swimming Pool had not been commenced even by 25 July 2015.

## **Uneconomic Transactions**

- Purchase of 500 mattresses of size 72"x42"x4" and 625 mattresses of size 72"x30"x4" for Rs.3,543,750 for Sports Schools had been made without identifying the requirements of the schools and without making enquiries of the sizes of beds available in the schools. Those mattresses could not be used as those did not conform to the proper standard.
- Even though the Ministry had purchased 250 iron twin beds for Rs.5.36 million for the Sports Schools, the evidence in support of their quality and whether those conformed to the specifications had not been furnished to audit.

- Agreement had been reached with it private institutions for the payment of Rs.9.43 million at the rate of Rs.8 per packet to change the message in 1,179,350 packets of uniforms available in the stores and packing.

## Labour and Trade Union Relations

The key functions expected of this Sector are the formulation of policies, programmes and projects related to the subjects of Labour and Trade Union Relations, the administration of the Employees Provident Fund, the Private Provident Fund and the Private Retirement Schemes, formulation and implementation of policies related to the International Labour Standards, Labour Administration and Welfare, the maintenance of Inter co-operation with International Labour Organisation and the International Social Security Organisation, the registration of Trade Unions and introduction and

implementation of practical steps for the activities of all Trade unions in the State and Private Sectors for the development of the country, implementation of National Manpower and Employment Policies, implementation of vocational and Job Guidance Programme, Industrial Relations and settlement of Industrial Disputes, the formulation of Laws and Rules related Labour Relations and the regulatory functions and the Implementation of Vocational Guidance Programme.

Certain Features of the Labour Force of Sri Lanka are given table 12 below.

Particulars	Male	Female	Total
<b>Population (Age 15 years and over)</b>	7,773,350	8,968,959	16,742,309
<b>Labour Force of the above Age Group</b>	5,810,483	3,197,652	9,008,135
<b>Labour Ratio</b>	74.7	35.7	53.8
<b>Employed Population</b>	5,605,800	2,948,378	8,554,179
<b>Employment Ratio</b>	96.5	92.2	95.0
<b>Unemployed Population</b>	204,682	249,274	453,956
<b>Unemployed Ratio</b>	3.5	7.8	5.0
<b>Not belonging to the Labour Force</b>	1,962,867	5,771,307	7,734,175

Table 12 - Certain Features of the Labour Force

Source : Sri Lanka Labour Force – Third Quarter 2015 Department of Census and Statistics

## **Project for Computerisation of Labour Inspections System Application**

A sum of Rs.56.64 million had been spent up to the end of the year 2015 on the Labour Inspections system application computerisation Project commenced in the year 2010 for the enhancement of effectiveness and efficiency of the duties of the Labour Officers with the Objective of providing an efficient service to the members of the Fund and the employer institutions. Nevertheless, the management could not fulfil the objectives of the Project even by 30 June 2016 as the Project did not receive the contribution of the Labor Officers.

## **Project for making Sri Lanka as a Child Labor Free Zone**

An Awareness Programme for the Zonal Deputy Labour Commissioners, District Labour Commissioners and the Senior Labor Officers had been held on 04 April

2015 in connection with above Project at a cost of Rs.80,262. Even though plans had been made for the conduct of 9 Awareness Workshops at a cost of Rs.90,000 for the creation of an awareness among the Grama Niladaris, Child Rights Promotion Officers and the Probation Officers through the Deputy Commissioners of Labour, those workshops had not been held. Instructions on making Sri Lanka a Child Labour Free Zone had been issued by the Office Circular No. 3/2015 of 02 April 2015. Even though request for the progress was made on 13 December 2015, only one Deputy Commissioner had furnished a report.

## **Strikes during the year 2015**

There were 1,907 Trade Unions registered in the Department of Labour as at 31 December 2015 and 14,915 employees had participated in 51 strikes during the year 2015. Consequently the country has lost 82,294 mandays as shown table 13 below as compared with the preceding year.

Particulars	2015	2014
<b>Number of Strikes</b>	51	3.8
<b>Number of Employees participated</b>	14,915	6,451
<b>Lost mandays</b>	82,294	37,323

Table 13 - Strikes on year 2015

Sources – Industrial Relations Division – Department of Labour

## **Payment of Workmen's Compensation**

### **Delay in the Payment of Compensation Recovered from Employers**

The office of the Commissioner of Workmen's Compensation had been established with vision of creation of employee satisfaction through speedy recovery of compensation from the employees in the case of distress of or death caused to an employee. But, there had been delays ranging from 14 days to 1,634 days in the payment of compensation amounting to Rs.55.89 million collected by the Office to the employees or their heirs.

### **Non-payment of Compensation deposited by Employees**

Compensation amounting to Rs.19 million deposited in the Office of the Workmen's Compensation by the respective employers for payment to the employees in distress had been retained in Deposit Account over a period of 5 years without being paid to the parties concerned.

### **Non-settlement of Money in Minors' Account on reaching Adulthood**

Even though a sum of Rs.24.07 million remained in 531 Savings Passbooks of

minors who had already reached adulthood by 31 December 2015, those amounts had not been paid to the beneficiaries over periods ranging from 01 year to 20 years.

## **Payment of Statutory Dues of Employees**

The statutory dues payable by the employers to their employees such as salaries, contributions to the Employees Provident Fund and the budget allowance had not been paid by certain employers. Even though 15,304 cases had been filed in various Courts in the Island against such employers claiming sums totaling Rs.29,157 million due to the employees, the cases are still pending.

### **Decrease in Benefit of Member of the Employee's Provident Fund**

A decrease in the income received from the investment of money of the Employees' Provident Fund was observed. The amount credited to the balances of the members of the Employees' Provident Fund from the income earned from the investment of the money of the Fund had decreased in the year 2015 as compared with the preceding years. Even though 13.75 per cent had been credited in the year 2009, that had decreased to 10.5 per cent by the end of the year 2015.

# **Environment**

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Two Departments and 8 Statutory Bodies had been established under the purview of the Ministry of Mahaweli Development and Environment for ensuring a sustainable environment. Those Institutions should have performed the following functions.

- Formulation of Policies and Programmes for the Environmental Sector
- Protection of the Environment for the present and future generations.
- Formulation of Programmes for the eradication of environmental pollution
- Marine pollution eradication and the Urban Solid Waste Management
- Protection and Conservation of Forests, Fauna and Flora
- Promotion of commercial forestering to fulfill the timber requirements of the country
- Promotion and Regulation of the Gem and Jewellery Industry and Trade
- Coast Conservation and Protection

## **Central Environmental Authority**

Among the objectives and key functions spelt out in the National Environmental Act, No. 47 of 1980 as amended by the National Environmental (Amendment) Act, No. 56 of 1988 and the National Environmental (Amendment) Act, No. 53 of 2000, the Central Environmental Authority is responsible for the protection of the environmental conditions as well as the co-ordinations of the formalizing activities related to the improvement.

## **Non-achievement of expected results from Projects implemented**

Even though the Authority had implemented the following projects with foreign loans and grants for solving the problem of garbage management that had arisen in the urban and rural areas in the present day Sri Lanka, it had failed to achieve the results expected therefrom. Details appear in Table 14

Name of Project	Project Period	Investment	Progress
<b>1. Pilisaru Project</b>	2008-2010	Rs.5.63 Billion	Project is in Operation even at present
<b>2. Solid Waste Disposal Facilities</b>	2013-2017	US\$ 41.89 million	Project is in Planning stage even at present
<b>3. Dompe Sanitary Garbage Retention Land Filling Project</b>	2008-2013	US\$ 6 million	Even though Construction is complete Project is not in operation 100 per cent due to lack of adequate garbage

Table 14- Projects, of which the expected objectives were not achieved.

## Lack of Attention for Implementation of Garbage Management Projects

Attention had not been paid for carrying out the activities required for the implementation of the garbage management on the small or medium scale in connection with the garbage collected in the suburban areas. Even though giving high priority to implementation of garbage management throughout the country on regional basis is a responsibility of the Authority in view of the production of compost fertilizer as a by-product of waste, compost being an alternative for the use of chemical fertilizer and that being an income source in addition to

mitigation of environmental damage, the Authority had failed to give a greater attention and priority in that connection.

## Marine Environment Protection Authority

The objective of this Authority established under the Prevention of Marine Pollution Act, No. 35 of 2008 is to take necessary steps for the prevention, mitigation, control and management of the pollution of the coastline, or other marine zones, offshore of Sri Lanka, shipping related activities in the coastal zone and any pollution related to the coastal sea.

## **Regular Increase of Marine Pollution**

Together with the development of the Tourism Industry, restaurants, hotels accommodation facilities, etc. have been constructed at fast pace in the coastal areas and garbage, and night-soil is being disposed of to the sea without recycling from an area extending to 300 metres from the coastline. The marine pollution is regularly increasing due to the failure of the authority to take

appropriate steps by discussing this matter with the authorities concerned.

## **Waste Management of Ports**

Even though an Engineering Plan on Oil Spilling should be approved by the Authority in terms of the provisions in the prevention of Marine Pollution Act, No. 35 of 2008, attention had not been paid to the failure of the Sri Lanka Ports Authority to submit that plan. As such, the Authority had not discharged its responsibility regarding any unforeseen oil spills.

## **Foreign Affairs**

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The Ministry of Foreign Affairs functions for laying down the formal Foreign Policy of Sri Lanka and its implementation for the achievement of its objectives. In order to strengthen the Diplomatic Affairs, 38 Embassy Offices, 15 High Commissions and 14 Offices of Counselors General had been established by the end of the year 2015 and Sri Lanka maintains the International Relations through those institutions.

Provision amounting to Rs.10,106.08 million had been made for the year 2015 and out of that Rs.8,543.94 million had been spent. Out of that, the Sri Lankan Missions had spent Rs.6,967.21 million and that represented 81 per cent of the total expenditure.

The following observations are made in connection with the Ministry of Foreign Affairs.

### **Idling of Super Luxury Buses Purchased under the Financial Lease System**

The Ministry of Foreign Affairs had obtained two super luxury buses of Rs.55 million lease value, under the

Financial Lease System on 01 November 2013 in connection with the Common Wealth Heads of Government Meeting. The purchase was made on the agreement of payment in 60 installments of Rs.916,752 which comprised monthly installment and interest payment of Rs.11.92 million comprising installments amounting to Rs.6.47 million and interest amounting to Rs.5.45 million in the year 2015. These two buses are parked in the Ministry vehicle park since the year 2014 without being used.

### **Vacancies in Public Management Assistants' Service in the Missions**

The normal methodology for filling the vacancies in the Public Management Assistants Service in the Missions Abroad is through an examination held by the Commissioner General of Examinations. The Ministry had appointed 14 officers in the years 2014/2015 outside the examination results and sent for service in the Mission Abroad. It was observed in Audit that 5 out of the 14 Officers referred to above did not belong to the Public Management Assistants' Service.

## **Award of Contracts without Wider Competitiveness and Lacking Benefits to the Government**

The Ministry had invited quotations from registered suppliers for the supply of 5,975 Vatican Flags (3x6). But the specifications on the standards, quality of finished product and the textiles had not been given in inviting bids. The lowest bid had been rejected as the bidder had not taken action according to the above requirements. The contract had been awarded to the bidder who had quoted higher prices and purchased 5,975 flags for Rs.8.96 million. The Ministry had failed to execute the transaction with wider competitiveness and accruing benefits to the Government.

## **Updating the Existing Circulars**

The Circular related to the clearance of the baggages of officers reporting for service in the Missions Abroad and the officers returning after the completion of service needs revision. The

demurrage paid in the clearance of baggages cleared in the first 6 months of the year 2015 amounted to Rs.578,335.

## **Lapsed Deposits**

Action in terms of the Financial Regulation 571 had not been to credit to revenue deposits older than two years amounting to Rs.55.73 million in the General Deposit Account of the Ministry and the deposits older than 2 years in 67 Mission Offices amounting to Rs.86.11 million.

## **Non-settlement of Imprest Balances**

The balance of the Imprest Account as at 31 December 2015 according to the Treasury books amounted to Rs.737.22 million. The unsettled advance balances of the Ministry and the Missions Abroad, cash balances of the Missions Abroad, cash-in-transit balances and other balance as at that date totaled Rs.687.99 million. As such the unreconciled balance of the Imprest Account amounted to Rs.49.23 million.

# **Foreign Employment**

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The Sri Lanka Bureau of Foreign Employment was established under the Sri Lanka Foreign Employment Act, No. 21 of 1985 amended under the Act No.4 of 1994 and No.56 of 2009 as the regulatory body for the foreign employment industry. The main objective of the Bureau are providing facilities for Sri Lankans for finding employment outside Sri Lanka, regulation of the activities of the registered Agencies and fulfilling the welfare activities of the families of the migrant labour.

## **Welfare of Migrants**

The Bureau had implemented a Sahana Insurance Fund Scheme for providing welfare and security of the Sri Lankans in employment outside Sri Lanka.the benefit of the migrants with the main objective of the Bureau. In view of the failure to pay attention to the preparation of the background necessary for the fulfilment of the main objective, the following situations had arisen.

## **Inefficiency in the Payment of Compensation for Deceased Migrants**

In the event of the death of a migrant worker registered with the Bureau, arrangements had not been made to notify, immediately the dependents of the insurance compensation by letter. In view of this situation, the Bureau had failed to pay compensation totaling Rs.112.40 million to the dependents comprising Rs.51.60 million in respect of 129 migrants out of 315 migrants deceased in the year 2014 and Rs.60.80 million in respect of 152 migrants out of 312 migrants deceased in the year 2015. Even though there were heirs of 15 migrants deceased in the year 2014 and 29 migrants deceased in the year 2015, had been confirmed action had not been taken even by 19 January 2016 to pay the compensation of Rs.6.00 million in respect of the year 2014 and Rs.11.60 million in respect of the year 2015 approximately to the heirs.

## **Non-updated Files of Deceased Migrants**

The Bureau had not taken necessary courses of action even by 19 January 2016 for the payment of compensation due to the deficiencies in the files of 42 migrants deceased in the years 2014 and 2015.

## **Lack of Co-ordination among Divisions of the Bureau**

The Foreign Relations Division of the Bureau had spent a sum of Rs.1,071,639 to bring down 53 migrants who had been harassed. The migrants had visited the Welfare Division of the Bureau made an application, for the insurance claims stating that he paid for the air ticket and obtained cash. Due to lack of co-ordination among the Divisions of the Bureau, a loss of Rs.1.07 million had been caused as the cost of air tickets could not be covered from the insurance compensation. According to the insurance agreement, when a migrant is brought back to Sri Lanka due to harassment, the cost of the air ticket including the Value Added Tax spent by the Bureau should be collected as reimbursement. The Bureau had incurred a loss of Rs.0.92 million as the Agency had paid only the cost of the air ticket without VAT to the Bureau.

## **Non-reimbursement of Cost of Air Tickets Spent by the Bureau**

The agreement period of the Insurance scheme had expired on 28 March 2015. Even though the Bureau had spent a sum of Rs.8.25 million for the purchase of air tickets to bring down 316 migrants to Sri Lanka due to harassment from the year 2014 to 28 March 2015, the Sri Lanka Foreign Employment Agency (Pvt)

Company had not reimbursed that amount.

## **Payment of Installments with Additional Commission**

An Insurance Scheme by the name Sahana Insurance Fund had been implemented from the year 2012 with the objective of payment of compensation to the migrants who are fully incapacitated or partially incapacitated or deceased due to harassment. The Agency had entered into an agreement from 01 August 2012 to July 2013 with the MBSL Insurance Company and with Sri Lanka Insurance Corporation with effect from December 2013. Accordingly, premiums of Rs.287.07 and Rs.550 had been charged per migrant for insurance. A private Company had obtained the premiums at the rate of Rs.900 per migrant from the Sri Lanka Bureau of Foreign Employment and had earned an additional profit of Rs.40.90 million in addition to the commission. In consequence of the intervention of that Company as an Insurance Agent, those entitled to insurance benefits had to follow a long process for obtaining compensation and the grant of compensation had been delayed. If the Bureau had dealt with the Insurance Company direct, instead of through the Agency, the commission of Rs.51.89 paid to the private company and the additional profit from the installment of Rs.900 could have accrued to the Bureau or the migrant.

## **Inefficiency in the Recovery of Housing Loans granted to the Migrants**

Sri Lanka Samurdhi Authority and the Sri Lanka Bureau of Foreign Employment had jointly planned a Housing Aid Programme for the Migrants on 08 March 2013. Accordingly, the Bureau had deposited a sum of Rs.100 million as the security, in the Bank of Ceylon under the name of Samurdhi Authority. Loans amounting to Rs.2,648.11 million had been granted to 9,103 persons by 31 December 2015. Out of that, the repayment of loans amounting to Rs.587.1 million obtained by 2,500 persons had been defaulted. That represented 22 per cent of the total loans granted. Similarly, 10 per cent of the loans granted had become bad debts by 30 June 2015. Due to the failure to take follow up action on the recovery of loans in accordance with the agreement entered into between the two parties, both parties had to bear the loss.

## **Transactions without Authority**

Out of the income of the Bureau amounting to Rs.3,001.82 million a sum of Rs.84.37 million had been paid in the year 2015 as various allowances to the staff of the Bureau without obtaining

the approval of the Secretary to the Treasury in terms of Section 9.7 of Public Enterprises Circular No. PED/12 of 02 June 2003 and the Public Enterprises Circular No. 95 of 14 June 1994.

## **Purchase of Saris deviating from the Procurement Process**

Contrary to the provisions in the Guidelines 2.14.1 of the Government Procurement Guidelines, saris for uniforms costing over Rs.5 million, which exceeded the authority of the Departmental Procurement Committee had been purchased. Quotations had been invited only from the Badulla District Rataviru Enterprises and Development Co-operative Society and 3,144 saris costing Rs.13.28 million had been purchased. Even though the Bureau was made aware that the purchase has to be made from the Uva Provincial Ministry of Industries action had been taken for the purchase through the Badulla District Rataviru Enterprises and Development Co-operative Society and as such the Bureau had to pay an additional Rs.200 per sari. That Society had earned an additional profit of Rs.150,000 on 750 saris in the year 2014 and Rs.628,800 on 3,144 saris in the year 2015. As such the Bureau had incurred a loss of Rs.778,000 from the purchase of saris in the years 2014 and 2015.

## **Computation of Contributions to the Employees Provident Fund**

The cost of living allowance had not been taken into account contrary to the provisions in Section 47 of the Employees Provident Fund Act, No. 15 of 1958 for the computation of the contribution of the employees of the Bureau to the Employees Provident Fund. Accordingly the contributions had been under-calculated by a sum of Rs.21.61 million by 08 November 2015.

## **Payment of Consultancy Fees for a Project**

Even though the contract for the construction of the Dambulla Migrant Resources Centre had been cancelled by the Cabinet of Ministers, the Bureau had paid a consultancy fee of Rs.9.88 million for the cancelled contract.

## **Dividends due to the Bureau used for the Development of the Agency**

In accordance with a decision taken at a meeting of the Secretary to the Ministry, the Chairman of the Bureau and the Chairman of the Agency held on 17 March 2015, the dividends receivable by the Bureau for the years 2008 to 2013 amounting to Rs.3.51 million had been allocated for the Development of the Agency without accepting the dividends by the Bureau.

## **Activities of the Associate Company**

Action had not been taken even up to 31 December 2015 for the settlement of a sum of Rs.3.11 million payable to the Sri Lanka Army on account of the Training Programmes conducted by the Army Schools at Maduru Oya and Minneriya in the year 2013 for the benefit of the Sri Lankan migrant labour due to leave for employment in Israel. Further, 522 trainees had participated in the programme and only 120 had proceeded abroad as at 31 December 2015. As such the sum of Rs.2.4 million spent on 402 trainees had become a fruitless expenditure.

## **Fisheries and Aquatic Resources**

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The Mission of the Ministry of Fisheries and Aquatic Resources is the management of the fisheries and aquatic resources of Sri Lanka for the benefit of the present and the future generations. The Department of Fisheries and Aquatic Resources, the National Aquaculture Development Authority, Ceylon Fisheries Harbour Corporation, the National Aquatic Resources Research and Development Agency, the Ceylon Fisheries Corporation and the Cey-Nor Foundation Ltd function under the purview of the Ministry for that purpose.

The Fisheries Industry performs an important function in the economy of Sri Lanka by providing the livelihood of the fisheries community exceeding 2.6 million and over 53 per cent of the protein requirements of the people of the country.

Provision amounting to Rs.6,203.3 million had been made in the Annual Budget Estimates for the year 2015 for the Ministry of Fisheries and Aquatic Resources Development, the Department of Fisheries and Aquatic Resources and the other Institutions under the purview of the Ministry including the Development of Fisheries and Aquatic Resources and provision amounting to Rs.5,034.3 million out of

the provision made had been utilized. As such a sum of Rs.1,169 million or 19 per cent had been saved.

Summarized Several important matters revealed during the course of audit of the Ministry and the Institutions under the purview of the Ministry are given below.

### **Import and Export of Fish and Fish Products**

Even though the coastline around the Island is 1,585 kilometres Sri Lanka contributing 75 per cent to the fish imports in the South Asian Region has become the major importer of fish in the South Asian Region. The income from the export of fish and fish product in the year 2015 as compared with the preceding year had decreased by Rs.10,082 million or 29 per cent whereas the expenditure on fish imports as compared with the preceding year had increased by Rs.11,869 million or 63 per cent during the year 2015. As such the net foreign exchange earnings had converted to a negative value of Rs.6,013 million. In addition, 2.4 per cent contribution of the Fisheries Sector for the export earnings in the preceding year had decreased to 1.8 per cent during the year 2015 . Therefore, any progress in the objective of the Ministry to earn foreign exchange from fish exports had not been shown.

## **Progress of Fish Production and enhancement of Nutrition**

Even though the enhancement of nutrition and food security of the community through the increasing national fish production is a major objective of the Ministry, in view of the following matters, revisited any progress of the achievement of that objective had not been shown.

- The contribution of the Fisheries Sector to the Gross Domestic Production on fixed price (base year 2010) for the preceding year amounted to Rs.120,657 million or 1.5 per cent, and it had decreased during the year 2015 up to Rs.117,453 million or 1.3 per cent by Rs.3,204 million or 2.7 per cent.
- The fish production of 535,050 metric tons in the preceding year had decreased to Rs.520,190 metric tons by 14,860 metric tons or 3 per cent in the year 2015.
- The per capita local fish production of 25.76 kilogrammes per year in the preceding year had decreased to 24.81 kilogrammes per year in the year 2015.
- Even though the Ministry had made plans for increasing the per capita fish consumption to 22 kilogrammes per year and per capita daily

consumption of fish to 60 grams for the enhancement of the physical and mental health of the future generation in accordance with the criteria of the Sri Lanka Medical Research Institute, the per capita fish consumption from January to September 2015 had been 44.6 grams per day.

- The fish production in the 6 Districts of Kegalle, Kandy, Matale, Vavuniya, Nuwara Eliya and Badulla as compared with the other Districts of the country had continuously reported a very small quantity. That production in the year 2015 represented from the range of 0.0031 per cent to 0.2882 per cent of the total fish production of the entire country. Even though this position is an impediment in the achievement of the objective of enhancing the nutrition standard of the people of the country, the failure to give priority to those districts in planning the distribution of fishing craft and nets implemented in the year 2015 indicated that the National Aquaculture Development Authority of Sri Lanka had not functioned according to a formal plan to enhance the inland fish production.

## **Non-Purchasing of Two Mother Vessels**

Even though provision of Rs.40 million had been made in the year 2015 for the purchase of 02 Mother vessels, the entire provision had been saved as the purchase had not been made. Even though provision for this purchase had been made continuously from the year 2006, no steps had been taken for the purchase. As such the expenditure amounting to Rs.113.56 million income for this Purchase from the year 2006 to the year 2014 had not produced results.

## **Establishment of Monitoring System for Fishing Craft**

A Monitoring System for the Fishery Craft operating in the International Seas should have been established as a member of the Indian Ocean Tuna Commission and as a Covenant Partner and as a country exporting fish to the European Union. That activity commenced by the Ministry of Fisheries and Aquatic Resources Development in the year 2010 had not been completed even at the end of the year 2015. A sum of Rs.85.16 million by the Ministry of fisheries and Aquatic Resources Development and a sum of Rs.553.9 million by the Department of Fisheries and Aquatic Resource had been spent in that connection in the year 2015. The selection of a supplier for that purpose had been done under the unsolicited Proposals which did not

comply with the Government Procurement Guidelines. As such the transparency of the contract could not be ascertained in audit.

## **Alternative Scheme for Fuel Subsidy**

The fishing nets, life jackets and boat engines which should have been issued to the fishermen in the year 2014 as an alternative for the fuel subsidy paid had not been completed even during the year 2015.

## **Ceylon Fisheries Corporation**

### **Non-achievement of Objective**

The fish sales of 3,979 metric tons of the Ceylon Fisheries Corporation for the year 2013 had decreased to 3,661 metric tons in the year 2015, while 132 fish sales outlets in operation in the year 2013 had decreased to 98 by the year 2015. Even though the addition of further 30 outlets to the sales outlets networks Corporation had been planned for the year 2015 with provision of Rs.6.9 million made for that purpose in the Annual Budget Estimates, the entire provision had been saved. Out of the fish trade in Sri Lanka, 99 per cent is under the control of the Private Sector while the Ceylon

Fisheries Corporation controls only 1 per cent. As such the Corporation, established to create competitiveness to ensure a fair price for the consumer had failed to achieve that objective.

## **Decreasing the Production of Ice Plants of the Corporation**

Even though the Ceylon Fisheries Corporation had 12 Ice Plants in the year 2012 that had gradually decreased to 6, 4 and 3 in the years 2013, 2014 and 2015 respectively. Similarly, the production of 16,082 metric tons of ice in the year 2013 had gradually decreased to 7,525 metric tons in the year 2014 and 6,785 metric tons in the year 2015.

## **Erosion of Net Assets of the Corporation**

In view of the reducing equity from the adverse impact of the net assets due to the continuous losses incurred by the Corporation, an uncertainty of the going concern of the Corporation without the financial assistance of the Treasury or the Government existed. According to a decision of the Cabinet of Ministers taken for the obtaining relief for the severe financial difficulties of the

Corporation it had been decided that the salaries for 6 months of the surplus staff of the Corporation should be paid by the Government. The Cabinet of Ministers had further decided that the Board of Directors should consult the General Treasury, prepare a Voluntary Retirement Scheme and submit through the Minister in charge of the subject, to the Cabinet of Ministers for consideration.

## **Cey-Nor Foundation Ltd**

According to a decision of the Cabinet of Ministers, the transfer of two net factories of the Cey-Nor Foundation at Weerawila and Lunuwila to a Government Company and the transfer of Karainagar Boat Factory given to that company back to the Cey-Nor Foundation had been agreed to and a Memorandum of Understanding had been entered into between the two companies. Accordingly, two net factories in operating condition had been transferred to the Government Company on 01 November 2011. Nevertheless, a suitable modernization plan for the commencement of the boat manufacture by the Boat Factory destroyed due to war had not been prepared even by the year 2015.

## **Project for Construction and Development of Fisheries Harbours and Anchorages**

- The construction of the New Jetty of the Fisheries Harbour, Galle which should have been completed during the years 2013 to 2015 under the Project for the Construction and Development of Fisheries Harbours and Anchorages, had not been commenced even by the end of the year 2015.
- Even though the contract for the construction of the Fisheries Harbour, Kalumetiya should have been completed by 31 December 2015, the physical progress as at that date had been only 36 per cent.
- The physical progress as at that date of the extension of breakwater of the Fisheries Harbour at Hambanthota and the extension of the breakwater of the Palangathure Poruthota Landing Centre had been about 50 per cent.
- The construction of the Kaikawala Anchorage due for completion within the relevant period had recorded 2 per cent physical progress and financial progress of Rs.83.96 million and after commencement, the Projects work had been ceased due to the non-receipt of the approval of the Department of Coast Conservation.
- Even though the Construction of the Maradana Anchorage had been completed, the environmental impact caused by that could not be ascertained as the approval of the Department of Coast Conservation for that work had not been received.
- Even though the financial progress as at 31 December 2015 of the construction of the Karainagar Boat Yard, Fisheries Harbours at Wennappuwa and Dodanduwa and the Anchorage at Peraliya and the Negombo Lagoon Development which should be completed in the year 2016, had been Rs.22.63 million, there was no physical progress.

# **Health and Nutrition**

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The Mission of the Ministry of Health, Nutrition and Indigenous Medicine is to contribute to social and economic development of Sri Lanka by achieving the highest attainable health status through preventive, curative and rehabilitative services of high quality made available and accessible to people of Sri Lanka. According to the key functions are policy formulation, implementation of programmes and projects, setting up standards and guidelines for health care delivery, human resources development, management, planning and systems development, resource allocation and monitoring and evaluation of programmes and projects.

## **Lack of a Formal Organisation**

### **Chart and Allocation of Duties**

The Organisational Chart prepared did not include the hierarchy in the proper order. Even though, about 90 Divisions had been established under the Ministry, the attachment of officers among the Divisions and the distribution of work among the officers had been done in an irregular manner. The inter-communications among the Divisions had been at a very weak level. This situation had been a major reason for long delays in procurements, the unavailability of data to be maintained

by various Divisions, appointments, attachment and transfer of Health Staff being in disorder.

## **Weaknesses in Staff Administration**

Salaries had been paid to 7,014 employees recruited in excess of the approved cadre. That included 86 Specialist Doctors and 5,567 Health Aides. Fifty six employees on permanent basis and 1,296 employees temporary and contract basis had been recruited to posts not included in the approved cadre. Further, the excess of Specialist Doctors in 24 Urban Hospitals and 2 Institutions had been 172 and that excess ranged from 01 to 25. The shortage of Specialist Doctors in 09 other Hospitals and 09 Institutions had been 86. Similarly, the vacancies of Medical Officers in 75 Hospitals and Institutions had been 1,772 and the excess in 16 Hospitals and Institutions had been 178. The number of approved Medical Officers for the different administrative activities of the Ministry had been 30. Nevertheless, 57 Doctors had been attached to different Divisions without an adequate assignment of duties. Eleven Regional Hospitals and 30 Primary Care Units in 15 Districts had been closed down due to the vacancies in the posts of Medical Officers.

## **Medical Supplies such as Drugs, Surgical Equipment and Laboratory Materials**

### **Purchasing of Medical Supplies which the recommendation of the Drug Formulary Review Committee had not been obtained**

The Cabinet of Ministers had decided that, medical supplies which the recommendation of the Drug Formulary Review Committee had not been obtain, should not be purchased. Nevertheless, 4,555 items of Medical Supplies which had not recommended by the committee had been purchased.

### **Uncompetitive Purchase of high Priced not recommended Items**

There were high priced items which can be estimated included in the items not estimated and due to not estimating the value of the items those had been purchased locally at high prices without competitiveness. Out of a sample of 10 items not estimated, purchase of 07 items had been made in 243 instances from the year 2014 to June 2016 for Rs.168 million.

### **Lack of a Formal Timetable for Ordering of Drugs**

The policy on the purchase of estimated items is to place orders allowing for a

supply period of 11 months. Nevertheless, out of the orders placed on the State Pharmaceuticals Corporation of Sri Lanka for the year 2015 the medical supplies of 45 per cent of the orders placed only had been received during the specified period. The reason for that in most cases is the delay in the procurement process which had not been done according to a proper timetable. That delay had resulted in the purchase of medical supplies of high cost from the local market annually. The total cost of the medical supplies purchased from the local market during the year under review alone amounted to Rs.4,310 million. The additional cost incurred due to the need for purchase of medical supplies from the local market from the year 2007 to the year 2015 amounted to Rs.4,876 million. The local market price of certain drugs exceeded the prices of the Sri Lanka State Pharmaceuticals Corporation abnormally.

### **Failure to Submit Drugs for Quality Testing immediately after Purchase**

Certain drugs had not been submitted for quality testing immediately after the purchase and in most instances, those are submitted for quality testing only when uncertainties arise. Drugs valued at Rs.233.9 million had failed the quality tests in the year under review.

In the year 2015 when the orders for the withdrawal of quality failed drugs from use were received, drugs valued at Rs.163.9 million had been issued to the patients. But, a survey on the damage caused to the patients had not been carried out. The shelf life of certain drugs had expired as long periods had been taken for carrying out quality tests.

### **Failure to recover the Cost of Quality failed Drugs from Suppliers**

The Cabinet of Ministers had decided that the cost of quality failed drugs and the administrative charges amounting to 25 per cent of the cost of drugs should be recovered from the suppliers. Nevertheless, out of the total cost of quality failed drugs as at 31 December 2015 amounting to Rs.2,772.4 million, a sum of Rs.301.4 million had been recovered by Medical Supply Division from the State Pharmaceuticals Corporation of Sri Lanka, while only a sum of Rs.188.4 million had been recovered by SPC from the relevant suppliers. As the suppliers had alleged that drug stores and the vehicles used for the transport of drugs do not conform to the specific standards resulting in the quality failure of drugs once the drugs are brought to the

Island. As such the balance amount could not be recovered from them.

### **Non-implementation of the Five Year Plan**

The Five Year Plan of an estimated cost of Rs.410.5 million for the Development of the Infrastructure Facilities and Human Resources of the National Drugs Quality Assurance Laboratory had been approved by the Cabinet of Ministers on 15 October 2009. Its financial progress as at 31 December 2015 amounted only to Rs.132.8 million. According to the number of laboratory tests done during the four preceding years, it was established that the Five Year Plan had not made any improvements to the laboratory facilities.

### **Printing of State Emblem on Packagings of Supplies**

The need for printing of the State Emblem on the packagings of the medical supplies, supplied by the State Pharmaceuticals Corporation of Sri Lanka is a condition of the orders placed as well as an internal control strategy. Nevertheless, a test check revealed that 06 items of medical supplies costing Rs.60.7 million without the State Emblem printed on the packagings remained in the stores.

## **Writing off Disposal Medical Supplies**

Even though 387 kinds of Medical Supplies valued at Rs.170.7 million related to the period from the year 1990 to the year 2010 had been disposed of the year 2012, the authority for the write off of those medical supplies had not been received. The Ministry failed to supply the information and data on the validity expired medical supplies from the year 2011 onwards.

## **Failure to take Action on Stock Shortages of Medical Supplies**

In terms of Financial Regulation 104 Formal inquiries had not been done on the stock shortages valued at Rs.42.7 million in the stores of the Medical Supplies Division.

## **Supply of Medical Equipment**

The following deficiencies were observed during the course of audit test checks of the supply of Medical Equipment.

## **Failure to obtain Benefits of the Procurement Process**

Even though it is possible to obtain economic benefits by estimating for the overall medical equipment requirements of all Government Hospitals and

Technical Evaluation Committee 3 members had not agreed with the

Institution on a single procurement, provisions had been allocated separately for each Hospital allowing for the Regional Procurement Committee to purchase medical equipment. Out of the overall provision of Rs.11,440 million made in respect of the 5 years from 2011 up to the year 2015 to the Bio-Medical Engineering Services Division, provisions amounting to Rs.5,224 had been distributed to Hospitals.

## **Rejection of First Minimum Price without Ascertaining Accuracy of Specifications**

In the selection of a supplier for the supply, installation and maintenance of 64 ventilators (adult and paediatric) for the Intensive Care Unit, the bidder who had furnished the first lowest price had been rejected without ascertaining whether the bidder had not fulfilled one or more of the matters specified in the Critical Requirements of the Technical Specification "C" or whether he had breached any of the clauses in the Instructions to Bidders included in the Tender Documents. The Technical Evaluation Committee had made the recommendation based on a report which was not a legal document or a document that can be used as a basis. Out of the 7 members of the

recommendation. The procurement had been in process to award to the second

lower bidder who had furnished a bid which exceeded the lowest bid by a sum of Rs.23.4 million.

## **Construction of Buildings**

The following matters were revealed during the course of audit test checks of buildings constructed from the provisions of the Ministry.

## **Failure to take Action according to the Action Plan**

The entire provisions amounting to Rs.19,544.5 million made for 39 buildings and constructions during the 5 years up to the year 2015 had not been utilised due to the failure to take action according to the Action Plan.

## **Non-submission of Information on Contracts to Audit**

Even though the contracts for 68 constructions had been awarded during the 4 years up to 2015, the information on 40 contracts of which the provisions made amounted to Rs.36,704.04 million had not been furnished to audit.

## **Deficiencies in the Contract for the Construction of Ward Complex of the Colombo South Teaching Hospital**

The value of the contract for the seven storey ward complex of Colombo South Teaching Hospital amounted to Rs. 398 million. The contractor had been selected by the Ministry Procurement Committee instead of the Cabinet Appointed Procurement Committee. The approved total cost estimate had not been furnished to the Audit. The total provision made from domestic funds during the 10 years from the year 2006 to the year 2015 amounted to Rs.815 million. Nevertheless, the work had not been completed even by 31 December 2015 and the period of delay had been 08 years. According to the reports, the financial and physical performance as at that date had been Rs.479.7 million and 65 per cent respectively. Even though it had been decided to increase the number of storeys from 07 to 08 storeys, action had not been taken for the preparation of revised engineering estimates, obtaining the approval of the relevant Procurement Committee or enter into a revised agreement with the contractor. Even though the contractor had stopped the work action had not been taken for the recovery of the advance of the 51 million granted to the contractor. Equipment valued at Rs.43 million had been left idling in the work site up to 2 years by August 2016.

## **Deficiencies in the Construction of Maternity Hospital – Galle Mahamodara**

The project for the construction of the Maternity Hospital – Galle Mahamodara had been commenced in the year 2005, and the work had been stopped halfway after the construction of only the foundation and payment of EURO 5.9 million to the contractor. According to the Cabinet decision taken in the year 2011, that is , 06 years after the stoppage of work, the loan agreement had been signed in August 2012 to obtain a loan of EURO 28 million or Rs.4,300 million from K.f.w. Bank in Germany to commence constructions on the old foundation. The agreement on the construction contract had been signed on 30 July 2015, that is, after three years approximately.

## **Delay in the Construction of Dental Institute**

The total contract value of the Project for the Construction of the Dental Institute commenced in the year 2010 amounted to Rs.734 million. According to the agreement, the work should have been completed by 31 March 2014. But, the work had not been completed even by 15 July 2016 and the delay had been

02 years 04 months. Due to the delay the medical equipment valued at Rs.108 million received as aid and purchased remain idle and their guarantee periods are gradually lapsing.

## **Construction of Eight Storeyd Epilepsy Unit of the National Hospital**

The Project for the establishment of the 8 storey Epilepsy Unit of the Sri Lanka National Hospital and the Island-wide Implementation of the Epilepsy Management Programme had been commenced in the year 2008 from a loan of Saudi Riyals 281.25 million. Even though the Project completion period had been extended in 3 occasions, the delay by the year 2016 had exceeded 6 years. Even though the physical progress of construction had been reported as 91 per cent, the Epilepsy Management Programme had not been implemented. As the provision of Saudi Riyals 35.5 million for the purchase of equipment had been utilised for the construction of the building, equipment could not be purchased. Due to the project delays, the actual cost of construction and consultancy services had exceeded the estimated cost by a sum of Rs.977.39 million.

## **Delay in Expansion of Production Capacity of the Pharmaceuticals Manufacturing Corporation of Sri Lanka**

Plans had been made for the commencement of the Project for widening of the Production Capacity of the State Pharmaceuticals Manufacturing Corporation of Sri Lanka in the year 2012 by obtaining JICA loans under 2 components for the construction of buildings and purchase of equipment at a cost of Rs.1,777.13 million and completion in the year 2017. Even though provision amounting to Rs.1,993.1 million had been made from the year 2012 to the year 2015, the financial progress as at 31 December 2015 amounted to Rs.160.7 million. According to the Action Plan for the year 2015, it had been expected to sign agreements for the purchases and the construction of buildings and open Letters of Credit, bid evaluation for equipment had been in progress as at 30 June 2016 and construction work had not been commenced.

## **Weak Control over Government owned Motor Vehicles**

It was revealed that the motor vehicles fleet of the Ministry did not consist of 752 motor vehicles and 3,134 motor cycles with the legal ownership of the Ministry. The user right of 17 motor

vehicles including 13 Ambulances had been irregularly assigned to 12 outside institutions. Records had been maintained that 11 motor vehicles not disposed of properly had been released as obsolete motor vehicles to the Vocational Training Institutions. Further, action in terms of the Financial Regulations on 11 motor vehicles with the legal ownership of the Ministry which had been reported to the Police as lost during the North and East war. Action had not been taken for the cancellation of their registration to prevent them from being used for any irregularities or misdeeds. In addition, a double cab motor vehicle belonging to the Ministry of Health and a Mitsubishi Pajero Jeep belonging to the Road Development Authority used by the Ministry of Health had been sold to two Senior Officers for Rs.290,000 and Rs.395,000 respectively, without following the standard procedures and the approval.

## **Private Health Services Regulatory Council**

The Private Health Services Regulatory Council had been established in the year 2007 with the objective of improvement and regulating the services performed by the Private Health Services Sector. According to Section 9 of the Private Medical Institutions (Registration) Act, No. 21 of 2006, the Council is expected to fulfil the following objectives.

- Development and monitoring of the Standards to be maintained by the Registered Private Medical Institutions
- The method of evaluation of the Standards maintained by such Private Medical Institutions.
- To ensure that minimum qualification for recruitment and minimum standards of training of personnel are adopted by all Private Medical Institutions.
- To ensure the quality of the patient care services rendered or provided by such Private Medical Institutions.

Action had not been taken to make rules for the Private Medical Institutions and enforce them in terms of Sub-section 19(1) and 19(2) of the Act. Further, the number of the Private Medical Institutions registered in the year 2007 in terms of the provisions in Sub-section 2(1) of the Act had been 1,747 and that number had gradually decreased to 787 by the year 2015. Nevertheless, a formal methodology had not been formulated for the identification of the number of Private Medical Institutions which should be registered, cause registration and invoke the provisions in Section 4 of

the Act on Institutions which do not register. In addition, the financial statements of this Council from the year 2011 onwards had not been furnished to Audit.

## **State Pharmaceuticals Manufacturing Corporation of Sri Lanka Entering into Joint Collaboration with Local and Foreign Companies**

The Corporations had commenced preliminary action in 5 instances in the year 2015 with 5 local and foreign companies for entering into Joint Collaborations without approval of the cabinet of Ministers.

## **Lack of Productions Commensurate with Demand**

The Corporation had failed to supply drugs valued at Rs.447 million equal to 61.8 per cent of the overall demand for drugs orders made by the Medical Supplies Division in the year 2015 due to lack of adequate machine capacity, technical defects in the manufacturing process, inadequacy tablet coating facilities, etc.

## **Loss from Discontinuity of Manufacture of Certain Drugs**

Losses amounting to Rs.2 million being the total cost of raw materials identified as not suitable for use due to redundancy of raw materials purchased for drugs discontinued from manufacture and the quality failure of raw materials nearing expiry of validity and Rs.1 million being the cost of packing material had been written off against the profit for the year 2015. Even though such raw materials costing Rs.15 million and packing materials stocks costing Rs.2 million had been available in the stores as at 31 December 2015, formal action had not been taken for the disposal those stocks.

## **Payment Incentives exceeding Approved Limits**

Even though a monthly production incentive of Rs.4,000 per employee could be paid for the members of the staff, a monthly production incentive subject to a maximum of Rs.12,000 had been paid with effect from 01 July 2011. The overpayment of incentive during the year 2015 alone amounted to Rs.12 million.

## **State Pharmaceuticals Corporation of Sri Lanka Unsaleable Drugs**

Out of the drugs purchased for sale by the Corporation, drugs valued at Rs.141 million had become unsaleable by 31 December 2015. The value of that stock according to the physical stock verifications amounted to Rs.99 million, thus resulting in a difference of Rs.42 million. The reason for the difference of Rs.36 million out of that difference had not been furnished and as there were no damaged stocks physically available, the possibility of unsaleable stocks being issued to the market could not be ruled out in Audit.

## **Losses incurred by 17 Osusalas**

Out of the 32 Osusalas in operation during the year 2015, only 15 Osusalas had earned profits amounting to Rs.143 million and the balance 17 Osusalas had incurred losses amounting to Rs.27 million. The total net profit of the overall Osusalas amounted to Rs.116 million and that as compared with the net profit of Rs.72 million for the preceding year indicated an increase of Rs.44 million or 61 per cent.

Nevertheless, 5 Osusalas at Avissawella, Ampara, Hambantota, Jaffna and Piliyandala had incurred losses continually amounting to Rs.5 million, Rs. 11 million, Rs.12 million and Rs.12 million in the years 2012, 2013, 2014 and 2015 respectively. Out of the total loss incurred by 17 Osusalas in the year 2015, forty seven per cent represented the losses incurred by the above 5 Osusalas.

### **Transport of Drugs without Insurance Cover**

Even though it is the responsibility of the Corporation to transport drugs with insurance cover, two stocks of drugs valued at Rs.12 million and Rs.9 million transported without insurance cover in the years 2013 and 2014 had been destroyed by a fire in the ship. The total loss including the sum of Rs.6 million spent on valuation of the loss amounted to Rs.27 million.

### **Sri Lanka Ayurvedic Drugs Corporation**

### **Non-participation of Treasury Representative at Board Meetings**

Six meetings of the Board of Directors had been held during the year 2015. The employees of the Corporation had harassed the

Treasury representative who had arrived to participate in the meeting held on 09 March 2016. Even though security arrangements were requested for attending the subsequent Board meetings, a proper course of action had not been taken. In the circumstances, the Treasury representative had not participated in the Board meetings held on 22 April, 26 May and 03 June 2016. Irregular decisions had been taken at the meetings held without the participation of the Treasury representative. The Chairman of the Corporation had not reported for duty from 29 June 2016 and the meetings of the Board of Directors had not been held since then.

### **Irregular Appointment of Officers**

Salaries had been paid to the officers irregularly appointed in the year 2015 to 57 posts not included in the approved cadre.

### **Introduction of New Productions to the Market**

A ceremony called “the Launch of Isiwara Osu” had been held in the year 2015 as the first step of Introduction and promotion of ten new products to the Market. A sum of Rs.7 million had been spent on that and 71 per cent of the expenditure had been

incurred on publicity. Nevertheless, 09 old products and one new product had been introduced.

### **Sri Jayawardhanapura General Hospital**

The following observations are made in connection with the Sri Jayawardhanapura General Hospital.

#### **Vacancies in Major Posts**

Even though the Committee on Public Enterprises had made a directive at the meeting held on 10 February 2016 that action should be taken with the direct intervention of the Ministry of Health, Nutrition and Indigenous Medicine to fill the vacancies in the major posts of the Director, the Deputy Director and the Accountant with permanent staff, permanent officers had not been appointed to those posts even by 22 August 2016.

#### **Recruitment of Officers Exceeding the Approved Cadre**

Even though the vacancies in the post of Ward Clerk as at 10 August 2015 had been only 9, seventeen officers comprising 9 on permanent basis and 8 on contract basis had been recruited. Salaries and

overtime amounting to Rs.1.7 million had been paid for the period September to December 2015 to the 8 officers recruited exceeding the approved cadre on contract basis without obtaining the prior approval of the Department of Management Services and an approved Scheme Recruitment.

#### **Validity expired and Non-moving Medical Equipment in Stores**

Stocks of 12,322 units of 11 kinds of drugs costing Rs.546,490 and 4,778 units of 32 kinds of surgical materials and radioactive materials of short term expiry of validity and as non-moving items costing Rs.5.6 million remained in the stores by 31 December 2015. In addition, out of 2,208 units of 12 items of surgical materials and drugs costing Rs.585,643 purchased in the year 2015, none had been used during the year. The existence of these stocks had been due to the reasons such as the failure to pay due attention to the use of the drugs, purchases made without properly identifying the requirement, the retirement of the Surgeon who utilised the drugs and the non-utilisation of those by the successor Surgeon.

## **Professional Fees Collected from Patients of Paying Wards**

Professional fees are collected from the patients of paying wards for surgical operations and treatment and 99.85 per cent of such fees had been paid back to the Specialist Medical Officers, the Medical Officers and the Assisting Staff. The professional fees so paid during the year 2015 alone totalling Rs.243.8 million. The following observations are made in this connection.

- Even though the approval of the Cabinet of Ministers had been granted for the Doctors to engage in private medical practice outside the normal duty hours, the Management had not prepared a specific methodology on the amount of professional fees chargeable, the amount payable to the Doctors and the Assisting Staff and the method of payment. The relevant Surgeon concerned had determined the professional fee at his discretion.
- Even though the professional fees cannot be charged for the operations and tests done during the normal duty hours, 14 Doctors had charged professional fees amounting to Rs.1.9 million for operations and tests done

during the normal duty hours in the period from January to December 2015.

- The Pay As You Earn Tax had not been deducted from the professional fees paid back to the Specialist Medical Officers, the Medical Officers and the Assisting Staff and remitted to the Commissioner General of Inland Revenue. The estimated Pay As You Earn Tax not so recovered during the years 2014 and 2015 amounted to Rs.35 million and Rs.39 million respectively.

## **Contract for Widening of the Hospital Car Park**

The contract for the widening of the Hospital Car Park valued at Rs.11 million had been awarded to a contractor on 05 September 2015 for completion in 112 days. According to the terms of the agreement, the work should have been completed by 09 January 2013. But the work had not been completed even by 22 August 2016. The quality of samples of earth used for filling and the Soil Compaction Test had failed and the Expansion Joints had not been filled with sand mixed with bitumen. As the overall delay exceeded 3 years the liquidated damage recoverable amounted to Rs.1 million.

Even though the Consultants had recommended that the Interim Bill No. 3 for Rs.995,454 submitted by the contractor should be set off against the liquidated damages, payment for the interim bill had been made 1 year and 6 months after that recommendation. Action had not been taken to encash the Performance Bond and that had lapsed by 01 October 2014.

### **Disposal of Anaesthetic Machines received as Donations**

Three Anaesthetic Machines received as donations on 19 March 2014 and used over a period less than one year had been disposed of / removed stating that they are defective. Four new anaesthetic machines costing Rs.29.9 million had been purchased on 14 August 2015. The

recommendation of a Technical Committee had not been obtained to ascertain whether they are defective enough for disposal. The 3 machines disposed had been given to the District Hospitals at Negombo, Kalutara and Monaragala and it was established that those machines were being used without any defects.

The letter dated 21 April 2015 sent by the Royal Perth Hospital, indicated that further 4 machines will be given as donations. Despite that, the order for the purchase of 4 new machines had been sent on 14 May 2015. Four new machines had been purchased for Rs.29.9 million despite being aware of receiving 4 new machines as donations. Those machines received as Donations remained idle even by 22 August 2016.

# Media

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The Ministry of Parliamentary Reforms and Mass Media, two Departments and 12 Statutory Bodies under the purview of the Ministry should have performed the following functions for the achievement of the expected results from this Sector, namely, the creation of a people friendly, development oriented, free and responsible Sri Lankan Mass Media.

- Formulation of Strategies for the Mass Media as a proactive agent in economic, social, cultural and political fields
- Adoption of necessary measures to ensure people's right to correct information
- Implementation of programmes to create a high level of Media ethic
- Release of official communiqués and news to Media
- Release of information about Sri Lanka to Local and Foreign Media Institutions
- Provision of information and publicity material for Sri Lanka Missions abroad
- Implementation of International agreements relating to publications
- Sale, storage and dispatch of Government publications other than departmental publications

- Take appropriate measures for Production and exhibition of news, films and documentaries
- Broadcasting, including commercial television, radio broadcasting and overseas transmission

A summary of the observations revealed during the course of audit of the Institutions which should perform the above functions is given below.

## Regulations of Electronic Channels

Even though the Ministry of Parliamentary Reforms and Mass Media had issued licences to 35 Institutions by the year 2015 for the operation of 35 Private Broadcasting Channels and Ground Cable Satellite Television Channels, it had failed to get the assent of Parliament for the Act for the establishment of the "National Broadcasting Development Authority" from the year 2010 to the year 2015. As such the activities of the licenced Television and Radio Channels had not been regulated in whatever manner.

## **Checks on the Quality and Aptness of Programmes Produced and Broadcast in Sri Lanka**

The foreign teledramas, films and commercial programmes imported had been subjected to an examination of their aptness for broadcasting by a Board of 11 members in accordance with the orders published in the Gazette Extraordinary No. 1451/16 of 29 June 2006 with the objective of supporting the improvement of the Sri Lankan Customs and the improvement of the quality of the teledramas, films and commercial programmes through limiting the import of such programmes. A tax on those had also been imposed. Nevertheless, the Ministry had not formulated a course of action for the examination of the quality and aptness and for the improvement of the quality of the programmes produced and broadcast in Sri Lanka.

## **Imposition of Taxes limited only for Collection of Revenue**

Revenue of Rs.173.50 million had been collected on 1,947 teledramas, films and trade advertisements imported by 12 Channels in the year 2015. The maintenance and administration expenses of the Ranminithenna Telecinema Park had been incurred from that revenue and the balance had been invested in Treasury Bills. Even though the objective of establishing the

Ranminithenna Telecinema Park had been the advancement of the local teledrama and films sector, attention to the improvement of the quality of local creations had not been paid up to the end of the year 2015. The approval of the Cabinet of Ministers had been given in the year 2009 for the change – over from the Analog Transmission to the Digital Transmission of the Television Broadcasting. An agreement had been entered into with the Japan International Co-operation Agency in the year 2014 for obtaining a loan of Japan Yen 13,317 million with the sponsorship of the Government of Japan. Provision amounting to Rs.1,900 million (Local and Foreign) had been made for this Project in the year 2015. Nevertheless, the Project work had not been commenced even by the end of the year 2015.

## **Department of Information**

The Department of Information had been established on 31 July 1948 to ensure the right of the people to be aware of information. The conservation of the Short films and documentary films produced even prior to the establishment (such as the Independence Day Celebrations) on national events development projects, etc., is one of the Key functions of the Department. The conditions prevailing in the conservations studio is not in conformity with the standard and had adverse impacts on the equipment and the health of the employees.

The Department had failed to modernise the conservation studio even up to the year 2016.

## **Sri Lanka Broadcasting Corporation**

Even though the Sri Lanka Broadcasting Corporation is having resources such as 8 National Channels, 6 Regional Services, 2 Community Radio Services, 2 Foreign Services, 7 FM Transmission Centres and 1 Medium Wave Transmission. Even though the Sri Lanka Broadcasting Corporation is endowed with other resources such as Transmission Centres located at better

places in engineering terms, the possibility obtaining the services of resource persons with good practice, ability to reach the ground level listeners in different social levels through the Regional and Community Radio Broadcasting Services, etc. it is not in a position to compete with the Private Radio Broadcasting Services due to the prevailing inefficiencies in the management of resources. According to the Report on the "National Mass Media Indicator Research Project, carried out under the sponsorship of the Ministry of Mass Media the Sri Lanka Broadcasting Corporation is listed at position 27 out of 47 Radio Channels.

## **Law and Order**

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The defence of Sri Lanka and protection of public order had been vested in the Ministry of Defence and Urban Development. Accordingly Special attention had been paid to the maintenance of order in the country by maintaining the defence of Sri Lanka in the same manner through suppressing the crimes, violence, harassment and antisocial activities that could arise during the post war situation. The Ministry of Law and Order was established with that objective by the Notification published in the Gazette Extraordinary No. 1823/07 of 16 August 2013. The function of the Ministry had been revised in three occasions for entering into the balance development stage of a peaceful country. As such the function of this Ministry is to assist the balanced development of the country through the creation of a peaceful background in Sri Lanka by maintaining public order and assisting the development of the Southern Region.

Summarised several important matters revealed during the course of audit of the Ministry, Department and the Institute under the purview of the Ministry are given below.

### **Weaknesses in Crime Solving Process**

The policies and strategies for the fast track solution of the crimes reported in

the country have been formulated. Even though the 50,962 Grave Crimes reported in the year 2014 had decreased to 40,188 in the year 2015, solving of those of those crimes in the year 2015 had been 13,049 as against 29,396 solved in the year 2014. As such 57 per cent of solving those crimes in the year 2014 had decreased to 32 per cent in the year 2015.

Even though the steps necessary for regulating the traffic to ensure the safety of the general public had been taken, 9,108 fatal accidents and accidents causing serious injury reported in the year 2014 had increased to 10,786 in the year 2015, thus indicating an increase of accidents.

Even though action had been taken to reveal narcotics related offences (Heroin, cannabis, opium, hasish, cocaine and other) 11,117 kilogrammes of narcotics taken into custody in the year 2014 in 74,366 instances had increased in the year 2015 to 13,548 kilogrammes in 89,996 instances indicate that the use of narcotic has increased.

The Special Task Force was established to assist the Police in the eradication of corruption and conducting raids and provide security for the very important persons. As a result of the dedication of the Regional Structure of Sri Lanka Police and this Force in the conduct of raids in the year 2015, the Special Task Force had taken into custody 328

persons in 16 raids for offences related to waste tea, illegal transport catty of transport of meat unfit for consumption, arms, explosives, illegal gem mining, etc.

### **Idle Assets**

Eight sets of equipment costing Rs.13.25 million purchased for checking motor vehicles had been kept in the IGP store over a period of 08 years approximately in unused condition.

### **Purchase of Animals, Fodder and Vitamins and Drugs from Unlicensed Institutions**

The Sri Lanka Police had purchased animals and fodder, vitamins and drugs for animals costing Rs.174.20 million during the years 2011 to 2014 from two Private institutions which had not obtained licences for the purpose.

### **The Galle Heritage Foundation for removal of unauthorized Constructions- Galle Fort**

Seventy instances of damage caused to archeological monuments and unauthorized constructions in the Galle Fort had been reported during the period January 2010 to March 2016. There were 50 instances of imposition fines ranging from Rs.50,000 to Rs.500,000 instead of removing the unauthorized constructions. The Galle Heritage Foundation did not have the legal provisions for the removal of the unauthorized constructions and its capacity for directing other Government institutions had been at the nominal level. This situation caused obstacles to the fulfilment of the objects set out in Section 3 of the Act of incorporation of the Galle Heritage Foundation.

# **Ports and Shipping**

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The Ministry of Port and Shipping and 4 Statutory Bodies under the purview of the Ministry should have performed the following functions for the achievement of the construct multi-dimensional logistic function while opening a deep water sea port with excellent maritime access that enables to receive large vessels and to operate them in modern specialized terminals.

- Formulation of policies, programmes and projects monitoring and evolution in regard to the subject of ports and those subjects that come under the preview of Departments, Statutory Institutions and Public Corporations
- Development and administration of port oil installations, light houses and beacons, other than those belonging to Admiralty
- Arbitration of disputes between shipping service providers and users
- Establishment of rules of competition for shipping service providers and users
- Assist in establishing consultative coordination between shipping service providers and users
- Receiving wrecks and ocean salvages
- Administration of Shipping Development Fund

- Freight and Shipping Services
- Coastwise passenger traffic

A summary of the observations revealed during the course of audit of the Institutions which should perform the above functions is given below.

## **Administration of the Shipping Development Fund**

A sum of Rs.461.84 million in the Shipping Development Fund had been remitted to the General Treasury in the years 2011 and 2012 with the objective of the termination of the activities of the Fund. The last financial statements prepared for the Fund had been for the year 2015. A sum of Rs.422.64 million remained receivable by the Fund by that date from 3 Government Institutions. The Ministry had sought the approval of the Department of Public Finance for the write off of that amount. The Director General of Public Finance had, by his letter No. PF/FD/04/134 of 05 November 2014 informed to take action to obtain the approval of the Cabinet of Ministers. But action had not been taken to obtain approval for that purpose even by 31 December 2015.

## **Merchant Shipping Secretariat**

An adequate and acceptable performance relating to the coastal passenger transport and takeover of bankrupt craft and marine salvage material which relate to the duties and functions of the Merchant Shipping Secretariat had not been achieved.

## **Ports Development**

- Non-implementation of the Galle Port Development Project**

Provision under foreign financing amounting to Rs.2,000 million had been made by the Ministry for the year 2015 in connection with the implementation of the Galle Port Development Project but the clearance and compliances required had not been considered in advance in the implementation of the Project. In view of that situation, the clearance to be given by the UNESCO under the Worlds Heritage Conservation Programme had not been received and as such the Project could not be implemented. The entire provision made for the Project had been saved.

- Operations of the East Container Terminal**

The East Container Terminal of 18 Metres depth completed in the year

2015 at a cost of Rs.10,800 million under the Port of Colombo Expansion Project could not be used for operation even by 31 December 2015 due to the failure to install the cranes and other related equipment.

## **Non-utilisation of the Oluvil Port**

The construction of the Oluvil Port had been completed on 01 September 2013 by utilizing EURO 46 million obtained from the Government of Denmark and Rs.531 million from the Sri Lanka Ports Authority. Nevertheless, the commencement of operations of the Port or the arrival of ships to the Port had not taken place. The Port had been subject to sand filling at present and despite the construction of three breakwaters of 100 metres each at a cost of EURO 1.8 million for the prevention of internal sand filling, the expected objectives had not been achieved even by 31 December 2015.

## **Cease of Fuel Operations of Oil Tank Farms**

The fuel operations of the Oil Tank Farm Hambantota constructed by the Sri Lanka Ports Authority at a cost of Rs.11,104 million had been ceased after March 2015. The loss earned from the fuel operations of the Oil Tank Farm

for the year 2015 amounted to Rs.355.73 million. The interest paid by the General Treasury in connection with the construction of the Farm to a foreign Bank up to 31 December 2015 amounted to Rs.2,218.85 million.

## Market Share of the Container Ship Arrivals

The arrival of container ships at the Port of Colombo in the year 2015 as compared with the preceding year had improved by 12 per cent. Even though there was an improvement in the arrival of container ships, the Sri Lanka Ports Authority had failed to acquire a higher market share of that improvement. That market share had been systematically acquired by two private institutions. It is depicted in Figure No.12 below.

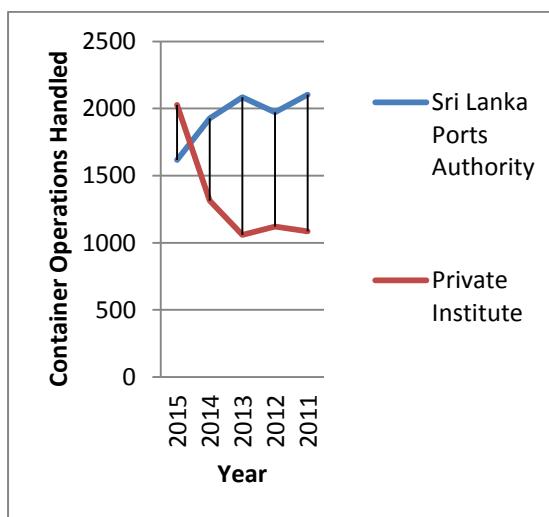


Figure 12 - Market Share of the Container Ship Arrivals

Source – Report of the performance Review - Sri Lanka Ports Authority

## Market Share of the Container Operations handled

According to the Alpha Liner Report on the Operations of the Worlds Ports issued in respect of the year 2015, the Port of Colombo had occupied the twenty sixth place by handling operations of 5,185,467 Twenty Equivalent Units and as compared with the year 2014 an improvement of 5.7 per cent had been achieved in the year 2015. Nevertheless, 2 quays with depths of 18 and 15 metres belonging to the Sri Lanka Ports Authority had been transferred to private companies on 35 years lease basis and as a result handling of containers by the Sri Lanka Ports Authority had been systematically decreasing during the past 15 years. Details appear the Figure No. 13 below.

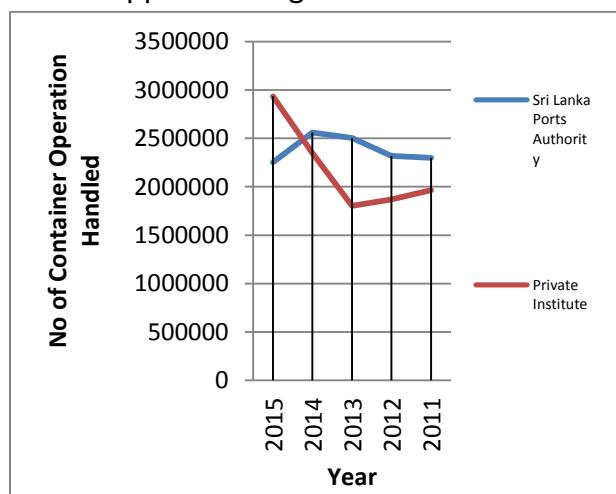


Figure 13 Market Share of the Container Operations handled

Source – Report of the performance Review - Sri Lanka Ports Authority

## Net Operating Profits / Losses

The particulars of net profits / (losses) of the major ports of the Sri Lanka Ports Authority during the past 05 years appear in Figure No. 14 Below.

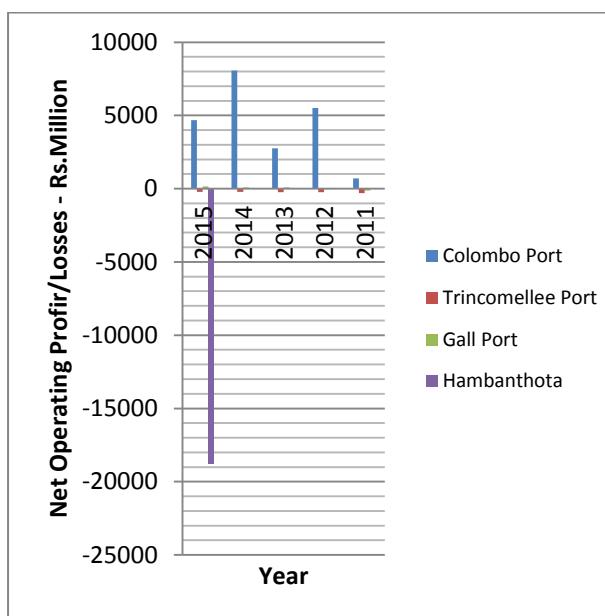


Figure 14 Net Operating Profit/Losses  
Source – Financial Statements Sri Lanka Ports Authority

- The Port of Trincomalee had been incurring losses continually during the past 05 years and its cumulative loss amounted to Rs.1,211.67 million.
- A sum of Rs.144,170 million had been spent up to 31 December 2015 for the construction and development of the Port of Hambantota. Foreign loans amounting to Rs.129,848 million had been utilized for that purpose. This port had been incurring losses from the date of opening and its assets
- The operating profit of the company for the year 2014 /15 amounted to

had been underutilized. A loss of Rs.18,782 million had been reported for the year 2015 and the cumulative loss incurred up to the year 2015 amounted to Rs.37,186 million.

## Environmental Problems of Oluvil Port

Since the construction of the Port of Oluvil the erosion of the sea in the surrounding areas had aggravated, thus depriving the fishery community of the area their daily work. Due to the construction of three breakwaters of each 100 metres in length for the prevention of sea erosion, the traditional fishery community could not use the coastline to keep their boats.

## Ceylon Shipping Corporation Ltd

Ceylon Shipping Corporation Ltd had been carrying out its operations as a Non-Vessel Owing Common Carrier and using vessels obtained on charter hire. Nevertheless, two vessels costing US\$ 70 million for its operations had been ordered from a company in the People's Republic of China in the year 2013 and one of those two had been deployed in commercial operations from March 2016. The following matters were observed in this connection.

Rs.196.05 million and that as compared with the year 2013/14,

indicated a deterioration of 77 per cent.

- The major operating activity of the company during the year 2014/15 had been the transport of coal to a subsidiary company of the Ceylon Electricity Board which generated 62 per cent of the total operating income of the Company.
- Even though an operating income of Rs.36.10 million had been planned for the year 2014/15 from clearance related to bonded warehouses, no performance related thereto had been achieved in the year 2014/15.
- The Cabinet of Ministers had decided on 19 June 2014 to handover only to the Company the transport of coal and crude oil requirements of the country at the cost based shipping charges with the objective of saving a considerable amount of foreign

exchange flowing out of the country for the payment of shipping charges to foreign shippers in the transport of imported goods such as coal and crude oil. Accordingly, the company had transported 258,509 metric tons of crude oil and supplied to the Ceylon Petroleum Corporation during the period 07 November 2014 to 04 January 2015. Even though the transport of 1,710,000 metric ton of crude oil had been planned for the year 2015, the transport of crude oil had ceased after January 2015. The Quantity of crude oil transported by the Ceylon Petroleum Corporation through another foreign shipping company had been 1,772,676 metric tons approximately and as such the expected objective of the Cabinet of Ministers had not been achieved.

## **Roads Constructions**

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The Ministry of Higher Education and Highways and 5 Statutory Bodies under the purview of the Ministry should have performed the following functions for uplifting the living condition of the road users by minimising the travel time and cost and providing road safety and comfort through an elevated transport system.

- Formulation of policies, programmes and projects on the subjects related to roads and the subjects related to its Statutory Bodies.
- Co-ordination of the national policy based development work together with the Provincial Councils and Local Authorities.

A summary of the observations revealed in the audit of the Ministry and the Statutory Bodies under its the purview is given below.

### **Ministry of Higher Education and Highways**

#### **Recruitment of Staff without Approval**

The Ministry had recruited 54 Consultants at a salary of Rs.65,000 per month and 94 Public liaison Officers at a salary of Rs.25,000 per month for 14 Foreign Aid Projects implemented under the Ministry without the approval of the Department of Management Services. The additional expenditure to be incurred by the Government per month

in this connection amounted to Rs.5.86 million.

### **Road Development Authority**

The total staff of 10,699 of the Road Development Authority included among others 80 in the Senior Management, 663 in the Engineering Service and 928 in the Technical Service. According to the financial statements for the year ended 31 December 2015, the surplus of the Authority amounted to Rs.1,674.93 million and provisions amounting to Rs.23,488.18 million had been received from the General Treasury for carrying out road improvements and maintenance. An income of Rs.41,172.6 million had been collected in the year 2015 from the motor vehicles travelling on Expressways.

### **Widening and Rehabilitation of Roads from Funds from Domestic Banks**

The approval of the Cabinet of Ministers had been granted for obtaining a loan of Rs.151.77 Billion from Domestic Banks for the rehabilitation of 64 roads of 1,434 kilometers under the Road Development Authority. Accordingly, contracts valued at Rs.151.77 billion had been awarded for the rehabilitation of 64 roads.

The total of the loans for the rehabilitation of those roads obtained from 07 Domestic Banks in the years 2012, 2013, 2014 and 2015 amounted to Rs.131.31 Billion. Even though the contractors should be selected in accordance with the Government Procurement Guidelines, the contracts had been awarded directly on the quotation supplied by the contractors. Nevertheless, it was observed the quotations furnished exceeded the standard road rates. The contract value of Rs.146,552.78 million recommended by the Technical Evaluation Committee of the Ministry for 54 roads had been increased by Rs.9,242.16 million by the Cabinet Appointed Technical Evaluation Committee. Out of the loans obtained by the Authority, a sum of Rs.28,000 million from the loan of Rs.55,392.2 million approved by the National Savings Bank for the construction of 28 roads, had been utilized for other activities of the Authority and the Ministry extraneous to road rehabilitation. Even though the specifications and items of work of each road should be supplied to the contractors by the Authority it had not been so supplied. The physical examination of 08 roads revealed that the roads had been constructed by reducing the work to be done in respect of the length and width of roads, concrete drains, culverts, embankments and top layer of roads. Further, indicating that the money allocated for 25 roads of the project had been saved,

project funds amounting to Rs.3,333 million had been utilized for construction work extraneous to the project.

### **Performance of Road Widening and Improvement Projects not Commenced**

According to the Progress Report as at 31 December 2015 submitted by the Construction Division, there were 84 Projects of estimated cost amounting to Rs.4,902 million on which no work at all had been commenced. Out of those, a sum of Rs.2.50 million had been spent on one project. Out of 84 projects there were 54 projects which did not belong to the Road Development Authority and the contract value of those amounted to Rs.2,464.84 million. The contract cost of 30 projects belonging to the Road Development Authority on which no work had been commenced amounted to Rs.2,437.16 million.

### **Projects of Work Completion less than 50 per cent**

According to the Progress Report as at 31 December 2015 submitted by the Construction Division, the estimated value of 259 projects on which work completion had been less than 50 per cent amounted to Rs.25,103.37 million. Out of that a sum of Rs.1,494.27 million had been spent on 103 Projects.

Out of these 259 projects, 206 projects did not belong to the Road Development Authority and the contract value thereof amounted to Rs.17,927.85 million and a sum of Rs.912.77 million had been spent thereon. Further the progress of 53 projects of the Road Development Authority costing Rs.7,175.52 million, on which the expenditure amounted to Rs.581.50 million, had been less than 50 per cent.

### **Inefficiency of Debt Collections**

The Authority had failed to recover even by 31 December 2015, debtors balances amounting to Rs.7,368.16 million which should have been collected in the years 1987 and 2012 to 2014. The Authority had not taken prompt action for the recovery of Rs.1,175.08 million related to the construction works of Government Ministries and Boards done by the Road Development Authority from the year 2012 to the year 2014.

### **Recovery of Liquidated Damages**

According to the agreements entered into between the contractors and the Authority liquidated damages should be recovered for the failure to complete the work on the due dates. The liquidated damages recoverable from 450 contracts of the years 2010 to 2014 amounted to Rs.676.85 million. The Authority had not taken action even by

31 December 2015 to follow up action recover the liquidated damages.

### **Collection of Lease Rent**

A sum of Rs.1.78 million recoverable over periods ranging from 5 years to 8 years from the shops of the Borella Underpass and a sum of Rs.1.1 million recoverable over periods ranging from 3 to 4 years from the shops of the Kandy Underpass had not been recovered even by 31 December 2015.

### **Baseline Road Project**

A sum of Rs.525.13 million had been spent up to 31 December 2015 for the acquisition of lands for construction of the road from Kirulapana to the Dutugemunu Junction of the Colombo – Horana Road under Stage III of the Baseline Road Project. The road construction work had not been commenced even by the end of the year 2015 due to the delay in the acquisition of lands.

### **Payment of Liquidated Damages to Contractors**

The Project had to pay delay charges amounting to Rs.29.16 million and U.S.\$ 49,079.81 under the Priority Road Project I and Rs.229 million and U.S.\$.393,301.68 under the Priority Road Project II in the year 2015 due to the failure to settle the contractors bills within the specified period.

## **Delays in the Payment of Compensation for Lands Acquired**

Interest paid up to 31 December 2015 for the delay in the payment of compensation for the lands acquired for the Southern Expressway Project amounted to Rs.384.82 million.

## **OPEC Funds Road Network Development Project**

According to the original Bill of Quantities of the Road from Madampe to Rakwana related to the OPEC funded Road Network Development Project, cost of Rs.478.07 million and Rs.688.57 million respectively for the payment construction and culverts and parapet wall. Subsequently those items had been revised as Rs.438.07 million and Rs.376.59 million respectively thus resulting in cost savings of Rs.40.00 million and Rs.311.98 million under the two items respectively. This had resulted from the lack of Skill and Competence in the preparation of cost estimates. The savings had been utilized for purposes extraneous to the Project.

## **Integrated Road Investment Project (i – Road)**

According to the Government Procurement Guidelines and the particular conditions of the contract agreement entered into with the contractor, in the payment of mobilization advances to the contractor, the provisional sums in the bill of quantities, contingent allocations and

the price changes should be deducted and 20 per cent of the balance value, that is, Rs.4,122.46 million should have been paid to the contractor as the mobilization advance. Nevertheless, a mobilization advance of Rs.5,096.67 million had been paid to the contractors without taking into consideration the deductions. As such an overpayment of mobilization advances amounting to Rs.974.21 million had been made to the contractors.

## **Southern Roads Connectivity Project**

According to Section 45.1 (a) of the Special Condition of the agreement entered into in connection with consultancy services, 15 per cent of the contract value excluding the provisional sum and contingencies amounting to US\$ 193,782 in foreign currency amounting to Rs.25.37 million and Rs.19.37 million in local currency should have been paid. The service provider should have settled the advance in 8 equal installments commencing from the fifth month of service supplied.

Accordingly the full amount of mobilization advance should have been recovered by November 2015. Nevertheless, the project had paid a sum of Rs.204.51 million for the work done up to 31 December 2015 to the Consultant without deducting the mobilization advance of Rs.44.76 million by the end of the year in accordance with the conditions of the agreement.

- Even though the mobilization advances paid had not been recovered by 31 December 2015, the Bank Guarantee produced for the two sums of money referred to above had expired on 30 November 2015.
- The application for exemption from the Value Added Tax from the date of commencement of consultancy services on 14 December 2014, had been made to the Department of Inland Revenue after a delay of 05 months up to 19 May 2015 and as such the Project had paid Rs.6.78 million as the Value Added Tax and Rs.1.2 million as the Nations Building Tax.

### **New Kelani Bridge Project**

Even though the construction of the new Kelani Bridge was planned for commencement in January 2017 the following factors would delay the commencement of construction work.

- Cost estimate of Rs.1,240 million had been made for the relocation of high voltage electricity transmission lines of 220 kilowatts out 132 kilowatts in the construction premises. Nevertheless, the procurement work in that connection had not been done even by 31 August 2016. In view of the delay in the relocation of the electric transmission lines, it will take a longer time for the handing

over of the work site to the contractor for the construction of the bridge.

- Even though a period of 8 months had elapsed after the payment of Rs.33.91 million by the Project for the relocation of 3 other electricity transmission lines in the premises the work had not been commenced.
- The Project had commenced the construction of a building in Malabe area to relocate the building belonging to the Atomic Energy Authority situated in the bridge construction premises. The construction work of that building had been temporarily ceased on 17 July 2015 due to the strong objections to the siting of the Atomic Energy Authority in that place raised by the people. A sum of Rs.34.72 million had been spent up to 31 December 2015 on the building estimated to cost Rs.419.07 million. Even though one year had elapsed after ceasing the construction work a final determination whether the Atomic Energy Authority would be relocated in that place or taking any other course of action had not been reached even by 31 August 2016. This position could have a severe impact on the delaying the work of the Kelaniya Bridge Construction Project.

## **British Iron Bridges Project**

- Even though the contract agreement between the Government of Sri Lanka and the supplier had been entered into in British Pounds, the loan agreement between the two parties had been entered into in U.S. Dollars. In view of this situation a loss of US\$ 892,781 or Rs.130.50 million had been incurred in 03 years due to the depreciation of the US Dollar against the British Pound.
- According to the contract for the initial supply of bridges, 104 bridges 3,077.9 metres long should have been supplied. Nevertheless, the bridges supply contract had been revised in 6 occasions. Out of the 6, two had been approved by the Cabinet of Ministers and the other 04 had been approved by the Procurement Committee.
- Thirteen bridges in the initial bridge supply contract had been eliminated and the construction of the Polduwa Bridge at a cost of British Pounds 10,739,262 equivalent to Rs.2,334.28 million had been included. This contract had been awarded to a limited Company by following the Unsolicited Procurement Process. The Project had not taken action to obtain the benefit accruing through the Procurement Process.
- According to the recommendation dated 24 October 2011 of the Special Cabinet Appointment Procurement Committee approved by the Cabinet of Ministers on 19 December 2012, the limited company had agreed to allow a discount of British Pounds 1,560,000 equivalent to Rs.339.08 million from the total project cost. Nevertheless, in entering into the contract agreement, Rs.17.38 million equivalent to 80,000 British Pounds allowed for loading and unloading of bridges at the construction site had been dropped and the discounts for other items amounting to Rs.321.69 million equivalent to British Pounds 1,480,000 had been included in the contract.

## Technical and Vocational Education

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The Ministry of Skills Development and Vocational Training functions with the main objective of creating a labour force Strengthened with the Skills and employable needed for the economic development of the country. As such the Ministry should have taken the courses of action to referring the students leaving the schools annually to the vocational training fields and providing a vocational training of quality and appropriate for the future job opportunities. Accordingly, 447 Vocational Training Centres related different vocational fields maintained by the institutions functioning under the Ministry had been established throughout the Island. Nevertheless, the audits carried out during the year 2015 revealed that the facilities required for providing the Vocational training for a considerable number of students leaving the schools system annually are not available. According to the Reports of the Ministry of Education, the number of students who left the schools system during the year 2014 after failing the General Certificate of Education Ordinary Level and the Advances Level Examination had been 195,062. According to the information obtained from all Vocational Training Institutions functioning under the Ministry of Skills Development and Vocational Training, according to the resources available in

the year, full time vocational training could be provided only to a maximum of 109,320 students. As such, about 44 per cent of those students annually enter the unskilled labour force, which implies that they will have either to remain unemployed or underemployed. According to the information furnished to the Audit, out of 3,732 full-time courses conducted by the Vocational Training Institutions under the Ministry, the number of courses with the National Vocational Qualification status is only 2,532. As such the local or foreign job opportunities available to the students following the courses without the National Vocational Qualification status will be held at the minimal level. It was also observed that it is not possible to achieve quality training from the courses conducted without appropriate standards. The minimal level of student participation in these courses as evidenced from the non-participation of student in 1,822 courses in the year 2015 and the participation of students in 666 courses of 5 institutions being less than 09. In addition, the conduct of similar courses in the same areas by the institutions under the Ministry had an impact in creating the above situation. The deficiency in this case is that, at the Ministry level there was no centralized course of action to co-ordinate all Training Centres for the conduct courses appropriate for the local needs,

to give priority to institutions with capacity and for the supply of the required facilities for selected centres to enable them to conduct courses of high quality.

## **Skills Sector Development Programme**

The Skills Sector Development Programme representing the overall Vocational Training Sector is being implemented as a Seven Year Plan under the supervision of the Ministry since the year 2014 for the quantitative and qualitative improvement of the Vocational Training Sector. The overall estimated cost of the Programme amounted to Rs.125,891 million (U.S.\$ 961 million). Agreements had been entered into with the International Development Association and the Asian Development Bank for the supply of credit at the rate of U.S.\$. 100 million under the Budget support system. The Programme is being implemented by 10 implementing institutions by the end of the year 2015 and foreign loan amounting to Rs.8,541 million had been utilized by the end of the year 2015 for the implementation of the planned Programmes under the Disbursement Link indicators (DLI) 9. The failure to prepare a Corporate Plan incorporating all the activities and the expected cost was observed as a major deficiency in the implementation of the Programme. The working of the Programme during the years 2014 and 2015 indicated that

fulfilling the objectives through the Annual Action Plans is slow. Even though the Action Plan for the year 2015 had scheduled the implementation of 70 programmes by 10 implementing institutions and the Ministry of Skills Development and Vocational Training and spend Rs.3,520.78 million on them, only 44 programmes had been implemented at a cost of Rs.1,374.30 million. In view of the above situation, the existence of a risk whether it could be possible to achieve the planned objectives of the Programme within the planned period of the Programme.

## **Establishment of University Colleges**

Plans had been made for the establishment of 20 University Colleges throughout the Island under the Skills Sector Development Programme for the students passing the General Certificate of Education Advanced Level Examination in the Technical subject stream but do not qualify to enter the National Universities. Fourteen out of those were expected to commence the courses by the year 2015. Nevertheless, only 6 University Colleges had been constructed by June 2016 and 5 out of those only had commenced the courses. According to the existing capacity the total number of students that can be admitted to those University Colleges had been only 1,260.

But it was observed that those University Colleges are not functioning as expected due to the reasons such as 42 per cent vacancies in the approved posts in the academic staff, the commencement of only 42 courses out of the 51 courses planned for the 6 University Colleges constructed and the rate of 27 per cent student abandoning the courses of those University Colleges. Even though the Technical subject stream had been introduced to the schools curriculum as expected, the facilities for students studying in that stream for the future vocational development had not been created.

### **University of Vocational Technology**

The audit of fulfilment of the objectives of the University of Vocational Technology revealed the following deficiencies while it was further revealed that the human and physical resources of the Universities had not been effectively utilized.

### **Conduct of Full-time Courses at the Optimum Capacity of the University**

Even though the students enrolled in accordance with the Universities Act enjoy the rights for a free vocational education, it was observed that the University was conducting part-time courses (weekend courses) by charging

fees. Accordingly, course fee of Rs.60,000 at the rate of Rs.10,000 per semester had been charged per student from those admitted from the year 2013. Nevertheless, it was observed that the full-time (weekdays) courses conducted without charging fees had not been conducted at the optimum capacity of the University. As such, out of the 19 courses conducted by the two Faculties of the University of Vocational Technology, 13 part-time courses had been conducted in the year 2015 by charging fees while only 6 full-time courses had been conducted.

### **Non-submission of Information on Academic Hours Performed**

Academic staff of 41 of the University had been recruited on permanent basis and the number of the academic hours performed had not been furnished to audit. In addition, 139 External Lecturers had been deployed in 8,291 academic hours and 1,236 practical training hours during the year 2015.

### **Minimal Level of enrolling Students for full-time Courses**

According to the information obtained on the students admitted to the University during the year, 134 students had been admitted to the full-time courses. Even though a new

courses had been introduced in the year 2015, the increase in the number of students admitted to the part-time courses including the students admitted to the two courses commenced in the year, had been 416 and that, as compared with the preceding year, had been an increase of 99 students. Accordingly, the progress of the admission to the full-time courses had been at the minimal level.

### **Increase in the Number of Students not completing the Degree**

An examination of the students admitted to Degree courses in the academic year 2012 and the students who completed the courses and graduated out of the students admitted for 3 courses less than 65 per cent had completed the degree. Accordingly, the progress of successful students in the Degree courses in the Mechatronics, Multimedia and Web and Education had been at a low level. Out of that, the percentage of students abandoning the courses in Mechatronics and Multimedia and Web had ranged from 19 per cent and 31 per cent. The management had not looked into this matter and taken the necessary courses of action.

### **Implementation of the Skills Sectoral Development Programme**

Provision of Rs.100.5 million had been made in the year 2015 for the University of Vocational Technology for the implementation of 11 activities in the Action Plan. An audit examination of this matter revealed the following deficiencies.

### **Non-execution of Activities in the Action Plan**

The following activities included in the Action Plan with provision amounting to Rs.3.05 million had not been executed even by the end of the year 2015.

- Establishment of an Academic Status Assurance Division and the improvement of the Academic Status.
- Obtain recognition by the Sri Lanka Institute of Engineers.

As compared with the provisions made for the following activities that should have been executed during the year, the financial progress of the implementation of the projects ranged from 50 per cent to 60 per cent.

- Development of the syllabuses according to the requirements of the industry under the guidance of the recognized Universities.
- Supply of 5 levels of National Vocational Training Qualifications for the trainees in the Technical Vocational Education and Training Field

- Revision of 20 exiting curriculums.

### **Inadequacy of Training of National Vocational Qualifications Evaluation Staff**

According to the Action Plan provision of Rs.1.5 million had been made for this purpose and 450 persons comprising 50 from the industry and 200 each from the institutions and schools should have been trained. Nevertheless, only 219 had been trained at a cost of Rs.1.13 million.

### **University College, Ratmalana**

The audit of the functions of the University College revealed the following deficiencies.

### **Registration for National Vocational Qualifications**

Registration for National Vocational Qualification for 9 courses conducted during the year 2015 had not been obtained due to the inadequacy of the existing laboratory facilities and the academic equipment.

### **Accreditation of the Training Courses**

Even though the courses conducted by the College should be accredited as

Training Courses, the management had not taken action for the development of the infrastructure of the College required to improve the laboratory facilities and the academic equipment for the purpose of creating the quality control system required for accreditation. As such the College could not provide high quality internationally recognized courses to the students during the year 2015.

### **Idling of Equipment Purchased for Courses**

Equipment valued at Rs.47.05 million purchased for 3 courses including the Cosmetology Technology Course planned for commencing during the year 2015 had been idling as the facilities for the courses had not been made ready.

### **Increase of Students abandoning Courses**

Out of 133 students enrolled in the year 2015 for 8 courses of the College, 46 students had abandoned the courses. When considered course by course separately the number who had abandoned courses ranged from 18 per cent to 52 per cent. The management had not taken action to identify the reasons for abandoning in order to take remedial action to minimize the ratio.

## **Tertiary and Vocational Education Commission**

The following deficiencies were revealed in the audit of the Tertiary and Vocational Education Commission.

According to a research conducted under the direction of the Tertiary and Vocational Education Commission, the number of courses on vocational training conducted by the Public, Private and Non-public and Private Organisation had been 9,522 and out of that only 2,323 courses or 21 per cent had been accredited to the National Vocational Qualification. Even though the Commission is responsible to ensure that the courses are accredited to the National Vocational Qualification Level, an adequate course of action in that connection had not been taken even by the end of the year 2015.

## **Decrease in the number of Students joining the Higher Vocational Level**

Even though 44,811 Certificates of Level 1 to 6 of the National Vocational Qualification had been issued in the year 2015, that included only 1,480 Certificates of Qualification Level 5 and

6. As such, only an insignificant number of students have joined the higher levels of vocational qualifications.

## **Action Ultra Vires the Provision in the Establishments Code**

The Commission had utilized a sum of Rs.8.05 million from the funds of the Skills Sector Development Programme ultra vires the provision in the Establishments Code for an officer above the age of 48 years to follow a course in a University of the People's Republic of China.

## **National Apprentice and Industrial Training Authority**

Even though a Programme on the Recognition of Pre-learning Later System had been held irregularly in the year 2014 by spending 34 million in an improper manner and interdicting the officers responsible in that connection, a similar programme had been held again ceremonially in Galle in the year 2015 at a cost of Rs.4.5 million. The value of goods purchased for distribution at the event amounted to Rs.1.26 million and the cost of organizing the event amounted to Rs.3.44 million.

## Disaster Management

The Ministry of Disaster Management performs its functions related to the Disaster Management in Sri Lanka with the objective to facilitate the prosperity and dignity of human life through effective prevention and instigation of natural and human induced in Sri Lanka activities. The National Disaster Relief Service Centre, the Department of Meteorology, the National Building

Research Organisation and the Disaster Management Centre are functioned for this purpose under the purview of the Ministry. Information on the natural and the non-natural disaster that occurred in Sri Lanka during the years 2011 to 2015 according to the information made available by the Disaster Management Centre appears in Table 15 below.

Disasters	2011	2012	2013	2014	2015
<b>Natural</b>					
Number of Disasters					
- Deaths	359	408	394	719	571
- Missing Persons	104	110	97	91	49
- Fully damaged houses	20	01	29	34	01
- Partially damaged houses	8,457	3,164	544	5,206	612
-	20,584	11,243	10,036	19,381	6,351
<b>Non-natural</b>					
Number of Disasters					
- Deaths	39	63	44	34	70
- Missing Persons	04	20	08	08	19
- Fully damaged houses	02	-	-	-	01
- Partially damaged houses	10	05	195	104	66
-	19	02	12	39	36

Table 15 Natural and Non-natural disasters in Sri Lanka during the years 2011 to 2013

According to the above information, it is evident that the number of the natural and the non-natural disasters occurring in Sri Lanka are increasing annually. As such the need of awareness of the people with regards to the mitigation of the natural and the non-natural disasters is emphasized.

The provisions for Recurrent Expenditure amounting to Rs.1,292.5 million and capital expenditure

amounting to Rs.2,209 million had been made for the Ministry of Disaster Management through the Annual Budget Estimate for the year 2015. As compared with the provisions for recurrent expenditure amounting to Rs.836 million and provision for capital expenditure amounting Rs.1,894 million made for the year 2014, an increase of the provision made in the Annual Budget Estimates for the year 2015 was indicated.

Nevertheless, a sum of Rs.733 million out of the provision for recurrent expenditure and Rs.1,752 million out of the provision for capital expenditure only had been utilized by the Ministry. A summary of the observations on financial statements of the Ministry and the institutions under the purview of the Ministry for the year ended 31 December 2015 included in the Reports of the Auditor General is given below.

- The National Building Research Organisation under the purview of the Ministry had been established on a decision of the Cabinet of Ministries held on 29 September 1993. Adequate steps had not been taken to establish it under an Act of Parliament as an institution with regulatory authority over the buildings and other structures constructed in the Natural Disaster Vulnerable Zones in the Island. As such the validity of the orders issued by the Organisation on the different construction works in the Vulnerable Zones is a questionable issue.
- Disaster Management Centres have been established under Section 18 of the Sri Lanka Disaster Management Act, No. 13 of 2005 and the Ministry had taken action to amend of the Act to formalize the powers of the Centres to enable the implementation of disaster management activities with better efficiency. Even though the related

amendments had been forwarded on 16 June 2014 to the Department of Legal Draftsman for approval, the amended draft but had not been received even by 31 August 2016.

- Even though the Disaster Management Centre had established an Information Communication Centre with equipment valued at Rs.72.47 million in Padukka area in the year 2009, it was observed that it was not operated from the year 2011 to 31 August 2015. According to the information received it was revealed that the equipment had been dismantled subsequently, from the Centre and kept in the stores of the Disaster Management Centre. The Disaster Management Centre informed that the equipment was dismantled and removed as those as such expenditure were not complied with the other equipment of the Centre.
- Even though the Department of Meteorology had been subjected to frequent criticism with regard to the accuracy of the weather forecast released by the Department, the Doppler Radar System installed under the consultation of the World Meteorology Centre at a cost of Rs.360 million in the Deniyaya area in 2008 had not been operated by the Department even by 31 August 2016, for obtaining weather information.

# **Sports**

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The Ministry of Sports and a Department, 5 Statutory Boards and 49 Sports Associations under the purview of the Ministry should have performed the following functions in connection with the formulation of policies for national and international sports, implementation and monitoring with the objective of building a active nation and enhancing the National Image Internationally.

- Formulation of policies, programmes and projects, monitoring and evaluation in regard to the subject of sports.
- Encouragement of sports activities and development of infrastructure facilities to enhance sport activities.
- Promotion of sports education.
- Formulation of new strategies and implementation of programmes to harness the potential of sports in building the image of Sri Lanka internationally.
- Promotion of facilities to provide physical fitness for the general public and co-ordination of activities.

A summary of the observations revealed in the audit of the Ministry and the Statutory Bodies under its the purview is given below.

## **Ministry of Sports**

### **Sri Lanka Anti –Doping Agency**

Even though Section 33 of the Convention Against Doping in Sport Act, No.33 of 2013, the rules against doping should be formulated, published in the Gazette under the approval of the Minister and enforced. Despite the elapse of 2 years since the establishment of the Agency action for the formulation of rules for taking action against doping which is the major objectives expected of the Agency had not been taken.

## **Department of Sports Development**

### **Preparation of Formal Plan related to the Promotion and Development of Sports**

According to the provisions in the Sports Act, No.25 of 1973 the Ministry and the Department should have regulated the Sports Associations under the Orders published in the Gazette by the Minister. Nevertheless, the authorities concerned had failed to prepare a formal plan for the promotion and development of Sports. Entering every National Association for the National and International Competitions and providing Sponsorship thereto had been done without carrying out reviews of the estimated budgets and progress reports.

## **Construction of Nine Sports Complexes**

The Cabinet of Ministers had approved the construction of 9 Provincial Sports Complexes and carrying out improvements to the Diyagama Mahinda Rajapaksha Stadium as the Western Provincial Stadium had also been decided. The approval of the Cabinet of Ministers had been granted for the construction of the Complex for the Southern Province under the Hambantota Sports City Development Programme launched to obtain the Hosting of Commonwealth Games and for the construction of stadium for the other seven provinces at a cost of Rs.2,022 million during the year 2011 to 2015. The following deficiencies were detected in this connection.

- Action had not been taken for the construction of a Stadium for the Southern Province as Sri Lanka was not successful in securing the role for Hosting in Commonwealth Games.
- The completion of the construction of Sports Complexes of the other Provinces except the Southern Province was expected by the year 2015. Nevertheless, the physical progress of 04 Sports Complexes had been from 45 per cent to 79 per cent. The construction the Wayamba Sports Complex had not been commenced even by 31 December 2015.

## **Construction of Dambulla Galewela Stadium**

The contract for the construction of the Dambulla Galewela Stadium had been estimated at Rs.11.00 million (Excluding Value Added Tax) and awarded to a company with the Objective of hosting the Asian Games 2017. The Department had paid a Mobilization Advance of Rs.2.46 million to the Company. The company had not commenced the work despite the elapse of one year after the payment of the advance. The Department had allowed the company to use the money for its own work instead of constructing the Stadium.

## **Sri Lanka Cricket**

### **Construction of Suriya Wewa Mahinda Rajapaksha Cricket Stadium.**

The local and foreign contractors had spent Rs.4,648.96 million on the construction of Suriyawewa Mahinda Rajapaksha International Cricket Stadium completed in the year 2011. Nevertheless, that expenditure had been understated by a sum of Rs.420.55 million and shown as Rs.4,228.41 million in the Financial Statements of Sri Lanka Cricket.

- The foreign contractor has made a claim of Rs.2,070.02 million as interests up to 30 July, 2015 for the failure to make the payments due to the company on the due dates. But that amount had not been disclosed in the financial statements.

- Sri Lanka Cricket had included a sum of Rs.2,187.28 million payable to the Sri Lanka Ports Authority in connection with the above construction and the assets arising therefrom in the financial statements up to the year 2014. Nevertheless, that liability and the assets had been eliminated from the financial statements for the year 2015 without any logical basis whatsoever, on the approval of the Executive Committee of Sri Lanka Cricket.

### **Non-settlement of Liabilities**

Sri Lanka Cricket had failed even by 31 December 2015 to settle the sum of Rs.567.60 million payable to the State Engineering Corporation of Sri Lanka from the year 2013 in connection with the improvements carried out to the R.Premadasa International Cricket Stadium and the Pallekelle International Cricket Stadium.

### **Non-disclosure of Liabilities**

Sri Lanka Cricket had made available its premises for the World Cup 2011

Secretariat for the conduct of the World Cup 2011 Tournament and the Value Added Tax of Rs.47.99 million payable on the expenditure incurred by that Secretariat should have been paid by Sri Lanka Cricket. But that had not been disclosed with financial statements.

### **Sugathadasa National Sports Complex Authority**

Four Trade Stalls constructed by the Authority at a cost of Rs.30.63 million as the infrastructure facilities for providing facilities to the Sports Persons visiting the Sugathadasa National Sports Complex to purchase food and sports goods had not been leased out on full time basis. The lease rent for 2 Trade Stalls leased out had not been recovered properly and the Authority had deprived the lease rent amounting to Rs.2.97 million in the year 2015. The objective of construction of Trade Stalls had not been achieved. Even though one lessee is running a massage parlour in the premises, the Authority had not taken action to close it down.

## **Women and Child Affairs**

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Out of the total population of Sri Lanka, over 51 per cent represented Women and 35 per cent represent children. Out of the overall number of families, over 23 households, the Chief Occupant is either a widow or a woman. The responsibility for the performance of the following functions related to the women's and children's affairs is vested in the Ministry of Women and Child Affairs, the Ministry of State, Department and Authority and Fund under the purview of the Ministry.

- Formulation, implementation and regulation of policies of Child Development and Women's Affairs.
- Protection of the rights of women and children vulnerable to danger
- Implementation of welfare and rehabilitation programmes for women and children rendered destitute.
- Supply of protective housing facilities to abused children
- Economic and Social empowerment of women

Officers such as Women Development Officers, Counseling Assistant, Early Childhood Development Assistant, Children's Rights Promotion Officer, Regional Child Protection Officer, Psychosocial Officer and Relief Sister are attached to the District and Divisional

Secretariats for the ground level implementation of the above programme.

The total net provision for the Ministry for the year 2015 had been Rs.5,044.39 million and out of that a sum of Rs.4,157.86 million had been spent. Out of the net provision of Rs.323.20 million for the Department of Probation and Child Care Services a sum of Rs.307.03 million had been spent. In addition to the above, a sum of Rs.18.09 million out of Rs.21.01 million received from 3 different International Institutions had been utilized for the activities of this Sector.

Observations on the major programmes implemented for the achievement of the objectives.

### **Programmes Implemented to Achieve the Objectives**

- **Non-implementation of the Laws and Policies formulated by the Ministry**

The Mission of the Ministry is to supply the requirements for the protection of the Children's and Women's rights in order to ensure the good governance practices and

the formulation, implementation and regulation of the policies. Nevertheless, the laws enacted and the policies formulated for the confirmation, protection and promotion of the rights of Children and Women had not been implemented.

- **International Women's Day**

Provision of Rs.15.87 million had been made for the major celebrations, awareness programmes through the Regional Offices, media programme, creation of a flag for the women's day and celebration of women's day by the Women's Bureau. Out of that Rs.11.15 million had been spent on the national level celebrations at Anuradhapura and Kilinochchi and holding celebrations concurrently therewith at the District and Divisional Secretariats levels. The money so spent could have been utilized for the introduction of sustainable strategies for the settlement of the severe social and economic problems faced by women. Even though the official celebration of the International Women's Day had been planned to be held at Anuradhapura, due to poor planning of matter related to the number of participants, celebration ground and other facilities, a sum of Rs.771,890 exceeding the agreed amount had been spent.

- **World Children's Day**

Even though the Ministry of State for Child Affairs and made provision of Rs.15 million for the Lama Saviya Programme, a sum of Rs.16.6 million had been spent. Out of the sum of Rs. 7.2 million spent on the World Children's a sum of Rs.6.17 million had been paid to a private institution for organizing the celebration, newspaper notices publication, dance troupe and sundry expenses. A sum of Rs.0.61 million only had been spent on gifts to the children.

- **Preparing Early Childhood Children to School**

Even though provision of Rs. One million had been made for conducting workshops for preparing 1,250 early childhood children to school, such workshops had not been conducted.

- **Prevention and Eradication of all types of Cruelly to Woman and Girls**

Even though provision of Rs.4 million had been made for the attachment of Child and Women's Development Centre Assistants to 37 Ministries under the above theme to create an understanding of the above, harassment and male and female social status caused to the officers, women and children and making aware 10,000 persons by

conducting 100 programmes that activity had not been carried out. Even though the Ministry had paid Rs.24.14 million as salaries and allowances to the officers in the year 2015 for the achievement of the activity, the officers had not executed the functions related to the theme. There was no co-ordination between the Ministry and the officers and 31 officers so attached had either left the Ministry on transfers or for other employment.

## **Welfare Programmes**

Provision amounting to Rs.2,760 million had been made for Welfare Programmes of the Ministry comprising Rs.2,500 million for giving a nutrition bag for expectant mothers and Rs.2.60 million for Glass of Milk programme. The following observations were revealed in that connection.

### **Programme to Give a Nutrition Bag to Expectant Mothers**

In addition to the provision of Rs.2,500 million, a further provision of Rs.500 million had also been obtained. A sum of Rs.2,422 million and Rs.577.7 million or 19 per cent had been saved by the end of the year. Out of the provision of Rs.2,500 million made for giving nutrition bags to expectant mothers, a sum of Rs.7 million had been spent for 04 inauguration ceremonies. A sum of Rs.2.34 million had been spent on

newspaper notices, invitation cards and posters.

### **Glass of Milk Programme**

Out of the provision of Rs.260 million made for the programme Rs.39.39 million or 15 per cent had been transferred to other Objects and a sum of Rs.188.82 million only had been spent for the Glass of Milk Programme, thus saving Rs.31.78 million or 14.4 per cent. Even though the programme is for the upgrading of the nutrition level of the children, the Director of Maternity and Child Health had pointed out that for upgrading the nutrition level of the children priority should be given to nutritious adult food, that the water content of 100 mililitres of milk is 87.5 grams and that it cannot provide the strength and other nutrition that should be given to children. The officers who implemented the programme had pointed out the following practical problems.

- The need for maintaining strict sanitary steps from the preparation of liquid milk up to receiving milk by the children.
- Difficulty in obtaining liquid milk in certain areas
- Milk Farmers not willing to provide milk at lesser prices
- Transport difficulties
- Negative attitudes of mothers about children falling ill.

As the programme was not successful in providing the expected nutrition level due to the above reasons, it was decided at the meeting of academics held on 12 February 2016 to provide breakfast as an alternative presented. The effectiveness had not been tested before spending Rs.188.82 million the implementation of the programme in the year 2015. The programme at low effective level had been continued further in the year 2016 without revising the programme.

### **Revolving Loan Programme**

Sri Lanka Women's Bureau had implemented the Revolving Loan Programme from the year 1990 to the year 2013 with Rs.93 million in 304 Divisions of the Divisional Secretariats. In calling for the information on the Programme, the particulars of only 151 out of 304 Divisions of Divisional Secretariats had been furnished. The following observations are relevant in this connection.

- There were 6 Divisions of Divisional Secretariats in which the programme is not in operation.
- Out of the provision of Rs.43.31 million released to 151 Divisional of Divisional Secretariats, the balances in the Revolving Loan Accounts as at

31 December 2015 amounted to Rs.46.81 million. As such it was established that the programme is not in operation as the Revolving Loan Programme.

- According to the information furnished by 7 Divisions of Divisional Secretariats, provisions totalling Rs.1.60 million given had been reported as not received. Four Divisions of Divisional Secretariats which had denied the receipt of provisions had furnished balances in the Revolving Loan Accounts.
- Payment of Loans totalling Rs.943,541 had been defaulted by 95 debtors in 14 Divisions.
- Project for Prevention of Child Abuse and Harassment of Women Provision of Rs.200 million had been made for this Project in respect of the year 2015 and Rs.1.56 million had been spent for the conduct of programmes on the Prevention of Child Abuse and Harassment of Women. The following observations are relevant in that connection.
  - Even though 818 incidents of harassment of women and child abuse reported in the newspapers in the year 2015 were revealed in audit the Ministry had not taken any action on those incidents.

- The Ministry had spent Rs.2.42 million for the conduct of awareness programmes related to child mothers and the harassment caused to women in the estates. Even though it was possible to achieve the expected objectives from researches done by using those programmes and the data of the Ministry, three researches on Child Mothers, Cyber Crimes and Harassment of Women and Harassment of Women in the Estates had been done through two institutions at a cost of Rs.3.65 million.
- The data needed for the above researches had been obtained from the Ministry and the reports had been submitted after a delay of one month from the due date. The recommendations therein had not been implemented.

## **Department of Probation and Child Care Services**

- Even though the formulation implementation, follow-up and evaluation of the policies in accordance with the international standards for the full development and probation of the rights of helpless, the destitute, abandoned and destitute children in the social background of Sri Lanka and other children subjected to legal problems and implement as the national

mechanism is the Missions of the Department of Probation and Child Care Services, the Department established in the year 1956 had not formulated the national policies for the protection of the rights of the children and the enactment of laws in that connection had not been done even by December 2015.

- The Department had made provision of Rs.2 million for the supervision of 400 children's homes and a sum of Rs.1.76 million had been sent to the Provincial Departments of Probation for the supervision of 215 Children's Homes. Nevertheless, further action had not been taken by obtaining the Supervision Reports and observations from 8 offices. The expected objectives had not been achieved by carrying out the supervision by utilizing the sum of Rs.1.58 million sent to those 8 officers.
- A sum of Rs.200.42 million had been spent for the payment of salaries and allowances and other benefits of 389 Children's Rights Promotion Officers serving in the Department. The Monthly Progress Reports on the work by them sent by the District Officers had not been sent properly. The Progress Reports did not state adequately that the follow-up and supervision has not been done properly.

- The Department had conducted 4,380 awareness programmes during the year 2015 and the number of instances of child abuse received by the Department had been 11,084 and that is an increase of 5,735 complaints as compared with the preceding year. Out of that, full-time solutions had been provided for 5,068 complaints while short-term solutions had been provided for 3,919 complaints. Even though 2,097 complaints had been referred to other institutions, follow-up action had not been taken thereon. Even though 3,049 risky children had been identified during the year, protection had been provided only for 1,582 children.
- Even though a sum of Rs.9.87 million had been sent to the Provincial Commissioners of Probation for the repair and construction of Children's Homes, a methodology for obtaining the approved estimates, work sheets, Bills of quantities and written evidence on payments had not been followed to ascertain whether the objective had been achieved.
- A sum of Rs.1.57 million had been released to the District and Divisional Secretariats for the conduct of programmes for creating an awareness among 1,505 children. Nevertheless, a follow-up procedure had not been followed to ensure that the programme were conducted and to enquire about the success of the Programmes.
- Even though a sum of Rs.1.69 million had been released to 8 Provincial Councils for the training Probation Officers a methodology had not been adopted for obtaining information to measure the progress or the achievement of the objectives.

## **Child Development Fund**

The major objective of establishing the Child Development Fund is providing financial relief to the Children who had lost their parents or guardians as well as the other children who are unable to continue their education and develop their inherent skills and other talents due to economic difficulties. The recommendation of the Minister of Finance contained in the Cabinet Memorandum dated 02 January 2014 had been that action should be taken by using funds to implement the proposed programmes with better effectiveness. Even though a sum of Rs.1.94 million had been spent for granting aid to the children, despite earning an income of Rs.1.99 million from the sale of flags and from the interest on investments in fixed deposits aid had not been granted even to a single child during the 2015.

- According to the Guidelines of the Child Development Fund, the administration of the Fund should be done by the Inter- Ministerial Supervising Committee and that Committee should meet at least once per month. As the Committee had not held meetings during the year 2015, decisions for the performance of the approved activities had not been taken.
- According to the Guidelines of the Child Development Fund the avenues for the supply of funds for building up the Child Development

Fund are the institutions in the private sector, donors, State Banks , Lotteries Boards, Employees Trust Fund Board, Non-Governmental Organisations registered in Sri Lanka, foreign institutions and foreign donors. Except for the income from in sale of Children's Day Flags and the interest from fixed deposits, action had not been taken for the collection of funds from any of the other sources. Except for investment of the Fund, no other action had been taken in the year 2015 for the achievement of the objectives and purposes of the Fund.

## Tourism Industry

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Earning a higher foreign exchange through creating direct and indirect job opportunities to the Youth community of Sri Lanka was by formulating of the required policies for making Sri Lanka a tourist destination expected from the Tourism Industry Sector. The Ministry of Tourism Development and Christian Religious Affairs and a Department and 4 Statutory Bodies under the purview of the Ministry should have performed the following functions for the achievement of that expectation.

- Formulation, follow up and evaluation of the policies , programmes and projects related to the subjects on the Tourism Development.
- Development of Tourism Industry and formulation of standards
- Registration and Regulation of Tourist Agencies
- Promotion of activities for supply of recreational facilities to spend the leisure.

Priority had been given to the Tourism Industry in the 2011 – 2016 five year plan implemented in Sri Lanka and earning an income of more than U.S.\$. 2.75 Billion and the creation of more than 500,000 direct and indirect jobs by the year 2016 had been expected therefrom. The Tourism Industry had shown a good performance in the year

2015 and the tourist arrivals had been 1.8 million.

The increase of tourist arrivals had been due to reasons such as the considerable increase in the investments in the Tourism Industry, development of infrastructure facilities and the promotion programmes with the latest attractions launched by the State and the Private Sector. Nevertheless, it had not been possible to reach the expected target of 2 million tourist arrivals in the year 2015.

Tourist arrivals from many zones had increased in the year 2015 as in the preceding year. It was observed that considerable increase including 29.4 per cent from East Asia, 13.6 per cent from western the Middle East, 15.3 from Europe and 24.1 per cent from South Asia. The largest number of tourist arrivals in the year 2015 had been from India and that amounted to 316,247. Tourist arrivals from the People's Republic of China had increased attractively to 214,783 representing an increase of 67.6 per cent over the preceding year.

The expectation of Sri Lanka from the Tourism Industry is earning higher foreign exchange and US\$ 2,980 million had been earned from this industry in the year 2015 and that represented an increase of 22.58 per cent over the preceding year.

In addition to the increase in the number of tourist arrivals, the increase in the daily expenditure of a tourist and the increase in the number of days spent in Sri Lanka also had an impact on the improvement. Similarly the daily average expenses of a tourist in the year had been US\$ 164.6 as against SU\$ 160.8 for the preceding year. As such those also had an impact on the increase of the tourist income. The number of days had also been increased from 9.9 days in the year 2014 to 10.1 days in the year 2015. Nevertheless, it had not been possible to achieve the target of 13.2 average days of stay recorded in the year 1987 even by the end of the year 2015. The "Travel to Leisure" Magazine by the People's Republic of China had designated Sri Lanka as the best tourist destination in the world and the "Forbes" Magazines had designated Sri Lanka as one of the ten best countries suitable for travel in the world. Sri Lanka had spent a sum of US\$ 2,988 million in the year 2015 to achieve such status. Such expenditure had been financed by institutions such as the Sri Lanka Tourism Development Authority, the Sri Lanka Tourism Promotion Bureau, the Sri Lanka Institute of Tourism and Hotel Management and the Sri Lanka Tourism Conventions Bureau by 14 per cent, 70 per cent, 12 per cent and 4 per cent respectively. Out of the duties and functions assigned to these institutions by the Tourism Act, No. 38 of 2005, action had not been taken in connection

with the functions such as the formulation of rules to make such persons who are engaged in the tours or tourism services without being registered in the Sri Lanka Tourism Development Authority as offenders, the improvement of the local and internationally recognized standards related to the Tourism Industry or any other industry associated with that, enforcement and issue licences to the tourism entrepreneurs and the establishment of institutions and businesses to assist the Tourism Industry.

The following audit observations are relevant to the institutions established under the Tourism Act.

## **Sri Lanka Tourism Development Authority**

### **Non-refund of Balance after incurring Expenditure**

The Authority had paid a sum of Rs.5.74 million on 3 September 2014 to the Sri Lanka Tourism Welfare Association for the implementation of Tourism Promotion Programmes. A sum of Rs.4.77 million had been spent on the supply of food and beverages and staff facilities to the selected groups at Balangoda, Dehiattakandiya, Padiyatalawa, Hasalaka, Lunugamvehera and Nuwara Eliya areas from 3 to 9 September 2014 and for the staff facilities for that programme and the balance of Rs.0.97 million

had been deposited in an account of the Association without being refunded to the Authority even by 31 December 2015.

### **Failure of the Authority to secure Transfer of a Land**

Even though a sum of Rs.65,104,138 had been paid in the year 2015 for a land, 11 acres 03 roods and 13 perches belonging to the Urban Development Authority situated in Sri Jayawardhanapura Kotte action had not been taken for transfer of the land in favour of the Authority. In addition a sum of Rs.639,529 had been spent as the security expenses of the land.

### **Non-recovery of Overpayments**

- Even though the capacity of the Tipper Truck said to have been engaged for the supply of metal, gravel and A.B.C. to the work site at Kalpitiya had been 3 cubes, payment had been made based on the capacity as 4 cubes, thus resulting in an overpayment of Rs.2.55 million.
- A sum of Rs.29.2 million had been paid for carrying out repairs to room No. 14 to 44 of the Katharagama Holiday Resort. An overpayment of Rs.11.09 included therein had not

been recovered either from the contractor or the officers responsible even by 31 December 2015.

- A sum of Rs.22.01 million had been overpaid in carpeting the approach road of 1.126 kilometres of the National Holiday Resort of the Passikuda Tourism Zone by fraudulently preparing cost estimates under 4 stages and selecting the contractor deviating from the Procurement Guidelines.
- Instead of purchasing from the supplier selected under the shopping procedure, 1,648 cubes of metal had been purchased at higher price from another supplier at the discretion of the Project Director, resulting in a loss of Rs.824,000 by the Authority.

### **Land of Bandarawela Holiday Resort**

Action had not been taken to survey and takeover the possession of the land 22 acre, 1 rood 17.23 perches on which the Bandarawela Holiday Resort is situated. Action had also not been taken to inventorying and protecting about 200 trees of very high value standing on the land.

## **Payments made for Goods not taken over**

The Authority had paid a sum of Rs.10.20 million for 1,648 cubes of metal, 368 cubes of ABC and 40 cubes of gravel which had not been physically taken over.

## **Deviation from Procurement Procedure**

A sum of Rs.28.74 million had been paid for the labour contract for the operation of the sewerage system of Bentota in respect of the period from the year 2009 to 31 December 2015 awarded to a particular institution contrary to the Guideline 8 of the Government Procurement Guidelines.

## **Recruitment Contrary to Circular Provisions**

Salaries and allowance amounting to Rs.1.88 million had been paid in the year 2015 to 9 Assistant Directors who did not possess the qualifications approved by the Department of Management Services recruited contrary to the Establishment code of the Democratic Socialist Republic of Sri Lanka Procedural Rules of the Public Service Commission Gazet notification No.1589/30 dated 20 February 2009 and the Election Rules contained in the letter No. PE/2015/04 dated 29 June 2015 of the Commissioner of Elections.

## **Sri Lanka Tourism Promotion Bureau**

- A sum of Rs.99.44 million (excluding tax) had been paid to two private institution for the implementation of a Project on Promotion of Social Responsibilities in the Tourism Sector. Adequate evidence to vouch the expenditure had not been furnished to audit.
- The contract for the creation of the Homestay Publicity Programme had been awarded to a private contractor for Rs.33.9 million after calling for limited quotations instead of awarding to a Government institution. An advance of Rs.14.50 million had granted without entering into an agreement with the institution.
- The contractor had kept the advance for about. 8 months and refunded in cash to the Bureau, thus allowing for the temporary misuse of Government money.
- A sponsorship allowance of Rs.5 million had been paid to an institution without the approval of the Minister of Finance and Planning in terms of the Public Enterprises Circular No. 57 of 11 February 2011.

# **Urban Development**

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This Sector is expected to perform functions related to the creation of an urban structure enhancing economic opportunities and the global competition for each and every town, finding solutions for the settlement of problems related to garbage, shanty dwellers and the construction in the Western Zone and the Suburban areas of the Country. The Ministry of Megapolis and Western Development and a Department and 2 Statutory Bodies under the purview of the Ministry should have performed the following functions for the achievement of these expectations.

- Formulation follow-up and evaluation of policies, programmes and projects on subjects related to Statutory Bodies.
- Town Development Project for Kottawa, Kaduwela and Kadawatha and activities associated therewith.
- Combined and formal promotion and regulation of the economic, social and physical development of urban areas.
- Urban Solid Waste Management.
- Activities related to reclamation and development of low lying lands.
- Providing guidance for the development of services in the urban areas, areas with lesser facilities and

marshy lands according to a common plan.

- Formulation of national and physical plans and regional physical plans.
- Direction and regulation of all construction work based on the national physical plans to ensure a combined urban development.
- All other activities related to the subjects assigned to the Institutions under the scope of the Ministry.

The following deficiencies were observed in the audit of the institutions assigned with the execution of the above activities.

## **Urban Development Authority Proposed Low Cost Housing Units**

The arrangement for the construction of 20,000 low cost housing units during the 03 ensuing years had been launched under the Urban Development Authority and 4,943 low cost housing units under stage one of the programme had been fully completed in 9 locations during the year 2014. Nevertheless, 5,610 housing units scheduled for construction in 11 locations under stage one had not been completed even by 31 December 2015.

## **Project for Construction of Weekly Fairs, Bus Stands and Parks in different Towns**

The Urban Development Authority had prepared estimates of expenditure of Rs.2,984 million for construction of difference activities such as weekly fairs, bus stands and parks in different towns of the Island and provision of Rs.862 million had been made for the year 2015. A sum of Rs.706.4 million had been spent on such projects by the end of the year 2015. The following observations are relevant in that connection.

- Out of 31 Projects related to Urban development, work on 07 Projects had not been commenced by the end of the year 2015. The balance projects had been commenced after delays ranging from 3 to 520 days.
- Provision of Rs.515 million had been made in the year 2015 for activities related to 14 Projects and Rs.46.9 million had been utilized by the end of the year 2015 while the physical progress had been less than 10 per cent.
- Even though provision of Rs.808 million had been made for 17 Projects those had not been fully

completed even by the end of the year 2015.

- Agreements in terms of the Procurement Process had not been entered into a payments for works and services of 298 sundry activities totalling Rs.1,460 million. Nevertheless, a sum of Rs.179 million out of that had been spent on activities such as project opening, construction of commemorative plaques, publicity, etc. which do not generate economic benefits.

## **Sri Lanka Land Reclamation and Development Corporation**

### **Identification of Marshy Lands, Unfertile or Muddy Lands and Publication of Notifications in the Gazette**

Even though the Land Reclamation and Development Corporation Act vested the responsibility for the identification of low lying marshy lands and unfertile or muddy lands in the Island on the Provincial level and publish them in Notifications in the Gazette for control and supervision of unauthorized land reclamation, the number of such notifications published in the Gazette as at the end of the year 2015 had been limited to 04 Provinces.

## **Project for Improvement of Weres Ganga Rain Water Drainage Environment**

Even though the Sri Lanka Land Reclamation and Development Corporation had obtained a loan of Rs.2,550 million from the National Savings Bank for the Project for the Improvement of Weres Ganga Rain Water Drainage Environment, the manner of payment of Rs.726.54 million as interest and loan installments for that loan had not been identified.

## **Continuous Losses incurred by the Corporation**

The turnover of the Sri Lanka Land Reclamation and Development Corporation for the year 2015 had decreased by 44 per cent and had been incurring losses over a number of years. The pre-tax loss for the year amounted to Rs.169 million.

## **Utilisation of Treasury Provisions**

- The Treasury had given provisions amounting to Rs.100 million in the year 2015 to the Sri Lanka Land Reclamation and Development Corporation for the Greater Colombo Flood Prevention and Environment Development Project. Out of that Rs.27.1 million had been utilized leaving savings amounting to Rs.72.9 million.

- Even though the Treasury had given provisions amounting to Rs.483 million in the year 2015 for 5 Programmes, expenditure of Rs.540 million, which exceeded the provision by Rs.57 million, had been utilized.
- Provisions amounting to Rs.55 million and Rs.2,000 million had been given through the Ministry of Megapolis and Western Development for the Hataraliyadda Town Development Project and the Colombo Solid Waste Prevention Project respectively. As 93.12 per cent and 99.99 per cent of the provisions respectively had been saved, the expected objectives had not been achieved.

## **Management of Projects under the Ministry**

### **Strategic City Development Project**

Even though provision of Rs.4,410 million had been made in the year 2015 for the Strategic city Development Project a sum of Rs.553.4 million only had been utilized in the year 2015 leaving savings amounting to 87.9 per cent of the provisions. Even though 19 months or 28 per cent of the Project period had elapsed, only 12.1 per cent of the total funds of the project had been utilized.

## **Metro Colombo Urban Development Project**

Out of the provisions of Rs.7,100 million made for the year 2015 in respect of the Metro Colombo Urban Development a sum of Rs.2,210 million 31 per cent only had been spent while only 25 per cent of the provisions made for 3 years had been utilized. As such the overall performance of the Project had been at a very low level. The weaknesses in the Project Management had an impact on the situation and the deployment of a part-time officer as the Project Director instead of a full-time officer had been the main reason. The following observations are relevant to the Project.

- A sum of Rs.59.15 million had been spent on the purchase of two Super Luxury Toyota Jeeps stating that long distance have to be travelled for the supervision of activities of the Project for the

Flood Control of the Capital City of Colombo. This transaction is outside the objectives of the Project.

- Even though taking action for flood control does not mean only the purchase of computer software for planning and drawing drains and canals for the collection of rain water, a sum of Rs.33,876,960 had been spent from the Project funds for the purchase of 2 sets of computer software different from each other.
- Even though a sum of Rs.1 million had been spent nearly 2 years ago for the purchase a computer software for the project review and project accounting, the computer software had not been installed.

## **Industries and Commerce**

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The Vision of the Ministry of Industries and Commerce is the building of an internationally competitive domestic industrial sector through a strong commercial environment. The Mission of the Ministry is the creation of a friendly environment for the betterment of sustainable and competitive manufacturing entities contributing to the economic development of Sri Lanka, creating products of high value addition and endowed with a strong economy. Seven Departments, 06 Statutory Board / Institutions and 12 Public Enterprises functions under the Ministry.

The following deficiencies were observed in the audit of the institutions assigned with the execution of the above activities.

### **Progress of Industrial Estates**

The Regional Development Division of the Ministry of Industries and Commerce had established 32 Industrial Estates throughout the Island by 31 December 2015 and industries had been started in 29 of those Industries Estates. Provision of Rs.460 million had been made in the year 2015 for constructions needing further completion and supply of different services of those Industrial Estates and Rs.448 million of that provision had been spent. Even though provision of Rs.153.3 million for 7 Industrial Estates had been made in the

Action Plan for the year 2015 the work on those had not been started. Even though a sum of Rs.102.71 million had been paid as the preliminary payments on construction work of 8 Industrial Estates scheduled for completion in the year 2015 an adequate physical progress had not been achieved.

### **Decrease of Employees in Factories established in Industrial Estates**

The number of employees engaged in the service of the Factories established in the Industrial Estates as at 31 December 2015 as compared with the two preceding years indicated a drop of 13 per cent approximately. The number of Factories and the number of employees as at 31 December 2015 had been 312 and 17,203 respectively and taken individually there were 50 Factories with less than 10 employees.

Provision of Rs.74.1 million had been made in the Revised Annual Budget Estimates for the year 2015 for the Incentive and Training Projects in the Domestic Industrial Sectors conducted by the Development Division of the Ministry of Industries and a sum of Rs.45.2 had been utilized. These included the creation of an Information System of the Rubber related Manufacturers, the issuance of Internationals Certification with the

objective of enhancing the quality of the electronic and electrical goods and the creation of a leather goods manufacturing complex. Even though provisions of Rs.5 million had been made for the Project for Supply of Funds for Research and Development in the Domestic Industrial Sector.

### **Failure to Sell Balance Stock of Rice**

The Department of Co-operative Development had incurred a loss Rs.43.50 million from the sale of rice imported during the year 2015. According to the report on the balance stock of rice by the Institute of Post Harvest Technology, 2,501.97 metric tons had been recommended as fit for human consumption and 39.11 metric tons had been recommended as fit for sale for animal feed. That rice had not been sold even by 15 July 2016.

### **Recovery of Arrears of Stores Rent**

Renting of excess stores and houses of the Department of Food Commissioner for better utilization of the stores and houses belonging to the Department and making a contribution to the public revenue had been a key function of the Department of Food Commissioner. Out of 122 stores of the Department 56

stores had been rented out to the State and the Private sectors institutions on the monthly rental basis. In view of the weaknesses in the prompt recovery of the rentals, a sum of Rs.77.03 million remained recoverable as at 31 December 2015. The Department had not taken action either for the take over by the Department the stores for which rent had been defaulted over long periods or for the recovery of the rent including the arrears of rent. Even though 08 stores of the Department of assessed value of Rs.7.33 million had been given on rent to the Lanka Sathosa Ltd. , no rent whatsoever had been received in the year 2015.

### **Decrease in Export Income**

Expenditure amounting to Rs.300.28 million in the year 2015 and Rs.245.62 million in the year 2014 had been incurred on the Foreign and Domestic Trade Exhibitions and Promotion Programmes implemented by the Export Development Board of Sri Lanka for maximizing export earnings and the supply of a contribution for the domestic economy. Nevertheless, the overall export income for the year 2015 of the Agricultural, Fisheries and the Industrial Sectors which implemented the above programmes, as compared with the preceding year, had decreased by 5.75 per cent.

## **Failure of the Identified Export Promotion Programmes**

The Export Development Board of Sri Lanka had identified the integrated Agri Model, the Agri Zonal and the Agricultural Programmes as the Export Promotion Programmes for the year 2015 and had incurred export development expenditure amounting to Rs.13.28 million. Such programmes had failed as the criteria and the procedures for the follow up action for the evaluation and review of the achievement of the targeted objectives of those programmes had not been planned and implemented.

## **Loss of the Co-operative Wholesale Establishment**

The Co-operative Wholesale Establishment had been established under the Co-operative Wholesale Established Act, No. 47 of 1949 and its Vision had been shown as to be the best preference of the Customers. The operating profit of Rs.21.39 million for the year 2014 had converted to an operating loss of Rs.198.48 million in the year 2015 and represented a deterioration of 1027 per cent. The overall loss of the year 2014 amounted to Rs.310.87 million and this loss for the year 2015 amounted to Rs.541.09 million or a further deterioration of 74 per cent. The ceasing of the Paddy Milling activities during the year 2015 by the Establishment had been the major impact on the deterioration.

## **Erosion of Equity Capital of the Co-operative Wholesale Establishment**

In view of the losses incurred by the Establishment continually, the equity capital had eroded and reached a high gearing status. The net assets had shown a negative value and as compared with the year 2013, it had increased by 64 per cent in the year 2015. The assets had been revalued in the year 2014 and the adjustment of the profit thereof had resulted in the decrease of the negative value of the net assets. The liquidity ratio of the Establishment in the year 2015 had been 0.32:01.

## **Lack of Formality in the Regulation of Companies**

The Department had not carried out the regulation of the limited companies formally as provided for in the Companies Act, No. 07 of 2007. The Annual Return revenue brought forward from the year 2008 totalling Rs.628.24 million recoverable from limited companies and revenue amounting to Rs.117.47 million recoverable from the registered societies had not been recovered. The courses of action to be taken for the registration of all public contracts valued over Rs.5 million, in the Department and for the registration of financial reports of all public limited companies had not been taken.

A sum of Rs.13.5 million had been incurred for E company Project but the project had been stopped. A sum of Rs.90 million of the Companies Fund had been invested in a bankrupt company.

### **Courses conducted by the Sri Lanka Institute of Textile and Apparel**

Action had not been taken to obtain the National Vocational Qualification Level for the courses of the Institute. Procedures for the award of Degree and Postgraduate Degrees in the Textile and Apparel Field in terms of the provisions in the Sri Lanka Textile and Garments Act, No. 12 of 2009 had not been laid down.

### **Engineering Allowance and Other Allowance**

Engineering Allowance and the Other Allowance amounting to Rs.4.84 million had been paid to the Officers of the Sri Lanka Institute of Textile and Apparel contrary to the provisions in the National Budget Circular No. 1/2014 of 01 January 2014 and Public Enterprises Circular No.95 at 14 June 1994.

### **Registration of Trade Marks, Patents and Industrial Designs**

The Intellectual Property Office in Sri Lanka, established under the Intellectual Property Act, No. 36 of 2003, had taken more than 01 year for the registration of

Trade Marks, Patents and Industrial Designs.

### **Non-recovery of Expenditure incurred on a Building**

The Intellectual Properties Sales Promotion Centre constructed by the Intellectual Property Office of Sri Lanka at a cost of Rs.22.30 million on a land belonging to another Government Institution could not be utilized due to a decision of the Government. According to a decision of the Cabinet of Ministers dated 23 April 2015, action should have been taken for the recovery of the amount spent from the Urban Development Authority. The recovery of the money according to that decision had not been taken even by 31 December 2015.

### **Department of Textile Industries**

The deficiencies related to the Department of Textile Industry detected in audit included, lesser number of students enrolled for the 12 Textile Schools and 02 design school established in various areas of the Island, a minimum number of such students completing the courses and the failure to recover a sum of Rs.12.32 million recoverable in connection with the long term leases of the lands, buildings and factories to the private sector.

## **Housing and Construction**

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The Mission of the Ministry of Housing and Construction is to harness the entrepreneurs, professionals and the labour force of Sri Lanka with Skills and resources for the creation of a planned, environment friendly and quality construction industry and contributing to the economic development by creating habitats with basic facilities with the community participation. The Department of Buildings, the Government Factory, the National Housing Development Authority, the State Engineering Corporation, the Urban Settlement Development Authority, the Condominium Management Authority, the State Development and Construction Corporation, the Construction Development Authority, the Building Materials Corporation and the Ocean View Development Company function under the purview of the Ministry.

Supply of consultancy and legal services for providing housing with basic facilities for all families in the country and the construction industry and the creation of trained persons are the results expected from the Ministry. The audit observations made on the functions performed by the Ministry and the Departments and the Statutory Bodies under its purview during the year under

review for the achievement of that results are given below.

### **Irregular Utilisation of Resources of Public Enterprises**

Forty one employees paid by the public enterprises under the purview of the Ministry of Housing and Construction such as the State Engineering Corporation of Sri Lanka, the State Development and Construction Corporation, the National Housing Development Authority, the Construction Industry Development Authority, and the Urban Settlement Development Authority are being deployed in the services of the Ministry from December 2015.

### **Progress of Thalawakele Housing Scheme**

The provision obtained from the Revised Budget Estimate for the Thalawakele Housing Scheme implemented by the Urban Settlement Development Authority for the constructions of 96 houses amounted to Rs.46 million. Even though 93 per cent or Rs.43 million out of the provision made had been spent, the physical progress had been 30 per cent.

## **Transfer of Houses for 28 Persons Displaced by Tsunami**

Even though the Ministry had released a sum of Rs.10 million to the Condominium Management Authority for the Programme on Transfer of Houses to 28 Persons Displaced by the Tsunami, implemented by the Condominium Management Authority, the related activity had not been carried out even up to the end of the year 2015.

## **National Housing Development Authority**

The National Housing Development Authority had been established in terms of the National Housing Development Authority Act, No. 17 of 1979 for the management of the housing development activities in Sri Lanka. The Authority, with its Head Office in Colombo, 25 District Offices and two Urban Offices, performs its functions throughout the Island.

## **Progress of Estate Housing Projects**

Even though the Ministry had released the total estimated cost of construction of 386 estate houses amounting to Rs.67 million of the Estates Housing Project

commenced by the Authority in the year 2014, the number of houses completed had been 235 or 61 per cent of the target.

## **Construction of Houses under the Model Villages Programme**

The estimated cost of the Model Villages Programme implemented by the National Housing Development Authority under the purview of the Ministry amounted to Rs.240 million and a sum of Rs.237.5 million had been spent by 31 December 2015. Out of the target of 950 houses for the year only 101 houses or 11 per cent of the target had been completed by 31 December 2015.

## **Achievement of Target of Completed Houses for the year**

Even though action had been taken for the achievement of the target of 101,797 houses in the year 2015 with the participation of all staff of the District and Urban Offices of the National Housing Development Authority and the staff serving at the village level, the number of houses completed by the year 2015 had been 78,426 houses or 77 per cent of expected number of houses.

## **Janasevana One Million Housing Programme**

- Even though the constructions of 679 housing units in 5 Housing Schemes under the Public / Private contribution had been planned, none of the housing units had been constructed in the year 2015.
- Even though plans had been made for carrying out repairs to 40 housing units under the Millennium Lanka Housing Programme, work on 20 housing units only had been commenced by the end of the year 2015.
- Even though plans had been made for carrying out repairs to 10,000 houses under the old Housing Projects (from Udagama to Udagama) a sum of Rs.5 million had been spent without repairing any of the houses.
- Even though plans had been made for repairing 6,349 houses under the Nagamu Purawara Programme, only 1,305 houses or 21 per cent had been repaired.
- Even though plans had been made for commencing the work on 5,000 housing units under the Sevana Sarana Housing Scheme, the work of 885 housing units or 17.7 per cent only had been commenced by the end of the year 2015. Even though plans had been made for the completion of 1,700 housing units by the end of the year 2015 only 316

housing units or 19 per cent had been completed by the end of the year 2015.

- Even though plans had been made under the Sevana Special Aid Scheme for 2,500 housing units in the year 2015 aid only for 8 housing units or 0.32 per cent had been donated.

## **Delays in the Acquisition of Lands**

Even though the tenure of the lands for which compensation should be paid had been taken over by the Authority in terms of the Land Acquisition Act the actual acquisition of lands had been delayed over long periods due to various problems. In consequence of that reason the compensation payable and the interest thereon as at 31 December 2015 amounted to Rs.233 million and Rs.47 million respectively.

## **Weaknesses in the Recovery of Outstanding Loans**

Out of the total debtors balance of Rs.4,186 million as at the end of the year 2015, the total of loan balances brought forward over periods exceeding 5 years had been Rs.2,505 million or about 60 per cent of the total debtors. Even though the Authority had taken certain steps for the recovery of the outstanding loan balances, the progress of recovery had been at a very low level.

## **Transport**

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With the improvement of the needs of human beings, the economic and social relations with the countries outside one's own country as well had improved, thus paving the way for the development of transport. As such transport has become the main lifeline of countries. The effectiveness, efficiency and the productivity of the social, economic and environmental activities depend on the transport services. Transport has become the major factor directly impacting on the efficiency and productivity of human resources which is the most valuable resource of the world.

### **Ministry of Transport and Civil Aviation**

Sri Lanka Transport Board, the Department of Sri Lanka Railways, the Department of Motor Traffic, the National Transport Commission, the National Transport Medical Institute, the Airport and Aviation Services (Sri Lanka) Co. Ltd, the Civil Aviation Authority, the Lakdiva Engineers (Pvt) Ltd and the National Council for Road Safety have been established under the Ministry of Transport and Civil Aviation for the achievement of 12 major objectives to ensure providing a comfortable and efficient transport service for the benefit

of economic development of the country.

### **Projects for Construction of Railways**

#### **Non-payment of Compensation of Land Acquired**

Even though the acquisition of lands for the construction of Matara – Beliatta new railway had been commenced in the year 2006, compensation payable on 267 blocks of land acquired had not been paid even by June 2016.

#### **Delay in Settlement of Mobilisation Advances**

Mobilisation advances amounting to Rs.10,847 million had been paid in June 2013 to the contractor for the construction of the railway from Matara to Beliatta and a sum of Rs.1,100 million or 10 per cent of the total advance had been recovered by March 2016. As such an advance balance of Rs.9,747 million remained recoverable as at the scheduled date of completion of the project, that is 24 December 2016. This advance should have been recovered from 37 per cent of the total contract value of the project or Rs.13,367 million.

## Non-commencement of works of 6 Railway Projects

Seven Railway Projects had been identified as New Railway Development Projects and provision made during 4 preceding years while provision of Rs.260 million had been made in the year 2015 as well. Out of that provision the entire sum of Rs.55 million made for 6 projects other than the railway from Matara to Beliatta had been saved.

## Railway Transport

The contribution to the overall motorised transport had been 4.3 per cent and the railway network open for running in the year 2015 had been 1,567 kilometres. The railway network of

1,449 kilometres in the year 2014 had improved by 194 kilometres in the year 2015 due to the construction of the lines from Pallai to Kankasanthurai and Madhu to Thalaimannar. The Department of Sri Lanka Railways had run trains on 14 lines. Ten Sub-Railway Stations, 9 main Railway Stations and 194 kilometres of railway had been added in the year 2015. The operating loss of Department of Sri Lanka Railways for the year 2015 had been Rs.7,713 million. The operating loss of the year 2011 which represented 96 per cent of the operating income had increased to 121 per cent by the year 2015. Details appear in Table 16 and Figure 13 below.

Particulars	2011 Rs. Million	2012 Rs. Million	2013 Rs. Million	2014 Rs. Million	2015 Rs. Million
<b>Operating Income</b>	4,236	4,852	5,425	5,910	6,335
<b>Operating Expenditure</b>	8,295	8,648	10,586	16,943	14,048
<b>Operating Loss</b>	4,059	3,796	5,161	11,033	7,713
<b>Operating Loss as a Percentage of the Operating Income</b>	95.82	78.24	95.13	186.68	121.75

Table 16 : Increase in the operating loss

Source :Official web side of the Ministry of Transport an Civil Aviation

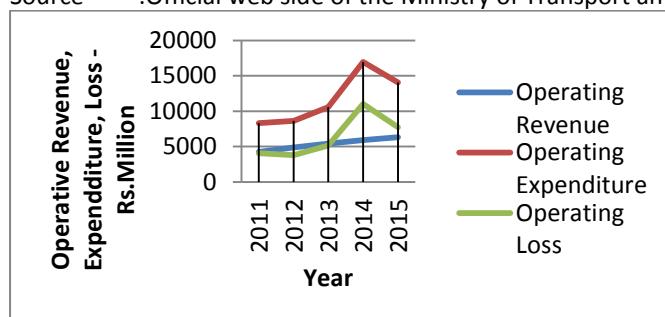


Figure 13 Increase in the Operating Loss

Source : Official web site – Ministry of Transport and Civil Aviation

## **Inefficiency in the Recovery of Arrears of Revenue**

According to the Revenue Account of the Department, the arrears of revenue for the year 2015 consisted of revenue from Railway Warrants amounting to Rs.1,201 million, goods transport revenue amounting to Rs.101 million, revenue from transport of clinker for a Cement manufacturing company amounting to Rs.109 million, revenue receivable from Railway Stations amounting to Rs.18 million and revenue from leasing out of lands belonging to the Department amounting to Rs.1,277 million. The Department had not taken adequate steps for the recovery of the arrears of revenue.

## **Accounting for Revenue from Lease of Luxury Railway Carriages**

A sum of Rs.37 million remained receivable as at the end of the year 2014 in connection with the lease of luxury railway carriages to a private institution and that revenue in arrears had not been recovered even by the end of the year 2015. Railway revenue amounting to Rs.61 million received from that institution in the years 2014 and 2015 had been retained in the General Deposit Account without being credited to the public revenue.

## **Settlement of Advances paid to Suppliers**

Out of the advances paid to suppliers during the period from the year 1980 to the year 2015 advances amounting to Rs.16 million had not been settled even by the end of the year 2015.

## **Non-receipt of Goods Ordered on Letters of Credit**

Even though goods valued at Rs.36 million had been ordered on Letters of Credit from the year 1998 to the year 2009 those goods had not been received by the stores even by 31 December 2015 despite the elapse of periods ranging from 7 years to 18 years.

## **Road Transport**

The total roads network of Sri Lanka consists of 116,000 kilometres and that consists of National Roads, Provincial Roads and the unclassified roads belonging to the Local Authorities. The passenger transport on this road network is done by the Public Sector and the Private Sector. In this connection, the Government policy on the running of busses is that out of the total documented runs 60 per cent should be run by the Private Sector while the Public Sector should run 40 per cent.

## **Sri Lanka Transport Board**

Out of the total demand for motor transport, 8.2 per cent is covered by the transport of the Public Sector buses and that represents 16.6 per cent of the public transport services including busses and trains. The Sri Lanka Transport Board (SLTB) functions as the organization that runs the busses of the Public Sector. These busses run all over the Island on 1,500 routes approximately.

## **Decrease in Income per Kilometre**

The total income of the Sri Lanka Transport for the year 2015 amounted to Rs.35.82 billion and the income of the preceding year had been Rs.33.66 billion, thus indicating an increase of income by Rs.2.15 billion or 5.86 per cent. The number of kilometres run in the year 2015 had been 440.42 million and that had been 371.23 million kilometres in the preceding year. Accordingly, the distance run in the year 2015 as compared with the preceding year had increased by 69.19 million kilometres. Due to the increase in the income and the number of kilometres run in the year 2015 as compared with the preceding year, the income from running a kilometer in the year

amounted to Rs.81.34 while it was Rs.90.68 in the year 2014, thus resulting in the decrease in income from running a kilometer by Rs.9.35. This position as compared with several preceding years is given in the following Figure.

## **Erosion of net Assets of the Board**

Due to the losses incurred by the Board continually, the net assets are being eroded in large scale. According to the last accounts prepared and presented to audit no respect of the year 2012 the net assets of the Board as at the end of the year 2012 amounted to a negative value of Rs.25,538.5 million.

## **National Transport Commission**

The National Transport Commission which functions as the guardian of the inter-provincial buses as well as the guardian of the passenger bus transportation had been established under the National Transport Commission Act, No. 37 of 1991. According to Section 8 of the Act, the function of the Commission is advising the Government on the National Policy related to the transport passengers by the passenger transport busses paying due attention to the National Transport Policy.

## **Issuance of Route Permits Contrary to the Methodology for Bus Transport**

According to the provisions in the National Transport Commission Act, No. 37 of 1991 and the decision of the Cabinet of Ministries the Commission should issue Route Permits by inviting competitive bids. Nevertheless, there had been instances of issuance of licences contrary to such requirements.

## **Busses taken off from Running without Examining Fitness**

In the renewal of the existing permits, busses had been taken off from running without examining whether the busses are in running condition.

## **Obtaining Money from the Commission by providing Counterfeit Information**

A sum of Rs.6.94 million had been obtained fraudulently from the Commission under the names of two persons by stating that the same bus had been used for Sisuseriya running on two different routes. Action to institute disciplinary action against the officers of the Commission who had assisted in committing the fraud and the recovery of the money related to the fraud had not been taken even by 31 December 2015.

## **Supervision of Inter-Provincial Buses by Installing GPRS Equipment**

Capacity was available for the supervision of Inter-Provincial buses directly through satellite technology by installing the GPRS equipment. A sum of Rs.79.06 million had been spent for the installation of those equipment in 2,095 busses as at 31 December 2015. All equipment had broken down by 31 December 2015 due to bad maintenance. Even though 800 equipment had been restored to working order by June 2016. A building had been modernized at a cost of Rs.20.29 million, for use as the Control Room carrying out supervision with those equipment. In view of this situation it had not been possible to operate the system by installing the other equipment required for the Control Room.

## **Delays in the construction of Bus Terminals**

Even though it is a function of the Commission for the construction of Bus Terminals in the main cities, only the first stage of the Vavuniya Bus Terminal and 2 other Terminals had been completed out of the Bus Terminals at Vavuniya, Thalawakele, Medagama, Kinniya and Wathumulla planned for completion in the year 2015. The second stage of the Vavuniya Terminus and two other Terminals were under construction during the year.

## **Breakdown of CCTV Camera System**

The Main Bus Stand at the Bastian Mawatha, Colombo is maintained under the control and supervision of the National Transport Commission. A Closed Circuit Television System had been installed at a cost of Rs.470,250 to enable the Chairman of the Commission and Manager of the Bus Stand to supervise it from their offices. Even though the entire system is not in working order at present, the monthly charge for the Internet facilities amounting to Rs.61,862 had been paid continually without taking action to repair the system.

## **Failure of the LED Timetable of Inter-Provincial Services**

Large scale LED Timetable Boards costing Rs.62.42 million had been installed at 7 Main Bus Stands including the Main Bus Stand at Bastian Mawatha with the objective of making aware the passengers of the Inter-Provincial Bus Service Timetables. Even though all the Boards were not in working order by 31 December 2015 action had not been taken to repair them.

## **Failure to provide short term Resting Facilities for Long Distance Bus Travellers**

Even though providing short term Resting Facilities for the long distance bus travelers is one of the functions of the Commission, none of the 5 such

places planned for the year 2015 had been established.

## **National Transport Medical Institute**

The number of people killed or injured as a result of road accidents in Sri Lanka is continually increasing and the number of pedestrians killed or injured as result of such road accidents is also significant. As such the efforts for minimizing road accidents as well as reducing the number of victims of accidents and the offenders causing accidents are very important. The National Transport Medical Institute had been established for reducing the contribution of the Drivers of motor vehicles to road accidents. The National Transport Medical Council had carried out 548,758 medical examinations during the year 2014 and that is an Improvement of 46.6 per cent over the preceding year. The Driving Licence applicants afflicted with diseases identified during the course of medical examinations during the year 2014 had been 40,951 and represented 7.46 per cent of the medical examinations. The number of persons killed and injured due to 35,969 road accidents in the year 2014 had been 2,440 and 19,855 respectively. The number of persons killed and injured due to 36,916 road accidents in the year 2015 had been 2,801 and 20,814 respectively.

As 949 road accidents had incased in the year 2015 as compared with the year 2014, the progress of fulfilling the expected Objectives had decreased.

### **National Council for Road Safety**

This Council was established by an Order in terms of Sections 213(a) of the Motor Traffic Act, No. 05 of 1998 published in the Gazette of the Democratic Socialist Republic of Sri Lanka in April 2005 and the Road Safety Fund had been established in terms of Section 21E(6). The Insurance Companies established in Sri Lanka pay 1 per cent annual contributions from their third party insurance income to the Fund of the Council.

### **Failure to Establish as a Statutory Body**

A Cabinet Memorandum on 4 matters including introducing a new Bill in Parliament consisting of the composition, structure and functions of a Body in place of the National Council for Road Safety had been submitted in August 2010 and obtained the approval of the Cabinet of Ministers. Even though

a period of nearly 5 years had elapsed since the grant of that approval, action had not been taken for establishing the Council as a Statutory Body.

### **Accidents caused by unidentified Motor Vehicles**

Out of 56,392 serious accidents caused the years 2010 to 2015 the number of accidents caused by unidentified motor vehicles had not been identified. Even though 217 applications for compensation had been received during the 6 preceding years compensation amounting to Rs.13.3 million only had been paid.

### **Fulfillment of the Objectives of the Council**

Even though 11 Key Functions of the Council had been specifically identified, attention had been paid only to two of those functions during the period of nearly 10 years of its existence. Action had not been taken to perform the others either by including in a long term plan or Annual Action Plans.

## Youth Affair

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The National Youth Services Council functions with 14 major objectives related to the creation of a generation of Sri Lankan youth imbued with knowledge and talent and discipline. Sums totalling Rs.1,318.27 million comprising Rs.1,082.22 million for the Annual Budget Estimates for the year 2015, Rs.31.44 million from foreign organisations and Rs.204.61 million from the Ministry and other Government Institutions had been received for this national Mission. The total income inclusive of internal earnings amounting to Rs.170.45 million amounted to Rs.1,488.72 million and the total expenditure for the year amounted to Rs.1,617.14 million. The following deficiencies in the different programmes implemented in the year 2015 for Youth development were revealed in audit.

### **Non-implementation of Planned Programmes**

Even though Programmes had been planned and provision of Rs.141 million had been made for the fulfillment of 03 major objectives set out in Section 4 of the National Youth Services Council Act, No. 69 of 1979. Those Programmes had not been implemented.

### **Decrease in Attention Paid to Vocational Training Field**

The Council had trained 14,511 students in 519 training programmes conducted at 46 Training Centres and that included 5,984 who had participated in 262 short term courses conducted at those Training Centres. In view of the following matters it was observed that the Council had not taken action even by the end of the year 2015 to providing a quality training commensurate with the local and foreign job opportunities as a solution to the unemployment problems faced by the present day youth generation.

- Out of 519 courses conducted in the year 2015, there were 439 without the National Vocational Qualifying Level Courses. Similarly, 75 courses with the participation of 2,267 students had been Language Training Programmes.
- There were only 72 Permanent Instructors for the implementation of Courses while there were 279 External Instructors. A proper methodology had not been adopted for the recruitment of External Instructors.
- Out of the 14 Farms belonging to the Council, only 05 Farms had conducted 5 Training Courses related to the Agricultural Field.

- A formal basis and methodology was not in place for the recovery of fees for the courses and different fees for the same course had been recovered by different Centres.
- There was no approved centralized course of action for the commencement of new courses in the Training Centres.
- There was no arrangement for jobs placement of trainees and follow-up.

Agricultural Field to suit the requirement of the Country and for the maintenance of the Farms without being a financial burden to the Council and the Country.

- Out of the provision of Rs.17.5 million made for the Farms development in the year 2015, a sum of Rs.12.95 million or 74 per cent had not been utilized for carrying out development work and as such 54 per cent of the cultivable land had been overgrown with scrub jungle.
- Short terms and long term plans had not been made and implemented for the development of Farms. Lack of a course of action for the attitude development and motivate the staff of the Farms.
- Non-implementation of Internal Control Systems to maintain financial discipline in the Farms.
- The Senior Management had not carried out a proper supervision of the Farm related activities.
- Failure to obtain the services of officers in the Agricultural Sector for improving the quality standards and quantity of the Farm produce.

## Farms Development Work

Out of an extent of 290 areas in the Agricultural Farms in 14 areas owned by the National Youth Services Council, only about 134 acres had been cultivated as at 31 December 2015 in permanent crops, vegetables and fruit. Four Farms had animal husbandry work in small scale. According to the Farms Working Account the expenditure and the income for the year had been Rs.13.05 million and Rs.12.59 million respectively and the overall loss of the Farms Division for the year had been Rs.0.46 million. It was observed that the following financial and administrative weaknesses had been the reasons for the failure to maintain the Farms in a manner to attract the Youth to the

## **Volleyball and Kabbadi Sports Reserve**

A Volleyball and Kabbadi Sports Reserve had been established based on 4 years residential training with the objective of inducing physical wellbeing and sports among the Youth and by the end of the year 2015 there were 28 persons undergoing training. A sum of Rs.28.26 million had been spent from the year 2013 to the year 2015 on the residential facilities and food for the students. The absence of a planned course of action for the optimum improvement of the skills of the youth joining the training and referring them for success in the national and international levels was evidenced from 24 youths enrolled during those years abandoning, lack of success in participation of these teams in the national level competitions, lack of opportunities for these sports persons in the national reserve, lack of opportunities for participation in foreign training and participation in sports competitions.

## **Youth Parliament Programme**

The expenditure incurred on the Youth Parliament Programme established in the year 2010 with the objective of absorbing the youth generation to the social democratic framework, totaled Rs.153.56 million for the years 2010 to 2014 and Rs.23.86 million for the year 2015. According to the financial statements, 98 per cent of the

expenditure incurred on that objective in the year 2015 or Rs.23.62 had been spent on the 2015 election of the Youth Parliament. As compared with the expenditure incurred, 17 per cent or 57,621 voters out of 340,463 registered voters only had voted. As such it had not been possible to obtain the expected participation from the youth.

## **Transactions contrary to Objective**

According to a Memorandum of Understanding entered into among the Ministry of Youth Affairs and Skills Development, the Sri Lanka Mobitel (Pvt) Company, the Department of Pensions and the National Youth Services Council a programme for obtaining the pensions through the Mobitel M-CASH Service had been commenced. The National Youth Services Council had agreed to distribute the mobile phones for implementation of the programme. The Council had received 9,600 phones by 05 February 2015 and 4,633 out of that had been distributed by 20 April 2016. According to the agreement, the Council should have received Rs.926,600 for the telephones distributed at Rs.200 per telephone, that had not been received. The company had informed the Council that the phones given to the Council had not been returned to the Company and that the agreement had been breached.

## **Benefits from Investment in the Youth Services Company Ltd**

The Council had not received any benefits whatsoever even in the year 2015 for the investment of Rs.1.8 million made in the Youth Services Company Ltd. established in the year 1981 with the National Youth Services Council owning 98 per cent of the shares. The

financial statements of that not been prepared from its inception. The administrative work as well as the business affairs are being maintained in the Council Buildings in the Council Head Office premises. The Council had not assessed the value of the assets so used and recovered the ground rent and the cost of the infrastructure facilities including electricity and water consumed.

## **Social Services and Social Empowerment**

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The execution of the Social Service and the Social Empowerment Activities were expected from the Ministry, and two Departments and 05 Statutory Boards / Institutes under the purview of the Ministry. Those institutions should have executed the following activities. Formulation of policies, programmes and projects related to Social Empowerment and Welfare, care and protection for elders, identification of the infirmities of persons needing special needs and rehabilitation, development of rural economy by implementing the Divineguma Programme, review and reorganization of the public assistance scheme and introducing appropriate new reconstruction, providing assistance to the patients suffering from diseases such as tuberculosis, kidney diseases, leprosy, cancer and thalassemia and their dependents, implementation of Counselling Services, introduce strategies vocational training and job placement for persons with disabilities. The results expected from the Ministry after the fulfillment of the above activities were the empowerment of the rural community and the vulnerable groups and leading them to prosperity.

### **Weak Supervision of Elders' Home**

There were 87 Elders' Homes registered under the National Council for Elders during the year and the Council had not carried out any supervision of 72 of those Elders' Homes.

### **Payment of Educational Allowance based on Revised Plan**

Even though the amount of Educational Allowance had been increased from Rs.1.2 million to Rs.8.8 million in the year 2015 based on a revised plan, the Council had paid the Educational Allowance without paying attention to the increase. As such, out of Rs.8.8 million that could have been paid in the year 2015, a sum of Rs.1.8 million only had been paid.

### **Guidelines on Sri Lanka Family Policy**

Even though the Cabinet of Ministers had granted approval on 22 February 2012, for the preparation of Guidelines on Sri Lanka Family Policy, the Guidelines had not been prepared even by 31 December 2015. A sum of Rs.1.09 million had been spent on this purpose from the year 2012 to the year 2015.

## **Construction of Hostels of Thelembuyaya Vocational Training Institute**

Action had been taken by the Department of Social Services for the construction of two hostels (male and female) at the Thelembuyaya Training Institution maintained by the Department in the Hambanthota District with the objective of providing vocational training with residential facilities to the male and female youths with disabilities. The contract for this work valued at Rs.174.82 million had been awarded by the Ministry of Social Services on 13 December 2013 to the Southern Provincial Council Engineering Consultancy Bureau. The contract should have been completed in the year 2015. Even though a sum of Rs.50.2 million had been spent on the constructions work by the end of the year 2015, construction had not been completed. Action had also not been taken for extending the period of the contract.

## **Divisaviya Project**

The Divisaviya Project implemented for the payment of monthly financial assistance of Rs.3,000 and providing vocational training to the persons with disabilities had been completed on 31

March 2015 in accordance with the Divisaviya Project Agreement entered into in the year 2013 between the World Bank and the Ministry of Social Services. As the funds had not been utilized effectively and efficiently for the achievement of the agreed activities, an unutilized sum of Rs.12.87 million had been refunded to the General Treasury.

## **Department of Divineguma Development**

Working of the Department of Divineguma Development established under the Divineguma Act, No. 1 of 2013 by combining the Sri Lanka Samurdhi Authority, the Southern Development Authority of Sri Lanka, the Uda Rata Development Authority of Sri Lanka, the Department of Commissioner General of Samurdhi and the Department of Up-country Peasantry Development with the objective of building up a prosperous nation providing for community empowerment, development of human capital, promotion of livelihood activities, contributing to acceleration of national development through development of rural infrastructure and ensuring food security, elimination of poverty and ensuring social equity, commenced on 03 January 2014.

## **Takeover of Assets of Institutions Combined**

The institutions combined with the Department had not maintained proper Registers of Fixed Assets and as such evidence in support of proper takeover by identifying the assets of those institutions had not been furnished to audit. The Department had not taken action to obtain transfer of 15 properties leased out by the Southern Development Authority of Sri Lanka and enter into new lease agreements. According to the old agreements, the arrears of lease rent of 11 properties amounted to Rs.1.67 million. The Head Office Building of the Southern Development Authority of Sri Lanka had been underutilized.

## **Establishment of Head Office in Sethsiripaya**

The Samurdhi Authority of Sri Lanka had paid lease rent of Rs.38.08 million from the year 2004 to the year 2011 for the land at Denzil Kobbekaduwa Mawatha. The lease agreement had been cancelled due to the failure to construct of building other than a stores building. As the Head Office Building of the Department had not been constructed by obtaining an extension of the lease, monthly rental of Rs.4.25 million had to be paid for the space in Sethsiripaya occupied by the Department. The total building rent paid up to the end of the year amounted to Rs.571.075 million.

## **Operation of Bank Accounts**

The balance of the official Bank Account of the Department as at 31 December 2015 amounted to Rs.715.75 million and out of the cheques issued by the Department up to that date, cheques valued at Rs.1,055.87 million had not been presented to the Bank. The Department had not paid attention to the Bank balance in making payments. If all the unpresented cheques are presented to the Bank, the balance available will not be sufficient to meet the payments.

Even though the official Bank Account of the Samurdhi Authority of Sri Lanka had been closed down on 21 September 2015, funds of the Authority with 42 Districts Secretariats and Divisional Secretariats amounting to Rs.3.62 million had not been settled later, thus leaving room for misuse.

## **Award of Prizes to Lottery Winners**

A Housing Development Lottery Fund had been established conducting monthly draws to provide a permanent solution to the housing problems of beneficiaries. Information on lottery draws of the years 2012 and 2013 had not been updated. As such lottery prizes amounting to Rs.22.65 million payable to 151 winning beneficiaries had not been awarded due to the difficulty in finding information.

## **Supply of Tiles to Low Income Persons under Deyata Kirula Programme 2015**

Provision amounting to Rs.9.77 million had been spent from the provisions of the Ministry of Economic Development for the supply of tiles under the Deyata Kirula National Development Programme to low income persons without permanent houses in the Galle, Matara, Hambatota and Ratnapura Districts. The programme had been ceased at the end of the year and tiles only had been supplied to the people who were unable to construct houses without supplying the other materials required. As such certain recipients could not make use of the tiles.

## **Settlement of Money obtained for Payment of Subsidy**

Even though a sum of Rs.2,449.50 million had been obtained from the investments of the Bank Financing Division in the year 2013 for the payment of Samurdhi Subsidy, the sum of Rs.2,449.50 million had not been settled even by the end of the year 2015.

## **“Isurumath Nivahanak” Housing Development Programme**

Plans had been made for providing Rs.10,000 per family under the “Isurumath Nivahank” Programme for

the development of the houses of 1,484,710 Divineguma Subsidy Beneficiary families throughout the Island. A sum of Rs.2,992.78 million at the rate of Rs.2,500 per family for 1,197,111 families had been deposited in the Divineguma Community Based Banks as the first stage. The Department had deployed the money for the programme and ceased the programme in the year 2014.

## **Non-execution of the Activities of the Act**

The Divineguma Community Based organisations, the Divineguma Community Based Banks Maha Sangamaya and the Divineguma Fund in terms of the Divineguma Act, No. 1 of 2013 had not been established.

## **Rataviru Housing Loans Scheme**

Loans amounting to Rs.1,159.52 million had been granted by the end of the year 2015 to 8,850 workers in 23 Districts for construction of houses under the Rataviru Housing Loan Scheme for construction of houses of the workers employed in the Middle East. Repayment of loans amounting to Rs.132.68 million granted to 1,625 workers had been defaulted and the possibility of settling that amount from the deposit of Rs.100 million made had not been explored.

### **Loan Balances Receivable**

According to the financial statements of the Samurdhi Authority of Sri Lanka for the year ended 31 December 2013, the loan balance receivable amounted to Rs.130.16 million. The evidence in support of the recovery of that balance had not been furnished to audit.

### **Taxes and Penalties**

The tax and penalty amounting to Rs.1,284,000 payable by the Samurdhi Authority of Sri Lanka for the motor vehicles used by the Authority had been paid by the Department.

# **Science, Technology and Research**

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The results expected of the Ministry of Science, Technology and Research and 11 Statutory Boards are the development of Sri Lanka as a highly scientific and technological country.

The following observations related to the Ministry and the Statutory Bodies under its purview were revealed in audit.

## **Non-Implementation of a Foreign Aid Project according to Agreement**

The Board of Directors of the Industrial Technology Institute had decided in the year 2014 for the refund of a sum of Rs.13.28 million to the European Union for the settlement of a loss resulting from non-implementation of a Project commenced with financial aid from the European Union in accordance with the agreement. That payment had neither been made during the year 2015 nor provision for that had been made in the financial statements.

## **Non-issuance of Patents**

Even though the Industrial Technology Institute had conducted 19 researches in the preceding 5 years for which patent rights could be obtained the patent had been at the domestic publication level, 27 Researches had been at the

rights for 10 of those researches had not been obtained.

## **Stoppage of an implemented Project**

The Small and Medium Scale Enterprises Development Project commenced in April 2014 and scheduled for completion in December 2015 in accordance with an agreement entered into between the Industrial Technology Institute and a Foreign non-Government Organisation with inputs amounting to Rs.3 million and Rs.7 million respectively had not been stopped after spending a sum of R.2.11 million.

## **Weaknesses in Follow-up Action on Completed Researches**

Out of 150 completed Researches Projects 2 Research Projects valued at Rs.3.05 million had been referred only for transfer of technology (improvement for commercialisation) while only 2 other Research Projects valued at Rs.1.78 million had been referred only for obtaining the patent rights. Out of 150 completed Research Projects, 59 Researches

international publication level and 37 Researches had been at the

communication level. Nevertheless, statements had been made for the balance 27 Research Projects.

## National Science and Technology Commission

The following activities had not been carried out by the National Science and Technology Commission during the year 2015.

- The Report prepared by the Commission on the "Review of the Scientific and Technological Activities done in Sri Lanka in the preceding year on the Use of Science and Technology by the Businesses in the Public and Private Sectors" had not been published.
- Action had not been taken in the year 2015 to identify the scientific and technology institutes related to the objectives of the Science and Technology Development Act, No. 11 of 1994 and commence review.
- The process for the creation of scientific and technological development in 10 fields agreed at the Seventh Biennial Conference held in the year 2014 had become dormant.
- The project proposal for the establishment of the Scientific and Technology Institutes Commercialisation Unit had not been implemented during the year 2015.

## Sri Lanka Standards Institution

The Sri Lanka Standards Institution established under the Sri Lanka Standards Institution Act, No. 6 of 1984 with the objectives of Standardisation in the Industrial and Commercial Fields, Measurement, Quality Certifications and the promotion of activities connected therewith and providing facilities in that connection had carried out the following activities contrary the objectives of the Institution.

- Issued to the market 43,960,000 kilogrammes of cement valued at U.S.\$ 2,603,490 not conforming to the specifications set out in Sri Lanka Standards Specification 107:2008 imported in 46 instances from the year 2013 to 2015.
- Issued to the market 95,480,000 kilogrammes of Cement valued at U.S.\$.5,609,936 imported in 96 instances in the year 2015 before obtaining test reports.
- Even though 8 parameters for the composition of the imported milk powder and 5 parameters for microbiological testing should be carried out as set out in Sri Lanka Standards Specification 731:2008 stocks of 2,300,800 kilogrammes of milk powder valued at U.S.\$. 6,530,430 imported in 25 instances from January to June 2015 had been issued to the market without carrying out testings for all the parameters.

## **Sri Lanka Inventors Commission**

### **Physical Performance**

The following deficiencies were revealed in the examination of the physical performance of the Sri Lanka Inventors Commission.

- Even though technical assistance and assistance for the preparation of applications for patents should be given to the inventors after the examination of inventions, adequate evidence in support that the Commission had referred inventors for obtaining patents during the period from the year 2011 to the year 2015 was not furnished to audit.
- Even though providing financial assistance to the inventors subject to the terms and conditions of the Commission, for improvement of inventions, completing and manufacture of inventions, is a function of the Commission, a balance of Rs.9.79 million remained in the Inventors Fund as at 31 December 2015. According to the Action Plan, grant of loans and assistance amounting to Rs.8 million had been planned. Nevertheless,

only a loan of Rs.400,000 had been granted.

- Even though the Commission should organize creative societies in schools, colleges and Universities to promote and encourage creativeness among the Sri Lankan Youth, it was not established in audit that creative societies had been organized in colleges and Universities.
- One of the functions of the Commission is to help the inventors to sell the inventions in Sri Lanka and abroad. Even though 468 inventions had been successful during the years 2011 to 2015, action had not been taken to obtain patents for 437 inventions and commercialise them.

## **Sri Lanka Accreditation Board for Conformity Assessment**

This Board was established under the Sri Lanka Accreditation Board for Conformity Assessment Act, No. 32 of 2005. This is an Institution established for the award of Accreditations related to the Conformity Assessment done according to the National Standards based on the International Standards. Other than the progress of the Laboratories and Calibration Institutions, there was no considerable progress in the other fields.

It had been the result of implementing the accreditation procedure purely on a voluntary basis and the absence of legal provision for making the process compulsory.

The following deficiencies were revealed in the examination of the performance of the Board.

- Even though the Laboratories and the medical laboratories which should be subjected to accreditation from the year 2015 had been identified as 184 and 311 respectively, only 62 laboratories and 20 medical laboratories had been subjected to accreditation from the year 2005 to year 2015.
- Even though an accreditation had been awarded to a laboratory from the year 2005 to the year 2015, even that laboratory had withdrawn from

the accreditation process by the end of the year 2015.

- Even though the accreditation of the institutions issuing certificates had been commenced in the year 2009, only 06 institutions issuing certificates had been subjected to accreditation by the year 2014. Out of those, one institution had withdrawn from the accreditation process in the year 2015.
- Even though the Accreditation Certificates obtained by the institutions which supply accredited services should renew the accreditation after the expiry of three years out of 33 institutions which should have renewed the accreditations in the year 2015 twelve Institutional had not renewed the accreditations.

## **Communications**

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The Telecommunications and Information Technology Division which is responsible for the formulation, follow-up and evaluation of the policies, programmes and projects related to Telecommunications and the Digital Infrastructure in Sri Lanka brought under the purview of the Ministry of Foreign Affairs from January to August 2015 had been brought under the new Ministry of Telecommunications and Digital Infrastructure with effect from September 2015. The Sri Lanka Information and Communication Technology Agency, the Sri Lanka Telecom and its Subsidiary Companies function under the purview of this Ministry. The major deficiencies related to these institutions appear below.

### **Decrease in the Number of Fixed Line Telephone Subscribers**

The fixed line telephone subscribers in Sri Lanka amounting to 1,243,994 in the year 2005 had increased by 190 per cent to 3,608,392 in the year 2011 and had

decreased to 2,601,196 in the year 2015. Accordingly, the fixed line telephone subscribers had gradually decreased by 28 per cent, as compared with the year 2011, to 2,601,196 by the year 2015. The decrease of the fixed line subscribers had been due to the rapid increase of the mobile phone subscribers. The number of mobile phone subscribers amounting to 3,361,775 in the year 2005 had increased to 24,384,544 by the end of the year 2015 indicating a combined annual increase in the mobile phone sector during the 10 preceding years. Even though the telephone density Per 100 persons had increased to 119.96, a considerable number of active sim cards are being used by the same person, these numbers do not reflect the actual position and the actual position may be much less than this number.

The information on the number of telephone and internet subscribers from the year 2005 to the year 2015 appears in Figure 15 below.

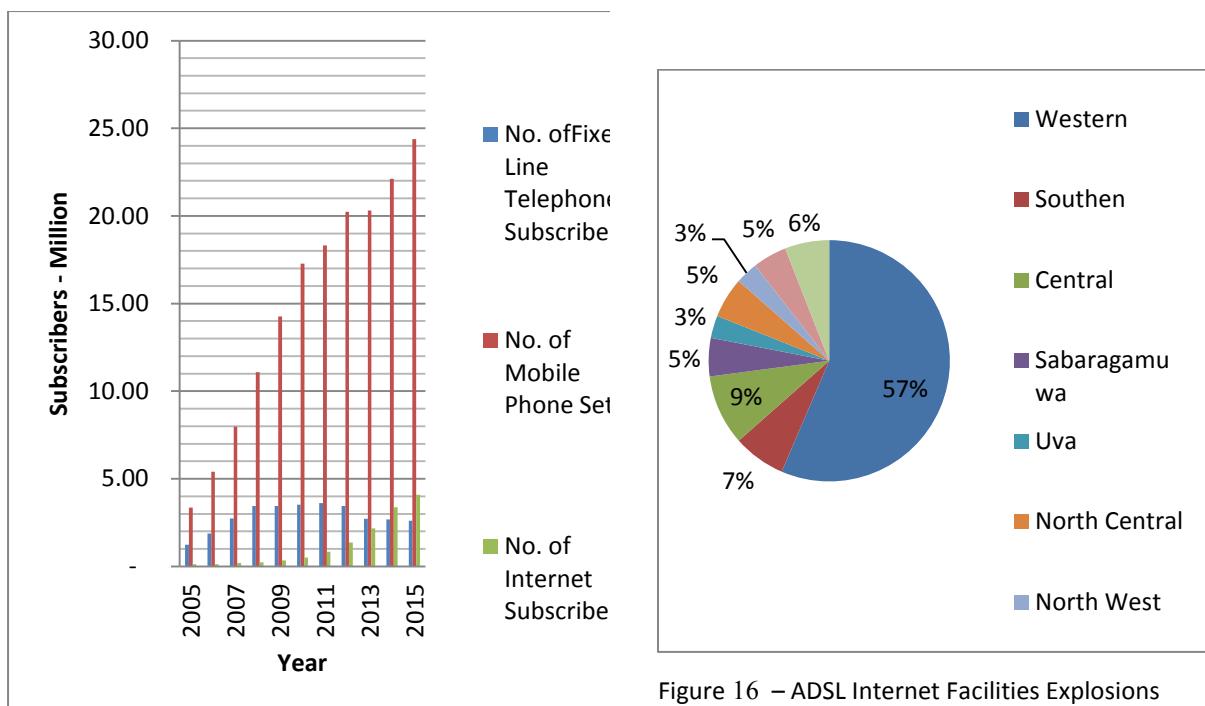


Figure 15 No of Telephone and Internet Subscribers

### Decrease in the E-mail Users

Even though the Internet subscribers had increased from 115,000 in the year 2005 to 4,090,920 in the year 2015, in the overall position the use of the Internet and the E-mail had been at a low level. This is a field which should be further improved and there was a division of with / without the Internet. Most of the users of the Internet are in the Urban area and these facilities had not been expanded on a large scale to the rural areas. The expansion of the use of ADSL only on the Provincial basis are as shown below. Accordingly, 57 per cent of the ADSL users are in the Western Province as shown in the Figure 16 below.

### Targets of Establishment of Schools Computer Laboratories

The Ministry had implemented the Schools Computer Laboratory Establishment Project for the achievement of expected targets of the Ministry of Telecommunication and Digital Infrastructure. Provision had been made under the Ministry Head for the Project for the Establishment of District Information Centres, Maintenance of Information Technology Parks and for the Establishment of Nenasala Centres through Sri Lanka Information and Communication Technology Agency.

Even though provision of Rs.3,129 million had been made for the above Projects by the end of the year 2015 a sum of Rs.2,006 million only had been utilized. Even though the Government had supplied the provision required for the expected targets of the Ministry during the year 2015, the Ministry had failed to achieve the expected targets through the proper utilization of such provisions.

The following deficiencies in the establishment of the Schools Computer Laboratories were revealed in audit.

- Even though plans had been made for the establishment of 79 Schools Computer Laboratories in the year 2015 only 39 Laboratories out of that had been established. Even though provision of Rs.400 million had been made for the establishment of 79 laboratories, provision amounting to Rs.152 million had been saved.
- The selection of schools for the Schools Computer Laboratories Project had not been done on a priority basis. Even though the Project commenced in the year 2012 expected to establish a total of 684 laboratories had been limited to 3 Districts. As such there was a

discrepancy in the distribution of resources.

## **Telecommunications Regulatory Commission of Sri Lanka**

Telecommunications Regulatory Commission of Sri Lanka is the Regulator of the Telecommunications Sector and also the institution collecting the Telecommunications Revenue. This is an institution under the purview of the President outside the control of the Ministry of Telecommunications and Digital Infrastructure. The following deficiencies were revealed in the audit of the Commission.

## **Failure to Identify Properly the Obstructions in the Use of Frequencies**

Even though ensuring the proper functioning of the Telecommunications Network of the different areas in Sri Lanka is one of the objectives of the Commission, various obstructions caused were revealed. As the signals system available in the Commission for checking the obstructions is older than 17 years, it had not been possible to identify such obstructions properly. Despite such position, action had not been taken in the year 2015 to replace the old system with a new system.

## **Weaknesses in the Process for Collection of Frequency Charges**

Even though the Commission had established the Fixed and Mobile Monitoring Stations, when frequency users do not pay the frequency charges, proper examinations whether the frequencies allocated to parties are used or otherwise had not been carried out properly, Default of the payment of frequency charges on payments made after delays were revealed. The outstanding debtors balance of Rs.372 million as at the end of the year 2015 related to periods ranging from 2 years to 30 years and over. Out of this amount a sum of Rs.120 million remained recoverable from the Sri Lanka Broadcasting Corporation. Even though the Auditor General was informed from time to time since the year 2011 that the provision for the recovery of penalty from those who default in the payments or payments made after delays will be incorporated into the Telecommunications Act, it had not been so done.

## **Construction of Colombo Lotus Tower**

The Telecommunications Regulatory Commission of Sri Lanka is in the process of constructing the Colombo Lotus Tower, 350 metres tall with 9 storeys as the tallest multi-transmission tower in South Asia. The supply of Transmission Studio facilities in the first and second

storeys of the Tower to the suppliers of Television Services, Telecommunication Services and Radio Broadcasting Services had been expected. The following deficiencies related to the construction were revealed.

- Even though the construction of the Lotus Tower was awarded to two companies of China for US\$ 104.3 million as approved by the Cabinet of Ministers, according to the Business Licences of the two companies, the constructions of multi-transmission towers or large scale construction contracts were not included in their business subject areas.
- Even though the work commenced on 12 November 2012 should have been completed in 912 days by 12 May 2015, the contract period had been extended to October 2017 as the work could not be completed as expected. But the approval of the Cabinet of Ministers had not been obtained for the extension granted.
- According to the Critical Path furnished with the contract agreement the work on the installation of the mechanical, electrical and special equipment should have been commenced in July 2014 and completed within 8 months, that is, 12 March 2015, none of the equipment had been installed by that date.

- Even though the Project Consultancy Unit had forwarded the Technical and Financial Evaluation Report for the installation of Electric Lifts and Stairs to the Commission for approval on 13 October 2014, the approval had been granted only on 29 March 2016.
- Even though the loan interest rate had been set at adding 4 per cent to the London Inter Bank Credit Rate, in the computation of the borrowing cost, the fixed interest rate had been

considered as 3.5 per cent. As such, the borrowing cost of the Project and the Insurance Cost of the Project had been underestimated by Rs.265 million and Rs.682 million respectively. The Capital cost rate (discount rate) of 4.32 per cent for the computation the present value of the budgeted income of the Project had been taken as a discount rate of 4 per cent and due to the material fluctuations, the assessed payback period of the project could vary.

# **Higher Education**

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The Ministry of Higher Education , the University Grants Commission, 17 Universities and 20 Statutory Bodies were expected to perform the following functions to ensure broadened higher education opportunities through increasing the entry opportunities to higher education, quality improvements and the creation of international level Universities and Postgraduate Institutions for the achievement of a knowledge based economy.

- Formulation of policies, programmes and projects related to the subjects of higher education and the subjects related to its Statutory Bodies.
- Implementation of projects related to the Universities and other Institutions of Higher Education.
- Co-ordination of the national policy based development works together with the Provincial Councils and Local Authorities

A summary of the important audit observations related to these fields is given below.

## **Grading of Universities**

According to the Register of World Universities for the year 2015, the University of Colombo, the University of Peradeniya, the University of Moratuwa and the University of Kelaniya had been graded at 2092, 2361, 2515 and 2815 positions respectively. The University of Sri Jayawardhanapura and the

University of Ruhuna had been graded at 3752 and 4318 positions respectively. Other Universities had been between 5000 to 15400 positions. As compared with the grading in the year 2014, seven Universities had been downgraded in the year 2015.

## **Openings available for Higher Education**

Out of 149,572 students qualified for admission to Universities for the Academic year 2014/15 through the old and new syllabuses, openings were available only for 25,676 students and that represented 17.1 per cent of those qualified as compared with 25,200 students out of 143,740 qualified admitted to the Universities in the preceding year. That represented 17.5 of the students qualified. Nevertheless, the number of students admitted in the year 2015 had increased by 1.8 per cent. In addition to these admissions, 76 foreign students had been admitted during the under review. According to Action Plan of the University Grants Commission, plans had been made for the commencement of the Academic Programmes of all Universities in October of every year. Nevertheless, the University Grants Commission had been admitting students to Universities for each Academic Year during the period October to December. The overall position in that, during several

preceding years in waiting period a student had to undergo for getting admission to a thinking had been one year approximately. The loan period futher by the Department of Examination to released results of examination had a major impact on the situations.

Two hundred and thirty foreign scholarships had been granted to the local students to read for their degrees or postgraduate degree in foreign Universities while 76 foreign students had been granted scholarships in this country.

## **Recurrent and Capital Provisions**

Provision of Rs.34,578 million comprising Rs.25,898 million for recurrent expenditure and Rs.8,860 million for capital expenditure had been made for the Universities for the year 2015. As compared with the provisions made for the year 2014, the provision for recurrent expenditure had increased by Rs.5,057 million while there was a decrease of Rs.2,085 million in the provision for capital expenditure.

## **Lands and Properties**

According to the Sri Lanka Public Sector Accounting Standard 7, when there are considerable changes in the fair value of

property, plant and equipment, those should be revalued. Nevertheless, the value of lands of 8 Universities shown at Rs.15,286 million as at 31 December 2015 had not been valued and brought to account at fair value over a number of years. Further, the lands of 04 Universities with an extent of 2,562 acres including 1,391 acres of the University of Peradeniya, legally belonged to the Universities the value had not been assessed and brought to account. In addition the legal possession of 1,741 acres of lands of 8 Universities had not been acquired even by 31 December 2015.

## **Student Welfare**

### **Mahapola Scholarships and Bursaries**

According to the information of the University Grants Commission, Mahapola Scholarships had been granted to 43,521 students of 14 Universities in the year 2015 and 41,310 students in the year 2014. As compared with the year 2014, there was an increase of 2,211 students in the year 2015. The expenditure during the year 2015 amounted to Rs.1,850 million. Bursaries had been granted to 24,997 students in the year 2015 and 25,685 students in the year 2014. The number of students who received bursaries in the year 2015 had decreased by 688 as compared with the year 2014 due to

the increased income of the parents. A sum of Rs.650 million had been spent during the year on bursaries.

### **Hostels**

Provision of Rs.13,200 million had been made for increasing the number of residential students in the State Universities by 12,000. Average expenditure of Rs.220 million per hostel had been estimated for the construction of 60 hostels for the Universities and a Project was commenced by the Ministry of Higher Education in the year 2013. A sum of Rs.10,612 million had been spent and the work on 30 hostels had been completed by 31 December 2015. The work of 18 hostels had exceeded 60 per cent and the physical programme of 6 hostels ranged from 5 per cent to 30 per cent. The physical progress of 6 hostels had not been commenced. Nevertheless, according to the Cabinet decision on the project, the work should have been completed by 31 December 2015. Hostel facilities had been provided to 38,269 students of 13 Universities or 48 per cent of the overall number of students in the year 2015 and a sum of Rs.236 million had been spent thereon. Hostel facilities had been provided to 35,585 students or 43 per cent of the total number of students in the year 2014 at a cost of Rs.258 million. As compared with the year 2014 hostel facilities for 2,684 more students had been provided in the year 2015. There

was the possibility of saving a substantial amount of expenditure by completing the above project as planned.

### **Staff**

The academic staff of 13 Universities stood at 6,390 and there were 1,605 vacancies and 142 excesses. The approved number of non-academic staff stood at 9,426 and there were 1,399 vacancies and 91 excesses. In view of this situation the services of external Lecturers had been obtained. Trainees had been recruited on assignment basis and daily paid basis for the clerical and allied grades in the non-academic staff.

### **Cost per Student**

The average of the cost per student of 13 Universities for the year amounted to Rs.265,100. The maximum thereof had been Rs.363,271 for the Peradeniya University and the minimum thereof had been Rs.171,481 for the Uva Wellassa University.

### **Academic Performance**

During the years 2015 and 2014, the number of students who left the Universities after studying for different degrees had been 37,058 and 32,905 respectively. As compared

with year 2014, that indicated an improvement of 13 per cent in the year 2015. Only 02 new courses had been introduced in the Academic Year 2014/2015. Nevertheless, it was observed that the introduction of new courses suitable for the demands in the job market would be more beneficial.

## **Income Earned**

According to the Universities Act, the objective of establishing Universities is the conduct of courses leading to degrees, postgraduate degrees, doctorates, etc. for the improvement of higher education, and every University and the Institutes affiliated thereto had conducted courses such as Certificate and Diploma Courses for self-generation of income. According to the information made available by 12 Universities, an income of Rs.808.41 million had been earned by conducting 343 courses related to Postgraduate Degrees, Diplomas and Certificates. Out of this income, certain Universities had credited about 5 per cent to the income of the University while certain other Universities had credited the income to different Funds without contributing any percentage to the income of the Universities.

## **Research Allowances**

Even though research allowances amounting to Rs.816 million had been had been approved. The Treasury approval for that had not been

paid in the year 2015 to 4,375 Teachers of 11 Universities, the research proposals had not been submitted to a Committee recognized by the Senate. Even though methodology for deploying the Teachers effectively for this purpose had been formulated by carrying out a review of the progress, it had not been Implemented.

## **Breach of Agreements**

There were 463 Lecturers of 13 Universities who had breached agreements during the years 1980 to 2015. A sum of Rs.387.5 million remained recoverable from these Lecturers. That included agreements prior to the year 2010 under which recoveries could not be made as the Universities had not included the terms and conditions in the agreements as specified in the Universities Act. Instances of proceeding abroad without even entering into agreements were observed.

## **Entertainment Allowance**

According to the Establishment Circulars No. 06/2014 and No. 06/2014(i) the payment of a monthly allowance instead of the payment of 8 per cent to 20 per cent of the basic salary of officers as entertainment expenses and for the increase of the entitled posts

obtained. Ten Universities had paid entertainment allowances amounting to Rs.14.02 million during the year 2015.

## **Non-disclosure of Related Party Transactions**

Companies limited by Guarantees had been established for the execution of activities related to the functions of the Universities and the Boards of Directors of those companies included the Teachers of the Universities and Senior Executive Officers connected with the financial and administrative functions of the Universities. But the connections with the related parties had not been disclosed with the financial statements. Even though the arrangements is an important matter in the development of the activities of the University, a formal procedure is essential for the approval for such changes as policy matters and for the control of their financial affairs.

## **Sabbatical Leave**

Provisions related to the sabbatical leave had been made in Section 36.1 of Chapter 26 of the Establishments Code for the University Grants Commission and the Institutes of Higher Education and in the payments made to officers who are on sabbatical leave, the allowances paid for the performance of

a specific activity had been added to the payments in respect of instances of not performing such activities. Even though one person is entitled only for one cost of living allowance, there were instances where two cost of living allowances had been obtained from two Government Institutions.

## **Open University of Sri Lanka**

The Open University of Sri Lanka established with the primary objective of providing opportunities to students who could not gain admission to the University System to study for University Education on the fee charging basis had enrolled 38,562 in the year 2015 for 67 courses. The income of Rs.755.5 million had been earned in the year 2015. An income of Rs.953 million had been earned by enrolling 41,344 students in the year 2014 for 67 courses. Accordingly as compared with the year 2014, the enrolment of students in the year 2015 had decreased by 6.7 per cent while the income had decreased by 21 per cent. Similarly, 3,472 students who had followed the Degree and Postgraduate Degree Courses and 4,725 who had followed different Certificate Courses had completed the courses in the year 2015 and obtained the certificates.

## **Sri Lanka Institute of Advanced Technical Education**

The Sri Lanka Institute of Advanced Technical Education conducts Diploma and Certificate Courses for students who could not obtain admission to the Universities and consists of 11 Institutes of Advanced Technological Education

and 6 Divisions. The Institute had enrolled 6,942 students in the year 2015 for 12 Courses. Even though capital provision amounting to Rs.445 million had been made available to the institute for the year 2015, a sum of Rs.204 million or 46 per cent of that had not been utilized.

# **Power and Energy**

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The Ministry of Petroleum Resources Development, the Ministry of Power and Renewable Energy and the Statutory Bodies under the purview of the two Ministries are entrusted with the performance of the following functions to make the country self-sufficient in power and energy by the generation of electricity through different sources including renewable energy sources and the supply of petroleum products demand of the country through import of crude oil and refining, storage and distribution.

- Formulation, follow-up and evaluation of policies, programmes and Projects on the subjects related to the petroleum resources development and the power and renewable energy.
- Import, refining, storage, distribution and sale of products related to petroleum and natural gas.
- Activities related to production and refining of petroleum.
- Exploration of petroleum and activities related thereto
- Production of gas from petroleum production sources and distribution
- Development of infrastructure facilities related to the supply and distribution of fuel.
- Formulation of an appropriate power policy for the control, regulation and utilization of power sources.

- Exploration, planning, supervision and development of power, through sources such as water, thermal, coal and wind
- Rural electrification
- Management of the demand resulting in power efficiency and the development of renewable energy.

A summary of audit observations revealed in connection with the Institutions in this Sector is given below.

## **Ministry of Petroleum Resources Development**

### **Underground Fuel Pipeline System of the Bandaranaike International Airport**

An estimate of Rs.1,000 million had been prepared for the construction of the Underground Fuel Pipeline System of the Bandaranaike International Airport. Similarly, a technical study costing Rs. 5 million had been carried out in the year 2010 and stratigraphic plans costing Rs.1 million had also been prepared in the year 2012. Nevertheless, the scope of the underground Fuel Pipeline System had to be changed subsequently as a result of the decision of the Cabinet of Ministers dated 05 September 2013 to increase the annual passenger capacity to 9 million. Even though bids had been

invited the bid evaluation had not been finalized even by 18 August 2016 due to the problems of finding capital for the Project.

## **Petroleum Resources Development Secretariat**

The Petroleum Resources Development Secretariat had incurred recurrent and capital expenditure amounting to Rs.371.08 million and Rs.645.70 million during the years 2007 to 2014. During that period an income of Rs.649.41 million had been earned from the sale of data collected from the deep-sea explorations. Nevertheless, the income earned from the sale of data in the year 2015 amounted only to Rs.5.63 million due to reasons such as the long period involved in obtaining the two dimensional data and the inadequacy of the data collected from the Mannar Basin.

Provision of Rs.50 million had been made available in the year 2015 to the Petroleum Resources Development Secretariat for carrying out a survey of the damage caused by the oil exploration activities to the environment and water. The contract had been awarded to the National Aquatic Resources Research and Development Agency and the agreement had been signed on 31 December 2015 and a mobilization advance of Rs.7.43 million had been paid. Even though the work should have been completed by 31 August 2016 any

satisfactorily progress was not revealed even by 19 August 2016, the date of audit.

## **Ceylon Petroleum Corporation**

According to the Annual Report of the Central Bank of Sri Lanka for the year 2015 a sum of Rs.345 Billion (US\$ 2.541 Billion) had been spent on the import of petroleum to Sri Lanka during the year 2015. That import expenditure represented 3 per cent approximately of the Gross Domestic Product to the current market price of the year 2015 and represented 13 per cent of the overall import expenditure of Sri Lanka for the year 2015. Further, the expenditure incurred by the Ceylon Petroleum Corporation in the years 2014 and 2015 for the import of refined fuel amounted to Rs.294 Billion and Rs.208 Billion respectively.

The average price per barrel of crude oil imported by the Corporation in the year 2014 amounted to US\$ 104.53 and that had decreased by 47.6 per cent to US\$ 54.80 in the year 2015. The import price of a metric ton of refined fuel which amounted to US\$ 886.26 in the year 2014 had decreased by 38.8 per cent to US\$ 542.61 in the year 2015. In accordance with the decision of the Government to pass the benefit of price reduction of petroleum products in the international market to the consumers, the prices in the domestic market had also been reduced.

## Financial Results of the Corporation

According to the financial statements presented, the operations of the Corporation for the year 2015 amounted to a pre-tax net loss of Rs.20,176 million as against the pre-tax net profit of Rs.1,129 million for the preceding year. The financial results for the year 2015 as compared with the preceding year, indicated a deterioration of Rs.21,305 million. The heavy net loss incurred and the further deterioration of the financial results for the year 2015 had been due to the reasons such as the non-receipts of the gain from the decrease in the prices of Petroleum Products in the international market by to the Corporation, the exchange loss caused by the continuous drop in the value of the Rupee against the U.S.Dollar, the heavy finance cost resulting from heavy Bank borrowings, the increase of the duty charged on the import of petroleum, the loss from the sale of furnace oil and naphtha, and the losses resulting from the hedging transactions. Even through the financial performance of the Corporation had improved in the preceding year, the net assets position of the Corporation had been further eroded due to the heavy losses incurred during the years 2008 to 2015. As such, the going concern of the Corporation as a current business without the financial assistance from the Government had

become a contentious issue. The net profit / (loss) and the net assets position of the Corporation for the year 2015 and the 4 preceding years appear in the Figure 17 below.

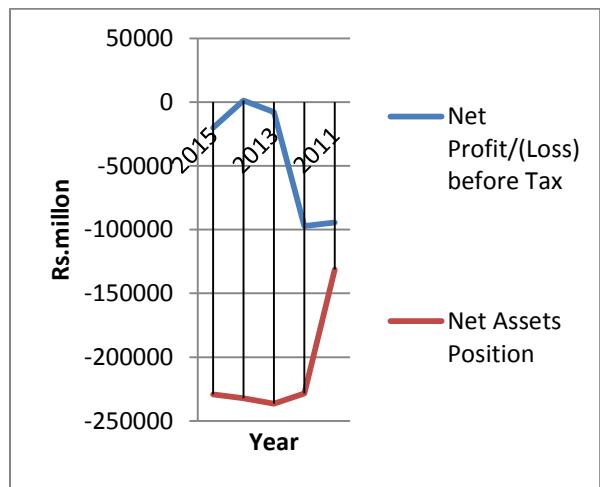
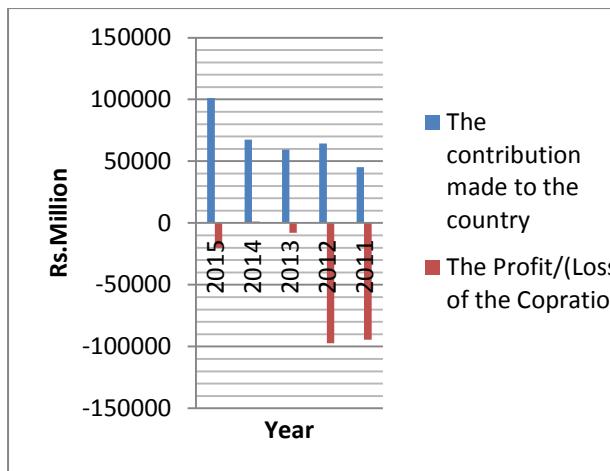


Figure 17 – The net profit/(loss) and the assets Position of the Corporation  
Source – Certified Financial Statements of the Corporation

Even though the Corporation had incurred a loss of Rs.20,176 million in the year 2015, the contribution made by the Corporation in the year 2015 by way of payment of salaries to employees, payment of taxes to the Government, payment of special charges to the Government and the depreciation through the maintenance of the Corporation amounted to Rs.100,175 million. The contribution made to the country by the Corporation and the profit / (loss) of the Corporation during the years 2011 to 2015 appear in Figure 18 below.



*Figure 18 - The contribution made to the country by the Corporation and the profit/(Loss) of the Corporation*

*Source – Certified Financial Statements of the Corporation .*

## Matters related to Petroleum

### Production and the Refinery

The 46 years old Oil Refinery at Sapugaskanda could not fulfill the

increasing demand of petroleum products of the country. As compared with the modern Oil Refineries with facilities for refining oil at very low costs, this Refinery had been operated at low level efficiency. The Project for Expansions and Modernisation of the Refinery had not been commenced even by 15 July 2016 and the expenditure of Rs.837 million incurred on the Project up to 31 December 2015 was observed as an uneconomic transaction.

## Hedging Transactions

The overall loss incurred by the Country as a result of the Hedging Transactions executed by the Corporation as at 31 December 2015 amounted to Rs.14.08 Billion. Details appear in the Table 17 below.

Particulars	Value Rs. millions
Loss incurred by the Corporation	
- Standard Chartered Bank	508.16
- Deutsche Bank	664.30
- Commercial Bank	53.12
- People's Bank	52.95
Settlement to the Standard Chartered Bank (Arbitration ) Cash Received	7,712.98
- Citi Bank (Cash received – Arbitration)	(152.16)
- Citi Bank (Profit on Transaction)	(137.99)
Legal Expenses	231.91
Travelling Expenses	5.26
Bank Interest	250.57
Other Expenses	20.14
Sub-total	9,209.24
Legal Expenses incurred by the Central Bank of Sri Lanka reimbursed by the Corporation	567.49
The amount paid during the year 2016 for settlement with the Deutsch Bank the Case filed by the Deutsche Bank against the Republic of Sri Lanka in the International Centre for Settlement of International Disputes (U.S.\$.	3,880.84

26,562,927)	
The total loss incurred by the Corporation on the Hedging Transaction – as at 31 December 2015	13,657.57
Legal Expenses incurred by the Central Bank of Sri Lanka on behalf of the Corporation – not reimbursed	3.15
The amount paid by the Central Bank of Sri Lanka to the foreign Lawyers who appeared for the Arbitration Process initiated by the Deutsche Bank A.G. against the Republic of Sri Lanka	404.29
Allocation made by the Central Bank of Sri Lanka – Deutsche Bank A.G.	13.08
The overall loss incurred by the Country on the Hedging Transaction	14,078.09

Table 17 : Total loss incurred by the Corporation on the Hedging Transaction

- The Corporation had been summoned as a party to the Arbitration Process related to the Hedging Agreements entered into with several commercial Banks in connection with the Hedging Transactions of the Ceylon Petroleum Corporation. Payment of U.S.\$. 60 million (Rs.7,612 million) had been made to the Standard Chartered Bank on 03 June 2013 and U.S.\$. 27 million (Rs.3,880.84 million) had been paid to the Deutsche Bank on 04 August 2016 in accordance with the Deed of Settlement entered into between the parties. According to the information received, the Corporation had incurred a loss of Rs.9,780 million as at 31 December 2015.
- The Central Bank of Sri Lanka had incurred legal expenses amounting to Rs.570.6 million on the Hedging Transactions of the Corporation and out of that a sum of Rs.567.5 million had been reimbursed to the Central Bank of Sri Lanka by the Corporation from the year 2011 to the year 2014.
- In addition, the Central Bank had paid a sum of Rs.404.29 million by 31 December 2015 from the services obtained from the foreign Lawyers appeared for the Arbitration Process initiated against the Republic of Sri Lanka by the Deutsche Bank A.G. In addition, the Central Bank of Sri Lanka had made a provision of Rs.13.08 million in this connection in the year 2015.
- In addition, the Commercial Bank had filed a case in the Commercial High Court of Colombo for a claim of U.S.\$. 8,648,300 against the Ceylon Petroleum Corporation.

## **Management Inefficiencies**

### **Pipeline Network for Transport of Oil**

The transport of imported Petroleum products such as petrol, diesel, kerosene and furnace oil from the Port of Colombo to the Petroleum Installations at Kolonnawa had been done through the pipeline system installed several decades ago. Out of that several pipeline have been abandoned at present due to irreparable condition. Repairing and modernization of these pipelines transport huge quantities of national requirement of petroleum products to Kolonnawa should have been given priority. The possibility of a grave fuel crisis emerging from the transport of refined petroleum products through these decayed pipelines cannot be ruled out in audit.

A section of the pipeline had been installed from the Port of Colombo to Sapugaskanda for the transport of crude oil and the other part of the system from the Refinery to the Kolonnawa Installations had been used for the transport of the refined petroleum products and this system belongs to the Corporation. The other pipeline from the Port of Colombo to the Kolonnawa Installations used for the transport of finished products belong to the Ceylon Petroleum Storage Terminal Company Ltd. The 24" pipeline out of 4 pipes is used for the transport crude oil while

the other pipelines (12", 8" and 6") is used for the transport of finished products from the Refinery to the Kolonnawa Installations. Out of the 5 Pipelines belonging to the Ceylon Petroleum Storage Terminal Co. Ltd 3 pipelines are already abandoned due to the irreparable condition.

Decisions of the Cabinet of Ministers had been taken from time to time since the year 2008 for the implementation "The Country-wide Pipeline System." The Cabinet of Ministers had decided on 10 May 2016 to implement the Project on an Engineering, Procurement and Construction Turnkey Contract on the Procurement Methodology of 100 per cent financing from Government to Government and to invite a complete proposal as recommended by the relevant Foreign Mission only from 4 countries. Accordingly, the Request for Proposals had been prepared and the Ceylon Petroleum Storage Terminal Company had referred it to the Technical Evaluation Committee.

### **Fishermen's Fuel Subsidy Coupon Programme**

The Government had implemented the Fishermen's Coupon System during the period from March 2012 to September 2013 with the objective of minimising the adverse impact to the fisheries industry caused due to the revision of fuel prices. The

Department of Fisheries and Aquatic Resources had implemented the system with the participation of the Ceylon Petroleum Corporation and the General Treasury. Nevertheless, due to the weaknesses of control systems the expected objectives of the Programme could not be achieved. Several such weaknesses revealed are given below.

- The Government had suspended this system in September 2013 due to the misuse and misconduct of the owners of fishing craft, the fuel distributors and the other persons connected with the implementation of the system.
- Instead of reaping the benefits of the subsidy by the owners of fishing craft by obtaining the full quantity of fuel entitled to the coupons from the fuel distributors they had resorted to obtaining cash by discounting the coupons and obtaining only the subsidised fuel quantity appearing on the face of the coupon.
- The Corporation had paid Rs.3 million approximately to the distributors on fake coupons. The Corporation had withheld a sum of Rs.18 million approximately due to reasons such as attaching fake

coupons and the irregular submission of coupons of other districts.

- As the Corporation had not taken over coupons valued at Rs.6 million approximately, it was revealed that those coupons are remaining with the distributors.
- Overpayments amounting to Rs.178 million approximately exceeding the actual value of the coupons surrendered by the owners of the fishing craft to distributors of the Ceylon Petroleum Corporation had been obtained from the General Treasury by the Corporation.
- The Ceylon Petroleum Corporation had, from time to time over-credited Rs.10 million approximately due to the failure to ascertain the correct disbursable amount.
- The value of coupons issued to the owners of fishing craft by the Department of Fisheries and Aquatic Resources and remaining without being returned to the Ceylon Petroleum Corporation even by 31 August 2016 amounted to Rs.82 million approximately.

## Ceylon Electricity Board

### Increase in the Operating Results of the Board

The Ceylon Electricity Board had earned a pre-tax profit of Rs.19,766 million in the year 2015 as against the pre-tax loss of Rs.15,002 million in the year 2014, thus indicating an improvement of Rs.34,768 million in the operating results for the year 2015. That improvement had been due to the decrease of the fuel purchase cost by 50

per cent and the decrease of the cost of purchase of electricity by 52 per cent. Similarly, the increase of the electricity generated in the year 2015 by 1,435 Giga Watt Hours or 32 per cent due to the high water levels of the reservoirs, the increase of coal fired electricity generation by 39 per cent and the decrease of fuel fired electricity generation by 47 per cent also had an impact thereon. A summary of electricity generated from each source appear in the following Table 18

Source	2015	2014	Difference	
	Giga Watt Hours	Giga Watt Hours	Giga Watt Hours	Percentage
Hydroelectricity	5,969	4,534	1,435	31.64
Fuel	2,275	4,305	(2,030)	(47.15)
Coal	4,443	3,202	1,241	38.75
Non-traditional Renewable Energy	401	315	86	27.30
Total	<b>13,088</b>	<b>12,356</b>	<b>732</b>	<b>5.92</b>

Table 18 - Factors Impacting on the improvement of operating results of the year 2015  
Source : Statistical Data Report issued by the Ceylon Electricity Board

Accordingly, the Board had incurred a lesser expenditure on the purchase of thermal electricity from the Private Companies generating electricity. Such decrease in expenditure amounted to Rs.41,824 million or 52 per cent. Similarly the total operating expenditure for the year 2015 as compared with the year 2014 had decreased by 14 per cent.

### Payment of Pay As You Earn Tax by the Board

Instead of the recovery of the Pay As You Earn Tax from the employees in accordance with the salary revision of the year 2009 in terms of the decision of the Cabinet of Ministers dated 13 December 2007, the Board had paid a sum of Rs.2,006 million without making recovery as stipulated.

## **Payment of Allowances to the Staff without Approval**

Different allowances totalling Rs.1,993 million comprising Rs.849 million in the year 2014 and Rs.1,144 million in the year 2015 had been paid from time to time to the staff without obtaining the approval of the Cabinet of Ministers in terms of the Public Enterprises Circular No. 95 of 04 June 1994.

## **Construction of the “Widulakpaya” Building**

The construction of this building for use as the Head Office of the Board had been ceased in the year 2014 for deciding by the use of alternatives. A sum of Rs.401 million had been spent by 31 December 2015. An explanation for the reasons for delaying/ ceasing the construction had not been furnished to audit.

## **Failure to implement Projects as Planned**

The Asian Development Bank had recovered a sum of Rs.64 million due to the failure to implement the Project implemented by the Board financed under loans from the Asian Development Bank as planned.

## **Lakvijaya Power Station**

Two Tug Boats, 03 barges and line boat purchased for the Lakvijaya Power Station in the year 2009 are lying idle in the Port of Trincomalee and the Port of Colombo as they are unfit for coal operations. The sum of Rs.1,307 million spent by the Board by 31 December 2015 had become an uneconomic expenditure.

## Rural Economic Affairs

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The rural economic activities related to the livelihood of the rural community of Sri Lanka contributes significantly to the economy of Sri Lanka. This Sector is expected to perform the function for the development of the livelihood of the rural community. Improvement of the livestock resources products of high quality commensurate with the domestic demand and capable of competing in the international market for the enhancement of their economic level. The Ministry and a Department and 9 Statutory Bodies under the purview of the Ministry should have executed those more functions. Out of these Institutions, the activities of two Funds had not been commenced even in the year 2015. Provision of Rs.19,492 million had been made in the Annual Budget Estimates of the year 2015 for the Ministry and the Department of Animal Production and Health and Other Institutions and a sum of Rs.12,929 million had been utilized. The following observations were revealed during the course of the audit of the Ministry and the Institutions under its purview.

### **Increase in the Cost of Milk Production.**

The Livestock Division of the Ministry had spent a sum of Rs.5,213.4 million during the 6 year period from the year 2010 to the year 2015 for increasing the milk production. (Excluding the expenditure incurred by the Department of Animal Production and Health). Milk

Production in the year 2015 as compared with year 2010 had increased by 126.89 million liters of milk. Accordingly, a sum of Rs.41 had been spent on the production per liter of milk. According to the Annual Report of the Central Bank of Sri Lanka for the year 2015, the cost of production of a liter of fresh milk is stated as Rs.32.42. As such the cost incurred per liter for increasing the production of milk had exceeded the cost of production appearing in the Annual Report of the Central Bank of Sri Lanka.

### **Popularizing Fresh Milk Project**

Out of 1,250 Milk Booths proposed propose to the established under the Project implemented from the year 2004, there were 685 Milk Booths established by 31 December 2013. Out of 283 Milk Booths commenced by the Livestock Development Board 43 were in operation by the end of the year 2015. Out of 402 Booths commenced at Provincial level 128 were in operation. There was no evidence of any follow up action taken on the reason for closing down of Milk Booths. Even though sum of Rs.73.10 million and Rs.46.37 million had been spent in the years 2014 and 2015 respectively for commencing Milk Booths, the particulars of Milk Booths commenced had not been furnished to Audit.

## **Purchase of Imported Milk Cows**

A sum of Rs.4,309.93 million (U.S.\$ 33.69 million) had been paid to a foreign company selected under the Turkey System for the purchase of imported milk cows for the farms under the National Livestock Development Board, without obtaining Guarantee Bonds and quality Certification. Information and documents on the constructions and services performed in connection therewith in Sri Lanka had not been furnished. An Environmental Impact Assessment Report also had not been obtained. A physical inspection of the construction done at the Ridigama Farm on 02 June 2016 revealed the following deficiencies.

- An internal road 9.6 kilometers long and 3 meters wide constructed in the year 2015 at a cost of Rs.16.70 million had been badly damaged even before elapse of one year.
- Even though a sum of Rs.160.15 million had been spent on the construction of 600 wooden cattle pens for calves, replacing broken asbestos sheets and the construction of a concrete bunker, the specification did not included the details of repairs carried out.

## **Non- achievement of expected Milk Yield from Imported Cows.**

According to the observations of the Ministry of Finance on the proposal of the Cabinet of Ministers dated 11 July 2013 for the import of cows under the Second Stage, 2,000 cows imported under the First Stage with the objection of increasing the per capita milk consumption had aiclematered to the local conductive and the import of 2,500 cows under the Second Stage. According to the feasibility report which formed the basis for the Cabinet Proposal, the expected milk yield per cow per day had been assessed as 20 liters. The average yield of milk per cow as at May 2016 had been 15 liters and 16 liters per day from cows of the Frist-stages and Second Stage respectively. Thus the expected yield had not been achieved.

## **Presentation of Financial Statements Economic Centers**

Even though the Financial Statements of the Economic Centers should be presented to Audit within 2 months after the close of the year of accounts in terms of paragraph 4.3 of the Public Finance Circular No.PF/423 of 22 December 2006, twenty six Financial Statements of 6 Economic centers in the Colombo and Gampaha Districts for the years 2008 to the year 2015 had not been presented even by 30 June 2016.

In addition the Financial Statements of 17 Economic Centers had been presented to Audit had been presented after delays ranging from 7 months to 6 1/2 years. The Economic Center at Embilipitiya commenced on 25 February 2003 to the year 2015, and the Economic Centre at Weerawila had not presented Financial Statements at all.

### **Closing down of Economic Centre, Wariyapola.**

Even though the members of the Managing Trust of the Economic Centre at Wriyapola on 06 April 2015,a management Trust – Deed had not been prepared and registered. Through it was opened on 28 April 2014 it had been closed down after a short period. According to a subsequent observation report had stated that it is not appropriate to open, it had been re-opened on 31 May 2015 at a cost of Rs.773,850. But all stalls had been closed down by 26 October 2015.

### **Boosa Economic Centre**

Even though the buildings had been constructed the Centre had not been opened. The Divisional Secretary Hikkaduwa had formally handed over the land along with the buildings to the University of Marine Science and the buildings were covered with screens.

### **Sale of Paddy Purchase at a loss to the Government.**

The Paddy Marketing Board purchases only 7 per cent of the overall paddy

production of the country and the balance 93 per cent is purchased by the Private Sector. The Paddy Marketing Board had purchased Nadu paddy at Rs.45 per kilogramme fixed by the Government in the year 2015. Bids had been invited on 30 November 2015 for the sale of 226,126 metric tons of madi paddy purchased in the Maha Season 2014/15 and the Yala Season 2015. Forty-two bidders had offered bids ranging from Rs.35 to Rs.40 per kilogramme for the purchase of 194,859 metric tons of paddy. Action had not been taken for the sale of paddy at those prices. As there was a large supply of rice to the market the prices had fallen with the commencement of the harvesting season and the Committee of Officers appointed by the Cabinet of Ministers on 29 February 2016 had recommended the sale of paddy at Rs.24 per kilogram for the production of animal fodder and rice flour for the purpose of emptying stores. That was approved by the Cabinet Sub-committee on 01 March 2016 followed by the Cabinet approval given on 02 March 2016. Based on that approval, the Paddy Marketing Board had sold a stock of 93,089 metric tons of paddy out of the stocks purchased in the year 2015 for the production of animal fodder and rice flour (without calling for bids) to several companies at Rs.24 per kilogramme causing a loss to the Government.

## **Female Calf Rearing Project – Non-achievement of Objectives**

The Department of Animal Production and Health had implemented a Project called “Female Calf Rearing Project” with local funds from the year 2005 to the year 2015 with the intention of increasing the local milk production. A sum of Rs.82.70 million out of the provision of Rs.512.47 million made for

the year had been spent. Even though it was expected to add 125,000 milk cows through this Project to the local milk production process, the number of milk cows added had been only 54,816. Even though adding an increase of 225 million litres of milk to the national milk production through this Project 130.37 million litres only had been added. As such there was no noticeable progress of the expected objectives of the Project.

# Water Supply and Drainage

The major objective of the National Water Supply and Drainage Board is the production and sale of pure drinking water, protection the equilibrium of water sources and the environment. The value of investment made up to 31 December 2015 for the supply of pipe borne water to 46 per cent of the total population of the country amounted to Rs.332 Billion. Accordingly, 54 per cent of the total population still continue to fulfill their water requirements from the unsafe water sources such as wells, canals, streams, rivers and tanks. The expectations were for the supply of pipe borne water to 60 per cent of the total populations a 2020.

A summary of the major observations revealed during the audit of the Water Supply and Drainage Sector carried out in the year 2015 is given below.

## Supply Safe Drinking Water to the General Public

In most instances, the water required for the distribution of pipe borne water is obtained from rivers and the Government had to incur heavy expenditure for the purification of unclean water. The Government had incurred heavy capital expenditure annually for the supply of safe drinking water and adequate sanitation facilities and that had been finance from domestic and foreign loans and grants.

Such public expenditure incurred during the five preceding years appear in the Figure 19 below

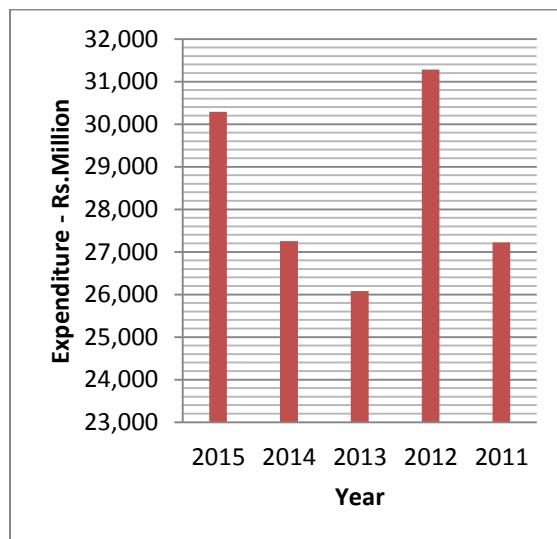


Figure19- Expenditure incurred by the Government to Supply Safe Drinking Water to the General Public

## The Projects Implemented under Domestic Funds and Foreign Aid

### Non-completion of Projects within Specified Period

Even though expected dates of completion had been determined based on the preliminary plans and studies more than 90 per cent of the Projects subjected to sampling had not been completed during the expected periods. Even though different reasons had an impact on this situation, additional costs had to be incurred due to additional items and price increases.

## **Presentation of Financial Statements of Foreign Aid Projects**

According to the agreements entered into with the Institutions Lending for the Foreign Aid Projects and the provisions in the Treasury Circulars, the accounts for each Project should be prepared and presented to audit within a specified time frame. But 12 Foreign Aid Projects had not complied with that requirement.

## **Failure to enter in to Sub-Loan Agreements**

Sixteen projects had been implemented without entering into Sub Loan Agreements for Foreign Aid Projects between the Government of Sri Lanka and the National Water Supply and Drainage Board.

## **Non-achievement of expected Results through Domestic Banks Financing instead of Foreign Aid Projects**

According to the terms of agreements entered into on Foreign Aid, constructions should be done through foreign contractors and as such costs are very high. In view of that, the Treasury had intervened and decided that constructions should be done by the local contractors and Technical and financial proposals of local contractors through Domestic Bank Finance on Treasury Guarantees. Accordingly, the approval of the Cabinet of Ministers had

been received for the implementation of 52 Water and Sanitation Schemes under an estimated capital cost of Rs.62.7 Billion. Nevertheless, an economics, efficient and out effective utilization of funds had not resulted therefrom due to reasons such as the higher rate of interest payable and the heavy increases in the costs in the preliminary estimates.

## **Non-compliance with the Government Procurement Guidelines**

The preliminary estimated costs of 11 Projects considered had increased in ranges from 15 per cent to 338 per cent. Contracts for 15 Projects costing Rs.54,254.3 million had been awarded without inviting competitive bids in terms of Guidelines 3.2.1 of the Government Procurement Guidelines. In addition, contracts had been awarded contrary to Guideline 8.7.1 (a) of the Government Procurement Guidelines for 07 Projects without ensuring the availability of funds.

## **Purchase of Cabs Motor Vehicles not conforming to Standards**

The Greater Dambulla Samodanitha Water Supply Project had awarded a contract to a bidder who had submitted an unsolicited bid of Rs.56.05 million for the supply of 04 Double Cab Motor Vehicles for which the Project had given the country of manufacture and the specifications.

The contractor had supplied 4 Double Cab Motor Vehicles which did not conform to the country of manufacture and specifications. The invoice value of the 4 vehicles amounted to Rs.13.32 million. A loss of Rs.42.73 million had been incurred due to the payment made without examining the country of manufacture and the specifications. In addition, the project contractor had purchased nearly 90 per cent of machinery, equipment, pipes and accessories prior to the commencement of the commencement of the Project. The guarantee period of those had expired due to the delay in the commencement of the Project.

### **Reimbursement of Payments**

The general administration and the other indirect payments totalling Rs.184.32 million which are not entitled for obtaining reimbursement according to the Loan Agreements of the First and Second Stages of the Greater Kandy Water Supply Project had been obtained as reimbursements from the Japan International Co-operation Agency.

### **Failed Foreign Aid Projects**

#### **Non-achievement of Objectives of Water Purification Plant**

A sum of EURO 12.9 million had been received as aid from Spain for the construction of the Ambatale Drinking Water Purification Plant and the Negombo Sea Water Purification Plant. The Treasury had not specifically informed the Board, the nature of the

funds so supplied. The Project had been idling from the year 2010 due to the decrease in the capacity of the tube well supplying drinking water to the Sea Water Purification Plant and level of iron and Chemicals in water being low. A sum of Rs. 363 million had been spent on the water purification plant. Even though 6 years had elapsed since the completion of the work on the purification plant, the Board had failed to provide the 3,000 Consumers drinking water connections expected thereof.

#### **Entering into Loan Agreements without a Correct Feasibility Study**

Even though Iranamadu Tank is the main source for obtaining water for the Jaffna Killinochchi Water Supply Project, the Project had failed by the end of the year 2015 due to the objections raised by the people of the area and as the preliminary feasibility study had not been done properly. Even though plans had been made for the supply of purified sea water as a solution to the problem that as well could not be implemented due to the objections of the local fisheries community. Even though a proposal had been made for the supply of purified sea water from another area as a further solution, that involved the increase of the cost of a unit of water by several times.

As such an uneconomic expenditure of Rs.151.75 million had been incurred due to entering into loan agreements without carrying out correct feasibility studies.

## **Losses due to Bankruptcy of Contractor**

The contract of the Moratuwa, Ratmalana, Ja-ela, Ekala Waste Water Project had been stopped halfway due to the bankruptcy of the main contractor. According to the Guidelines 5.4.6 and 5.4.7 of the Government Procurement Guidelines, Retention and Performance Guarantees obtained from a Bank based in another country, the guarantee should be confirmed by a Bank operating in Sri Lanka. As the Board had not complied with that requirement, the Board could not cover the loss from those guarantees. As such the Board had not been able to recover the performance guarantee of US\$ 9,065,048 and the retention money for the contract work amounting to US\$ 7,959,086. The Project had spent Rs.3.55 million on obtaining foreign legal consultancy for the recovery of the guarantee, an overpayment of US\$ 6,747,787 made to the contractor, Rs.17.81 on damage caused to third parties, Rs.23.75 million to bring back damaged road to previous condition, and Rs.37.44 million on expenditure incurred deviating from Project objectives.

## **Abandoning or Idling of 393 Water Schemes**

Out of 2,376 Water Schemes implemented for the supply of water to the rural community, 393 Schemes had been either abandoned or idling by 31

December 2015 due to weaknesses such as dried water sources, substandard quality of water, lack of proper maintenance by the Community Based Organisations, and their inefficiencies, lack of proper financial control of Community Based Organisations, damage caused to the systems, lack of technical assistance from the Board to Community Based Organisations.

## **Payment of Advances without obtaining unencumbered Title to Lands**

A sum of Rs.21.45 million being 30 per cent of the value of a block of land had been paid in April 2014 without ensuring the unencumbered title to the land in order to obtain a land to set up the Waste Water Purification Plant under the Galle Area Waste Water Exclusions Project. After obtaining the advances, the person who presented himself as the owner had removed earth from the land. The title to the land had not been settled even by the end of December 2015.

## **Income from Mining of Stones**

The income collected from stones found in mining done at work sites should be credited to the public revenue in terms of Section 26 of the Mines and Minerals Act, No. 33 of 1992. Nevertheless, stone mining income of Rs.79.97 million collected from two Water Supply Projects had not been credited to the public revenue.

# Irrigation and Water Resources

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The Ministry of Irrigation and Water Management, the Department of Irrigation and one Statutory Body should have performed the following functions for the supply of irrigation facilities and the water resources management for the prosperity of Sri Lanka.

- Formulation and implementation of policies, programmes and projects related to every subject under the scope of irrigation, reservoirs and water management.
- Promotion, construction, operation, maintenance, redevelopment and management of Irrigation Schemes, Drainage and Flood Protection Schemes and Salt Water Exclusion Schemes.
- Prevention of the pollution of rivers, canals, streams and other waterways
- Collection of rain water
- Engineering Consultancy Services
- Implementation of the Water Resources Board Act

A summary of the audit observations revealed in the performance of the above functions by the Ministry, the Department and the Statutory Body is given below.

## **Non-implementation of Gin-Nilwala Diversion Project**

The Ministry had paid mobilization advances for the Gin-Nilwala Diversion

Project totaling Rs.4,011.05 million comprising Rs.998.58 million in the year 2014 and Rs.3,012.48 million in the year 2015 to a foreign company. None of the activities of the Project had not been executed even by 30 April 2016. The advance Rs. 998.58 million paid in the year 2014 had been brought to account as expenditure of that year. As the advance paid in the year 2015 had been brought to account as expenditure of the year, the Project indicated an excess expenditure amounting to Rs. 2,972.48 Million.

## **Execution of Activities non-related to the Scope of the Ministry**

An agreement had been entered into with a company from China on 05 July 2012 for the purchase of pre-fabricated buildings on behalf of the Ministry of Defence for distribution to the Three Services and the Police and making payment in 7 installments. A sum of Rs.2,774.80 million had been paid in the year 2015 and the payments made from the year 2012 up to 31 December 2015 totalled Rs.11,351.39 million . The purchase of the prefabricated buildings does not fall under the scope of the Ministry while it had nor been included in the Action Plan of the Ministry. In addition, the total number of

buildings handed over to the Three Forces and the Police and the certificates of the Heads of the institutions concerned that the buildings were satisfactorily assembled had not been furnished to Audit even by 31 December 2015.

### **Non-utilisation of Provisions made**

The entire net provisions amounting to Rs.47.45 million made under one Capital Object under the Development Programme and 12 Recurrent Objects of the Operating Programme of the Ministry had been saved.

### **Action Contrary to Circular Provisions**

Contrary to the Public Administration Circular No. 25/2014 of 12 November 2014 permanent appointments had been granted to 1,686 employees whose recruitment had not been confirmed by letters of appointment, with a service period less than 180 days, with broken service periods and of age beyond the maximum age limit for recruitment to Government Service. Twenty employees had been confirmed in posts other than the posts of recruitment.

### **Confirmation in Service based on Forged Documents**

Three employees who had forged documents in support of 180 days of satisfactory service in terms of the Public Administration No. 25/2014 of 12

November 2014 had been granted permanent appointments.

### **Non-recovery of Full Amount from an Officer who had breached Agreements**

Even though an officer had been released from the service of the Water Resources Board on 2 bonds for proceeding abroad on a foreign scholarship and for service in another institution, a sum of Rs.1.38 million should have been recovered from the officer for the breach of both bonds. Nevertheless, the officer had been permanently released to another institution.

### **Researches on Ground-water not completed as planned**

Conducting researches on ground-water is a major objective of the Water Resources Board and a sum of Rs.84.41 million had been spent on 11 research studies commenced from the year 2010 up to the end of the year 2015 none of the researches had been completed as planned even by 30 June 2016.

### **Release of Employees of the Board to other Institutions**

Six employees had been released to other institutions and a sum of Rs.1.70 million had been paid by the Board as their salaries and allowances contrary to Section 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

## Pension Benefits for Public Service

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The Mission of the Department of Pensions is to provide pension after the retirement of public officers to maintain their livelihood in retirement. The Department had paid pensions to 560,499 pensioners by the end of the year 2015 and the payments so made amounted to Rs.157,988 million or 10 per cent of the recurrent expenditure and 11 per cent of the total public revenue. In the payment of pensions through Divisional Secretariats instances of overpayments, double payments and fraudulent payments had been detected since the year 2014 and pension payments had been restructured for the prevention of such deficiencies. Accordingly, the payment of outstanding payments from June 2014, first payment of pension from October 2014, payment of pension from the Centralised Data System from January 2015 and the payment of Widow's and Orphan's Pension from September 2015 has been done by the Department of Pensions.

A summary of the observations made in the audit of the pensions paid by the Department of Pensions to the Public Service Pensioners is given below.

### Centralised Pension Payments through the Restructure

Several deficiencies in the centralized pension payments prevailing due to the

absence of a strong Internal Control System were observed.

- A test check of the Pensions Data System from January to December 2015 revealed double payments of pensions amounting to Rs.5.55 million made to 31 pensioners and double payments of arrears of pensions amounting to Rs.19.19 million made to 134 pensioners.
- An overpayment of Rs.0.47 million had been made to 32 pensioners as the interring allowance of Rs.2,500 had been paid to those who were not entitled to the allowances.
- When the living allowance is apportioned among several persons, the interim allowance had been paid without apportioning, to 1,552 pensioners, this resulting in an overpayment of Rs.8.54 million.
- As pensions payable by combining had not been so combined the full interim allowance had been paid to 1,575 pensioners, thus resulting in an overpayment of Rs.80.61 million.
- As the cost of living allowance exceeding the maximum payable to the widow pensioners in public service had been paid, overpayment of cost of living allowance amounting to Rs.15.67 million had been made to 102 pensioners.

## **Non-recovery of 60 per cent of Pension Gratuity Paid**

According to Sections 2 and 25 of the Minute of Pensions, the pension gratuity paid to pensioners who had opted for obtaining the gratuity, 60 per cent of that should be recovered by the Government. Nevertheless, 60 per cent of the gratuity obtained by the retired Judges of the Supreme Court and the Court of Appeal had not been recovered.

## **Payment of Pensions through Bank Loans**

The Department had received 17,029 applications for pension gratuities for the year 2013 and 2014 by 09 April 2014. The pension gratuities had been directly credited to the Bank Accounts by utilizing the Bank system without obtaining the particulars of those applications. The abatements to be made for the Government from the Pensions of the Provincial Councils included among those applications had also been paid to the pensioners. The audit examination carried out in this connection revealed the following deficiencies.

- Overpayments of gratuity amounting to Rs.9.96 million had been made to 182 pensioners.

- As the pension gratuity is paid as a Bank loan, the Government had to pay an additional 12 per cent interest on the gratuity overpaid.
- Action in terms of Section 4.2.3 of Chapter XXIV of the Establishments Code had not been taken to identify the overall overpayments.
- Even though provision of Rs.18,000 million had been made for the payment of pension gratuity in the year 2015, instead of utilizing the provision, loans of Rs.20,402.44 million had been obtained from 3 State Banks from 09 April 2014 to 31 December 2015 and interest amounting to Rs.2,209.06 million had been paid as interest. The total loan balance as at 31 December 2015 amounted to Rs.19,289.29 million.
- A Control Account based on the first payment of pension and payment of pension gratuity from loan had not been maintained.

## **Interest Income Deprived of to the Public Service Provident Fund**

A cheque for Rs.454.00 million issued to the Public Service Provident Fund on 31 December 2014 had been credited to the Fund Account in October 2015 after a delay of 9 months. As such an interest income of Rs.24 million had been deprived of to that Fund.

## **Payment of Salaries and Allowance up to 55 years to Soldiers died or rendered Disable in War**

The Armed Services and the Police had been given Rs.23,432.65 million for the payment of salaries and allowances to the soldiers dead or rendered disable due to war. The expenditure incurred therefrom could not be satisfactorily vouched in audit due to the non-submission of evidence such as the payment records, changes in the number of beneficiaries, their pension members or the widows' and orphans' pension number, National Identity Card numbers, particulars of dependents, related Divisional Secretariats, etc.

## **Failure to obtain Unpaid Pensions from Sri Lankan Missions Abroad**

Appropriate steps had not been taken to obtain the monthly unpaid pensions from the Sri Lankan Missions Abroad. An

examination of the High Commission in Australia carried out in September 2015 revealed that unpaid pensions related to Australia and New Zealand from the year 2012 to September 2015 amounting to Rs.58.88 million had been retained by the High Commission.

## **Deficiencies related to Pension Payments to Pensioners Living in Canada**

A sample of 762 pensioners out of 2,773 pensioners living in Canada maintained centrally in the Foreign Pensions Record Room of the Department was examined. That sample included 304 files without the National Identity Card number, 369 cases in which the National Identity Card Number had not been entered in to the data system, 162 cases without the pension award letter, 231 pensioners who had not furnished the Life Certificates and 169 pensioners who had not stated whether the pension is obtained through Banks or from the Mission.



# **Provincial Councils**



# Western Provincial Council

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A revenue totalling Rs.56,890 million comprising a sum of Rs.21,000 million from Government grants and a sum of Rs.35,890 million from internal sources had been estimated for the year 2015 by the Western Provincial Council. A total of Rs.56,890 million comprising Rs.50,405 million for recurrent expenditure and Rs.6,485 million for capital expenditure had been estimated to be utilized in the year 2015. Accordingly, a revenue totalling Rs.56,564 million comprising Rs.21,755 million from Government grants and Rs.34,809 million from internal sources had been collected in the year 2015. A sum of Rs.54,718 million comprising Rs.49,434 million for recurrent expenditure and Rs.5,284 million for capital expenditure had been incurred in the year 2015.

The material and significant observations made during the course of audit carried out in this connection are given below.

## Failure in collecting the Arrears of Revenue

- Arrears of lease revenue from lands amounting to Rs.6.83 million pertaining to 5 properties under the lease of lands in the Western Province existed for a long period. Lease money pertaining to another 10 properties could not be properly recovered due to the reasons such as

failure to sign lease agreements by due dates, non-valuation of properties at present value and non-utilization of relevant lands for a specific purpose. A sum of Rs.10.75 million pertaining to 4 properties out of the above could have been computed as lease revenue.

- Arrears of rental totalling Rs.6.38 million pertaining to 44 trade stalls of 04 bus halts leased out by the Road Passenger Transport Authority existed by the end of the year under review.

## Failure in evacuating the unauthorized occupants in State Lands

- It was reported that there were about 712 unauthorized occupants in State lands and Reserves within the area of authority of Divisional Secretariat, Negombo by the end of year 2015. Out of them 444 had been unauthorized occupants since before the year 2000. Further, the period of unauthorized occupation of 44 persons had not been identified.
- The land named Gallenayalanda in extent of 11 acres and 26 perches in the Grama Niladhari Division, 800/B, West Dodamgoda North in the Dodamgoda Divisional Secretariat which belongs to the Provincial Council had been sold by the

lessor to 20 persons by preparing bogus deeds. Therefore, the Provincial Commissioner of Lands by the letter dated 23 September 2014 had informed the Divisional Secretariat to cancel the lease in terms of State Land Order 214. Nevertheless, the lease had not been cancelled even by the instance of audit in June 2016.

### **Non-utilization of constructions and equipment purchased for the Project**

The project for furniture finishing at Delthara, Piliyandala implemented under the Industrial Development Authority had been commenced in the year 2012 and a sum of Rs.2.58 million had been spent on constructions and equipment. Those assets had not been utilized to fulfill the objectives of the project even by the end of the year 2015.

### **Fruitless Expenditure**

Construction of the Eththukala Coast Garden in Negombo had been commenced by the Tourism Board in the year 2010 and a sum of Rs.165.92 million had been spent by the end of year 2015. That garden had not been used for any effective purpose even by the end of year 2015.

### **Revenue not credited to the Provincial Council Fund**

Four cheques valued at Rs.1.69 million as the registration fees for private

medical centers for the years 2011 and 2012 had been granted to the Provincial Director of Health Services by the Private Medical Services Regulatory Commission. Nevertheless, those cheques had not been credited to the Provincial Council Revenue by the Provincial Director of Health Services. Further, the particulars of activities carried out by the Provincial Director of Health Services by utilizing those funds had not been made available to audit.

### **Implementation of Electricity Generating Projects through Waste**

- An agreement had been entered into with a private institution in the year 2011 for the commencement of Karadiyana Electricity Generating Project through Waste planned to be implemented by the Waste Management Authority. This project had come to a standstill by the end of year 2015.
- A land within the area of authority of Kaduwela Divisional Secretariat had been vested by the Waste Management Authority in the year 2012 for an Electricity Generating Project through Waste. Even though a sum of Rs.1.37 million had been spent as the expenditure on water, electricity and security services of that land even by the end of year 2014, the project had not been implemented even by that date.

## **Non- function of the Aqua Culture Project**

The Ministry of Fisheries, Roads, Transport, Cooperative Development and Trade, Housing and Construction, Estate Infrastructure, Industry and Rural Development had commenced the Aqua Culture Center at Pitipana by spending a sum of Rs.29.92 million from the year 2010 up to the end of 2014. Sixty eight

fish breeding tanks constructed at a cost of Rs.6.00 million and laboratory equipment purchased at a cost of Rs.1.32 million out of the said expenditure were decaying due to non-utilization. Further, an unauthorized fish drying hut was being maintained in a land with an extent of approximately 35 perches in this premises while its waste was being disposed to the nearby lagoon.

## **Central Provincial Council**

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A revenue amounting to Rs.33,584.62 million had been collected and an expenditure amounting to Rs.31,785.94 million had been incurred by the Central Provincial Council in the year 2015. Further, an investment of Rs.1,264.48 million had also been made in the year 2015. The material and significant observations made during the course of audit carried out in this connection are given below.

### **Utilization of Provisions of the Ministry of Economic Development without a proper Approval**

A sum of Rs.7.13 million out of the project funds of the Ministry of Economic Development had been granted in the years 2014 and 2015 for the development of playground and the preparation of walking tracks at Janasavigama belonging to the Kundasale Pradeshiya Sabha considering as the assets transferred from the Mahaweli. A total of Rs.10.42 million including a sum of Rs.3.29 million from the Provincial Council funds had been spent on the development activities of the playground. The Chief Secretary of the Central Province has sought the approval of the Finance Commission to develop this playground from the project funds of the Ministry of Economic Development. Nevertheless, it was informed that the approval could not be given as provisions had been made for the assets transferred from

the Mahaweli by the Ministry of Economic Development and as this project does not come under it. However, expenditure had been incurred by the Provincial Council without such an approval.

### **Purchase of 3,000 Sportswear sets for School Girls and Boys**

According to the Procurement Plan of the year 2015, a provision amounting to Rs.3.00 million had been made to the Director of Education of Central Province to provide 2,400 sportswear sets for school girls and boys who participate in all island sports meets. Out of the above provision, a sum of Rs.2.93 million had been spent on the purchase of 3,000 sportswear sets for school girls and boys and coaches. Those sportswear sets had been provided in two instances, that is after 66 days and 89 days since the close of all island sports meet. It had been failed to provide sportswear sets to the school girls and boys on time due to the weaknesses in the procurement process.

### **Teacher Training Work Shops held in Thailand and Philippines**

Twenty three officers of the project staff had participated in a training workshop for the school based management and school based teacher development held in Thailand and Philippines by spending a sum of Rs.24.23 million out of the funds of Transforming

School Education as the Foundation of Knowledge Hub Project (TSEP) by the Education Department of the Central Province. Even though the officers with previous experience on teacher training and with the ability of imparting of knowledge gained and who are directly related to the project should be made to participate in this work shop, it had not been so done. Further, another 23 officers related to the project had been made to participate, thus the expected objective had not been fulfilled. As a result, a sum of Rs.24.23 million spent therefor had become a fruitless expenditure.

### **Supply and Installation of Generators**

The Chief Secretary's Office of the Central Province had paid a sum of Rs.31.30 million to the Ceylon Electricity Board on 28 January 2013 for the supply and installation of 02 generators with the capacity of 300KVA and 400KVA to the Central Provincial Council Complex. The generator with a capacity of 300KVA valued at Rs.14.72 million had not been installed despite an elapse of 02 years and 04 months by 05 June 2015 since the payment. Even though the Ceylon Electricity Board had violated the conditions of the agreement entered into by the Provincial Council and the Ceylon Electricity Board, no action whatsoever had been taken by the

Central Provincial Council in this connection.

### **Construction of a Retention Center for Girls**

The Ministry of Health, Indigenous Medicine, Social Welfare and Probation and Child Care Services of the Central Province had spent a sum of Rs.10.14 million on the construction of a retention center for girls at Weralawaththa, Udunuwara. The building had been constructed not in the recommended place but in a place close to a paddy field with slopes and mud without carrying out a soil sample test. Therefore, the building and the security wall had developed cracks and sunken, thus the building had become unsafe. The above expenditure included an additional sum of Rs.1.37 million spent on the construction of security walls due to the location not recommended. This building had not been used as a retention center even by December 2015 when the audit was carried out.

### **Second Health Improvement Programme**

Out of the provision of Rs.355.00 million made under the Second Health Improvement Programme of the Health Department of the Central Province, a sum of Rs.103.52 million or 29 per cent of the provision had been saved after the utilization by the end of the year under review. Nevertheless, those savings had been brought to account as expenditure and retained in the General Deposit Account.

## **Non-implementation of the Programme of Sterilization of Dogs**

A provision amounting to Rs.15.00 million had been made for the Programme of Sterilization of Dogs under the Ministry of Health, Indigenous Medicine, Social Welfare and Probation and Child Care Services of the Central Province in the year under review. The entire provision made had been saved due to non-utilization of the relevant programme.

## **Actions deviating from the Procurement Procedure**

The contract had been awarded to the previous supplier again without calling for bids for a period of 10 ½ months up to 29 May 2015 since the expiry of security service agreement of the Road Development Authority of the Central Province on 15 July 2014. The Authority

had spent a sum of Rs.4.33 million in this connection.

## **Confirmation of Casual Employees contrary to the Circular Instructions**

The casual employees who have completed a minimum service period of 180 days as at 24 October 2014 could have been confirmed in terms of Paragraph 5 of the Public Administration Circular No.25/2014 of 12 November 2014. Nevertheless, 73 employees who have not completed a service period of 180 days had been confirmed in the service by the Road Development Authority of the Central Province contrary to the Circular while they had been paid salaries amounting to Rs.26.55 million for the year 2015.

# **North Central Provincial Council**

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The North Central Provincial Council had collected a revenue amounting to Rs.2,818 million while an expenditure totalling Rs. 14,903 million had been incurred in the year 2015. Further, an investment of Rs.2,585 had been made in the year 2015. The material and significant observations made during the course of audit carried out in this connection are given below.

## **Uneconomic Salaries and Allowances paid to the Excess Staff**

There were 1,050 and 828 vacancies in the academic staff (Principal, Vice-principal and teachers) and non-academic staff respectively at 789 provincial schools in the North Central Province. Teaching and learning activities of schools could not be carried out as expected due to those vacancies existing in the academic and non-academic staff. The monthly payment of salaries and allowances made to the staff in excess, pertaining to 110 posts in the non-academic staff had become uneconomic.

## **Expired and Substandard Drugs**

732,407 items belonging to 110 categories of drugs valued at Rs.1.43 million existed in 04 Regional Hospitals of Department of Provincial Health Services and in a Health and Primary Medical Care Unit in the Anuradhapura District which were identified as expired and substandard had been disposed.

## **Insurance of 73 Motor Vehicles for a Value exceeding the Market Value**

Bids had been called for insurance of 73 motor vehicles with the invoice value of Rs.216.02 million, purchased in the year 2015 excluding customs duty by the North Central Province. The Chief Secretary had paid the cost, insurance and CIF value to insurance companies without confirming their market value from motor vehicle suppliers. The insurance companies which had submitted those quotations, had submitted their quotations by showing various market values. Those 73 motor vehicles had been insured for the market value of Rs.509.35 million exceeding the total value of Rs.450.51 million including the invoice values, customs duty and other payments of motor vehicles by a sum of Rs.58.84 million.

## **Elimination of the Loss from Books**

Forty five persons including the Hon. Members of the Provincial Councils and Officers had planned to visit countries such as Thailand and Korea in the year 2013 without obtaining the approval of His Excellency the President. Advances of Rs.7.92 million had been paid for this foreign tour in the year 2013 to an institution by which foreign tours are organized. A sum of Rs.3.92 million of the said advances could not be recovered due to suspension of the

above tour by His Excellency the the North Central Province had appointed a Committee to examine this matter. That Committee had recommended that the officers were not responsible for the loss as there was no requirement of obtaining the approval of His Excellency the President for the above tour. Accordingly, the loss of Rs.3.92 million had been written off from the relevant registers on 31 December 2014.

### **Weakening of the Procurement Procedure**

The Provincial Department of Agriculture had called for bids to purchase 365 mats for threshing floors and to provide them to farmers in the year 2015. Accordingly, the supplier who had submitted minimum quotations of Rs.4,180, had submitted a sample of 4'x 4' in size in compliance with all specifications instead of a full mat for threshing floor in 20' x 20' in size. However, a financial loss of Rs.1,011,050 had occurred due to purchase of 365 mats for threshing floors at the rate of Rs.6,950 which was the next quotation, by rejecting the minimum quotation without obtaining a full mat for threshing floor as samples after

President. The Chief Secretary of discussions with that supplier, according to the Government Procurement Guidelines.

### **Unauthorized Constructions carried out by External Parties**

An unauthorized construction of a permanent air conditioned building with an extent of 40 x 30 feet had been carried out at the Kekirawa junction in Kahatagasdigiliya by an external party on a land with an extent of approximately one acre belonging to the Department of Agriculture where the official quarters of the Agricultural Instructor is located. Moreover, another unauthorized construction of a permanent building with an extent of 60 x 40 feet was being carried out and it had been abandoned at present.

### **Non-presentation of Copies of Contract Agreements to Audit**

Out of the copies of contracts entered into in respect of contract projects carried out annually by institutions belonging to the Provincial Council, a copy had not been presented to the Auditor General. According to the examination carried out in the year 2015 in respect of 03 institutions of the Provincial Council, copies of contracts relevant to 455 contract projects to the agreement value of Rs.0.92 million, had not been presented to audit.

## **Southern Provincial Council**

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A revenue totalling Rs. 26,804 million comprising a sum of Rs. 20,382 million from Government grants and a sum of Rs. 6,422 million from internal sources had been estimated for the year 2015 by the Southern Provincial Council. A total of Rs. 26,804 million comprising a sum of Rs. 21,757 million as recurrent expenditure and a sum of Rs. 5,047 million as capital expenditure had been estimated to be utilized in the year 2015. As such, revenue totalling Rs.30,243 million comprising a sum of Rs. 23,939 million from Government grants and a sum of Rs.6,304 million from internal sources had been collected in the year 2015. A total of Rs. 28,239 million comprising a sum of Rs. 25,626 million as recurrent expenditure and a sum of Rs. 2,613 million as capital expenditure in the year 2015.

Material and significant audit observations made during the course of audit carried out in the year 2015 relating to the Southern Provincial Council are summarized and given below.

### **Non-implementation of Projects**

Works of 101 projects estimated at Rs.175 million proposed to be

implemented under Provincial Specific Development Grants, 41 projects estimated at Rs.39.39 million proposed to be implemented under Criteria Based Development Grants and 284 projects estimated at Rs.19.57 million proposed to be implemented under Criteria Based Development Grants – provisions for Members in the year under review, had not been commenced even by the end of the year 2015.

### **Overpayment of Salaries and Allowances**

Salaries and allowances totalling Rs.5.16 million had been overpaid by 31 December 2015 due to paying salaries to 42 Watchers newly recruited by the Southern Provincial Department of Industrial Development, placing them on the 12<sup>th</sup> step without placing on the initial salary step of the prescribed salary step.

### **Collecting Arrears of Revenue**

Total revenue of Rs.716.46 million mentioned in Table 19 as at the end of the year 2015 had been in arrears.

Type of Revenue	Balance of Arrears as at 31 December 2015
	Rs. Millions
<b>Turnover Tax</b>	47.23
<b>Mineral Tax</b>	9.92
<b>Drugs and Chemicals Tax</b>	2.21
<b>Stamp Duty</b>	657.10
<b>Total</b>	<b>716.46</b>

Table 19 – Arrears of Revenue in the Southern Provincial Council

Source – Reports on arrears of revenue in the Southern Provincial Department of Revenue. Accordingly, arrears of revenue had been unsatisfactory.

### Project of construction of the Southern Provincial Sports Centre and Playground

Provisions of Rs.142.40 million had been made from the year 2001 up to the year 2016 for the project of constructing the Southern Provincial Sports Centre and Playground located at Makurugoda in Baddegama. Out of that, a total of Rs.59.96 million had been spent. The following deficiencies were observed in this connection.

- Out of the provisions of the Rs.40 million made in the year 2012, a sum of Rs.26.43 million had been retained in the General Deposit Account at the end of the year 2012 without spending for the project. Out of that amount, a sum of Rs.22.29 million had been retained in the General Deposit Account even by 30 June 2016.
- Constructions were at a very weak level from the commencement of the project and the contractor had

not submitted bills whatsoever in the years 2015 and 2016. Even though 15 years had lapsed after commencing the project, intended objectives of the said project could not be achieved and benefits from the spent amount could not be gained as well.

### Non-acquisition of Land with an extent of 16 acres by the Provincial Council

A sum of Rs.0.80 million had been deposited in the Baddegama Divisional Secretariat in the year 2001 for acquisition of the land with an extent of 16 acres owned by the Land Reform Commission and that amount had been retained in that account even by the year 2016. Even though the Chief Government Valuer had issued a valuation of Rs.31.50 million in the year 2008 for that land, action had not been taken to pay the relevant amount and acquire that land even by 30 June 2016.

## **Works of Development of Internal Roads**

Despite not having used metal of 100 mm in size in the modernization of road sections under the Phase No.05 and No.06 in the works of development of internal roads at the Charlemoun Karmanthapura, Weligama, a sum of Rs.0.41 million had been overpaid by the Southern Provincial Development Authority by certifying that the metal had been used. The expenditure of Rs.1.69 million incurred for the development of those two sections of road had become fruitless as the road was constructed without proper Standard by laying tar using only metal of 37.5 mm and 19 mm in size without using metal layer of 100 mm in size.

## **Denuwala Tourist Resort**

A total of Rs. 15.54 million comprising Rs. 14.31 million for constructing the Denuwala Tourist Resort belonging to the Ruhunu Tourist Bureau and purchasing materials and Rs. 1.23 million for maintenance, administration and security services had been spent from the year 2010 to the year 2015. No contribution whatsoever had been received therefrom to the tourism industry even by 31 December 2015.

## **Maritime Archeology Tourist Pilot Project**

A total of Rs. 6.34 million had been spent for purchase of equipment, publicity and payment of salaries for employees from the year 2011 to 2014 under the Maritime Archeology Tourist Pilot Project of the Ruhunu Tourist Bureau. However, those equipment had not been used in any effective purpose whatsoever even by the end of the year 2015. Moreover, expected results had not been received from the expenditure incurred due to non-receipt of any revenue whatsoever therefrom.

## **Appointments given to Persons who had submitted False Documents**

It had been identified at the beginning of the year 2015 that there were 76 persons who were serving in the Southern Province, being appointed to the Principals' service, Teachers' service and other services by submitting false documents (forged documents).

## **Delay in the completion of Disciplinary Inquiries**

According to the disciplinary inquiries held, 05 persons had been acquitted on the said charges and the service of another 12 persons had been terminated. Disciplinary inquiries relevant to 59 persons had not been completed and a sum of Rs.16.29 million had been paid to 39 persons out of them as salaries and allowances in the year under review.

## **Certifying the Deed of Sale for a value less than the Value of the Certificate of Opinion**

A land which had been given an opinion survey (Certificate on the value for stamp duty) for a value of Rs.7.08 million by the Southern Provincial Department of Revenue on 16 October 2014, had been exchanged after 08 days, that is 24 October 2014 for Rs.0.60 million and Rs.7.08 million through two Deeds of Sale with two adjacent numbers by the same lawyer. Stamp duty amounting to Rs.0.26 million had been deprived of to the Government due to certifying a Deed of Sale for a value less than the value of the certificate of opinion and the stamp duty relevant to the deed of sale with the specific price had been released by the Provincial Commissioner of Revenue without a proper approval.

## **Leasing out the State Lands**

- Arrears of lease and fines amounting to Rs.2.49 million and Rs.0.91 million from 22 lessees for leasing out the State Lands of 06 Divisional Secretariats on long term lease basis and from 466 annual permit holders of 03 Divisional Secretariats in the District of Galle had to be recovered respectively as at 31 December 2015.
- Action had not been taken even by 31 December 2015 to recover long term lease and arrears of fines

amounting to Rs.7.57 million from 13 lessees of Divisional Secretariats such as Tangalle and Tissamaharama.

- Business activities had been carried out without paying revised license fees, delay charges and license fees for the year 2015 totalling Rs.12.14 million recoverable for 39 liquor licenses granted to 27 license holders within the area of authority of 05 Divisional Secretariats in the District of Galle.
- Even though 19 telecommunication towers had been erected by 06 private telephone companies on 19 plots of State lands located in 03 Divisional Secretariats in the District of Galle and commenced transmission activities, relevant lease thereon had not been paid to the Government.

## **Payment of Salaries and Allowances without obtaining any Contribution**

A female teacher of a school in Matara attached to Jathika Saviya, Gama Neguma purposes from 26 July 2009 up to 31 December 2014 had obtained a sum of Rs.1.77 million as salaries and allowances for that period without reporting for duty at the relevant school and making any contribution whatsoever to the Southern Provincial Education Service.

## **Eastern Provincial Council**

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A revenue totalling Rs.22,917 million comprising a sum of Rs.20,202 million from Government grants and a sum of Rs.2,715 million from internal sources had been estimated for the year 2015 by the Eastern Provincial Council. A total of Rs.23,071 million comprising Rs.20,202 million for recurrent expenditure and Rs.2,869 million for capital expenditure had been estimated to be utilized in the year 2015. Accordingly, a revenue totalling Rs.22,863 million comprising Rs.20,158 million Government grants and Rs.2,705 million from internal source had been collected in the year 2015. A sum of Rs.22,530 million comprising Rs.19,896 million for recurrent expenditure and Rs.2,634 million for capital expenditure had been utilized in the year 2015.

Material and important audit observations made during the sample audit carried out in the year 2015 relating to the activities of the Eastern Provincial Council are given below.

### **Recovery of Arrears of Lease income**

Lease income from government lands totalling Rs.174.58 million relating to 5 Divisional Secretariats had remained unrecovered from the year 1991 up to 31 December 2015.

### **Construction Houses According to the Housing Development Plans**

According to the Housing Development Plan of the Provincial Housing Authority, it was expected to construct 5,000 houses at the total estimated cost of Rs.2,450 million during the year 2015. However, no house had been constructed during the year 2015.

### **Supply of a Star Mortuary Cooler**

A contract to supply a Blue Star Mortuary Cooler had been awarded to a contractor and paid a sum of Rs.2.39 million to the contractor without a bid security on 31 December 2015. However, the relevant item had not been supplied even up to 26 July 2016.

### **Expired Drugs**

Forty nine medical institutions functioning in the Province had obtained drugs at a cost of Rs.7.59 million exceeding the actual requirement, thus those drugs had expired by now.

### **Substandard Drugs**

A large stock of substandard drugs valued at Rs.4.29 million had remained at the stores as at 31 December 2015. No action had been taken with regard to those drugs.

### **Laptops and Fax Machines**

Former members of the Provincial Council had obtained 21 laptops and 21 fax machines valued at Rs.3.85 million during the period 2008-2011. However,

Those laptop and fax machines had not been returned up to 26 August 2016.

### **Idle Sewing Machines**

Fifty seven sewing machines purchased at a cost of Rs.1.95 million on 31 December 2015 had remained idle even up to 31 August 2016 due to non-completion of construction works of the sewing Centre.

### **Purchase of Britol Fiber Machines**

Two britol fiber machines purchased at a cost of Rs.1.22 million in the year 2014 had remained idle even up to 31 August 2016 without utilizing for the intended purpose.

### **Construction of a Training Centre for Disable Persons**

A training Centre for disabled persons constructed at a total cost of Rs.16.86 million during the year 2015 had remained idle even up to 31 August 2016 without utilizing for the intended purpose.

### **Road Construction Machines lying idle**

Forty nine types of machines valued at Rs.140.28 million belonging to the Road Development Department used for road construction works had remained idle for over 05 years without taking action to repair and use or sell those machines by auctioning.

### **Collection of Money from Students and Parents**

Principals in six schools in the Ampara and Batticaloa districts had collected funds totalling Rs.4.79 million from the students for admission to General Certificate of Education (Advance Level) and Grade 1 classes even though collection of money from students or parents is completely prohibited by the Government.

### **Vacancies And Excesses of Teachers**

Four hundred and forty seven teachers were in excess in the schools of Ampara district whereas 152 vacancies for teachers existed in the schools of Batticaloa and Trincomalee districts. Failure to properly implement the transfer policy of teachers in the Province had resulted in these vacancies and excesses.

### **Loans obtained by former Members of Provincial Councils**

Former members of the Provincial Council had defaulted the payment of loan installments and interest totalling Rs.1.02 million for more than 04 years.

### **Retaining the Cheques written in favor of suppliers**

The balance amount remained at the end of the year out of the funds received during the year 2015 from the Second Health Sector Development Project to carry out activities on Health Sector Development Programme should

have been returned to the Project Office.

However, 32 cheques valued at Rs.98.83 million were drawn on 31 December 2015 in the names of several suppliers and retained at the office even up to 13 January 2016 even though no transactions were taken place with those suppliers. Accordingly, the money remained as at the end of the year had not been returned to the Project office in terms of relevant provisions.

### **Sitting for the General Certificate of Education (Ordinary Level) Exam**

Three schools in the Batticaloa district had not allowed 83 students to sit for G.C.E O/L Examination in the year 2015 in order to maintain the higher rate of percentage of passes in the examination as compared to other schools in the district. This practice had badly affected the higher education of the relevant students.

## **Northern Provincial Council**

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The Northern Provincial Council had estimated an income amounting to Rs.18,591 million for the year 2015 which consist of Rs.16.268 million from the Government Grant and Rs.2,323 million from other internal sources of income and out of the estimated income it was expected to spend a total sum of Rs.21,350 consisting of Rs.18,591 million for recurrent expenditure and Rs.2,759 million for capital expenditure. However, total expenditure aggregating Rs.20,904 million consisting of Rs.18,373 million for recurrent expenditure and Rs. 2,531 million for capital expenditure had been incurred during the year 2015 out of the income aggregating Rs.21,047 million recovered for the year 2015 consisting of Rs. 18,815 million from the Government Grant and Rs. 2,232 million from other internal source of income.

Important audit observations for the year 2015 relating to the activities of the Northern Provincial Council are given below.

### **Tabling of Auditor Generals Reports in the Assembly of the Provincial Council**

Even though the elected in Northern Provincial Council was established on 25 October 2013the Auditor General's reports of the Northern Provincial

Council for the years 2007 to 2014 (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.

### **Governor's Trust Fund**

The Governor's Trust Fund of the Northern Province had been established without either a memorandum passing by the Northern Province or statue passed by the Provincial Council for the creation of fund.

The Governor's Trust Fund for Northern Provincial Council had been operated with effect from 01 January 2007. In terms of Paragraph 03 of the Governor's Memorandum No. 01/2007 dated 01 January 2007, the Governor's 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 contributions 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 (03 months) had been rendered to audit on 24 April 2015. Although a sum of Rs.140.90 million had been kept in the Governors Trust

Fund for the year 2015. Even though Governor's Trust Fund had been generated from the Provincial Fund 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.

### **Action on Losses**

Action had not been taken in terms of Financial Regulation on losses aggregating Rs.48.96 million shown in respect of 30 items of the Northern Provincial Council.

### **Idle / Under Utilized Assets**

It was observed that 32 development works such as children park, markets, bus stand, shopping complex, training center and cultural hall, etc. carried out at a cost of Rs. 459.9 million in Northern Province had remained idle over two years as such construction works made in remote and civil populated area under Puraneguma Project.

### **Unrecovered Dues**

It had failed to take to recover Rs.46.07 million loan credit balances due from the beneficiaries of the Center for Livelihood Credit Management services in Northern Province Project.

### **Payments made without execution of Supply of Goods and Services**

The Provincial Council had been written 32 cheques valued at Rs.47.3 million on which the supply of goods or Services had not been executed or not completed the work so done.

### **Construction of MOH & Divisional Hospital**

Large extent of state land available for the Construction of MOH and Divisional Hospital at Poonerin Kilinochchi a sum of Rs.3.75 million released by the Provincial Council to acquire private land had been kept in deposit account at District Secretariat, Kilinochchi on 31 December 2011. In this connection, meaningful action had not been taken even by the year 2015 to acquire the land and settle balance money to the Provincial Council, by the District Secretariat Killinochchi.

Although the Provincial Public Accounts Committee issued the directive to solve that problem immediately. No action had been taken to refund the money to Provincial Council by the District Secretariat, Kilinochchi.

### **Over Payment of Salary and Allowance**

Meaningful action had not been taken to recover Rs.3.75 million over payment of salaries made to the re-employed officers of the Provincial Council staffs in 2012.

### **Purchase of Office Equipments without Budgetary Provisions.**

Aggregating Rs.7.5 million of expenditure made by the Provincial Council Secretariat to purchase of office equipments without procurement procedure and the budgetary provision.

## **Sabaragamuwa Provincial Council**

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A revenue totalling Rs. 22,800 million comprising a sum of Rs. 19,760 million from Government grants and a sum of Rs. 3,040 million from internal sources had been estimated for the year 2015 by the Sabaragamuwa Provincial Council. A total of Rs. 22,800 million comprising a sum of Rs. 18,040 million as recurrent expenditure and a sum of Rs. 4,760 million as capital expenditure had been estimated to be utilized in the year 2015. As such, revenue totalling Rs. 25,066 million comprising a sum of Rs. 21,508 million from Government grants and a sum of Rs. 3,558 million from internal sources had been collected in the year 2015. A total of Rs. 24,826 million comprising a sum of Rs. 20,858 million as recurrent expenditure and a sum of Rs. 3,968 million as capital expenditure had been incurred in the year 2015.

Significant audit observations made during the course of audit carried out in the year 2015 relating to the Sabaragamuwa Provincial Council are given below.

### **Unnecessary Delay in Remittance of Revenue collected from Divisional Secretariats**

The money collected on behalf of the Provincial Council should have been remitted to the Provincial Council in terms of Financial Rule 117.4 of the Code of Financial Rules of the

Sabaragamuwa Provincial Council. However, revenue of Rs. 101.50 million collected by the Divisional Secretariats in the district of Ratnapura had been retained in the Bank Current Account even by 31 December 2015 without remitting to the Provincial Council. Money which can be utilized for the development of the province had remained idle even by the end of the year in the Bank Current Account without any interest whatsoever.

### **Non-distribution of Exercise Books purchased for Distribution among School Children**

According to a proposal of a Member of the Provincial Council, 54,719 single ruled exercise books of 80 pages had been purchased in December 2014 by spending a total of Rs. 1.18 million by the relevant Divisional Secretariats for distribution among children of low income families in the Divisional Secretariat Divisions of Elapatha, Kahawatte and Kalawana under the Criteria Based Funds of the Provincial Council. The District Secretary of Ratnapura had refused the distribution of those books through the Divisional Secretariats and handed them over to the Secretary of the Provincial Council in April 2015 due to printing of the outer cover with photographs of the political authority contradictory to the order of the relevant Divisional Secretariats in the printing of the exercise books.

All the books had been retained in the stores of the Provincial Council even by 15 June 2016.

### **Awarding of Prizes purchased by the Provisions of the Provincial Council**

Seventy mobile phones, 105 digital cameras, 40 cordless phones, 68 blue ray players and 45 fax machines had been purchased by spending a sum of Rs. 4.24 million out of the recurrent provisions made to the Secretary's Office of the Provincial Council and distributed as personal gifts from the Chairman to the Ministers and Members of the Provincial Council, staff of the Council Secretariat, Staff Grade Officers of the Chief Secretary's Office and media personnel in the years 2013, 2014, and 2015.

### **Purchase and Distribution of Huts**

One thousand and fifty huts had been purchased by spending a sum of Rs. 33.75 million under Object of Training and Capacity Building of the Chief Secretary's Office. The following deficiencies were observed in this connection.

- Huts had been taken over and distributed to funeral aid and other welfare societies without examining the quality in terms of Guideline 8.12.1 of the Government Procurement Guidelines.
- The bid of the bidder with the minimum quotation had been

rejected due to failure in using additional plaster to prevent leakage of water. Accordingly, the contract had been awarded to the bidder who had submitted the second minimum quotation, which had mentioned the fulfilling of that requirement. However, additional plaster had not been used for the huts purchased from the bidder who submitted the second minimum quotation and a loss of Rs. 2.86 million had occurred due to failure in considering the minimum quotation.

- A third party with experience in the subject had assessed the value of a hut as Rs. 19,330. As such, a sum of Rs. 11.22 million had been overpaid for all the huts.

### **Deprivation of Revenue received to the Provincial Council by fraudulently changing Receipts issued and Registers**

A fee of 1 per cent on the annual value of the property or the value of the deed should have been charged in issuing assessment numbers and revising the names in the assessment registers for a property located within the area of authority of the Ratnapura Municipal Council. A revenue totalling Rs.2.31 million had been deprived of to the Fund due to the officers acting without responsibility and fraudulently changing receipts issued and registers maintained in the Council and omitting details of registers.

## **Making Payments for Works not fulfilled by the Contractor**

The marshy land near the Madampe junction on the Ratnapura- Embilipitiya Main Road within the area of authority of the Council had been acquired to the Government by the Godakawela Pradeshiya Sabha. Thereafter, an agreement had been entered into with a farmers' organization to fill the relevant land with soil and develop it, as an initial step of developing it as a fish trade centre. A private company had reclaimed the land by removing and transporting the soil from their work site to this place and the contract society had submitted fake details that those works had been fulfilled by the relevant society. As such, a sum of Rs. 10.00 million had been paid by the Council to the relevant contract society for work not done.

## **Failure in obtaining the Approval of the Minister in charge of the Subject for Functions which should be fulfilled in addition to the Provisions of the Act**

Even though the approval of the Minister in charge of the subject should be obtained for purposes outside the matters for which funds of the Pradeshiya Sabha can be applied, cited in Section 132 of the Pradeshiya Sabha Act No.15 of 1987, the Warakapola Pradeshiya Sabha had spent a sum of Rs. 4.33 million in the year 2015 without such an approval.

## **Increase of the loan limit granted to Members of Provincial Councils without notifying the Ministry**

The maximum loans which can be granted had been limited to Rs. 250,000 with a view to establishing a uniform system by eliminating of differences existing in the loan schemes implemented to grant loans to the Members of various provincial councils in terms of the Provincial Councils Circular and Local Authorities No.01/2001 of 28 March 2001 issued with the concurrence of the President's Office and the Treasury. However, that loan limit had been increased up to Rs. 672,000 by the decisions of the Cabinet of Ministers of the Sabaragamuwa Provincial Council dated 07 November 2012 and 23 April 2014 without notifying or consulting the Ministry of Provincial Councils and Local Authorities.

## **Conducting Conferences etc. in Hotels without heeding the Provisions in the Circulars**

Ministries, Departments and Government Institutions should not select hotels for conducting their meetings, conferences and workshops in terms of Letter No. CSA/P1/40 dated 28 February 2007 of the Secretary to the President. Even though it was mentioned that hotel charges payable for food and lodging on local tours should not be settled with Government money, contrary to that

- The Department of Sports Development had paid a total of Rs. 1.11 million to private hotels for 03 conferences held in the year 2015.
- The Council Secretariat had paid a total of Rs. 7.77 million to private hotels in 04 instances during the period from the year 2013 to the year 2015. An additional expenditure totalling Rs. 1.35 million had been incurred for fuel, daily allowances, travelling expenses and vehicle hiring charges due to conducting workshops outside the area. A sum of Rs. 2.68 million had been spent for additional room charges due to failure in accurately confirming the number of participants.
- It had been informed that the Cabinet of Ministers had decided to stop the printing of diaries and calendars since the year 2016, printed by all Government Institutions, including Government companies and Statutory Boards for free distribution among the public, employees and other parties obtaining services in terms of National Budgetary Circular No.4/2015 of 02 October 2015 of the Secretary to the Treasury. Nevertheless, contrary to that Circular, the Council Secretariat had printed diaries costing Rs. 1.79 million and distributed in the year 2016.

### **Buses made to run without obtaining Passenger Transport Licences and Monthly Log Sheets**

Five buses owned by a former Chairman of the Sabaragamuwa Road Passenger Transport Authority had been made to run without obtaining passenger transport licences and monthly log sheets and a sum of Rs.1.00 million had not been charged therefor from the year 2010 to 31 December 2015.

### **Non-implementation of Training and Capacity Building Programmes**

Even though provisions amounting to Rs.5.00 million had been made for training and capacity building by the Annual Budget of the year 2015 of the Governor's Secretariat, out of that, a sum of Rs.1.94 million had been spent to purchase books and distributed among institutions including Dhamma schools, libraries and urban councils and various persons in the province in the year 2015 contrary to that objective. Out of the total provisions, 61 per cent had been saved by the end of the year 2015. Moreover, out of the provisions made for training and capacity building under the Regional Development Plan of the Chief Secretary's Office for the year 2014, a sum of Rs. 6.32 million had been spent for providing 04 laptop computers, 13 tablet computers and 27 mobile phones for 44 Hon. Members of the Provincial Council on 31 December 2014.

Provisions made for training and capacity building had been spent for an unintended purpose and equipment purchased had been issued to the relevant Members without entering them in the Registers of Assets and without any condition whatsoever.

### **Purchase of Sports Goods and Deficiencies in Distribution**

It had been planned to select sportsmen and sportswomen in all youth clubs in the district of Ratnapura and provide cricket and volleyball equipment for them and 575 sets of sports equipment had been purchased by spending Rs. 1.72 million on 31 December 2014. The officers of the Technical Evaluation Committee had not examined whether those sports goods purchased had been in accordance with the specified standards. Out of the goods taken over, goods valued at Rs. 1.47 million had been handed over to a Member of Provincial Council. Those sports goods had been stored in the house of the relevant Member and out of them, no goods whatsoever had been distributed even by 01 March 2016. A shortage of 07 volleyballs valued at Rs. 22,750 stored in the stores of the Main Ministry and 06 volleyball nets valued at Rs. 14,940 stored at the house of the relevant Member was revealed at the physical verification carried out in respect of the aforesaid sports goods.

### **Non-utilization of Belihuloya Tourist Centre by the Public**

The Belihuloya Tourist Centre of which constructions had been completed on 15 February 2015 by spending Rs. 7.99 million with a view to facilitating food, information and sanitation for tourists who travel via Belihuloya, had not been utilized by the public for over a period of one year.

### **Non-utilization of Laptop Computers**

Twenty laptop computers granted on 30 December 2013 for computerization of the Out Patients Department and clinics of the Karawanella Hospital by the Information and Communication Technology Institutions, had remained in the Medical Director's Office without been made use of. This equipment had not been made use of even by 30 December 2015 and the guarantee period given for the computers as well had lapsed.

### **Non-commencement of the Intensive Care Unit in the Karawanella Hospital**

Even though an area with an extent of 900 square feet in the Karawanella Hospital premises had been allocated for the Intensive Care Unit and 2 ICU ventilators and three patient monitors with accessories valued at Rs. 4 million,

had been granted on 02 June 2012 and 02 June 2014 the Intensive Care Unit had not been commenced even by 30 December 2015 due to failure in providing the necessary staff.

### **Non-implementation of projects as planned by the Ministry of Provincial Road Development**

Provisions of Rs. 1,303.51 million had been made to the Ministry of Provincial Road Development for implementation of 1,106 projects in the year 2015 and out of that, 261 projects valued at Rs. 237.83 million had not been implemented.

### **Non-recovery of Delay Charges for Incompletion of the Project on due date**

The Chief Secretary had entered into an agreement with a private company on 05 December 2011 for the development of the Pallebadda- Bulutota Road in the district of Ratnapura under the Provincial Road Development Project through the funds granted by the Japan International Cooperation Agency.

According to that agreement, the date on which the work should be completed had been 04 April 2013. The entire financial loss occurred to the Government on the deprivation of delay charges recoverable as well as overhead expenditure and price variations that had to be incurred additionally due to an extension of 323 days permitted without any specific or reasonable basis whatsoever, amounted to Rs. 37.13 million.

### **Non-transfer of Teachers as per the Circular**

Even though the service period of teachers should be limited to 08 years in one school in terms of Circular No.2007/20 of 13 December 2007 of the Secretary to the Ministry of Education, contrary to that 1,295 teachers of 129 schools in the Mawanella Zone had served in the same school from 08 years to 36 years. Moreover, 922 teachers of 181 provincial schools in the Dehiovita Educational Zone had served in the same school from 09 years to 28 years without obtaining transfers.

## **North Western Provincial Council**

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A revenue totalling Rs.27,700 million comprising a sum of Rs.21,525 million from Government grants and a sum of Rs.6,175 million from internal sources had been estimated for the year 2015 by the North Western Provincial Council. A sum of Rs.24,417 million for recurrent expenditure and Rs.3,402 million for capital expenditure had been estimated to be utilized in the year 2015. Accordingly, a revenue totalling Rs.30,804 million comprising Rs.24,417 million from Government grants and Rs.6,387 million from internal sources had been collected in the year 2015. A sum of Rs.29,471 million comprising Rs.26,688 million for recurrent expenditure and Rs.2,783 million for capital expenditure had been utilized in the year 2015.

The significant audit observations relating to the activities of the North Western Provincial Council for the year 2015 are summarized and given below.

### **Purchase of Motor Vehicles without Provisions**

The approval had been granted to the Secretary to the Ministry of to purchase 08 Double Cabs and 02 Vans valued at Rs.68.40 million before making provisions by the Letter No. NWP/CS/F/2/1/BUD/5 of 13 August 2015 of the Deputy Chief Secretary to purchase motor vehicles.

### **Provisions made for fulfilling of Functions of the Institutions established by the Ordinances**

A sum of Rs.32.00 million had been provided as grants in the year 2015 for the statutory institutions under the purview of the Ministry of and those statutory institutions had invested those provisions without utilizing for fulfilling the relevant purposes. As such, the accumulated value amounting to Rs.74.57 million had been invested in fixed deposits by the end of the year 2015.

### **Non-utilization of Assets effectively**

The Yakarawatta Teaching Centre constructed by spending Rs.5.18 million by the Ministry of Education had been opened on 18 November 2012. The attention had not been paid on shortages revealed during the course of audit in that connection. Even though 03 years had lapsed after opening that building, the authorities of the education had not paid their attention to use it for an effective purpose.

### **Inadequacy of Desks, Chairs, Teachers' Tables and Chairs in Class Rooms**

A shortage of 27,604 desks, 29,697 chairs, 2,330 Teachers' tables and 3,015 Teachers' chairs existed in class rooms for school children in fulfilling the teaching activity

effectively in 184 schools belonging to 08 educational zones under the purview of the Provincial Department of Education.

### **Existence of Teacher Vacancies**

One hundred and four teacher vacancies for 15 subjects in Sinhala Medium in 67 schools, 15 teacher vacancies for 09 subjects in Advanced Level, Sinhala Medium in 09 schools and 66 teacher vacancies for 12 subjects in Tamil Medium in 17 schools existed.

### **Covering of Duties in the Posts of Principals of Appropriate Grade**

The low grade principals had performed the duties in place of principals of appropriate grade and Deputy Principals in 320 schools belonging to the 6 Educational Zones under purview of the Provincial Department of Education. Further, the Deputy Principal had performed in 90 schools for which the Principals are not required and the Deputy Principals had not performed in 66 schools where the Deputy Principals should serve.

### **Serving in the same School for over a period of 6 years**

Even though the maximum service period in one school belonging to the more convenient type of school had been shown as 6 in terms of paragraph 3.2 of Circular

Nos.FD/1/27/1/5/1/2007 and 2007/20 of 13 December 2007 of the Ministry of Education, according to the information obtained from 08 zones, 2565 teachers in 166 schools had served in the same school for over a period of 6 years.

### **Non-improvement in the Examination results of School Children**

Provisions amounting to Rs.11.42 million and Rs.12.25 million had been made for the Programme of improvement in service and results of schools of the Ibbagamuwa Zone in the years 2014 and 2015 respectively and out of that, provisions of Rs.9.38 million and Rs.9.87 million had been utilized respectively. However, no improvement had made in results of examination as compared with the expenditure.

### **Existence of shortages in the constructed Staff Rooms of Teachers**

Estimates of Rs.129 million had been prepared for the construction of Teachers' Staff Rooms. Even though provisions amounting to Rs.128.92 million had been utilized for 31 Teachers' Staff Rooms in the North Western Province, there were no opportunities to use those staff rooms for teachers due to shortages existing in the preparation of plans and estimates for Teachers' Staff Rooms.

## **Inactive Sewerage System in the Narammala District Hospital**

A sum of Rs.2.60 million had been paid in the year 2012 for the construction of Sewerage System in the Narammala District Hospital. In addition, a sum of Rs.79,252 as well had been spent for 02 motors and spare parts. Even though a period of 03 years had lapsed for this system, it is inactive at present. As such, the entire amount incurred for this project had become a fruitless expenditure.

## **Non-receipt of Benefits for the Public by constructing Entrances to the Fair**

Thirty one weekly fairs in the North Western Province had been constructed by spending a total of Rs.439.00 million at a rate of Rs.6.86 million. No estimated amount whatsoever had been allocated for testing of completed items. However, a sum of Rs.789,506 had been estimated for the plan relating to the entrance to the fair. No benefit whatsoever had been received to the people of the area by constructing that entrance by spending such an expense.

## **Financial Fraud committed in Giriulla Zonal Office**

Advances amounting to Rs.13.61 million made by the Provincial Treasury Deposit Account for the financial fraud committed in Giriulla Zonal Office, had

not been settled even by 31 December 2015. Even though the necessary legal action in respect of that financial fraud should be taken to recover that amount from the relevant parties and settled the advances, action had not been so taken by the Provincial Department of Education.

## **Printing of Classical Books of the Coffee Table Type**

Three hundred and thirty five classical books of the Coffee Table Type had been printed by spending Rs.2.9 million. Even though it had been mentioned that out of those books, 50 valued at Rs.500,000 had been handed over to the Wayamba Development Authority, those books had not been received to the Authority. Out of books which were not printed, 239 books valued at Rs.2.39 million which were not sold, had existed in the Authority.

## **Arrears of Revenue from Stamp Duties**

Out of the arrears of revenue of stamp duties based on the transfer of properties valued at Rs.76.55 million existed at the beginning of the year 2015, only a sum of Rs.23.25 million had been recovered in the year 2015. The arrears of revenue by the end of the year including the arrears of revenue of the year 2015 amounted to Rs.60.50 million.

## **Sluggishness in Recovery of Arrears of Turnover Tax**

Out of the arrears of turnover tax amounting to Rs.243.39 million existed in the Department of Provincial Revenue on 31 December 2010, a sum of Rs.38.52 million had been recovered by the end of the year 2015 in terms of Section 11 of Chapter VI of the Finance Ordinance No. 8 of 1990 of the North Western Provincial Council. Another sum of Rs.32.37 million had been released and recovery of arrears of tax amounting to Rs.172.50 million had been failed by the end of the year 2015.

## **Motor Vehicles and Machinery which remained idle**

Five motor vehicles and machinery valued at a total of Rs.10.19 million had existed on the premises of the Wayamba Machinery and Equipment Authority for over a number of years. Those assets had remained idle due to failure in taking action on minor services of those motor vehicles and machinery or failure in obtaining necessary spare parts for the services.

## **Special Project of commencement of Textile Villages**

Commencement of 4 villages under the Special Project of Commencement of Textile Villages for the year 2015 had been planned and provisions of Rs.4.92 million had been made thereon. Only

one textile village had been commenced even by December 2015. A stock of yarn valued at Rs.990,000 had been purchased in the year for 04 proposed textile villages and a stock of yarn valued at Rs.144,403 had been granted only for the Makul Wewa Textile Village by 31 December 2015.

## **Establishment of the Godawela Water Filtering Unit**

Provisions of Rs. 5.36 million had been made for the establishment of the Godawela Water Filtering Unit in the year 2015 and out of that, a sum of Rs. 2.68 million had been deposited on 31 December 2015 in the General Deposit Account. Out of that, a sum of Rs. 1.61 million had been paid to the contractor on 26 February 2016 and the remaining Rs. 1.07 million had been retained in the General Deposit Account even by May 2016.

## **Disposal of Expired and Substandard Drugs**

Out of 413 types of drugs, 10,162,768 units valued at Rs. 16.95 million of 6 hospitals belonging to the Provincial Health Services Department and the Regional Medical Supplies Unit of the Office of the Director of Health Services, Kurunegala and 53 other types of drugs which could not be valued had been disposed due to expiry, failure at sample tests and change in colour and odor.

## **Failure in using the established Dialysis Units for Medical Treatment**

Provisions of Rs. 42.57 million had been made under the Programme on Prevention of Kidney Diseases implemented in the year 2014 by the Line Health Ministry and Dialysis Units had been established in the Polpithigama and Nikaweratiya Hospitals by spending a sum of Rs. 40.18 million out of those provisions. It was observed during the course of audit that those buildings and medical equipment had not been used for the medical treatment of kidney patients of the area of authority within the hospital even by 29 February 2016.

## **Non-utilization of the Ward Complex for the Patients' Use**

Out of the provisions made by the Line Health Ministry for the construction of a ward with 20 beds for priests at the Nikawewa Hospital, a sum of Rs. 15.68 million had been spent and

constructions of the ward complex with 20 beds were completed by 31 May 2015. Only the beds had been reserved for a ward for priests there and it was observed during the course of audit carried out on 23 February 2016 that the said complex had not been used for the patients.

## **Construction of Ineffective Bus Shelters**

A sum of Rs. 5.99 million had been granted to the Department of Road Development in the years 2014 and 2015 for the construction of bus shelters under Provincial Specific Grants of the Ministry of Highways. The places where passenger shelters should be constructed were not properly identified and as such, instances were observed in which they were constructed in unpopulated areas, incurred expenditure exceeding the estimated amount and on roads not belonging to the Uva Provincial Council. Thus the expenditure incurred had not been utilized in an effective manner.

## **Uva Provincial Council**

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Total revenue of Rs.18,941 million had been estimated for the year 2015 by the Uva Provincial Council. Out of that revenue, a sum of Rs.16,366 million by Government grants and a sum of Rs.2,605 million by internal resources as well had been estimated to be collected. Out of that estimated revenue, a sum of Rs.19,120 million by Government grants and a sum of Rs.2,727 million by internal resources had been collected. The Provincial Council had estimated a total expenditure amounting to Rs.16,336 million comprising a sum of Rs.12,600 million for recurrent expenditure and a sum of Rs.3,736 million for capital expenditure for the year 2015. A total of Rs.21,786 million comprising a sum of Rs.18,590 million as recurrent expenditure and a sum of Rs.3,196 million as capital expenditure had been utilized in the year 2015.

The audit observations revealed in respect of the affairs of the Uva Provincial Council has been summarized and shown below.

### **Non-implementation of Seven Committees**

Seven committees had been established in terms of Rule No.74 of the Procedure Code of the Uva Provincial Council. Those seven committees were not in an operative position during the period from September 2014 up to March 2016 in which the Provincial Council VI was

commenced. As such, expected objectives could not be achieved according to the Action Plan prepared by the Uva Provincial Council Secretariat for the year 2015.

### **Overpayment of Foreign Training Course Fees**

An amount similar to US\$ 88,200 had been paid to a training institution in Thailand by the Deputy Chief Secretariat (Personnel and Training) for the fees of a foreign training course in the year 2015. The training fee relevant to the officers who had been made to participate in that training by the provincial council had been US\$ 22,400. Accordingly, a sum of Rs. 8.69 million similar to US\$ 65,800 had been overpaid to that institution.

### **Purchase of Motor Vehicles contrary to a Proper Approval and Provisions**

The Chief Minister of the Uva Province and the Ministry of Finance and Planning, Law and Order, Education, Local Government, Lands, Culture, Social Welfare and Rural Infrastructure Facilities and Constructions had purchased a motor car of the make BMW by spending a sum of Rs. 9.40 million for the Chief Minister without prior approval of the General Treasury and Finance Commission for purchase of motor vehicles under

Provincial Specific Development Grants in terms of the Circular No.FC/PSDG & CBG/Circular/2011/1 of 06 July 2011 of the North Western Provincial Finance Commission. The Provincial Director (Mechanical) had reported 7 differences in the relevant specifications of the motor car purchased without a technical evaluation.

### **Programme on Import and sale of Potato Seeds to Farmers**

Advances amounting to Rs. 67.00 million had been obtained from the Chief Secretary for the programme implemented by the Uva Provincial Ministry of Agriculture in the year 2002 for import and sale of potato seeds to farmers for cultivation in the Maha season. Out of those advances, a sum of Rs. 40.87 million had to be further settled to the Chief Secretary by 31 December 2015. A financial loss of Rs.29.80 million had occurred to the provincial council fund due to the negligence and lack of planning by the officers who implemented this programme.

### **Payment of Salaries and Allowances contrary to the Provisions of Circulars**

According to the Letter No. ඩො/6/11/3 @1 of 11 May 2011 of the Secretary to the Ministry of Local Government and Provincial Councils, it had been notified not to proceed further with salaries, allowances and facilities of the holders of posts such as the Provincial Council

Leader, Government Chief Organizer, Leader of the Opposition and Chief Provincial Organizer of the Opposition, which are not approved. The Council Secretariat had paid a sum of Rs. 6.99 million as salaries and allowances from the month of September 2014, in which the Provincial Council VI was established up to 31 December 2015, to three persons holding posts not approved contrary to the Circular instructions and Section 25 of the Provincial Council Act, No. 42 of 1987.

### **Failure in reaching the Limit of Minimum Receipts for the purpose of Commercial Advances**

Even though the limit of minimum receipts of the purpose of commercial advances was Rs.40.00 million, for the district mechanical workshop according to the Annual Financial Statement of 2015, the minimum credit limit had not been reached by Rs.12.35 million as the revenue collected in the year under review had been Rs. 27.65 million.

### **Failure in taking action in respect of expired Deposits**

Even though the total of Rs.66.35 million out of the balances of General Deposit Accounts as at 31 December 2015 belonging to 21 institutions of the Uva Provincial Council had been brought forward for over a period of 02 years, it had not been disposed in terms of Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka.

