Tenth Parliament of
Democratic Socialist Republic of Sri Lanka
(First Session)

Auditor General

Annual Report

2023

ANNUAL REPORT OF THE

AUDITOR GENERAL

2023

NATIONAL AUDIT OFFICE

Our Vision

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

Our Mission

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

Our Objective

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

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

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

Our Values

- Excellence
- Innovation
- Leadership

Official Emblem of the National Audit Office

Symbols used in this Official Emblem reflect the following

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

Note of the Auditor General

The responsibilities assigned to the Auditor General, as outlined in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka, include overseeing independent examinations to ensure effective and efficient parliamentary control over public finances, as mandated by Article 148 of the Constitution. I am pleased to present my report for the financial year 2023 in fulfillment of these duties. This Annual Report constitutes the 7th installment of my submissions to Parliament, with arrangements already in place for the presentation of additional reports in the following installments:

1st Installment	- Ministries and Departments
2nd Installment	- Public Corporations, Authorities, Boards, and Statutory Funds
3rd Installment	- Non-statutory Funds
4th Installment	- Foreign Aid Projects
5th Installment	- Provincial Councils
6th Installment	- Local Authorities
8th Installment	- Performance and Environmental Audit Assignments
9th Installment	- Public Companies
10th Installment	- Special Audit Assignments
11th Installment	- Triennial Reports

As I reflect on the significant achievements and challenges we encountered over the past year, it is with great honor that I present the Annual Report of the Auditor General. This report serves not only as a comprehensive record of our activities but also as a testament to our unwavering commitment to transparency, accountability, and excellence in public financial management.

Throughout the year, our dedicated team has undertaken extensive audits across a diverse range of sectors, including health, education, and infrastructure. Our primary objective has remained clear: to ensure that public resources are allocated and utilized both effectively and efficiently. We have executed a variety of audit types that encompass all public sector institutions, yielding valuable insights that highlight both the strengths and areas for improvement within government operations.

A key theme of this year's report is the critical importance of accountability. We have worked diligently to strengthen our partnerships with government entities, Parliament, and various stakeholders. By fostering collaborative relationships, we aim to establish a robust framework that promotes accountability at all levels of public administration. This approach not only enhances the credibility of our findings but also cultivates a shared commitment to excellence in public service.

In addition to our traditional auditing practices, we are poised to embrace innovation by integrating advanced methodologies and technological tools into our work. This initiative is supported by financial assistance from the European Union and the World Bank under the Sri Lanka Public Financial Management Strengthening Project. These enhancements will enable us to conduct more thorough evaluations and identify issues that may have previously gone unnoticed. Our focus on data analytics and risk assessment has empowered us to prioritize areas of concern, ensuring that our audits provide maximum value to the public and policymakers alike.

The findings presented in my reports to Parliament and the relevant auditee entities underscore the necessity for continuous improvement within public administration. I have put forth recommendations aimed at enhancing governance, increasing operational efficiency, and ensuring that public funds are managed prudently. It is my hope that these recommendations will be taken seriously and acted upon to fortify the foundations of public trust.

As we move forward, we remain steadfast in our commitment to support the government in the effective implementation of our recommendations. Our role extends beyond auditing; we aspire to assist in building a more accountable and transparent public sector that serves the interests of all citizens.

I would like to extend my heartfelt gratitude to our dedicated staff, whose professionalism and hard work have made this report possible. I also wish to express my appreciation to our stakeholders for their ongoing support and collaboration. Together, we can strive towards a future where public resources are managed with integrity and purpose.

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

W.P.C.Wickramaratne

Auditor General

October 2024

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Our Organization

Introduction

Structure of the Report

The first section of the report includes institutional information such as the identification of the organization, the authority vested, independence of audit, audit functions, support to the Parliament, imposing surcharges, examination of public representations, organizational structure, staff training, financial statements, etc.

The second section outlines the key observations that came to light during the performance of the primary statutory function of conducting annual audits on entities such as Ministries, Departments, Special Expenditure Units, statutory bodies, State-Owned Enterprises, statutory and non-statutory funds, foreign aid projects, Provincial Councils, and Local Authorities, with these observations categorized such as Central Government entities, Provincial Councils, and Local Authorities.

The third section covers other specialized audits, including non-annual performance audits, special audits, environmental audits, and special investigations. However, the main findings from these audits have been included under the relevant audit paragraph within Section II as observations.

Location

The National Audit Office is located at No. 306/72, Polduwa Road, Battaramulla, while the main branch office is situated at No. 07, Kota Terrace, Borella. Additionally, within the Western Province, audit activities are conducted in 185 Senior Assistant Auditor General Offices and branch offices located within the premises of government institutions.

Furthermore, in the remaining eight provinces,164 Senior Assistant Auditor General Offices and audit branches have been established to carry out audits of local authorities and Central Government institutions operating within each province.

Our Web Page: http://www.auditorgeneral.gov.lk

Email Address: ag@auditorgeneral.gov.lk

Fax: 011 2887223

Telephone No: 011-2887028 – 34

Auditor's Mandate

History of State Auditing

The origins of state auditing in Sri Lanka date back to 1799. Records confirm that after the British colonized the coastal areas of the island in 1796, Mr. Cecil Smith was appointed as the Accountant and Auditor General in 1799. Subsequently, until 1931, this position evolved into the roles of Auditor General and Colonial Auditor. In 1931, under the Donoughmore Constitution, the title of Auditor General was officially introduced as the head of the Audit Department. Since then, the title of Auditor General has remained unchanged, and the Audit Department was rebranded as the National Audit Office in 2018.

The responsibilities of the Auditor General were outlined in the Donoughmore Constitution of 1931 and the Soulbury Constitution of 1947. However, the 1972 Republican Constitution incorporated provisions regarding the audit of local authorities and state corporations.

Current Authority for Auditing

➢ 1978 Constitution

- Under Article 154(1) of the Constitution 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 Secretary to the Cabinet of Ministers the office of the Ministers, including independent commissions the Judicial Service Commission, Provincial Public Service Commissions, Parliament Secretariat and the Secretary-General of Parliament, Local Authorities, Public Corporations, business and other undertakings in which the Government or a public corporation or local authority holds more than fifty per centum of the shares of that company including the accounts thereof.

- Under Article 154(3) of the Constitution, it is specified that the Auditor General shall perform and discharge such duties and functions as may be prescribed by Parliament by law. In fulfilling and discharging the duties of the Auditor General, the Constitution grants the authority to engage qualified auditors to assist in carrying out these responsibilities. Additionally, provisions are made to obtain expert assistance to address technological, professional, and scientific issues relevant to auditing.

- As stipulated in Article 154(5) of the Constitution, provisions are made for the Auditor General to access all books, records, returns, and other documents; to enter stores and other properties of auditee or public institutions; and to seek any information and explanations necessary for performing these duties and functions.

Authority under the National Audit Act No. 19 of 2018

The National Audit Act has been enacted to establish provisions for clearly defining the duties of the Auditor General regarding public financial management as provided by the Constitution. Accordingly, Section 3(1) specifies the audit scope applicable to the entities audited by the Auditor General.

Thus, all income received by the Consolidated Fund and all expenditures made from it should be audited.

In performing these audits, the Auditor General has the authority to access or request relevant written or electronic records, obtain necessary copies, summon individuals in possession of such information, whether in service or not, and, following authorization from the Magistrate's Court, inspect accounts, transactions, and other documents of any institution found to have made erroneous or fraudulent payments.

The authority conferred by other specific Acts and Ordinances

- Part II of the Financial Act No. 38 of 1971, which provides for the establishment of audit procedures for state corporations
- Section 23 of the Provincial Councils Act No. 42 of 1987, which provides for the establishment of audit procedures for the provincial councils.
- Section 219 of the Municipal Council Ordinance (Cap. No. 252), which provides for the establishment of audit procedures for the municipal councils.
- Section 181 of the Urban Council Ordinance (Cap. No. 255), which provides for the establishment of audit procedures for urban councils.
- Section 172 of the Pradeshiya Sabhas Act No. 15 of 1987, which provides for the establishment of audit procedures Pradeshiya Sabhas.
- Section 58 of the Agrarian Development Act No. 46 of 2000, which provides for the establishment of audit procedures for agricultural development councils
- Section 9 of the Sports Associations Act No. 47 of 1993, which provides for the establishment of audit procedures for sports associations.

Independence of Audit

International Requirements Regarding Independence

The International Organization of Supreme Audit Institutions (INTOSAI), through the "Lima Declaration" adopted in 1977, has focused on the principles concerning the independence of state auditing from a technical and professional perspective. Thirty years later, at the XIX Congress of the International Organization of Supreme Audit Institutions (in Mexico, 2007), the "Mexico Declaration" identified the following eight essential principles to affirm the independence of supreme audit institutions for effective auditing in the public sector.

Principle 1 - The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework

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

Principle 2 - The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties.

Principle 3 - A sufficiently broad mandate and full discretion, in the discharge of SAI functions

SAIs should be empowered to audit the following functions:

- use of public monies, resources, or assets, by a recipient or beneficiary regardless of its legal nature;
- collection of revenues owed to the government or public entities;
- legality and regularity of government or public entities accounts;
- quality of financial management and reporting; and
- economy, efficiency, and effectiveness of government or public entities operations.

Except when specifically required to do so by legislation, SAIs do not audit government or public entities policy but restrict themselves to the audit of policy implementation.

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

- selection of audit issues;
- planning, programming, conduct, reporting, and follow-up of their audits;
- organization and management of their office; and
- enforcement of their decisions where the application of sanctions is part of their mandate.

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

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

Principle 4- Unrestricted access to information

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

Principle 5- The right and obligation to report on their work

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

Principle 6- The freedom to decide the content and timing of audit reports and to publish and disseminate them

- SAIs are free to decide the content of their audit reports.
- SAIs are free to make observations and recommendations in their audit reports, taking into consideration, as appropriate, the views of the audited entity.
- Legislation specifies minimum audit reporting requirements of SAIs and, where appropriate, specific matters that should be subject to a formal audit opinion or certificate.
- SAIs may accommodate specific requests for investigations or audits by the Legislature, as a whole, or one of its commissions, or the government.

Principle 7- The existence of effective follow-up mechanisms on SAI recommendations

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

Principle 8 - Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources

- SAIs should have available necessary and reasonable human, material, and monetary resources - the Executive should not control or direct the access to these resources. SAIs manage their own budget and allocate it appropriately.
- The Legislature or one of its commissions is responsible for ensuring that SAIs have the proper resources to fulfill their mandate.
- SAIs have the right of direct appeal to the Legislature if the resources provided are insufficient to allow them to fulfill their mandate.

Our Independence

According to Article 153 of the Constitution, the position of Auditor General has been established, and it has been confirmed that a qualified auditor must be appointed as the Auditor General by the President, subject to the provisions of Article 41(a) of the Constitution. The Auditor General shall hold his office for as long as he duly maintains his tenure.

Furthermore, according to Article 170 of the Constitution, the Auditor General is included in the "specific list of non-state officials." This provision is established to further affirm the administrative independence of the Auditor General.

Audit Service Commission

According to the 21st Amendment to the Constitution published in the gazette on 4 November 2022, the Audit Service Commission has been established by the provisions from Article 153(a) to (h) of the Constitution, and with the establishment of the State audit service, the Audit Commission came into effect from 10th April 2023. Under the chairmanship of the Auditor General, the National Audit Office is composed of two retired Deputy Auditor General or senior officials, a retired judge from the Supreme Court, Court of Appeal, or High Court, and a retired administrative officer of Grade 1.

According to Article 153, the Commission has the authority over the appointment, promotions, transfers, and disciplinary control of members of the state audit service, and under provision 153(a) 2 (a), the preparation of estimates for the National Audit Office is a responsibility of the Commission. This structure establishes the financial and administrative independence of the National Audit Office

Accordingly, with the implementation of the 21st Amendment to the Constitution and the full enforcement of the National Audit Act No. 19 of 2018, actions have been taken to align with the fundamental principles of the International Organization of Supreme Audit Institutions, which are based on the independence of supreme audit institutions.

Until 2018, the Auditor General had to rely on the Ministry of Finance for adequate provisions for his expenses. However, under the National Audit Act No. 19 of 2018, similar to other commonwealth countries, the budget for the Auditor General of Sri Lanka and the National Audit Office, including his staff, is approved by Parliament after a thorough examination by the Committee on Public Finance, and decisions regarding his budget are made independently of executive control. Accordingly, the provisions made for Parliament to decide separately on the Auditor General's budget have confirmed the financial independence of the Auditor General in carrying out his duties.

It is stated in the Constitution that it is the Auditor General, not the staff of the Auditor General, who holds the position. Therefore, similar to other countries, the necessity to detail the functions and authority of the staff of the National Audit Office has been fully addressed by the National Audit Act No. 19 of 2018, effective 01 from August 2018.

The annual budget estimate of the National Audit Office must be prepared within a specific timeframe as determined by the Minister assigned the subject of finance, and it should be submitted to him on a date decided by the Speaker. The estimate should be tabled in Parliament by the Speaker within 10 days following the Minister of Finance's review. The estimate approved by Parliament must then be submitted by the Speaker to the Minister of Finance for inclusion in the national budget.

Our Duties

The Constitution and the National Audit Act.

The National Audit Act No.19 of 2018 has made provisions for the establishment of the office of the National Audit Office and the Sri Lanka State Audit Service; to specify the role of the Auditor-General over public finance and to make provision for matters connected therewith or incidental thereto. Accordingly, the duties of the Auditor General are as follows.

The Auditor-General shall,

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

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

- conduct audits of accounts, finances, financial position, and financial control of public funds; to inspect the properties of audited institutions; and to carry out performance audits, environmental audits, technical audits, and other special audits.

Audit Methodology

Sri Lanka Auditing Standards, established under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 by the Auditing Standards Committee, are applied by the National Audit Office in its auditing activities. In designing a financial audit according to these standards, a risk-based sample is identified, and, for risk identification, the transactions, events, or balances are taken into account based on their quantitative significance and materiality as directed by the standards.

In annual audits, the examination is not limited to financial transactions alone but extends to assessing the performance of entities, including existing assets within specified limits. Accordingly, observations made regarding the performance of entities are appropriately presented to the respective entity.

Presentation of reports regarding the audit of annual financial statement.

As required by the National Audit Act, No. 19 of 2018, the following audit reports should be presented after the audit of annual financial statements.

- According to Section 10 of the Act, a report on the results of each audit must be presented to Parliament within the specified time frames following the end of each financial year

- According to Section 11 of the Act, the Auditor-General shall issue a Summary Report within five months after the end of each financial year to an auditee entity in respect of any financial statement or any account submitted by such entity, other than public corporations or a companies.

- According to Section 12 of the Act, the Auditor-General shall, within three months of the receipt of the approved annual financial statement and other relevant documents and information of a public corporation or a company in which the Government or a public corporation holds more than fifty per centum of the shares, present a report to such public corporation or company for publication in its annual report.

- According to Section 13 of the Act, the Auditor-General shall present an Annual Detailed Management Audit Report to the governing body of each auditee entity within the five months after the end of each financial year with a copy each to the

Minister to whom the respective auditee entity is assigned and the Minister assigned the subject of Finance

- According to Section 14 of the Act, the Auditor-General shall table in Parliament the Status Report of every auditee entity, within nine months after the end of each period of three financial years.

Accordingly, the number of auditee entities related to the issuance of reports as mentioned above during the year 2023 is as follows

Service Recipient	No. of institutions
Ministries	29
Departments	110
District Secretariats	25
Divisional Secretariats	341
State Corporations, Boards, Authorities and transferred businesses	222
State companies	117
State banks	09
Statutory and other Funds	67
Foreign Funded Projects	113
Other Independent Institutions	11
Provincial councils	09
Local Authorities	341
Agricultural Service Centers	565
Sports Associations	66
Ministries, Departments and Special Expenditure Units of Provincial Councils	273
Institutions established under Provincial Council Statutes	70
Total	**2368**

Audits not in the form of Annual Financial Statements

In this audit, in-depth investigation and reporting are conducted regarding specific areas unrelated to financial statement-based audits, such as performance, special, environmental, and special investigations, to scrutinize transactions or incidents that may impact performance and give rise to disputes.

Support to the Parliament

Participation in Committees on Public Accounts and Public Enterprises sessions involves reviewing reports tabled in Parliament by the Auditor General concerning individual institutions, under the oversight of the Committee on Public Accounts (COPA) and the Committee on Public Enterprises (COPE), which are established in Parliament under Standing Orders 119 and 120.

The role of the Committee on Public Accounts, established under Standing Order 119, is to examine, with the assistance of the Auditor General, the accounts that demonstrate how funds allocated by Parliament to ministries and departments for public expenditure have been utilized. The Committee on Public Accounts periodically reports to Parliament on the examination of the accounts, finances, financial practices, performance, and management of any department or local government institution in general, including any matters arising from such examinations.

The mandate of the Committee on Public Enterprises established under Standing Order 120 is to examine, with the assistance of the Auditor General, the accounts of state corporations, fully or partially government-funded organizations, and any enterprise or assignment transferred to the government under specific written law, as presented before Parliament. The Committee on Public Enterprises periodically reports to Parliament regarding the examined accounts of any state institution or enterprise, or any assignment transferred to the government under specific legislation, covering budget estimates, annual estimates, financial aspects, financial procedures, performance, and general management, as well as any related matters that arise.

Both the Committee on Public Accounts and the Committee on Public Enterprises are empowered to appoint subcommittees, comprising members of the main committee, whenever deemed necessary. Both the committee and its subcommittees are vested with the authority to summon individuals for questioning, obtain and examine any letter, book, document, or other records, and access stores and other properties to fulfill their respective duties.

The Committee on Public Accounts and the Committee on Public Enterprises consist of 16 members for each appointed by the Select Committee in a manner that ensures proper representation from both the ruling party and the opposition in Parliament. The responsibilities of the Auditor General include not only verifying whether the recommendations made by the Committee on Public Accounts and the Committee on Public Enterprises have been accepted by the executive but also assessing whether those recommendations have been implemented effectively and comprehensively. This involves examining whether significant improvements have been made in financial efficiency and service quality and reporting back to the committees on the implementation processes.

The Auditor General and/or their representatives directly support the committees. The discussion notes containing relevant observations related to the organization in question will be prepared and submitted to the committee for discussion, along with an updated review of the current status of significant observations included in the audit report. Based on this, the committee chairperson will lead the discussion regarding the current performance.

The committee generally provides a period of one month to the relevant state institution to submit a report containing written information regarding the current status and operational performance related to the contents of the report prepared by the Auditor General intended for discussion. Based on the report submitted with a copy to the Auditor General, the Auditor General will prepare a relevant discussion note, which will also include points that need further discussion regarding the progress of implementing directives given during previous meetings.

During the committee meeting, the role of the Auditor General is to provide background information on the topics to be discussed and to offer insights on the matters being considered, thereby supporting the committee. In this capacity, the Auditor General also addresses questions raised by committee members and shares thoughts on the points presented by officials from the invited institution.

Accordingly, in 2023, the Committee on Public Accounts Committee convened to examine 64 institutions, and the Public Enterprises Committee convened 61committee meetings were held to discuss the Auditor General's reports tabled in Parliament as per Article 154(6) of the Constitution, along with meetings to discuss special audit reports and performance reports,

Questionnaire for Assessing Financial Management and Performance in Public Institutions

In addition, the National Audit Office officers supported the Committee on Public Accounts in preparing a questionnaire based on information technology to assess the financial management and performance of ministries, departments, provincial councils, local government institutions, and independent commissions. Furthermore, the Auditor General continues to assist the committee by annually in successfully completing the relevant assessment activities by verifying the accuracy of the responses provided by each institution to those questions and reporting on them.

Assistance to other committees

Additionally, by representing the Auditor General at various parliamentary committees such as the Finance Committee and the Budget Committee, the Auditor General has also supported parliamentary activities in a constructive manner during the year under review, beyond fulfilling the constitutional duties assigned to him.

A further notable duty undertaken by the Auditor General during the year includes the examination and submission back to Parliament of response reports related to government accounts, following the Committee on Public Accounts’ reports submitted under Parliamentary Standing Order No. 119(4) to the Minister of Finance and the responsible Minister, in accordance with Parliamentary Series No. 114, within an eight-week timeframe.

Surcharges imposed by the Auditor General

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

The responsibility for recovering the reported value, whether jointly or separately, from those accountable for the respective loss or deficit is assigned to the relevant chief accounting officer.

However, the Attorney General has expressed an opinion that the Audit Act should be amended to include legal provisions to implement the surcharge process, as the Auditor General is restricted under Section 09 of the National Audit Act from disclosing information learned in the course of performing his duties to other parties, and there is no legal basis under Section 19 of the Audit Act regarding the way in which the Audit Services Commission should receive required audit information from the Auditor General.

In this context, the surcharge process introduced by the Audit Act has faced obstacles in being implemented effectively.

However, from before the National Audit Act was enforced, the surcharge process for universities and provincial councils has been carried out as usual under the authority vested in the Auditor General by other written laws, with the Auditor General’s involvement

Accordingly, the need to further activate this surcharge process is emphasized, recommending that the authority to conclude the imposition of surcharge be vested in the Auditor General, while appeals related to this process be assigned to the Audit Services Commission through amendments to the National Audit Act. It is suggested that appropriate amendments be made to Section 19 of the National Audit Act No. 19 of 2018 for this purpose.

Levy of Surcharge on Local Authorities

There are 341 local authorities in Sri Lanka, comprising 28 municipal councils, 37 urban councils, and 276 Pradeshoya Sabhas. These local authorities are audited by the Auditor General in accordance with Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka, the National Audit Act No. 19 of 2018, and provisions in relevant Acts and Ordinances.

Through these Acts and Ordinances, the Auditor General has been granted the authority to impose surcharge on subjects related to payments contrary to laws, losses incurred due to negligence or irregularities, and items that should be reflected in the accounts but are not presented.

According to this authority as conferred by Section 226 of the Municipal Councils Ordinance and Section 172 of the Pradeshiya Sabha Act, the Auditor General issued surcharge notifications amounting to Rs. 79.24 million to 130 parties in the year 2023. Among these surcharge notifications worth Rs. 50.36 million was paid to the relevant council Funds for the notifications issued to 10 parties. Among the surcharge notifications issued as mentioned above, audit certificates valued at Rs. 2.15 million were also issued to 62 parties during the year under review.

Examination of public representation

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

The National Audit Office has established a separate unit within the office to handle written representations received from the public, either privately or through public representatives and various organizations. This unit registers and examines the representations received by the institution, considering the nature and significance of the representation, and presents them through the public representation management information system to the special audit and forensic audit unit, or to the relevant audit branch or specialized audit units established regionally for specific subject matters. After taking into consideration the quantitative and qualitative aspects of the observations made during the audits conducted based on the information included in the representations, the relevant evaluations will be submitted to Parliament in the annual audit reports or presented to Parliament through special reports, carried out by the National Audit Office.

Nevertheless, focusing on the restrictive regulations outlined in Section 09 of the National Audit Act No. 19 of 2018, the results of these audits will not be directly informed to the parties that submitted the relevant representations. However, apart from anonymous representations, it will be communicated to the respective parties that their submissions have been received and that measures will be taken to review them and report suitably to Parliament.

In the year 2023, the National Audit Office received 2,601 public representations, of which 1,492 were related to administrative matters of government or state institutions, and 99 were concerning grievances from various parties. Additionally, 989 representations were related to institutional fraud and corruption, while 21 pertained to personal matters of different parties. Among these representations, 915 were submitted with the identity of the submitters, while 1,686 were submitted anonymously. Among these, a significant number were presented with sufficient or some degree of evidence. Even complaints that are received without any evidence are subjected to investigations.

When categorizing the written representations submitted for further investigation in sectors, it was found that there were 450 related to the education sector, 288 pertaining to local authorities, 279 concerning the health sector, and 120 related to divisional secretariats. Additionally, there were 187 representations in agriculture, 61 in the environment, 58 in transportation, 60 in culture, 71 in highways, and 85 in higher education. Furthermore, 285 additional representations were received from various government institutions by the National Audit Office.

Functions of the Right to Information Act within 2023

In terms of the Right to Information Act No.12 of 2016, the Information Officer and nominated Officer had been appointed for the National Audit Office. Such information requests are forwarded to the Information Officer by post as well as by e-mail. 105 information requests under Right to Information Act had been received in 2023 and the information had been provided for 90. Out of that.15 requests received had been rejected under section 5 of the Act. Many rejected information requests had been submitted for requesting the copies of audit queries and since information and documents in relation to audit can't be provided in accordance with paragraph 9 of the National Audit Act No.19 of 2018, it had been rejected to provide the copies of the audit queries.

Our Organizational Structure

Senior Deputy Auditors General	Deputy Auditors General	Senior Assistant Auditors General			Assistant Auditors General	Superintendents of Audit	Audit Officers
		Sector	**Name of the Divisional Head**	**Code**			
Central Government Audit & Assurance (CGAA-1) Mr. Mr. G.H.D. Dharmapala	Defence, Judicial, Law and Order **(DJL)** **Room No. 102** **Mr. S.T.B. Rathnayaka**	Defence	Mr. H.P.D. Gunasekara	**(DEF)**	**Assistant Auditors General**	**Superintendents of Audit**	**Audit Officers**
		Judicial, Law & Order	Mrs. A.G.A. Helmimi	**(JLO)**			
	Transpotation, Avaiation, Ports and Shipping **(TAP)** **Room No. 214** **Vacant**	Community Transpotation	Mr. R.A.B. Indrajith	**(COT)**			
		Port & Shipping	Mrs. M.R.R.K. Mallawa	**(PAS)**			
		Aviation	Mrs. N.D.N.C. Kumari	**(AAV)**			
	Power and Energy **(POE)** **Room No. 202** **Mrs. M.I.P.Hemamali**	Power	Mr. K.A.A. Kulathunga	**(PWR)**			
		Energy	Mr. N.H.A.R.K. Gunarathne	**(ENR)**			
	Foreign Funded Projects, Sports and Youth Affairs **(PSY)** **Room No. 302** **Mr. S.M.N.. Thilakarathna**	Sports and Youth Affairs	Mr. M.P.I.M. Rashmi	**(SYA)**			
		Water & Sanitation	Mrs. M.A.S. Pushparani	**(WAS)**			
	Parliamentory Affairs, Other Independent Institutions, Media and Disaster Management **(PMD)** **Room No. 201** **Mr. K.H.U.D. Sarath Kumara**	Disaster Management	Mrs. W.G.R.N. Weerakkody	**(DMG)**			
		Communication and Media	Mrs. G.H.I.Vindiya	**(CAM)**			
		Parliamentary Affairs and Independent Commissions	Mr. K.N.M. Kumarasinghe	**(PIC)**			
	Special Audit Assignments & Public Representations **(SPA) Room No. 306** **Mrs. T.G.I. Padmini**	Performance, Environmental & Citizen Participatory Audits	Mrs. K.T.W.Gamage	**(PEC)**			
		Special Investigation and Forensic Audits	Mr. B.O.D. Fernando	**(SIF)**			
	Health, Wellfare and Social Security **(HWS)** **Room No. 402** **Mr. H.M.U.S.A. Wijekoon**	Medical Supplies	Mr. K.K.S. Jayakody	**(MSU)**			
		Teaching Hospitals	Mr. W. Ananda	**(THO)**			
		Medical Administration	Mr. P. Masakorala	**(MED)**			
		Labour and Social Welfare	Mrs. H.M.de Soyza	**(LSW)**			
		Quality Assurance	Vacant	**(QUA)**			
		Parliament Reporting & Coordination	Miss. W.V.S.P. Rathnaseeli	**(PRC)**			
		Legal and Surcharge	Mr.K. M.N. Kumarasinghe	**(LEG)**			
		IT Audits	Vacant	**(ITA)**			
Central Government Audit & Assurance (CGAA-2) Mrs. Mrs. L.S.I. Jayarathna		Taxation & Procurement Audits	Mr. B.W.D. Lasantha	**(TAX)**			
		Banking	Mrs. R.M.D.S. Rathnayaka	**(BAN)**			
		Treasury & Public Debt	Mr. D.G.A.S. Anulasiri	**(TPD)**			
		Public Revenue	Mr. E.M.K.M. Padmalal	**(PUR)**			
		Insurance & Finance	Mr. S. Sanjeewa	**(INF)**			
	Industries, Trade & Commerce, Public Administration and Foreign Affairs **(ITP)** **Mr. R.G. Hettiarachchi**	Industries and Manufacruring	Mrs. U.N. Aluthge	**(IMT)**			
		Public Administration & Foreign Afffairs	Mrs. K.R.T. Menike	**(PAF)**			
		Trade and Commerce	Mrs. S.M.C. Indika	**(TAC)**			
	Agriculture, Plantation, Fisharies and Irrigation **(APF)** **Room No. 203** **Mrs. H.N. Ranathunga**	Fisheries & Liverstock	Mrs. S. N. Welikala	**(FLS)**			
		Irrigation, Water Resources & Mining	Mrs. M.D.S. Amarathunga	**(IWR)**			
		Agriculture & Related Industries	Mr. P.K.M.P. Nonis	**(ARI)**			
		Plantation & Land	Mrs. V.D. Seetha	**(PAL)**			
	Tourism, Investment Promotion, Wild Life, Forest, Culture and Arts **(TWC)** **Room No. 205** **Mrs. B.G.I. Niranja**	Cultural Affairs and Arts	Mrs. R.S. Katugampola	**(CAA)**			
		Forest, Wild Life and Environment	Mrs. H.S.S. Perera	**(FWL)**			
		Tourism & Investment Promotion	Mrs. M.S. Gunathilaka	**(TIP)**			
	Education and Vocational Training **(EVT)** **Room No. 317** **Mrs. W.M.P.A. Fonseka**	Education	Mrs. I.D.I. Priyadarshani	**(EDU)**			
		Vocational Training	Mrs. N.N.K. Divakara	**(VOT)**			
		Higher Education	Mrs. W.V.A.S. Pushpakumari	**(HED)**			
	Road Construction, Housing and Urban Development **(RCH)** **Room No. 505** **Mr. J. Sunil Shantha**	Road & Highways	Mr. E.A.D.P.P. Pushpakumara	**(RAH)**			
		Construction & Engineering	Mrs. H.A.D. Chandani	**(CAE)**			
		Housing & Urban Development	Mr. E.K.K.S. Edirisinghe	**(HUD)**			
Zonal Audit & Assurance (ZOAA) Mrs. W.G.N. Menike	Local Government Authorities and Provincial Councils **(LPS)** **Room No. 315** **Mr. M. Somathilaka**	Local Authorities of Central Province	Mr. H.A. Ananda	**(CPLG)**			
		Local Authorities of Western Province	Mrs. M.U.M.N. Perera	**(WPLG)**			
		Local Authorities of Sabaragamuwa Province	Mr. M.G. Madarasinghe	**(SGLG)**			
		Local Authorities of North Central Province	Mrs. K.M.L. Ariyarathne	**(NCLG)**			
		Local Authorities of Northern Province	Mr. B. A. Jeros	**(NPLG)**			
		Local Authorities of Southern Province	Mrs. U.P.P. Perera	**(SPLG)**			
		Local Authorities of Estern Province	Mr. P. Patkunan	**(EPLG)**			
		Local Authorities of North Western Province	Mr. P.M.R. Pathiraja	**(NWLG)**			
		Local Authorities of Uva Province	Mr. H.M.W. Pathmasiri	**(UPLG)**			
		Institutions of the Central Province	Mr. S.P. Weerasinghe	**(CPPC)**			
		Institutions of the Western Province	Mrs. S.A.D.C. priyadarshani (Act.)	**(WPPC)**			
		Institutions of the Sabaragamuwa Province	Mrs. S. Rathnaweera	**(SGPC)**			
		Institutions of the North Central Province	Mrs. J.A.S. Anesteen	**(NCPC)**			
		Institutions of the Northern Province	Mr. V. Maniwadanan	**(NPPC)**			
		Institutions of the Southern Province	Mr. K.W.S.A.K. Kariyawasam	**(SPPC)**			
		Institutions of the Estern Province	Mr. K. Pratheepan	**(EPPC)**			
		Institutions of the North Western Province	Mrs. M.A.S.R.S. Gunasekara	**(NWPC)**			
		Institutions of the Uva Province	Mr. P. Liyanage	**(UPPC)**			
	Utilization of Central Government Allocation in Provincial Level **(CGW)** **Room No. 206** **Mr. M.S. Nayanakumara**	Central Govt. Allocation and institutions in Central Province	Ms. M.K.D.N. Mayakaduwa	**(CPCG)**			
		Central Govt. Allocation and institutions in Western Province	Mrs. S.A.D.C. priyadarshani	**(WPCG)**			
		Central Govt. Allocation and institutions in Sabaragamuwa Province	Mr. M.G. Madarasingha (Act.)	**(SGCG)**			
		Central Govt. Allocation and institutions in North Central Province	Mrs. I.D.K. Pallegama	**(NCCG)**			
		Central Govt. Allocation and institutions in Northern Province	Mr. M.H.M. Arfath	**(NPCG)**			
		Central Govt. Allocation and institutions in Southern Province	Mr. K.M. Jayasinghe	**(SPCG)**			
		Central Govt. Allocation and institutions in Estern Province	Mr. W.C.V. Kuruppu	**(EPCG)**			
		Central Govt. Allocation and institutions in North Western Province	Mrs. R.P.T.D. Rajapaksha	**(NWCG)**			
		Central Govt. Allocation and institutions in Uva Province	Mr. B.G Asela Indunil	**(UPCG)**			
	Administration **(ADM)**						
		Training, Research and Development	Mr. L.K.I. Samantha	**(TRD)**			
		Secretariat of the Auditor General & International Relations		**(AGS)**			

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

The first level consists of three Senior Deputy Auditor Generals. The second level is made up of 15 Deputy Auditor Generals, who are responsible for overseeing the policy and overall management of public audit activities. Under the Deputy Auditor Generals, 72 divisions have been established, with each division supervised by Senior Assistant Auditor Generals representing the third level. The leadership of the "branches" in a division assigned to the divisional heads is held either by an Assistant Auditor General or a Superintendent of Audit as the "head of the branch", with a specific number of auditing institutions assigned to him. They belong to the fourth level. Accordingly, the divisional heads bear full responsibility for managing and supervising how the audit branches under their oversight should operate. The implementation of audits for state institutions assigned to branch heads is conducted by the Assistant Superintendent of Audit and Audit Officers, who are engaged in their roles effectively and efficiently. Thus, these officials are classified at the fifth level.

Audit Officers assist the heads of branch by conducting audits of state institutions assigned to them in accordance with approved programmes, through investigations, observations, and field duties, while complying with Sri Lankan auditing standards, constitutional and other legal requirements, and regulations. Among the 72 divisional heads at the third level mentioned above, 27 divisional heads of nine divisions are held responsibility in regional auditing at the district level, and their supervision is carried out by two Deputy Auditor Generals.

The overall financial and administrative operations of the National Audit Office are conducted by the Director, Administration (Control) from the Establishments Division, and by the Chief Accountant from the Accounts Division under the supervision of a Senior Deputy Auditor General.

An internal audit unit consisting of development officers operates under the chief internal auditor to fulfill the objectives outlined in Financial Regulations 133, and it works directly under the direction and supervision of the Auditor General.

A service minute necessary for establishing the State Audit Service has been prepared in accordance with the provisions of the National Audit Act and submitted to the Cabinet for approval. To ensure the uninterrupted continuation of audit functions, the Cabinet approval has been granted on 13 September 2021 for the appointment and promotion of officials on seniority basis, substituting the salary scales, designations, and cadre recommended by the National Salary Commission for the State Audit Service with those of the Sri Lanka Audit Service and the Audit Examiners. These actions have been carried out under the guidance of the Public Service Commission. The issue regarding the long-term promotions for officials engaged in the audit service have been somewhat addressed by these interim procedures. This

Cabinet decision gives a reasonable solution to the officers who have been in the National Audit office without promotions for a long period.

Approved and Actual Cadre

Details regarding the approved and actual cadre of the National Audit Office as of 01 January 2023, and 30 June 2024.

	Post	Cadre as at 01.01.2023			Cadre as at 30.06.2024		
		Approved	Actual	Vacancies	Approved	Actual	Vacancies
1.	Auditor General	1	1	0	1	1	0
2.	Senior Deputy Auditor General	3	0	3	3	2	1
3.	Deputy Auditor General	15	14	1	15	13	2
4.	Director (Control)	1	1	0	1	1	0
5.	Chief Accountant	1	1	0	1	1	0
6.	Chief Internal Auditor	1	1	0	1	1	0
7.	Senior Assistant Auditor General	72	49	23	72	69	3
8.	Assistant Auditor General	455	15	324	455	18	259
9.	Superintendent of Audit		116			178	
10.	Assistant Director (Administration)	1	1	0	1	1	0
11.	Accountant	1	1	0	1	1	0
12.	Assistant Director (IT)	1	0	1	1	0	1
13.	Legal Officer	1	0	1	1	1	0
14.	Administrative Officer (M.S.O.S. - Supra)	3	1	2	3	3	0
15.	Technical Officer Special	1	0	1	1	0	1
16.	Assistant Superintendent of Audit	360	332	28	360	340	20
17.	Audit Officer	1090	776	314	1090	568	522
18.	Information and Communication Technology Officer	3	1	2	3	1	2
19.	Translator	10	8	2	10	7	3
20.	Development Officer	55	56	-1	73	67	6
21.	Librarian	1	1	0	1	1	0
22.	Technical Officer - I	1	0	1	1	0	1
23.	Information and Communication Technology Asst	6	1	5	6	2	4
24.	Management Services Officer	121	113	8	121	110	11
25.	Report Processor *	41	41	**	41	37	**
26.	Offset litho press operator	1	0	1	1	0	1
27.	The driver	48	46	2	48	47	1
28.	Circuit bungalow caretaker	13	7	6	13	6	7
29.	Electrician	1	1	0	1	1	0
30.	Plumber	1	1	0	1	1	0
31.	K.K.S.	148	134	14	148	146	2
32.	Departmental Labor **	2	1	1	2	1	**
	Total	**2459**	**1720**	**740**	**2477**	**1625**	**847**

* This position will be subject to cancellation upon its continuation as personal to the officer currently holding it in the department.

** This position will be subject to cancellation upon its continuation as personal to the officer currently holding it in the department.

Details of the measures taken to fill the number of vacancies that existed from 01 January 2023, to 30 June 2024

In accordance with Cabinet Decision No. 21/1274/301/017 dated 13 September 2021, the Public Service Commission has promoted 126 officers from the Sri Lanka Audit Examiners Service to the position of Superintendent of Audit in Class II, Grade II of the Sri Lanka Audit Service. This includes 125 officers promoted on the basis of seniority and merit, and one officer promoted based on professional qualifications, effective from 27.03.2023. Subsequent to our requests, an additional 20 officers, who had participated in the interview but had retired by the time of the appointment, were promoted to the position of the Superintendent of Audit in Class II, Grade II of the Sri Lanka Audit Service. Their promotion, based on seniority and competence, was made effective retroactively from the date prior to their retirement. Accordingly, a total of 146 officers have been promoted to the position of Superintendent of Audit.

The National Audit Act No. 19 of 2018 came into effect with the re-establishment of the Audit Services Commission under the 21st Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka. Following Cabinet approval, the new service minute, prepared to establish the Sri Lanka State Audit Service by merging the Sri Lanka Audit Examiners Service and the Sri Lanka Audit Service within the National Audit Office, was published in the Gazette Extraordinary No. 2366/31 dated 2024.01.12 as the service minute of the Sri Lanka State Audit Service. Accordingly, the Sri Lanka State Audit Service was established with effect from 16.01.2024.

In accordance with the transitional provisions of the service minute of the Sri Lanka State Audit Service, steps were taken to fill the vacancies that existed in the following positions at that time.

- Actions were taken to fill 03 vacancies in the position of Senior Deputy Auditor General in the Special Grade of the Sri Lanka State Audit Service on 05.03.2024.
- Actions were taken to fill 07 vacancies in the position of Deputy Auditor General in the Special Grade of the Sri Lanka State Audit Service (with 06 vacancies filled on 01.04.2024 and one on 15.05.2024)
- Thirty-nine officers were promoted from Class II, Grade II to Class II, Grade I (Assistant Auditor General) in the Sri Lanka State Audit Service on 20.03. 2024

- Thirty-six officers were promoted to Class I (Senior Assistant Auditor General) in the Sri Lanka State Audit Service on 31.05.2024.

- Seven officers from Class III, Grade II of the Sri Lanka State Audit Service were promoted to Grade I with effect from 17.01.2024

- A total of 156 officers in Class III, Grade I of the Sri Lanka State Audit Service were promoted to the Supra Grade of Class III with effect from 16.05.2024.

Accordingly, the actions taken as mentioned above have contributed to filling a significant number of vacancies in the National Audit Office.

Furthermore, in accordance with Cabinet Decision No. 21/1274/301/017 dated 13 September 2021, and the decision to fill vacancies on a limited basis, a limited competitive examination was conducted in June and July 2024 to recruit 469 audit officers in Class III, Grade II of the Sri Lanka State Audit Service with the approval of the Public Service Recruitment Review Committee headed by the Prime Minister's Secretary, the Public Service Commission and the Audit Service Commission.

In accordance with the aforesaid Cabinet decision, applications have been invited to conduct a limited competitive examination to recruit 165 Audit Officers in Class II, Grade II of the Sri Lanka State Audit Service. This examination has been held on 24th and 25th of August 2024.

Staff training

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

At present, the National Audit Office makes use of the contribution of the staff of 1318 audit officers and 356 offices in supporting services to fulfill this statutory role.

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

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

- Attitudinal improvements of the officers.

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

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

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

Accordingly, the National Audit Office's Training Division organizes local and international training programmes to equip officers with the necessary skills required for their professional duties, providing them with the necessary support and motivation to participate. In doing so, the capable resource persons of the National Audit Office are employed while obtaining resource persons from the outside as well whenever required in conducting lectures, interactive sessions like workshops, Practical training and field trips etc. in fulfilling the training requirements.

With the aid provided by the World Bank under the cooperation of the European Union in 2023, it has become possible to offer a substantial number of local and foreign training opportunities in 2024.

Local Training

In order to achieve the above objectives, in the year 2023, the training division of the National Audit Office had organized 27 training programmes under 5 topics covering the above-mentioned fields for the auditors and training opportunities have been made available to the non-auditing staff as well.

Foreign Training

Due to the prevailing government policy on expenditure control in 2023, it was possible to facilitate the participation of four officers in foreign training programmes and various workshops.

The details in relation to the trainings conducted covering the above-mentioned fields for the officers of the National Audit Office pertaining to the local and foreign during the year 2023 are shown in the following table.

	Details of the Programme	No of Progra-mes	Number of officers involved	No. of Training Hours
	Local Training Programmes			
1	Financial Audit Training	23	1220	26789
2	Induction Training Programme for promoted Audit Officers	1	115	4168
3	Foreign Funded Project Audit Training	1	88	638
4	Construction Audit Training	1	100	3625
5	Procurement Audit Training	1	275	1993
	Total	**27**	**1798**	**7,409**
	Foreign Training Programmes			
1	(Regional Workshop on Enhancing the collaboration between Supreme Audit Institutions & Anti-corruption Bodies – Thailand)	1	1	**22**
2	JIKA Knowledge co creation Programme -Japan	1	1	**181**
3	Asian Development Bank-2023 Asian Evaluation Week – Thailand	1	1	**29**
4	ADB PEFA Flagship Training in Asia: - Philipeine- Request for country Nomination	1	1	**22**

Providing Resource persons to External Entities

In 2023, six officers from the National Audit Office have contributed their expertise to enhance the knowledge and skills of other government officers in the areas related to the National Audit Act and fields aligned with auditing.

Providing Professional Training Opportunities

Necessary arrangements have been made to offer the required professional training opportunities to registered trainee officers of the Institute of Chartered Accountants of Sri Lanka, with the purpose of developing the professional skills of officers working in the National Audit Office.

Deployment of Qualified Auditors

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

Accordingly, sums amounting to Rs.68.44 million and Rs. 31.2 million had been paid for the years 2023 and 2022 respectively to the relevant Audit Firms for the audit services rendered. In obtaining the service of qualified auditors, the factors such as the quality of the services rendered by them in the past, the number of partners engaged in the firm concerned, and the number of audit trainees working with them had been considered. In addition, international affiliation of the firm serving as a factor to consider the standard of the Firm and the quality of professional services rendered by them had been included in the selection criteria. Generally, a particular audit assignment is entrusted to a particular Audit Firm to continue only for a maximum period of five consecutive years.

Two Audit Firms engaged in Public Practice assisted me in the audit of 15 Companies out of 125 Companies with State Shareholding of 50 per cent or more brought under the scope of the Auditor General through the Nineteenth Amendment to the Constitution. In addition, 13 qualified audit firms helped me to carry out the audit of the Central Bank of Sri Lanka ad 27 Sport Associations.

Chartered professionals engaged in public practice were enlisted to obtain the necessary technical support for auditing 04 state banks.

Sri Lanka Public Financial Management Strengthening Project.

It is a great opportunity to the National Audit Office (NAO) of having a foreign funded project under a Grant from the World Bank with the collaboration of the European Union. According to the analysis done by the Supreme Audit Institution, few areas have been highlighted which are to be improved by the NAO. Simultaneously, the project will strengthen the NAO to deliver on its enhanced audit mandate under the Constitution and the National Audit Act of Sri Lanka. It will help the NAOSL in improving the quality of audits in the public sector and deliver the audit reports in a timely manner. It will enhance the skills and competences available at the NAOSL and ensure compliance with international standards and best practices. The development of the NAOSL into a gender-sensitive, competent, and professional Supreme Audit Organization following international best practices and delivering effectively on the enhanced mandate is the key overall outcome of the component. The ultimate expected outcome is enhanced audit oversight and improved transparency and accountability in the public sector.

According to the Grant agreement, the total estimate is USD 3.5 million and the closing date of the project is November 2026. NAO has commenced its activities as per the project implementation plan based on the budget prepared for Rs. 1,050 million. As of now, the project is in the process of recruiting consultants for each and every audit sector as specified in the Audit Act of No 19 of 2018. Training on Procurement, Land acquisition and Project formulation and implementation had already been completed to the state audit officers in western province, southern and north western provinces. Few training programs on Sri Lanka Accounting Standards had also been done by the project. Carrying out Project activities is a big challenge to the NAO while fulfilling the statutory requirement to the Parliament and also with more than 40 per cent vacancies. However, the project expect to expedite the activities in 2025 with the recruitment of the new officers to the NAO by December 2024.

Financial Statement of the National Audit Office for the year ended 31 December 2023

Statement of Financial Position as at 31st December 2023

	Actual 2023 Rs	Actual 2022 Rs
Non Financial Assets		
Property, Plant & Equipment	1,499,559,208	1,481,951,627
Financial Assets		
Advance Accounts	149,680,375	194,108,547
Cash & Cash Equivalents	-	-
Total Assets	1,649,239,583	1,676,060,174
Net Assets / Equity		
Net Worth to Treasury	148,755,223	(67,047,400)
Property, Plant & Equipment Reserve	1,499,559,208	1,481,951,627
Rent and Work Advance Reserve	-	
Current Liabilities		
Deposits Accounts	925,152	261,155,947
Unsettled Imprest Balance	-	-
Total Liabilities	1,649,239,583	1,676,060,174

We hereby certify that an effective internal control system for the financial control exists in the Reporting Entity and carried out periodic reviews to monitor the effectiveness of internal control system for the financial control and accordingly make alterations as required for such systems to be effectively carried out.

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

K. Nilanthi Fernando
Chief Accountant
National Audit Office
306/72, Polduwa Road
Battaramulla

W.P.C.Wickramarathne
Chief Accounting Officer
Auditor General
28 February 2024

K.Nilanthi Fernando
Chief Accountant
28 February 2024

Reporting Period

The reporting period for these Financial Statements is from 01st January to 31st December 2023.

Basis of Measurement

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

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

Recognition of Revenue

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

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

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

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

Property, Plant and Equipment Reserve

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

Cash and Cash Equivalents

Cash & cash equivalents include local currency notes and coins in hand as at 31st December 2023.

Statement of Financial Performance
For the year ended 31st December 2023

Revised Budget Allocations 2023		Actual 2023 Rs.	Actual 2022 Rs.
-	**Revenue Receipts**	415,611,400	489,581,029
-	Income Tax	-	-
-	Taxes on Domestic Goods & Services	-	-
-	Taxes on International Trade	-	-
300,000,000	Non Tax Revenue & Others	415,611,400	489,581,029
-	**Total Revenue Receipts (A)**	**415,611,400**	**489,581,029**
-		-	-
-	**Treasury Imprests**	1,769,796,000	1,532,936,000
-	Deposits	172,584,544	190,875,670
-	Advance Accounts	83,389,954	80,667,273
	Other Main Ledger Receipts	53,828,162	5,509,635
-	**Total Non Revenue Receipts (B)**	**2,079,598,660**	**1,809,988,578**
-	**Total Revenue Receipts & Non Revenue Receipts C = (A)+(B)**	**2,495,210,060**	**2,299,569,607**
	Remittance to the Treasury (D)	50,251,023	103,715,921
	Net Revenue Receipts & Non Revenue Receipts E = (C)-(D)	**2,444,959,037**	**2,195,853,686**
	Less: Expenditure		
	Recurrent Expenditure		
2,038,510,000	Wages, Salaries & Other Employment Benefits	1,795,785,797	1,740,721,144
452,400,000	Other Goods & Services	414,843,197	319,461,981
16,090,000	Subsidies, Grants and Transfers	14,186,831	14,499,269
-	Interest Payments	-	-
-	Other Recurrent Expenditure	-	-
2,507,000,000	**Total Recurrent Expenditure (F)**	**2,224,815,825**	**2,074,682,394**
	Capital Expenditure		
16,000,000	Rehabilitation & Improvement of Capital Assets	10,418,737	6,724,786
28,800,000	Acquisition of Capital Assets	20,669,581	6,730,671
-	Capital Transfers	-	-
-	Acquisition of Financial Assets	-	-
3,000,000	Capacity Building	2,900,130	1,602,007
5,000,000	Other Capital Expenditure	1,087,688	-
52,800,000	**Total Capital Expenditure (G)**	**35,076,136**	**15,057,464**
	Deposit Payments	432,815,339	104,543,186
	Advance Payments	38,961,782	50,533,345
	Other Main Ledger Payments	53,828,162	5,509,635
	Total Main Ledger Expenditure (H)	**525,605,283**	**160,586,166**
2,559,800,000	**Total Expenditure I = (F+G+H)**	**2,785,497,244**	**2,250,326,024**
	Balance as at 31st December J = (E-I)	(340,538,207)	(54,472,338)
-	**Balance as per the Imprest Adjustment Statement**	(340,538,207)	(54,472,338)
	Impreset Balance as at 31st December	-	-

Statement of Cash Flows
for the year ended 31st December 2023

	Actual	
	2023 **Rs.**	**2022** amendment **Rs.**
Cash Flows from Operating Activities	-	-
Total Tax Receipts	415,611,400	489,581,029
Fees, Fines, Penalties and Licenses	-	-
Profit	-	-
Non Revenue Receipts	-	-
Revenue Collected on behalf of Other Revenue Heads	331,911,553	78,011,355
Imprest Received	1,769,796,000	1,532,936,000
Recoveries from Advance	83,799,160	81,525,178
Deposit Received	172,584,544	190,875,670
Other general ledger Account receivable	53,828,162	5,509,635
Total Cash generated from Operations (A)	**2,827,530,819**	**2,378,438,867**
Less - Cash disbursed for:		
Personal Emoluments & Operating Payments	2,202,032,094	2,056,322,607
Subsidies & Transfer Payments	14,186,831	14,499,269
Expenditure incurred on behalf of Other Heads	5,645,156	28,578,887
Imprest Settlement to Treasury	50,251,023	103,715,921
Advance Payments	35,950,225	50,211,898
Deposit Payments	432,815,339	104,543,186
Other general ledger Account payable	53,828,162	5,509,635
Total Cash disbursed for Operations (B)	**2,794,708,830**	**2,363,381,403**
NET CASH FLOW FROM OPERATING ACTIVITIES(C)=(A)-(B)	**32,821,989**	**15,057,464**
Cash Flows from Investing Activities		
Interest	-	-
Dividends	-	-
Divestiture Proceeds & Sale of Physical Assets	-	-
Recoveries from On Lending	-	-
Total Cash generated from Investing Activities (D)	-	-
Less - Cash disbursed for:		
Capital Expenditure	32,821,989	15,057,464
Total Cash disbursed for Investing Activities (E)	**32,821,989**	**15,057,464**
NET CASH FLOW FROM INVESTING ACTIVITIES(F)=(D)-(E)	**(32,821,989)**	**(15,057,464)**
NET CASH FLOWS FROM OPERATING & INVESTMENT ACTIVITIES (G)=(C) + (F)	-	-
Cash Flows from Fianacing Activities		
Local Borrowings	-	-
Foreign Borrowings	-	-
Grants Received	-	-
Total Cash generated from Financing Activities (H)	-	-
Less - Cash disbursed for:		
Repayment of Local Borrowings	-	-
Repayment of Foreign Borrowings	-	-
Total Cash disbursed for Financing Activities (I)	-	-
NET CASH FLOW FROM FINANCING ACTIVITIES (J)=(H)-(I)	-	-
Net Movement in Cash (K) = (G) + (J)	-	-
Opening Cash Balance as at 01st January	-	-
Closing Cash Balance as at 31st December	-	-

02
Audit Observations

Buddhasasana, Religious and Cultural Activities

At the beginning of 2023, the Ministry of Buddhasasana, Religious and Cultural Affairs and 09 Departments and 10 Statutory Boards/Institutions under its purview had been functioned under of Ministry of Buddhasasana, Religious and Cultural Affairs and the following functions had to be performed by the Ministry.

Functions

Ensure and protect the all rights to worship all religions including Buddhism and take action against the religious extremee

Providing facilities for Dhamma school education, conservation and development of sacred places and improvement of religious places located in the remote areas

Creation of digital archaeological encyclopedia belonging to all religions

Formal management and conservation of state documents and introduction of a method for payment of copyright as per international conventions

Administration of Central Cultural Fund and take action to restructure it after carrying out a proper study

Take actions to enhance the all parts in the national culture of Sri Lanka, conservation and promotion of historical, archeological and cultural heritage as well as modern and traditional cultural creations and encouragement of the artists

Give necessary assistance for the tourist programs which gives the priority to the pride of cultural and national heritages in order to protect the cultural and archeological heritages

Maintain the cultural relations with the foreign countries, identification of the trends for usage of the cultural contribution for building the cooperation among the nations and take necessary measures to implement those

Audit Observations

Department of Archaeology

Kandy Royal Palace and Museum

Underutilization of funds for renovations

It had been entered into agreements for providing of US $ 265,000 i.e. approximately Rs.53 million by United States of America for renovations of Kandy Royal Palace and Museum. However, the amount provided by United States of America had been decreased up to US$ 156,750 i.e. approximately Rs.45.9 million by considering the physical performance of the project. At the end of year under review, the physical progress of this project was 57 percent and the financial progress was only 21 percent and the period of the agreement had been extended up to 31 August 2024. Meanwhile, Rs.26.8 million i.e. 63 percent from the imprest of Rs.41.9 million received from the Treasury for 2023 had not been utilized.

Non-documentation of identified archeological Sites

The number of identified archeological sites by the Department of Archeology is 5,664 up to 2023. The number of the archeological sites which had not been published by the gazettes in the national archeological sites directory as at 31 December 2023 is 2,706 out of that i.e. it is 48 percent from the identified number. About 1,758 archaeological sites had been included into geo spatial data file entered into the web site of the department and accordingly, 69 percent of geographical sites graduation data identified as at 31 December 2023 had not been obtained and entered into geo spatial data file.

Not taking action against Violation of Antiquities Ordinance

There were 12 incidents in which the relevant suspects had not been identified and 64 incidents in which the suspects had been identified but the cases had not been filed out of 179 theft of antiquities, destruction of antiquities and unauthorized excavations under the violation of the Antiquities Act in the year under review. Furthermore, it couldn’t be performed the specified functions such as taking back the antiquities used illegally or protection of places and antiquities or giving donations to the contributory information suppliers and implementing officers by crediting a half of the court penalty of Rs.130.5 million charged in the year under review to antiquities reward fund owing to delay of the formulation of legal draft and implementation in accordance with section 46(1) of Antiquities Ordinance No.09 of 1940 amended by Antiquities (Amended) Act No.24 of 1998.

Not amending the fees for providing the archaeological recommendations

By amending the fees charged for giving the archaeological recommendation for extraction the minerals and stones as Rs.10, 000 with effect from 25 February 2019, the instructions had been provided by the letter dated 28 February 2019 of Director General of Public Finance to be amended such fees in every 03 years. Accordingly, the fees should be amended subject to a maximum of 15 percent once in 03 years as per paragraph No.05 in part (II) of Public Finance Circular No.01/2020 dated 28 August 2020. However, since the Department of Archaeology had not taken action to revise the fees in that manner, the income to be charged to the government had lost. The fees had not been amended like that for Nupe Old Holland Market Building Complex located in the area of Matara Municipal Council temporarily leased by the department and leased for a fee of Rs.5, 000.

Department of National Archives

Non-completion of the computerization of indices

Even though the action had been taken to complete the Indices Computerization Project commenced in 2015 on an estimate of Rs. 25.3 million by Department of National Archives, only about 850,000 indices had been computerized at the end of year 2023 by incurring Rs.13.5 million owing to inadequacy of Technological Officers and non-implementation of the project as per an accurate plan. It was observed that about 400,000 indices existed to be further computerized.

Non-completion of the modernization activities Of Head Office

Even though the modernization activities of head office building of the Department of National Archives with an estimated amount of Rs.992.2 million should be completed on 18 may 2021, the modernization activities had not been completed as at 31 December 2023 even elapse of 02 years. On that date, Rs.470.8 million had been incurred and though the financial progress was 47 percent and the physical progress was 53 percent of the project, the modernization activities had been halted in half way since 2021.

Not taking action to establish a digital store with 500 terabytes

The approval of the cabinet of ministers had been granted on 05 April 2021 to establish a digital store with 500 terabytes to Department of National Archives. Accordingly, the project should be implemented after obtaining the annual provision under an estimated cost of Rs.120.2 million within 05 years. The provision had not been given for the previous year and even though a provision of Rs. 78.3 million had been given related to the year 2023, the project had not been implemented.

Department of National Museum

Not publishing antiquities Collection management policy

The activities had not been taken to publish an antiquities collection management policy up to December 2023 by the Department of National Museums. Similarly, no amendments had been made to the existing law enabling to give the authority for regulation of overall museum systems within Sri Lanka to Department.

Not taking action to assess the antiques

The measures had not been taken to formulate a proper methodology on overall antiques existing in 10 regional museums under purview of Department of National Museums and the stores of department.

Non-identification of the responsible persons For thefts

Even though more than 11 year had elapsed as at 31 December 2023 for the theft of 221 antiques with estimated value of Rs. 4.44 million in Colombo National Museum on 16 March 2012, the action had not been completed as per Financial Regulations 104(3) and 104(4) in relation to relevant legal action and losses.

Department of Cultural Affairs

Not conducting the programs Of National Arts Festival as scheduled

Even though it had been scheduled to perform 10 activities from Rs.66 million under National Arts Festival in the year under review, National Dancing Festival and Regional Cultural Associations and art centers on which Rs. 10.5 million had been allocated had not been implemented. Even though the provision of Rs.6 million had been allocated for state music festival and Rs.6 million for Rupavahini State Award Ceremony which were not conducted in previous 02 years, the referee activities had been only performed at an expense of Rs.1.4 million.

Not verification Of the land title

The titles of 03 lands in extent of 1.245 hectares where 03 institutions under purview of Department of Cultural Affairs are located had not been verified.

Not charging the delay fees for the money provided to the contractor without proper approval

The contractor in relation to phase I of modernization and development of John De Siva Memorial Theatre had completed the construction and handed over the building on 24 November 2018 with a 03 years delay. In payment to the contractor, Rs.38.6 million had been charged as delay fees and it had been made payments to the contractor again without proper approval and confirmation the reasonable facts. Even though it had been informed to pay back that money on 10 May 2021, such amount had not been recovered up to the year under review and the department had not taken sufficient measures in this regard.

Department of Buddhist Affairs

Incurring printing expenses deviation from the Procurement Guidelines

A printing expense of Rs. 4.7 million had been incurred for printing of circulars, formats, tickets, timetables and invitations of the students' skills evaluation program without calling the competitive prices deviation from Government Procurement Guidelines 2006. Moreover, while the letters had been sent to invite the guests, the printing and distribution of 1500 invitations 02 days before the ceremony had become an idle expense.

Rs.40.2 million had been incurred for the printing of the question papers and the certificates for the grade examinations of dhamma schools in relation to 2021 and 2022 without calling competitive prices as per Government Procurement Guideline 2006.Furthermore, even though 832,875 students had applied for grade examinations in 2022, the printing of more 165,609 question papers than that and the printing of more 4,958 certificates more than 645,042 students who had appeared for the examination,428,578 out of question papers 1,067,946 printed without keeping the information on the number of students applied for the examination in 2021 and printing of 35,632 certificates more than 639,368 students appeared for the examination, an idle expense of Rs.6.2 million had occurred.

Hindu Religious and Cultural Department

Not giving the certificates and awards to the dhamma School students

Even though the competitions related to dhamma School level, regional level, district level and national level of National Creation Competition for 2022 (2023) conducted by department had been conducted with an expenses more than Rs.4 million in 2023 and released the results, the certificates and awards pertaining to that had not given to the dhamma school students.

Department of Public Trustee

Making loss from estate administration

Even though the income can be used for the fulfillment of the objectives of the estate owners by administrating the estates handed over to the department, a loss of Rs. 5.01million had occurred in relation to 11 estates belonging to 07 estates administrated by the department in 2023. It is minus 26 percent of the expected profit of Rs. 19.58 million

Treasury and Public Debts

Parliament shall have full control over public finances in terms of the provisions of Article 148 of Chapter XVII of the Constitution of the Democratic Socialist Republic of Sri Lanka in relation to public financial control. As per Article 149 of the Constitution, the revenue and receipts collected by the government should be credited to the Consolidated Fund, and according to Articles 150 and 152 of the Constitution, it has been specified how payments should be made from the Consolidated Fund. The main mechanism for planning, directing and monitoring these functions is the Treasury. As observations on government revenue are presented in a separate paragraph, this section presents information and observations on public expenditure and public debt and public enterprises.

Government Expenditure

The necessary legal provisions for government expenditure for the financial year 2023 had been made by Appropriation Act No. 43 of 2022. Accordingly, the provision of Rs. 7,879,499 million had been made available for government supplies and services, including provision for special legal services, which is an expense to the Consolidated Fund, which has been approved by the provisions of the Appropriation Act and the existing laws. In addition to that, a supplementary estimate for the year under review was presented to the Parliament and a provision of Rs.268,000 million was made available A provision of Rs.9,565,000 million had been made available through a Special Legal Service Warrant under Article 150 of the Constitution. . Accordingly, a net provision of Rs. 17,675,999 million had been made available for supplies and services in the year under review. The details are shown in Table 2.1

Financing	Capital Provision	Recurrent Provision	Total
	Rs. Million	Rs. Million	Rs. Million
Provision made available in Appropriation Act for Supplies and Services (Schedule I of Appropriation Act)	1,225,266	2,432,000	3,657,266
Provisions for Special Legal Services authorized by existing laws, which were an expense to the Consolidated Fund (Schedule II of the Appropriation Act)	2,019,970	2,202,263	4,222,233
Additional provision made available for supply and service expenses (by way of supplementary estimates)	231,500	36,500	268,000
Ceased provisions made for supplementary provision	(11,000)	(25,500)	(36,500)
Additional provision for special legal service expenses	9,000,000	565,000	9,565,000
Provisions transferred to capital by recurrent provisions in terms of F.R.	9,446	(9,446)	-
Total	12,475,182	5,200,817	17,675,999

Table 2.1 - Provision made available for government supplies and services
Source - Appropriation Act No. 43 of 2022 and Supplementary Estimates
Source - Annual Report 2023- Ministry of Finance Economic Stabilization and National Policy

As per Section 6 of the Appropriation Act No. 43 of 2022, Head 240 under the Development Programme of the National Budget Department, additional allocation of Rs.356,099 million was given to be used only for the tasks mentioned in paragraph 3.1 of the Annual Budget Estimate under the Complementary Support Services and Emergency Needs Responsibility Project. Out of that total provision, Rs. 301,767 million had been transferred to other expenditure heads. According to that, the provision of Rs. 54,332 million had been saved. The details are shown in table 2.2

Nature of Expenditure	From Appropriation Act	From Supplementary	F.R. 66/69 Transfers	Net Provision	Transfer of Provisions to Expenditure Heads	Saving of Provisions
	Rs. Million	Rs. Million	Rs.Million	Rs. Million	Rs. Million	Rs. Million
Recurrent	167,788	20,000	-	187,788	181,016	6,772
Capital	168,311	-	-	168,311	120,751	47,560
Total	336,099	20,000	-	356,099	301,767	54,332

Table 2.2 - Allocations under the Supplementary Support Services and Emergency Needs Liability Project and transfer of those allocations to other Expenditure Heads
Source - Financial Statements 2023 of National Budget Department

Audit Observation

Savings of Total Provision

A provision of Rs.17,675,999 million was made available for government supplies and services in the year 2023 and the provision made available for the previous year had been Rs.6,482,350 million. Accordingly, as compared to the previous year, the allocation for the year 2023 had increased by Rs.11,193,649 million equal to 172.68 per cent. Due to the utilization of Rs.10,674,332 million from the total provision made in the year 2023, a sum of Rs.7,001,667 million equal to 40 per cent of the total provision, had been saved.

Saving of Recurrent Provisions

The total net provision for recurrent expenditure had been Rs.5,200,817 million and due to Rs.4,729,386 million was utilized in the year under review, a provision of Rs.471,431 million had been saved. The saving had been 9.06 per cent of the total recurrent provision.

Savings of Investment Provisions

A net provision of Rs. 1,449,742 million had been made available for public investment and out of that, a sum of Rs. 932,745 million had been utilized in the year 2023. Accordingly, the provision of Rs. 516,997 million had been saved. The saving had been 36 per cent of the net provision made available.

Saving of Provisions made for Repayment of loan installments

Out of the net provision of Rs. 11,025,440 million made available for domestic and foreign loan installments, a sum of Rs.5,012,201 million had been spent for repayment of loans. Accordingly, out of the provision made available, a sum of of Rs.6,013,239 million equal to 55 per cent of the net provision had been saved.

Growth in Interest Expense

A sum of Rs.2,455,599 million had been spent for interest in the year 2023. It had been Rs 1,565,190 million in the preceding year and as compared to preceding year, it had increased by Rs 890,409 million equal to 56.89 per cent. The detailed diagram is shown in 2.1

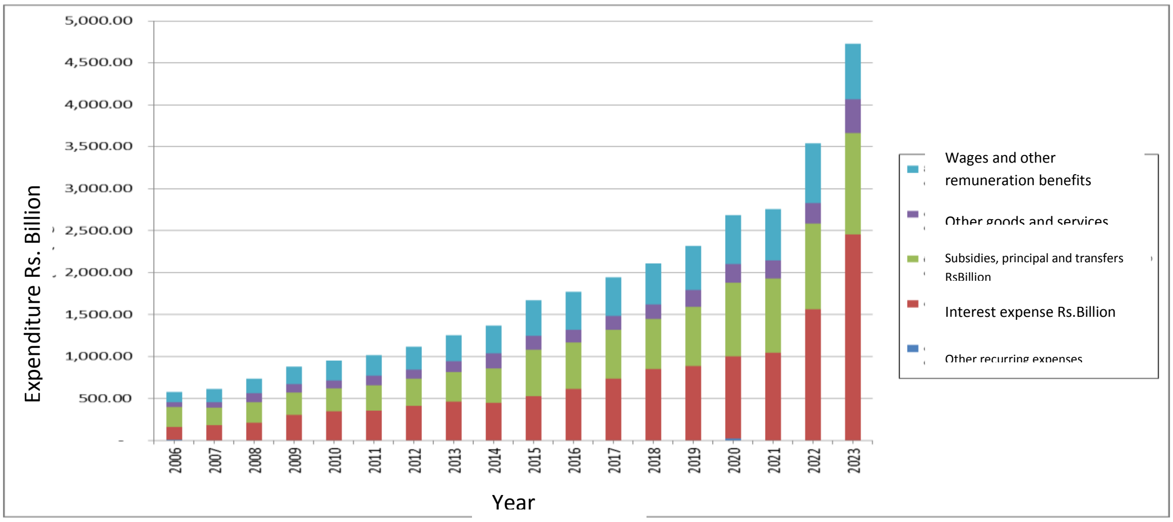


Diagram 2.1 Total Recurrent Expenditure and Interest Expenses

Source - Government Financial Statements

Deficit of Revenue

As per the statement of budget performance and deficit financing in the financial statements submitted to the audit for the year 2023, the revenue deficit had been Rs. 1,650 billion and it had been Rs. 1,540 billion in the preceding year.
The minimum value of the revenue deficit was recorded in the year 2007 and it had been Rs.43 billion and it had represented 7.52 per cent of the collected government revenue. During that period, the total revenue deficit had been Rs 7,969 billion. Local and foreign loans and foreign grants had been taken to cover the deficit.

Borrowings to settle Revenue Deficit

Domestic loans amounted to Rs. 28,025 billion, foreign loans amounted to Rs.8,318 billion and foreign grants of Rs. 271 billion totalling to Rs.36,614 billion had been obtained during the period from 2006 to 2023. The revenue deficit was financed by percentages ranging from 4.44 per cent to 45.59 per cent of the loans and grants so obtained in each year. 20.25 per cent in the year 2019, 45.59 per cent in the year 2020, 42.39 per cent in the year 2021, 30.59 per cent in the year 2022 and 19.65 per cent in the year 2023 were used to settle recurring expenses without making investments from the loans and grants that had been obtained.

Year --------	Actual Revenue (Tax and Non-Tax)	Actual Recurrent Expenditure	Deficit of Revenue	Deficit of Revenue as a Percentage of collected Revenue	Foreign Loans, Grants and Domestic Loans	Deficit of Revenue as a Percentage of loans and grants
	Rs. Billion ------------	Rs. Billion ------------	Rs. Billion ------------	Per cent -----------	Rs. Billion ----------	Per cent -----------
2006	477	579	102	21.38	514	19.84
2007	572	615	43	7.52	587	7.33
2008	664	736	72	10.84	678	10.62
2009	708	882	174	24.58	1,019	17.08
2010	826	951	125	15.13	918	13.62
2011	943	1,020	77	8.17	998	7.72
2012	997	1,118	121	12.14	1,108	10.92
2013	1,066	1,254	188	17.64	1,289	14.58
2014	1,128	1,370	242	21.45	1,397	17.32
2015	1,394	1,673	279	20.01	1,750	15.94

2016	1,699	1,771	72	4.24	1,623	4.44
2017	1,845	1,946	101	5.47	1,466	6.89
2018	1,935	2,109	174	8.99	1,883	9.24
2019	1,907	2,322	415	21.76	2,049	20.25
2020	1,379	2,683	1,304	94.56	2,860	45.59
2021	1,467	2,757	1,290	87.93	3,043	42.39
2022	1,999	3,539	1,540	77.04	5,035	30.59
2023	3,078	4,729	1,651	53.64	8,396	19.66
Total	**24,084**	**32,054**	**7,970**		**36,613**	

Table 2.3 Deficit of income failure to cover Recurrent Expenditure and Utilization from Loans and Grants
Source - Government Financial Statements from the year 2006 to the year 2023

Increase of Interest Payments

The interest of Rs.2,455 billion had been paid in the year 2023, which represented 51.91 per cent of the total recurrent expenditure. The interest payments were Rs. 1,565 billion equal to 44.22 per cent of the total recurrent expenditure in the preceding year. Interest payments had increased by Rs.890 billion as compared to the preceding year. Further , according to the policy decision of the interim suspension of foreign debt payments issued by the Ministry of Finance, Economic Stabilization and National Policy on 12 April 2022, although certain loan installments and interest payments had been suspended from 13 April 2022 until the end of the year under review, if the related payments have been done, it was observed that the deficit will continue to grow.

The interest payments of Rs. 151 billion in the year 2006 had increased by 1,526 per cent to Rs. 2,455 billion by the year 2023. Loans had to be taken to finance the Budget Deficit and the interest payments for that had increased annually. As per the budget performance and deficit financing statement out of the government revenue collected in the year 2023 amounting to Rs.3,079 billion, a sum of Rs.2,455 billion equal to 79.76 per cent of had to be paid as interest. This situation was continuously increasing annually during the relevant period and it had increased rapidly since 2019.

Year -------	Actual Recurrent Expenditure	Interest Expenses	Interest Expenses as a percentage of Recurrent Expenditure	Actual Revenue	Interest Payments as a percentage of Actual Revenue
	Rs..Billion ---------------	Rs..Billion ---------------	Per cent ---------------	Rs..Billion -------------	Per cent ---------------
2006	579	151	26.08	477	31.66
2007	615	181	29.43	572	31.64
2008	736	212	28.80	664	31.93
2009	882	303	34.35	708	42.80
2010	951	348	36.59	826	42.13
2011	1,020	353	34.61	943	37.43
2012	1,118	409	36.58	997	41.02
2013	1,254	465	37.08	1,066	43.62
2014	1,370	446	32.55	1,128	39.54
2015	1,673	527	31.50	1,394	37.80
2016	1,771	611	34.50	1,699	35.96
2017	1,946	736	37.82	1,845	39.89
2018	2,109	852	40.40	1,935	44.03
2019	2,322	889	38.29	1,907	46.62
2020	2,683	975	36.34	1,379	70.70
2021	2,757	1,048	38.01	1,467	71.44
2022	3,539	1,565	44.22	1,999	78.29
2023	4,729	2,455	51.91	3,078	79.76
Total	**32,054**	**12,526**		**24,084**	

Table 2.4 – Expenses of a Higher Percentage of the Collected Revenue on Paying Interest on Loans Sources - Government financial statements from 2006 to 2023

The total arrears of revenue balance as at the end of the year under review in relation to the main revenue collecting institutions, the Department of Inland Revenue, Sri Lanka Customs, Department of Excise and Department of Motor Traffic was Rs.1,127 billion.

The revenue of Rs.1,066 billion to be collected in relation to 2023 by the Department of Inland Revenue had been in arrears without collection. If it had been succeeded to collect such revenue in 2023, the revenue deficit of that year could have been reduced up to Rs. 584 billion i.e.41.29 percent. The revenue in arrears in 2023 and 2022 were Rs.620 billion and Rs. 904 billion respectively. In said years, if such revenue in arrears could have been collected, it was possible to reduce the revenue deficit in 2021 up to Rs.670 billion i.e. 48.36 percent and the revenue deficit in 2022 up to Rs.636 billion i.e.58.70 percent.

Year	Arrears of Revenue	Deficit of Revenue	Surplus/ (deficit) of Revenue if Arrears of Revenue Collected	Percentage by which Deficit of Revenue could have been reduced
---------	Rs. Billion ---------------------	Rs. Billion -------------------- -	Rs. Billion ---------------------	Per cent --------------------
2019	579	414	165	139.86
2020	698	1,304	(606)	53.53
2021	620	1,290	(670)	48.06
2022	904	1,540	(636)	58.70
2023	1,066	1,650	(584)	41.29

Table 2.5 – Arrears of Revenues of Department of Inland Revenue and its Impact on Revenue Deficit
Source - Financial Statements of Department of Inland Revenue from 2019 to 2023 and Government Financial Statements

Obtaining Public Debts

Government loans had to be taken because the revenue estimates were not accurately prepared or the failure of collecting revenue according to the revenue estimates prepared and the expenditure was not managed sparingly. Due to the gradual increase in the amount of public debt, the cost of loan interest has also increased annually and correspondingly the recurrent expenditure had increased. Accordingly, the revenue deficit had increased annually due to the inability to collect the estimated revenue as expected and the gradual increase in recurrent expenditure and the revenue was not sufficient to meet the annual expenditure.

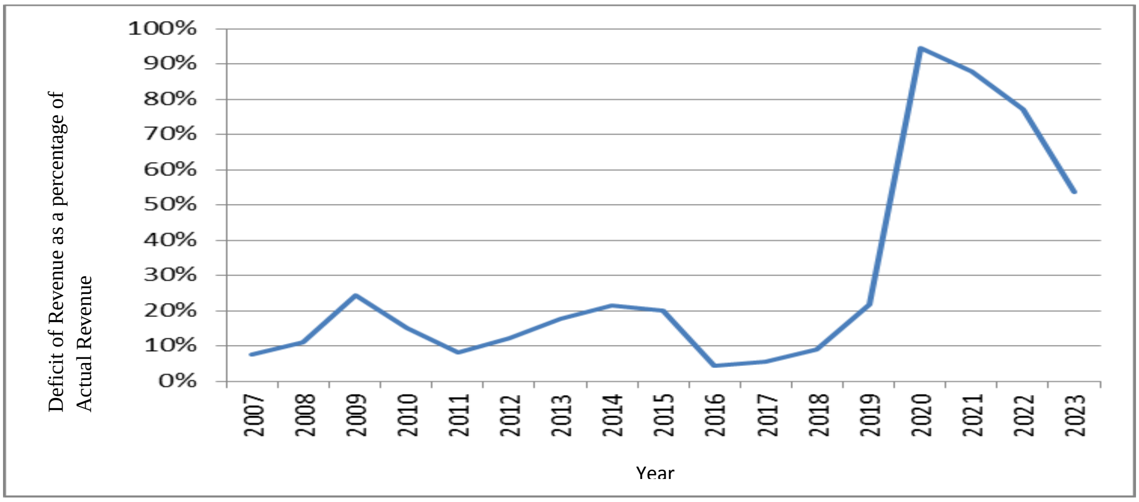


Diagram 2.2 – Deficit of Revenue as a percentage of Actual Revenue

Source - Government Financial Statements 2006 -2023

Increase in Budget Deficit

As per the Government financial statements, the Budget Deficit for the year 2023 had been Rs. 2,584 billion, which was 9.35 per cent of the Gross Domestic Product. The Budget Deficit in the year 2022 was Rs.2,555 Billion, which was 10.62 per cent of the Gross Domestic Product. There was a Budget Deficit throughout the entire period from 2006 to 2023, and the Budget Deficit of Rs. 300 billion in 2006 had increased to Rs.2,584 billion by 2023. During that period the highest Budget Deficit had recorded in the year 2023. The Budget Deficit as a percentage of Gross Domestic Product had ranged from 5.55 per cent to 14.08 per cent from the year 2006 to 2023. Even though the actual Budget Deficit as a percentage of the actual Gross Domestic Product should have been in the range of 5 per cent according to Section 3 (a) of the Fiscal Management (Responsibility) Act No. 3 of 2003, that position had not been maintained in any year during that period .

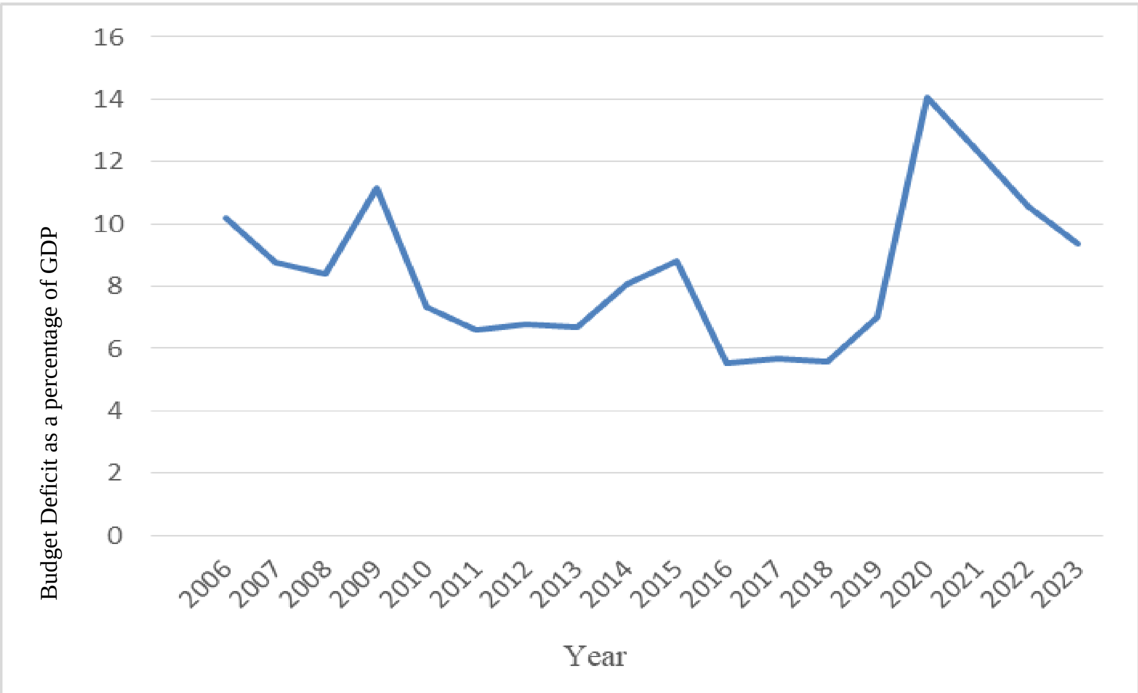


Diagram 2.3- Budget Deficit as a percentage of GDP

Source - Ministry of Finance Annual Reports and Government Financial Statements 2006- 2023

Budget Deficit Stated in Annual Report of Central Bank of Sri Lanka

Different figures had been reported between the Budget Deficit mentioned in the Government financial statements and the Budget Deficit mentioned in the Annual Report of the Central Bank of Sri Lanka. In this regard, it was informed that the Department of Fiscal Policy has prepared the Government financial statements as per the accounting classification and the Budget Deficit mentioned in the annual report of the Central Bank of Sri Lanka has been calculated according to the economic classification. According to the Annual report of the Central Bank of Sri Lanka in the year 2023, the Budget Deficit was Rs. 2,282,267 million. Nevertheless, that deficit was Rs. 2,583,601 million according to the Government financial statements. Accordingly, there was a difference of Rs. 301,334 million.

Financing Budget Deficit

The budget deficit had increased by Rs 28,860 million equal to 1.12 per cent in the year 2023 as compared to the previous year relating to the Government financial statements. As a net foreign loan of Rs 494,655 million and as a net domestic loan of Rs. 2,866,377 million had to be taken to cover the Budget Deficit.

Increase in Debt Balance

Due to the increase in Budget Deficit annually, the amount of borrowings had also increased. According to the Government financial statements, there had been a sum of Rs. 29,150 billion as the balance of debt to be paid by the government by the end of the year 2023. The balance consisted of Rs. 17,074 billion as domestic debt and Rs. 12,077 billion as foreign debt. The government debt balance had been Rs. 27,379 billion in the year 2022. Accordingly, as compared to the year 2022, the debt balance in the year 2023 had increased by Rs. 1,771 billion equal to 6.47 per cent. The debt balance of Rs.2,431 billion had been at 82.72 per cent of the Gross Domestic Product in the year 2006, and by the end of 2023, the debt balance had been Rs.29,150 billion, which was 105.5 per cent of the Gross Domestic Product. Further, according to Section 3(e) of the amended Fiscal Management (Responsibility) Act

No. 15 of 2013, although the government debt should be less than 80 per cent of the Gross Domestic Product, only the government debt liability had been 105.5 per cent of the Gross Domestic Product excluding other liabilities at the end of the year 2023 . The status of exceeding this limit has also existed in the years 2020, 2021 and 2022 .

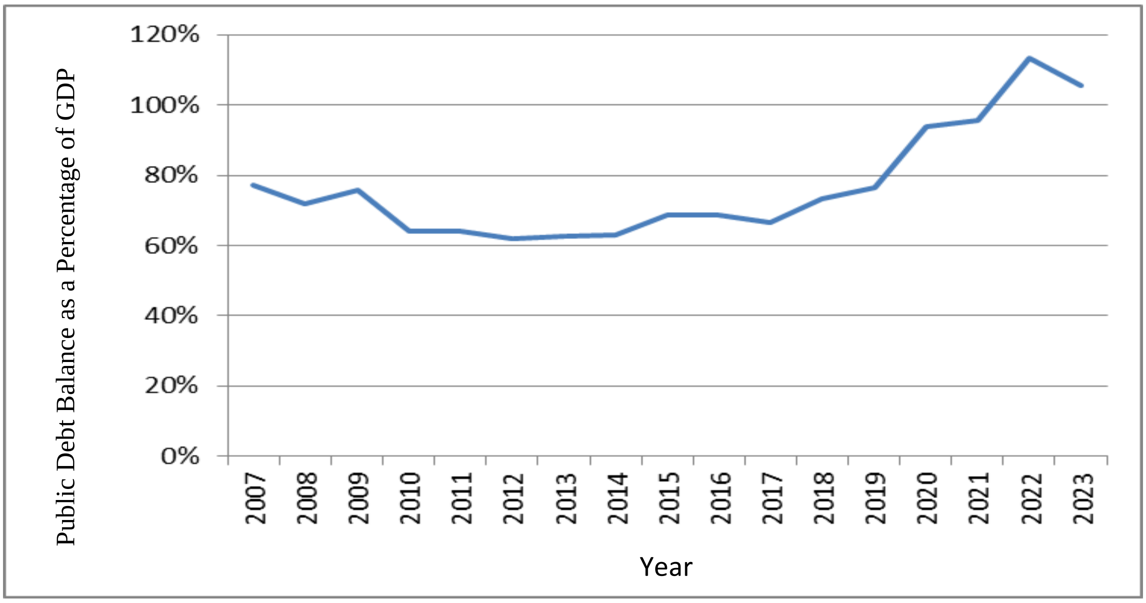


Figure 2.4- Public Debt Balance as a Percentage of GDP
Sources - Government Financial Statements 2007-2023 and Annual Reports of the Central Bank of Sri Lanka

Public Debts

Although it was contracted as at 31 December 2023, loan installment payments of Rs. 2,113,030 million, which is Rs. 1,439,066 million as principal loan payments and Rs. 673,964 million as interest, from 13 April 2022 to 31 December 2023 had been suspended in relation to 401 loan agreements according to the policy decision of the interim suspension of foreign debt payments issued by the Ministry of Finance, Economic Stabilization and National Policy on 12 April 2022 .

The Disbursed Estimate and the Actual Disbursed value of the year 2023 were as follows.

Development Stakeholder ----------------------------	Disbursed Estimate including Grants 2023 (USD. Million) ------------------	Actual Disbursed value Including Grants 2023 (USD. Million) -----------------	Variance (USD. Million) -----------	Variance, as a percentage of the Disbursed Estimate (Per cent) ---------------
World Bank	806	753.2	(52.8)	(7)
Asian Development Bank	1,011	856.9	(154.1)	(15)
China and the Asian Infrastructure Investment Bank (AIIB)	21	24.2	3.2	15
Japan	31	39.6	8.6	28
Korea	10	0	(10)	(100)
Middle East countries	47	28.9	(18.1)	(38)
South Asian countries	90	142.5	52.5	58
Russia, Australia and Western countries	30	32.2	2.2	7
UN Agencies including IFAD	15	9.7	(5.3)	(35)
International Monetary Fund	682	681.5	(0.5)	0.07
Total	--------- **2,743** =====	----------- **2,568.7** ======	----------- **(174.3)** ======	

Table 2.6 - 2023 Performance Plan by Performance Plan
Source: Annual Report of the Central Bank of Sri Lanka

Disbursed Values

Although the total value of the disbursed estimate for the year 2023 was USD. 2,743 million, thus the actual disbursed value was USD 2,568.7 million, the actual disbursed value had decreased by USD 174.3 million, equal to about 6 per cent, of the disbursed estimate.

The actual disbursed value of debts received from South Asian countries, Japan, Republic of China and the Asian Infrastructure Investment Bank and Russia, Australia and the Western countries had increased by 58, 28, 15 and 7 per cent, respectively as compared to the disbursed estimate.

Expected loans to be obtained from World Bank, Asian Development Bank, Middle East countries and UN agencies including IFAD had decreased by 7, 15, 38 and 35 per cent respectively.

Although the loans from Korea were estimated to be received during the year under review, the loans had not been obtained even by the end of the year.

Domestic and Foreign Loans

Foreign loans amounted to Rs.831,951 million, domestic non-bank loans (including net borrowing from Treasury Bills) of Rs.7,541,282 million, totalling Rs. 8,373,233 million had been obtained according to the Government financial statements in the year 2023. It is an increase of Rs.3,371,379 million equal to 67.40 per cent as compared to the amount of Rs.5,001,854 million (including net borrowings from Treasury Bills) borrowed preceding year. The government had paid more attention to domestic debts in the year 2023. Accordingly, the amount of local debt borrowings in the year 2023 had increased by Rs. 3,322,753 million equal to 78.77 per cent when compared with the amount of domestic debts of Rs. 4,218,528 million borrowed in the preceding year (including net borrowing from treasury bills). Details of borrowings for the year under review and for the preceding year are shown in the Table 2.7

Description	**2023 Rs. Million**	**2022 Rs. Million**
Foreign Borrowings	831,951	783,326
Domestic Borrowings		
Treasury Bills (Net)	(33,929)	1,855,672
Treasury Bonds	**7,614,523**	**2,373,044**
Foreign Currency Banking Units (Non-Project)	(39,656)	(77,701)
Development Bonds	**344**	**67,441**
Foreign Currency Banking Units (Non-Project))	-	72
Local Term Loan Facilities	**-**	**-**
Total Domestic Borrowings	**7,541,282**	**4,218,528**
Total amount of Borrowings during the year	**8,373,233**	**5,001,854**

Table 2.7 - Domestic and Foreign Borrowings obtained by the Government
Source - Government Financial Statements 2022 and 2023

Balance of Total Public Debts to be Paid

The total balance of public debt to be paid (excluding bank overdraft) as at 31 December 2023 was Rs. 29,150,389 million as per the Government financial statements and it had increased by Rs 1,771,102 million equal to 6.47 per cent as compared to the total balance of public debt (excluding bank overdraft) of Rs. 27,379,287 million as at 31 December 2022. A description of the total public debt at the end of the previous year and the year under review is shown in the table 2.8 below.

Description	Balance as at 31 December	
	2023	**2022**
	Rs. Million	**Rs. Million**
Treasury Bills	4,092,454	4,126,384
Treasury Bonds	12,021,359	8,692,135
Rupees Loan	-	24,088
Sri Lanka Development Bonds	-	391,737
Domestic Loans in Foreign Currency	77,742	131,372
Foreign Currency Banking Units (Projects)	20,269	24,500
Loans taken for Construction of Suhurupaya Buildings	3,982	4,551
Treasury Bonds (Active Liability Management Act)	23,000	30,000
Retirement Gratuity Loans	44,854	48,924
Leaseholders	1,313	1,865
Domestic Term Loan Facilities	-	-
Ceylon Petroleum Corporation guaranteed by the government	788,682	884,093
Total Domestic Debts	**17,073,655**	**14,359,649**
Foreign (Projects)	7,301,756	7,665,019
Term Loan Facilities in Foreign Currency	709,741	797,589
International Sovereign Bonds	4,065,237	4,557,030
Total Foreign Debts	12,076,734	13,019,638
T otal Public Debt Balance	**29,150,389**	**27,379,287**
Estimated Gross Domestic Product	**28,103,000**	**23,843,000**
Total Public Debt Balance as a Percentage of Estimated Gross Domestic Product	103.73	114.83

Table 2.8 - Debt Balance as at the end of the financial year
Source - Government Financial Statements 2022 and 2023

Exceeding of Maximum Liability Limit

As per the Fiscal Management (Responsibility) Act No. 3 of 2003 as amended by the Fiscal Management (Responsibility) (Amendment) Acts No. 12 of 2021 and No. 15 of 2013, although the maximum debt value that can exist at the end of a particular year should not exceed 80 per cent of the estimated

Gross Domestic Product for that year, when considering the unaccounted foreign debt as at 31 December 2023 the liabilities had been entered into exceeding that limit in the year under review. The details are shown in Table 2.9

Liabilities	Value of Liabilities as at 31 December 2023 Rs .Billion
Bank Overdraft	80
Public Debt (As per Government Financial Statements)	29,150
Central Bank Advances	-
Liabilities not accounted for in the Financial Statements:	
• Unaccounted Foreign Debts	15
Total Liabilities	29,245
Estimated Gross Domestic Product	28,103
Total Debts as a Percentage of Estimated Gross Domestic Product	104.06

Table 2.9 - Exceeding of Maximum Liability Limit
Source – Government Financial Statements

Value of Guarantees and Comfort Letters given to Banks for Loans of Public Enterprises

A sum of Rs.2,034 billion, which was the value of the guarantees and letters of comfort given to the banks for the loans taken by the public enterprises on the guarantees of the Treasury and the value of Rs. 117 billion included in the liability statements of the annual financial statements of Ministries, Departments and Special Expenditure Units were not included in the above liabilities.

Amount of Debt Per Capita

The amount of Debt Per Capita in the year 2023 and in the previous 09 years are shown in the Diagram 2.5

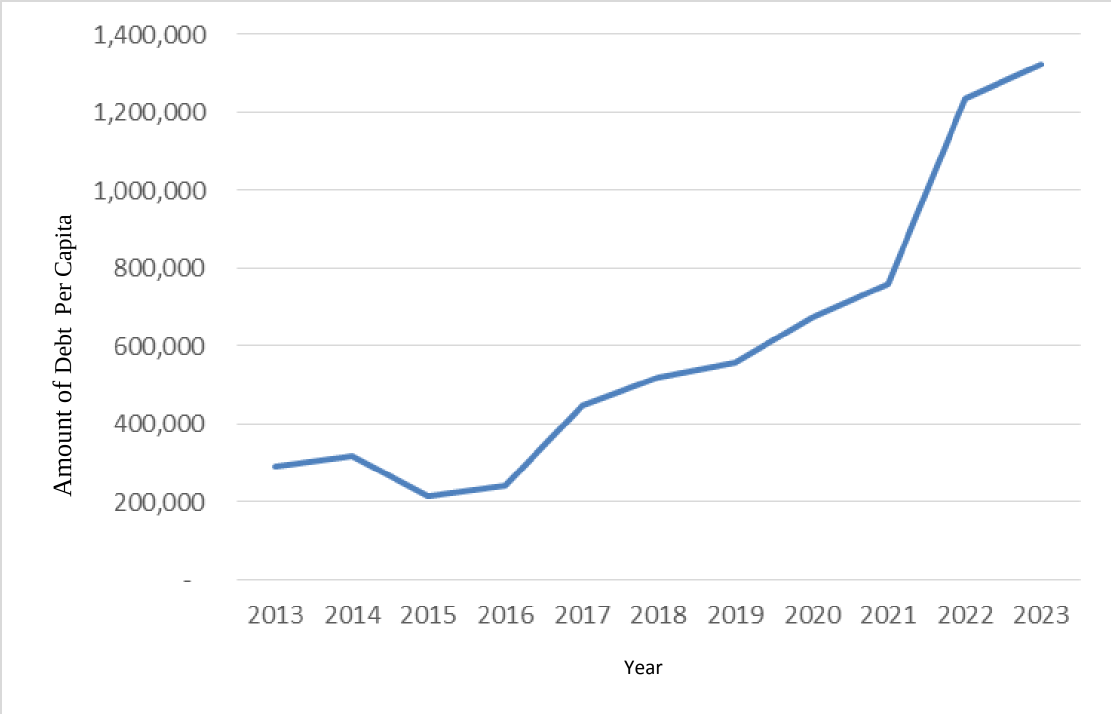


Diagram 2.5 - Amount of Debt Per Capita
Sources - Government Financial Statements 2007-2023 and Annual Reports of the Central Bank of Sri Lanka

As per the above information the Debt Per Capita value which was Rs.264,811 as at 31 December 2012 had increased to Rs.1,322,793 as at 31 December 2023 when comparing the total public debt with the median annual population. Similarly, it had increased by Rs.88,435 or 7.16 per cent as compared to the Debt Per Capita of Rs.1,234,358 as at 31 December 2022 .

Decrease in Government Revenue and Increase in Payments of Loan Installments and Interest

Net borrowings (Local and Foreign) had increased by Rs 208,368 million in the year under review as compared to the preceding year and interest payments for loans had also increased by Rs. 890,410 million equal to 56.89 per cent in the year under review as compared to the previous year. As in the previous years, the income collected was not enough to pay the loan installments and interest in the year under review. The details are shown in Diagram 2.6

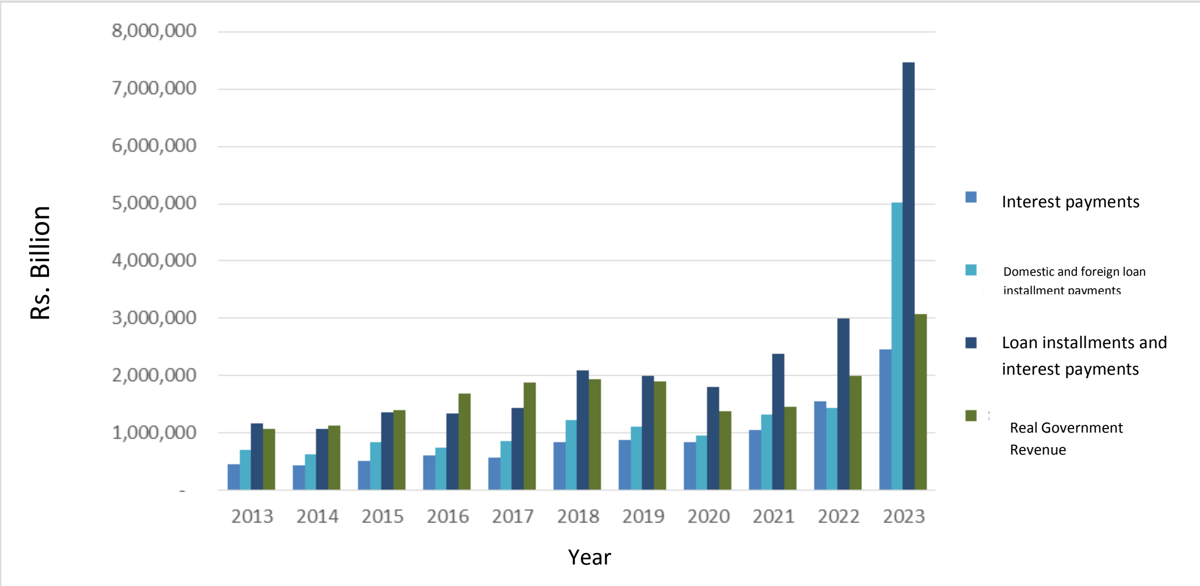


Diagram 2.6 - Insufficient of collected income to pay loan installments and interest
Source - Government Financial Statements 2013- 2023

Capital Contribution of Government to Public Enterprises

As per the Government financial statements as at 31 December 2023, the value of capital contributions for public enterprises was Rs. 2,407,633 million, and that value was Rs. 2,165,982 million as at 31 December 2022. Accordingly, the capital contribution for public enterprises in relation to the year 2023 had increased by Rs. 241,651 million equal to 11.16 per cent. Out of the 305 public enterprises supervised by the Department of Public Enterprises, the following facts were observed in the analysis of the financial statements of 101 public enterprises submitted for audit by the Department of Public Enterprises in relation to the year 2022.

Public Enterprises which are Continuously Incurring Losses

The value of 13 public enterprises for which the government had provided capital contribution as at 31 December 2023 was Rs 1,124,665 million and that value as at 31 December 2022 was Rs 1,047,967 million and according to the financial statements of those institutions as at 31 December 2022, their net assets (total assets - total external liabilities) had been minus Rs. 630,632 million. Accordingly, it was observed that although the capital contributions was listed under financial assets in the Government financial statements, its value has been fully impaired, and the relevant institutions have reached a state of being run under external liabilities. Taking a negative value of retained earnings due to the continuous losses of the respective institutions had mainly attributed for this.

Public Enterprises whose Capital Contribution is Impairing

According to the financial statements of 05 public enterprises with a government capital contribution of Rs.1,019,628 million and Rs.892,035 million as at 31 December 2023 and 31 December 2022 respectively, the value of net assets as at 31 December 2022 was Rs.371,771 million. Accordingly, it was observed that the capital contribution value invested in these public enterprises is undergoing impairment.

Public Enterprises whose Net Assets are Impairing

The capital contribution to public enterprises was Rs 2,165,982 million as at 31 December 2022 as per the Government financial statements and of which Rs 2,121,654 million had been invested in government corporations, statutory bodies and public companies. Nevertheless, according to the financial statements of the public enterprises belonging to this category, the net assets on that day had been Rs. 1,669,676 million . Accordingly, it was observed that the Government capital contribution of those institutions has impaired by 21 per cent equal to Rs. 451,977 million compared to the net assets of those institutions.

Total Net Loss

Even though a net profit of Rs 117,719 million has been earned during the year 2022, in relation to 32 Statutory Boards invested by the government, it was observed that a net loss of Rs 820,799 million has been made in relation to these 98 institutions due to the net loss of Rs 804,795 million and Rs 133,722 million respectively in relation to 36 state corporations and 30 public companies. According to the Annual Report of the Central Bank of Sri Lanka, the average annual population in the year 2022 was 22,181,000, and accordingly, it was further observed that the net loss per capita incurred for the year 2022 for 98 state-owned enterprises is about Rs. 37,000.

Risk of Facing Liquidity Difficulties

The current ratio had remained weak in relation to 17 public enterprises by the end of the year 2022. In particular, it was observed that the current ratio of Sri Lankan Airlines is at a very low value of 0.15. Accordingly, it was further observed that these public enterprises have a high risk of facing liquidity difficulties.

High Capital Leverage Status

A status of high Capital Leverage was observed in respect of 16 public enterprises. In some institutions, the long-term debt to be paid was higher than the capital from government. Also, public enterprises were observed where the Government capital contribution was negative and those institutions had been financed entirely by long-term debt. Accordingly, it was further observed that all these institutions have faced a high Financial Risk as well as a severe risk of going concern.

Increase in Capital Contribution of State Owned Enterprises during the year

As per the Government financial statements, the increase in capital contribution of state-owned enterprises was Rs. 269,386 million during the year under review and of which , a sum of Rs. 34,090 million, equal to 13 per cent, had consisted of cash released from the Treasury for the form of recurrent payments that is, loans and interest payments on loans and salaries and wages.

Payment of Loan Installments of Mihin Lanka (Private) Company

The approval had been given by the Decision of Cabinet of Ministers No. CMP/17/2383/733/026-1 dated 08 November 2017 for Proposal No. (a), (b), and (c) No. MOF/DG/LAD/CO/142/2017 in the Cabinet Memorandum dated 30 October 2017. Accordingly, after passing a special Proposal to liquidate the company, the court had appointed a liquidator on 18 March 2018 as per the request made by the Secretary to the Treasury to the High Court of Commerce. In spite of that, the Treasury had given a total of Rs. 713 million to that company in the form of Rs. 272 million and Rs. 441 million for the year 2021 and 2022 respectively for the payment of relevant loan installments and interest.

Government Revenue

According to the original estimate of the Annual Budget approved by the Parliament for the year 2023, the Government Revenue had been Rs. 3,408 billion and it had been Rs. 2,084 billion in the preceding year. Accordingly, the Government Revenue had been estimated increasing the Government Revenue by Rs. 1,324 billion equal to 64 per cent, as a percentage more than the preceding year.

Gross Domestic Product

The Gross Domestic Product had been Rs. 27,630 billion in the year 2023 and the Gross Domestic Product of the year 2022 had been Rs. 24,063 billion. Accordingly, in comparison with the preceding year, the Gross Domestic Product had increased by Rs 3,567 billion equal to 14.82 per cent.

Revenue Estimation

Even though, the Budget Deficit had been estimated based on the Revenue Estimate, the original Revenue Estimate had been revised up to Rs. 2,880 billion by redusing Rs. 528 billion by the revenue accounting officers. According to the Revised Revenue Estimate, the Government Revenue had been 10.4 per cent of the Gross Domestic Product. Although, the growth in Gross Domestic Product should be taken into account while preparing revenue estimates, it was observed that the revenue had been overestimated without paying attention to it.

Collected Government Revenue

The Government Revenue collected in the year 2023 had been Rs. 3,079 billion as per the Budget Performance and Deficit Financing Statement included in the Government's Financial Statements and it had been increased by Rs. 199 billion more than the revised revenue estimate. Accordingly, when comparing with the original estimate of annual income which was submitted to the Parliament, it had been decreased by Rs.329 billion. The reduction in the collected revenue over the revenue mentioned in the Revenue Estimate submitted to the Parliament in every year from 2012 to 2023 had ranged from 4.08 per cent to 26.06 per cent and the highest percentage in that time span had recorded in the year 2021.

Interest Payments

Out of Rs. 3,079 billion of Government Revenue collected, a sum of Rs. 2,455 billion equal to 79.73 per cent had been spent on interest payments as per Budget Performance and Deficit Financing Statement in the year 2023.

Arrears of Revenue Balance

The total balance of arrears of revenue receivable as at 31 December 2023 in relation to the Inland Revenue Department, Sri Lanka Customs, Excise Department and Department of Motor Traffic which are the main revenue collecting institutions, was Rs.1,127 billion.

Revenue Deficit

Government loans had to be taken because the Revenue Estimates were not prepared accurately or the revenue was not collected according to the prepared Revenue Estimates and the expenses were not sparingly managed. Recurrent expenses had increased due to the fact that borrowings had increased annually and the interest cost had increased annually. The Revenue Deficit had increased annually due to failure to collect the Estimated Revenue as expected and increase in recurrent expenditure, leading to insufficient revenue to recover the annual expenses.

Government Investments

Even though, it had failed to collect sufficient revenue to cover the recurrent expenditure during the period from 2006 to 2023, a sum of Rs.10,145 billion had been utilized as government investments during that period. In the analyzing the financial statements, it was obvious that the funds required for that utilization had been entirely made by public debt.

The revised estimates and Actual revenue collections of the Inland Revenue Department, Sri Lanka Customs, Department of Motor Traffic and Excise Department for 5 years including 2023 are as follows.

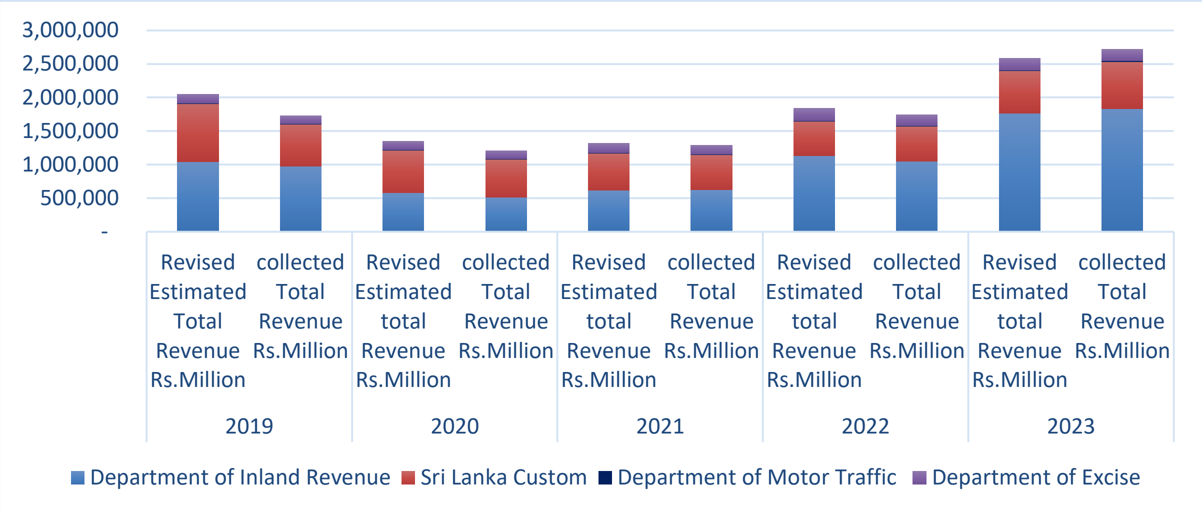
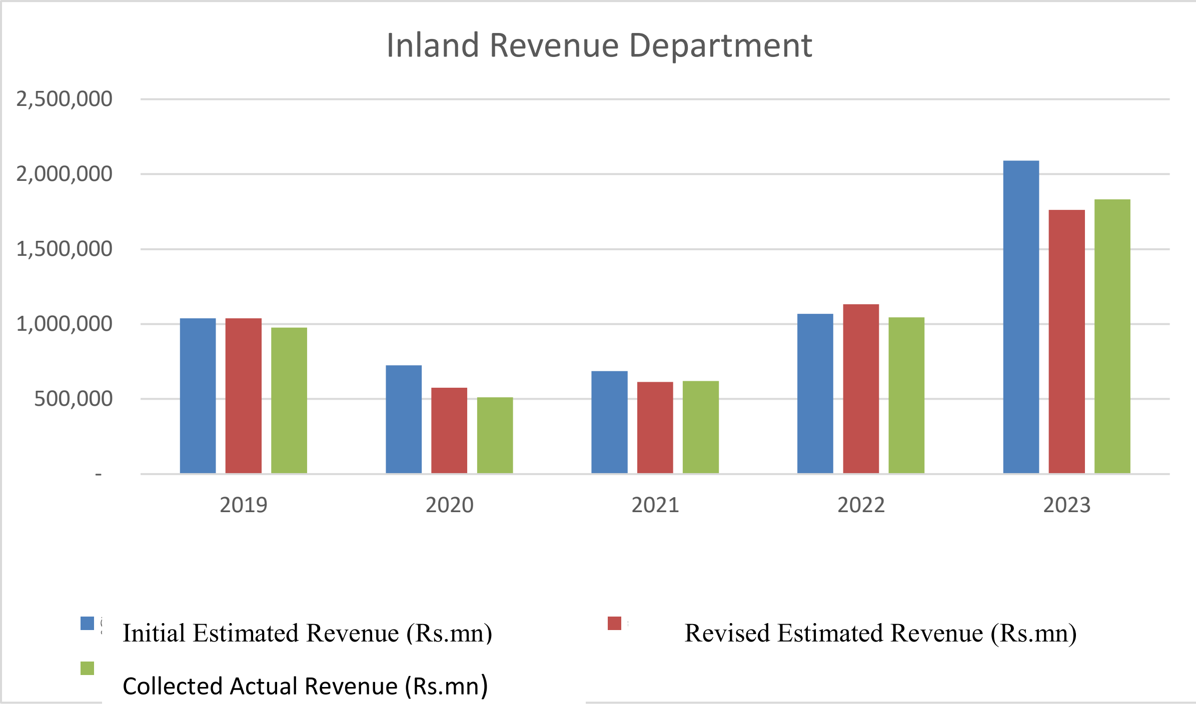


Diagram 2.7 - The revised estimates and Actual revenue collections
Source: Financial Statement 2023

Inland Revenue Department

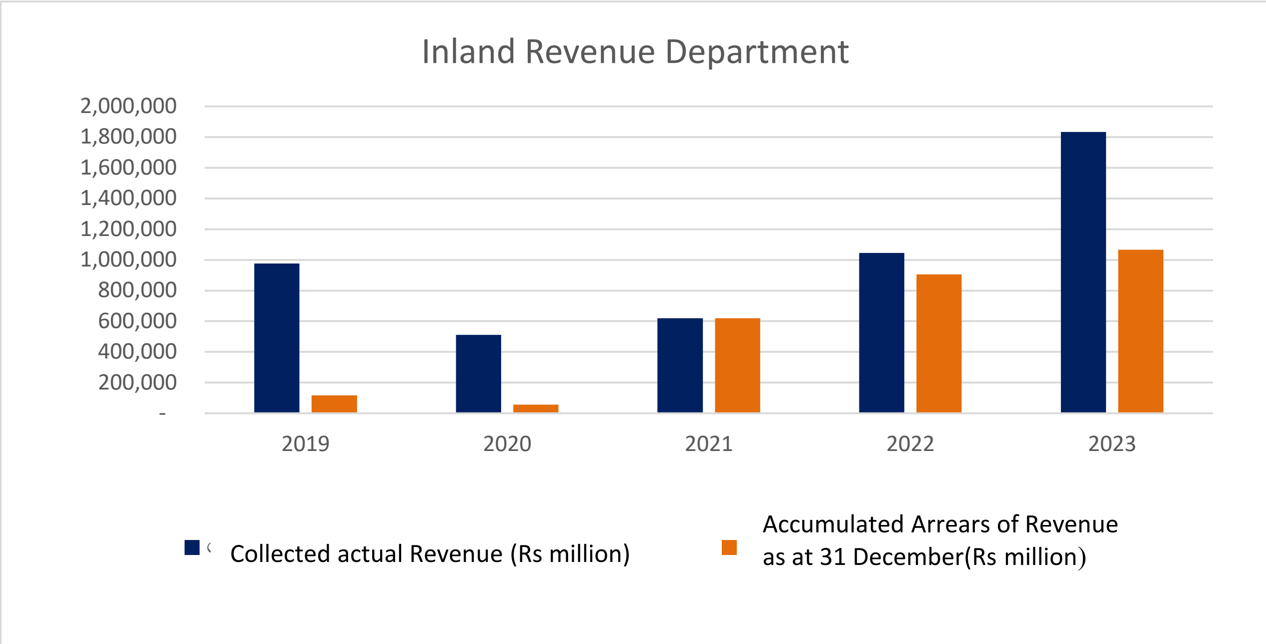
The details of the estimated revenue and collected actual revenue of the Inland Revenue Department for the last 5 years including the year 2023 are as follows.



Daigram 2.8: The Estimated and Actual Revenue of the Inland Revenue Department (2019 -2023)
Source: Financial Statement – Department of the Inland Revenue

Estimated and Collected Actual Revenue

The estimated total revenue of the Inland Revenue Department in the year 2023 was Rs. 2,090,013 million and although it was revised to Rs 1,761,984 million an income of Rs 1,832,274 million could have been collected during the year.



Daigram 2.9 : Accumulated Arrears of Revenue (2019- 2023)
Source : Financial Statement – Department of Inland Revenue

Arrears of Revenue

The total tax arrears of the Inland Revenue Department for the year 2023 had remained at Rs. 1,066 billion. If those revenues were managed to be collected in the year 2023, the Revenue Deficit of that year could have been reduced by Rs. 584 billion equal to 35.39 per cent.

Accordingly, the reasons such as the deficiencies in the Revenue Administration Management Information System, the long duration of the appeal process of arrears of taxes, and the lack of a specialized judicial system to implement court proceedings regarding the recovery of arrears of taxes had affected to the delays in collection of arrears of taxes by the Inland Revenue Department.

Failure to take actions to recover the tax revenue collected by third parties in a timely manner

Collection of a sum of Rs. 347,372 million out of total arrears of Value Added Tax amounting to Rs. 454,927 million as at 31 December 2023, had been held over temporarily for various reasons and the remaining Rs. 107,555 million of collectable Value Added Tax had not been recovered. Accordingly, due to the failure of the Department to collect the taxes to be recovered within the stipulated time, a risk of misappropriation or loss to the government of a large amount of revenue which had already sacrificed and paid by the public as revenue to the government had occurred.

As it was stated that "the Commissioner General shall not initiate any legal proceedings under Sections 42, 43, 44 or 48 of the Act for recovery of defaulted tax when 5 years have expired under Section 37" in the amended VAT Act No. 15 of 2008, the ability of the government to collect these arrears of VAT and penalties that were recoverable had been at a risk.

Maintenance of Revenue Administration Management information System

Actions had been taken to establish a Revenue Administration Management Information System (RAMIS) to enhance the efficiency of tax revenue collection by the Department and approximately a sum of Rs.14,428 million had been spent for that up to December 2023. Accordingly, due to the fact that the activities required for the performance of the RAMIS system was not done on time, the required staff had not been recruited to take over the System to the Inland Revenue Department even by January 2024. As a result, the approval of the Cabinet of Ministers had been received on 30 April 2024 to extend the maintenance service agreement of the RAMIS system for another period of 03 years from 01 February 2024 to 31 January 2027 and it was also observed that an amount not exceeding 31 million Singapore Dollars (Rs. 6,844 million) (tax-free as at the above date) will have to be spent.

Sri Lanka Customs

Estimated and collected Actual Revenue

The details of the estimated revenue and collected actual revenue of Sri Lanka Customs for the last 5 years including the year 2023 are as follows.

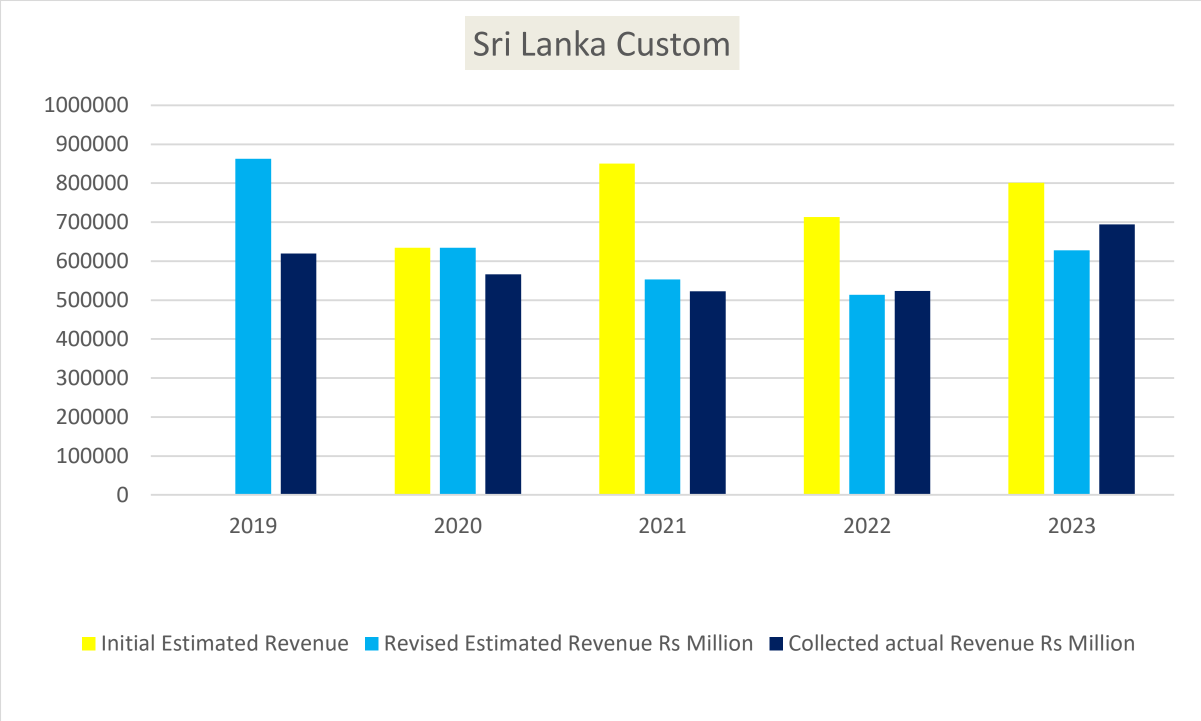


Diagram 2.10 : Esimated and Collected Revenue of the Sri Lanka Custom (2019 -2023)
Source : Financial Statement - Sri Lanka Custom

The estimated revenue of Sri Lanka Customs in the year 2023 was Rs. 800,949 million and it had again been revised to Rs. 628,054 million and a revenue of Rs. 694,082 million had been collected.

Arrears of tax revenue

Out of the total arrears of tax revenue amounting to Rs.58,479 million as at 31 December 2023 a sum of Rs.57,709 million equal to 99 per cent was the arrears of tax revenue remaining from the year 2020 and it had been difficult to find information related to the old arrears of tax revenue from the Department.

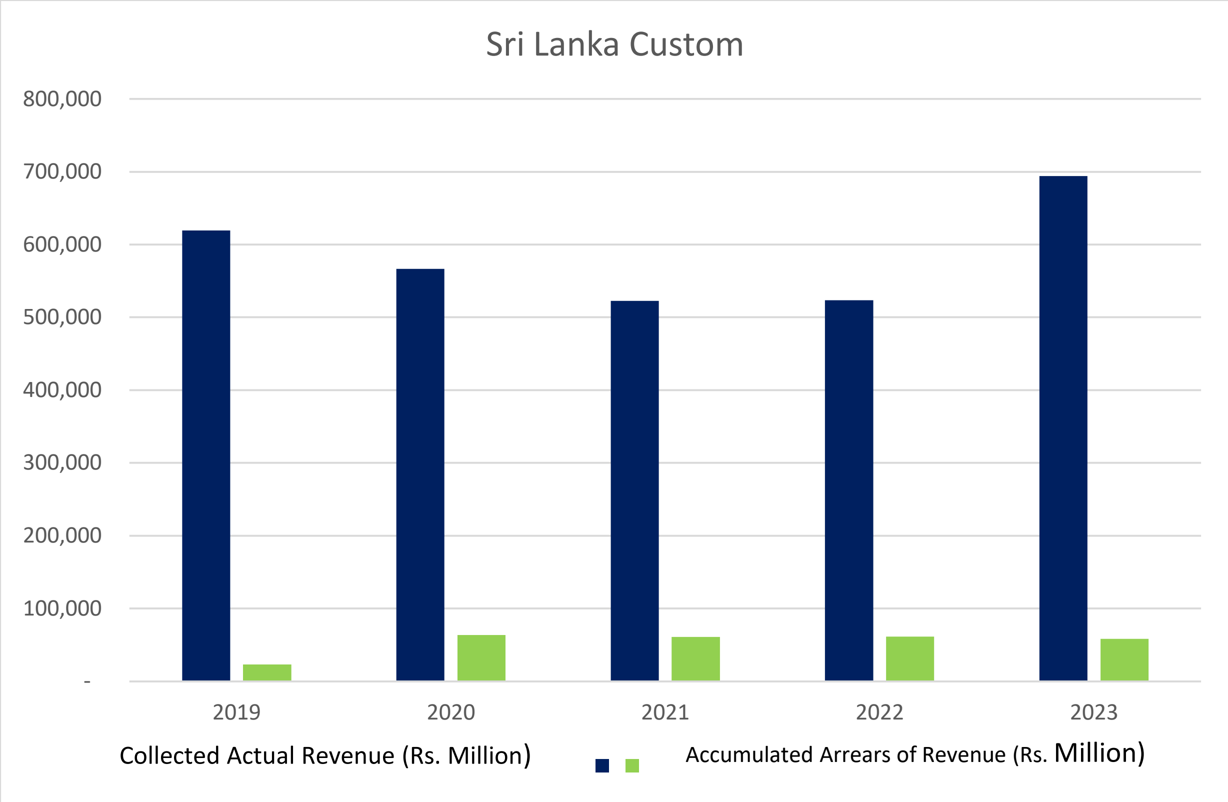


Diagram 2.11 : Collected and Arrears Revenue of the Sri Lanka Custom (2019 -2023)
Source : Financial Statement – Sri Lanka Custom

Not Furnishing Finger Scanner Machine Records

The finger scanner machine records, which are the corroborating evidence that 2,204 Sri Lanka Customs officers have reported for duty in the year 2023, were not submitted for audit. Accordingly, it was not possible to confirm during the audit that the accuracy of overtime payments amounting to Rs. 996 million.

Parking Vehicles in yards for long periods of time

A number of 435 vehicles which were impounded as at 31 December 2023 had been detained in a land that Customs had acquired from a private company in Mattakkuliya area by paying Rs. 41.8 million annually as rent and out of them, 152 vehicles were impounded before 5 years. Another 202 vehicles had also been detained at the Ruhunupura Port area and there were 36 vehicles impounded 5 years ago. There was also a situation where it was not possible to earn a fair amount from an auction since vehicles become decayed and become dilapidated for driving as a result of long periods of parking in yards.

Mitigation of for feited Value related to an attempt to Avoid custom duty

The amount of duty that a private company tried to evade in relation to a stock of animal feed imported in the year 2023 by submitting false invoices was Rs.15 million and the under value of goods was Rs. 64 million. However, actions had been taken to impose a mitigation for feiture of Rs.0.5 million for the value of the duty that was attempted to be defrauded at the end of the investigation and only a mitigation for feiture of Rs. 19 million for the value of goods under valued and it was a great mitigation as compared with the offense committed was observed.

Customs Offenses

Out of 1,902 customs offenses that were the basis of investigations concluded during the year 2023 there were 224 cases of import of excess goods, 498 imports of undeclared goods, 207 imports of under-declared value, 188 imports of prohibited or restricted goods and 211 other cases of violation of the Customs Ordinance.

Not releasing detained containers

Although appropriate actions should be taken as soon as possible in respect of goods declared illegal after apprehension in terms of Section 162 of the Customs Ordinance No. 17 of 1968, a number of 694 containers had been detained in different yards owned by the customs as 39 containers with various food items, medicines and fertilizers of unconfirmed value ranging from 02 to 12 years old, 448 containers consisting of various materials from 01 to 05 years old, 116 old containers from 05 to 10 years of unknown presence/absence of content and 38 containers over 10 years old, 53 containers of rice valued at Rs. 186 million from 01 to 06 years old until the end of 2023 without completing the investigations.

Department of Motor Traffic

Estimated and Collected Actual Revenue

The details of the estimated revenue and collected actual revenue by the Department Motor Traffic for the last 5 years including the year 2023 are as follows.

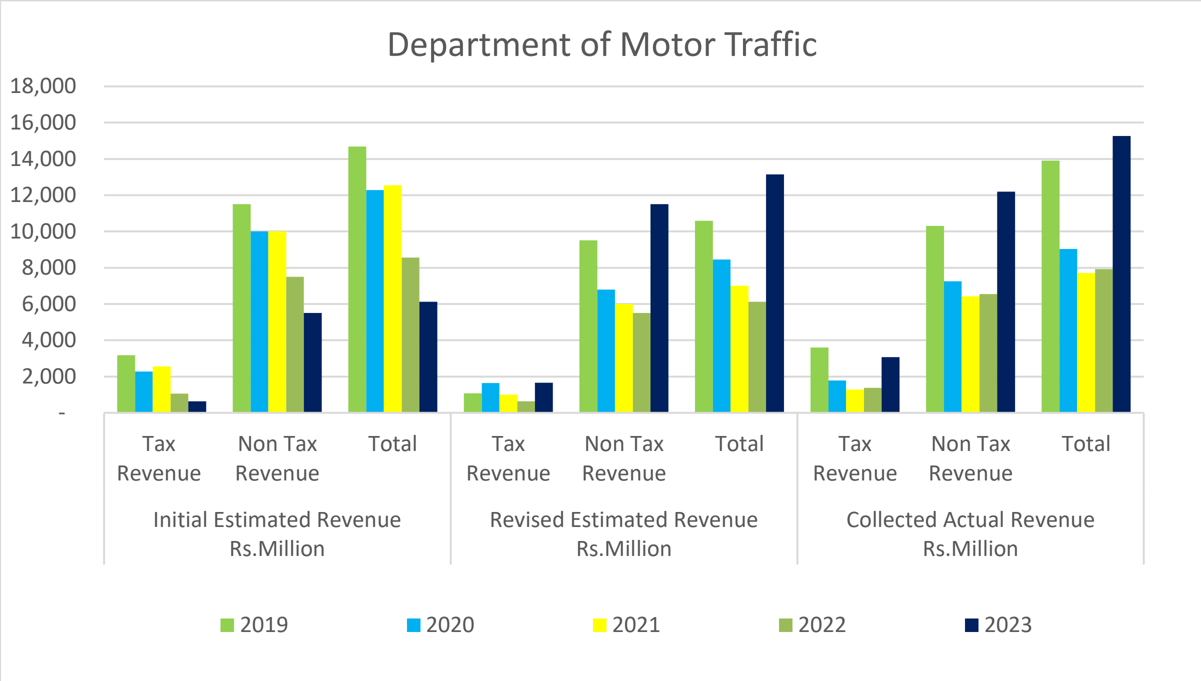


Diagram 2.12 : Estimated and Collected Actual Revenue 2019-2023
Source : Financial Statement of Department of Motor traffic

The estimated tax and non-tax revenue of the Department of Motor Traffic in the year 2023 was Rs.630 million and Rs.5,500 million respectively and although it was revised to Rs.1,650 million and Rs.11,500 million respectively, due to having collected Rs.3,064 million and Rs.12,198 million respectively during the year, it was observed that the Budget Estimates were changed without proper forecasting and Parliamentary approval. The arrears of luxury tax revenue had been Rs.137 million as at 31 December 2023.

Registration of Imported Motorcycles without following legal customs process

Provision had made for registration of motor vehicles with the Department of Transport subject to levy of a surcharge based on motorcycle fuel capacity imported without following a legal customs process. Due to failure of levying of receivables for 296 motorcycles in the category of engine capacity 201CC to 450CC during the registration so, it was observed that the government had lost a revenue of Rs. 78 million. Although the grace period for registration of motorcycles ends in 04 months from 30 August, 2016 as per decisions of Cabinet of Ministers, a number of 3,088 motorcycles had been registered in the period up to 30 May 2017 after the above grace period without obtaining an approval of Cabinet of Ministers and legal documents required for registration.

Non-completion of e-motoring Project

It had been planned to implement the e-motoring Project from the year 2004 to prepare the Electronic File Management System of the Department of Motor Traffic, to improve the vehicle registration data system, to connect the data systems of all related institutions in the performance of the Department's role and to establish a communication network by decentralizing services. Nevertheless, the planned e-motoring project had not been implemented up to the year 2016 and it had been entered into agreement on 19 July 2018 with a supplier to execute the respective project according to the decision of Cabinet of Ministers CMP/16/1231/709/011-1 dated 13 July 2016. Although the contract has to be completed within 5 years as per the agreement, the project had not been completed until the end of the year 2023. Although a total of Rs 441 million had been made available by the Budget Estimates for e-motoring project every year from 2018 to 2023 except 2020, the amount spent for the e-motoring project up to 31 December 2023 had been only Rs 0.18 million.

Provision of Duplicates

When a certificate or permitted letter issued under the Motor Vehicles Act or any order thereunder is lost or destroyed, a duplicate may be provided if the information is proved to the satisfaction of the issuing authority. Nevertheless, in contrary to that, the original copy had been issued in lieu of the second copy of the registration certificates in response to requests made by affidavit for certificates that have been outstanding from 5 years to 25 years after the second copy of the motor vehicle registration certificate was issued, in 19 cases in the year 2023.

Providing L plate

The law prohibits a trainee from driving a car alone without driving instructors approved by the Department of Motor Traffic. Under the authority of Section 203 of the Motor Vehicles Act. Even though an L board is provided to learn driving in such a background, it cannot be used in practice. Nevertheless, without assessment thereof, actions had been taken to use government funds of Rs.162.5 million to issue an

L-plate to driving license applicants who have passed the written test and proposed to appear for the practical test.

Non-collection of arrears of revenue and failure to records account

Although an income of Rs.4.1 million from the purchasers of the Werahera Canteen on lease basis and an income of Rs.2.5 million from the Head office and other institutions established on the lease basis of the Werahera premises were in arrears during the last five years, actions had not been taken to recover such revenue or to account for as arrears of revenue.

Special Audit Report on Fraudulent Entry of Chassis Numbers and Engine Numbers of Illegally Imported or Assembled Vehicles into the Motor Vehicle Registration Data System and Issuance of False Motor Vehicle Registration Certificates – 2022

Changing of data entered in the ERL system by North Western Province users

Revenue should be obtained from the first registration date of a motor vehicle registered in the Department of Motor Traffic, and the outstanding revenue license fee is signified in the ERL system according to the number of years of obtaining revenue licenses and the number of years without obtaining revenue licenses from the first registration date. The users of the North West Provincial Revenue License Issuance Data System had changed the first registration date included in the ERL system, i.e. backdated it and issued revenue licenses without charging the arrears of revenue fees calculated as above without the permission of any legal authority.

Changing of data entered in the System by Departmental users

The chassis numbers and engine numbers related 99 registered motorcycles which have been taken revenue licenses for previous years consistently, had been changed and the engine numbers and chassis numbers related other fraudulently imported motorcycles had been fraudulently entered and new motor vehicle registration certificates had been issued for the existing registration number and the Officials of the Department of Motor Traffic had taken actions to delete old data and update the system .

Lost Customs Duty Revenue

When considering the engine capacity of motorcycles whose data has been changed and chassis numbers and engine numbers have been illegally entered and a new (fake) registration certificate has been issued through the system, it was observed that the government had lost a customs duty revenue of Rs 55.21 million due to importation of motorcycles pertaining to registration No. 91 without a valid CUSDEC.

Lost Revenue

Due to fraudulent issuance of registration certificates under old numbers without recovery of surcharge the government had lost surcharge fees and new registration fees amounting to Rs.21.48 million related to 91 vehicles..

Changing of Chassis Numbers and Engine Numbers

The chassis numbers and engine numbers related 29 registered vehicles for other classes which have been issued revenue licenses for previous years, had been changed and the engine numbers and chassis numbers related other fraudulently imported vehicles had been fraudulently entered and new motor vehicle registration certificates had been issued for the existing registration number and the Officials of the Department of Motor Traffic had taken actions to delete data on old registration in the data system of the Department of Motor Traffic.

Non-payment of Revenue License Fees

The engine number and chassis number of 04 previously registered motorcycles with outstanding revenue license fees for a long period had been changed and entered the engine numbers and chassis numbers of 04 other illegally imported motorcycles, Then, Motor vehicle registration certificates had been fraudulently issued in the year 2022.

Fraudulent use of re-exported Vehicle Numbers

In cases where vehicles imported for foreign diplomats and non-governmental organizations are cleared duty-free under government sponsorship and registered in the Department of Motor Transport and then re-exported, the officials of Department of Motor Traffic had arranged to issue registration certificates in the name of another person by falsely entering the chassis number system and engine numbers of other luxury vehicles for the registration numbers of 06 deregistered vehicles.

Lost Tax Revenue

Due to fraudulent registration of vehicles imported into Sri Lanka or assembled in Sri Lanka in an illegal manner in the Department of Motor Traffic, it was observed that a tax revenue of Rs. 122.28 million which should have been collected by the Sri Lanka Customs, excluding luxury tax and other charges, has been fraudulently lost to the government

Excise Department

Estimated and Collected Actual Revenue

The estimated revenue and collected actual revenue of the Excise Department for the last 5 years including the year 2023 are as follows.

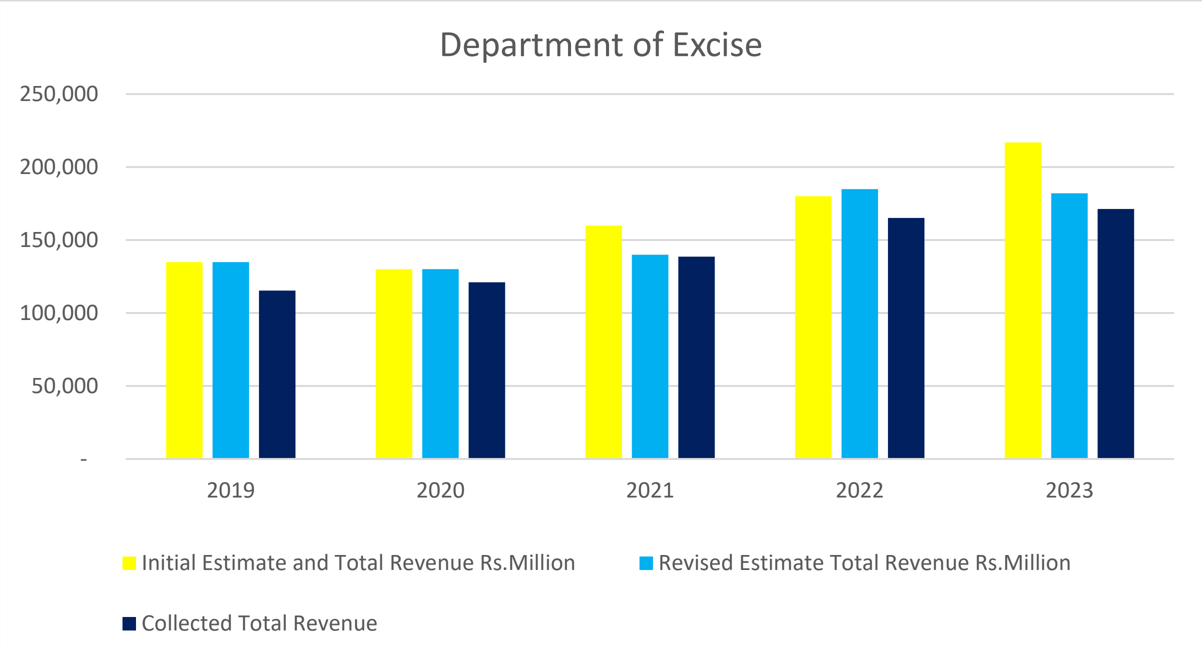


Diagram 2.13 : Estimated and collected Revenue 2019 -2023
Source – Financial Statement – Department of Excise

The estimated revenue of liquor tax and tobacco tax in the year 2023 was Rs. 217,035 million and a tax revenue of Rs 171,273 million had been collected by reducing by 16 per cent to Rs. 182,000 million and revised. Although the revenue collected was 94 per cent against the revised estimate it was 79 per cent ac compared to the original Budget Estimate. Increase in excise duty rates by 20 per cent had affected for the decrease of alcohol production by 8.39 million liters of absolute liquor equal to 19 per cent in the year 2023 compared to the year 2022 and increase in excise revenue.

Arrears of Excise and Tobacco Tax revenues

A gradual increase in arrears of income was observed in comparison of year 2023 with the previous 04 year of arrears of revenue reports. Details are as follows.

Year	Arrears of Income Tax as at 31 December (Rs. Million)
2019	3,799
2020	3,969
2021	4,550
2022	5,569
2023	7,271

Table 2.10 : arrears of revenue 2019- 2023
Source – Financial Statement Department of Excise

According to the arrears of revenue report as at 31 December 2023 the sum of the total arrears of excise revenue and the corresponding arrears of delay charges was Rs. 7,265 million including Rs. 7,159 million from 13 liquor manufacturing establishments, Rs.6.21 million from 13 toddy manufacturing establishments, Rs.31.48 million from 03 liquor distilleries and Rs.68.39 million in arrears of excise duty for waste from 04 liquor manufacturing establishments. Further, due to taking actions to import tobacco without obtaining registration certificates, a tobacco tax arrears of Rs.6.68 million were to be collected from 02 institutions as at 31 December 2023. When the inspection of 316 non-taxable entities for Beedi in the year 2023, it was observed that there were 212 organizations whose registration had not been renewed and follow-up had not been done, and 104 organizations who had not registered and paid taxes among them.

Reduction of Excise duty on Exports

According to Excise Notice No. 10/2019 published in Extraordinary Gazette Notice No. 2155/19 dated 27 December, an excise duty amounting to Rs.7,301 million had been levied in 32 cases for 04 manufacturing companies in relation to the year 2023 on the export of alcohol. Deficiencies in accounting and the process were observed related to the respective reductions.

Sticker Management Project

It had been stated that there were 1.33 million beer bottles and 3.36 million beer cans of various sizes were not printed digital feature in 54 cases during the period from 12 January 2023 to 19 September 2023 as per inspection notes of Excise Department officers during a field audit of a major grain liquor company implementing digital signage for liquor bottles. Further, it was observed that printing of approved digital feature on every bottle or can before reaching the consumer was not implemented consistently as introduced by Excise Notification 7/2021 upon observation of cases where the Excise Department had given written approval for the release and export of those bottles and cans to the identified areas.

The 03 respective factories had taken for 78 licensed places in accordance with the provisions of Section 25 of Excise Notification No. 7/2021 and Sections 27, 47 and 56 of the Excise Ordinance in respect of the 78 licensed places where fake stickers were attached to the bottles distributed for sale. Accordingly, a sum of Rs.40.5 million as maximum settlement fees of Rs.0.5 million. Each and Rs.17.94 million as related excise duty and 3 per cent late fees had been charged from 3 manufacturing establishments that had been investigated by being settled under technical crime Records in September 2023.

Revenue Administration System

It had been proposed to introduce Revenue Administration Information System (RASED) so that covering the areas such as licensing process, supervision of manufactories, distribution and supply chain regulation, crime data and law management, excise and tax administration etc. to achieve the objectives of efficient revenue administration for the Excise Department, providing high-level services to clients, streamlining data exchange with government agencies and implementing a streamlined supply chain for human resource management etc. Even though Rs.100 million and Rs.94 million had been allocated to software development for the system in 2022 and 2023 respectively, no expenditure was incurred during those years due to failure of fulfilling of those activities.

Proposed Excise Laboratory

Although Rs.100 million had been allocated in the year 2023 to set up a laboratory so that quality liquor can be released in the market and cases related to illegal liquor can be expedited, only Rs.1.48 million had been incurred.

Introducing Proper Standards for Liquor

Even though, standards had been prepared under 16 criteria for 11 types of liquor under the introduction of proper standards for liquor, issuance of gazette notifications relating to standards and establishment of standards for manufacturing to enforce provisions for production as per standards and establishment of standards for toddy had not been achieved until the end of the year 2023.

National Lotteries Board

The National Lotteries Board had been incorporated in the year 1963 under the Finance Act No. 11 of 1963 with the objective of increasing the contribution to the government by increasing the existing level of income and profitability.

Retention of Funds to be provided to Consolidated Fund.

Although the National Lotteries Board shall credit the balance to the Consolidated Fund after deducting the expenditure specified in the Act from the lottery ticket revenue, in contrary to those provisions, a sum of Rs.3,603.1 million had been retained in the Fund of the Board as at 31 December 2023 without being credited to the Consolidated Fund. Similarly, the amount to be given to the Consolidated Fund had been given by Rs. 517.84 million less due to the remittance of less than the prescribed percentage in 11 lotteries including special lottery held by the Board during the year under review.

Non-compliance with Laws, Rules, Regulations and Management Decisions Ect.

The Board had given 06 salary increments each from October 2023 onwards to 341 officers who were employed only on the approval of the Board of Directors without obtaining the prior approval of the Department of Management Services of the Treasury in contrary to the Financial Regulations 71 of the Democratic Socialist Republic of Sri Lanka and the Provisions of 3. 2 (i) of the Operational Manual issued by the Management Services Circular No. 01/2021 dated 16 November 2021 and the expenditure incurred for the increased salaries only related to the financial year 2023 was Rs.3.1 million.

Although all expenses related to anniversary activities of government institutions should be waived in terms of Section 2.8 of Public Enterprises Circular No. PED 04/2022 dated 08 August 2022, a total of Rs 34.6 million had been spent for providing voucher of Rs.63,000 each to the serving officers of the Board for the purchase of goods and hosting a music party for the 60th anniversary in the year 2023.

Development Lotteries Board

Supply of Official Vehicles

Official vehicles were provided for five officers who do not have official vehicle entitlements in terms of Paragraph 2.3 of Department of Public Enterprises Circular No. PED/1/2015 dated 25 May 2015 and a total of Rs 2.9 million had been spent for that purpose in the year under review as fuel expenses. Further, an officer who does not have an official vehicle entitlement was given a motor vehicle obtained by the Board under the operating lease system and a sum of Rs. 2.02 million had been paid as operating lease rent for that motor vehicle during the year 2023.

Percentage allowed for returns

The Management had given approval to increase the percentage allowed for returns from lotteries issued to distributing dealers from 05 per cent to 10 per cent from February 2023. The number of lottery tickets returned from 03 types of lotteries named Valampuri, Lucky Freedom and Super Dhana Sampatha was Rs.5.16 million during the year 2023 and it was 28, 17 and 21 per cent respectively of the lottery tickets issued for sale. The printing cost of the unsold returned lottery tickets had been Rs.14.7 million.

State Banks

The Banking Sector, the main sector of the financial sector, which claimed for 61.5 percent of the total assets of the financial sector by the end of 2023, was able to withstand the challenges of the economic crisis and adverse global conditions with the assistance of the capital and liquidity levels maintained above the minimum regulatory requirements. By the end of 2023, the banking sector consisted of 30 banks, namely 24 licensed commercial banks including 11 foreign bank branches and 6 licensed specialized banks.

Assets of the Banking Sector

Total assets of the banking sector increased by Rs 989.4 billion during the year and reached over Rs 20.0 trillion by December 2023. Banking sector assets recorded an annual growth of 5.1 percent at the end of 2023, compared to the annual growth of 15.4 percent at the end of the year 2022. Conversion of loans and receivables and investments denominated in foreign currencies into Sri Lankan rupees along with an overvalued exchange rate was the main cause for this slowdown in growth. Loans and receivables contracted by 2.6 percent annually at the end of the year 2023, compared to 5.5 percent annual growth at the end of 2022, driven by the tight monetary policy stance within the first half of the year 2023.

Liabilities of the Banking Sector

Deposits, which continued to be the main source of funding for the banking sector, had been 81.5 per cent, of the total liabilities in the balance sheet by the end of the year 2023, and borrowings contributed to 6.8 per cent.

Item	2022 (a)		2023 (b)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2022	2023
Assets						
Loans & Advances	11,312.5	58.3	11,017.6	54.0	5.5	-2.6
Investments	5,931.7	30.5	7,314.0	35.8	19.4	23.3
Others (c)	2,172.4	11.2	2,074.4	10.2	92.1	-4.5
Liabilities						
Deposits	15,298.7	78.8	16,623.6	81.5	18.8	8.7
Borrowings	1,871.6	9.6	1,389.0	6.8	-13.9	-25.8
Capital Funds	1,598.1	8.2	1,766.9	8.7	18.5	10.6
Others	648.2	3.3	626.5	3.1	52.2	-3.4
Total Assets/Liabilities	19,416.6	100.0	20,406.0	100.0	15.4	5.1

Figure 2.14: Composition of Assets and Liabilities of Banking Sector
Source:. Central Bank Reports 2023

Stage 3 Credit risk in the Banking sector

Credit risk in the banking sector remained elevated at the end of 2023 as illustrated by the credit ratio under stage 3. The Stage 3 loan ratio of the banking sector had increased to 12.8 percent at the end of the year 2023 from 11.3 percent at the end of 2022, mainly due to the increase in Stage 3 loans and the contraction of loans and receivables. Thereby, credit quality in the sector had been problematic. However, provision for stage 3 loans (including unused credit limits) grew by 18.4 percent annually. As a result, when compared to the credit impairment coverage ratio of 44.9 percent under the stage 3 at the end of the year 2022, it had recorded an increase to 49.3 percent at the end of the year 2023.

Liquidity in the banking sector

Due to higher growth in liquid assets represented by government securities denominated in rupees, liquidity in the banking sector indicated by the Statutory Liquid Assets Ratio (SLAR) and Liquidity Coverage Ratios (LCRs) grew in the year 2023.

Profitability in the banking sector

Profitability indicated an increase during the year mainly due to the decrease in new loan impairment charges. In the year 2023, interest income in the banking sector increased by 25.5 percent. The increase in interest expenses by 42.7 percent had been the reason for the decrease in net interest income by 4.9 percent. As a result, the net interest margin, which was 4.0 percent at the end of the year, had decreased to 3.6 percent at the end of the year 2023.

Item	2022 (a)		2023 (b)	
	Amount (Rs. bn)	As a % of Avg. Assets	Amount (Rs. bn)	As a % of Avg. Assets
Net Interest Income	**750.8**	**4.0**	**713.8**	**3.6**
Interest Income	2,079.4	11.0	2,609.0	13.0
Interest Expenses	1,328.6	7.0	1,895.2	9.4
Non-Interest Income	**280.6**	**1.5**	**206.8**	**1.0**
Net Fee & Commission Income	127.0	0.7	132.1	0.7
Non-Interest Expenses	**324.0**	**1.7**	**373.2**	**1.9**
Staff Cost	173.2	0.9	190.0	0.9
Impairment for Loans & Other Losses	**468.8**	**2.5**	**163.8**	**0.8**
Profit Before Tax (after VAT)	**177.8**	**0.9**	**294.4**	**1.5**
Profit After Tax	**153.8**	**0.8**	**188.9**	**0.9**

Figure 2.15: Profitability in Banking Sector
Source:. Central Bank Reports 2023

Consistency with the minimum

Capital requirements in Banking Sector

As a whole, the banking sector was able to comply with the minimum capital requirements during the year 2023. Capital adequacy of the banking sector improved at the end of 2023 compared to the end of 2022, mainly due to a contraction in overall credit, increased investment in government securities, and appreciation of Sri Lankan Rupee and the decline in risk-weighted assets by 2023.

Concentration of Banking sector loans

Risk of concentration in the banking sector was high as credit was concentrated in six major sectors, and some of these sectors reported relatively high Stage 3 loan ratios, indicating a higher risk of default. Credit of the Banking Sector was mainly concentrated in consumption, construction, trade, manufacturing, infrastructure and agriculture sectors.

The Exposure of banks to the sovereign

State-owned banks were highly exposed to sovereign due to high levels of investment in government securities and lending to state-owned enterprises (SOEs).

The sovereign exposure value of the banking sector had increased by Rs.895 billion from the end of the third quarter of the year 2022 to the end of the third quarter of the year 2023, and it had reached to Rs.8,612.3 billion. Accordingly, the sovereign exposure had been 43.4 percent of the total assets of the banking sector.

The total sovereign exposure of state-owned banks had been 61.1 percent and this was mainly due to the sovereign exposure of the two state-owned licensed commercial banks (LCBs). Domestic private banks had contributed to a significant portion of the total sovereign exposure, and sovereign exposure of foreign banks was in a low level and it only consisted of investments in rupee-denominated securities.

Investments in treasury bills and treasury bonds during this period had increased by Rs. 1,500.9 billion and foreign currency denominated debt of the central government had increased by Rs.371.2 billion due to the transfer of foreign currency denominated debt held by Ceylon Petroleum Corporation (CPC) to the central government. This led to a decline in foreign currency denominated loans to public enterprises during this period. Furthermore, the division completed the restructuring of Sri Lanka Development Bonds (SLDBs) under the Domestic Debt Optimization Programme (DDO) during this period.

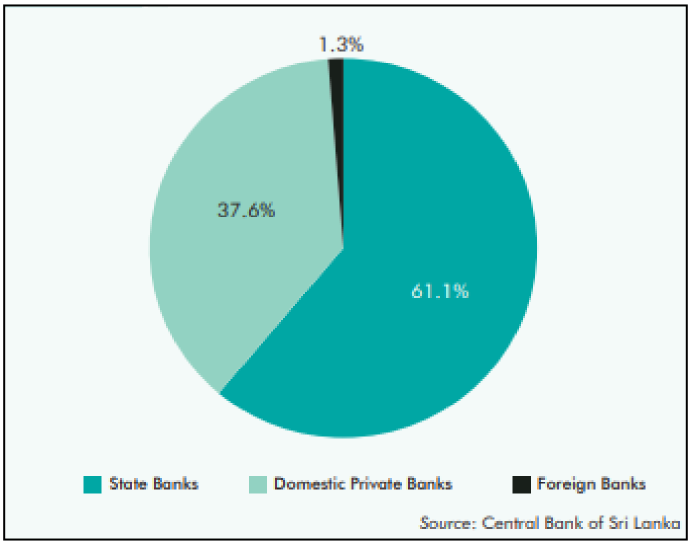


Figure 2.16: Sovereign exposure by the category of bank at the end of the third quarter of 2023

Source:. Central Bank Reports 2023

Major State Owned Enterprise

Exposure of Banking Sector to SOEs.

The exposure of the banking sector to the institution had decreased by 55.1 percent due to the transfer of foreign currency denominated loans held by the Ceylon Petroleum Corporation (CPC) to the Central Government during the period as per agreed measures for restructuring the balance sheets of selected State Owned Enterprises (SOEs) under IMF-EFF arrangements. The Ceylon Petroleum Corporation was exclusively supported by two major state-owned banks, and, US$ 2.4 billion in foreign currency-denominated loans had been provided by the end of the third quarter of 2022, and as a result of the subsequent takeover of those loans by the government, it had reduced to US$ 524.4 million by the end of the third quarter of 2023. It was observed that the two state-owned Licensed Commercial Banks (LCBs) have no longer extended loans to the Ceylon Electricity Board (CEB) in recent months, and with the improvement in the cash flow of the

Ceylon Electricity Board (CEB), the exposure of the banking sector to CEB had decreased by 5.3 by the end of the third quarter of the year 2023.

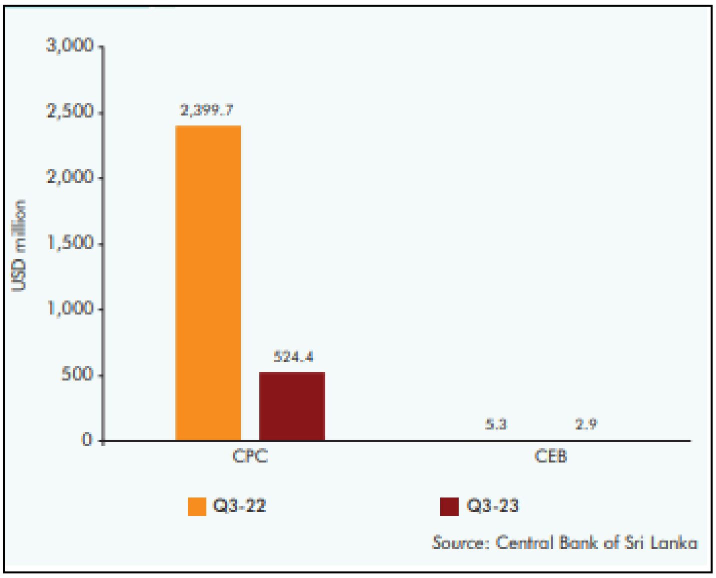


Figure 2.17:Banking Sector Exposure to CPC and CEB - Foreign Currency

Source:. Central Bank Reports 2023

Expected Reforms in State Banks

State banks are also expected to be recapitalized largely with public funds. Accordingly, A sum of Rs.450 billion have been allocated to support the capital growth process in the banking sector under the 2024 budget. In addition, it was also proposed to allocate 20 percent of the two state-owned Licensed Commercial Banks (LCBs) to strategic investors or the General Public.

Central Bank of Sri Lanka

Establishment as a body corporate with legal personality

The Central Bank of Sri Lanka is the central institution of the financial system of Sri Lanka. The Central Bank of Sri Lanka Act No. 16 of 2023 (with effect from 15 September 2023), passed in September 2023, had repealed the Monetary Law Act No. 58 of 1949, which had established the Central Bank of Sri Lanka as a semi-independent institution in 1950. Under this new Act, the Central Bank of Sri Lanka has been established as body incorporate with legal personality.

Under this new Act, the Central Bank of Sri Lanka must be independent and accountable. As an institution with legal personality, the Central Bank of Sri Lanka is responsible for the administration of monetary, financial and payment systems of Sri Lanka.

The new governance structure consists of two general decision-making bodies, the Governing Body and the Monetary Policy Board, headed by the Governor of the Central Bank. The Board of Governors is responsible for overseeing the administration and management of the affairs of the Central Bank of Sri Lanka and determining the general policy of the Central Bank of Sri Lanka, excluding the Fiscal policy. The Monetary Policy Board formulates the Fiscal policy of the Central Bank of Sri Lanka and implements flexible exchange rate controls in line with the flexible inflation targeting framework to achieve and maintain domestic price stability.

As a whole, the Central Bank of Sri Lanka, in addition to its primary objective, is proactive in maintaining a favourable and stable economic and financial system while effectively maximizing the utilization of resources. Hence, the following are the new primary and other objectives of the Central Bank.

Primary objective

Achieving and maintaining domestic price stability – In pursuit of the primary objective, the Central Bank of Sri Lanka should consider stabilizing output towards its potential level.

Other Objective

Maintaining Financial System Stability - In pursuit of the other objective, the Central Bank of Sri Lanka should consider the development and efficiency of the financial system.

The Governor will continue to act as the Chief Executive Officer of the Central Bank of Sri Lanka. In addition, the central bank acts as economic advisor to the government as well as the banker of the government.

Audit Observations

Institutions not subjected to the regulation and supervision

of the Monetary Board

Licensing, regulation and supervision of microfinance companies is carried out by the Monetary Board of the Central Bank under the Microfinance Act No. 06 of 2016 with effect from 15 July 2016. Companies that accept deposits and provide financial services mainly to low-income earners and micro- enterprises (microfinance businesses) are required to obtain a license under this Act, but companies that do not accept deposits but provide financial services to low-income earners and micro-enterprises are not required to obtain a license under this Act. Due to this, such companies were not subject to regulation and supervision by the Monetary Board Governing Board of the Central Bank.

Optimization of Domestic Debt

As a part of the Domestic Debt Optimization, unsettled temporary advances given by the Bank to the Government of Sri Lanka and Treasury Bills purchased from the Government amounting to Rs.344.7 billion and Rs.2,368 billion respectively, were restructured and converted on 21 September 2023 into new Treasury Bonds and Treasury bills bearing a gradually decreasing fixed coupon interest. In the conversion, Treasury bills that mature in the period from February to September 2024 and Treasury Bonds bearing a gradually decreasing fixed coupon interest with a maturity period from 6 to 15 years and bearing interest of 12.4 per cent till 2024 (inclusive of 2024), and interest of 7.5 per cent till 2026 (inclusive of 2026) and thereafter 5 percent interest till maturity date. Due to the difference between the fair value new treasury bonds and treasury bills and the transaction value, a one-day loss amounting to Rs. 766.4 billion had incurred during the aforementioned restructuring.

Bank of Ceylon

The Deterioration in the financial result of the year

The operating result of the year 2023 was a profit of Rs.26,694 million and the corresponding profit of the previous year had been Rs.31,972 million. Accordingly, a deterioration of Rs. 5,278 million was observed in the financial result. This deterioration was mainly due to the increase in income tax expenditure by 1471 percent compared to the previous year.

Top 10 Non-performing

Loan Balances

The total of the top 10 non-performing loan balances as at 31 December 2023 had been Rs.37,393.42 million, and it was 1.52 percent of the total loan and advance balance as at that date. Moreover, it was an increase of Rs. 300.45 million, i.e. 0.81 percent, compared to the previous year. It was 11.99 percent of the total loan and advance balance of the Phase III of the Bank as at that date.

Non-compliance to the provisions of the Financial Transactions Reporting Act No. 6 of 2006

The Central Bank of Sri Lanka had imposed a fine of Rs. 6 million on the Bank of Ceylon on 07 November 2023 for non-compliance with the provisions of the Act.

Property Acquired by the Bank and temporarily transferred to the Sri Lanka Army

Six (06) properties acquired by the Bank have been temporarily handed over to the Sri Lanka Army for operating quarantine centers in the years of 2020 and 2021 with the covering approval of the Board of Directors. However, due to the failure of the bank to repossess the property or recover a fair value for the property, the outstanding balances could not be settled.

Writing off of Debts

The bank had written off loans amounting to Rs.17.17 million for the year 2023 and its accumulated value for the last six years had been recorded as Rs.855.94 million. It also includes the debt write-off balance amounting to Rs.616.46 million belonging to Mtandt Lanka Private Limited in the year 2019.

People's Bank

Loans and advances given to state-owned enterprises

The loans and advances provided to the state-owned enterprises by the end of 2023 amounted to Rs.781,402 million, and it was 42.32 percent of the total loans and advances of the Bank as at 31 December 2023. Investments and other receivables from the government stood at Rs.1,041,466 million as at 31 December 2023. Accordingly, the total exposure to state-owned enterprises had been Rs.1,822,868 million or 60 percent of the total assets of the Bank.

Loss incurred from The swap transaction

The bank had incurred a loss of Rs. 1,613.36 million due to the settlement of the swap transaction of US$ 43 million with the Central Bank of Sri Lanka against the US$ 29.6 million due from the Central Bank of Sri Lanka without prior written agreement.

The Project for introducing Transit card

The Bank had spent Rs.93 million for the project of introducing Transit card for the public transport service of Sri Lanka. Due to the failure of the project, the approval was granted by a decision of the Cabinet of Ministers on 11 September 2023 to completely cancel the project and to start it as a new project.

National Savings Bank

Operating Results

The bank had recorded a profit before tax amounting to Rs.4.29 billion in the year 2023, and a profit after tax of Rs.7.22 billion. When these profits were compared with the pre-tax profit and after-tax profit of the previous year, which had been Rs.4.51 billion and Rs.2.52 billion respectively, a decrease of 4.9 percent and an increase of 186.5 percent respectively could be observed. The main reason for this can be attributed to the significant growth of interest expense relative to interest income. The increase in the profit after tax by a higher percentage was due to the negative value of the tax expense generated through the increase in deferred tax assets. As a result of this, the return on assets (ROA), which was recorded as 0.28 percent at the end of 2022, had declined to 0.26 percent in 2023. Moreover, the return on equity (ROE) of 3.40 percent recorded last year had declined to 9.36 percent in the year 2023.

Loans and Advances

The value of gross loans and advances of the Bank as at 31 December 2023 was Rs. 548,898 million and this is a decrease of 3.9 percent when compared with Rs.570,256 million in the previous year. A sum of Rs. 429,044 million, out of the total gross loans and advances, were given in the form of personal loans, housing and property loans. Moreover, Rs. 94,935 million i.e. 17.3 percent and Rs. 15,220 million i.e. 2.8 percent were given as mortgage loan and employees' loan respectively.

Foreign loans provided to a private company in Maldives

A sum of 3,800 million rupees, out of total loans and advances, had been foreign loans and the total value had been US$ 9 million given to a private company in the Maldives in the year 2018 and the arrears interest calculated on it as at 31 December 2023. The provision of credit for construction work to a private company engaged in the tourism industry in a foreign country was an area not covered by the National Savings Bank Act and evidence was not revealed to the audit that a comprehensive credit assessment or risk assessment had been carried out before the loan was granted. The initial grace period of one year given by the Bank for repayment of capital after disbursement of the loan amount had been extended till 2022 from time to time. Despite being a foreign company not covered by the Circular No. 5 of 2020 issued by the Central Bank of Sri Lanka, the borrower company had not made any capital repayments until 31 December 2023, even though the Bank had granted loan concessions under the said Circular. This loan amount was classified as a non-performing loan amount at the end of the year and any field inspection has not yet been carried out by an independent party with related technical skills and competence.

Housing Development Finance Corporation Bank

Non-performing Loan Risk Ratio

The total principal outstanding balance of loans and advances had been Rs. 23,875 million as at 31 December 2023, and the value of non-performing loans and advances as at that date had been Rs.5,532 million. Accordingly, the non-performing loan ratio had been 23 percent of the total principal outstanding balance, and it had exceeded 20 percent, which had been the non-performing loan risk capacity of the bank.

Non-performing loans

A total of 16,558 loans with a value of Rs. 7,864 million were given in the year 2023, and 12 percent or 1,624 loans, out of those loans, were transferred to the non-performing loan category. The total outstanding principal balance related to those loans had been Rs.959 million as at 31 December 2023.

The total principal outstanding balance related to 18 Corporate loans had been Rs. 939 million as at 31 December 2023, and out of that Rs. 776 million or 83 percent, had been transferred to the non-performing loan category as at 31 December 2023.

Identified losses

Seven (07) fraudulent loans totaling to Rs. 8 million had been granted to a private garment factory by Ampara branch in the year 2018 and later those loans had been transferred to non-performing category. The outstanding balance of the said loans had been Rs. 14.96 million as at 31 December 2023.

Employees' Provident Fund Loans

The Central Bank of Sri Lanka had refused to pay arrears of Rs.3.45 million to be recovered from 70 EPF customers for the period of 2022 due to non-availability of employee provident funds/deletion of records from the loan system. Thus the Bank may incur a loss of Rs. 12.49 million and arrangements had not been made to settle this even by 31 December 2023.

Property mortgage loan value

When property is mortgaged for business purposes according to Section 4.2.1.1 of the loan operations manual of the Bank, 60 percent of the force sale value should be considered as the loan amount. Contrary to that, the Kuliyapitiya branch had provided 03 business loans worth Rs. 49.60 million to a private company. It was 124 percent of the force value of the mortgaged property. However, the Bank had transferred the ownership of the aforementioned property on 01 August 2019 and the property had been sold for Rs.31 million on 08 October 2021. Moreover an amount of Rs.39.81 million could not be recovered and the bank may incur a loss due to the non-availability of any mortgage/security.

The value of property transferred to the Bank

Loans (outstanding Loan interest and principal) amounting to Rs.393.72 million had been classified under vested property as at 31 December 2023, and property vested to the Bank in relation to loans amounting to Rs.29.58 million had not been sold for five years and outstanding loans had not been recovered.

Regional Development Bank

Financial Results

The bank has recorded a pre-tax profit of Rs. 1.1 billion and net interest income for the year had been 16 billion for the year 2023. By the end of 2023, the total assets of the bank had grown to Rs.299.7 billion, and it had been 5 percent increase compared to the total asset value of Rs.285 billion in the year 2022. Customer deposits were Rs. 226 billion at the end of 2023, and it had been an increase of Rs. 15 billion or 8 percent when compared to the customer deposits at the end of 2022. The Tier 1 capital adequacy ratio was 10.09 percent and the total adequacy ratio was 17.28 percent as at the end of the financial year 2023. Furthermore, the loan impairment ratio under stage 3 (after deducting loan impairment under stage 3) was 8.8 in the year 2023 and the ratio for licensed specialized banks as a whole was 10.6. Earnings on equity ratio for the year 2023 was 1.54 and returns on equity was 4.83.

Existence of the Vacancy For the post of General Manager

As per Section 26 of the Regional Development Bank Act No. 41 of 2008, the Board of Directors shall appoint the Managing Director/Chief Executive Officer of the Bank, a Managing Director/Chief Executive Officer, who can hold office for a minimum period of 3 years, should be appointed on permanent basis according to Section 26 (4), it was observed that 5 persons on permanent or acting basis during the period of 5 years and 4 months from 01 February 2019 to 06 June 2024 had been appointed to the position of General Manager for a short time in 8 terms. The officer who had been appointed by 06 June 2024 was also appointed on acting basis. It was observed that the existence of vacancies in the post of General Manager on a long-term basis affects the day-to-day operations of the Bank.

State Mortgage and Investment Bank

Operating Results

The net operating income of the year under review was Rs.306 million and the corresponding income of the previous year had been Rs.1,688 million. Accordingly, a deterioration of Rs.1382 million was observed in the net operating result. This deterioration was mainly due to the decline in net interest income by Rs. 1,347 million compared to the previous year.

Non-performing loan ratio The total non-performing loan ratio of the Bank had been increased from 22.02 percent in the year 2022 to 25.99 percent in the year 2023 and the non-performing loan ratio excluding the employees' provident fund loans increased from 10.31 percent in the year 2022 to 12.32 percent in the year 2023.

Furthermore, the impairment charges had increased by Rs. 195 million or 53 percent compared to previous year.

Licensed Finance Companies Sector

Loans and advances in the licensed finance companies sector had been 68.6 percent of the total assets. The loans and advances portfolio of the Sector contracted by 3.2 percent (Rs 38.0 billion) to Rs 1,160.4 billion in the year 2023, compared to the 7.7 percent growth recorded in the year 2022.

Asset quality of the licensed finance companies sector has declined, as reflected in the rise in the gross Tier 3 loan ratio to 17.8 percent, compared to 17.4 percent at the end of the year 2022.

The after-tax profit of the licensed finance companies sector increased by 11.3 percent from Rs.42.8 billion prevailed in the year 2022 to Rs.47.7 billion in the year 2023 due to the increase in net interest income and non-interest income.

Deposits from customers further represented the major portion of the liabilities of the licensed finance companies sector and it had been 55.3 percent. During the year 2023, deposits grew by 8.2 percent (Rs 70.8 billion) to Rs 935.3 billion, and borrowings declined by 17.9 percent (Rs 57.8 billion) to Rs 264.6 billion

Merchant Bank of Sri Lanka and Finance Plc

Operating Result In the year under review, the operating result of the company was a profit of Rs.20.8 million and the corresponding loss of the previous year had been Rs.495.6 million. Accordingly, an improvement in the financial result compared to the previous year amounting to Rs. of 516.4 million was observed. The increase in the financial result was mainly due to the increase in the total operating income by Rs.714.9 million during the year under review as compared to the previous year.

The assets of the Company indicated an increase of 7.9 percent at the end of the year, and the balance sheet of the Company had increased to 33.7 billion by the end of December in the year 2023. Deposits installed in banks and financial institutions increased by Rs.470.9 million and financial investments made in government securities and listed companies had increased by Rs.7,873.8 million. The loans and receivables had decreased by 21.98 percent compared to the previous year, and that had been the major reason for the increase in the assets. The deposit base of the Bank had increased by 8.2 percent as compared to the previous year.

Capital Ratio

Tier I capital and total capital ratios of the Company were 13.60 percent and 16.75 percent respectively at the end of the year 2023, and accordingly it stood at 12.01 percent at the end of the year 2022. The total capital ratio, which was lower than the minimum regulatory requirement of the Central Bank of Sri Lanka, was raised by the sum of Rs. 622.83 million supplied by the debenture issue of the Company in the year 2023. Therefore, it was possible to correct the capital requirement.

Non-performing loans

A total of Rs. 64 million related to 127 of non-performing loans that could not be recovered in the year 2023 had been written off.

Insurance Activities

The insurance industry in Sri Lanka consists of 29 insurance companies and institutions, 80 insurance brokers, 29 loss adjusters and approximately 45,000 insurance agents. The Insurance Regulatory Commission established under the Regulation of Insurance Industry Act, No. 43 of 2000 acts as the regulatory body for this industry.

Audit Observations

Insurance Regulatory Commission of Sri Lanka

Contribution to the Gross Domestic Product

The total value of the insurance industry as a percentage of the gross domestic product is about 1.1 per cent. It was observed that it is a very low value in regional and international terms. The reasons for this situation were not identified and necessary measures were not taken.

Payment of unapproved performance allowances

The Commission has paid one basic salary as performance incentive for a year from the year 2010 without obtaining approval of the General Treasury and it had been altered and paid as one and a half months of the gross salary from the year 2019. Moreover, no realistic evaluation of performance had been carried out relevant to this payment of performance allowances. The performance incentive paid from the year 2012 up to the year 2023 totalled Rs.60.5 million.

National Insurance Trust Fund Board

Making payments for reinsurance to an unregistered insurance broker

Whereas under the provisions of the Regulation of Insurance Act, no person shall act or appear to be an insurance broker unless he holds a certificate of registration as a broker granted by the Board and is a member of the Insurance Brokers Association approved by the Board. However, Rs. 1,204 million had been paid from the year 2017 to 2021 for reinsurance to an insurance broker who has not registered under such regulations.

Running the Board without Reinsurance Coverage

Since the broker company selected for reinsurance by paying a sum of Rs.516 million for a period of 18 months up to 31 July 2023 unilaterally withdrew from the agreement on 21 April 2022, the Fund has fallen into a high risk situation as it was running without reinsurance cover from that day up to 31 December 2023.

Non-payment of Reinsurance payable to the National Insurance Trust Fund

Due to the non-payment of finalized reinsurance claims of Rs.30 million to the primary insurers by the National Insurance Trust Fund, the reinsurance premium amount to be paid by those companies to the Fund is Rs.2,390 million had not been paid to the Fund for a period of 24 months from January 2022 to 31 December 2023. Due to this, an interest income of Rs. 901 million had been lost to the Fund.

Lack of a Reinsurance Management Information System

Due to the lack of a proper management information system to record the reinsurance balance receivable amounting to Rs.2,415 million and reinsurance claims, timely collection of reinsurance premiums and payment of reinsurance claims remained problematic.

Non-recovery of Premiums Recoverable from primary insurance companies

According to Cabinet Decisions dated 27 September 1989 and The Gazette Notification dated 25 March 2008, the National Insurance Trust Fund should recover 95 per cent of the premiums recovered by all insurance covers issued by primary insurance companies for insurance cover for Strike, Riot, Civil Commotion and Terrorism. However, without taking such action, the National Insurance Trust Fund has recovered only 12 per cent of the motor insurance and 80 per cent of the non-motor insurance to the Fund. As such, the loss occurred to the Fund during a period of 15 years.

Losses to the government due to illegal activities of reinsurance

In the year 2016, the insurance program was implemented under government funds to cover natural disaster insurance cover. However, due to the illegal activities done during reinsurance activities using the funds, the loss caused to the government was Rs. 4,400 million. As a result, the Chief Executive Officer and Assistant General Manager - Finance were dismissed., However, the management had not taken necessary action to recover the losses caused to the Fund or conduct a formal investigation.

Payment of Surcharge Tax despite not being liable to pay

The Board had paid Rs.1,196 million in the year 2023 as surcharge tax to the Inland Revenue Department from the Strike, Riot, Civil Commotion and Terrorism Fund despite not being liable to Surcharge Tax in terms of the Surcharge Tax Act No. 14 of 2022. However, no measures had been taken to obtain tax relief.

Sri Lanka Insurance Corporation Ltd

Market share in general insurance segment and life insurance segment of the Corporation

In the year 2022, the market share of the general insurance sector was 15.9 per cent and compared with the year 2021, it has decreased by 15 per cent. The market share of the life insurance sector for the year 2022 was 15.4 per cent and had decreased by 12.5 per cent as compared with the year 2021.

Public Security

To create an environment suitable for all citizens in the country to live freely without fear or suspicion by maintaining public services in an efficient and public friendly manner, confirmation of citizenship identity and facilitation of immigration and emigration activities for local and foreign persons, regulating the network of non-governmental organizations operating in the country to strengthen the national economy, suppression of the drug menace are being done by the Ministry of Public Security and the Sri Lanka Police, the Special Task Force, the National Secretariat for Non-Governmental Organizations, the Immigration and Emigration Department and the Persons Registration Department under it.

Functions

Improving the service standards of the Sri Lanka Police with the objective of ensuring public safety.

Implementing the programme with religious centres, social organizations and public and private sectors to get rid the society from the menace of drugs at the community level as well as for children in schools and educational institutions, public and private work places.

Take necessary measures to prevent extremism and terrorism with the aim of ensuring internal security.

Control and suppression of robberies, murders, anti-social activities and crimes to keep public life safe .

Maintaining the necessary care for all citizens of the country, especially for women and children, to live their lives freely.

Reorganizing and modernizing the Traffic Police using modern technologies and techniques to enforce a systematic traffic regulation system and legal framework in order to prevent disorderly use of vehicles on roads, road accidents, deaths, injuries and hospitalizations and irregular and careless driving, violations of lane rules and road signs, as well as to reduce traffic congestion, especially in urban areas, caused by irregular driving and roadside parking.

Preparing opportunity to contribute to the development process of the country with the coordination of of Non Governmental Organizations within the national policy frame.

Enhancing Immigration and Emigration affairs and maintaining as an efficient service.

Preparing background to ensure local personal identity enhancing and maintaining as an efficient service

Implementation of appropriate strategic programs to combat drug menace and misuse of dangerous drugs.

Audit Observation

Ministry of Public Security

Deploying Special Task Force Officers for the United Nations Peacekeeping Mission (Formed Police Unit).

The approval of the Cabinet of Ministers had been given for the purchase of weapons, armored vehicles, conversion vehicles, communication equipment and other equipment needed to establish a combat battalion of the Special Task Force for UN peacekeeping operations in Mali as per the Decision of the Cabinet of Ministers dated 16 May 2016 No. CMP/16/0738/703/083. According to the said Decision of the Cabinet of Ministers, an amount of Rs.1590 million had been approved for the purchase of the goods mentioned above, and due to the insufficiency of the funds, another amount of Rs.1175 million had been approved on 30 August 2017 under Decision Cabinet of Ministers No. AMP/17/1811/784/001-1.

The purpose of this project is to increase the foreign exchange received by Sri Lanka through the establishment of a Formed Police Unit in the United Nations by the Sri Lanka Police Special Task Force, to strengthen the economic status of the officers and raise the standard of living by receiving additional income for the officers assigned to this unit , to gain an international recognition for the Sri Lanka Police Special Task Force, developing the skills of the participating officers and gaining international experience, motivating the qualified officers of the Special Task Force by providing opportunities.

Fifty seven vehicles and 03 trailors needed to be taken for UN peacekeeping missions have been purchased so far and are being placed in Katukurunda Gonahena, Pugoda, Moratuwa, Ampara, Kelaniya and Asanigama Special Task Force camps and maintenance works are being carried out and it was observed during the physical audit inspection conducted that

17 vehicles out of those vehicles and other goods and equipment purchased to carry for duty have been stored, and being maintained. Even though including the acquisition of these vehicles and other goods and equipment, about a sum of Rs.1873 million had been spent from the beginning of the Project in the year 2017 to the year 2023, due to the non-implementation of the Project, the organizational objectives had not been fulfilled. Due to delay in leaving for peacekeeping duties , it was also observed in audit that the vehicles and other goods and equipment purchased had remained in idle for a period of 01 to 06 years under maintenance and the warranty period given to those goods had also expired without use.

Department of Immigration and Emigration

Issuance of Passports through Online System

Out of the 113,916 passport applications received through the online system under the express service and normal service, only 48,770 passports equal to 43 per cent had been issued during the year as per the report obtained from the Information Technology Division. A number of 65,146 passports had to be issued due to deficiencies and various errors in the submitted documents. Since the applications were not submitted as per the instructions given, the passport applicants as well as the department officers had to spend additional time and cost by having to correct the errors and issue the passports.

Issuance of Passports through Offline System

A number of 321,216 passport applications were received to the Head Office and Branch Offices of the Department Immigration and Emigration during the year 2023 under the Offline System, and only 198,592 passports equal to 62 per cent had been issued during the year as per the report received from the Information Technology Division.

Purchasing of Blank Passports

Blank passports were being purchased from a private entity which was selected by the Department in the year 2003 to purchase blank passports for 21 years up to the year 2024 by giving extension of supply , without following procurement process. Due to routine purchases were carried out without determining requirements of blank passports as per current demand, there had been shortages of passports on several occasions. As a result, passports had to be brought by air during the period from 2022 to 31 December 2023 and due to having to pay 33,672 US dollars to a private company as air cargo transportation, documents and additional work fees, and Rs.0.38 million as other fees, The department had to incur an additional expenditure of Rs.13.18 million.

The details of demand on passports and purchases under re-order during the last 5 years including 2023 are as follows.

Year	Demand for Passports	Number of Passports Issued	General Purchases	Special Purchases
2019	580,990	570,692	-	-
2020	192,508	207,697	1,000,000	-
2021	409,464	382,527	-	-
2022	997,686	912,039	60,000	95,000
2023	921,977	910,574	845,000	75,000

Table 2.29 Demand for Passports, Issuances and Purchases from 2019 to 2023
Source: Information provided by the Department of Immigration and Emigration

Department of Registration of Persons

Non-accounting of Goods/ Assets

An Electronic National Identity Card Project had been started from 2012 as per the information received by the audit, and although the total value of goods/assets given to the Department of Registration of Persons for the implementation of the Project from the beginning of the Project to 31 December 2023 was Rs.901.87 million , the amount of goods/assets entered in the Register of Assets of the Department was only Rs.50.16 million by 31 December 2023 .

Failure to Maintain Adequate Card Stocks

Due to the failure of the Department to maintain sufficient stock of cards by carrying out procurement activities within the stipulated time, the Department had to incur an additional cost of Rs.2.9 million as printing and postal expenses for 51,000 letters confirming the information of the National Identity Card for the applicants appearing for the G.C.E Ordinary Level Examination in the year 2023.

Sri Lanka Police

Total No. of Vacancies

The Sri Lanka Police consists of 45 regional police divisions and 79 active police divisions and the number of police stations throughout the island is 607. A number of 81,738 uniformed staff, 1,180 police support service staff and 6,409 civil staff are working in these police divisions and police stations, totaling to 89,327 and the total number of vacancies was 25,888..

Absence of Specifically Identified Approved Staff for Police Stations

It was not possible to express with certainty whether there are vacancies or excesses in the divisions and police stations after a study on the nature of duties of police divisions and police stations due to the absence of specifically identified approved staff. In this situation, staff placement had been implemented without a proper system.

Amendment of the Police Ordinance

Sixteen areas for amendment were identified in the year 2014 as per the need to amend the Police Ordinance No. 16 of 1865. Even though the approval of the Cabinet of Ministers was also received on 19 November 2014 to be updated and amended to suit the current and future social and technological development needs, the Act had not been amended even by April 2024 .

Methodology Automatically Payment of Fines

Even though it has been planning since 2014 to establish an automatic fine payment system (Spot Fine Information System) for traffic violations with the aim of speeding up the collection of fines, increasing the amount of fines added to the government revenue, and making it easier for the public to pay fines, the respective system had not been established up to now.

Construction of Dormitory for National Police College

Bids had been awarded on 20 August 2019 for the construction of a building to provide residential facilities for the Katana National Police College, and due to the slow progress of the Project, the construction had been suspended on 26 April 2023, and the consulting firm had decided that the value of the completed work was only Rs. 97.3 million. Accordingly, even though a sum of Rs 42.2 million had to be recovered, it had not been recovered. The iron wire protruding from the foundation and concrete floors (Slab) of the building was rusting and decaying, and a stock of wire valued at about Rs.1.7 million remained at the work site was also being rusted and decayed.

System of Charging Fines according to the frequency of Traffic Offences

Even though the system of charging fines based on the frequency of motor vehicle offenses introduced by the Motor Vehicles (Amendment) Act No. 10 of 2019 has been implemented since 20 June 2019, due to failure of Sri Lanka Police to implement an information system to clearly identify the number of times the offenders commit the same offense in relation to traffic offences, it was impossible to collect the accurate amount of fine from the convicts who commit the same offense several times.

Speed Limit Checking Device

Traffic speed limit testing devices were last purchased in the year 2016 and the quantity purchased was 25. Before that, 30 had been purchased in 2014 and 100 in 2010. A large number of these equipment have currently remained inactive. Even though 500 speedometers were requested annually, even a part of it had not been purchased during the period 2018 - 2023. Accordingly, even though the driving of vehicle at high speed by breaking the speed limit is a major cause of traffic accidents, the Sri Lanka Police had not acted even by the year under review to buy the necessary equipment to reduce it.

Disaster Management

The weather and climate conditions of a country strongly influence the health status of the people of that country and the variations in the production of the country. Moreover, it is possible to save the country and its citizens from future disasters by identifying the variations in weather and climate conditions in advance and by preparing clear plans for that.

Functions

Strengthening the institutional structure by coordinating the Disaster Risk Management Centre to make early identification of natural disaster risks in the country, prevention of disasters, reduction of damages and uplifting the victims efficiently,

Strengthening the Department of Meteorology with modern technology and knowledge in a manner that it can accurately predict disaster situations,

Establishing a "National Disaster Database" containing all information about areas affected by disasters, areas prone to frequent disasters, people affected by disasters, property, businesses and agricultural lands etc.

One department and 02 statutory institutions were functioning under the Disaster Management Division. The audit observations revealed in the performance of their duties by those institutions are summarized and indicated below.

Audit observations

Department of Meteorology

Not installing of 2 Automated Meteorology Systems received on foreign aid

Action had not been taken to fix 02, out of the 38 automated meteorological systems for measuring temperature, humidity, rainfall, wind speed and direction, pressure, amount of solar radiation worth Rs. 570 million received under Japanese aid (JICA) in the year 2008, had not been installed in Trincomalee and Maliboda, where these 02 systems were proposed to be installed by the end of the year 2023. The equipment was underutilized, and the opportunities to get the relevant services were missed.

Utilization and Maintenance of Automatic Meteorology System

Data was not received to the institution as scheduled under GPRS technology by 21 systems as at 31 December 2023, out of the 35 automated weather systems installed in the Department of Meteorology, and 10 systems remained inactive due to the end of their battery life. Moreover, 44 of the 453 traditional rain gauges installed throughout the island were not regularly maintained, and as a result, data was not received continuously. Furthermore, 52 rain gauges, out of 122 automated rain gauges installed by the department by the end of the year under review, had been inactive. Maintenance work had been carried out only for 36 rain gauges. It was observed that the ability to obtain data in an automated and conventional manner was very important in the case of sudden weather changes and due to this, the desired objectives have not been achieved through the establishment of the systems.

Not installing Doppler radar systems

Even though provision amounting to Rs. 563.58 million had been allocated for the period of 2019 to 2022 for the installation of 2 doppler radar systems to be provided under Japan aid in Puttalam and Pothuvil weather stations, only Rs. 0.46 million had been spent on the related activities by the end of 2023. Even though the construction activities of the radar system were supposed to reach its final stage by the end of 2020, the installation of the machines had not been started due to insufficient provision owing to current increase in prices. There was a strong need for a Doppler radar system in meteorological forecasting, it was observed that meteorological forecasts and predictions are being given without that system for almost 15 years and it was also observed that there were problems in relation to the accuracy of those forecasts.

Not using safe procedures In Meteorological Research

Hydrogen gas is used to fill radiosondes and pilot balloons, and hydrogen generators are used to produce hydrogen gas in Colombo. Although the hydrogen production process is very dangerous, it was observed during the physical inspection conducted at the Colombo Meteorological Centre that the officers were not wearing protective clothing during the production and sending of hydrogen balloons, and insecure activities such as parking vehicles near the hydrogen production plant, and starting engines of vehicles frequently.

Weaknesses in maintenance of the Meteorology Centre At Ratmalana Airport

During the inspection of matters such as receiving data on weather and the maintenance of the equipment for data communication at the meteorological centre established near the Ratmalana Airport with the aim of providing the weather data required for flights, it was observed that the equipment box was not prepared according to the guidelines of the World Meteorological Association, Gust Recorder machine, which was installed to check the speed and direction of sudden wind attacks has been out of order for many years, the computer system that transmits to the Regional Meteorology Office has been inactive since 2019, and the poles of the boxes, where the thermometers are stored in the instrument box, were rotting.

National Building Research Organization

Not passing an Act for granting the legal status

The approval had been granted on 12 October 2021 for the Cabinet Memorandum submitted to draft an Act for granting legal status to the organization. Although the draft bill prepared accordingly had been sent to the Attorney General's Department on 26 September 2022, a bill to grant the legal status to the National Building Research Organization could not be passed due to the delay in preparing and submitting the bill to the Parliament and getting approval for that. Therefore, it had not been possible to pass an Act to grant the legal status to the National Building Research Organization although 31 years have passed since the establishment of the organization.

Reimbursement of medical bills by preparing forged official seals

Twenty-three (23) officers had prepared fake bills and forged official seals on 29 occasions during the period from February 2022 to March 2023, and reimbursed medical bills amounting to Rs.1.82 million. Although an amount of 0.44 million had been recovered from six officers, who had obtained insurance compensation by preparing false documents, disciplinary action had not been taken in relation to any officer in terms of the provisions of the Establishments Code.

Making recruitments outside the initial scheme of recruitment

Six (06) officers were recruited to the post of Senior Scientist - AR 2 by conducting 02 interviews after preparing another scheme of recruitment outside the initial scheme of recruitment prepared for the post of Senior Scientist - AR 2 by violating the provisions of the scheme of recruitment. Due to this, three officers who had scored the highest marks in the initial interview had lost the opportunity to get promoted to the aforementioned posts.

Automated rain gauges were inactive

Only 251 automated rain gauges, out of 330 automated rain gauges installed to receive data for issuing landslide early warnings in 14 landslide prone districts, were connected to the Emergency Operations Centre of the Disaster Management Center for issuing landslide early warnings. It was observed that information was being received only from 198 rain gauges, and the rest of the rain gauges were either inactive or in a position that information was not received through them.

Delay in releasing landslide Survey reports

At the end of the year under review, 5,388 applications were received for obtaining landslide test reports from 11 districts with landslide risk and further recommendations had to be issued to 1,545 applications, out of them. The number of applications, including the applications of the previous year, that needed to issue further recommendations as at 31 December 2023 had been 2,889, and it had been 43 per cent of the number of applications for issuing recommendations during the year.

Investment of allocation without approval

The amount of Rs.309.85 million received from the General Treasury and other institutions for various functions from the year 2017 till the end of the year 2023, had not been utilized for the related functions and had been invested in fixed deposits without the approval of the General Treasury.

Mobile air quality monitoring unit

The lorry equipped with the mobile air quality monitoring unit worth Rs.41.37 million received as a donation from the air emission fund to the organization had not provided the mobile monitoring service for a period of 4 years and had provided service only to the premises of Colombo Municipal Council.

Weaknesses in Contract administration

Contracts worth Rs.179.94 million were awarded to three contractors in 2017 and 2019 for the partitioning of the new building of the organization, and installation of electrical and plumbing works. Even though the dates of the contracts were extended in 08 instances, the contractors failed to complete the said contracts even during that period. Although payments were made for the work value of Rs. 164.07 million for these contracts, the opportunity to charge late fees had been lost due to not including a condition in the agreement regarding the charge of late fees for the period of delay in the work.

A contract for the procurement process related to supply and installation of fire protection and detection system for the above building had been entered into with a contractor for a value of Rs.8.28 million excluding VAT. The work was supposed to be completed within 30 days by starting the work with effect from 24 July 2023, the work had not been completed although 120 days had passed by 24 November 2023, the date of audit. Although payments amounting to Rs. 6.81 million had been made for the value of work done, the opportunity to collect late fees had been lost as the Condition for charging late fees for the period of delay in the work had not been stipulated in the agreement.

Carrying out functions contradictory to the functions of the organization

Although it is not a function of the organization to prepare, sell or distribute free of charge the rain gauge equipment, raw materials amounting to Rs. 1.5 million had been purchased and 480 traditional rain gauges were prepared. Three hundred and seventy (370) rain gauges were distributed free of charge and 110 rain gauges had been sold for Rs.0.61 million after 13 November 2023, the date of audit. However, 145 traditional rain gauges installed by the organization covering 03 districts namely Badulla, Kegalle and Nuwara Eliya had not been utilized for obtaining data for about 02 years.

Disaster Management Centre

Idle Expenditure

A research report had been prepared at a cost of Rs. 4.2 million as one of the functions of the Centre under Section 8 (f) of the Sri Lanka Disaster Management Act No. 13 of 2005. Although 100 copies of the research report had been obtained, it was not used for development or planning purposes.

Not making required amendments to the Act

Although the Cabinet of Ministers had granted approval to establish the Interim Management Committee on 05 July 2012, the necessary amendments had not been made to the Sri Lanka Disaster Management Act No. 13 of 2005 accordingly.

Not formulating the Emergency Operations Plan

Action had not been taken from 2005 to 2023 to prepare the National Emergency Operations Plan and to obtain Cabinet approval for the plan, which was one of the main functions of the Centre in accordance with Section 04 of the Sri Lanka Disaster Management Act No. 13 of 2005.

Vacant Positions

The number of vacancies belonging to 22 positions in the Centre had been 169 at the end of the year 2023, and, the existence of vacancies for 05 essential positions, out of these vacancies, for many years had hindered the efficient and effective operation of the Centre.

Emergency Disaster Response Equipment

One hundred and fifty-three (153) emergency response equipment worth Rs. 4.32 million, which had been temporarily given to the district disaster management units, had not been brought back to use the equipment in a disaster situation.

Not implementing projects as planned

Even though the Centre is responsible for the implementation and evaluation of disaster prevention projects under 8 (d) and (e) of the Disaster Management Act, and 88 disaster mitigation projects were planned to be implemented with an allocation of Rs.162 million in the year under review, 29 projects worth Rs. 44 million had not been implemented.

Projects implemented for the mitigation

of disasters The following 8 construction projects implemented by the Disaster Mitigation Division in 6 districts at a cost of Rs. 233.9 million have been failed or remained underutilized.

Name of the Project	Expenditure (Rs. Million)	Underutilized/ Suspended Midway
Obtaining Cultivation Wells – Monaragala	12	Underutilized
Dewahuva Project-Repairing Flood Damage	5	Underutilized
Flood Disaster Mitigation Project in Nawalapitiya Town	20	Underutilized
Flood Disaster Mitigation Project in Dambulla Town	87	Suspended Midway
Flood Disaster Mitigation Project in Akurana Town	33	Suspended Midway
Projects carried out in Gampaha district	54	Underutilized
Construction of 5 tube wells for drinking water in Pannala	4	Underutilized
Mitigation Project for Rock falling in Gangaragolla Village	18.9	Suspended Midway

Table 2.11 : Several Projects implemented for the mitigation of disasters

The amount of Rs.1.4 million spent for the project had also been an idle expense as the objective of the project had not been achieved due to the non-construction of anicuts across the closed drain, Timbilla canal and Awarankuliya canal under the flood disaster mitigation project in the areas of Maikkulama and Savarana Grama Niladhari Divisions in Chilaw area.

Communication and Media

The following roles and specific priorities should have been fulfilled by the Ministry of Mass Media, which is consisted of the scope of creating an appropriate media culture for a balanced communication of information knowledge and ideologies that affirms the right of the public to get correct information including freedom of speech and expression, as well as the formulation of policies related to the subject of mass media in accordance with the laws and ordinances prescribed to "introduce a transparent media culture" based on the national policies implemented by the Government, and implementation of projects under the national budget, public investment and national development programme, and formulation, implementation, follow up and evaluation of policies, programmes and projects related to that, and by the fifteen institutions under the purview of the Ministry of Mass Media.

Functions

Enhancing the use of modern technology in media, introducing a mass media policy, and taking essential measures to raise public awareness regarding official statements and news.

Issuing pertinent information about Sri Lanka to domestic and international media organizations, as well as providing required information and promotional services to Sri Lankan diplomatic missions located in foreign countries.

Taking appropriate measures for the production and broadcast of news, films, and documentary programmes, including promotional activities such as commercial television and radio broadcasting as well as international broadcasting.

Providing a modern postal service that achieves business objectives through diversity by utilizing the latest technologies and management methodologies, and efficiently managing domestic and international postal operations as well as the Sri Lanka Philatelic Bureau.

Restructuring of Sri Lanka Press Council.

Introducing a framework to provide professional knowledge and understanding of the use and management of new media, including social media, and creating opportunities for the promotion of media-related professional skills in higher education that align with international standards.

Parliament had made provision totalling Rs. 28,140 million to the Ministry and three Departments to perform the above functions and Rs. 24,024 million had been utilized by the end of the year under review.

Audit Observations

The Ministry of Mass Media

Non-utilization of funds allocated for the Project for Digitalization of Terrestrial Television Broadcasting

Although the Project for Digitalization of Terrestrial Television Broadcasting in Sri Lanka was initiated in 2014, it was not implemented, and approval was granted through a Cabinet decision in 2021 to proceed the project with the technology**.** The plan was to establish 16 broadcasting stations across the country, but as of 31 May 2024, not a single station has been set up. Despite receiving Rs. 330 million for the project in 2023, only Rs. 8 million had been utilized, leaving Rs. 322 million unused.

Failure to obtain the estimated revenue

Although the estimated revenue from taxes on tele-dramas, films, and commercial programmes for the year under review was Rs. 300 million**,** the net revenue collected by the Ministry amounted to only Rs. 150 million, resulting in approximately a 50 per cent shortfall in revenue collection.

Loss of revenue

The cinema hall located in the building where the Public Performance Board is established and, constructed by the Ministry of Education, had not been made operational as of 23 January 2024**.** As a result, the concerned individuals had to pay a fee of Rs. 25,000 to rent a small cinema hall for screening films, and due to the submission of approximately 146 local and foreign films for approval between 01 January 2023, and 31 August 2023, Rs. 3.6 million in revenue was lost.

Sri Lanka Broadcasting Corporation

Failure to account for the sale of assets at the head office

Although fixed assets had been sold for a value of Rs. 44 million at the Ekala and Karagahathenna transmission stations in 2023, the required adjustments for the sale of assets were not made in the financial statements.

Allowing the buildings owned by the Corporation to deteriorate

Since the inception of the corporation, more than six buildings on a 15-acre plot, where the Ekala transmission station is located, had been left to deteriorate, and steel had been stolen after damaging the structures. Although the damage to the steel and asbestos sheets in these buildings was estimated at Rs. 13.6 million, the damage to the buildings had not been assessed.

Weaknesses in the process of leasing of buildings

Although a newspaper advertisement had been published to lease a building on 10 perches with an area of 20,000 square feet, an audit revealed that the property also included a plot of land measuring 123.6 perches. The building alone had been valued at Rs. 2 million by the Valuation Department. Accordingly, the property was leased to a private company for 20 years, with an initial monthly rent of Rs. 3 million, increasing by 7.5percent every two years, reaching Rs. 5.75 million per month by 2042. An advance of Rs. 72 million had been received for this purpose, and the agreement was unilaterally drafted by the private company. As a result, the accumulated rental value had to be borne by the corporation, resulting in a loss of Rs. 3.75 million for the corporation in the year 2023.

Underutilized assets.

With the objective of producing high-quality films, a contract was established on 10 December 1999 with a private institution and the Department of Information, through which a loan assistance of Rs. 102.2 million, equivalent to 9,150,000 French francs, was provided by the French government. However, due to the failure to conduct a proper feasibility study when procuring a set of laboratory equipment in 2003 using this loan facility, it remained unutilized until 30 April 2024. To install this set of equipment, a spacious building owned by the department was utilized, which resulted in that building becoming an underutilized asset.

Sri Lanka Rupavahini Corporation

Deterioration of the financial position of the Corporation

Although a profit of Rs.188 million was recorded in 2018**,** the corporation has continuously incurred losses since then, with a loss of Rs. 343 million in 2023 when considering the financial results of the year under review and the previous 05 years. Despite earning Rs. 29 million through educational programmes in 2022, the corporation had to bear a cost of Rs. 12 million in 2023 for these programmes, with no airtime revenue generated during that year from broadcasting educational programmes.

Failure to take steps to recover the debts

The clientele debtor balance as of the end of 2023 was Rs. 432 million, of which Rs. 130 million, or 30 percent of the total balance, had been outstanding for more than 05 years.

Independent Television Network Private Limited

Deterioration of the financial position of the company

The equity capital of the company stood at Rs. 3,198 million in 2015, but it has decreased to Rs. 489 million by 2023 due to continuous losses.

Failure to take steps to recover the debts

The receivable trade balances recorded in the company's financial statements as of 31 December 2023 amounted to Rs. 905 million, including Rs. 222 million, which had been outstanding for more than five years from the Independent Television Service. The balances that remained outstanding for over a year from the Vasantham Television Channel, Lak Handa Radio Channel, and Vasantham Radio Channel were Rs. 46 million, Rs. 8.9 million, and Rs. 1.50 million, respectively. Legal action was taken only for a debtor balance valued at Rs. 1.35 million, but the company made no effort to recover the remaining balances during the year under review.

Salsine Television Institute / Salsine Media Solutions Private Limited

Deterioration of the financial position of the company

The institution, previously known as Salasine Television Institute, was registered as Salasine Media Solutions Private Limited on 20 June 2023.

When reviewing the financial results of the company for 2023 and the past five years, it recorded a profit of Rs. 8 million in 2019, but thereafter, it continuously incurred losses, with the total loss for the year 2023 amounting to Rs. 23.4 million.

Failure to implement strategies

According to the 2022-2026 corporate plan, although the target revenue for 2023 was Rs. 903 million, the actual revenue generated amounted to only Rs. 233 million.

State Printing Corporation

Payment of penalties due to failure to pay taxes on time

Due to delays in tax payments caused by not following the provisions in Section 09 of the Social Security Contribution Levy Act No. 25 of 2022, the corporation had paid an additional penalty of Rs. 8.83 million to the Department of Inland Revenue.

Failure to recover the outstanding loan balance

The debtors balance as of 31 December 2023 was Rs. 1,008 million, of which Rs. 177 million had been outstanding for a period ranging from 4 to 11 years, and the corporation had not taken any action to recover this amount even by the end of the year under review.

Payment of penalties and delay charges due to the failure to place orders properly

Due to the corporation's failure to submit printing orders by the due date in 2023, a sum of Rs. 22 million had been charged relating to the printing of text books of the Department of Educational Publications, and Rs. 5.6 million for printing of lottery tickets of the National Lottery Board, total Rs. 27.6 million overall as penalties and delay charges.

Department of Government Printing

Payments without proper Authorization

Despite not obtaining approval to pay allowance to the officials of the department on a piece rate basis, Rs. 298 million as allowances had been paid on a piece rate basis under the miscellaneous supplies Object of the department.

Not recovering the outstanding balances

As of 31 December 2023, outstanding revenue of Rs. 81 million, recoverable from 10 institutions for printing work carried out in 2009 and prior years, and Rs. 162 million for the period from 2010 to 2019, had not been recovered during the review year.

Sri Lanka Foundation

Obtaining resource contributions from visiting lecturers

The number of permanent lecturer positions approved by the Sri Lanka Foundation for conducting courses is 13, while only 9 permanent lecturers had been recruited as at 31 December 2023. During a sample audit, it was revealed that out of the 21 courses initiated in 2023, the contribution of visiting lecturers had been obtained for 4 courses, and the permanent lecturers of the Foundation only performed coordination tasks for these courses. For an additional 12 courses, the contribution of visiting lecturers had exceeded 75 percent.

Making decisions disadvantageous to the institution

Since the officer who held the position of Director (Academic) at the Sri Lanka Foundation was retired compulsorily on 28 August 2022, the officer filed a lawsuit against the Foundation. On 07 July 2023, a court ruling ordered the payment of all outstanding salaries and the reinstatement of the officer in the position of Director (Academic). As a result, the Foundation had to incur an additional cost of Rs. 5.7 million, which included the outstanding salaries, contributions to the Employees' Provident Fund, Employees' Trust Fund, and legal fees for the period from April 2019 to November 2023, during which the officer was not in service of the Foundation.

United Newspapers Limited

Retiring employees in the absence of compliance with the agreed conditions

A Memorandum of Understanding was signed with the Ministry on 23 June 2023 to obtain a government grant of Rs. 300 million for the voluntary retirement of employees. Even though the company was required to submit plans, including the institutional corporate plan, strategic plan, action plan, organizational structure, departmental structure, retained positions, and number of employees, to the Ministry of Mass Media by 31December 2023, this requirement was not met.

Nevertheless, the employees' retirement-related expenses were incurred obtaining the government grants.

Publishing advertisements without reciprocal agreements

During the year 2023, the company had published advertisements worth Rs. 21 million with three institutions without valid reciprocal agreements. Additionally, advertisements worth Rs. 1.8 million were published exceeding the agreed value outlined in the reciprocal agreement with one private media institution.

Sri Lanka Press Council

Failure to amend the provisions of the Act regarding newspaper registration

According to Section 25 of the Sri Lanka Press Council Act No. 5 of 1973, it was required to establish regulations for the registration of newspapers and the levying of fees for such registrations. Despite the rise in e-newspaper publications alongside technological advancements, the Council had not taken steps to amend the provisions of the Act regarding the registration of such newspapers.

Department of Posts

Weaknesses in asset Management

There were 449 post offices that had not been formally transferred by the department as of 31 December 2023. Additionally, the number of plots of land and buildings that had been taken over by the department but had yet to be valued was 68 and 63, respectively

Failure to conduct proper verification during the payment of overtime allowances

Despite the installation of a fingerprint machine for recording attendance and departure, the department had paid Rs.57 million in overtime allowances to the postal headquarters without considering the arrival and departure times from the fingerprint machine. Additionally, a fingerprint machine was not installed to record the attendance and departure of employees in the Postal Transport Division and the Controller

(Investigations) Division, resulting in a lack of strong evidence for verifying the accuracy of overtime payments to the audit. Consequently, the accuracy of the Rs. 4.3 million in overtime allowances paid to employees in these divisions could not be confirmed.

Sri Lanka Telecommunication Regulatory Commission

Incurring unproductive Expenditures

According to the agreement reached between the Commission and the contractor for the construction of the Hambantota Information Technology Park's Telecommunication Center, the contract was originally scheduled for completion on 10 August 2016. However, when the contract was terminated, only about 33% of the work had been completed. As a result, the contract was halted midway, and a sum of Rs. 711 million spent on the contract had become fruitless. Nevertheless, this amount was stated under work-in-progress in the financial statements.

Colombo Lotus Tower Management Private Limited.

Agreement between Colombo Lotus Tower Management Private Limited and Citrus Leisure PLC to conduct business

The Colombo Lotus Tower Management Private Limited and Citrus Leisure PLC had entered into agreements to operate businesses in the hospitality industry on the 25th, 26th, 27th, and 28th floors and in the kitchen. According to Clause 8.1 of the agreement, a management fee of 3.5% of the gross revenue was to be paid, while an additional 10%, except for the total employee costs, was required to be paid by the Nelum Kuluna Company each month according to Clause 8.2. Furthermore, 20% of the gross operating profit also needed to be paid. Despite Citrus Leisure PLC incurring a net loss of Rs. 20.3 million during the period from October 2023 to 31 December 2023, Colombo Nelum Kuluna Management Private Limited had paid Rs. 1.4 million in management fees and Rs. 1.06 million in employee salary expenses during this period. However, the agreement did not contain any terms outlining how to proceed in the event of a gross operating loss.

Furthermore, the company had neither set monthly targets for Citrus Leisure PLC nor appointed an official responsible for monitoring its activities. Additionally, although Clause 3.1(a) of the agreement stipulated that employee selection, recruitment, termination, and salary decisions should be determined in consultation with the company, the company had not engaged in any of these processes regarding the employee selection, recruitment, termination, and salary decisions of Citrus Leisure PLC. Due to this situation, Citrus Leisure PLC had the ability to recruit employees and determine salaries as needed, while the company was liable to pay any wages and allowances presented by Citrus Leisure PLC. Furthermore, despite a payment of Rs. 1.01 million for mobile phones, there was no approval from the agreement in this regard.

Physical inspection of the Colombo Lotus Tower

Names and various images had been drawn on the walls of the observation deck, causing damage. To minimize this damage, Rs. 1.08 million was spent on installing illuminated plastic panels on the viewing platform, but these too had been damaged by visitors. Although security camera systems were installed inside the tower, with staff assigned to monitor their operation, management had not deployed the minimum number of security personnel required to identify and take necessary action against the individuals responsible for the damage.

Judicial and Prison Activities

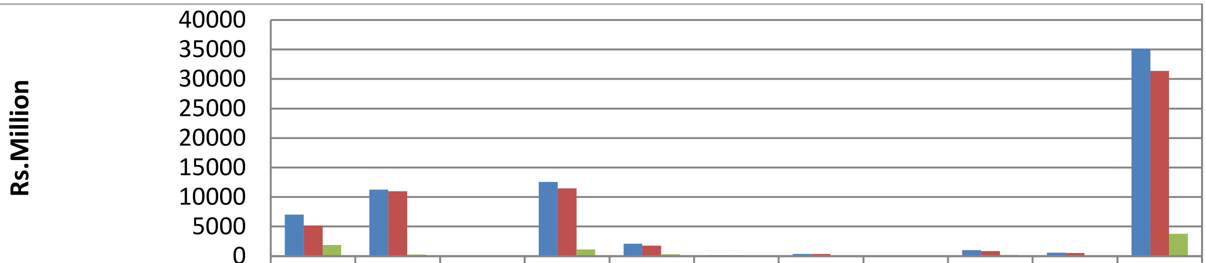
The Ministry of Justice, functioning under the vision of "A legal system trusted by the people of the country and a fair Sri Lanka", comprises 08 Departments and 11 statutory boars/institutions. Although the Sri Lanka Law College had been gazetted under this Ministry, no provision had been made thereon.

Functions

- To bring reforms to the legal system in line with social requirements and global trends. Reregister and codify the law. Administration of courts.
- Be responsible for civil and criminal cases on behalf of the Government. Providing legal instructions for the Government and all Government Departments. Drafting laws.
- Preparation and implementation of a suitable procedure to increase the productivity and efficiency of the overall quasi system.
- Administration of labor tribunals, and empowering the board of arbitration in view of settling disputes rather than proceeding to civil courts. Taking action to assist and protect victims and witnesses.
- Be responsible with searching for missing persons and protecting the rights of missing persons and their relatives. Indemnification for the persons affected by conflicts and crises.
- To promote national integration, reconciliation and lasting peace in the country and prepare a national policy framework thereon. Introducing and conducting programmes of dialogue relating to restoration of coexistence and cooperation among ethnicities.
- Affairs relating to formulation of a new Constitution. Taking measures to amend the Constitution in a timely manner ensuing national security and sovereignty of people.
- Formulation and implementation of programs and policy plans relating to prison reforms. Administration and reformation of prisons. Infrastructure development of prisons and mitigation of congestion. Rehabilitation of prisoners.
- Affairs relating to projects on community based corrections. Implementation of programmes and projects to rehabilitate persons impaired physically or mentally due to crises.

- To put in place a mechanism for those involved in terrorist activities, to be reintegrated into society.

  In order to discharge the said functions, provision totaling Rs. 35,179 million had been approved and granted by Parliament to the Ministry of Justice and 09 Departments in the year 2023. By the end of the year under review, a sum of Rs. 31,383 million therefrom had been utilized. Particulars are given in the following Table.



	Ministry Of Justice	Court administration	Department of Debt Conciliation Board.	Department of Prisons	Attorney General's Department	Department of Legal Draftsman	Supreme court registrar	Law Commission	Government Analyst's Department	Department of Community Based Corrections	Total
net provision	7042	11241	77	12571	2086	155	375	22	1030	580	35179
actual expenditure	5182	11005	61	11471	1795	138	342	16	842	531	31383
saved provision	1860	236	16	1100	291	17	33	6	188	49	3796

Diagram 2.19: Number of inmates detained over the prison capacity during 2014 – 2023
Source - Report of statistics – Department of Prison

A summary of significant audit observations made during the discharge of said functions is given below.

Audit Observations

Ministry of Justice, Prison Affairs and Constitutional Reforms

Management Weaknesses

It was scheduled to complete the project for construction of record room and production room of the Maho district magistrate's court by 30 September 2022. However, the project had been abandoned halfway despite the physical progress of 60 per cent after expending a sum of Rs. 24.1 million by November 2022. Hence, the expected results could not be obtained through the funds expended. Furthermore, agreements had been entered into with private institutions for the construction of building proposed for the court, record room and office of the district court of Kuliyapitiya, and construction of record room and office building of the court, Kalpitiya in November and December 2021 respectively; and, advances amounting to Rs. 11.1 million and 9.9 million had been paid. The project should have been completed by the years 2022 and 2023 respectively. Construction of the district court of Kuliyapitiya had been halted due to failure in commencing the project in the year 2022 whilst constructions of the court in Kalpitiya had also been halted due to changes in plans. Once the advances given for the projects had been retained idle by the private institution over periods of 15 and 18 months, the funds had been paid to the Ministry in March and August 2023 respectively.

Department of Prisons

Failure to Gain Benefits Expected

In a backdrop where scarcity of human and physical resources required to provide education for school children in the country prevailed, successful results could not be obtained from this project due to reasons such as, lack of an adequate number of students proportional to the human and physical resources given to the open prison camp in Watareka for young inmates being maintained as a national school, and lack of a suitable methodology for the students.

Uneconomic Transactions

As disclosed in a sample audit, inmates of the Wellikada prison had been deployed in the premises of officers' houses in 233 instances during the period of 31 days of December 2023, and the jailers had spent 234 man-days thereon. In order to transport inmates to the premises of houses, 09 pool vehicles of the prison headquarters had been driven for 372 kilometers in 62 instances during that period. Despite being emphasized in the Budget Circular No. 01/2023 dated 27 January 2023 that expenses on overtime payments be limited, a sum of Rs. 982 million had been expended by the Department as overtime and holiday pay in the year 2023. That amount indicated an increase by Rs. 106 million as against the year 2022.

Prison Space

There should have been enough prison space for the mental and physical requirements of the inmates in accordance with accepted international standards, provisions of the Prison Ordinance and internal Circulars. However, according to the audit examination carried out in the year 2023, a number of 2,601 inmates had been detained in excess of the number of inmates of 62 wards in 05 prisons. A number of 127 inmates had been detained less than the number of inmates for 12 wards in Agunakolapelessa prison.

Number of inmates detained over the prison capacity during 2014 -2023, is given below.

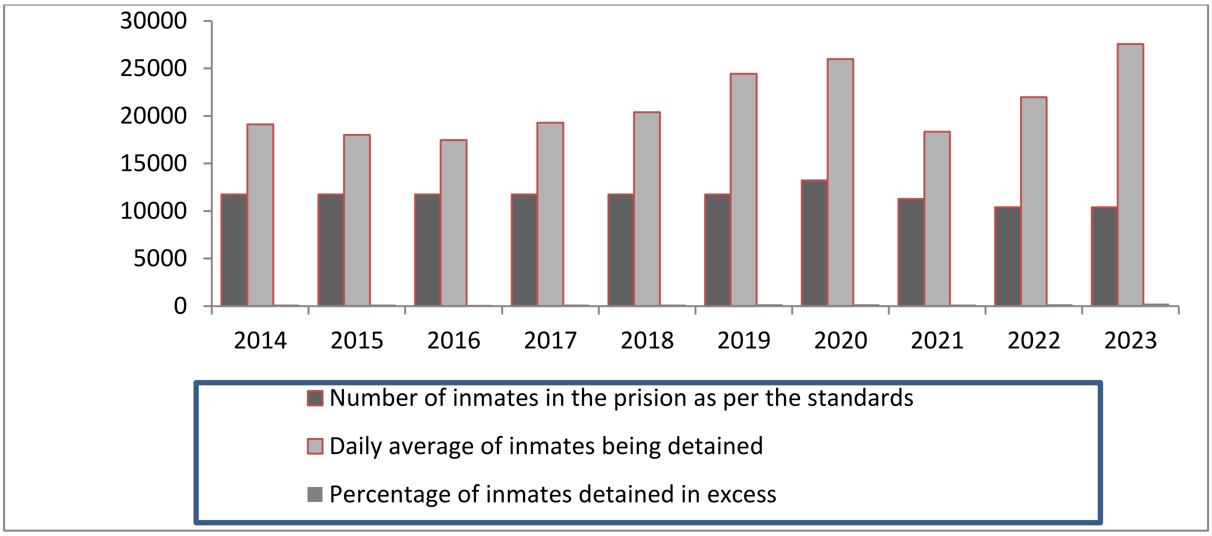


Diagram 2.20 Number of inmates detained over the prison capacity during 2014 -2023,
Source - Report of statistics, Department of Prisons

Reasons Attributing to the Congestion in Prisons

Imprisonments due to drug related offences had mainly attributed to the unusual congestion in the prisons. As many of such detainees were drug addicts, they try to obtain drugs by whatever means. Hence, the prison officers should pay even more attention to prevent them from doing so, thus hampering the achievement of key objectives of the prison and ensuing internal security and functionality of the prisons. It was identified in the physical examination carried out in the prisons of Negambo and Kalutara that 1,442 inmates or 65 per cent of the 2,225 inmates in the Negambo prison as at 27 August 2023 whilst 885 inmates or 69 per cent of 1,275 inmates in Kalutara priosn as at 19 September 2023, had been related to drugs.

Performance Audit on Management of Overcrowding in Prisons

The increase in drug offenses directly affects the increase in other criminal activities in the country. The number of prison inmates in Sri Lanka is 26,176 as at 31 December 2022 and of which over 53 per cent equal to 13,794, are drug-related inmates. A number 4,406 inmates are prisoners for drug offences and 9,388 are suspects.

Re-establish the Welikada Prison Complex in Horana area

The project to re-establish the Welikada prison complex in Horana area is jointly carried out by the Urban Development Authority, the Ministry of Urban Development and Housing and the Department of Prisons. About 30 per cent of the environmental impact assessment report, planning and design work, infrastructure development work including internal roads, water and electricity have been completed for this project. However, the implementation of this Project has been temporarily suspended according to the Circular No. 03/2022 issued by the Ministry of Finance dated 26.04.2022 .

Sanitation Facilities

When the number of inmates increases exceeding the prison capacity, it has become difficult to provide adequate sanitary facilities to the inmates. There was a shortage of 187 toilets in 27 prisons, and 287 of the existing toilets were in a repair condition.

Delay in submission of Analyst's Reports

Although the Analyst's Test Reports related to the drug samples submitted by the police to the Department of Government Analyst in relation to the suspects who have been imprisoned by the court, should be sent within a period not exceeding 12 months , the number of suspects who had been remanded due to non-submission of Analyst's Test Reports was 5,676 as at 31 December 2022 .

Inmates who have submitted appeals and are awaiting final decisions

Due to non-hearing, late hearing and non-closure of the judicial process on various grounds in connection with the appeals filed by the inmates, it is a matter outside of general administration. The number of inmates in prison who were waiting for receiving the final judgment after making appeals was 301 as at 31 December 2022.

Employing Prisoner labourers in private sector projects

Due to the increase in prison overcrowding and the increase in the number of prisoners and the lack of physical and human resources available to rehabilitate prisoners thereon , the approval of the Cabinet of Ministers No. 20/0792/207/025 dated May 14, 2020 to use prisoner labour in private sector projects was received. However, providing 3 months of training in the relevant field and a vocational level certificate (NVQ) for prisoners who were employed in private companies and providing foreign language training for foreign jobs had not been carried out.

Rehabilitation of Inmates

One of the main functions of the prison is to set up the social environment necessary to rehabilitate the inmates and socialize them as good citizens according to the needs of the time. In the view of overcrowdings in prisons, the problems are arising during the rehabilitation of inmates.

Attorney General's Department

Delay in the Recovery of Outstanding Revenue

Special arrangements should be made for the expeditious collection of outstanding arrears of Revenue in consultation with the Accounting Officers as per Financial Regulation 128 (2) (e). Nevertheless, the outstanding arrears of revenue amounted to Rs. 324 million as at 31 December 2023, and that balance comprised a balance of Rs. 105 million older than 10 years.

Government Analyst's Department

Failure to Achieve the Expected Outcome

At the beginning of the year under review, there were 12,189 cases under 12 divisions of the Department waiting to be examined before issuing reports of analysis whereas 58,886 cases had been received in the year 2023. Of that, 53,253 cases had been completed in the year 2023, and 17,822 cases still remained at the end of the year yet to be analyzed and issue the reports. It was observed that the said number of cases represented 25 per cent of the total number of cases to be analyzed for issuing reports.

Management Weaknesses Action had not been taken thus far to recover the penalty of Rs. 2.3 million from two officers of the Department who had not reported for duty after proceeding abroad on no-pay leave.

Other Institutions related to the Ministry of Justice

Judges of the Supreme Court

Lack of the Post of Internal Auditor in Approved Cadre According to Section 40 (1) of the National Audit Act, No. 19 of 2018 and Paragraph 03 of the Management Audit Circular No. DMA/01-2019 dated 12 January 2019, internal audits should be carried out by an Internal Auditor appointed by the governing body of the same Department, headed by a Grade I officer of the Sri Lanka Accountants' Service. However, the post of Internal Auditor had not been included in the approved cadre of this Ministry.

Office for Reparations

Lack of a Register Containing Information on Applications for Compensation Despite the request made by the Audit for a register containing information on applications for compensation in order to verify the number of files waiting for compensation, the Office for Reparations could not present such a register. It was informed by the Office that there were 8,626 files for which compensation should be paid as at 31 December 2023. However, the Office was unable to furnish an age analysis on the files of applicants with respect to the periods since when compensation had been requested. It was scheduled to pay a compensation of Rs. 1,802 million relating to 4,917 files, but the compensation to be paid on the other 3,709 files, had not been assessed.

Health

With a vision of creating a healthy nation that contributes to the economic, social, mental and spiritual development of the country, the Ministry of Health should have performed the following duties and functions.

Functions	Formulation of policies and standards related to public health services, Formulation and implementation of programs to improve public health and nutrition
	Implementation of international quarantine and sanitation regulations
	Regulation and monitoring of quality, standards and prices of private hospitals and medical centres
	Regulation and monitoring of the work of non-profit community medical care institutions
	Launching operations for quality control, prevention and treatment of pandemic, communicable and noncommunicable diseases
	Implementation of medical and oral health services related to school health program
	Work on health services for estate sector ,General sanitation
	Implementation of Thriphosha distribution programs
	Administration of all hospitals and hospital employees (except hospitals under Provincial Councils)
	Administration and organization of all training departments and services and coordination with other institutions of higher medical education
	Work on National Blood Transfusion Services
	Work on Pharmaceutical Manufacturing, Import and Distribution
	Administration and personnel management related to the Sri Lanka Medical Service
	Creating training opportunities to improve the quality and skills of medical and paramedic services.
	Introducing new strategies to expand research related to the health sector

Work on National Health Insurance Programs

The Ministry of Health had been provided provision of Rs. 377,029 million by Parliament in the year 2023 to accomplish the above mentioned functions and only Rs. 319,318 million out of that had been utilized by the end of the year under review.

Expenditure of the Ministry	Year		
	2021	2022	2023
	Rs.Million	Rs.Million	Rs.Million
Net provision - Recurrent	134,490	211,148	312,526
-Capital	42,371	45,438	64,503
Total Net Provision	176,861	256,586	377,029
Utilization of provision - Recurrent	121,632	207,456	293,254
- Capital	33,144	33,396	26,064
Total utilization of provision	154,776	240,852	319,318
Savings - Recurrent	12,858	3,692	19,272
- Capital	9,227	12,042	38,439
Total savings	22,085	15,734	57,711

Table No. 2.12- Ministry of Health, Provisions and utilization during 2021, 2022 and 2023
Source-Financial Statements, Ministry of Health

The important and quantitative audit observations revealed during the sample audit conducted regarding the performance of the above duties and functions are summarized and presented below.

Audit Observations

Ministry of Health

National Health Strategic Master Plan

According to the National Health Strategic Master Plan 2016-2025, it was identified in Theme Areas 2 related to health administration and human resources that issues concerning health human resources, such as the minimum workforce and standards, need to be revised in line with established criteria (service demand/workload/population growth, geographical and physical factors/international standards, etc.). As proposed solutions to these issues, it has been recommended to develop a health human resource policy (covering planning, recruitment, training, deployment, and professional development). Accordingly, although the development of the Human Resource

Strategic Plan was planned for the year 2023, and the third draft report was prepared and sent to the relevant parties and the World Health Organization for expert feedback, the final report was not completed by the end of the year.

Picture Archiving and Communication System/Radiology Information System Installation Project

As per an unsolicited project proposal, a project to install a Picture Archiving and Communication System/Radiology Information System (PACS/RIS) in 20 hospitals had been implemented under an agreement signed on 02 October 2019, between the Secretary of the Ministry of Health, a Chinese company, and a Malaysian company. No evidence was submitted to the audit regarding the feasibility study, preparation of cost estimates, or cost-benefit analysis being conducted at the Ministry level concerning this project. Furthermore, the basis on which the hospitals were selected was also not presented to the audit.

The project cost for implementing the system in the 20 proposed hospitals amounted to USD 33.25 million, with the sum, along with an interest payment of USD 1.31 million, to be repaid over a period of 11 years. As the first phase of the project, it was agreed to complete the installation of the system in 5 hospitals within 3 months and the installation in the remaining 15 hospitals within 2 years. However, the project was not implemented within the expected timeframe. Nevertheless, due to the project not being implemented within the proposed timeline, the agreed schedule, including the timeframe for loan repayments, the installment amount and interest, had to be revised and the agreement amended accordingly. However, the responsible parties had not taken necessary actions in this regard.

In July 2022, a committee consisting of 05 individuals had conducted an evaluation of the project's implementation in relation to 05 hospitals before making the first installment payment. According it had been indicated that 4 criteria were completely unsatisfactory (Not Satisfactory), while 38 criteria were considered partially unsatisfactory (Partially Satisfactory). The report certified that only 16 criteria were at a satisfactory level. As a whole, the evaluation confirmed that the project's implementation in the 5 hospitals was not at a satisfactory level. Based on the committee's recommendations and the complete change in the project's scope and implementation timeline, it was observed that there was no possibility of making installment payments according to the payment schedule outlined in the agreement. At the Cabinet meeting held on 20 March 2023, approval had been granted to make a partial payment for the 5 hospitals where the project had been implemented. However, based on the recommendations of the five-member committee appointed by the Ministry, without considering the Cabinet approval or the submissions made by the National Budget Department, the full installment payment of USD 3.02 million, which was due to pay in the following year upon the successful completion of the project in all 20 hospitals, was made within this year.

Failure to use fingerprint machines

A total of 213 fingerprint machines, installed at a cost of Rs. 31.08 million for use at the Ministry, its hospitals, and affiliated institutions, remained idle without being utilized. The Treasury Secretary had instructed that overtime allowances based on the current salary should not be paid unless these machines were operational by 01 July 2017. However, contrary to this, overtime and holiday pay amounting to Rs. 38.236.83 million had been paid in 2023 based on the current salary. Furthermore, the total amount spent on overtime and holiday pay accounted for approximately 72 per cent of the total salary expenses.

Sustainable Development Indicators

A total of 31 Sustainable Development Indicators had been identified in relation to the Ministry of Health, but progress for 13 of these indicators relating to the year under review had not been reported. Furthermore, the required performance level was not achieved for the 12 indicators for which progress had been reported.

Vacancies

According to the information presented for audit, the total approved staff for the Ministry and its hospitals, institutions, and departments was 95,948 as of 30 June 2023, while the actual staff on that date was 81,915. Accordingly, there was a shortfall of 14,033 in the total staff. In the year 2017, a total of 1,103 field mosquito control assistants had been recruited irregularly on a contract basis for dengue eradication activities. Nonetheless, only 5 positions were recorded in the staffing information. This number of positions, employed under a monthly allowance of about Rs.27,000, had not received formal approval by March 2024.

Medical Specialist Service

Although the number of specialist doctors approved for 58 specialist fields was 2,837 according to the Cabinet approval, as per the information furnished to audit that number applicable to 50 fields stood at 2,740, with no doctors appointed to 66 approved positions across 8 specialist fields. Furthermore, when compared with the number of positions approved by the Cabinet, it was observed that there was a shortage of 972 specialist doctors in 35 fields, while 113 doctors were employed in excess in 12 fields as of November 2023. It was also observed that 141 specialist doctors had been employed in 12 specialist fields, which were neither identified at the time of Cabinet approval nor had formal approval been obtained to appoint doctors for those fields later on. Furthermore, although the primary objective of obtaining Cabinet approval was to determine specialist fields based on necessity rather than doctors' preferences, it was observed that the Ministry had not adhered to this and had allowed doctors to choose their specialist fields based on their own preferences.

Auditing Implementation of Sustainable Development Goals - Strong and Resilient National Public Health System (related to SDG 3.d) in Sri Lanka

National Health Council

Although the National Health Council is an important platform for discussing health issues at the highest level, it had not met since 2004 and this has led to the absence of a formal mechanism to ensure political commitment to inter-sectorial co-operation at the national as well as sub-national level.

In the absence of a high-level health development body like the National Health Council, various National Steering Committees and National Task Forces had been formed from time to time.

National Action Plan for Health Security

Eight institutions had stated that they were not aware of and were not responsible for the activities outlined in the National Action Plan for Health Security. In the above situation, a lack of coordination between the relevant agencies was observed in achieving the conditions stipulated by the International Health Regulations (IHR) .

The National Health Development Committee (NHDC) is the intermediate level of the Health Development Network recognized and approved by Parliament in the year 1980. This is an important platform for discussing policy issues related to the health sector. It was observed in the audit that although two meetings of the Committee were planned to be held in a year under the chairmanship of the Secretary of Health, only one meeting was held in the year 2020 and 2021.

Institutional Disaster Management Plan

Preparation of Guidelines on Institutional Disaster Management Plan (IDMP 2021) had been made by Center for Disaster Management for all Ministries, Government Institutions, Departments and Agencies, based on the National Disaster management plan (2013-2017). However, coordinating the relevant agencies for disaster management was not enough. It was observed that the guidelines on preparation of Institutional Disaster Management Plan (IDMP 2021) were based on the old National Disaster Management Plan.

Quarantine and Transmission Health Units

It had been emphasized in National Health Policy regarding the vigilance of quarantine and transmission health units for the possibility of the entry of internationally transmitted diseases into the country, in accordance with the International Health Regulations (IHR 2005) . Mechanisms need to be developed to mitigate the impact of climate change and climate anomalies on health.

Accidents and Emergencies

It is necessary to ensure the provision of comprehensive accident, emergency and emergency care services at all levels of health care to minimize preventable deaths and illnesses related to accidents and emergencies.

National Action Plan for Health Security

As per the National Action Plan for Health Security (NAPHS), the Ministry of Health, Department of Animal Production and Health (DAPH) and Ministry of Fisheries and Aquatic Resources (Mo FAR) had planned to develop a system for multi-sectorial coordination between human and animal sectors. Even though a mechanism had been established through the National Advisory Committee on Antimicrobial

Resistance (AMR), the Strategic Action Plan on Antimicrobial Resistance (AMR) had not been implemented at the desired level, mainly due to lack of funds.

Biosecurity Surveillance and Monitoring Programs

The Department of Animal Production and Health (DAPH) had planned to strengthen infection control surveillance on farms from 2019 to 2023. Even though the Department of Animal Production and Health (DAPH) had initiated Biosecurity Surveillance and Monitoring Programs in poultry farms, this had not been started in commercial livestock and poultry farms.

Imposition of Regulations

Even though it had been planned from 2019 to 2023 to improve the specimen transport system and develop a systematic national program and establish regulations regarding a specimen referral network for each primary test, this activity had not been performed.

Updating Disaster Preparedness and Response Plans

The Medical Supply Division had planned to update the current Disaster Preparedness and Response Plan by the end of 2021. However, it was observed during the audit that the Medical Supply Division (MSD) was unable to complete the work within the stipulated time.

Annual Desktop Simulation Exercises

The Medical Supply Division had planned to begin assessing readiness and responsiveness through the Annual Desktop Simulation Exercise. However, the it was observed in audit that this process had not been initiated by 21 March 2023.

1990 – Suwa Sariya Foundation

Making Regulations

Under Sections 18(5) and 25(1) of the 1990 Suwasariya Foundation Act No. 18 of 2018, no regulations had been formulated concerning any of the 05 main points related to the payment of funds by the Board, for which rules could have been made.

Private Health Services Regulatory Council

Classification of Private Medical Institutions

According to the Private Medical Institutions (Registration) Act No. 21 of 2006, a system for classifying private medical institutions based on the facilities they provide and implementation of an accreditation scheme has been specified. However, the classification of private medical institutions had not been completed even by 31 December 2023, resulting in a suspension of fee regulation activities.

Making Regulations

In accordance with Sections 18(2)(g) and 18(2)(1) of the Private Medical Institutions (Registration) Act No. 21 of 2006, although the Minister may make regulations in respect of the procedure or practice to be followed in entertaining any complaint against any Private Medical Institution or person attached thereto from any interested or aggrieved person, and the final disposal thereof, the Minister had not made any regulations regarding this matter.

Sri Lanka Triposha Limited

Non-utilization of funds for intended purposes

A sum of Rs. 192.09 million had been provided by the World Food Programme (WFP) for the construction of the proposed silo system in 2021; however, these funds were invested in a fixed deposit instead of being utilized for the intended purpose.

Obtaining a 1/20 allowance

Although it is necessary to work for not less than 8 hours a day to obtain an amount equivalent to 1/20 of the consolidated monthly salary for working on a public holiday, none of the officials in the company that received this allowance worked the required 8 hours. Accordingly, a holiday pay allowance of Rs. 1.62 million had been received for the year 2023. Although some officials did not report for duty on the relevant holidays, they had received this allowance for those days. Furthermore, despite the fact that only one allowance or benefit should be claimed for a single task, the company had granted each of these officials an additional lieu leave or lieu leave allowance, in addition to the allowance, for each public holiday on which the officer reported for duty.

Medical Research Institute

Land donated through a last will

A land extending over 2 acres, 2 roods, and 29.70 perches, bordering the Godagama-Malabe main road and the Walgama-Athurugiriya road, was donated to the Medical Research Institute by the owner through the Last Will No. 4205 dated 01 April 1998, and its estimated value was approximately Rs. 1,074 million. The legal owner of this land had passed away on 17 February 2022 and this was officially notified in writing to the Medical Research Institute on 21 February 2022. According to Section 516 of the Civil Procedure Code, the original copy of the last will must be submitted to the relevant District Court of the area where the testator passed away, within three (03) months from the death. It must then be proved as the deceased's last will without any objections, in accordance with Section 524 of the Civil Procedure Code. However, despite 25 months having passed since the legal owner of the land passed away by 31 March 2024, the Ministry of Health had not taken the necessary steps to prove the last will, numbered 4205, as the deceased's last will without objection.

Teaching and National Hospitals

Lady Ridgeway Hospital for Children

Underutilized Assets

Currently, two Extra-Corporeal Membrane Oxygenation (ECMO) machines, which are used for patients with temporary and severe dysfunction of the lungs and heart, existed within the hospital system under the Ministry of Health. One of these machines had been purchased by the Lady Ridgeway Hospital for Children on 05 February 2015 hospital for Rs. 13.5 million for its Cardiac and Cardio Thoracic Unit. This machine had been transferred between 05 hospitals and used for only four patients up until 31 May 2023. However, the Lady Ridgeway Hospital for Children, which purchased the machine, and the Colombo National Hospital, which had been assigned the machine since 28 September 2021, had not used it for any patients. Nevertheless, during the year 2022, the hospital had purchased 61 consumable units for the machine at a total cost of Rs. 13.3 million, along with 8 Spare parts / accessory units at a cost of Rs. 12.2 million.

Apeksha Hospital, Maharagama

Idle Assets

A cold container costing Rs. 5.4 million had been installed within the hospital premises by the Maharagama Apeksha Hospital on 30 August 2018 for storing medicine. However, the pharmacists repeatedly had rejected storing medicine in the container, stating that it was not prepared suitably for the hospital's needs. Accordingly, considering the pharmacists' requirements, its renovation work had been completed at a cost of Rs. 2.7 million on 28 November 2022. However, it had spent approximately 16 months to obtain a technical report regarding this, which was received on 25 March 2024. However, by 30 April 2024, the hospital had not used it for storing medicine. Therefore, this cold container, which was installed at a cost of Rs. 8.1 million, had remained idle for more than 05 years.

Colombo National Hospital

Annual raw food requirement

The annual raw food requirement for the year 2022 of the Colombo National Hospital had been estimated under 05 categories and separate tenders had been called through the National Competitive Bidding procedure. Contracts were awarded at a value Rs.51 million higher than the lowest bid and as the reason therefor, the Ministry Procurement B Committee's stated that the lowest bidder had provided unsatisfactory service and there were concerns regarding the financial stability of the institution. While the contract was initially scheduled to end on 31 December 2022, it was extended until 31 March 2023.

As revealed during the audit related to this matter, the actual consumption of raw food materials in the hospital for the year 2022 amounted to only 32 percent of the estimated amount. Accordingly, it was observed that the estimate was overvalued by 68 percent, or approximately Rs. 250 million. Furthermore, 12 items with an estimated value of Rs. 1.2 million were never purchased. Furthermore, it was observed that the overestimation of just five raw food items alone had an impact of over 40 percent on the total estimated cost. Due to the overestimation of the requirement by 68 percent, it was observed that the performance bond amounts required from the bidders ranged from 25 percent to 152 percent relative to the actual raw food requirement. This made it difficult for capable small and medium scale entrepreneurs to participate fairly in the procurement process.

Kandy National Hospital

Inoperability of a cardiac catheterization machine

At the Cardiology Unit of the Kandy National Hospital, two cardiac catheterization machines were used to perform daily heart disease tests and treatments for approximately 30 patients. However, one of the machines, a Siemens Axiom Artis DFC Cath Lab (Machine – SN3542602626), which is over 17 years old, became inactive on 01 May 2023. Since repairs were ineffective and a replacement machine was not installed, daily cardiac examinations had reduced by about 50 percent. From 2019 to 29 May 2023, a total of 8,024 patients had registered for treatment and are still on the waiting list, which has further extended due to the machine being out of service.

Teaching Hospital, Batticaloa

Non-utilization of the diode laser machine

At the request of the Obstetrics and Gynecology Specialist of the Batticaloa Teaching Hospital, a 200W Dual Diode Laser Machine had been purchased in December 2019 at a cost of Rs. 63.9 million. However, the machine's warranty had expired before it could be used, and no certification for obtaining spare parts was provided. In addition, the full payment was made in violation of the tender conditions, without installing the machine or providing the relevant in-depth training for the hospital staff. Accordingly, despite four years having passed since the purchase of this machine, which was a significant investment with the potential to treat various medical conditions, by March 2024, it had not been utilized for the treatment methods prescribed by doctors. As a result, the machine could not be used for the benefit of patients.

Unused Assets

Construction work on an eight-story building with an estimated value of Rs. 790.1 million, intended for the established of the Blood Dialysis Unit and Kidney Vascular Access Unit at Karapitiya Teaching Hospital, commenced on 13 August 2014. Although the work was supposed to be completed by 13 February 2016, it remained unfinished as of 31 December 2023. No written evidence of approval for extending the contract period or any evidence of a plan to complete the work within the extended timeframe was found in the file. Before completing the construction of the building, surgical and medical equipment, as well as office equipment worth Rs. 198.86 million, required for the Blood Dialysis Unit and Kidney Vascular Access Unit, had been purchased. However, by the date of audit on 02 June 2023, these items were stored in various places within the building, remaining unused. A total of 114 surgical and medical equipment items related to 20 categories worth Rs. 83.57 million, purchased for the Blood Dialysis Unit and Kidney Vascular Access Unit in 2018, remained unused by the date of audit on 02 June 2023. Furthermore, the warranty period for all this equipment had expired prior to its utilization.

Additionally, it was observed that three medical laboratory testing instruments, purchased for laboratory testing in this hospital in 2017 for a total of Rs.16.9 million, had remained unused for laboratory tests over a period of 07 years.

Unused Assets

Under the project to improve the healthcare system in hospitals with Chinese assistance, a Digital Static X-Ray machine - GE Health Care/Model/Optima XR 646, valued at LKR 20.9 million, had been provided to the Nawalpitiya District Hospital on 29 March 2022. Although the Nawalpitiya Hospital had spent Rs.19.9 million on site preparation, wiring, obtaining three-phase power supply, and installing electrical connections for the machine, it remained unusable for patient care by 31 December 2023.

Sri Jayawardenepura General Hospital Board

Professional fee

According to the procedure for charging a service fee of only 0.15 percent from the professional fee, which has been in operation since 1999, the total service fee credited to the revenue of the Board amounted to approximately Rs.0.94 million out of the total professional fee of Rs. 601.74 million paid to the staff in 2023. The decision of the board of directors regarding this matter was not presented for audit. Additionally, Rs. 60.73 million, paid to auxiliary medical staff and other employees based on a decision of the Board without the approval of the Treasury or the Cabinet, was also included in this figure.

Failure to pay PAYE tax on professional fee

According to the report provided by the Tax Appeals Commission on 10 April 2024 regarding the appeal submitted by the hospital, it had been informed to the hospital that PAYE taxes must be paid on professional fees. Accordingly, the tax should have been calculated on the professional fees paid to the hospital's medical and other staff for the period from 2013/2014 to December 2023, and it should have been promptly remitted to the Department of Inland Revenue. However, no action was taken in this regard.

Payments without approval

In 1996, a common policy had been established by a Cabinet decision to maintain a salary gap of 35 percent between various grades at Sri Jayawardenepura Hospital and parallel grades in the Ministry of Health or other departments. Based on this decision, it had been decided to make payment with the 35% increase in additional duty and overtime allowances for medical, nursing, and paramedical staff, effective from 01 January 2018, under the general circular of the Ministry of Health according to a decision made in 2018 by a resolution from the Board of Directors. Accordingly, payments totaling Rs. 168.43 million, Rs. 162.47 million, and Rs. 158.07 million were made in the years 2021, 2022, and 2023, respectively, without the approval of the Cabinet or the Treasury.

Vijaya Kumaranatunga Memorial Hospital Board

Purchase of drugs and medical devices

According to sections 2.1 and 2.2 of the 2007 Guidelines for the Procurement of Medicines and Medical Devices, all suppliers must be registered with the National Medicines Regulatory Authority when purchasing medicines and medical devices. However, in violation of this requirement, bids worth Rs. 5.93 million had been awarded on nine occasions to bidders who did not submit the registration along with bid documents or whose registration had expired, and the Technical Evaluation Committee had not focused on this matter.

National Health Development Fund

Donations

Donations amounting to Rs. 13.76 million had been received for 04 different projects between 1998 and 2023, whereas no actions were taken to allocate these funds for the intended activities.

Underutilization of Donations

Under the "Little Heart" project, intended for the construction of a ten-story building and the purchase of equipment for the Lady Ridgway Children's Hospital, public funds amounting to Rs. 624.43 million had been raised by the end of 2023. However, only Rs. 81.39 million of that amount was spent during the year. Additionally, Rs. 42.03 million donated by a donor on 20 July 2020 through a last will, for the improvement of the surgical complex at the hospital, along with Rs. 11.25 million received in 2023 for the purchase of consumables required for surgeries had not been utilized for their intended purposes. As of 31 December 2023, the donation account for the Apeksaa Hospital held Rs. 406.24 million, and these funds were not utilized for any productive activities during the years 2022 and 2023.

Improvement of the cancer unit at Jaffna Teaching Hospital

According to the Cabinet Decision No. CP/12/0489/509/022 dated 04May 2012, it had been decided to implement a research project for cancer patients in the Northern Province. For this purpose, a Memorandum of Understanding was established between the Ministry of Health, the Provincial Ministry of Health, the National Health Development Fund, and a private company as a supporting organization. Accordingly, the project proposed the construction of a radiotherapy unit at Tellippalai Base Hospital and the provision of medical equipment for the pediatric treatment unit at Jaffna Teaching Hospital. Accordingly, the relevant company had provided Rs. 218.6 million as a donation for the construction of the Tellippalai Hospital**.** However, sums totaling Rs. 72.35 million collected by the above company during the period up to 31 March 2023, under the Jaffna project (for the improvement of the cancer unit at Jaffna Teaching Hospital), were not utilized as stipulated in the agreement and remained with the company.

Utilization of General Fund

It was observed that the utilization of public funds held by the National Health Development Fund for the improvement of Sri Lanka's health services remained at a low level**.** As of 31 December 2023, the balance in the Public Fund was Rs. 729.41 million, while only Rs. 60.61 million had been spent during the year under review for achieving the objectives of the Act. Accordingly, the fund's utilization stood at a low rate of 8.3 percent.

National Dangerous Drugs Control Board

Registration and monitoring of substance importers and exporters

In accordance with Premises Registration Order 9 published in Part IV of the Extraordinary Gazette dated 10 May 2010 in terms of the regulation No. 1653/7 made under the Section 18 in conjunction with Section 31 of the Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act No. 1 of 2008 and the provisions of Article 44(2) of the Constitution, every premises involved in the import or export of relevant substances must be registered with the Authority within one month of the date of license issuance. During the year under review, 16 premises were registered, and 10 were issued licenses. Furthermore, the members of the Authority must visit the registered premises of the licensee at least once every three months to monitor activities, inspect the storage of substances, the usage of equipment, and review maintained records, registers, and reports. However, only 51 out of the 91 premises of licensed importers were inspected in 2023.

Private rehabilitation centers without updated licenses

In terms of Order No. 2 of Gazette No. 1653/19-2010 dated 12 May 2010, issued in association with the Drug Dependent Persons (Treatment and Rehabilitation) Act No. 54 of 2007**,** no entity can operate for the care and rehabilitation of drug-dependent individuals without obtaining a license as stipulated in the order. However, by the end of 2023, only 13 out of the 26 private treatment centers in the country had updated their license registration. Applications for license update for the year 2023 had been submitted by 13 private rehabilitation centers as of the date of audit on 10 May 2024, but due to the lack of security clearance, these 13 centers had been unable to update their licenses since 2022.

Medical Supplies

The medical supply plays a crucial role in the healthcare system. The key institutions involved in this sector include the Medicine Production, Supplies & regulatory Division, and the Medical Supplies Division of the Ministry of Health, the National Medicines Regulatory Authority, the State Pharmaceuticals Corporation, and the State Pharmaceuticals Manufacturing Corporation. During the audit of these institutions, the following facts were uncovered.

The details of the expenses incurred only by the Medical Supplies Division for the procurement of medical supplies over the past five years are as follows.

Year	Amount Spent (Rs.Mn.)
2019	54,068
2020	83,545
2021	73,638
2022	73,050
2023	143,551

Table N0 -2.13 The expenditures incurred of medical supplies over the past five years

National Medicines Regulatory Authority

Setback in the drug registration and registration renewal process

According to Section 3(a) of the National Medicines Regulatory Authority Act, No. 05 of 2015, the National Medicines Regulatory Authority must ensure that the medicines provided to the public are of good quality, safe, and efficacious, while under Section 58, it is mandatory to obtain registration from the Medicines Regulatory Authority for the importation, production, distribution, and sale of all medicines. Nevertheless, the process of registering and renewing medicines at the Authority has faced significant drawbacks, and by the end of 2023, there were over 1,500 pending registration files that remained incomplete. To address this setback, procedures were followed that extended the registration of medicines and granted batch release approvals, contrary to the provisions of the Authority's Act and the regulations on medicine registration and licensing. The required evaluations regarding the quality, safety, and efficacy of the medicines were not conducted as stipulated.

Failure to present samples for quality inspection

In accordance with Subsection 59(4)(a) of the Act, a sample must be provided to the National Drug Quality Assurance Laboratory for quality inspection during the registration of medicines. Yet, in 2023, 95 per cent of the medicines submitted for registration had not provided samples for testing. The registration of medicines without sample testing poses a significant risk of importing drugs into the country that lack assurances regarding their quality, safety, and efficacy. As observed during the audit, when it is revealed that there are quality issues, a significant quantity of those drugs has been used for patients.

Failure to utilize the process of formal exemption from registration

Although the audit has presented observations regarding the issues arising from the use of the registration exemption process deviating from Section 109 of the Act for several years, no attention has been paid to this matter. In 2022 and 2023, a total of 287 certificates for registration exemption were issued under the approval of the Chief Executive Officer, bypassing the systematic committee approval process, using a rapid mechanism (Special Pathway) that did not involve presenting to the relevant committee or evaluating documents confirming the drugs' quality, safety, and efficacy, or any other methods.

Responsibility for the quality of medicines imported under registration exemption certificates

The internal control mechanisms for the issuance of letters of exemption from registration were insufficient. Therefore, the authority has not effectively demonstrated the primary objective of establishing the authority, which is to ensure that medicines are provided to the public in a transparent, secure, and accurate manner, as stipulated in Section 3(a) of the Act. There was no an adequate internal control system in place regarding the issuance of exemption letters from registration.

Consequently, the authority has failed to effectively fulfill the main purpose of its establishment, which is to ensure that the medicines provided to the public are of good quality, safe, and efficacious, as outlined in Section 3(a) of the Act.

National Drug Quality Assurance Laboratory

The National Drug Quality Assurance Laboratory has not taken measures to obtain a compliance assessment certificate regarding its standards, to implement the recommendations proposed by the Sri Lanka Accreditation Board and the World Health Organization, to procure essential equipment for conducting analytical activities smoothly, and to recruit suitable staff. As a result, it had been unable to issue quality inspection reports within the specified timeframes, and there were 337 inspections that remained incomplete by the end of the year 2023.

Failure to use the authority for regulating drug prices effectively

In instances where the maximum retail prices of scheduled drugs were increased, authorization was also granted for the prices of other drugs to rise. However, no measures were taken to inform that the prices of other drugs should be reduced in relation to the nearest price decrease made in 2023. Therefore, the price advantages that could have been provided to the public were allowed to remain with the pharmaceutical companies.

Regulation of drug storage, distribution, and transportation

Although the National Medicines Regulatory Authority holds the responsibility for issuing licenses for the storage, distribution, and transportation of drugs as per Section 14(i) of the Act, it has not followed the procedures for regulating and licensing the storage of drugs and the transportation vehicles used within the Medical Supplies Division, the Regional Medical Supplies Division, and government hospitals. Additionally, it has not focused on the necessity of continuously ensuring the quality, efficacy, and safety of drugs released into the public health system through a systematic regulatory process.

Medical Supplies Division of the Ministry of Health

Drug shortages resulting from weaknesses in procurement operations

Due to factors such as the failure in the preparation and implementation of the general annual orders for 2022 by the Medical Supplies Division, delays in initiating procurement, non-acceptance of supplies by bidders caused by these procurement delays, poor communication between the Medical Supplies Division and the State Pharmaceuticals Corporation leading to long delays in obtaining the division's opinion on the bidders, the unnecessary time taken in the procurement process resulting in the cancellation or temporary suspension of certain orders, and suppliers not being registered with the National Medicines Regulatory Authority, there was a shortage of 18 types of medicines for periods ranging from 4 months to 35 ½ months between December 2020 and November 2023.

Making emergency purchases

In 2022, the health sector received USD 200 million under the Indian credit line, and the Ministry of Finance had introduced relaxed procurement guidelines for emergency purchases. Despite this, the Pharmaceutical Manufacturing, Supply and Regulatory Division of the Ministry of Health had made emergency purchases by selecting suppliers under the method of calling for interest and unsolicited proposals. In these purchases, instead of appointing a technical evaluation committee for drug assessment, only an evaluation committee was appointed. As a result, it was observed that there is a risk regarding the quality of the drugs purchased without proper verification of standards.

Moreover, emergency procurements aggregating to over Rs.22,000 million, covering 663 procurements, were carried out during 2022 and 2023. However, the monthly reports regarding these procurements were not submitted to the Cabinet for covering approval by the Minister of Health.

The risk of supplying substandard medicines under exemption from registration

According to section 2.1 of the 2007 Procurement Guidelines for Drugs and Medical Equipment, a valid registration certificate guaranteeing the quality of the drugs is mandatory in the procurement of drugs. However, irrespective of this requirement, suppliers were allowed to submit bids under the exemption from registration method in the calling for interest system. As a result, many suppliers had submitted bids without having valid registration certificates, deviating from the mechanism that ensures the supply of quality drugs.

Purchase of of substandard drugs through emergency procurement

Due to the use of the drug called Human Immunoglobulin IV 5-6g and Rituximab inj. 500mg purchased at a cost of Rs. Rs.144 million under the emergency procurement of drugs through the calling for interest method mentioned in 09 above caused severe adverse reactions in patients and was later found to be counterfeit. It was also revealed that the relevant company had not imported these drugs, and the relevant Indian manufacturer had not supplied this medicine. However, the supplier claimed to be acting as the local agent for this drug, with the drug packaging and other documents displaying the name of an Indian company as the manufacturer. Furthermore, it was fraudulently indicated that the supplier's company had imported and supplied medicines. Additionally, the name of the Indian manufacturing company had been included in the certificate for exemption from registration, and a fraudulent analysis certificate claimed to be issued by the quality control department of the Indian company was also submitted. Despite the contradictory details in the tender documents and the fact that this supplier had never previously provided medical items to the Medical Supplies Division and lacked registration with the National Medicines Regulatory Authority, the evaluation committee failed to draw its focus to verify whether the supplier was the authorized local representative of the Indian manufacturer.

Issuing of blood plasma to company for researches

Blood plasma had been issued to the aforementioned supplier company without confirming whether the research had formal approval or whether the procedures followed adhered to the required ethical standards, and without verifying through laboratory tests that the blood plasma was non-infectious after use. Furthermore, the company was recommended to release blood plasma without having secured evidence that the committee appointed by the Blood Transfusion Institution had verified that the research was conducted in compliance with ethical standards. Although this committee had proposed to examine the site relevant to the research, actions were taken to release blood plasma without conducting such an examination.

The institution conducted a GMP quality inspection on the products of the aforementioned supplier, which was unsuccessful; however, no mechanisms were introduced to follow up that such production facilities were engaged in illegal and continuous drug manufacturing, nor were the pharmaceutical inspectors of the Authority informed to continuously inspect these manufacturing facilities. It was observed that the lack of cooperation from provincial and local authority officials in implementing such mechanisms allowed fraudulent companies to engage in counterfeit drug production.

Purchase of substandard Medicines

The medication Bupivacaine 0.5% + Glucose 8% inj. 4 ml Amp.**,** used for anesthesia during surgeries, was procured under emergency purchase from a private company at a value of Rs. 40.74 million**.** Under the calling for interest, this order had been placed with a company that is not a registered supplier with the National Medicines Regulatory Authority, through a special procedure subject to receiving a certificate of exemption from registration and without evaluation on the drug. After the administration of this drug, one pregnant woman died, and another faced life-threatening conditions, which resulted in the immediate suspension of its use. Before distributing this drug to hospitals, the Medical Supplies Division had not taken sufficient steps to have the quality of the drugs tested by the National Drug Quality Assurance Laboratory. By the time the batch was identified as failed in quality, 50% of the total stock had already been issued to patients.

A batch of 50,000 bottles of Prednisolone Acetate Eye Drops, used after cataract surgeries for ophthalmic patients, was purchased by the Medical Supplies Division. Following its use, due to the eye infections and severe adverse reactions experienced by the patients, the Director of Medical Supplies withdrew the drug from use. Nevertheless, by the time the drug was withdrawn**,** 43 per cent of the total stock had already been used on patients. Due to the use of this drug, two patients at the National Eye Hospital became completely blind, while 16 patients at the Nuwara Eliya District General Hospital developed infections. Neither the Medical Supplies Division nor the National Medicines Quality Assurance Laboratory had taken sufficient measures to test the quality of these drugs before distributing them to hospitals.

The necessity of providing quality medicines to patients

According to the circular issued regarding medical supplies for the period from 2019 to 2022, certain antibiotics were found to be of substandard quality, and some medications, including those used for allergies, cancer, heart disease, eye infections, and kidney diseases, contained glass particles, visible debris, a dead cockroach, broken tablets, discoloration, and non-compliance with British Pharmacology standards. It was also identified harmful reactions, leading to fatalities, and microbial allergies. As a result, they were either withdrawn from use or their usage was suspended. By the time these medications were found to be of substandard quality, they had already been used by patients. Even though audits had revealed this situation over the years, no steps were taken to address the issue. In 2023, medical, surgical, and laboratory items worth Rs. 2,482.12 million, which failed to meet quality standards, were withdrawn from use. Due to their substandard quality, medical supplies valued at Rs.515.7 million were also temporarily halted from use. Among these, medications used for eye diseases, cancer, anesthesia, and immunization were withdrawn from use due to being of substandard quality. Observations indicated that patients suffered from adverse reactions after using these medications. Thus, the expectation of providing high-quality medicines to patients was not met.

Lack of a mechanism for quality inspection of medicines prior to distribution

For over six years, audits have informed management to implement a mechanism for checking the quality of medicines before they are distributed to hospitals. However, due to a lack of sufficient action, it has not been possible to reduce the issuance of substandard drugs to patients until now.

Indigenous Medicine

Good health to all through indigenous medicine is the vision of the Indigenous Medicine. The mission of the institute is to provide good health for the entire general public by the use of research and modern technology by preserving Sri Lankan identity to promote human potentials enabling investment of their contribution to achieve national economic and sustainable development goals.

Functions

Making policies to uplift the practice of traditional indigenous medicine

Popularizing indigenous medicine to build a healthy Nation

Preservation and promotion of indigenous medicine

Increasing the production of medicines by implementing indigenous herbal cultivation on a large scale

To improve the tourism industry by creating a safe practice of Ayurveda medical and contribute to the development of the country

Promotion of homeopathic medicine

To accomplish this subjects, the Department of Ayurveda, Sri Lanka Ayurvedic Drugs Corporation, the Homoeopathic Medical Council and the Homeopathic Hospital are functioning under the direct supervision of the Ministry, and there are 10 Ayurvedic teaching and research hospitals, 07 herbal gardens, the Bandaranaike Memorial Ayurvedic Research Institute, National Institute of Ayurveda and Ayurvedic Medical Council are also functioning under the Department of Ayurveda.

Audit Observations

Ministry of Health- Indigenous Medicine Section

Provision and Utilization

In order to accomplish the above role during the year under review, Rs.14.40 million for the capital expenditure of the Indigenous Medicine Sector and Rs.359.60 million for recurring expenditure had been allocated under the expenditure head of Ministry of Health, and 77.63 percent of the capital allocation i.e. Rs.11.18 million and 98.93 percent of recurrent allocations i.e. Rs.355.76 million had been spent.

Payment of allowances without verification by fingerprint machines

According to paragraph 2 (iv) of Public Administration Circular No. 09/2009 dated 16 April 2009, Rs. 5.23 million had been paid for the employees of the Ministry as overtime and holiday pay during the year under review on the basis of attendance records only without verification of arrival and departure by fingerprint machines.

Department of Ayurveda

Department of Ayurveda had made capital allocation of Rs.63.88 million and recurrent allocation of Rs.1,975.46 million in the year under review and by the end of the year, capital expenditure of Rs.50.73 million and recurrent expenditure of Rs.1,942.90 million had been incurred.

Regulation of Panchakarma Centres

Although as per Section 10 of the Ayurveda Act No. 31 of 1961, it requires registration of an Ayurveda hospital, herbal cultivation, Ayurveda pharmacy, Ayurveda dispensary or Ayurveda store by the Commissioner of Ayurveda, the practice of panchakarma medicine could not be regulated as the provision for registration of panchakarma and massage centres had not been included in the Act.

Control of Overtime Payment

As per Paragraph 2 (iv) of Public Administration Circular No. 09/2009 dated 16 April 2009, although the relevant time shall be verified by fingerprint machines in the payment of overtime and holiday pay based on time, during the year under review, Rs. 53.32 million had been paid as overtime and holiday pay to the employees of Ayurveda Department only based on attendance records without the use of fingerprint machines.

Idle expenses

Although Ayurveda Community Health Promotion Programme was implemented as a pilot project in Anuradhapura district from 2001 to 2005 and depending on its success, the services should be expanded to other districts from 2005, the project had been implemented from 2005 to 2023 by spending Rs.1, 171.86 million only within Anuradhapura district from 2005 to 2023. It was observed that it is necessary to cover the recurrent expenses related to this project which was not successful enough to be extended to other districts.

Buying machines Without identifying The necessity correctly

14 machines and equipment had been purchased by spending Rs. 28 million for the Bandaranayake Ayurveda Research Institute on 16 March 2015 without properly identifying the need and without carrying out a feasibility study and 8 machines worth Rs. 21 million had not been installed by 31 December 2023. A committee appointed on 05 October 2020 had identified that 06 machines worth 14.59 million were not required for the factory. Since this contract had been implemented without entering into a proper contract agreement and agreements for service and repair, the installed machinery and equipment remained unusable by the year under review. Thus, the entire amount spent on this project was an uneconomical expenditure.

Not adjusting the system of Proposed management data

Although it was planned to prepare and implement a management data system for the department, the relevant data system had not been established even by the end of May 2024. Accordingly, it was difficult to efficiently obtain updated management information related to the department and its affiliated institutions, hospitals, medical centres and the entire system of institutions and control of the staff arrival and departure recording of the department, performance control, salary control, overtime cost control, personal file control, etc. were in a state of weakness.

Not transferring the ownership of assets

Title certificates had not been obtained for the department for 19 lands of hospitals, herbal gardens, community health regional offices, and resort bungalows including the department's head office premises, hospitals including Borella teaching hospital.

Underutilized assets

In the new eight-storeyed building of National Ayurvedic Hospital of Borella, it was observed that 120 of the 288 beds or 42 per cent of the normal ward beds and 76 of the 274 beds or 28 percent of the old general wards of the hospital were underutilized. It was also observed that all the paying wards with a capacity of 88 beds equipped with modern room facilities in the new building and 08 out of 32 old paying wards were underutilized.

Ayurveda Medical Council

Non-regulation of Ayurvedic doctors

As per Ayurveda Medical Council Rules published in the Extraordinary Gazette No. 1884/36 dated 15 October 2014, although all Ayurveda doctors registered in the Council should update their registration once in 05 years, due to the fact that the Council had not identified and implemented a formal system for updating the registration, 13,016 doctors whose registration had exceeded 05 years, had not renewed their registration by 31 December 2023.

Non-maintenance of accurate and up to date information regarding doctors

Although it was reported that the number of registered doctors in the Medical Council was 27,205 and the number of deceased was 4,024 as at 31 December 2023, no system had been implemented to obtain accurate information about deceased traditional doctors. Furthermore, since there was no system in place to announce the cancellation of the registration of deceased doctors to the public, there was scope for misuse of the relevant registration certificates.

Non-regulation of the Performance of Ayurvedic doctors

Performance indicators had not been established and performance reviewed in the processes of registration of Ayurvedic doctors, Traditional Ayurvedic Doctors, Ayurvedic Nurses and druggists, conduct of examinations for them, release of examination results etc.

Sri Lanka Ayurvedic Drugs Corporation

Decrease in sales income in the private sector

The total sales estimate of the Corporation for the year under review was Rs.1,700.00 million and the actual income was Rs.1,215.28 million. A sum of Rs.770.88 million, or 63 percent, out of that, was received from the public sector and the income received from the private sector was Rs.444.40 million or 37 percent. Accordingly, it was observed that the sales income of the private sector was relatively reduced due to paying more attention only to meet the spontaneous demand of the public sector, not identifying the market needs properly and not using new advertising and marketing promotion strategies.

Non utilization of Capital grants

A sum of 26.15 million or 27 percent, out of the sum of Rs. 97.00 million received from the Treasury as capital grants in the years 2017, 2018 and 2021, had been retained in a bank account without being used even by 30 April 2024.

Construction of a alchemy medicines factory

The construction of an alchemy medicines manufacturing plant with an estimated cost of Rs.45.73 million had been started on 25 August 2018, with a treasury allocation of Rs.37.00 million, with the aim of meeting the alchemy medicinal needs of the patients and building a healthy society. Although 30 percent of the construction had been completed at a cost of Rs.12.14 million by 02 January 2020, the construction had been temporarily stopped since that day due to planning and supervision weaknesses. Although 05 years had passed by 30 April 2024, the related construction had not been restarted and the amount spent on the project had become uneconomical.

Payment of incentives without approval

In violation of Department of Public Enterprises Circular No. 95 dated 14 June 1994, a sum of Rs.28.51 million as production incentives in the year 2023, an amount of Rs.10.46 million as attendance allowances, a sum of Rs.43.48 million as productivity allowances totaling Rs.82.45 million had been paid. Accordingly, Rs.676 million had been paid as incentives in the last 9 years without the approval of the Treasury.

Not taking action regarding Stock shortages and Surpluses

According to the Board of Survey reports of the year under review, although there was a deficiency of 33,053 finished stock units worth Rs.10.92 million in relation to 15 outlets and 02 finished stocks warehouses and there was a surplus of 8,841 units of finished stock worth Rs.4.30 million related to 11 stores and a finished stock warehouse, necessary action had not been taken in this regard as per the Financial Regulations.

Free release of medicines as donations

The Corporation had issued medicines worth Rs.2.13 million free of charge and had indicated their cost amounting to Rs.1.54 million as donation under selling and distribution expenses. Although almost 05 years have passed since it was decided in the Board meeting held on 08 July 2019 to prepare and approve a code of guidelines in relation to giving donations according to the decisions of the Board of Directors, the corporation had failed to prepare the said code of guidelines so far.

Foreign Affairs Division

Promoting and safeguarding Sri Lankan national aspirations in accordance with the foreign policy of the Government of Sri Lanka in order to become a responsible country in the international community by maintain friendly relations with all countries of the world by affirming the Sri Lankan identity on a friendly and nonaligned foreign policy, advising the government on managing international relations in accordance with Sri Lankan aspirations is the Mission of the Ministry.

In order to achieve the said mission, a network of 61 globally-established foreign missions is maintained comprising 12 High Commissions, 35 Embassies, 02 Permanent Missions to the United Nations, one office of the Deputy High Commissioner, 10 Consular General Offices, and an Agency. This Ministry also supervises the Lakshman Kadirgamar Institute of International Relations and Strategic Studies.

Provision amounting to Rs. 19,000 million had been granted by Parliament to the Ministry of Foreign Affairs in the year 2023 in order to discharge the said functions, and a sum of Rs. 16,977 million had been expended by the end of the year under review.

Audit Observations

Payment of Compensation for Sri Lankans Deceased / Affected in Foreign Countries

Ambassador to Qatar informed in the year 2022 that the Labor Court had decided owing to delays to close the files containing applications for compensation on 06 Sri Lankans who had been deceased following accidents whilst being employed in Qatar during the years prior to 2010. Although the applicants had submitted the documents in a timely manner, the victims had been deprived of the opportunity of receiving compensation and allowances due to irresponsible behavior of the officers of Embassy in Qatar.

A person, who had proceeded to Qatar for employment, had died on 10 September 2012 due to an accident. The primary court of Qatar had ordered a payment of 200,000 Qatar Riyals as blood money to the next of kin. As the blood money had not been paid, legal documents had been presented to the Embassy on 25 November 2013 authorizing to continue the case. However, compensation had not been paid even up to the date of audit.

A sum of Rs. 56.92 million received from foreign countries as compensation, indemnities, and salaries for termination of service relating to death, loss of employment and total or partial disablement of Sri Lankans abroad, had been retained in the General Deposits Account of the Ministry over 01-03 years without being paid to the relevant persons.

Although there were observations on the following requests for compensation included in the report of the Auditor General for the preceding year, no further action had been taken on those observations.

- A person who had proceeded to Saudi Arabia for employment had become totally disabled on 24 October 2012 due to an accident.
- A woman who had proceeded abroad on 19 December 2009 to be employed in Kuwait as a housemaid, died on 29 January 2012.
- A woman employed as a housemaid in Kuwait over 17 years, had arrived in the safe house after an illness, and died there.
- To ascertain as to whether the death of a person occurred in Jeddah, 2011 was a suicide, and requesting for compensation.

Failure to Settle the Imprests

The Ministry maintained 02 imprest accounts with a total balance of Rs. 1010.49 million comprising balances of Rs. 50.97 million and Rs. 959.52 million. The imprest balance of Rs. 50.97 million comprised unsettled advances relating to the year 2013 and prior. A sum of Rs. 32.47 million out of that balance comprised 103 security deposits given to the staff proceeding abroad for employment in foreign missions, relating to unoccupied. Security deposits amounting to Rs. 2.23 million relating to the unused houses of the Mission in Frankfurt were also included therein whilst the balance of Rs. 18.50 million comprised unsettled

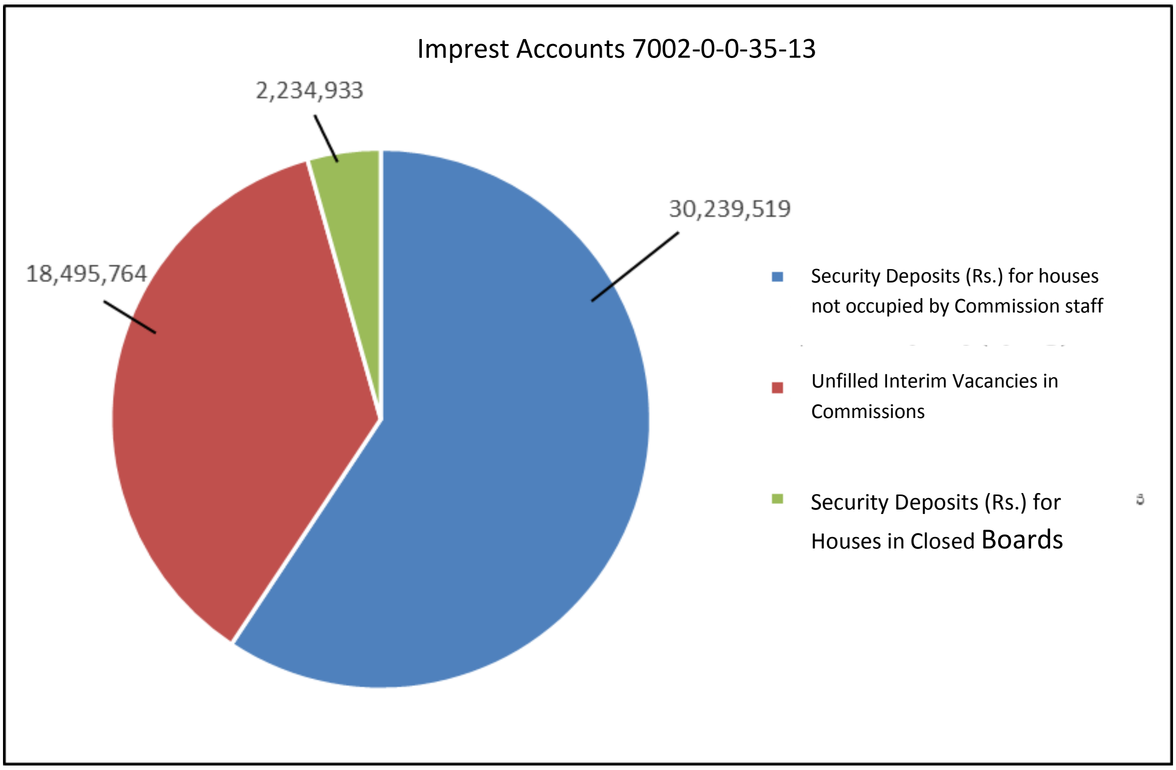


Diagram – 2.21 Content Imprest Account 7002-0-0-35-13

The balance of Rs. 959.52 million in the other imprest account comprised a security deposit of Rs. 379.89 million given for houses to be used by the staff of the foreign Missions. A sum of Rs. 56.63 million therefrom was the security deposits on houses not occupied by the staff of the Missions. The sum of Rs. 9.2 million was relating to security deposits on houses pertaining to closed Missions. Furthermore, this imprest account had an unsettled balance of Rs. 7.1 million.

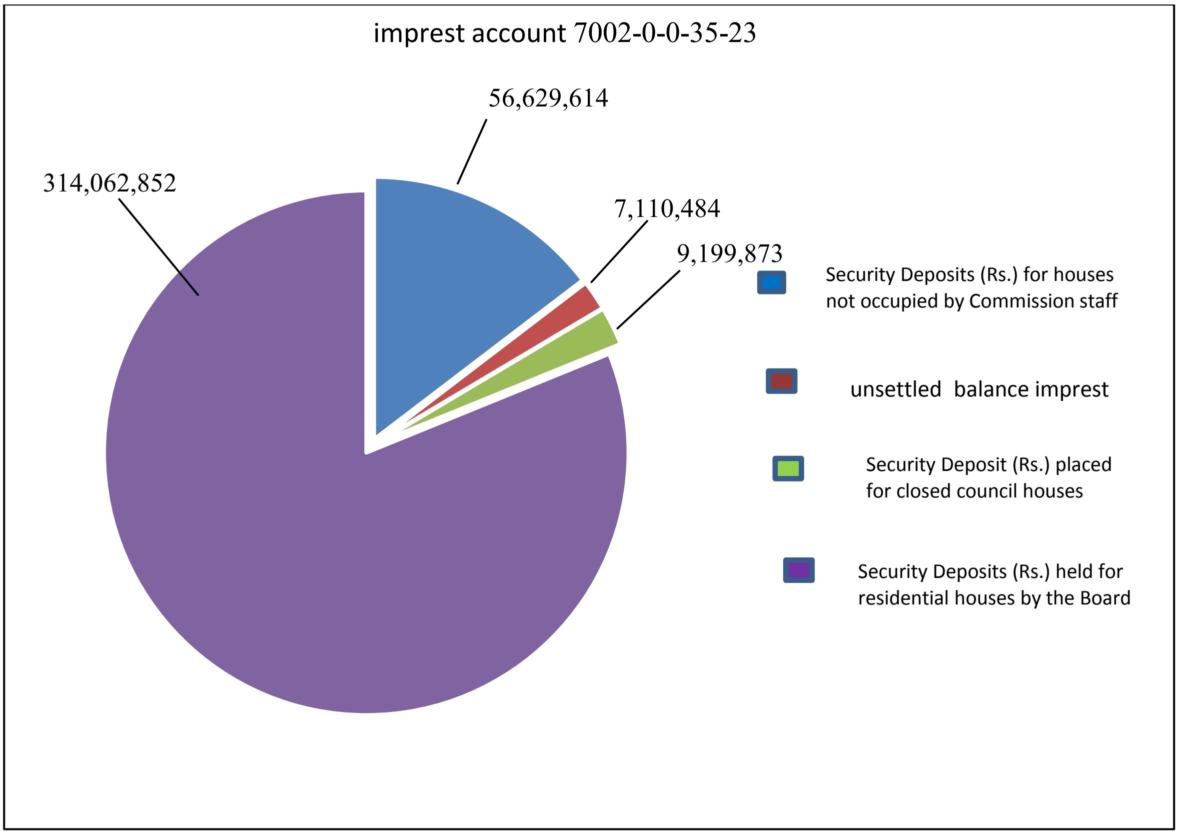


Diagram – 2.22 Content Imprest Account 7002-0-0-35-23

Management of Assets

Two buildings in Canberra, Australia owned by the High Commission of Sri Lanka had been withdrawn from use since the years 2007 and 2012. The residence of the Ambassador in Sweden purchased in the year 1972 had been withdrawn from use since 2011. The residence of the High Commissioner of Sri Lanka in Kenya purchased in the year 1976 had been withdrawn from use since 2014. As those buildings had not been used after being repaired, a sum of Rs. 173.54 million had been paid as lease rents on official residences in the year under review.

Trade and Commerce

The following tasks and functions are expected to be performed by the Ministry of Trade, Commerce and Food Security, 04 Departments under it and 08 Statutory Boards/Institutions established in order to make available required consumer commodities to the general public through a competitive local trade network safeguarding the consumer rights under the vision, "Sustainably and developed Sri Lanka".

Functions

Formulation of a national trade policy and taking action to coordinate institutions relating to implementing the said policy

Creating market competition, supervision, raids and awareness in traders and consumers for safeguarding the consumer

Performing the role of mediator in order to control the escalation of prices in the local market

To encourage and facilitate institutions for identifying new export opportunities in the world market as well as exploring opportunities for entering into new bilateral, multilateral and regional trade agreements with other countries

The Parliament has allocated provision of Rs. 6,881 million in the year 2023 for performing the above functions to the above institutions and, a sum of Rs. 6,147 million thereof had been utilized by the end of the year 2023.

Audit Observations

Ministry of Trade, Commerce and Food Security

Non-achievement of Main Objectives

Achievement of main objectives of the Ministry such as formulation and finalization of a national trade policy, maintaining the data base relating to institutions under the purview of the Ministry, updating those data bases and preparing a mechanism to make links with external information providers and guiding towards implementing a conservation system for preserving national intellectual properties, had failed.

Failure in updating Laws, Acts and Ordinances

Even though the laws, acts and ordinances in institutions under the purview of the Ministry should be speedily updated and amended for securing the consumer, the Consumer Affairs Authority Act, No.09 of 2003, the National Intellectual Property Act, No. 36 of 2003 and the Measurements Units, Standards and Services Act, No. 35 of 1995 had not been amended even by the end of the year 2023.

Non-recovery of trade stall Rentals, Electricity and Water bills

Business activities had been carried out by the Co-operative Wholesale Establishment from October 2022 up to August 2023 and by the Umandawa Green Hut from August 2023 up to the date of audit in the trade store established in an extent of 2,178 square feet of the building obtained on rental basis by the Ministry and the Ministry had not taken action to recover the sum of Rs.5.414 million incurred by the Expenditure Head of the Ministry from October 2022 up to 31 December 2023 for rentals, electricity bills and water bills of that floor, from the relevant institutions without entering into proper agreements.

Department of Measurement Units, Standards and Services

Non-verification of Measurement Equipment and Measurement Standards

Even though all measurement equipment used in trade should be verified annually, a proper methodology had not been established in the Department for confirming whether every item of equipment is so verified. Moreover, it had been planned in the year 2023 to re-verify measurement standards in 12 districts. Nevertheless, the said purpose had been achieved only in 05 districts.

Laboratories remaining idle

The National Measurements Laboratory had been established in the year 2015 with 66 laboratory rooms. However, only 33 laboratory rooms are presently in function for 12 measurement areas and the remaining 33 laboratory rooms (an extent of 140,060 square feet) had remained idle.

Sri Lanka State Trading (General) Corporation Limited

Projects incurred losses

The Corporation had imported 50 mobile stores (Cocoon) from the government of Philippines in the year 2015 at a cost of Rs.96.25 million for storing of paddy stocks and only 15 units thereof had been sold. As 13 units costing Rs.25.02 million and

22 units costing Rs.42.35 million which remained unsold for over a period of 7 years, had been distributed free of charge to Government institutions in the years 2022 and 2023 respectively and as such, the total loss of the project had been Rs. 67.38 million.

Consumer Affairs Authority

Inadequate Raids relating to scarce goods

In the year 2023, there was a severe shortage of local Keeri Samba rice in the market and a maximum retail price was imposed as well. However, 596 raids had been carried out on Keeri Samba rice and it represented only 2 per cent of the total number of raids of 24,848 carried out by the Authority in the year under review. Furthermore, only 32 raids had been carried out in the year 2023 relating to household gas which was subjected to price revisions in the market from time to time and of which shortages were reported, and it had represented only 0.1 per cent of the total number of raids carried out by the Authority in the year under review.

Payment of compensation due to breach of agreements

An agreement had been entered into with a company in Switzerland on 24 January 2014 for formulating a safety method for protecting consumers from several identified unsafe and sub-standard products such as cool drinks, bottled drinking water, cooking oil, toothpaste, soap, shampoo, paint and electrical appliances. Several goods manufacturing companies which had filed an application in the High Court against the Authority for refuting Order No.49 issued thereon, the High Court had issued an interim order preventing the effecting of the Order. As such, the activities of the project could not be continued as per the agreement entered into with the said Swiss company. Accordingly, the company had instituted a lawsuit against the Authority in the International Court of Arbitration in the year 2018 and it had been directed that the Authority should pay the total investment amount of Rs.2.72. billion and the arbitration fee of US$ 325,000. The Authority had filed a petition in the Commercial High Court of Colombo against the said directive and the Authority had failed to conduct an internal investigation and to identify parties responsible relating to negligence and inefficiency.

National Intellectual Property Office of Sri Lanka

Delay in matters on Trademarks

Of the trademark applications received during the period from the year 2021 to the year 2023, registration activities of trademarks of 12,898 applications had not been commenced by 31 December 2023 and during the sample audit carried out in the year 2023 on the registered trademarks applications, there were 27 instances where a period between 2 and 28 years had been taken for registration. Moreover, if the fee is paid within the due period, the trademarks should be published in the Gazette within a period of 4 weeks. However, the number of trademarks for which fees had been paid by 31 December 2023 but not published in the Gazette, was 690. Furthermore, of 1,923 trademark applications rejected as at 31 December 2023, only a number of 62 applications had been rejected during a period less than one year and periods of 5 years, between 3 and 4 years, between 1 and 2 years had been taken and then rejected 37,104, and 1,720 applications respectively.

Highway

The highway network is considered as one of the most valuable and vast social assets of a country and it has recognized as a very important element for social welfare in terms of economic, socio-cultural as well as environmental. Accordingly, development of the transport network for an efficient and environment-friendly public transport system has been identified as a basic requirement in order to remedy the disparity in urban and rural development by providing equal services and infrastructure to the economic sectors through the main policies of the government. The government is constantly making investments in order to improve the living conditions of the people living in the country, and a very high investment is being made in the highway sector as a whole in order to meet the growing demand for transportation needs. Accordingly, it has been observed that the investment made in this sector will generate a very high economic value due to the factors such as easy access for the passengers to their destinations, fuel savings, reduction of travel costs and reduction of traffic congestion by improving the country's road network including national, provincial and rural roads. Sri Lanka's national highway network was approximately 12,568 km by the end of the year 2023 and it consists of 4,217.47 km of 'A' grade highways, approximately 8,037.98 km of 'B' grade highways, approximately 312 km of expressways and 4,254 bridges.

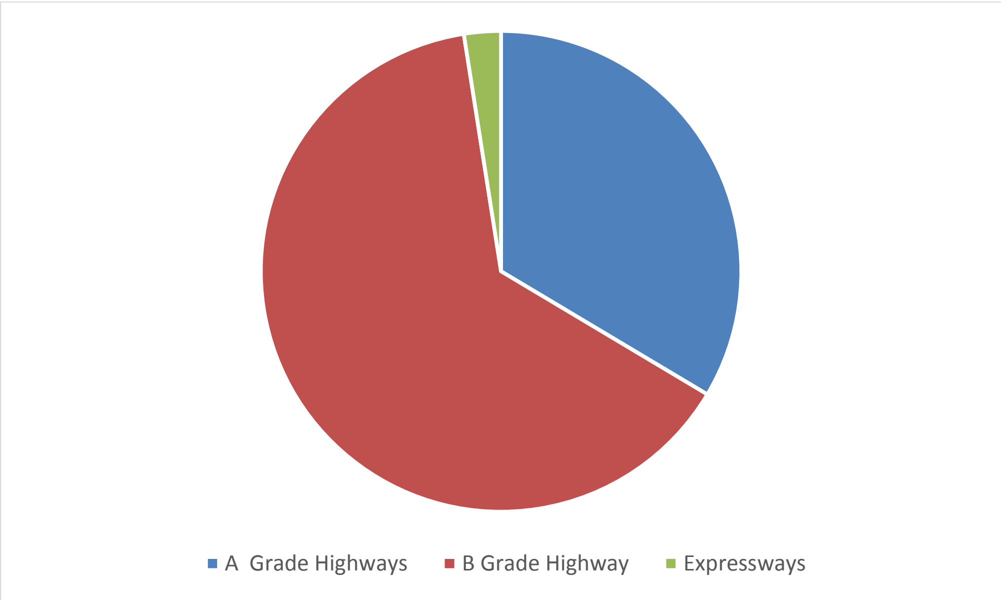


Diagram 2.23 National highway network of Sri Lanka

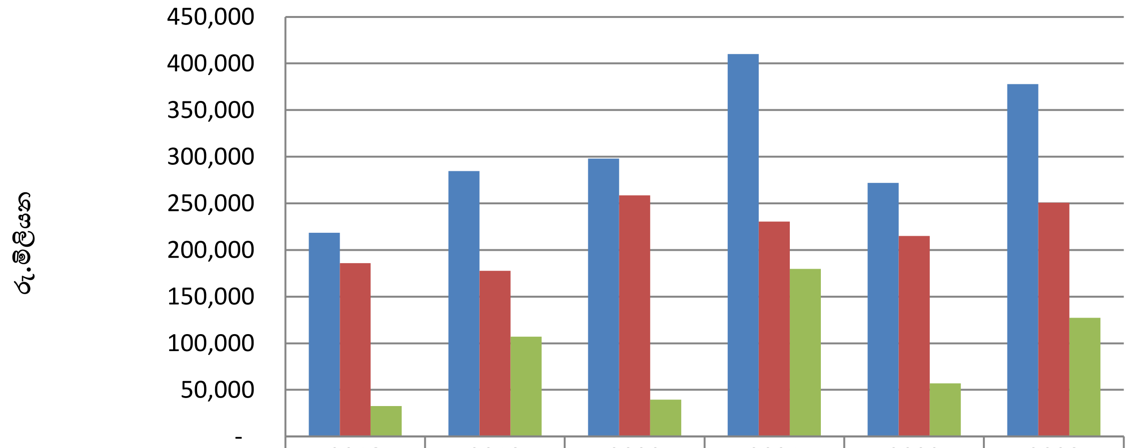
The following functions had been assigned in accordance with annual estimate of each division for the year 2023.

Functions

- Formulation, implementation, direction of policies, programmes and projects in relation to the subject of roads, highways and the statutory institutions.
- Improve national highway network to be high standard in order to ensure people centric economic and social development thereby expanding rural townships and urban area connectivity and taking necessary measures for maintenance of the highway system at optimal level.
- Stipulation, collection and monitoring of expressway tolls.
- Preparation of programmes and projects, based on national policy and government priorities for roads belonging to provincial and local authorities and co-ordination and monitoring of such programmes and projects.
- Supervision aforesaid institutions and matters relating to all subjects assigned to such institutions.

Utilization of Provision

Provision amounting to Rs. 377,837 million had been made by Parliament for the Head of expenditure of the Ministry of Transport and Highways in the year 2023, and a sum of Rs. 250,575 million therefrom had been utilized by the year 2023. Provision, amount spent and saving of the Ministry of Highways and Transport relating to the year 2023 and 05 preceding years, are as follows.



	2018	2019	2020	2021	2022	2023
Provision(Rs. million)	218,534	284,665	298,027	410,118	272,062	377,837
Expenditure(Rs Million)	185,920	177,644	258,646	230,297	214,962	250,575
Savings (Rs.Million)	32,614	107,021	39,382	179,821	57,099	127,262

Table 2.24- Provision made for the Ministry over the 06 preceding years, utilization and savings.
Source – Annul financial statements

The provision made for the Ministry of Transport and Highways during the 06 preceding years of 2018-2021, totaled Rs. 1,861,243 million whereas the total expenditure amounted to Rs. 1,308,044 million. As such, 30 per cent of the total provision equivalent to Rs. 553,199 million had been utilized.

Audit Observations

Road Development Authority

Non-functionality of the Road Network Development Advisory Council

The Road Network Development Advisory Council had been established in terms of Section 6(1) of the National Thoroughfares Act No. 40 of 2008 in order to prepare a policy of highways, develop strategies, take measures on road researches and safety, and instruct the Minister in charge on road plans forwarded by the Authority. However, that Council did not remain functional.

Action Plan for Maintenance and Development of Combined Road Networks

A District Road Network Development Co-ordinating Committee should be appointed for all the districts in terms of Section 7(1) of the Act, and an Integrated Road Network Development and Maintenance Action Plan should be prepared as per Section 7(3) of the Act. However, it had not been so done.

Failure to Capitalize the Value of Roads

The total distance of A and B Grade highways under scope of the Road Development Authority was 12,225 Km. However, only a distance of 3,267 Km pertaining to 285 highways had been capitalized up to 31 December 2022 from 2018, the year in which capitalization of national highways had been commenced. As such, 8,958 Km or 73 per cent of the total distance of the highway network, had not been mentioned in the statement of financial position.

Renovation of Roads not under Scope of the Authority

With the inclusion of Rs. 3,810 million expended on renovation, repair and development of 6,426 Km of highways under MagaNeguma rural road development programme, a sum of Rs. 147,153 million had been expended from 2020 to 31 December 2023 for the renovation of highways not under scope of the Road Development Authority.

Issue of Treasury Bonds for Settling the Outstanding Liabilities.

Provision had been requested from the Treasury in order to settle the liabilities that had remained due as at 31 December 2023 on interest and installments on the loans obtained from local banks; and Treasury bonds valued at Rs. 39,956 million had been issued in that connection. In addition to that, Treasury bonds had been issued as at 31 December 2023 with respect to the sum of Rs. 9,298 million payable to 34 contractors relating to the 100,000 KM program and settlement of bills pertaining to Stage II of the constructions of Central Expressway.

Loan Balance of the Authority as at 31 December 2023

Of the loans obtained by the Authority from local banks, a balance of Rs. 408,541 million remained payable as at 31 December 2023. Due to loans being obtained, the interest payable to local commercial banks during a period of 06 years, amounted to Rs. 178,028 million. Furthermore, the interest on loans payable as at the end of the year under review amounted to Rs. 36,086 million whilst the value of loan installments payable amounted to Rs. 342,070 million.

Payments to the Contractors

A sum of Rs. 32,553.12 million had been released by the Road Development Authority to the construction security fund for paying to the contractors during the period from 2020 to 31 August 2023. A sum of Rs. 224.2 million out of the funds so released, had been retained by the fund as at the end of the year 2023. Treasury bonds valued at Rs. 1,492.82 million relating to 212 contracts and bills valued at Rs. 29.94 million, had been released directly to the contractors by deviating from the said methodology; and bills valued at Rs. 29.94 million therefrom were found to be fraudulent.

Fraud on Expressway Tolls

It was revealed that 16 officers on duty had committed a fraud of Rs. 2.07 million out of the tolls from the Southern Expressway during 2021-30 August 2023. The reasons such as, the toll collection system temporarily installed for the Southern Expressway in the year 2011, still in use without proper control, and failure to install a software to automate toll payments, had paved way for committing fraud on a considerable percentage of tolls being collected daily from vehicles running on the Southern Expressway.

Securing the Assets on the Expressway

Expressways over a distance of 312.6 Km had been constructed using local and foreign funds valued at Rs. 767,630 million, and the Authority had been assigned with the operations and administration of all the roads. Although a cost over 2,000 million had been spent annually on operations including the facilitation for Sri Lanka Police, the Authority had failed to put in place a mechanism to secure the assets on the expressways. A procedure had not been prepared to report on all the damages, and the value of damages and thefts reported as at 31 December 2023 relating to the expressways, estimated to be Rs. 913.17 million.

Subsidiary Companies of the Road Development Authority

Expressway Transport Company (pvt) Ltd.

Incorporation of the Company

The Board Paper No. 1551/2014 relating to the establishment of Expressway Transport Company (Pvt) Ltd.as a subsidiary company fully-owned by the Road Development Authority without being approved by the Cabinet, had been presented for approval of the Board of Directors on 07 April 2014. At least a draft of the Memorandum of Associations for the proposed company had not been presented along with the said Board Paper, but approval of the Board of Directors had been given inappropriately. As such, the Company had been incorporated under PV. 98435 as a company fully owned by the Road Development Authority in terms of Companies Act, No. 07 of 2007.

Cabinet Decision on the Incorporation

Based on the observations made by the Minister of Finance and Planning that there was no provision for establishing a company under the Road Development Authority, it was decided at the meeting of the Cabinet held on 08 May 2014 that Expressway Transport Company (pvt) Ltd should function under the Ministry of Highways, Ports and Shipping as an entity fully owned by the Government (Treasury) and registered under Companies Act, No. 07 of 2007, whilst the new company should be directly supervised by the Treasury and prior approval of the Treasury should be obtained for the Memorandum of Associations relating to the ownership and appointment of the Board of Directors of the Company. However, it had not been so done.

Failure to Furnish Financial statements for the Audit

Financial statements and the draft annual report should be furnished to the Auditor General within 60 days after the end of the year of accounts in terms of Section 6.6 of the Public Enterprises Circular, No. 01/2021 dated 16 November 2021. However, financial statements and draft annual reports had not been prepared for 08 consecutive years relating to the period 2016-2023.

Due to being unsuccessful, the Secretary to the Ministry of Transport and Highways had been ordered at the meeting of the Cabinet held on 26 June 2023 that the Company be wound up through a liquidator and the Board of Directors be dissolved. Accordingly, 20 luxury busses valued at Rs. 216 million and 15 per cent of the turns of the busses along the expressway had been provided for the Sri Lanka Transport Board. However, liquidation of the Company had not been completed even by 31 December 2023.

MagaNeguma Emulsion Production Company (Pvt) Ltd

Incorporation of the Company

The Board Paper No. 795/2004 dated 09 June 2004 had been presented to establish the MagaNeguma Emulsion Production Company (Pvt) Ltd without approval of the Cabinet, the Treasury and the Line Ministry. Following the decision so taken, the said company had been incorporated under the No. PV 37809 on 10 June 2004.

Issued Capital of the Company

According to the Articles of Association, the Company should comprise a share capital of Rs. 100 million comprising 01 million shares at Rs. 100 per authorized capital. However, 02 shares each valued at Rs. 100 had been issued to the Road Development Authority and a private party. The decision taken as per Cabinet Decision No. 13/0134/505/004 dated 14 February 2013 to amend the Memorandum of Association of the Company so that majority of the company's rights would be owned by the Treasury and the rest would be reserved by the Road Development Authority, had not been implemented thus far.

The Authority not Receiving any Financial Benefit

The main client of the company was the Road Development Authority and the Road Development Authority provided a large percentage of the fixed assets used for the company's operations. According to financial statements of the year 2021 last presented to the Audit, the annual sales income of the Company amounted to Rs. 238 million and 94 per cent of which equivalent to Rs. 223 million had been earned through sales made to the Road Development Authority. However, no financial benefit whatsoever had been given to the Authority thereon during the 17 preceding years.

MagaNeguma Construction Equipment Company (Pvt) Ltd.

Incorporation of the Company

The Board Paper No. 795/2004 dated 09 June 2004 had been presented to establish the MagaNeguma Construction Equipment Company (Pvt) Ltd. without a policy decision of the Cabinet and approval of the Treasury and the Line Ministry. Following the decision so taken, the said Company had been incorporated under the No. PV 37844 on 11 June 2004.

The decision taken as per Cabinet Decision No. 13/0134/505/004 dated 18 February 2013 to amend the Memorandum of Association of the Company so that majority of the company's rights would be owned by the Treasury and the rest would be reserved by the Road Development Authority, had not been implemented thus far.

Implementation of the 100,000 Km Road Project

The Road Development Authority had given 2481 work orders valued at Rs. 193,518 million to the MagaNeguma Construction Equipment Company (Pvt) Ltd in the years 2020, 2021, and 2022 relating to constructions of the 100,000 Km road project; and, 1824 work orders valued at Rs. 131,650 million had been commenced as at 31 December 2023 whereas 351 work orders valued at Rs. 32,736 million had been cancelled. Works of 306 other orders valued at Rs. 29,130 million had not been commenced.

Execution of Contract Works through Service Suppliers

Of the 1824 work orders the contract works of which had begun, the Company had accepted to directly execute only the contract works of 71 work orders valued at Rs. 5920 million. Having disregarded the Decision No. 2008/1109 of the Road Development Authority dated 01 August 2008, action had been taken to execute 1753 work orders valued at Rs. 125,730 million through contract service suppliers. The work orders given to the company by the Road Development Authority with a 25 percent profit margin were transferred by the company to the subcontractors with a 20-profit margin. The company, acting as an intermediary between the Road Development Authority and the service providers, had earned Rs.652 million in the year 2021 equivalent to a profit margin of 05 percent.

The company had not followed the procurement process and acted without transparency in selecting those service providers for the construction of the 100,000 Km road project.

Appointment of Zonal Coordinators

Provincial, District and Zonal Coordinators had been appointed to evaluate the progress of constructions of the 100,000 Km Road development project. A sum of Rs. 39 million had been paid to them in the year 2021. It was not revealed to the audit as to whether those Coordinators had been appointed properly in a transparent manner and whether they had actually evaluated the progress of constructions.

The Authority not Receiving any Financial Benefit

Although the Commission had been fully owned by the Road Development Authority, no financial benefit whatsoever had been received by the Road Development Authority during the 17 preceding years.

MagaNeguma Consultancy and Project Management Services Company (Pvt) Ltd

Production Process

Key objectives of establishing the Company included, conducting feasibility studies and providing consultancy services for construction projects, and providing project management services for road construction and renovation works. However, sale of Cold Mix products and construction works had only been done until the Company was liquidated in terms of Cabinet Decision No. CP/23/0394/608/033 dated 20 March 2023.

The Cabinet had decided to order the Secretary of the Ministry of Transport and Highways to take steps to liquidate the above mentioned 03 companies including this company in the absence of sufficient business opportunities due to the financial crisis of the construction industry. Without consent of the Road Development Authority, a liquidator had been appointed by the Board of Directors of the Company. It was decided that the all employees of the Company be removed under the voluntary retirement scheme (VRS), but in the context where operations of the Company had been suspended, the Board of Directors had decided on 11 August 2023 to reappoint 25 employees voluntarily retired, in view of assisting the liquidation process. Liquidation process of the Company had not been commenced even by May 2023, but a sum of Rs. 7,792,993 had been paid to them as salaries and allowances during the period, September – 31 December 2023.

Current Progress of the Projects Implemented through Government Funds

Programme to Develop 100,000 Km of Alternative Roads

Projects Abandoned Halfway

Constructions of the 100,000 Km road project had begun in the year 2020, and a sum of Rs. 167,306 million had been expended during the period 2020-2023; and, works of 65 per cent of the 17,847 Km the development works of which had begun, equivalent to 11,549 km had been abandoned halfway.

Irrespective of the Cabinet approval to resume the works of roads abandoned halfway, 212.30 Km of new roads had been selected to be developed at an estimated cost of Rs. 2,891.24 million.

Overpayments Made to the Contractors

Bonds valued at Rs. 40,651.55 million had been released by the Treasury in 02 instances without accurately computing the liabilities payable to the contractors for services obtained by the project. It was later identified that services had not been supplied with respect to the sum of Rs. 121.24 million paid to 09 of those contractors. Although the contractors had reimbursed an amount equal to the overpayment, those funds had been spent on other expenses without proper authority rather than being remitted to the Treasury. Action had not been taken to identify the officers responsible and recover the loss sustained by the Government through disciplinary action.

Lack of Performance Bonds

The construction security fund had given performance bonds valued at Rs. 1,800 million and mobilization advance amounting to Rs. 452.2 million to 313 contractors with respect to this project. Action had not been taken by the Authority to recover from that fund the mobilization advance of Rs. 259.26 million paid to 22 contractors including a sum of Rs. 52.73 million relating to 09 contract packages the works of which had not been commenced over 02 years by the end of the year 2023.

Central Expressway Project

Construction works of Stages I and II of the central expressway spanning over 170 Km from Kadawatha to Dambulla had been commenced in the years 2020 and 2017 respectively. Contracts of Stage III had been awarded in the year 2021, and land acquisition and Procurement activities under Stage IV had been commenced in the year 2016. A sum of Rs. 268,363 million equivalent to 42 per cent of the estimated value thereof amounting to Rs. 638,072 million, had been expended on constructions, land acquisition and project management units as at 31 December 2023.

Stage	Distance Km	Estimated Value of the Project Rs. Million	Expenditure as at 2023.12.31 Rs. Million	Physical Progress and Current Position
Central Expressway Project I (Kadawatha – Mirigama)	36.59	177,220	94,917	Physical progress was 35.95 per cent as at 31 December 2023. The physical progress as at 31 July 2024 was 36.02 per cent.

Central Expressway Project II (Mirigma – Kurunegala)	40.91	149,021	151,510	Works had been completed by 15 January 2022 and declared open for the general public.
Central Expressway Project III (Pothuhera - Galagedara)	34.12	132,000	19,597	Physical progress in the constructions of the first stage of the project as at 31 December 2023 – ranged between 12-43 per cent relating to 16 out of 17 packages. The other package indicated 75 per cent. Lands had been acquired under second stage though, constructions had not been commenced due to non-availability of an investor.
Central Expressway Project IV (Kurunegala – Dambulla)	59.30	179,831	2,339	Land acquisition process had been commenced in the year 2016, and 3505 plots of private lands had been taken over by the end of the year 2022. Procurement process had been done in 03 instances but had become unsuccessful before being suspended on 13 December 2022.
Total	**170.92**	**638,072**	**268,363**	

Table 2.14

Failure to Complete the Initial Length of 500 Meters

Without completing the initial distance of 500 meters along Kadawatha - Meerigama stretch of the Outer Circular Expressway Project, the project had been completed by the year 2015. Having disregarded that, Stage I of the Central Expressway Project from Kadawatha to Meerigama over a distance of 36.59 Km had been awarded in the year 2015 at the value of Rs. 177,220 million. Procurement process of that stage has not been commenced thus far; and, it was observed that, without completing the said stretch of 500 meters, the stretch from Kadawatha to Meerigama could not be completed in a manner suitable for vehicles to run.

Highway

Stage III from Pothuhera to Galagedara

As per the Cabinet approval given on 11 January 2021 through CP/20/2072/319/021 for the third stage of expressway from Pothuhera to Galagedara, action had been taken to execute the constructions of initial 12 Km stretch directly through the Road Development Authority in January 2021. Following the Covid-19 outbreak and economic crisis, project works had been resumed since July 2023.

Risk of Paying Penalties for Delay

A sum of Rs. 40,348 million had been paid to the contractor as at 31 December 2023 with respect to the works completed under Stage I of the Central Expressway Project. Accordingly, it was observed that there existed a risk for paying penalties for delay in terms of general conditions in the contract agreement.

Due to failure in reimbursing the bills of the contractor relating to Stage I of the Central Expressway Project, the contractor had abandoned the constructions. A number of 1284 precast beams had been installed as at 31 December 2023 whereas 554 more beams had been stored at 09 sites without being installed. At the location VD 10 P1-P2 Girder, a beam had collapsed and 02 girders had slanted on 04 May 2024. Furthermore, the beams that had been installed or stored, would cause an impact on the quality of constructions due to be being exposed to the environment over extensive period.

Current Progress of the Projects Implemented Under Foreign Funds

Project for Designing and Constructing the Flyovers in Kohuwala and Getambe

Delays in Reimbursing Bills

It had been identified in the preliminary evaluation that construction of flyovers in Kohuwala and Getambe would save Rs. 4.26 million per day in the national economy. As construction works had not been completed, reaping the benefits of the project was still delaying.

A number of 19 IPC bills valued at 20.16 million Euros had been presented to the foreign funding agent as at 31 December 2023, but payments had not been made with respect to 13 of those bills valued at 6.3 million Euros. As such, it was observed that there was a risk for paying penalties for delay in terms of general conditions of the contract agreement.

Kandy Multimodal Transport Terminal Development Project

Delay in Construction

Works and Payment of Compensation

The project was scheduled to be commenced on 06 May 2021. But, due to delay in the Procurement process for civil and consultancy works, civil works of the project had not been commenced. Due to delay in constructions, a compensation totaling Rs. 712 million had been paid to 825 persons as losses of business during the period from 2021 to 31 December 2022. It was observed that such compensation would be paid continuously until the completion of constructions. Seventeen of those persons whom compensation had been paid as mentioned above, were again paid sums of Rs. 11.49 million and Rs. 11.69 million for the years 2023 and 2024 respectively.

Port Access Elevated Highway Project

Failure to Recover Penalties for Delay

According to the progress report of the consultant of the constructions, there was a considerable delay with the contractor, and completing the project by 08 September 2024 was observed to be doubtful. Nevertheless, action had not been taken by the project to recover penalties for delay even by May 2024. A sum of Rs. 493.03 million had been paid as cost on extending project period as at 31 December 2023.

Payment of Expenses for Mobilizing the Staff

Due to delay in completing the marine facilities center building and delivering to the Sri Lanka Ports Authority, a sum of Rs. 221.53 million had been paid as at 31 December 2023 under 03 variation orders for mobilizing the existing staff of the Sri Lanka Ports Authority.

No corrective measures had been taken even by 31 December 2023 on the 21 non-conformance reports issued with respect to, exceeding the temperature in the years 2021, 2022 and 2023, changes in upper level of ABC, cracks on top and side surfaces, poor strength of beams, unsuitable measures taken for the safety of slopes, and bottom duct mismatch.

Abandonment of Projects without Completion

Uneconomic Expenses

As at 31 December 2023, a sum of Rs. 10,258.71 million had been spent on the Colombo, Ratnapura, Pelmadulla expressway project, and a sum of Rs. 1,239.6 million had been expended through local funds on the elevated highway from new Kelani bridge to Athurugiriya. The projects had been abandoned without commencing any construction work. Stage 04 of the central expressway project from Kurunegala to Dambulla stretch had also been abandoned after expending a sum of Rs. 2,339 million.

Kandy Tunnel Construction Project

Obtaining Environmental Impact Assessment Reports

As a remedy to the severe traffic congestion in Kandy over many years, it was scheduled to construct a 04-lane road along a distance of 5.56 Km in 58 months comprising 04 tunnels over a distance of 4.36 Km, 03 bridges, and 04 interchanges between Thennekumbura and Suduhumpola, with assistance from the Korea International Cooperation Agency at an expenditure of US $ 252.3 million equivalent to Rs. 50,46 million. The project was to be commenced in September 2021. The Cabinet Committee on Economic Management had been requested to on 21 August 2017 that the said project be cancelled and funds be allocated on another project with higher priority. As such, the project remained inactive. Before the implementation of the project, an agreement had been entered into between the Road Development Authority and the University of Peradeniya on 25 March 2021 to conduct an environmental impact assessment on the Kandy tunnel construction project. Although prerequisites had been in place for the implementation of the project since 2017, only the environmental impact assessment had been conducted as at 31 December 2023, and a sum of Rs. 78.36 million had been paid to the University of Peradeniya. A sum totaling Rs. 90.75 million had been incurred through local funds as at 31 December 2023 on activities such as, preparation of environmental impact assessment, preparation of the Action Plan for resettlement, and project administration activities, but only a physical progress of 2.9 per cent had been achieved.

Rural Roads and Other Infrastructure

Performance of the Project Contracts had been awarded in the year 2021 to construct 466 bridges in rural areas, but only 84 bridges had been fully completed as of 30 June 2023. Of the rural bridges for which contracts had been awarded, agreements relating to 271 bridges had been cancelled indicating 58 per cent of the total number of bridges. Payments amounting to Rs. 333 million had been paid as at 30 June 2023 to the contractors relating to 97 bridges the agreements of which had been cancelled. The number of projects functional at rural level at the present day is 111, and the progress of 60 of them remained below 50 per cent whereas the progress of 51 bridges ranged between 51-100 per cent.

Public Transport

It is the mission of the transportation sector to encompass the implementation, development and sustainable maintenance of advanced transport infrastructure through the application of cutting-edge technological strategies, ultimately enhancing the living standard of the populace. The following functions had to be discharged to fulfill that mission.

Functions	Formulation of policies, legislations and regulations essential for establishing a transportation system that ensures environmental sustainability Taking essential measures to establish a top-tier road infrastructure, fostering public trust in the public transportation system. Introduction of guidelines, laws and rules to be followed to mitigate traffic congestion and road accidents. Introduction of a futuristic e-ticketing system for public and private transport services and rail services to operate as a single mode of transport under a common format. Development of infrastructure facilities required to ensure common amenities and security associated with railway and bus stands. Maintenance of trains and buses required for train and bus service. Introducing a transport system that encourages the investors to manufacture, repair and modify the railway compartments, busses and motor vehicles locally. Establishing and expanding the necessary facilities for the transportation of goods by trains to ports in Colombo, Hambantota, Kankesanthurai and Trincomalee. Streamlining the motor vehicle registration by making it people friendly, efficient and corruption free process through the application of information technology. Modernizing the Sri Lanka Transport Board to transform it into a profit generating institution and upgrading common facilities at the major bus stands. Rehabilitating the existing bus fleet and thereby introducing new eco-friendly buses for operation in Colombo and major

city arrears, and formulating and implementing programmes to align private passenger transport with green transport concept.

Strengthening school bus services and student safety under the proper standards.

Steering the Sri Lanka Transport Board to facilitate the transportation of passengers and goods, formalizing the provision of public transport services to rural areas.

Audit Observations

Sri Lanka Transport Board

Import of Substandard Spare Parts and Payment of Compensation for the Delay of Payments

As substandard spare parts had been imported from 02 companies in the year 2011, a Committee had recommended that the said stock of spare parts be rejected and the tender be cancelled thereby following the tender procedure again. However, having disregarded that recommendation, non-essential spare parts valued at Rs.1,942 million had been purchased continuously for 04 years since 2012, and it was observed that many of those spare parts remained idle at the stores. Nevertheless, due to non-settlement of the sum of Rs.664 million to the supplier as required by the verdict of the arbitration case filed by the supplier owing to the delay in making payments for those spare parts, the supplier had again filed an arbitration case. A sum of Rs. 1,126 million had been paid in the year 2023 in accordance with the verdict of that case, and hence, the Board had sustained an exchange loss of Rs. 462 million.

Failure of the Project for Installing GPS Units and CCTV Cameras in 125 Busses

An agreement had been entered into with a private company in the year 2018 for the installation of GPS units and CCTV systems in 125 luxury busses of the Board, and a sum of Rs. 33 million had been paid in that connection during the period 2018-2020. This project has become totally unsuccessful due to reasons such as, non-installation of an operating system, failure to provide luxury busses for the installation of such systems, and failure in providing Internet facilities. As such, the Board has lost the entire amount so paid, and those devices too have been misplaced.

Failure to Award Tenders for the Purchase of Rebuilt and Pre-cast Tyres

As for the purchase of 8,840 rebuilt tyres and 34,856 pre-cast tyres, approval of the tender was postponed subject to the consideration of the matters that should have been looked into before calling for bids by the Procurement Committee appointed by the Cabinet. Purchases were made from the supplier from whom purchases had been made since 2017 without calling for tenders, by increasing prices based on the market. Prices of the bidders selected in the year 2022 by calling for bids, were less than the prices of the existing suppliers, but action had been taken to make purchases from the same supplier by disregarding the procurement at higher prices. As such, an overpayment of Rs. 356 million had been made.

Purchase of Thermal Paper Ticket Rolls for GPRS Ticket Machines at Higher Prices

Without calling for bids from suppliers, 161,110 ticket rolls had been purchased at the higher price of Rs. 108.84 per roll of which the market price was only Rs. 75. As such, an overpayment of Rs. 7.16 million had been made by 24 depots for purchasing 364,400 ticket rolls by overpaying a sum of Rs. 19.64 per roll. Furthermore, when purchasing ticket rolls by calling for bids, purchases had been made from the previous bidder at the price of Rs. 108.84 per roll instead of Rs. 49.65 recommended by the Technical Evaluation Committee, thus purchasing 603,180 ticket rolls by overpaying a sum of Rs. 59.19 per roll, hence a sum totalling Rs. 35.7 million had been overpaid. Width, and diameter & weight of a roll so supplied had varied. Due to lack of surface of carbon on the papers used for tickets, tickets had not been printed properly.

Purchase of 500 Thirty Two Seater Busses

Following the decision of the Cabinet given in 2018, procurement activities had been commenced to purchase 500 busses comprising four hundred 50-54 (2*2) seater busses with higher back arm and hundred 32-35 (2*2) seater busses with higher back arm by utilizing the sum of US $ 20 million saved from the credit line given under loan agreement with India. However, without any scientific basis and analysis of requirements, procurement activities had been commended in the year 2020 to purchase 600 new busses comprising five hundred 32-35 seater mini busses and hundred 42-45 seaters busses with higher back arm. However, as per the Cabinet Decision given in the year 2023, five hundred 32 seater busses had been purchased from an Indian company paying a sum totalling US $ 13,311,250 or Rs. 5,513 million at US $ 26,662.50 per bus. Accordingly, the value of one bus amounted to Rs. 11.02 million. Considering the estimated value of a 32-35 seater bus in the year 2018 amounting to Rs. 05 million and as the busses had been purchased in the year 2023 rather than the purchase had been made in that year, an overpayment of Rs. 3,010 million had been made at Rs. 6.02 million per bus in excess of the estimated value of the year 2018.

Failure to Assign Busses on Daily Schedules

Due to failure of the Katubeddadepot in assigning busses as per schedules planned daily for the Super Luxury Tourism Transport Service, an income of Rs. 2,342 million had been lost. Due to failure of the depots administered by the regional office of Ruhuna in running 41 busses over long distance travels and 124 short distance busses, an income of Rs. 2,431 had been lost. As depots belonging to the regional office in Ruhuna had not deployed busses in accordance with timetables of the southern expressway, an income of Rs. 803 million had been lost, and as such the Board had lost a possible income totalling Rs. 5,576 million in the year 2023.

Purchase of New Tyres

An order for 2,660 new tyres had been placed prior to awarding the tender following instructions of the Chairman to a supplier whose bids furnished in the year 2023 had been found by the Technical Evaluation Committee as being non-compliant with technical specifications. Although the tyres so obtained had not complied with technical specifications, it was observed that the said tender had been awarded to the said supplier.

Underutilization of Fuel Expenditure incurred on fuel for the busses in the year under review amounted to Rs. 40,415 million. Except for the 500 busses newly added to the fleet of busses of the SLTB, all other busses were older than 05 years, and due to inefficient fuel pumps of those busses, fuel consumption ranged between 2.5-3.1 Km per liter. According to the mechanical test carried out by the Audit, the mileage of a repaired fuel pump ranged between 3.8-4 Km per liter whereas the mileage of a fuel pump to be repaired was 2.5 Km per liter.As such, had the fuel pumps been repaired, fuel consumption of busses would have been 3.8-4 Km per liter. Considering that a liter of fuel yields 3.8 Km, it was observed that a distance per liter would be increased by 0.7 Km.

Recovery of Staff Transport Fees Busses of the Board had been used during the Covid-19 outbreak in 2020-2021 to transport hospital staff in 09 regions, but the Board had not taken action to recover a sum of Rs. 151 million from the Ministry of Health in that connection.

Sustainable Development Goals The Board had not taken action to recognize the goals in accordance with the 2030 Agenda on sustainable development of the United Nations and identify key performance indicators to measure the achievement of sustainable development goals.

Key observations included in the performance audit report on Utilization of bus fleet of Sri Lanka Transport Board at Maximum Capacity

National Transport Policy The Transport Policy approved by the Cabinet of Ministers on 27 November 1991 had been revised on 14 October 2009. Even though 15 years had elapsed by 01 March 2023, it was observed that the National Transport Policy was still in the draft stage without being updated.

Unprofitable Route Services and Turns

According to Clause (c) of the preamble of the Act although, making arrangements to operate an adequate bus service relating to socially necessary but unprofitable route services and passenger transport by turn busses and necessary measures and arrangements should be made to create fair competition among the service providers and prevent unfair and unprofitable competition, the Commission had not acted accordingly.

Bus Fleet

Although the S.L.T.B Technical Division planned to provide 5,918 buses through the regional and as an aggregate amount of 6,003 buses including 85 buses of the Central Bus Office and the luxury tourist transport service had been planned to be put into service daily, it was observed that the number of busses the Technical Division had provided for operation was 5,118 buses as a percentage of 85.26 per cent.

Unavailability of adequate drivers and conductors

It was observed that the number of 7,786 drivers and 7,768 conductors in the Board was the main obstacle to fully deploying the bus fleet. It was further observed that this situation had occurred due to the failure of recruiting of drivers and conductors for a long period of time.

There are 630 Tata type buses, 425 Leyland type buses and 50 other types of buses, totaling 1,105 buses which are not at running condition for more than 15 years and these buses were parked in depots without carrying out any security measures.

Rehabilitation of buses in the year 2022

Even though the General Treasury had given Rs.750 million for the rehabilitation of buses in the year 2022, and the Board does not have any records of the buses that had been rehabilitated and put into operation using this money. It was observed that a sum of Rs.606.31 million by the Transport Board and Rs.143 million by Lakdiva Engineering (pvt) Ltd had been spent for recurrent expenses from that amount.

Rehabilitation of buses

Even though the Treasury had allocated an amount of Rs .2020 Mn. for the rehabilitation of buses in the year 2022 as well it was impossible to get actual information about the fleet of buses added to the service in the year 2023. However, it was observed that currently this money is not being used for the rehabilitation of the buses but for the rehabilitation expenses.

Disposal of waste Fuel and Lubricants

A recognized and approved method of disposal of waste fuel and lubricating oil shall be used in all depot premises and yards of local workshops belonging to the Transport Board and a License should be obtained from the Central Environment Authority for that. Nevertheless, according to the data of the 12 regions belonging to the board, out of 111 depots and workshops belonging to those regions, 51 depots and workplaces had not obtained environmental Licenses and the waste had not been disposed of in a harmless manner.

Failure of Obtaining Emission Test Certificates

A large number of buses in the fleet owned by the Transport Board had not obtained the Emission Test Certificates that should be submitted when obtaining revenue permits, and out of the 566 buses belonging to 07 depots in the Kandy Region that were undergone inspection, 226 buses had not obtained Emission Test Certificates . Due to not obtaining Emission Test Certificates proper, it was observed that environmental pollution may occur by adding such as heavy metals noxious gases such as Co,S emitted by burning fuel from buses and by those harmful emissions.

Sri Lanka Railways

Provision totaling Rs. 52,193 million had been made for the Sri Lanka Railways for the year 2023 comprising sums of Rs. 29,600 million on recurrent expenses and Rs. 22,593 million on capital expenses. A sum of Rs. 11,897 million equivalent to 53 per cent of the capital provision had been utilized whilst a sum of Rs. 27,842 million or 94 per cent of the recurrent provision had been utilized. Action had not been taken within the year to implement 06 projects assigned to the district engineer of the Eastern Province valued at Rs. 6.7 million under capital provision.

Contribution to the Public Transport

The Railways, contributing 6 percent of Sri Lanka's total passenger transportation and 6.5 percent of transportation of goods over a longer period, had failed to increase its contribution. Although the railway network was 1521 kilometers in 1934, it has decreased by 56 km to 1465 km at present (including 32 kilometers up to Beliatta)

Failure of the Trains to

Operate as per Timetables

Operating trains according to timetables had begun in the year 1865. A number of 122,426 trains had been scheduled for the year 2023 and 10,531 therefrom had been cancelled whereas 36,771 trains had been operated on time. As such, 70 per cent of the trains so scheduled, had not been operated.

Project for Upgrading Railway Line between Maho-anuradhapura -Omantai.

Subject to the conditions of the loan agreement entered into with the Exim Bank of India relating to the project for upgrading railway line connecting Maho, Anuradhapura and Omantai under Indian credit line, quotations had been requested from Indian companies to upgrade the said railway line under 04 stages thereby entering into an agreement valued at US $ 91,268,600 in the year 2019. Physical progress of the project remained only 69 per cent as at 31 December 2023.

Construction of Platforms and New Railway Station of Bu Oya

Construction of a new railway station and 02 platforms in Bu Oya had been commenced in April 2022 by the Sri Lanka Railways under an estimated value of Rs. 47,178,896 in parallel with Maho- Omantai railway line upgrade project. Due to lack of a suitable railway station between Medawachchiay and Vavuniya to cross two trains, it was the objective of constructing this railway station to minimize the distance of 23 Km between the said railway stations thus allowing to pass two trains at the Bu Oya railway station thereby minimizing the delay of trains. Upgrading the railway line between Anuradhapura and Omantai had been completed and train operations had begun on 15 July 2023; and, construction of railway station and platforms should have been completed by 01 July 2023 as had been scheduled. However, as those constructions had not been completed even by December 2023 as expected, objectives of the project could not be achieved up to that date.

Letters of Credit not Settled over Extensive Periods

The value of letters of credit not settled by the end of the year 2023 amounted to Rs. 412 million, and a sum of Rs. 119 million equivalent to 29 per cent therefrom had continued to exist over periods ranging between 02-25 years. The Audit was not provided with information relating to goods not supplied thus far and failure in settling through the goods receipt notes the balances continued to exist over 02 years since payments had been made.

Failure to Implement the Project for Transporting Vegetables by Train

A sum of Rs. 200 million had been granted by the Treasury through supplementary budget provision in the year 2022 to "transport vegetables by train", and having spent a sum of Rs. 198.8 million therefrom, 05 train compartments had been repaired. However, the expenditure so incurrent had totally become futile as the project had not been implemented.

Non-moving Stocks

Items worth Rs. 330 million out of the stock of lubricants and spare parts of train engines valued at Rs. 7,978 million as at the end of the year under review, had not been made use of during the 04 preceding years.

Pibidemu Polonnaruwa Development Programme

According to the agreement entered into with the Urban Development Authority in the year 2017 for the transfer of land with the Plan No. 3868A belonging to the Department of Railways in Kaduruwela in extent of 03 acres and 17.9 perches under the "Pibidemu Polonnaruwa " development programme, an auditorium with an area of 442 square feet should have been constructed by the Urban Development Authority and handed over to the Sri Lanka Railways before 22 February 2022. Nevertheless, that construction had not been even commenced by 31 December 2023, but action had not been taken by the Sri Lanka Railways to acquire the land in terms of the agreement. In order to maintain the permanent office of the railway line inspectors, rest rooms stores, oil storage and rest room of the district engineer of the Sri Lanka Railways, the land and buildings belonging to the Department of Agrarian Services should have been released to the Urban Development Authority and vested in the Sri Lanka Railways. Nevertheless, those buildings and land had not been provided for the Sri Lanka Railways even by 31 December 2023.

Special Audit Report on Installation of Safety Systems for Railway Level Crossings in Sri Lanka

Railway Crossing Accidents

Due to the failure of the Department of Railways to properly install and maintain safety systems for railway crossings, 1,501 accidents have occurred from the year 2000 to the year 2022, and 298 lives were lost during that period and it was observed to audit that 1,054 people were injured.

Absence of a Scheme to provide Compensation for Persons Die

Neither the Department of Railways nor the Government have any scheme to award compensation to persons who die and it was observed that the Department does not have a system to look into the living conditions of the family members of the deceased persons and the suffering caused to their family members due to the death of the persons and that the General Manager of Railways had also not responsible for them as per the amendment of Section 32 of the Act.

Oldness of the Railway Ordinance about 120 years

The current Railway Ordinance is about 120 years old and due to the inadequacy of the existing penalties compared to the current value of the rupee, it is observed when examining the relevant penalty fees ,that there is no motivation for the respective persons not to resort to crime and it was observed that some of the official titles used (Governor) are not suitable at present.

Non-construction of Level Crossing Gates at Minor Crossings

Level crossing gates were not constructed as per the provisions of the Ordinance for the safety of minor crossings, and their control and actions had not been taken as per the provisions of the Act regarding their control and protection and actions had not been taken to identify the crossings for residential areas properly and make necessary arrangements for their safety and the to recover initial cost incurred for their installation and the annual rent for maintenance from the users of the respective roads.

Unavailability of a Scientific Plan

A Scientific Plan had not been prepared for the construction of road safety systems to fully cover railway crossings and joint plans and procedures had not been implemented for the construction of railway crossings and the installation of road safety systems with the Divisional Secretariats, Provincial Councils and Local Authorities.

Construction of New Crossings over Railway Lines

Although the road safety systems should be installed by collecting fees from the organizations and individuals who are constructing the roads during the construction of new roads over the railways, actions had not been taken to properly evaluate newly constructed roads and charge fees and install road safety systems so.

Bells and Electrical System Operation

Most of the Bell & Light systems installed by the Department up to the date of this report are not functioning properly and it was observed that these systems do not have the ability to communicate to the Signal Department of the Department Railways or the train driver whether the systems are working or not. Also due to a fault in the electronic system of the bells and electric signal system or due to a fault in the power supply system or if the system is not functioning properly, an ability to know about it directly to the respective train driver or Signal Department was not available in the respective system

Colombo Suburban Railway Project (CSRP)

It was the key objective of Colombo Suburban Railway Project to identify the contribution to be made by the railway service to the national transport system for the 20 ensuing years and upgrade the railway lines in the suburban area of Colombo.

Feasibility Studies and Detailed Plans

A sum of US $ 8.52 million equivalent to Rs. 1,551 million had been granted by the Asian Development Bank for the project as at 31 December 2023, and a sum of Rs. 1,469 million or 95 per cent therefrom had been spent on consultancy services relating to feasibility studies and detailed plans. Although those reports had been handed over to the Line Ministry in the year 2021, making use of such reports for future actions on the upgrade of railway lines, remained low.

Development of the Kelani Valley Railway Line

Agreements had been entered into with the Urban Development Authority in the year 2017 and 2018 to purchase 1244 housing units for Rs.5,412 million, from 07 housing schemes for the resettlement of families living in the areas reserved for the railway line in respect of the development of Kelani valley railway line. Although the Authority had agreed to construct the houses within 02 years from the date of agreement and deliver the project, the project period had been extended continuously due to delays in constructions. Despite the lapse of 06 years, 550 housing units have not been handed over to the project. As such, it was observed that resettlement activities had further delayed and the project had also delayed. Furthermore, the Authority has decided to reconsider the prices of houses being built, and hence, it was observed that there was a risk of increasing the agreed price per housing unit from Rs. 5 million to 10 million.

Colombo Suburban Railway Efficiency Improvement Project (CSREIP)

Feasibility Study and Preparation of Engineering Plans for the Upgrade of Kandy Urban Railway Service

The contract for the feasibility study, preparation of detailed engineering plans and obtaining consultancy services relating to the upgrade of Kandy Urban railway service under bank loans from the Asian Development Bank, had been awarded upon Cabinet approval to a private company in the year 2019 for completion within 18 months at the values of US $ 2.64 million, Euro 1.38 million and Rs. 194.12 million respectively. Although the project had paid a sum of Rs. 719.2 million to the said company as at 31 December 2023, execution of the contract had been suspended by the consultancy firm, and the reasons in that connection had not been reported in writing. As such, the expenditure incurred on the project had become fruitless, and it was also observed that no action had been taken to identify a source of funding after the feasibility study.

Establishment Of Island wide Railway Telecommunication System

Under the bank loan scheme of the Asian Development Bank, Secretary to the Ministry of Transport had entered into an agreement with a privately-owned local company for the implementation of island wide railway communication system at the value of US $ 7.49 million Using the new communication system, it was expected to provide an efficient and secure railway service for the public under the project. Even though the project had been completed by September 2022 by incurring a sum of Rs. 1,901.27 million, objectives of the project could not be achieved whilst the expenditure incurred had also become fruitless as the system had not been practically used.

Lakdiva Engineering (Pvt) Ltd.

Underutilization of the Service Center and Equipment

Service center of the Company had been established and maintained since 2021, but due to lack of a qualified staff, it was observed that vehicles were repaired through external institutions. A sum of Rs.15 million had been paid to the external institutions during the year under review for repairing vehicles. As cost of the service center amounted to Rs. 20.8 million whereas the income amounted to Rs. 17.9 million, the Company sustained a loss of Rs. 2.9 million during the year under review due to the maintenance of the service center.

Equipment valued at Rs. 11.4 million purchased for activities of the service center remained underutilized whilst the 3D Wheel Alignment equipment worth Rs. 1.7 million remained non-functional.

National Transport Commission

Failure to Introduce a Methodology to Issue Passenger Service Permits

Provisions had been made through the National Transport Commission Act No. 37 of 1991 in order for the Commission to grant warrants and issue permits. The Commission had not introduced a methodology to issue passenger service permits, but the tender for the passenger service permits had been given under the values of Rs. 3,000, Rs. 10,000 and Rs. 15,000 based on the minimum technical value.

Agriculture

Two (02) departments and 08 statutory institutions were functioning to accomplish the following functions and tasks under the Agriculture Division of the Ministry of Agriculture that has identified its vision as creating an efficient, effective and strong agricultural sector for food security and national prosperity, and identified its mission as achieving an entrepreneurial agriculture that produces globally competitive products with a socially acceptable innovative and commercial orientation through the sustainable management of natural resources, and the Fertilizer Division and Rural, Economic Crops Cultivation and Promotion Division.

Roles	To increase food production to ensure food security
	Maintaining stocks and implementing supply operations using the modern technology
	Crop diversification and water management according to cultivation needs
	Directing traditional farmers, youth and students to agricultural education opportunities equipped with modern technology.
	Expanding crop insurance schemes and farmer retirement schemes and encouraging formation of young agricultural entrepreneurs.
	Regulation of chemical pesticides and supply of quality seeds and plants and production of internationally recognized quality seeds.
	Communicating the Climate and weather changes to farmers daily
	Promotion of agricultural development zones, agricultural villages and sustainable gardening development programmes.
	Administrative and Personnel Management of Sri Lanka Agricultural Service.
	Implementation of programmes for uplifting and promotion of small-scale agricultural enterprises and organizations.
	Import and distribution of quality chemical fertilizers and environmentally friendly organic fertilizers and implementation of the government subsidy policy and encouraging the production and use of organic fertilizers.
	Implementing a fair price policy for local farmers and consumers.

Minimizing the import of food crops by increasing local production and preparing a programme for exporting agricultural products.

Expansion of the local production and consumption opportunities by promoting small and medium scale producers.

Audit observations

Ministry of Agriculture

Utilization of Provision Provision of Rs. 93,938.63 million had been made for the Ministry of Agriculture in the year 2023, and allocation of Rs.85,577.16 million, out of that, had been utilized and an allocation of Rs. 8,361.47 million had been saved.

Economic Centres Even though the Rural Economic Division of the Ministry had started the construction of special economic centers in Batticaloa district in the year 2017 and in Vavuniya and Jaffna districts in the year 2018 and completed the work in the year 2023 at a total cost of Rs.774.91 million rupees, the center had not been opened even by 31 July 2024. However, a sum of Rs. 10.54 million had been spent idly for those 03 centers as electricity charges, water charges and security service charges for the year 2023.

Uneconomical Loan Interest A total of Rs. 16,279.65 million had been incurred as interest expenses for the loans obtained through the short-term bank loans for making payments to the suppliers by Ceylon Fertilizer Company Limited and Colombo Commercial Fertilizers Limited in the import of subsidized fertilizers in the year 2023 due to monitoring weaknesses in the Fertilizer Secretariat of the Ministry of Agriculture. It was also observed that an accrued interest value amounting to Rs. 3,723.07 million had been included in the conversion of the loan amount into long-term loan, and due to this, interest had to be paid on the interest.

Security Deposits The building premises had been handed over to the lessor on 31 January 2020 as per the terms of the lease agreement No. 2178 entered into with a private company for a period of five years to acquire a building on rental basis for the Ministry of Agriculture. However, the refundable security deposit amounting to Rs.63 million paid to the lessor had not been recovered till 31 December 2023.

Repairing of Vehicles

The specific reasons and parties responsible for the failure to start the Range Rover Jeep bearing No. CAV-5064 in Rural Economic Sector on 21 June 2021 had not been identified, and estimates were obtained on 5 occasions for the repair of the vehicle. Accordingly, the repair work, for which quotation had been submitted for a sum of Rs.3.08 million in the year 2021 had been handed over to the local agent after 03 years to carry out the repairs for a sum of Rs.9.04 million. Nevertheless, the relevant repair had not been carried out even by 31 July 2024.

Department of Agriculture

Anticipated and fulfilled Tasks

The number of tasks to be achieved by 10 units during the year 2023 for achieving appropriate and sustainable agricultural development to ensure food and nutritional security of the nation by generating and disseminating a new and advanced agricultural technology and providing related services to all stakeholders with greater emphasis on farmers had been 158. Among those tasks, 110 tasks had achieved a progress between 90 to 100 percent, and 25 tasks had secured a progress between 75 and 89 percent, 17 tasks had sustained a progress between 50 and 74 percent and 06 tasks had achieved a progress less than 50 percent.

Idle expenses

During the period from 2012 to 2017**,** 05 electric fences were built in 05 seed potato production farms in Nuwaraeliya by incurring a sum of Rs. 93.05 million without carrying out a formal technical assessment. Of that, 03 electric fences worth Rs. 67.2 million had not been actively used for a period of 01 to 07 years.

Decline in Big onion Production

Although 10 large onion production projects had been implemented by incurring a sum of Rs. 337.2 million in the past 08 years, the local big onion production, which remained at 98,900 MT in the year 2014 had been dropped to 15,840 MT by 83,060 MT or by 84 percent in the year 2022 according to the data of the Department of Census and Statistics**.**

Poor Vegetable Seed Germination Percentage

Action had not been taken in terms of Financial Regulation 104 (4) and a full report had not been submitted in relation to the failure of 5,699 kg vegetable seeds worth Rs. 44.3 million due to the poor germination percentage existed during the period of 10 years from the year 2013 to the year 2023 at the Gannoruwa Vegetable Seed Centre.

Department of Agrarian Development

A provision of Rs.12,023.2 million, out of the provision of Rs.14,179.8 million received to the Department of Agrarian Development from the General Treasury for the year 2023 had been utilized, and the allocation of Rs.2,591.4 million, of the provision amounting to Rs.3,042.2 million provided by the Ministry of Agriculture and Plantation Industries, the Ministry of Environment and the Presidential Secretariat for various projects, had been utilized.

The Climate Smart Irrigated Agriculture Project

Although the works of 05 tanks had been completed by 28 March 2024, out of 09 tanks that were renovated at a cost of 45.7 million by Agrarian Development District Office of Polonnaruwa under the Climate Smart Irrigated Agriculture Project of the Ministry of Agriculture, the walls of the tanks made of soil and gravel in those tanks had been washed away. Even though the rehabilitation of Galinda small tank had been planned to be started on 28 July 2023 at an estimated cost of Rs.37.5 million, it had not been started.

Printing and Distribution of fertilizer subsidy Vouchers

In the year 2023, 1,626,000 vouchers worth Rs.11,147 million had been printed to provide fertilizers to the farmers who grow paddy in the yala season, and 1,466,214 vouchers, out of those vouchers, had been issued to farmers, and 159,786 vouchers worth Rs. 907 million not issued had been returned to the head office. According to the information forwarded by 16 district offices, 855,859 vouchers worth Rs. 6,555.5 million had been issued to farmers. Fertilizers had not been issued for 46,470 vouchers worth Rs. 222.6 million, out of the vouchers issued, and 5,327 vouchers worth Rs 33 million had been cancelled as farmers had not cultivated in the yala season. Furthermore, 211,583 vouchers worth Rs.1,162 million had been cancelled as it was not possible to precisely identify the farmers, who need fertilizer.

Non- provision of Financial Subsidies at the Required Time

It had been decided at the Cabinet meeting held on 17 July 2023 to provide financial subsidies to farmers who cultivate paddy for the Maha season in 2023/2024. However, the amount of Rs. 534.4 million had not been provided to 32,563 farmers in 16 agrarian service centers in Batticaloa district in October, which was the month of the commencement of the season, and as a result, the farmers who cultivated paddy could not get the fertilizer at the required time.

Construction of Green Houses

An allocation of Rs. 375 million had been allocated for the construction of greenhouses under the Smart Village Programme covering 25 districts under the minor irrigation and fallow paddy fields re-cultivation programme. Under that programme, 291 greenhouses were proposed to be built in 16 districts on the allocation of Rs.151.3 million and construction of 145 greenhouses had been started during the year 2023. The progress of its construction had been 49 percent.

Idling of warehouses

Although works of 11 warehouses in 06 district offices had been completed on 31 May 2023 using the allocation of Rs. 113.8 million received in the year 2021 for the establishment of storage facilities owing to the Covid 19 emergency situation under the World Bank loan assistance, they remained as idle assets even by 29 February 2024.

Cultivation of Fallow Paddy Fields

According to the revised action plan of the year 2023, provision of Rs. 162.8 million had been allocated for the cultivation of 3,809 acres of fallow paddy fields, and 137.6 million, out of that, had been spent to cultivate only an area of 2,986 acres, of that extent.

Distribution of 3,265,800 Parachute Discs among Farmers

Provision amounting to Rs. 200 million had been allocated according to the action plan for the paddy cultivation in 6,682 acres of paddy fields using the parachute method under the development programme of increasing the productivity through the efficient use of agricultural lands and provision of infrastructure facilities for achieving sustainable national food security. Although it was stated that 3,265,800 parachute discs were distributed to farmers at a cost of Rs.144.4 million as the government contribution, 447,985 discs had been remained at the district offices. A sum of Rs. 20.8 million had to be collected from the farmers as at 31 December 2023 for the parachute discs that had been provided to them.

Idle Vehicles

The jeep bearing No.CR-0098, which had been given to the Department in the year 2015 by the World Food Project, had not been registered and used. It had been parked in vehicle yard in Malabe from that year.

Fraudulent removal of 58 tyres by the storekeeper

The storekeeper of the Narahenpita spare parts warehouse had not entered the receipts of the goods in the stock books, and had indicated that the tyres were issued by using issuing orders and the tyre balances had been balanced wrongly. Fifty-eight (58) tyres worth Rs. 2.1 million, which were purchased between the years 2021 to 12 June 2023, had been removed by him fraudulently. However, action had not been taken to conduct a formal disciplinary inquiry to recover the loss until 31 April 2024.

Shortage in Fertilizer Subsidy

Shortage in the fertilizer subsidy to be collected from 03 officers in the Madatugama Agrarian Service Centre in Anuradhapura District for Maha season in 2005/2006 had been Rs. 32.5 million. However, only Rs. 77,912 which should be collected from one officer had been collected. Remaining amount of Rs. 32.4 million had not been collected till 31 March 2024. The Agrarian Development Officer, who was responsible for the loss of Rs.16.2 million, out of this loss, had been retired on reaching the age of 60 years under the normal system. However, the Attorney General's Department had informed to recover the loss under 43(a) of the Pensions Code. Nevertheless, the necessary legal measures had not been taken until 31 March 2024.

Retirement without Recovering losses and damages

According to the preliminary investigation report given on 22 April 2022 regarding the misplacing on 15 March 2020 the checkpoint 3200 type firewall equipment worth 0.9 million belonging to the wireless internet system that had been provided to the Department by the Lanka Government Network Project, it was decided to recover the loss from the Chief

Engineer of the Water Management Division. However, the officer was retired on 10 November 2020 by 2/17 of the Pensions Code while the preliminary investigation was being conducted. Further, the non-recovery of the loss in December 2022 when paying him the arrears of salary related to his promotion and a sum of Rs. 1.4 million, which had been the allowance to be paid in the re-employment of retired officers and the retirement of the concerned officer by 2/17 of the Pensions Code were problematic to the audit.

Commercial Fertilizer Company Limited

Amounts to be Recovered Colombo Commercial Fertilizer Company Limited was privatized on 29 July 1994 and the government took over the company again on 20 January 1997. Due to non-availability of documents to confirm the loan balance of Rs. 22.05 million to be recovered to the company for issuing fertilizers to 15 different private companies on credit basis during that period, the company failed to recover the debt or take legal action until 31 December 2023.

Ceylon Fertilizer Company Limited

Amounts to be Recovered The debtor balance existed as at 31 December 2023 had been Rs.1,066.77 million, and the balance prevailed for more than 10 years, out of that balance, had been Rs. 86.5 million. A sum of Rs. 86.31 million, out of that, should have been received from government institutions.

Agrarian Development Fund

Amounts to be Recovered Even though the amounts to be recovered for 02-wheeler tractors provided under the Japanese yen aid project should be collected by the year 2015, action had not been taken to recover a sum of Rs. 105.1 million from farmers even by 31 December 2023.

Information system An agreement had been entered into develop a management information system for the Agrarian Service Committees and Farmers' Banks at a cost of Rs. 30.9 million in October 2022. According to the agreement, the relevant work should be completed within 07 months under 05 phases. However, the relevant work had not been completed until 31 December 2023.

Hector Kobbekaduwa Agrarian Research and Training Institute.

Utilization of Funds

For the year 2023, the Hector Kobbekaduwa Agrarian Research and Training Institute had received a sum of Rs. 178.2 million from the General Treasury and a sum of Rs. 108.3 million as other income. A sum of Rs. 271.2 million, out of that, had been utilized.

Biogas project

The biogas project, which was started in the year 2011 at a cost of Rs.1.1 million had been inactive since 2016 and according to the inspection report submitted on 23 June 2022, it was concluded that the former Director had violated the tender procedure by purchasing the spare parts needed for the project and involving other officials to disrupt its operation. However, action had not been taken to recover the said losses.

Reimbursement of Salary and Allowances

Salaries and allowances for the period mentioned below amounting to Rs. 4.2 million paid to the Senior Research Officer of the Institute, who was appointed for the position of Vice Chairman of the Paddy Marketing Board for the period of 07 February to 2020 to November 2022, had not been recovered from the Paddy Marketing Board. However, it had not been indicated even as receivables in the financial statements.

Sri Lanka National Freedom from Hunger Campaign Board

Utilization of Funds

The Sri Lanka National Freedom from Hunger Campaign Board had received a sum of Rs. 29 million from the General Treasury for the year 2023, and Rs. 103 million had also been received as other income. A sum of Rs. 72 million, out of that, had been utilized.

Informal Activities

An income of Rs. 81.1 million had been obtained by removing the soil from the tanks and selling the soil to the highways, which was not a purpose specified in the Act. According to the tank project report, it had been indicated that the Board should take money from the relevant farmers' organizations for the soil provided and used that money along with the allocation of the Government to develop small tanks to proper standards under the engineering consultancy of the Department of Agrarian

Development. However, a sum of Rs. 76.1 million had been invested in a fixed deposit without doing so.

Import of Maize

Maize of the quantity of 8,484,036 kg imported by two private companies under the import license received by the Board in the year 2023 had been sold without the intervention of the Board.

Agricultural and Agrarian Insurance Board

Information System

The management information system designed for the insurance compensation process for crop damages had not been valued and recognized as an intangible asset in the financial statements in accordance with paragraph 4 of the Sri Lanka Accounting Standards 38.

Furthermore, the Agricultural Information Management System maintained by the Board in a way that it is possible for the field officers in the district offices to receive applications from farmers via online to Agricultural Service Centres and check their damages had not been connected with the Geo Goviya Information System maintained by the Department of Agrarian Development. As a result, it was observed that there was no opportunity to calculate compensations and to check its accuracy.

Employing the Officers above 60 years

Five (05) officers, who had completed the age of 60 years as at 31 December 2022 and officers over 60 years of age had been recruited on contract basis and had been employed in service in contrary to the Public Enterprises Circular No. 06/2022 dated 06 October 2022 without obtaining a prior approval from the Department of Management Services. A sum of Rs. 4 million had been paid as salaries and allowances without any approval.

Non-payment of compensation

The compensation amount of Rs.70.8 million sent to the banks in 2017 and 2018 for making payments to 8,185 farmers had been returned by the commercial banks due to mismatch of account numbers, farmers' names and identity card numbers. However, action had not been taken to identify the concerned farmers and to settle the balance or to return the amounts to the General Treasury.

Funds operating under the Agricultural and Agrarian Insurance Board

Fishermen's Pension and Social Security Benefit Scheme

Granting of the Pension Benefit

The number of fishermen who had contributed to the pension benefit grant scheme had been 64,117 and any member had not been registered after the year 2018. The Fishermen's pension benefit had not been granted to 24,187 fishermen (including 5,549 contributors, who had paid the contributions in lump sum), out of the 31,146 contributed fishermen who had reached the age of retirement by exceeding 60 years as at 31 December of the year 2023, out of the fishermen, had not been granted the fishermen's pension benefits.

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Farmers' Pension and Social Security Benefit Scheme

Going Concern

Since the total assets had been Rs. 2,202.7 million and total liabilities had been Rs.89,457.3 million in the scheme, liabilities exceeding assets had been Rs.87,254.5 million, and total current assets had been Rs.1,092.5 million and total current liabilities had been Rs.2,527.3 million. The current liabilities that had exceeded the current assets had been Rs. 1,434.8 million and the going concern of the scheme is problematic because the scheme cannot be maintained without the contribution from the General Treasury.

Granting of Pension Benefits

Although there were 474,803 farmers aged between 61 and 93 years as at 31 December 2023, out of the 871,425 farmers registered in the scheme, 264,227 farmers had not been paid the pension. Although it had been informed to all the District Deputy/Assistant Directors by the letter No. 6/FPS/Pa/2 directed to them on 23 June 2023 to find the contributors who have completed the age of 60 years in 2022 and were entitled to the pension and had not sent the applications and to make arrangements to grant them pensions. It was observed that 6 offices, out of inspection of a sample of 12 district offices, were not working properly.

Information System

Even though a sum of Rs.5.6 million was spent to collect data for an information system in the year 2017, the information system was not prepared due to non-collection of the expected information.

Farmers' Trust Fund

Unrecovered Loans

Although 10 retired officers were appointed in the year 2014 by paying allowances amounting to Rs. 1.4 million to recover the short-term loan balance of Rs. 44.2 million in the revolving fund at the time of establishing the farmers' trust fund by merging the revolving fund and the agricultural trust fund in the year 2002, the further uncollected loan balance had been Rs. 39.9 million.

Sri Lanka Council for Agricultural Research Policy

Overpaid Subsistence Allowances

The amount to be further charged from the 25 researchers of the National Agricultural Research System, who went abroad for postgraduate studies during the period from 2017 to the period of the outburst of the Covid pandemic, for the period of returning to Sri Lanka due to the Covid pandemic situation without informing the Policy Council, out of the subsistence allowance amounting to Rs. 21 million paid to them, had been Rs. 8.4 million.

Idle Funds

The sum of Rs.1.2 million, out of the financial assistance received from a Kenya Research Centre, remaining in the Project Bank Account No. 2323246 of the Torrington Branch of the Bank of Ceylon had not been obtained by the Council or disclosed in the financial statements.

National Agricultural Diversification and Settlement Authority (HADABIMA Authority)

Cheques Issued to Beneficiaries

The 341 cheques, totalling to Rs. 1.62 million issued to the beneficiaries for the soil conservation project during the period of 2016 to 2017 were indicated as non-current liabilities in the financial statement, without taking necessary action in relation to not presenting them for payments.

Lands not transferred to the Authority

Farmland in extent of 05 acres in Kotmale had not been transferred to the Authority.

National Institute of Post Harvest Management

Not Utilizing the Purchased Equipment

One hundred (100) GPS Trackers units and 130 Tempered Data Loggers purchased at a cost of Rs. 7.29 million in the year 2018 for the supply and value chain management of agricultural crops project in Sri Lanka had not been utilized. Because of this, the entire cost had become a uneconomical cost to the organization. However, action had not been taken regarding the other parties who recommended, approved and were responsible for the purchase of the equipment.

Underutilized Research Machine

The Gas Chromatograph Mass Spectrometer (GCMS) machine, which was purchased for laboratory research work in the year 2015 for Rs.15.21 million, should be maintained under fully air-conditioned conditions and Rs.0.27 million should be spent for annual maintenance of this machine. Even though almost 09 years have passed since this machine was purchased, it had not been used except in a few occasions and remained underutilized by 20 March 2023, the date of the audit.

Socialization of Innovation Machines

A major objective of the National Post harvest Management Institute is to produce and socialize new products after a research process. However, during the audit conducted, only one type of machine had been socialized, out of the 19 types of innovative machines that had been released, according to the register of manufactured machines and equipment maintained at the mechanical workshop during the period of 24 years from the year 2000 to 31 December 2023 and patents were obtained only for 09 machines and equipment.

Not Maintaining a Database

One of the main objectives of the Institute was to minimize the post-harvest damage of agricultural crops, and, it was identified that the post-harvest damage of perishable agricultural crops was between 30 percent and 40 percent according to a preliminary survey conducted in 2009 for that purpose. Fourteen (14) years had passed since the survey was conducted by the end of the year 2023, and as at 31 December 2023, the National Post Harvest Management Institute had no database to identify the percentage of post-harvest damage that had been minimized by the methods taken to reduce postharvest damage.

Deactivation of Laboratory Machines

Due to the deactivation of 02 Atomic Absorption Spectrophotometer and Handel Wheel Vertical Autoclave machines with a total value of Rs. 8.33 million in the laboratory, the research activities using that machine were stopped in the years 2018 and 2019 respectively. The institute had not implemented a planned programme to repair and use these machines from the year 2020.

Research for Introducing Organic methods for fruit ripening

Although a sum of Rs. 9.57 million had been spent to get the patent rights for the findings of the research, "Induction Of Fruit Ripening By Organic Method" operated for the period of 2016 to August 2019, and to popularize the results of the research at a commercial level, the project was not in operational level even by 31 December 2023, the date of audit.

Testing of 07 types of Imported Food For Heavy Metals

Five hundred (500) samples were tested by incurring a sum of Rs.1.95 million in the year 2017 for the project that was implemented to check whether 04 types of heavy metals are contained in 07 types of food imported under the National Food Production Programme using the provision of the Ministry of Agriculture in the year 2017. According to the related project report, it was confirmed that certain food items contain heavy metals such as Cadmium, Arsenic and Leaf beyond the maximum safety level. Nevertheless, the institute had not further inspected the food items containing heavy metals according to the conclusions and suggestions of the report, and the information was not given to take proper action against the responsible parties in this regard.

Evaluation of the Role of Government Institutions on Production and Promotion of Export Agricultural Crops

Making necessary amendments to the Act

It had been observed that Act No. 46 of 1992 did not include sufficient provision to systematically increase the contribution of spices and related crops to the national income and to meet the needs of future development and research activities in that field more efficiently and extensively. Therefore, the approval had been given to instruct the Legal Draftsman to make the necessary amendments to the Act in the Meeting of Cabinet of Ministers held on 28 October 2009. Accordingly, although the draft laws including amendments had been submitted to the Legal Draftsman Department and approval has been obtained, due to the frequent transfer of Ministries, the amendment of the Act had not been completed by the time of the audit on 02 September 2022 .

Decline in Production of Areca nuts Trees

The production of 283,953 areca nuts in 2018 had decreased to 88,958 by 2021. During the same period, it was observed that the production of palm saplings has decreased from 29 per cent to 4.37 per cent.

Increase of Production of coffee plants

The production of coffee plants which was 56,509 in 2018 had increased to 203,258 by 2021. It was observed that the increasing of production of coffee plants from 5 per cent to 10 per cent of the total plant production of the 11 nurseries during the period from 2018 to 2021 is a favorable trend.

Standards on Agricultural Crops

The Department of Export Agriculture had prepared Standards for agricultural crops and given them to the Seed Certification Service. Although almost 20 years had elapsed since the adoption of the Seed Act No. 22 of 2003, arrangements had not been made for the publication of said Standards.

Special Audit Report on Importation of Nano Nitrogen Liquid Fertilizer

Payment for the Importation of Fertilizer

At the time of importing Nano fertilizer to Sri Lanka, although the price of a 500ml bottle of Nano liquid fertilizer had been mentioned at USD 3.185 equivalent to 240 Indian Rupees in the website of the IFFCO company, the Indian manufacturer, those had been imported at USD 5 per bottle according to the CUSDECS. However, it was not confirmed during the audit that the importation could be carried out at the price indicated in the website, but as mentioned in the Cabinet Memorandum referred to in Paragraph 5.8.5 above, it was revealed at a meeting held on 10 November 2021 that 199 the price of a liquid fertilizer 500ml bottle was USD 5.25 (FCA).Without making purchase at such a low price, 100,224 bottles of Nano

Nitrogen fertilizer had been purchased each at USD 12.45 and 206,232 bottles had been purchased each at USD 10 despite having been aware of it. Accordingly, it was observed that the CCFL company and/ or the State Ministry of Agriculture had not taken action to sign the agreement with the supplier at a price beneficial to the Government and the supplier/ his agent / the manufacturer had gained a profit exceeding a fair profit margin in that situation..

Failure to evaluate the possibility of doing so as a transaction between the two Governments

Despite receiving the Indian credit facility during this period and introducing the relevant supplier as an institution belonging to the Indian Government in various instances, and despite indication that there was a possibility to supply liquid fertilizer under that credit facility, it was not observed that an evaluation had been carried out to proceed with this as a transaction between both governments.

Failure of Evaluating all Voluntary Proposals

It had been mentioned in the Board of Directors' Memorandum dated 28 September 2021 that, at the discussions headed by the Minister and the State Minister of Agriculture in the Ministry of Agriculture on 21 September 2021, instructions were given to the CCFL to evaluate the unsolicited proposals and to import fertilizer as an urgent matter. Nevertheless, as the Secretary of the Technical Evaluation Committee had informed the Audit on 14 August 2023, that the bid documents or quotations presented by the Muller International Pvt. Limited were not evaluated by the Technical Evaluation Committee, it was observed that the Technical Evaluation Committee had not adhered to the instructions of the Ministry.

Failure to confirm Production Capacity

The proposal which is deemed submitted by the UFT for the IFFCO company did not state the facts including the availability of necessary capacity, storage facilities, approval for the export, and the potentiality for manufacturing 4,250,000 bottles containing 500-milliliters of liquid fertilizer within the prescribed timeline and It was not observed that the Technical Evaluation Committee had paid its attention to these aspects.

Concealment of information to the

Cabinet of Ministers	The former Secretary and Additional Secretary (Development) in the State Ministry of Agriculture, in explaining the omission of the Muller International Company's proposal one of the two crucial proposals for significant decisions impacting Sri Lanka's economy from non-submission to the Standing Procurement Committee for evaluation, briefed the Audit on 01 September 2023, stating that their attention was not given to the aforementioned proposal since the fertilizer included in their proposal was identified as a type of carbonic fertilizer and, there was public opposition to the import of organic fertilizer. However, the Audit did not ascertain whether the above decision taken on such matters was a prudent decision. Failure of reporting this to the Cabinet of Ministers was observed as concealing information from the Cabinet of Ministers.
Non-confirmation of Prior Transactions	Even though it had been indicated in the Cabinet Memorandum dated 15 November 2021 that IFFCO Company had been selected for the import of Nano Nitrogen Liquid Fertilizer, it was not observed that the Company had made any transaction with the State Ministry of Agriculture or Colombo Commercial Fertilizers Ltd.
Not recognized as Organic Products	Even though the Export Development Board had refused the registration of the application submitted by UFT Company on 24 August 2021 to register Nano nitrogen liquid fertilizer as an organic fertilizer, as Nano technology products are not accepted as organic products, action had been taken to import this liquid fertilizer from the UFT company itself based on a decision taken by the Cabinet to import organic fertilizers.

Power and Energy

The following duties and functions had to be performed by the Ministry of Power and Energy and 12 statutory boards/institutions functioning thereunder.

Functions

Exploration, planning, development and supervision of activities relating to generation of renewable energy, electricity and other energies from sources such as solar, water, thermal, coal, waste and wind.

Meeting the electricity needs of Sri Lanka and safeguarding energy security and Management of demand to ensure energy efficiency.

Implementation of a power generation plan based on long term requirements.

Making the power transmission and distribution processes efficient.

Creation of a smart network to ensure efficient use of generated electricity.

Reduction of costs for generating electricity and removal of uncertainties during generation.

Controlling greenhouse gas emissions and rural electrification.

Coordination and implementation of import, refining, storage, distribution and marketing of petroleum-based products and natural gas.

Exploration of petroleum and natural gases and related activities.

Matters relating to production of gas and by-products from petroleum production sources, maintenance of stocks, production and distribution.

Development of infrastructure facilities in relation to the supply and distribution of fuel. Formulation of an appropriate energy policy for the control, regulation and utilization of energy resources.

Encouraging the use of solar power systems and solar battery systems to ensure the availability of low-cost energy for households, office and factories.

Encouraging the private sector and entrepreneurs to undertake renewable energy projects.

Increasing energy generation using industrial waste.

Provision totaling Rs.40,417 million had been granted by Parliament to the Ministry of Power and Energy in the year 2023 for discharging the said functions, and only a sum of Rs. 13,293 therefrom had been utilized by the end of the year under review. A summary of audit observations made in the sample audit checks is given below.

Audit Observations

Ministry of Power and Energy

Delays in Implementing Projects

With the objective of developing transmission networks and minimizing losses in transmission through the construction of new transmission lines and grid substations in Western, Central and North Central Provinces, the national transmission and distribution network development and efficiency development project had been scheduled to be commenced in January 2015 and completed by January 2018 under 04 packages.

Nevertheless, the physical progress of packages 01 and 02 of this project for which a sum of Rs. 39,942 million had been spent as at 31 December 2023, stood at 60 per cent and 70 per cent respectively as per the reports. Action had not been taken to re-execute the activities under packages 03 and 04 relating to the contracts the agreements of which had been terminated without being executed.

Ceylon Electricity Board

Electricity had been generated by the Board from the following sources during the 04 preceding years. Capacities of the power stations established from the year 2020 up to the end of the year 2023, are given in the following table.

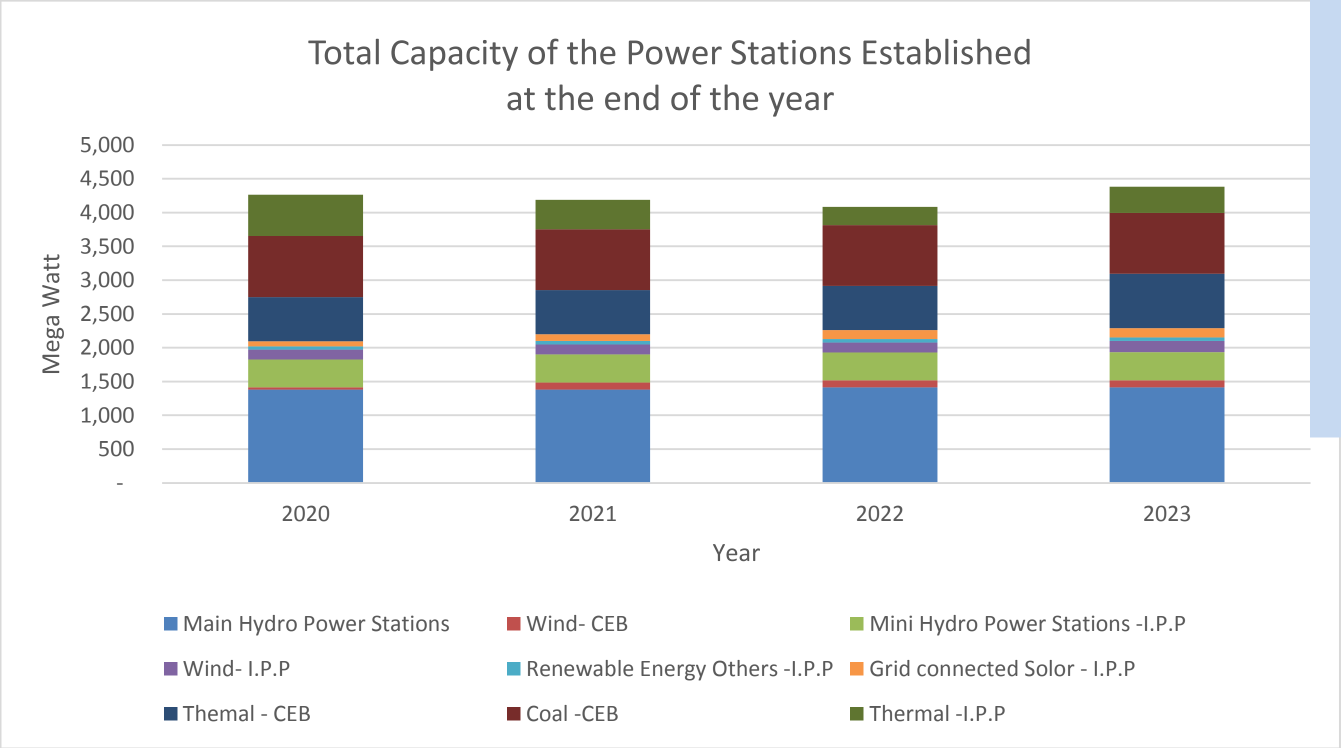

Diagram No:2.25.1-Total Capacity of the power Station Established at the end of the year
Source – Report of the statistics of the Ceylon Electricity Board, 2020-2023.

Considering the capacity of power under each source as per the above graph during the period from 2020 up to the end of the year 2023, the capacity of 1,383 MW from the main hydro power stations of the Board in the year 2020 had increased by 2 per cent up to 1,413 MW by the year 2023 whilst the capacity of the thermal power stations of the Board had increased by 22 per cent from 654 MW to 801 MW. The capacity of wind power stations remained 31 MW in the year 2020, had also increased by 235 per cent reaching 104 MW by the year 2021, and this capacity remained unchanged until the year 2023. Furthermore, the capacity of coal power plants of the Board remained 900 MW during 2020-2023. The capacity of power purchased from independent power producers viz. mini hydro power plants, wind, other sources of renewable energy and grid-connected solar power, had also increased by 13 per cent from 683 MW to 775 MW during the period from 2020 to 2023.

Sources of power generation during 2020-2023 are given in the following Table.

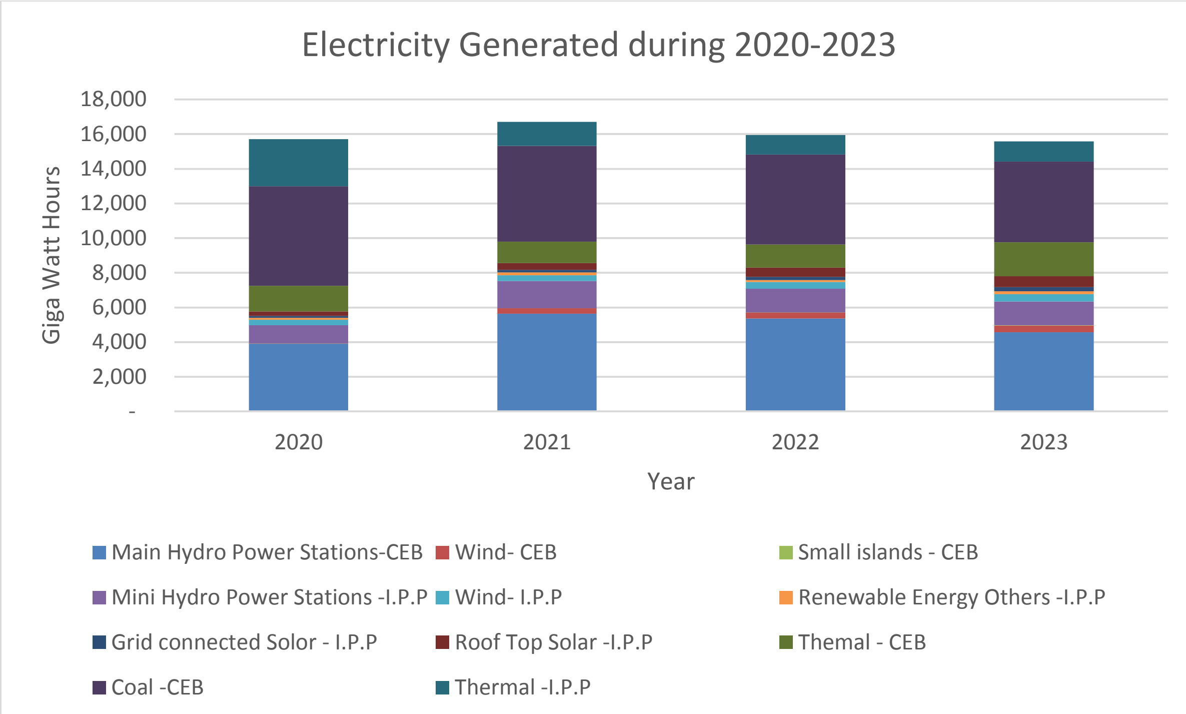

Diagram No:2.25.2 Electricity Generated during 2020-2023

Source – Report of the statistics of the Ceylon Electricity Board, 2020-2023.

Considering the electricity that had been generated actually, the main hydro power stations of the Board generated 4573 GWh, the coal power plants generated 4646 GWh, and the thermal power stations generated 1972 GWh in the year 2023. In addition to that, the capacity of power purchased from independent power producers such as mini hydro power stations, wind, other sources of renewable energy, gird-connected solar panels, and roof-top solar panels had been increased remarkably by 52 per cent from 1858 GWh to 2831 GWh during 2020-2023. Out of that, the capacity of power generated through roof-top solar panels had increased by 135 per cent from 269 GWh to 632 GWh. Nevertheless, this represented only 4 per cent of the total production of power in the year 2023.

Financial Result of the Board

The operating profit/ (loss) and the net profit /(loss) of the Ceylon Electricity Board for the period 2013-2023 are given in the following figure.

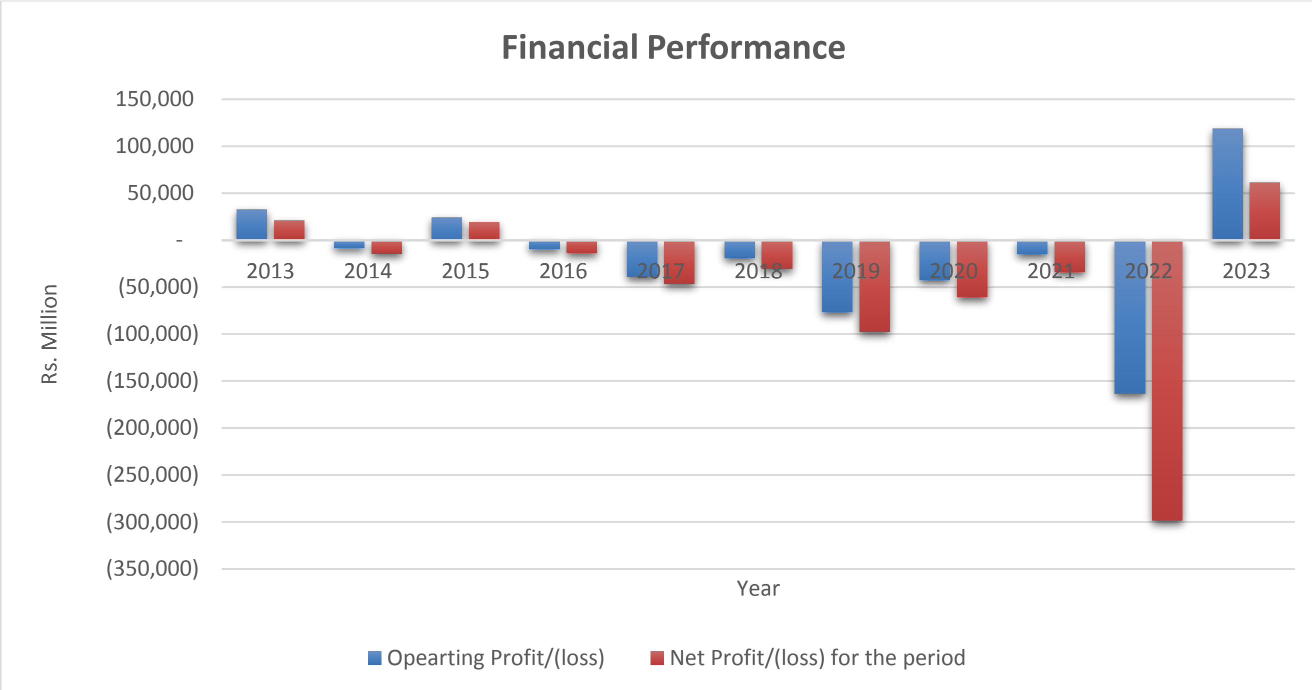

Diagram No:2.26 Financial Performance from 2013- 2023
Source – Financial statements of the Ceylon Electricity Board 2013-2023

According to the above graph, the cumulative loss sustained by the Ceylon Electricity Board during 2014-2022 amounted to Rs. 558,048 million except for the year 2015. In order to recover the financial loss of Rs. 18.7 billion forecasted for the year 2023, electricity charges had been increased by 18 per cent with effect from 20 October 2023. Due to reasons such as, increased electricity charges, and generation of power in excess of 790 Giga Watt Hours from the hydro power stations of the Ceylon Electricity Board than the estimated capacity for the year 2023, a considerable operating profit of Rs. 118.94 billion (before financial cost) and a net profit of Rs. 61.24 billion had been earned in the year 2023.

Revision of Electricity Tariff

Electricity tariff had been increased with effect from 20 April 2013, whereas the tariff had been decreased with effect from 16 September 2014 on the domestic category and non-domestic category from 15 November 2014. No any tariff revision had been made thereafter until 09 August 2022. Considering the matters such as, sharp depreciation of Rupee from 07 March 2022, and massive increase in fuel prices on 11 March 2022, electricity tariff had been increased with effect from 10 August 2022 in view of increasing the revenue of the Board by about 79 per cent. In order to increase the revenue by about 66.2 per cent thereby recovering the forecasted total loss of Rs. 288 billion for the year 2023, electricity tariff had again been increased from 15 February 2023.

The charges had been decreased by 14.2 per cent with effect from 01 July 2023 having taken into account the matters such as, decrease in the exchange rate of USD by 12 per cent, decreased in fuel prices, and drop in demand for electricity by 18 per cent. However, in order to recover the financial loss of the year 2023, electricity charges had again been increased by 18 per cent with effect from 20 October 2023. The tariff, so increased, remained effective until 04 March 2024.

Accordingly, the percentages increase in energy rates of electricity tariff and monthly fixed charges except for the category of industry small less than 300 KWh relating to the period from 10 August 2022 to 20 October 2023, are given in the following Figures.

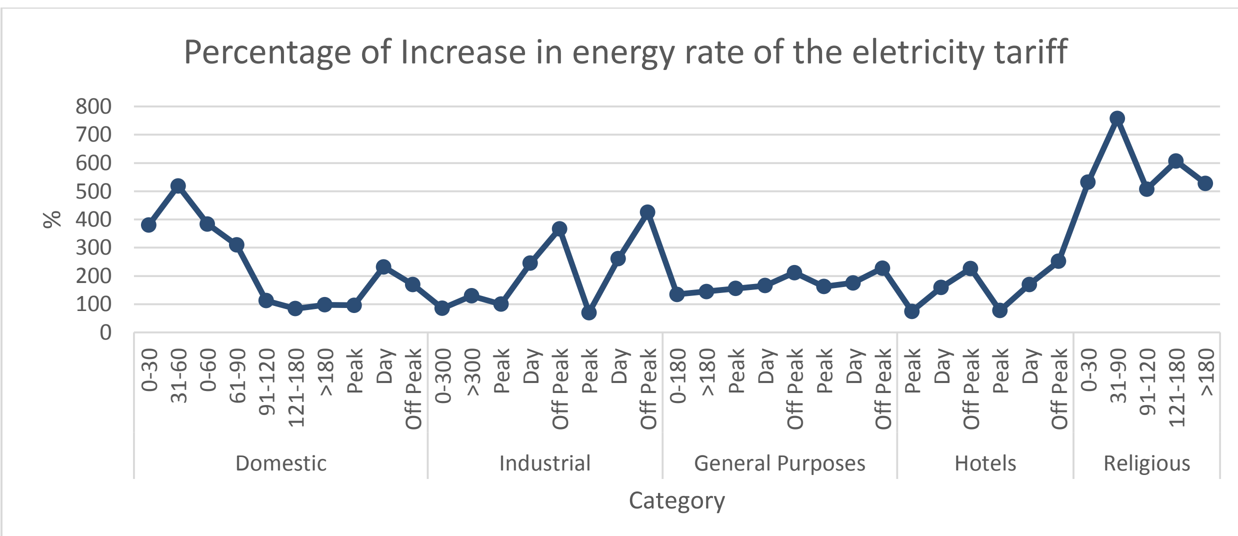

Diagram 2.27. Percentage of increase in rates of power of the electricity charges
Source – – Report of the statistics of the Ceylon Electricity Board, 2020-2023.

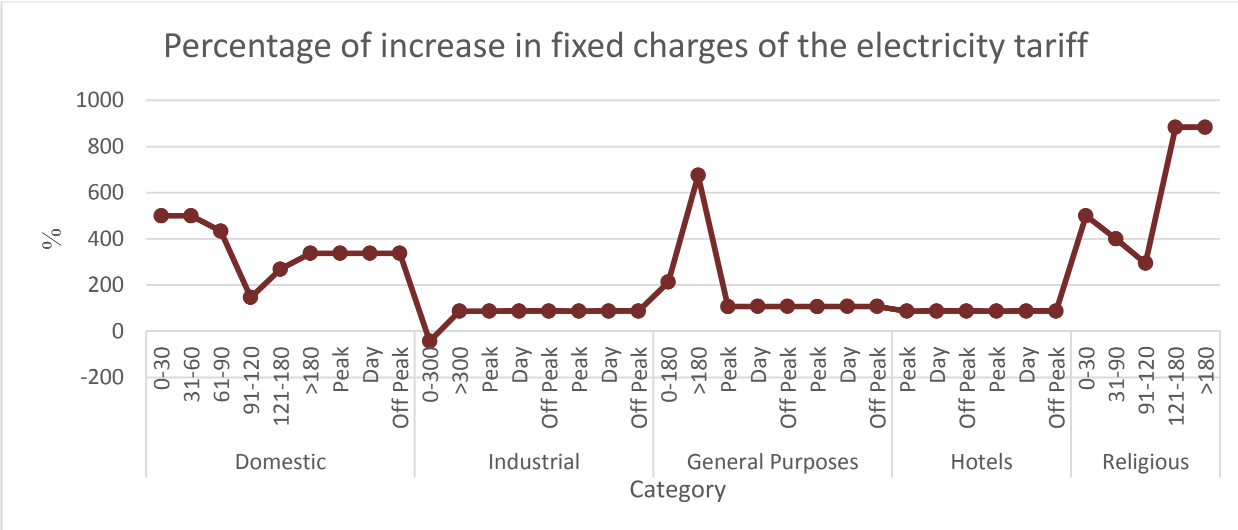

Diagram 2.28 Percentage of increase in fixed of charges of the electricity tariff
Source – Report of the statistics of the Ceylon Electricity Board, 2020-2023.

Delay in Implementing Least Cost Long-term Generation Expansion Plan

According to the Least Cost Long Term Generation Expansion Plan for 2018-2037, it had been scheduled to commission power stations with the capacities of 500 MW, 657 MW, 430 MW, and 445 MW respectively during the period 2018-2021. However, out of the aggregate capacity of 2,032 MW scheduled for those years, power stations with aggregate capacity of 661.6 MW had only been commissioned by 31 December 2021.

Furthermore, the revised plan for the period 2022-2041 had scheduled to commission renewable energy power stations with the capacity of 544 MW by the year 2022. Nevertheless, new renewable energy power stations with aggregate capacity of 211 MW had only been commissioned as at 31 December 2022.

Further, it was also scheduled in the revised plan for the period 2023-2042 to commission power stations with aggregate capacity of 607 MW in the year 2023, but only new power stations with aggregate capacity of 185.6 MW had been commissioned as at 31 December 2023.

Purchase of Power From Power Producers who had not obtained License

Contrary to provisions of the Sri Lanka Electricity Act, 27.31 GWh of electricity worth Rs.2.96 billion had been purchased in the year 2023 from 02 retired Independent Power Producers (I.P.P.) who had not obtained a license for electricity generation and without obtaining authority from the regulator.

Delay in Implementing the Non-conventional Renewable Energy Projects

Procurement Procedure should be followed for non-conventional renewable energy projects (NCRE) as per Sri Lanka Electricity Act No. 20 of 2009 as amended. However, only 7 Procurements for NCRE projects with aggregate capacity of 390 MW had been initiated up to 31 December 2021 and power stations with aggregate capacity 102 MW had only been commissioned up to 31 December 2023. Furthermore, out of the NCRE projects with aggregate capacity of 598 MW approved under a permit issued by the Sri Lanka Sustainable Energy Authority (SLSEA) in accordance with Sri Lanka Electricity (Amendment) Act No. 16 of 2022, only the power stations with aggregate capacity of 4 MW had been commissioned up to 31 December 2023.

Incurring a Considerable Interest expense due to Financial Losses

Due to delay in making payments on time for the power purchases and fuel purchases, a sum of Rs.21,940 million had been spent as delay interest for the year 2023 alone. Furthermore, due to recurrent financial losses of the Board, a sum of Rs. 36,873.4 million for the year 2023 alone had been spent on overdrafts, and short and long term loans obtained for the cash flow requirements mainly for the procurement of fuel, coal and spare parts, payments on the power purchases and capital expenses.

Payment of Miscellaneous Allowances to the Employees without Obtaining the approval

According to the audit test check, a sum of Rs. 507.47 million for the first 09 months in the year 2023 alone had been paid as allowances that had not been in the list of allowances approved by the Cabinet of the ministers on 09 April 2008, not recommended by the Salaries and Cadre Commission and not approved by the Department of Management Services.

Delays in Repairing Transmission Lines

The Ceylon Electricity Board had requested the Public Utilities Commission for the approval for emergency purchase of electricity from the year 2016 by highlighting constraints on transmission network and constraints on power generation in Southern Province. However, after a considerable delay, the Polpitiya – Hambanthota 220KV, 150 Km transmission line proposed to strengthen the Southern Grid had been energized on 22 August 2023. Also, Horana-Padukka 132 KV, 25 Km transmission line proposed to strengthen Southern Grid and expected to be completed by 20 April 2022, had not been completed even by 31 December 2023; and, the physical progress thereof remained 51.15 per cent. Moreover, the contract for the construction of Kotmale- new Polpitiya 220 KV transmission line scheduled to be completed by 23 January 2021, had been terminated due to a financial issue, and the physical progress of that project was 59 per cent as at 31 December 2023.

Recoverable Trade Debt

The trade debtors of the Board amounted to Rs. 70.02 billion as at 31 December 2023, and of that, a sum of Rs. 6.18 billion remained due over a period of 06 months whilst a sum of Rs. 2.25 billion equivalent to 3.22 per cent of total trade debtors, remained due over a period of 05 years as at 31 December 2023.

Failure in Utilizing the Purchased Lands for Intended Purposes

Eighteen plots of lands purchased at an expenditure of Rs.188.38 million for project activities and construction of regional engineers’ offices, consumer service centers and grid sub-stations, had not been made use of for the intended purpose from the year 2000 up to the end of the year under review. Four of those lands valued at Rs. 36.48 million had not been included in the Register of Fixed Assets of the distribution divisions. According to the audit test check, the Gazette notifications on the acquisition of 10 lands for various construction works of Braodlands Hydro Power Project, Transmission lines Development Project for Renewable Energy and National Transmission and Distribution Network Development and Efficiency Improvement project, had been published 06 years ago, but the Board could not complete those projects.

Institutional Reforms of the Power and Energy Sector

Approval of the Cabinet had been given on 01 August 2022 on the proposal made through the Cabinet Memorandum No.22/1089/621/008 dated 29 July 2022 for the appointment of a Committee to study and review the “scope” and “institutional framework” as mentioned in Section VI of the Electricity Reform Act No. 28 of 2002; to recommend an efficient , productive, powerful and strong institutional framework to fulfill the present and future aspirations of the general public; and to promote the rank of Sri Lanka in the “business index” of the power and energy sector inclusive of the Ceylon Electricity Board and Lanka Electricity Company Limited.

Furthermore, the Sri Lanka Electricity Act No. 36 of 2024 had been made effective since 27 June 2024 including provisions in order to be vested the activities of the Ceylon Electricity Board at present such as, hydro power generation, thermal power generation and renewable energy generation to 12 limited companies incorporated under Companies Act No. 07 of 2007.

Supporting Electricity Supply Reliability Improvement Project

The total cost on this project for improving the efficiency and reliability of the supply and distribution systems of electricity, amounted to Rs. 24,228 million, and the project had commenced on 29 June 2017 and scheduled to be completed by 30 September

2021. However, the date of completion had been extended up to 31 March 2025. The contract of the project for constructing 285 KM, 33 KV tower lines and 13 Nos of 2 SSBB gantries, under package 04, had been awarded on 30 May 2019. The contract had been scheduled to be completed by 28 October 2021, but due to considerable delays of the constructions, the physical and financial progress remained 65 per cent and 69 per cent respectively even by 31 March 2024. The installation works of 100 MVAr Breaker Switched Capacitor under Lot A1 of the Package 07, had been commenced on 01 August 2019, and scheduled to be completed by 21 January 2021. Nevertheless, the physical and financial progress thereof remained 79 per cent and 88 per cent respectively as at 31 March 2024.

Green Power Development and Energy Efficiency Improvement Investment Programme (Tranche II)

Estimated cost on this project to enhance clean power generation, system efficiency and reliability amounted to Rs. 39,808 million and the project had commenced its activities on 10 July 2017 and scheduled to be completed by 31 December 2021. However, the date of completion had been extended up to 30 June 2024. Furthermore, the last loan extension given by the Asian Development Bank for this project, was up to 30 June 2024. Nevertheless, contract of the physical progress of Package 8 Lot B Augmentation of Ambalangoda 132/33 kV Grid Substation, Augmentatation of Pannala 132/33kV Grid substation and Supply of 2 Spare Transformers of 132/33kV 31.5 MVA and Package 9, 220kV Switching Station at Kerawalapitiya were 76 and 96 as at 31 March 2024 respectively.

LTL Transformers Ltd.

Restrictions to the Audit on LTL Transformers Ltd.

Audits on state companies came under scope of the Auditor General with 19th Amendment to the Constitution. Following the case filed at appellate court by employees' union of the LTL Transformers Ltd and 02 other persons, and the case filed at the appellate court by H. D. Chaminda and 15 other persons with respect to auditing the LTL Holdings Pvt Ltd and its subsidiary companies, an interim order had been obtained on 10 July 2020 against conducting the statutory audits on LTL Holdings Pvt Ltd by the Auditor General. Meanwhile, the said order had been revoked by the court order given on 10 October 2022 , and as such, the audits on the said company would have been conducted under my direction by virtue of the powers vested in the Auditor General through the Constitution. However, having highlighted the interim injunction order of the commercial high court against conducting special general meeting proposed to be held in view of the removal of the Auditor appointed at the annual general meeting of that company, my staff conducting audits on the LTL Holdings Pvt Ltd had been obstructed. Due to the matters mentioned above, carrying out audits on that company could not be done under my direction during the period 2020-2023.

However, following the Cabinet Decision dated 01 January 2024, it had been decided at the meeting of the Board of Directors of the Ceylon Electricity Board held on 01 February 2024 that 28 per cent of the 63 per cent of shares of the LTL Holdings Pvt Ltd owned by the Ceylon Electricity Board to be transferred to West Coast Pvt Ltd in order to settle a part of the balance payable to the latter by the Ceylon Electricity Board. Accordingly, a number of 919,517,200 shares in consideration to the value of Rs. 26.08 billion had been transferred to West Coast Pvt Ltd by the LTL Holdings Pvt Ltd on 07 February 2024.

Lanka Coal Company Pvt Ltd.

Undersupply of Coal

A sum of Rs. 590 million that remained recoverable over 09 years from a foreign coal company, had not been recovered even by the end of the year under review through an arbitration mechanism as agreed by the Lanka Coal Pvt Ltd.

Pension Fund of the Ceylon Electricity Board

Irregularities of the Investments in Treasury Bonds

A sum of Rs. 400.4 million had been invested in Treasury bonds through Entrust Securities PLC in the year 2014, but it was revealed in the year 2015 that there existed no securities relating to this investment in the central deposit system. Nevertheless, a civil case had been filed by the Ceylon Electricity Board against the Entrust Securities PLC after a delay of over 02 years to recover the invested amount together with the coupon interest up to the date of maturity in 2018, but no action whatsoever had been taken against the relevant officers of the Fund for their negligence; instead, they had been allowed to retire from the service of the Ceylon Electricity Board.

Provident Fund of the Ceylon Electricity Board

Amendment of Rules of the Fund without Formal Approval

Subject to the Commissioner of Labor and Commissioner General of Inland Revenue, rules of the Provident Fund or any part thereof shall be, whenever necessary or from time to time, altered, varied, modified, remade or rescined upon a decision of the Board of Directors. Nevertheless, without being approved by the Board of Directors, Commissioner of Labor and Commissioner General of Inland Revenue, and without being published through a Gazette notification on the amendments powers and duties of management committee, rules, authority for investment and granting loans to the members, had been amended by the Fund and acted upon accordingly.

Irregularities of the Investments in Treasury Bonds

A sum of Rs. 2.3 billion from the Provident Fund had been invested in three Treasury bonds through the Entrust Securities PLC during the years 2008 and 2009. But, it was revealed in the year 2015 that there existed no securities relating to this investment in the central deposit system. Nevertheless, no action whatsoever had been taken against the relevant officers of the Fund for their negligence; instead, they had been allowed to retire from the service of the Ceylon Electricity Board.

Public Utilities Commission

Non-payment of Income Tax as per the Inland Revenue Act

The Commission earned investment income liable for tax as per Paragraph 07 of Chapter (II) in Part one of the Inland Revenue Act No. 24 of 2017, but it was observed that tax had not been paid contrary to Paragraph 145 of the Act by presenting tax returns as per Paragraph 126 (I) of the Act. It was observed in accordance with computations of the Audit that the tax payable on the investment income earned during 2017-2023 approximately amounted to Rs.95.61 million. No provision whatsoever had been made in that connection in the financial statements presented to the Audit.

Omission of Petroleum and Water Industries from the Regulation of Commission

Industries in Sri Lanka relating to infrastructure facilities viz. electricity, petroleum, fuel, and water should be regulated in terms of provisions of the Public Utilities Commission of Sri Lanka Act No. 35 of 2002. However, due to failure in amending the Acts relevant to the supervision of Ceylon Petroleum Corporation and National Water Supply and Drainage Board, industries based on petroleum and water could not be brought under regulation of the Commission over a period of 21 years. Although the industries relating to petroleum, lubricants, and water had not been regulated, a sum of Rs. 20.13 million had been paid for the consultants appointed in that connection for the period 2021-2023.

Allowing the Purchase of Electricity from Institutions without Having Licenses of the Commission

Without being permitted by the Public Utilities Commission of Sri Lanka in terms of Section 13 of the Sri Lanka Electricity Act No. 30 of 2009, Ceylon Electricity Board had purchased electricity on short term basis by extending the initial agreement during 2016-2022 from the Ace Power Embilipitiya (Pvt) Ltd, Ace Power Generation Matara (Pvt) Ltd, and Asia Power (pvt) Ltd the agreements of which had expired. Nevertheless, the Public Utilities Commission of Sri Lanka had not taken legal action against those Companies in terms of Section 07 of the said Act.

Ceylon Petroleum Corporation

Local Petroleum Market

The local petroleum market had supplied 3,950 million liters of oil in the year 2023, and more than 91 per cent of that had been supplied by the Ceylon Petroleum Corporation (CPC). The Corporation had spent a sum of Rs. 940,840 million for importing petroleum in the year under review.

Financial results and position of net assets of the Ceylon Petroleum Corporation

According to the financial statements presented to the Audit, the Corporation had earned gross profit of Rs. 162,114 million in the year 2023 indicating an increase of Rs. 122,265 million as compared to the gross profit of Rs. 39,849 million for the year 2022. Furthermore, a net profit of Rs. 120,310 million had been earned in the year 2023, and in comparison with the net loss of Rs. 617,589 million for the year 2022, the net profit of the Corporation had increased by Rs. 737,899 million. This had mainly been attributed by the unfavorable effect of the variation in exchange rates in the preceding year amounting to Rs. 529,477 million had become a favorable effect caused by the variation of exchange rates in the year under review amounting to Rs. 20,340 million indicating an increase of Rs. 549,817 million, and decrease in expenditure on interest relating to foreign debt by Rs. 97,144 million in the year under review as foreign bank loans totaling Rs. 884,093 million had been settled using Government funds in the year 2022.

The following Diagram illustrates the revenue of the Corporation, cost of sales, financial expenditure, and post tax profit for the year under review and 04 preceding years.

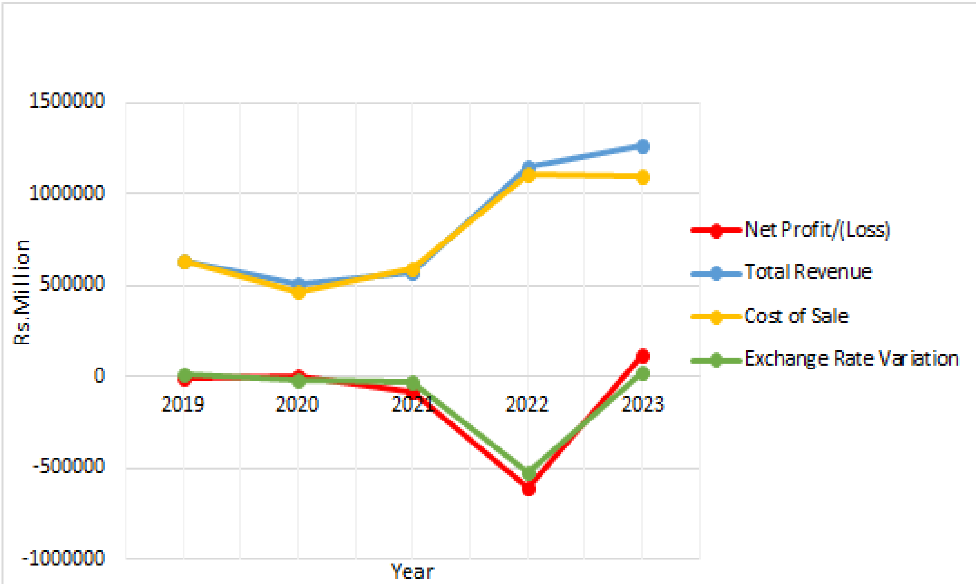

Diagram No: 2.29 Revenue, cost of sales, financial expenditure, and post tax profit of the Corporation for the year 2019 to 2023
Source – Audited financial statements of the Corporation

Loss Sustained by the Country due to Hedging Transactions

According to audit examination conducted on the hedging transactions done by the Corporation on the procurement of oil during the period 2007-2009, the country had sustained a total loss of Rs. 14,028 million up to 31 December 2023. Furthermore, a private bank had filed a case at the commercial high court of Colombo with respect to a right of US $ 8.6 million, and that case was being heard even by the end of the year 2023.

Monthly Utility Charges

Following a Board decision, it had been decided that a monthly utility charge be recovered with effect from 01 January 2014 from Corporation owned and dealer operated fuel stations (CODO) and Treasury owned and dealer operated fuel stations (TODO). Nevertheless, this decision had not been fully implemented, and the monthly utility charge had been recovered only from 11 of the 220 CODO and TODO dealers. As such, the Corporation has still been unable to recover the sum of Rs. 4,848 million that remained due for the Corporation as at 31 December 2023.

Payment of Commission to the Sales Agents Contrary to Decisions of the Board of Directors

In order to avoid the unfavorable effect on the Corporation and distributors due to variation of the commissions paid to the distributors owing to changes in prices of fuel at the local market, the percentage of commissions to be paid had been decided subject to the lower and upper caps as given below as per the Board Decision No. 05/1231 dated 30 July 2019.

	Petrol		Diesel	
	92 Oct	95 Oct	LAD	LSD
Upper Cap	Rs.162	Rs.170	Rs.121	Rs.145
Lower Cap	Rs.117	Rs.128	Rs.95	Rs.110

Table No.2 15 Commissions decided subject to the lower and upper caps

However, having disregarded the said decision of the Board of Directors, the commissions had been paid to the distributors irrespective of maximum price caps. Accordingly, the sum of Rs. 14,874 million overpaid as commission to sales agents in the year under review had been shown under expenditure on sales distribution and the total overpaid commission to the sales agents amounted to Rs. 31,021 million as at 30 April 2024.

Failure to Enter into Agreement with Lanka Indian Oil Company relating to Common User Facilities

The agreement relating to shareholders of common user facilities entered into with the Government of Sri Lanka, the Corporation and Lanka Indian Oil Company on 30 December 2003, had expired on 31 December 2008. However, that agreement had not either been renewed or revised under consent of all the relevant parties. However, the Corporation had entered into an agreement with the Ceylon Petroleum Storage Terminals Ltd (CPSTL) on 13 May 2019 without considering the LIOC as a stakeholder. As such, the risk of unfavorable effect likely to arise, had the terms and conditions of the agreement entered into between the Corporation and Ceylon Petroleum Storage Terminals Ltd (CPSTL) been refused by the LIOC, could not be ruled out in audit.

Failure to Update the SAP Software

The initial version of SAP ERP software (SAP ECC 6.0) introduced by the Corporation in the year 2005 has been in use without undergoing any update since 01 April 2010. No action has been taken thus far for the expeditious update of SAP software. It is observed that a breakdown in this system may cripple the fuel supply of the entire country.

Trinco Petroleum Terminal (Pvt) Ltd

Development of Trincomalee Oil Tank Farm

According to the quadripartite agreement signed on 06 January 2022 between the Government of Sri Lanka, CPC, LIOC, and TPTL in order to take custody of, develop and use of the Trincomalee oil tank farm for the 50 ensuing years, the TPTL had been authorized to conduct businesses fully agreed between the CPC and LIOC such as storage of petroleum and related products or other products, and export of stored products. Accordingly, a strategic plan had been prepared to develop the Trincomalee oil tank farm to conduct such businesses, but due to lack of a secure source for financing the project, the development works had not been conducted as planned. Furthermore, an agreement had not been entered into formally with the CPC, LIOC and other related parties about the use of common user facilities such as jetties, pipelines and other affiliated services of the oil tank farm.

Sri Lanka Sustainable Energy Authority

Failure in taking action to Develop the Renewable Energy Projects

Directives had not been made and approval of Parliament had not been obtained in terms of Section 67 of the Act to execute the Sustainable Energy Guarantee Fund established as per Section 47 of the Sri Lanka Sustainable Energy Authority Act No. 35 of 2007 for the purpose of providing guarantees on behalf of investors who apply for loans to carry on any project relating to energy efficiency. Hence, the Fund with a balance of Rs. 152.5 million as at the end of the year under review, had not been used for the intended purpose. Furthermore, none of the activities to be executed by the Sri Lanka Sustainable Energy Authority under Section 46 (3) of the Act, such as, payment of subsidies to selected renewable energy based energy conversion plans; payment of subsidies for promoting the use of energy efficient appliances and technologies; payment of capital subsidy for fuel switching including industrial thermal applications; and, payment of incentives or other similar financial assistance to any society or community based organization to encourage the adoption of energy conservation measures and for the development of rural energy services in all areas of the country, had not been carried out by the end of the year under review.

Failure to Prepare a Renewable Energy Resource Development Plan

According to Section 08 of the Act, a renewable energy resource development plan should be prepared based on the potential of renewable energy in each area and published in the Gazette upon being approved by the Cabinet. However, such a plan had not been published in the Gazette even by July 2024 although the Authority had been established 16 years ago. Furthermore, a royalty can be charged annually on the renewable energy projects under the central grid in terms of Section 19 (1) of the Act, but no regulations had been made in that connection to charge fees.

Failure to Take Action to Develop the Renewable Energy Projects

None of the activities under 03 works relating to the development of renewable energy projects including the development of 90 battery charging centers for electric vehicles in view of promoting electric vehicles and vehicles of higher efficiency, had been carried out by the Authority. Furthermore, progress of 24 other projects remained as low as 10-54 per cent.

Failure to Promote Off Grid Renewable Energy Projects

As a solution to the inadequacy of available grid capacity of the Ceylon Electricity Board, off grid renewable energy projects should be encouraged and promoted in terms of Section 5(c) of the Act. However, the Authority had not taken action in that connection. As such, energy licenses could not be issued even up to July 2024 on any off -grid renewable energy project in terms of Section 25 (a).

Sri Lanka Atomic Energy Regulatory Council

Failure to Conduct Tests to Detect Radioactive Substances in the Imported Consumables

Section 12 (n) of the Sri Lanka Atomic Energy Act No. 40 of 2014 requires to inspect any articles or commodities imported into Sri Lanka and which are available locally; to take samples for the purpose of testing of radioactivity and where the Council deems it necessary and appropriate; and to publish results of such test for the information of the general public. However, except for the imported milk powder, the Council had not conducted random tests on other imported consumables likely to have contained radioactive substances.

Sri Lanka Atomic Energy Board

Construction of the Multipurpose Gamma Irradiation Facility

Having established the Multipurpose Gamma Irradiation Facility in 2014 at a cost of 670 Million, it was expected to earn a large amount of foreign exchange by exporting local fish, dried fish, vegetables and fruits to foreign countries in accordance with international standards thus making Sri Lanka a global food center in the future. Nevertheless, a relevant strategic plan in that connection had not been put in place by the Board up to 31 December 2023. As such, the local food manufacturers and exporters had not shown interest to sterilize the said food items using this technology.

Ceylon Petroleum Storage Terminal Limited

Failure to Complete the Construction of New Pump House at Kolonnawa Installation

Construction of a new pump house had been commenced by the Company in the year 2018 at Zone 06 of the Kolonnawa installation. Instead of constructing the pump house under a single package, the work had been divided into 05 separate constructions. Those 05 constructions viz. construction of building, construction of pipeline holders, installation of electrical fittings, development of yard, and making a simplex basket filter, had been assigned to 05 independent contractors by the Company. During the years 2019 and 2020, construction works of the pump house building, installation of electrical fittings, and development works of the yard, had been completed. Nevertheless, it was observed that construction of pipeline holders had not been completed even by the end of the year under review, and as a result, the pump house was not suitable for use as expected. The expenditure incurred thereon up to the end of the year under review amounted to Rs. 97 million.

Destruction of a Mooring Hawser ue to Insecure Storage

At a cost of Euros 44,911 , the Company had imported 02 Mooring Hawsers with thimbles, and those items had been delivered to the Company on 27 October 2022. Due to being stored insecurely in an outdoor store at the oil facility division of the Company on 16 or 17 November 2023, an unused Mooring Hawser valued at Rs. 13 million had been irreversibly damaged.

Failure to Renew Lease Agreements on Lands

Sri Lanka Railways department owns the land rights of 09 sub-depots of the Company, and the company uses these lands on lease basis. The lease agreement entered into with Sri Lanka Railways for the use of those lands, had expired on 31 December 2013. Nevertheless, it was observed that the Company was still using those lands without renewing the agreement or entering into a new agreement.

Petroleum Development Authority of Sri Lanka

Failure in Preparing the Operational Manual

According to Section 2.3 of the Operational Manual issued along with the Public Enterprises Circular, No. 01/2021 dated 16 November 2021, operational manuals on key operational activities and administrative & financial operations of the institution and how such operations are carried out, should be prepared, approval of the Board of Directors should be obtained, reviewed and updated from time to time. However, the Company had not act accordingly.

Litro Gas Lanka Ltd.

Demand for Liquid Petroleum Gas of Sri Lanka and Importing LPG

Approximately 1,000 Metric Tons of LPG is consumed daily in Sri Lanka, whilst the monthly requirement is 25,000-30,000 Metric Tons per month. According to annual report of the Litro Gas Ltd for the year 2023, the annual requirement was identified to be 330,000 Metric Tons comprising 12 per cent therefrom on bulk and industrial requirements, 06 per cent on commercial requirements, and 82 per cent on domestic requirements. To meet this demand, less than 05 per cent of the requirement of gas is obtained by Litro Gas Ltd from the Ceylon Petroleum Corporation whereas the rest of the 95 per cent is imported at a price to which amount in agreements mentioned below is added, based on world market price in each month (on Saudi contract price). The following Table illustrates the prices of imports made under term contracts during 2010-2023. Additionally, spot contracts had also been awarded.

Import prices of LPG,for the years 2010-2023

Year	Supplier	Agreed Price per 01 MT (US $)	Percentage of Price Variation
2010	Oman Trading International Ltd	82.00	
2011	Oman Trading International Ltd	86.50	5%
2012	Oman Trading International Ltd	126.00	46%
2013	Oman Trading International Ltd	135.00	7%
2014	Oman Trading International Ltd	140.00	4%
2015	Oman Trading International Ltd	105.75	-24%
2016	Shell International Trading Company	58.01	-45%
2017	Shell International Trading Company	47.50	-18%
2018	Shell International Trading Company	47.50	0%
2019	Oman Trading International Ltd	68.00	43%
2020/2022	Oman Trading International Ltd	105.40	55%
2022	Oman Trading International Ltd	118.16	12%
2023	Oman Trading International Ltd	118.68	0.4%

Table No:2.16 Import prices of LPG,for the years 2010-2023

Accordingly, gas had been purchased only from 02 companies under term contract during that period. The term contract for the supply of gas had been awarded to the same supplier over a period of 10 years during the 13 preceding years. The above Table illustrates the pries of those 02 companies and changes in prices as compared to the preceding year.

Litro Gas Ltd fulfills 90 per cent of the demand through the import market as described above whereas the rest is obtained from the Ceylon Petroleum Corporation as mentioned in the above Paragraph. Gas produced by Ceylon Petroleum Corporation by refining crude oil had been obtained in stocks, and the Company had obtained those stocks at a price equivalent to the world market price to which a transport fee of US $ 100 is added (per Metric Ton). Particulars of gas purchased from Ceylon Petroleum Corporation by the Litro Gas Lanka Ltd during 12 preceding years, are given in the following Table.

Purchase of Gas from the Ceylon Petroleum Corporation, 2011-2023	
Year	Amount (Metric Tons)
2011	14,479.72
2012	11,766.27
2013	16,264.53
2014	20,281.79
2015	6,498.35
2016	6,503.99
2017	16,704.44
2018	15,943.81
2019	18,866.32
2020	20,042.49
2021	10,845.05
2022	3,551.5
2023	19,421.21

Table No: 2.17 Purchase of Gas from the Ceylon Petroleum Corporation, 2011-2023

Limited Storage Facilities for Liquid Petroleum Gas.

The storage complex in Kerawalapitya owned by Litro Gas Lanka Ltd is capable of storing 8,000 Metric Tons of gas whilst the storage complex in Mabima is capable of storing 400 Metric Tons of gas. Liquid petroleum gas (LPG) purchased from the Ceylon Petroleum Corporation is stored in Mabima storage complex, and the gas, so stored, is issued for the industrial sector. Accordingly, considering the storage capacity of 8,400 Metric Tons, gas adequate only for 8.4 days of consumption in Sri Lanka can be stored.

The buoy facility of the Company in Kerawalapitya (CBM facility) can facilitate only the vessels of small storage facilities in capacities of 3,500-5,000 Metric Tons. However, at present day, large scale vessels in the capacities of 20,000-100,000 Metric Tons are used for transporting gas internationally. Owing to the limited CBM facility of the Company, the possibility to obtain gas at lower prices has become limited. Due to lack of use of small scale vessels in transporting gas which can be facilitated by the existing buoy facility at present, the Company incurs higher costs. As for the import of gas to Sri Lanka, the maximum capacity of a vessel that could be brought at a time was about 4,000 metric tons of gas due to limited unloading facilities.

Tourism

Many Asian countries are engaged in the tourism industry as a major source of foreign exchange earnings and have given priority to the establishment and improvement of the necessary infrastructure and promotion of tourism to develop the tourism industry. Although Sri Lanka is a country that attracts more tourists than many countries in the region, the tourism industry has suffered a major setback due to the lack of improvement of the infrastructure required for the development of the tourism industry and the lack of development of the basic facilities required by the tourists.

The following institutions should have performed the following roles for the development and improvement of the tourism industry in the country.

1. Tourism Division of the Ministry of Tourism and Lands
2. Department of National Botanic Gardens
3. Sri Lanka Tourism Promotion Bureau
4. Sri Lanka Tourism Development Authority
5. Sri Lanka Institute of Tourism and Hotel Management
6. Sri Lanka Convention Bureau

Role

To develop the tourism industry in accordance with the national policy and promote high standards by raising the image of Sri Lanka.

Registration and regulation of travel agencies and operators in the tourism industry.

Promoting Sri Lanka as a unique tourist island among local and foreign tourists by highlighting Sri Lanka's biodiversity, proud historical heritage, environment, climate diversity, coastal resources etc.

To promote internationally recognized centres, hotel facilities, air and cruise facilities related to providing resorts and conference, exhibition and entertainment facilities for tourists.

Providing necessary facilities to encourage persons involved in tourism and related entrepreneurs.

To ensure the safety of tourists.

Utilization of allocation received by the Tourism Division and Department of National Botanic Gardens.

An allocation totaling to Rs.1,148 million had been given by the Parliament in the year 2023 to Tourism Division and Department of Botanic Gardens of the Ministry of Tourism and Lands to fulfill the above-mentioned role. Only a sum of Rs.991 million, out of that, had been utilized by the end of the year under review. Accordingly, a sum of Rs. 157 million had not been utilized. The details are mentioned in the figure 2.30

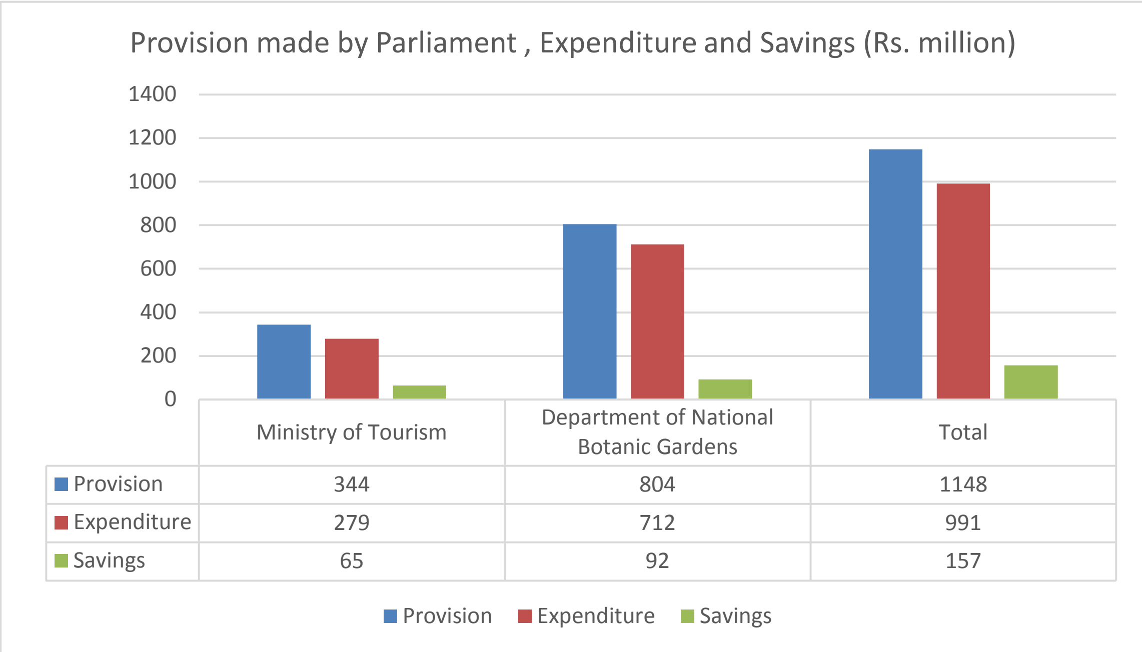

Diagram 2.30 - Provision made by Parliament, Expenditure and Balance
Source - Annual Financial Statements

Income generation, Utilization of statutory Bodies and Contributions made to the government

Income generation by statutory bodies, utilization and contributions made to the Government Embarkation Levy and Tourism Development Levy collected for the Tourism Development Fund established under Chapter III of the Tourism Act No. 38 of 2005 are disbursed to the following organizations for the promotion of Sri Lanka as a tourism and travel destination and for the related activities. The following are the details of the total revenue including the revenue so disbursed, the expenditure during the year and the remittances made to the General Treasury as contribution to the Government in the year 2023.

Institution/Fund	Income Earned (Rs. Million)	Contribution Made to Government in 2023 (Rs. Million)	Total Expenditure (Rs. Million)
Sri Lanka Tourism Development Authority	1,519	75	768
Sri Lanka Tourism Promotion Bureau	5,956	500	1,964
Sri Lanka Institute of Tourism and Hotel Management	1,032	100	615
Sri Lanka Convention Bureau	326	20	270
Sri Lanka Tourism Development Fund	5,923	19	5,904
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Total	14,756	714	9,540

Table 2.18 : Income Earned, Total Expenditure and Contribution Made to Government

Tourist Arrivals and Changes in Income

In the year 2022, 719,978 foreign tourists had come to Sri Lanka and in the year 2023, the amount had increased by 107 percent and 1,487,303 foreign tourists had arrived in Sri Lanka. Reasons for this situation were the gradual recovery of the country, which had been shut down from time to time due to the Covid epidemic, and stabilization of the political and economic instability in the country up to a certain extent. The restrictions on the functions and tasks of the Ministry of Tourism and the other institutions operating under it were removed owing to the increase in the arrival of these tourists. The tourist arrivals of the year under review compared with the previous five years are indicated in the figure 2.31

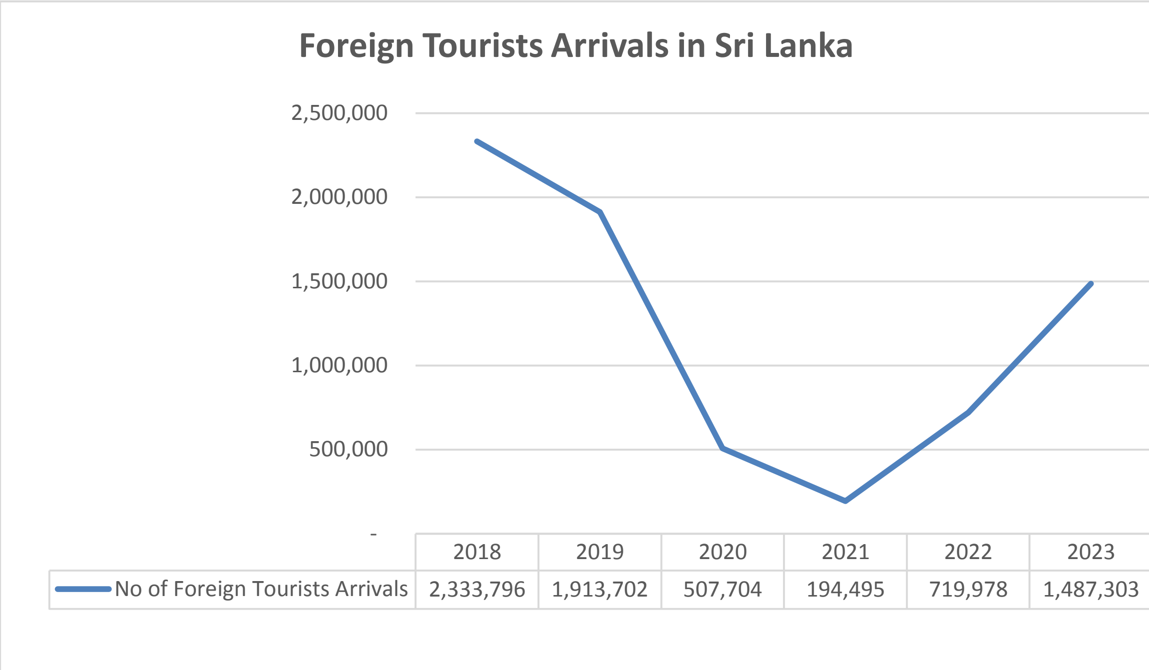


Diagram 2.31 No of foreign Tourists Arrivals
Source - Sri Lanka Tourism Development Authority

An income of Rs.711,961 million equivalents to USD 4,380.6 million was collected from the tourism in the year 2018, and in the year 2021 it had decreased to Rs.100,620 million equivalents to USD 506.9 million. In the year 2023, that income had increased again to Rs.677,360 million which was equivalent to USD 2,068 million.

Diagram 2.32 Collected Revenue from Tourism Industry
Source - Sri Lanka Tourism Development Authority

Audit Observations

Tourism Division of the Ministry of Tourism and Lands

Purchase of 02 vehicles of the type Land Rover Discovery

Although it had been approved by the Cabinet Decision bearing No. 230927/615/036 dated 13 June 2023 to take disciplinary action or legal action against the officers involved in the purchase of two jeeps by violating the general policy of purchasing vehicles for government institutions and in contrary to the procurement process, action had not been taken accordingly. Furthermore, it was observed that these vehicles were registered by the Ministry of Tourism Development and Christian Religious Affairs as the second owner and the first ownership was held by two persons and had been imported under government duty concessions.

Improvement of Nanu Oya Railway Station

A tripartite agreement had been entered into among the parties to modernize the Nanu Oya railway station as a railway heritage by preserving the archaeological identity at a total cost estimate of Rs.74.63 million for carrying out the constructions by the Central Engineering Consultancy Bureau (CECB) under the supervision of the Sri Lanka Railway Department under the provision of the Ministry of Tourism. Accordingly, although the project was implemented to complete the modernization work within 9 months after starting the works on 27 October 2021, it was not possible to use the budget allocation for the year 2021 and the necessary provision for this project were not allocated in the year 2022. Even though one year and 8 months had passed beyond the date of completion of the project by 20 March 2024, the project had not been completed. Although the Sri Lanka Tourism Development Authority had agreed to spend 16 percent of the total estimated amount and the Sri Lanka Tourism Promotion Bureau had agreed to spend 84 percent of the total estimated amount at the discussion held among the Sri Lanka Tourism Development Authority, Sri Lanka Tourism Promotion Bureau and the Ministry on 16 May 2023, the Ministry had failed to complete the work of the project.

Sri Lanka Tourism Promotion Bureau

Provision of Foreign Currency Advances to Foreign Missions

The Sri Lanka Tourism Promotion Bureau had not received the relevant balance confirmations for the balance of the foreign currency advances sent to foreign missions amounting to Rs.46 million as at the closing date of the year under review.

Sri Lanka Tourism Development Authority

Non-commencement of the operational activities of the leased out lands

Although the Sri Lanka Tourism Development Authority had leased out lands in the Yala Palatupana Tourism Development Zone comprised of 35 acres of land to 5 companies in the year 2014 and 16.8 acres of lands to another 2 companies in the years of 2019 and 2020, only 2 companies had initiated operations by the closing date of the year under review. Even though only 49 acres of land had been leased out to 3 companies, out of the 510.086 acres of lands transferred in Kutchveli in the years of 2011 and 2014 for tourism development projects, only one, of those 3 companies, was engaged in operations. Although the Authority had received 2055.87 acres of land in 12 islands of Kalpitiya as free grants for tourism activities in the years of 2010 and 2012, only 206.58 acres of land belonging to 05 islands, out of those 12 islands, were leased out to 03 companies in 2010, 2011 and 2020. However, none of these companies had commenced operations by the end of the year under review. Furthermore, the lease amount of Rs.92.96 million remained outstanding to the Authority from seven lessees related to 10 leased out islands in Kalpitiya by 29 April 2024.

Leasing of Rest Houses

Nine (09) Rest Houses, out of the 37 Rest Houses owned by the Sri Lanka Tourism Development Authority, have not been leased out for a period of two to eight years. Therefore, the said property had remained idle. The arrears of rent to be recovered from 34 Rest Houses as at 31 December of the year under review had been Rs.30 million, and the arrears of rent older for more than 4 years had been Rs.10 million or 34 percent.

Bibila Rest Houses had been abandoned for more than 17 years due to not taking any measures in relation to the encroachment and security of the premises. After a procurement process, an agreement had been entered in to with the selected lessee on 02 November 2016. However, the Authority had lost the total rental income of Rs. 10 million that could have been collected from the lessee from 02 November 2016 to 31 December 2023 as there was no adequate security.

Incurring Continuous Losses by the National Holiday Resorts

The 05 National Resorts owned by the Authority had incurred losses amounting to Rs.50.1 million and Rs.51.3 million for the year under review and the preceding year respectively. However, adequate attention had not been paid to minimize the losses in those resorts.

Delay in preparing Master Plans for Tourism Development Zones

The Tourism Development Authority and the Urban Development Authority (UDA) had entered into a

Memorandum of Understanding (MOU) on 13 February 2019 to design Master Plans of 07 Tourism Development Zones at a total cost of Rs.39 million within 18 months as per Cabinet Decision No: AMP/18/1073/806/002 dated 06 June 2018. However, only two master plans had been prepared for Ella and Arugam Bay for the periods 2020-2030 and 2021-2030 respectively as at 31 December 2023. An amount of Rs.18.4 million was paid to the Urban Development Authority for preparing 05 plans. Furthermore, no specific time limit has been set in the above plans in relation to the activities and goals, and an inter-ministerial committee had not been appointed for this purpose. In those tourist areas, infrastructure development and proper maintenance of existing facilities had not been carried out for a longer period.

Lack of Effectiveness in the Acquisition of land

Although Rs.173 million was paid for the acquisition of land for the tourism development project in Dedduwa area and the process was completed by the year 2017, the tourism development projects had not been started at the end of the year under review.

Although the Authority had paid an amount of Rs.61 million in the year 2019, the ownership of a land in Mannar had not been transferred until to date.

Sri Lanka Institute of Tourism and Hotel Management

Not taking action to meet the higher demand For hotel school

Although the number of applications received for various courses under Hotel School for the year under review had been 11,788, there had been 5,912 applicants or 50 percent of the applicants registered for the courses. The audit observed that this situation was mainly due to lack of space for classrooms. However, the management of the company had not worked to identify and implement a solution to meet the high demand. Further, arrangements had not been made to establish hostel facilities for hotel school branches operated in rural areas.

Not effectively maintaining Samudra Hotel and Restaurant

Samudra Training Hotel is located jointly with Colombo Hotel School and it is used for providing practical training for the students. Moreover, Samudra operates as a business establishment through restaurant, rooms, auditorium etc. The following deficiencies were observed regarding the operation of the Samudra Training Hotel.

A marketing plan for Samudra Hotel was not developed and implemented and the facilities and comfort of the rooms were not in a satisfactory level.

For the year 2023, the number of room nights (Room Nights) was 494, i.e. only 11 percent of the total of 4,380 Room Nights had been used.

The debtor balance of Samudra Hotel had been Rs.26 million as at 31 December 2023 and the loan balance had not been recovered for more than 24 months.

A sum of Rs.6 million had been spent for rehabilitation of Samudra Restaurant during the year under review without proper cost benefit analysis and Samudra Restaurant had not been commenced even by 31 July 2024 as planned.

Department of National Botanic Gardens

Not obtaining the Land Title Certificates

According to Section 224 of the State Lands Ordinance No. 08 of 1947, the process of obtaining the title certificates for the lands with an area of 362.3744 hectares belonging to 05 parks had not been completed even by the closing date of the year under review.

Inactive Assets

Even though a supplier had been paid a sum of Rs.6.5 million to install 02 LED hoardings near the entrance and exit gates of Hakgala Botanical Garden, the 02 LED hoardings remained inactive from the date they were installed.

Payment for Bills when works were not completed

The construction of a ferro-cement tank for meeting the water needs of the Peradeniya Royal Botanical Garden was contracted to a contractor institution on 19 August 2021 for Rs.5.61 million. Although the work was scheduled to be completed on 15 November 2021, the said contract was not completed and handed over until the closing date of the year 2023. Under the

	circumstances, a total of Rs.5.86 million was paid to the contractor on 05 occasions as at 31 December 2023. Even though the works of 27 and 29 to 41 mentioned in these payment bills were not completed, the bills were wrongly prepared indicating that the works were completed and recommended, and Rs.2.15 million was paid for them.
Idle stalls	Nine (09) stalls which were built in the Mirijjawila dry zone botanical garden in the year 2013, and of which the value could not be recognized, remained idle for 10 years.

Lands

The expected result from the Ministry of Lands was the formulation and coordination of policies for all stakeholders by achieving optimal utilization of land resources for sustainable development. Accordingly, the objectives were to ensure the security of government lands, provide land for development projects and essential functions, and confirm ownership of all lands in the country.

Audit observations

Ministry of Tourism and Lands

Additional Interest expenses on late payment of compensation

A sum of Rs. 147.91 million as acquisition compensation and Rs. 67.30 million as additional interest due to late payment were paid for 06 files, out of 11 files examined according to the audit test check carried out in connection with land acquisition by the end of the year 2023. It was observed that the process of acquiring state lands had taken almost 10 years and due to the time taken for the process, interest had become a huge expense in addition to the compensation. Details are given below.

	Details of acquired land	Date of Commencement	Date of Completion	Value of compensation paid	Additional interest value
				Rs.	Rs.
(i)	Acquisition of Aparukkawatta and Mahabotuwatta under village expansion	2018.01.08	2022.02.23	43,700,100	12,616,658
(ii)	Land acquisition for Knuckles region	2010.03.17	2013.11.21	31,770,300	14,955,327
(iii)	Acquisition of lands for Weerambugedara Police Station	2019.01.11	-	12,564,000	Not Calculated
(iv)	Acquisition of a land for Ministry of Education	2010.02.15	2020.06.23	40,140,000	30,320,821
(v)	Acquisition of a land for the new police station in Padiyathalawa	2015.12.15	2022.10.27	18,484,750	8,884,412
(vi)	Acquisition of plots A,C,F and J for Nivitigala Divisional Secretariat.	2017.01.19	2023.01.04	1,255,000	523,630
	Total			**147,914,150**	**67,300,848**

Table 2.19 : Delay in acquisition of the land

Land Commissioner General's Department

Not collecting Taxes on accurate assessments

Taxes should be accurately calculated and charged based on the assessment taken in relation to the second tax period up to 16 November 2020 as approved by the Cabinet of Ministers from the date of commencement of the second tax period in the tax calculation under the provision of tax concessions for long-term lessees in accordance with the Circular of the Land Commissioner General bearing No. 2020/ 06 (1) dated 01 February 2021 and the related Cabinet decision. However, in contrary to that, the manner of charging taxes related to 08 tax files in the limits of the Divisional Secretary's Division of Nuwaragam Palatha East of Anuradhapura District had been informed by the letter of the Land Commissioner General bearing No. 4/10/General/Tax Concession (L2) dated 10 November 2022, which had addressed the Divisional Secretary of Nuwaragam Palatha East of Anuradhapura, and as a result, the government had lost a tax amount of Rs. 70.52 million. It was also observed that due to this, there was a risk of discouraging the remaining 74 tax payers of the respective Divisional Secretary's Division in the payment of taxes.

Land Reform Commission

The function of the Land Reform Commission is to support national development by managing the land and physical resources assigned under the Land Reforms Act for the prosperity of the people and the land, and maintaining a land reserve for the betterment of the future generations.

Provision of Lands under Problematic interpretations

According to Section 44(l) of the Land Reform Act No. 1 of 1972, the Commission shall establish a provident fund and provide welfare and recreational sports facilities and housing and hostels and other space for the persons employed by the Commission. Based on that, the Commission had given 20 perches at the rate of Rs. 1,000 per one perch for an employee with 5 years of continuous service in the Commission. Accordingly, lands in extent of 49 acres and 35.64 perches had been given to 396 officers from the year 2009 to the year under review.

Survey Department

Not altering Standards with the moderntechnological advancements

Surveyors carry out various types of surveys and the monthly target for the surveys carried out on statutory reasons by layering boundary stones, out of those surveys, are 20 plots of land and 30 land parcels. Thus, the norms established in that manner before16 years had not been reviewed to be appropriate to the Present with the technological advancement of surveying techniques and equipment. Even though the provision of quality land information products and services had not been updated according to the vision and mission of the Department, the Department had spent more than a sum of Rs.207 million for the purchase of modern measuring equipment under the purchase of machines and machinery in the financial statements from the year 2018 to 2021.

Unfulfilled Survey Requests

Survey requests not completed as at 31 December 2023 had been 33,337 or 26 percent, out of 129,270, the total number of survey requests received under 08 types of survey. Among those survey requests, there were 8,688 survey requests that had been made over 4 years, and 3,834 survey requests that had been made between 3 and 4 years, and 4,712 survey requests that had been made between 2 and 3 years, and 6,276 survey requests that had been made between 1 and 2 years.

Underutilized training Institute

The training institute established to conduct various courses on surveying and mapping, has been set up with huge physical resources in a 61-acre land consisting of 121 different building elements. However, it was observed that only one small undergraduate batch with 22 students is engaged in studies for the 4-year course from 2022 to 2026. It was also observed that when recruitments for apprentice surveyors were not made, there were no students for the degree course.

Land Use Policy Planning Department

Formulation of the national Land use policy

The approval of the Cabinet of Ministers had granted in August 2018 to revise the National Land Use Policy approved by the Cabinet of Ministers. Accordingly, although the final draft prepared for the formulation of the National Land Use Policy for Sri Lanka, which had been a major function, and its revision according to the current needs had been submitted to the Ministry of Land and

Tourism, the preparation of the land use policy had not been completed.

Land Survey Council

Inquiring Public Complaints

In accordance with the Survey Act No. 17 of 2002, the Land Survey Council was established with the aim of ensuring that the profession of Surveying and its practices are well regulated and that those entering the profession receive education and training commensurate with the modern technological demands and ethical standards expected of the profession, so that practitioners maintain highest standards of professional conduct. Even though the complaints submitted to the Council by the public regarding the professional misconduct of surveyors should be investigated, 149 complaints, out of 212 complaints including 134 complaints received before the year 2023 and 78 complaints received in the year 2023, had not been resolved by the end of the year under review.

Housing and Urban Development

The Ministry of Urban Development and Housing and Departments and Statutory Boards/Institutions under its purview should have performed the following functions and tasks.

Major Functions	Planning and development of metropolis and suburbs
	Systematic promotion and regulation of integrated economic, social and physical development of urban areas.
	Construction and development of housing complexes for shanty dwellers and low income groups and implementation of new housing projects and provision of credit facilities to resolve housing problems of middle class families.
	Introducing storied housing schemes on reasonable rental basis for those seeking temporary residency on rent basis.
	Incentivizing investors to launch new housing projects by providing lands at concessionary prices to housing construction companies, and construction and development of housing complexes, provision of land for housing projects, provision of housing finance and urban solid waste management.
	Adopting measures to prevent the disposal of waste in an irresponsible manner.
	Ensuring that all urban construction projects provide for vehicle parks and access facilities for disabled persons
	Directing and regulating all construction activities to be based on national physical plans to ensure integrated urban development and Preparation and regulation of National Physical Plans and Regional Physical Plans.
	Condominium property management and regulatory activities and public condominium reforms and transferring ownership of houses efficiently and speedily
	Matters relating to reclamation and development of low lying areas, and providing necessary guidance for the development of underserved areas and marshy lands in urban areas based on a common plan.
	Establishing standards and norms for government quarters and other buildings.
	Providing guidance to rural communities on environmental friendly and cost effective techniques for housing construction.

Providing mechanical engineering services to government institutions, and regulation, registration, regularization and standardization of activities in the construction sector in line with relevant rules and regulations and standards.

Providing consultancy and regulatory services for the construction industries, and strengthen local construction personnel and developing building material industry.

Provide training on heavy concoction equipment operation and maintenance.

Strengthening and safeguarding local small and medium scale subcontractors.

Perpetration and implementation of an action plan for the prevention of marine and marine related pollution and coast conservation and protection.

Implementing ocean cleanliness programmes for the prevention of damage caused to the coastal bed and sea bed by the disposal of waste.

Creating of new villages and township aimed at developing housing and infrastructure for landless employed in government and privately owned plantation companies.

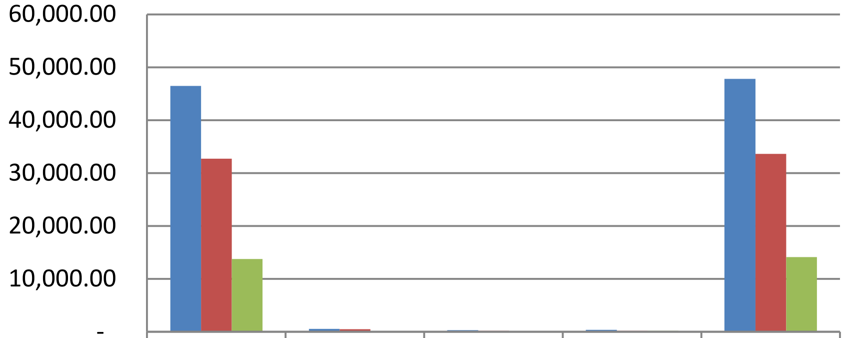
Adopting necessary measures for the provision of basic facilities, livelihood generation and community development projects including other requirements for empowerment of plantation community economically, socially and culturally, and development of basic infrastructure in rural estate sector.

Establishing "People-Centric Boards and People-Centric Centers" giving pride of place to estate sector related community leadership and community participation.

Implement a special program to ensure primary education and healthcare for children in estate communities.

In the year 2023, the Ministry of Urban Development and Housing and 03 departments had been allocated provision amounting to Rs. 47,783.4 million by the Parliament and provision amounting to Rs. 33,642.6 million, out of that, had been utilized by the end of the year under review, and Rs. 14,140.8 million had not been utilized.

The details are indicated in the diagram below.



	Ministry of Urban Development and Housing	Building department	Department of Government Factory	Dept. of National Physical planning	Total
Net Provision	46,484.50	558.80	341.90	398.20	47,783.40
Expenditure	32,699.10	534.90	228.10	180.50	33,642.60
Saving	13,785.40	23.90	113.80	217.70	14,140.80

Figure: Provision allocated and actual cost

Source: 2023 Annual Financial Statements

Material and significant audit observations revealed during the audit test check conducted on the performance of the above functions and tasks are summarized below.

Audit observations

Ministry of Urban Development and Housing

Holuvagoda Agro-Environmental Park project

The Ministry had entered into an agreement with the Land Development Corporation to develop the Eco Agro Park project of Holuwagoda at a cost of Rs. 341.96 million, by adding a role under the purview of the Ministry of Plantation Industries and Export Agriculture on a Cabinet decision in the year 2022. A sum of Rs. 450.56 million, i.e. 131 percent of the contracted amount had been spent for the project by 31 December 2023. The need for spending money for a work that does not belong to the scope of the ministry in this manner was controversial during the audit.

Aruwakkalu Sanitary Landfill Project

The Aruwakkalu Sanitary Landfill Project with an estimated cost of Rs.19,127 million was started on 01 January 2018, and implemented under 04 packages and planned to be completed by 30 June 2019. The construction work of the 03 packages of the project, namely the construction of the garbage transfer centre, sanitary landfill and extension of railway lines, had been assigned to a Chinese company. However, the construction work had not been completed even by the end of the year 2023. 04 sets of locomotives were imported by 31 December 2019 at a cost of Rs.8.27 million and 03 years had passed since the purchase of the locomotives, and 94 container boxes were imported on 22 April 2022 by spending USD 0.8 million and they were stored under the package of purchasing the required machinery. Although an agreement had been signed on 21 October 2019 to import 34 railway wagons from an Indian company at a value of USD 2.3 million, the agreement was cancelled as the relevant organization had not submitted the structural conceptual plan as per the agreement. Therefore, it was not possible to procure railway wagons even by the end of the year under review. A sum of Rs.24,016 million had been spent on this project as at 31 December 2023 and the physical progress was stated as 92 percent according to the progress reports. Although it was planned to complete the work by the end of the year under review and start the operation of this project on the basis of public-private partnership, it could not be implemented until 31 August 2024.

Reconstruction of Jaffna Municipal Council Building

A private construction company was selected for the reconstruction of the Jaffna Municipal Council building at a contract value of Rs.2,142.48 million on the approval of the Cabinet of Ministers in the year 2019. The project was started on 10 October 2019 and 04 extensions of 1125 days had been granted till 09 October 2024. However, its physical progress was only 66 percent even by 31 December 2023, and the financial performance was Rs. 1,636.15 million, according to the progress reports of the Ministry. Furthermore, action had been taken to increase the contract value to Rs. to 3,769 million by Rs. 1,627 million.

Construction of the Panadura Public Market

complex

The contract for the construction of a two-storied building for the Panadura Public Market complex with 258 stalls was awarded to a contractor, who had been rejected during the preliminary examination of bidders' qualifications, for Rs. 385 million (without VAT) on 23 September 2021 and contract was to be completed on 24 March 2023. However, even though it was approved to extend the date for 297 days until 15 January 2024 due to the non-completion of the work on that date, the construction work could not be completed even during that period.

A House for Village – Future for Country Project

It was proposed to construct 14,022 housing units for low-income families under the "A House for Village - Future for Country project" with Treasury allocation of Rs.8,413 million through the Housing Development Authority. Although the construction work of this project should be completed by December 2022, only 7,744 housing units had been built and obtained a progress of 79 percent by incurring Rs. 7,744.95 million by 31 December 2023, and the construction of 75 housing units had been suspended.

Siyapatha Housing and Construction of the Hostel of Sri Lanka Police Academy

A sum of Rs. 110.66 million had been spent for the project of constructing 40 housing units in Marandagahamula (Siyapatha) implemented by the Housing and Construction Division of the Ministry and a sum of Rs. 132.8 million had been spent for the project of constructing the hostel of Katana Police Academy. The physical progress of those projects was only 35 percent and 31 percent respectively, and the expenditure of Rs. 243.46 million incurred by the Ministry had become idle due to the suspension of the activities of the projects in the year 2023.

Middle Income Housing Project

Construction activities of 12 housing projects had been started in the years of 2020 and 2021 with the contribution of the middle income earners in Sri Lanka under the Middle Income Housing Project. Although a sum of Rs. 11,353.15 million had been spent as at 31 December 2023 on 09 housing projects, with 2939 housing units, out of that, the construction work under these projects had not been implemented after 31 December 2022.

The project of constructing 615 houses in Colombage Mawatha

The project of constructing 615 houses in Colombage Mawatha for low-income earners under the Urban Revitalization Project had started its construction activities on 30 October 2014 at an estimated cost of Rs. 2,546.10 million. However, its construction work had been suspended by 20 November 2020, and at that time Rs. 1255.30 million had been spent and a physical progress of 39 percent had been achieved. Accordingly, the amount of Rs.1,255.30 million spent for the said project had been idle.

Mahara Administrative and commercial Complex

The front side shops in Mahara administrative and commercial complex located adjacent to Colombo Kandy main road, and as well as the restaurant with all facilities and the auditorium with 428 seats worth Rs.370 million remained idle even after 05 years of the construction. Two elevators that were installed remained inactive due to non-utilization and non-servicing of them since the date of their installation. Although the construction work of this had been completed on 30 September 2019, only 1,164.9 square metres of the land in extent of 8,032.9 square metres had been provided to conduct 07 offices even by 30 January 2024, and the remaining 6,868 square metres of land remained idle. It was also observed that income from rentals had not been received as it had not been transferred by using legal agreements.

Urban Development Authority

Urban Revitalization Project

Beneficiaries had been settled in 13,536 housing units after completing 13,602 housing units as at 30 April 2024, out of 68,000 housing units proposed to be built by the Urban Revitalization Project started in the year 2015 by the Urban Development Authority. Another 66 housing units that were built remained unused and empty. only one housing project, out of 22 projects, of which constructions had been finalized, had obtained the condominium management certificate. The Authority had to spend Rs. 668 million in the years 2023 and 2024 alone for housing maintenance due to the inability to delegate the administration of the housing projects to the management committees. Furthermore, the total amount to be collected to the Authority from these beneficiaries of housing had been Rs. 1,037 million as at 30 April 2024.

Delay in the Transfer of Land Rights

Even though 47 acres of lands in 18 estates, where low-income earners lived, had been released for the construction of housing complexes, it was not possible to use lands in extent of 09 acres and 03 roods, out of those lands, for development activities as the activities of transferring the ownership of those lands to the Authority had not been completed.

Housing Scheme in Weera Mawatha of Pannipitiya

The housing scheme with 500 houses located in Weera Mawatha of Pannipitiya was consisted of 05 towers as A, B, C, D and E and the project work had to be completed by 29 September 2022 with extensions of dates. It was not possible to hand over 197 housing units to the concerned parties as the construction of A and E towers, out of those towers, had not been completed by the end of the year 2023. Furthermore, 71 houses in the B tower of this housing project were given to parliamentarians on the basis of collecting the rent from the General Treasury. The total of outstanding water, electricity and management charges to be recovered to the Authority as at 30 June 2024 for these housing units had been Rs. 11.86 million.

Magam Ruhunupura International Conference Hall

Korea International Cooperation Agency (KOICA) had spent USD 6.4 million (Rs. 851.2 million) for the construction of the main auditorium in Magam Ruhunupura Conference Hall under the Hambantota Development Project, and government funds amounting to Rs. 3.83 million had been spent for other constructions of the conference hall. Furthermore, the Authority had spent Rs. 110.53 million as revenue expenditure only for the 7 years from 2017 to 2023 to maintain the conference hall. However, the income earned from the conference hall for the relevant period had been only Rs.20.63 million. The activities expected to be carried out jointly by the Authority and the private sector to use this centre have not yet been successful.

Formulation of the Urban Land UsePolicy

Even though the Urban Development Authority should formulate the urban land use policy and implement it by the relevant local authorities in terms of Section (i) of paragraph 8 in Part II of the Urban Development Authority Act No. 41 of 1978, the activities had not been completed by the end of the year under review. Although 273 urban development areas had been declared so far, development plans have not been prepared to cover 175 urban development areas. Therefore, capital improvement programmes to be prepared according to Section 8(h) of the Act for such areas, as well as proposals for improving the environmental conditions of those areas according to 89(A) of the Act, had not been prepared.

Otters Aquatic and the 80 Club

Approval had been granted on 27 October 2020 for the Cabinet Memorandum No. MUD/H/2020/CP/37 dated 12 October 2020 to transfer government and private lands to the Authority for the proposed urban development projects centred on the main cities of the Island. The approval of the Cabinet of Ministers had been received by the Authority to transfer, develop and open to the public the three lands with buildings in extent of 1.8274 hectares, where the two institutions namely Otters Aquatic and the 80 Club, which were operated as clubs, were located, out of the 45 lands attached to that memorandum. Even though it had been emphasized according to the observations of the Minister of Finance dated 16 October 2020 in relation to the said Cabinet Memorandum that if the lands attached to this memorandum are used for a commercial purpose, the value after deducting the expenses incurred by the Urban Development Authority in the development and acquisition of the respective lands from the income generated by that should be credited to the Consolidated Fund, the Authority could not use it for a suitable commercial purpose until now.

Transwork Square Land

The Transwork Square Land of Colombo Fort had been leased to a locally established foreign private company for Rs.4,999.71 million under 04 lease agreements to implement a mixed development project. However, this project was not completed until 31 August 2024, and only the building structure for 60 floors, out of the 81 storeyed building expected to be completed under the first phase of the project was constructed. Due to this delay, the difference between the re-contracted market value as at 04 July 2018 and the pre-lease value of Rs. 1,290.04 million could not be recovered so far due to the non-completion of this project.

Compensation on Land and its usage

The Authority has not yet paid compensation for certain lands acquired since 1981 and the total amount of compensation to be paid by 30 April 2024 had been Rs. 26,106 million. Furthermore, 1,908 acres of land acquired by the Authority during the period from 1981 and 2021 remained idle without utilizing as per the information on the lands of the Authority submitted by the Authority to the office of the Comptroller General of the Ministry of Finance.

National Housing Development Authority

Model Village Project

It had to built 39,815 houses under 2150 carry over villages by the Model Village Project, where construction had been started by the Authority during the years of 2015 to 2019. A sum of Rs. 220 million had been provided by the Treasury in the year 2023 to complete the work of these houses, and the construction of only 681 houses, out of the those houses, had been completed. Four (04) projects had been implemented under the Indian Housing Assistance Scheme which had been started in the years from 2017 to 2019 and it was planned to build 600 houses in 25 villages across the island. These constructions were scheduled to be completed in the year 2023. However, 81 percent of it, i.e. 486 houses had been completed by the end of the year 2023. Even though it had been scheduled to incur Rs. 103 million to build 143 new houses under this project in the year 2023, only 29 houses were built at a cost of Rs. 6.38 million. Although the Phase I of the Grama Shakthi Housing Project in Southern Province, which had been started in the year 2017, had to be completed in the year 2023, the progress of the project was only 20 percent by the end of the year. Even though it had been planned to construct 499 houses in the year 2023 under this programme, only 02 houses were completed at a cost of Rs. 9.63 million. Even though it had been expected to finalize 595 houses by the year 2023 under the Phase II of the Grama Shakthi Housing Project in Southern Province, only 23 percent had been completed. Even though it had been planned to construct 511 houses by the year 2023 under the Grama Shakthi Housing project of the North Province, only 32 houses were built.

Public Private investment Projects

The construction works of Kavirathne Residencies, Hanthana Dunumadalawa Villas, Kundasala Heights Park, Yakkala Siane Nature Park, Hanthana Residencies, and Mount Clippard, which were started in 2013 by the Authority together with private investors, had been stopped. Even after 10 years, the projects had not been implemented again.

Sub-leasing of Shops

There had been 22 shops owned by Soysapura Office, which were given on lease basis. However, 13 of them were sub-leased by the lessee to other persons other than the lessee. Although the Authority had been informed in this regard, any action had not been taken by the Authority. Even though 3 shops (No. 1,2,3) were given to Moratuwa Cooperative from 01 March 1999 for Rs. 195 each, action had not been taken to assess the rental value and to charge an updated rental value. Rent had not been charged for the period of 11 years 7 months till 10 November 2023 for the shop rented out for a monthly rental of Rs. 65 each on 01 January 1998 for operating a milk stall.

Department of National Physical Planning

Preparation of a National Physical Plan

The Department should prepare the national physical plan and make necessary amendments in time to it and should also prepare the regional and city physical plans. For this purpose, there should be a committee made up of academics representing various fields of the country and a staff consisting of sufficient number of draftsmen. However, it was observed that there were not enough number of officers with specialist knowledge for those positions in the Department. Even though the necessary amendment was made by the Town and Country Planning (Amendment) Act No. 49 of 2000 to the Town and Country Planning Ordinance No. 13 of 1946 in order to get the expert contribution of other government institutions to establish and implement the national physical plan, it had not been possible to prepare and implement national physical plans and other regional and city plans in time though more than 11 years had passed since the establishment of the Department.

Preparation of Regional Physical Plans

It had been planned to prepare the regional physical plans for the 3 provinces namely Central, Uva and East in the year 2023. Work of any plans had not been finalized even by the end of the year 2023, and although it had been planned to prepare a series of guidelines for a sensitive environment in the Central Province, the task could not be carried out. Due to this, environmental problems have been caused owing to inconsistent constructions without planning and not provision of public utilities formally.

Condominium Management Authority

Not obtaining the condominium certificate

In terms of Section 5(2) of the Apartment Ownership Act No. 11 of 1973, a person shall not be occupied in a property, for which compliance certificates had not been obtained. However, the final certificates had not been obtained for the 21 condominium properties built by the Urban Development Authority by the end of the year 2023, and 12,734 families had settled in those apartments. It was not possible to establish management corporations in these housing complexes, and maintenance work was not done properly and the house owners could not be given deeds due to not getting the condominium certificate. Furthermore, the Authority had not taken any action regarding the existence of common amenities that should exist in these condominium properties and not taking action by the owners of the properties in accordance with the Apartment Ownership Act. Accordingly, it was further observed that the Authority has neglected its responsibilities.

Management Corporations

Management corporations shall hold annual general meetings and submit copies of the audited annual accounts of the management corporation to the Authority. However, 586 of the 1,014 registered management corporations of the Authority had not submitted their annual accounts since the date of registration and 403 of the remaining 428 corporations had not submitted their audited annual accounts for the current year to the Authority. Furthermore, although management corporations should be established within 3 months after the registration of condominium plan, management corporations had not been established for 39 properties registered during the period of 2022-2023.

Urban Settlement Development Authority

Non transferring of lands, where housing schemes were located

The Authority had failed to transfer lands in extent of 2.32 hectares, where the construction of 03 completed housing schemes with 512 housing units and a housing scheme under construction were located, from the relevant institutions until the end of the year 2023. As a result, it was not possible to establish the management corporations in the housing schemes and transfer the custody of the houses due to the delays in providing land deeds to the beneficiaries of the houses that have been built and handed over.

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Provision of Houses to the Officers of the Authority

The Authority had decided not to charge the 20 percent service charges in determining the sale price of a house and to charge only the assessment of the Government as the sale price of a house and to implement an easy payment system to make that payment under a concessional annual interest rate of 2 percent over a period of 25 years in instances of providing houses to the officers of the

Authority under the approval of the Board of Directors and in contrary to Cabinet Decision No. MUDRH/2020/CP/55. Accordingly, 22 housing units had been given to the officers of the Authority by the end of the year under review, and the value lost to the Government due to taking action in contrary to the decision of the Cabinet of Ministers had been Rs. 18.96 million.

Providing Fishermen's Flats to OtherIndividuals

The Authority had provided the possession of 53 housing units worth Rs. 62.87 million, out of 288 houses built by the Authority for the fishermen community in Angulana Apartment Scheme, to artists and sportsmen by free grants between 26 September 2016 to 12 February 2019 without charging money. Later, it had been informed by the Cabinet Decision No. CP/No./19/2761/122/085 dated 18 September 2019 to charge a fair amount from the beneficiaries of those houses. The Authority had not collected any amount even by the end of the year 2023. Moreover, action had not been taken to cancel the free grants of 32 houses according to the instructions issued by the letter of the Attorney General dated 04 December 2022.

Not prosecution against the relevant persons to recover the loss

The Attorney General had instructed to file a case against the relevant persons to recover the loss incurred by the financial fraud of Rs. 47.75 million committed on 28 October 2021, in transferring Real Estate Exchange (Private) Limited to the Authority. Even though the Line Ministry had been informed to take action in terms of the Financial Regulation 103 and to calculate the loss incurred to the government and the responsible persons, the line ministry had not taken action in that regard even by June 2024.

Sri Lanka Land Development Corporation

Not crediting the Sales amounts to the Consolidated Fund

It has been informed by the Cabinet Decision No. CP/19/2832/16/11 dated 29 October 2019 to charge the expenses spent on the development of the land in extent of about 02 acres located in Muthurajawela vested in Authority on free hold basis and to credit the remaining amount to the Consolidated Fund of the Government. The land had been sold on 17 December 2019 and had obtained an amount of Rs.272.62 million for that. The development expenditure incurred had been Rs. 21.02 million and

Rs. 251.60 million to be credited to the Consolidated Fund had not been credited till November 2023. That liability had not been identified and provision had not been made for those liabilities in the financial statements.

Implementation of projects without a formal approval and Provision

A project to construct a line park and to improve drainage at the interchange of the expressway at Kothalawala in Athurugiriya was started on 15 December 2020. However, the line ministry had not made the necessary provision allocated for this and the contract had not been awarded. It was observed that this contract had been started by the Corporation according to the verbal instructions given by the Honourable President in a discussion held between the then Chairman of the Corporation and the Honourable President. Furthermore, the approval of the Department of National Planning had not been obtained for the project proposal. Moreover, a comprehensive feasibility study had not been conducted for the project proposal as per the recommendations of the Department of National Planning as stated in the cabinet decision given for the cabinet memorandum submitted by the Corporation to approve the treasury allocation. The value of the work carried out had been Rs. 193.3 million by the end of the year 2023, and without recovering the amounts from the relevant responsible parties, it had been debited from the work in progress account to the activities for social responsibility account and it had been written off against the profit.

Moreover, the Corporation had to incur a maintenance cost of Rs.3.81 million until November 2023 as the Corporation had been failed to hand over the constructed project to the Kaduwela Municipal Council for maintenance and operation.

Renting out without entering into a formal agreement

A memorandum of understanding had been entered into on 02 June 2021 to lease out the land in extent of 22 acres 02 roods and 37.14 perches situated at Muthurajawela and the building of 55,900 square feet owned by the Corporation to a private company for an amount of Rs.2,195.79 million on a long-term lease basis for 50 years, and even though an advance of Rs. 500 million had been obtained, action had not been taken even by December 2023 to obtain the remaining amount of 1,695.79 million and to enter into a formal lease agreement.

Control and monitoring of Unauthorized land reclamation

Although the Corporation was authorized to identify low-lying swamps, barren or mud lands located at the provincial level across the island and publish them in the gazette notifications to enable the Authority to control and monitor unauthorized land reclamations in accordance with Section 2(b) 1 of the Sri Lanka Land Development Corporation Act No. 15 of 1968, the number of provinces so gazetted by the Corporation was limited to 07 at the end of the year under review. The Corporation had also failed to prevent illegal dumping and unauthorized settlements in the areas, where boundaries were gazetted. Although the lands taken over for reclamation and development according to Section 8 (a) of the above Act should be developed by the Corporation for construction of buildings, and for industrial, commercial and agricultural activities, the area developed had been only 400 acres or 50 percent, out of the 800 acres of land in the areas of Muthurajawela and Mudun Ela areas taken over by the Corporation in 1995 for development purposes although 25 years had passed as at the end of the year under review.

Suspension of projects without reasonable cause

The Corporation had entered into a contract agreement with a foreign private company in the year 2018 to mine and pump 4 million cubic metres of offshore sea sand and supply sand to the construction industry. The project was suspended on 10 April 2020 by the top management at its discretion without completing the scope of the contract and without reasonable cause and without evaluating the financial loss to the Corporation. The Corporation had not understood about the legal requirements in entering into this agreement, and the Corporation had not paid attention to provide proper instructions to the contractor on the additional costs to be incurred for the project and regarding the tasks to be performed, and the contractor was released to another project before the end of the written agreement with the contractor were questionable at the audit. In this regard, the aggrieved party had decided to choose arbitration and the Corporation had paid an amount of Rs. 753.08 million to the foreign private company in relation to the arbitration decision and a sum of Rs. 585.79 million related to the final bill. It was observed that having to pay a large amount of compensation has a negative impact on the liquidity of the Corporation and the Corporation had not taken action to conduct a formal inquiry against the parties, who should be responsible in this regard.

Construction of Medamulana Memorial Centre	The difference between the value reported to the court as recoverable for the construction of a memorial center at Medamulana and the value indicated in the accounts of Corporation had been Rs. 47.37 million. Even though the Management should further investigate on the additional expenditure and recover it from the responsible parties as the expenditure had been recognized as an expenditure not incurred for the project, the Corporation had taken action in contrary to that to write off the amount from the books as per the decision taken at the meeting of the Board of Directors bearing No. MRW/ 5404 dated 28 June 2021 without obtaining the approval from the Treasury in terms of F.R.113.

Estate Infrastructure Development

Promoting the sustainable development of the community of hill origin to uplift the standard of living, accelerate socio-economic progress and empower community members to become self-sufficient and proud contributors to Sri Lankan society was the objective of the Estate Infrastructure Sector under the Ministry of Urban Development and Housing and the following tasks should have been performed For that.

Functions

Creation of new villages and townships with the aim of developing housing and infrastructure for landless people working in government and private plantation companies.

Adopting necessary measures for the provision of basic facilities, livelihood generation and community development projects including other requirements of the estate sector community.

Development of basic infrastructure in Rural Estate Sector .

Audit Observations

Ministry of Urban Development and Housing

Vehicle and Accident Losses

The Ministry had not been able to recover the estimate and loss of Rs. 4.63 million in respect of the accidents that had occurred from the year 2015 to the year 2022 on 10 occasions to 08 vehicles owned by the Ministry, even by the date of audit 05 March 2024 .

Indian Housing Project

Even though it had been planned to complete 154 housing units in the year 2023 with an allocation of Rs.100 million under the Indian Housing Project (Phase 01), the achievement of physical targets had been at a minimum level of only 16 housing units equal to 10 per cent by the end of the year 2023 .

Provision of facilities to Schools

Although Rs.155 million had been allocated for the establishment of 60 smart classrooms in the year 2023 in selected schools related to estate infrastructure and for refurbishing the existing classrooms as smart classrooms, funds had not been utilized during the relevant period and selection of the necessary schools and contracting activities had also not been completed.

Expenditure incurred by Plantation Human Development Trust

The Estate Infrastructure Development Division of the Ministry had paid an initial advance amount of Rs.82.12 million for payment to the contractors of 19 housing projects with an estimated value of Rs.435.76 million in the years 2017, 2018 and 2021 and an amount of Rs.3.61 million for management fees to Plantation Human Development Trust. Nevertheless, as the relevant projects have been abandoned, cancelled and terminated, without reimbursing the money to the Ministry, a sum of Rs. 72.66 million had been offset for other project expenses of Plantation Human Development Trust. As Performance Guarantees were not obtained from the relevant contractors for these projects, the government had unable to cover the loss due to the above situation.

Delays in Constructions

An estimate of Rs. 3.36 million had been prepared for 15 housing units in the Rothschild Estate in Kandy area, which was commenced in the year 2018 under the Green Gold Housing Project and even though the entire amount had been spent, by 31 December 2023, the Project had not been completed. Similarly, although a sum of Rs.48.14 million had been spent on 211 housing units that were started in the areas of Nuwara Eliya, Hatton, Kandy, Galle and Ratnapura in the years 2016, 2017,2018, five years had elapsed and only the first phase had been completed, and although 05 years had elapsed since the construction of another 298 housing units though a sum of Rs. 117.18 million had been spent by 31 December 2023, the construction works had not been completed.

Nawa Jeewana Housing Project

Out of the estimated amount of Rs.112.53 million a sum of Rs.92.34 million equal 82 per cent had been spent for the construction of 157 housing units in 08 estates in the areas of Nuwara Eliya, Hatton, Kandy and Kegalle under the Nawa Jeewana Housing Project in the year 2021 and only the first phase had been completed. Similarly, Although 104 housing units in Nuwara Eliya, Hatton, Nuwara Eliya, Nuwara Eliya, Hatton and Nuwara Eliya areas, which were started in 2020 and 2021 should be completed within 06 months, though Rs. 45.58 million had been spent for that and 03 years had elapsed by 31 December 2023, actions had not been taken to complete and

The construction of 56 housing units with an estimated cost of Rs.173.24 million in Kegalle and Hatton areas, which had been commenced construction in 2020 and 2021, had not been completed even by 31 December 2023 .

Payments to Plantation Human Development Trust

Although the housing project should be completed and handed over within a period of 06 months according to the agreement with Plantation Human Development Trust and the relevant society organization regarding the implementation of housing projects, 62 housing projects that were commenced in the years from 2016 to 2021 had not been completed by 31 December 2023 and the construction durations of those projects had ranged from 19 months to 85 months. The ministry had paid an amount of Rs.846.84 million to pay the contractors of those projects and an amount of Rs.51.36 million for carrying out supervision and management activities to the Plantation Human Development Trust. Failure of selecting suitable contractors for the implementation of these projects and lack of proper supervision by the Ministry had caused to these delays.

Construction and Engineering

The construction industry contributes immensely towards Sri Lanka's economic growth and according to census and statistics, it has contributed nearly 7 per cent to the Gross Domestic Product in the year 2023. As the Construction and Engineering Sector is the main builder of capital assets and infrastructure facilities, it provides a steady foundation for the development of other sectors. However, according to the report of the Central Bank of Sri Lanka for the year 2022, the value addition of the Construction Sector had declined to a negative 20.9 per cent. The pandemic, financial crisis, dearth of trained professionals, non-adherence to Procurement Guidelines, import suspension of building materials, delay in making payments to contractors and suspension of construction projects had mainly attributed to this pathetic situation. As such, direct and indirect job opportunities over one million had been lost in the Construction and Engineering Sector.

The State Engineering Corporation of Sri Lanka was in function under the Ministry of Finance, Economic Stabilization and National Policies, and Construction Industrial Development Authority, Department of Buildings, Department of Government Factory, Lanka Building Materials Corporation Limited and Chamber of Construction Industry of Sri Lanka are the 05 institutions which belong to the construction and engineering sector that were in function under the Ministry of Urban Development and Housing while the Central Engineering Consultancy Bureau and the Central Engineering Services (Pvt) Ltd. function under the Ministry of Irrigation and the State Development and Construction corporation functions under the Ministry of Transport and Highways and the Construction Guarantee Fund was in function under the Deputy Secretary to the Treasury in the year 2023.

Construction Industry Development Authority

Functions

Making provisions for the development of the construction industry of Sri Lanka, establishment of the National Advisory Council on Construction

Regulation, registration, regularization and standardization of activities in the construction industry

Registration and grading of construction contractors

Providing technical identity cards to technicians engaged in the construction field

A sum of Rs.13.82 million of the sum of Rs.35.7 million provided by the General Treasury to the Authority in the years 2019 and 2020 for issuing technical identity cards to technicians engaged in the construction field, had remained even by 30 April 2024 without being utilized for the intended purpose. A contract valued at Rs.3.35 million had been awarded to Sri Lanka Telecom on 11 March 2022 for establishment of an information technology system relating thereto, and it should have been completed within 21 days. However, it had not been completed even up to 30 April 2024. Furthermore, before issuing technical identity cards to skilled technicians, the rules and fees relating thereto should be published in the Gazette. Nevertheless, 228 identity cards had been issued with fees charged by 31 July 2023 by the Authority without taking action accordingly.

Non-achievement of objectives In the Act

As per Section 33 of the Construction Industry Development Act, No.33 of 2014, no procedures had been formulated by the Authority to register foreign consultants. Moreover, as per Sections 43 and 44 of the Act, even though a Directory of importers, manufacturers and suppliers of construction materials and construction components and a Directory of specified heavy construction machinery and equipment should be maintained' the Authority had not so far taken action accordingly.

Non-revision of Standard Bidding Documents timely

As per Section 46 of the Act, the Authority had not revised Standard Bidding Documents, that is Procurement Works (SBD – 01) and Procurement of Minor Works (SBD – 03)

Adjudication of Disputes

Even though the procedure for adjudication of any industrial dispute shall be prescribed as per Section 51 (2), the Authority had not formulated relevant procedures. Moreover, an Appeals Board as well had not been appointed as per Section 53 of the Act.

Human Resource Management

As a result of prominent issues in the human resource management of the Authority in the years 2021 and 2022 dismissals, sending on compulsory leave, resignations, filing of cases against the Authority, payment of compensation relating to officers have taken place. As such, expenditure on legal matters had increased up to Rs.7.79 million by the end of the year under review. Furthermore, a legal fee of Rs.0.34 million had been paid as well for a personal legal matter with approval of the Board of Directors.

Department of Buildings

Functions

Planning of buildings, preparing estimates, preparing and maintaining the Building Schedule of Rates, construction and providing related facilities, providing consultancy and project management services for buildings, maintenance of Government buildings, new additions and improvements and certification of the building quality report according to the general regulation of the Urban Development Authority according to financial provision allocated within the Expenditure Heads of departments and Government institutions.

Utilization of provision Granted by other ministries and departments

In terms of F.R.208, a provision of Rs. 691.79 million of the total provision of Rs.1,335.89 million transferred in the year 2023 to the Department of Buildings by other ministries and departments for carrying out constructions, had not been utilized. It represents 52 per cent of the total provision. This comprised 08 projects which did not utilize provision completely and the value thereof had been Rs.310.93 million.

Issuing certificates that property is safe for occupation

In terms of Apartment Ownership (Special Provisions) Act, a certificate should be issued by the Director General of the Department of Buildings certifying that the condominium property is safe for occupation at the time of registration of the said condominium property. According to the information made available by the Department, even though 2,352 requests relating to housing property had been forwarded to the Department of Buildings, only 1,017 certificates had been issued by 02 July 2024. As this Act is effective only for a period of five years from 18 August 2018, the said period had expired by 18 August 2023. However, deeds could not be given as assurance certificates were not issued.

Delays in the execution of projects

Even though a long period had elapsed after transferring provision allocated from the budget to the Department of Buildings, activities under contracts had not been completed. As such, the projects of construction of unmarried quarters of the Cinnamon Gardens Police Station, supply and installation of generators and air conditioners at the Batticaloa Office of the Inland Revenue Department, construction of the central dispensary of Welpothuwewa, Kobeigane, construction of the Warakapola Labour Office and the Maha Oya Medical Officer of Health Office building –Phase 04 had been suspended due to inability of obtaining money from the Treasury as a result of the current economic crisis.

Projects abandoned halfway

Twenty three construction contracts exceeding the value of Rs.659 million awarded to the Department of Buildings by Government and Semi-Government institutions during the period of 06 preceding years, had been abandoned halfway.

Norms being unchanged according to use of technical tools

Even though the Building Schedule of Rates (BSR) for the year 2023 had been prepared in an updated manner, the Norms such as labour, raw materials required for a unit and various areas had not been updated after the year 1988. As such, it was observed that it is impractical to use these Norms at present due to them being unchanged even with the changes in labour due to improved technical tools, machinery and due to changes occurring as a result of alternative raw materials used instead of traditional cement, bricks and sand in the preparation of Bills of Quantities for construction projects.

Department of Government Factory

Functions

Supply of services for products, constructions, repairs and maintenance and consultancy services in the fields of mechanical engineering under the work done advance Account of the Treasury and the Stores Advances Account

According to the statement of financial position as at 31 December 2022, the debtors' balances remained in the years 2008 and 2009 totalled Rs.36.94 million. However, as per the committee report with the approval of the Secretary to the

	Ministry for writing off, it was only for a sum of Rs.4.05 million. The total balance of Rs.36.94 mentioned above relating to the years 2008 and 2009 in the financial statements, had been written off.
Delays in the execution of projects	A sum totalling Rs. 22.20 million had been recovered by 06 March 2020 from the Postal Department for construction of a temporary building for the Transport Division of the Postal Department. However, the progress of the project was only 10 per cent even by 31 December 2023. Action had not been taken to complete the project or to pay back the money received even after an elapse of 5 years.
Activities contrary to main functions	Even though the execution of building construction projects was not a function of the Department, the contract of executing the project on refurbishment of the old studio complex of the Ministry of Mass Media had been undertaken and assigned to an external contractor for a contractual value of Rs.16.51 million (exclusive of VAT). Even though there were variances from 8 per cent to 409 per cent between the rates of the contractor and the engineer's estimate, the Department had not taken action to call for explanations therefor from the contractor as per Guideline 7.9.11 of the Procurement Guidelines. Nevertheless, the building of the Ministry of Mass Media so refurbished, is filled with water on rainy days and as such, it is presently not in a position to be made use of.

Lanka Building Materials Corporation Ltd.

The Building Materials Corporation had been established in the year 1971 under the "Sri Lanka State Trading Corporations Act", No. 33 of 1970. It had been registered as a 100 per cent Government owned Limited Liability Company in the year 1992 under the "Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies Act" No. 23 of 1987 and the Companies Act, No.17 of 1982.

Functions	Supplying building materials and equipment Island wide with a higher standard and price regulation

Non-presentation of annual financial statements to Audit

The annual financial statements had not been presented to Audit for the period from the year 2019 up to the year 2023 and according to the transactions report of the year 2022, the following observations are made.

Repairs and refurbishment to the Prime Minister's/ Fifth Executive President's Official Residence

Approval had been granted by the Cabinet Decision No. අමප 21/1779/302/002-1 dated 26 October 2021 for repairs and refurbishment to the Prime Minister's/ Fifth Executive President's Official Residence.

Goods had been issued and invoiced for this official residence project on purchase orders of the Building Materials Corporation without calling for competitive bidding from 16 suppliers who were nominated for supply of materials required for the project, on the verbal instructions of Architects selected by paying a sum of Rs.13.07 million without adhering to the Procurement Process or without entering into agreements for these refurbishment activities.

According to the reports presented by the Company, 590 invoices valued at Rs. 639.22 million had been issued to the Secretary to the Prime Minister as at 31 December 2023 for recovery of money relating to goods supplied for refurbishment and a sum of Rs. 554.58 million thereof had been reimbursed from the Consolidated Fund on provision of the Prime Minister's Office while a sum of Rs. 84.63 million had not been reimbursed by that date.

Issuing materials for the Model Village Programme

Building materials valued at Rs. 34.70 million had been issued without any restriction from the stores of Ambalantota, Tangalle, Lunugamwehera, Tissa, Weeraketiya, Embilipitiya and Suriyawewa branches belonging to the Building Materials Corporation, to householders under the Suriya Pokuna Debukkawa Housing Project implemented by the National Housing Development Authority during the period from the year 2015 up to the year 2021 and these loan balances had not been settled even up to 31 December 2023.

Assets Management

Of the land located at No.541, Sangaraja Mawatha, Colombo 10, vested in the Company, 1 Acre and 31.4 Perches in extent had been sold by the Company on approval of the Board of Directors dated 19 July 2005 and 03 October 2006 to HDFC Real Estate Development Ltd. for a sum of Rs.222.50 million contrary to the conditions of the Act.

According to the judgement of the lawsuit instituted against the Company for claiming the clear title of the above property, a settlement had been reached on 10 January 2012 on agreement of transferring the ownership of lands again by paying a sum of Rs.359.32 million by the Company to the above institution before 31 January 2012. Nevertheless, as the Company failed to pay the relevant money as agreed, it was also observed that the HDFC Bank has taken action by now to claim clear title of lands.

Non-preparation of Bank Reconciliation Statements

Cash Books had not been maintained by mentioning the opening and closing balances for the year 2022 and Bank Reconciliation statements also had not been prepared for the 10 active bank accounts.

Human Resource Management

The Company was not equipped with a Scheme of Recruitment with proper approval.

Chamber of Construction Industry of Sri Lanka

Non-recruitment of a permanent staff

Even though deciding the number of employees to be deployed in the service, appointing, promoting and dismissal of employees and taking disciplinary action as well as payment of salaries, allowances and gratuity is a responsibility of the Chamber, no approved staff at least had been recruited or a Scheme of Recruitment and Promotion had been formulated to recruit a skilled and a permanent staff for the smooth operation of the Chamber. As a result, all officers and employees had been recruited on contract basis and 16 of those officers had been deployed in the service for a period from 01 year to 18 years as at 31 December 2023. Furthermore, it was observed during the examination of personal files that action has not been taken to extend the contract period of two employees presently deployed in the service.

Central Engineering Consultancy Bureau

Reporting of losses	A total operating loss of Rs.54.86 million had been reported in the year under review from 07 of 14 divisions of the Engineering, Procurement and Construction Division and 14 of 22 expenditure centres of the Consultancy Division had reported operating losses of Rs.305.49 million. The Bureau had reported a loss of Rs. 145.57 million of the total operations for the year ended 31 December 2023.
Non-recovery of debtors' balances	The total debtors' balance as at the end of the year under review was Rs.4,549.28 million and the debtors' balances between 3-5 years and over 5 years in the Engineering, Procurement and Construction Division (EPC) were Rs.246.91 million and Rs.1,280.47 million respectively while the debtors' balances between 3-5 years and over 5 years in the Consultancy Division were Rs.270.49 million and Rs.356.55 million respectively. Accordingly, it was observed that action had not been taken for timely collection of debtors' balances receivable to the Bureau.
Non-payment of creditors' balances	The total creditors' balance as at the end of the year under review was Rs.1,874.15 million and the creditors' balances between 3-5 years and over 5 years in the Engineering, Procurement and Construction Division (EPC) were Rs.219.18 million and Rs.767.84 million respectively while the creditors' balances between 3-5 years and over 5 years in the Consultancy Division were Rs.2.92 million and Rs.39.04 million respectively. Accordingly, it was observed that action had not been taken for timely payment of creditors' balances payable by the Bureau.
Mixed agricultural project	Lands of 150 Acres in extent located in the Pollebadda Mahaweli Division in the Ampara District belonging to the Mahaweli Authority of Sri Lanka had been provided to the Bureau for a mixed agricultural project and the Bureau had not so far taken action to enter into proper agreements to obtain the said land on long term lease. This agricultural project is maintained by the Central Engineering Services (Pvt) Ltd. from the year 2023 and no necessary action had been taken so far to vest in the Company as appropriate.

Central Engineering Services (Pvt) Ltd.

Incurring of heavy losses The Company had incurred operating losses of Rs. 942.90 million, Rs.667.42 million and Rs,888.15 million from the fully completed construction projects in the years 2023, 2022 and 2021 respectively and a loss of Rs.528.57 million had been incurred from 40 projects which are being implemented in the year under review. As these losses directly affect the going concern of the Company, action had not been taken by the management to identify parties directly or indirectly responsible and the reasons therefor and to minimize such heavy losses.

Recovery of liquidated damages The employers had deducted from bills liquidated damages of Rs.105.75 million relating to 62 projects due to weaknesses in project management etc. Even though it was possible to recover the sum of Rs.36.81 million deducted for 09 projects thereof, approval had not been received even by 31 December 2023 for extension of the period requested for 18 projects, the sum of Rs.49.01 million deducted relating to 35 projects, could not be recovered.

Construction Guarantee Fund

Functions Issuing bonds, sureties and securities relating thereto, required for small and medium scale contractors with national registration for construction

Payment of money on sureties A sum totalling Rs.139.80 million paid by the Fund to clients as sureties in instances where the performance of contractors is weak, could not be recovered to the Fund by 31 December 2023.

Rural Roads Project of 100,000 kilometres The Ministry of Transport and Highways had granted Rs. 33,389 million to the Fund from the year 2020 to the year 2023 for payment of certified bills of 314 contractors carrying out construction works under the Rural Roads Project of 100,000 kilometres and a sum of Rs. 32,782 million thereof had been released to the contractors.

Moreover, a sum of Rs.220.62 million thereof had been retained in the money in transit account by the Fund as at 31

December 2023 without releasing to relevant contractors. It was observed that sums of Rs.88.10 million and Rs.3.43 million thereof had been retained for periods between 01 - 03 years and between 03- 05 respectively.

Furthermore, the Fund had not entered into a formal agreement with the Ministry of Transport and Highways for implementing the above roads development project identified as complex and high risk. The Fund had retained the sum of Rs.60.55 million relating to 123 projects of which works had been fully completed from this retained sum without releasing to contractors, and necessary action had not been taken to release the money.

Payment to contractors by bill discounting

The cash balance which could not be settled due to non-payment of money for bills by the clients, from the money paid to contractors by bill discounting as at 31 December 2023 was Rs.10.30 million. The Fund had failed to recover a sum of Rs.10.21 million or 98 per cent of that from a private contractor for over a period of 04 years.

Money remaining idle

The Fund had been initiated in the year 1999 and the General Treasury had provided capital grants of Rs.55 million in four instances during the period from the year 2000 up to the year 2005. However, a methodology had not been implemented to remit annual profits to the General Treasury. Meanwhile, it was also observed that a sum of Rs.500 million of the accumulated earnings amounting to Rs.949.79 million remained as at 31 December 2020 had been transferred to a reserve account named "Provision for Infrastructure Facilities" and remaining idle.

State Development and Construction Corporation

Role

Engaging in various engineering projects in the fields of construction such as bridges, highways, dams, irrigation determent schemes, hydropower tunnels and powerhouses, water supply and treatment works

Outstanding loans

According to information made available to Audit, loans of Rs.1,808 million, Rs.1,352.86 million and Rs.1,087.21 million relating to money obtained from banks by the Corporation on the property of the Corporation and Treasury securities, Value

Added Tax payable and the surcharge levied thereon due to its non-remittance to the Inland Revenue Department had remained unpaid up to the end of the year 2023 respectively.

The State Engineering Corporation of Sri Lanka

Functions	building construction business activities, manufacture of building accessories, machinery and electric matters, engineering services and advisory
Presentation of financial statements to Audit	The financial statements for the year 2020 had been presented to Audit.
Non-payment of contributions for Employees' Provident Fund	The Corporation had not paid sums of Rs.73.52 million, Rs.36.76 million from February 2022 up to June 2023 as employees' and employers' contributions and surcharge thereon, sums of Rs. 307.82 million and Rs.153.91 million as employees' and employers' contributions from the year 2006 up to July 2015 and surcharge thereon to the Employees' Provident Fund even up to 31 December 2023.
Arrears of Tax	The statutory payments of Value Added Tax amounting to Rs.1,381.67 million payable by the Corporation from the year 2010 up to the year 2023 and the surcharge thereon amounting to Rs. 883.37 million due to non-remittance of the said money to the Inland Revenue Department had not been paid by the Corporation even by 31 December 2023.
Loans obtained from state banks	Action had not been taken even up to the end of the year 2023 to pay the loan obtained from state banks on the property of the Corporation and Treasury sureties amounting to Rs.2,737 million and interest payable thereon amounting to Rs.1,891.49 million.

Higher Education

The education system in Sri Lanka dates as far back as 02 millennia, and education is deemed a fundamental right in the Constitution of Sri Lanka as well. The following duties and functions should have been accomplished through 17 Universities and 19 higher education institutions functioning under the University Grants Commission.

Functions

Coordination and planning of university education in compliance with the national policy.

Disbursement of funds allocated by Parliament in respect of university education, among the higher educational institutions, and control of expenses incurred by each of such higher educational institutions.

Maintenance of academic standards followed by the higher educational institutions.

Regulation of administrative procedure of the higher educational institutions.

Provisions amounting to Rs. 26,061 million and Rs. 66,571 million had been allocated in the year 2023 by Parliament for the higher education sector and the University Grants Commission respectively for execution of the said duties and functions. By the end of the year 2023, sums of Rs. 21,853 million and Rs. 64,803 million had respectively been utilized therefrom.

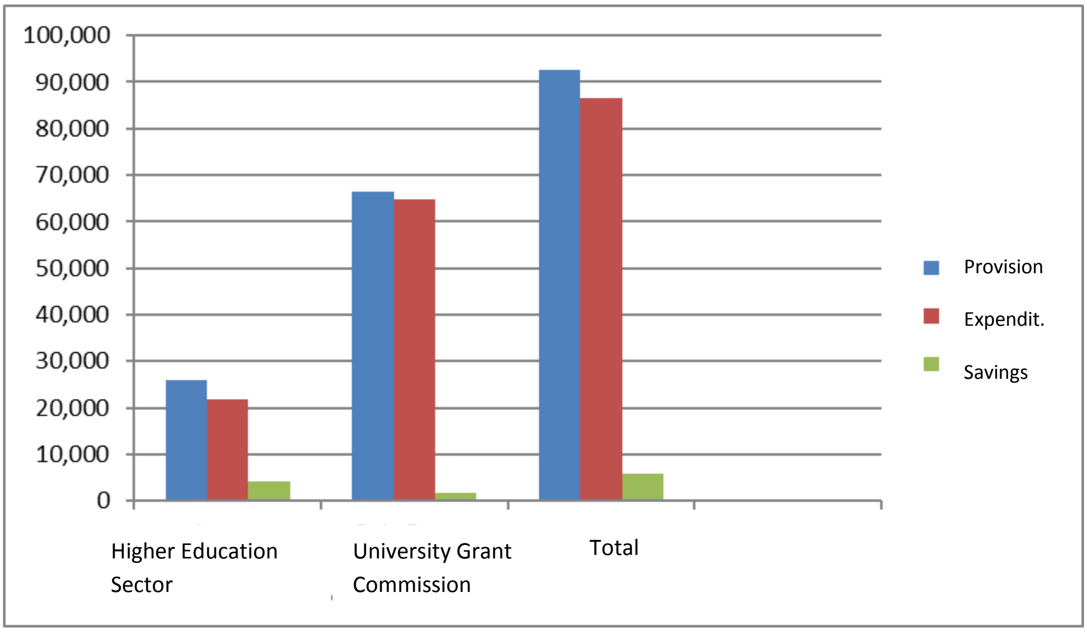


Diagram 2.34 - Provisions and expenditures for Higher Education Sector and University Grant Commission for 2023

The observations revealed during the audit conducted regarding the utilization of the above provisions are summarized below.

Audit Observations

University Grants Commission

Failure to recover the funds due for bond violations

Although an amount of Rs. 2,262 million was due to be collected from 551 members of the academic and non-academic staff of 22 higher education institutions, including universities, for breach of bonds as at 31 December 2023, the University Grants Commission had not taken sufficient steps to recover the said amount.

Acquisition of the new building without canceling the original lease agreement

Due to the insufficient space and transportation difficulties of the building with an area of 3,337 square feet, which the Commission leased at a monthly rent of Rs. 0.35 million, approval was obtained from the Director General of National Budget in 2020 to annul the lease agreement and lease a new building with an area of 7,000 square feet at a monthly rent of Rs. 0.95 million. However, since the original lease was not terminated and the new building was obtained on a lease basis, a total of Rs. 12.6 million was paid as building rent from 2021 to March 2024.

Failure to fill vacancies for university students

After admitting students to the universities for the 2020/2021 and 2021/2022 academic years, there remained vacancies for 1857 and 1084 students, respectively. As no further action was taken to fill these gaps, 2941 students missed out on university admission during these two academic years.

Failure of postgraduate grants awardees to complete their courses

Twenty-two recipients of postgraduate grants, who were awarded these grants between 2009 and 2017, had not completed their courses by 31 December 2023. Of these, 11 individuals still owed a total of Rs. 17 million for the grants they had received by that time. Furthermore, no postgraduate grants were awarded to applicants in 2022 and 2023.

University of Ruhuna

The project to establish a professors unit

With the objective of increasing the number of undergraduates in medicine by 300, improving the medical and nursing professions, enhancing the recruitment of postgraduate medical degree trainees, and improving the quality of clinical training in line with the 2018 budget proposal, a project to construct a Professors' unit at Karapitiya Hospital was handed over to Central Engineering Services Private Limited on 24 June 2019, for a value of Rs. 1,138.5 million. According to the agreement, the work was to be completed by 16 June 2022, but the physical progress remained only approximately 64% by the end of 2023.

Construction of a new building for the Faculty of Medicine

The project to construct a 12-story building for the Faculty of Medicine at the University was handed over to the Central Engineering Consultancy Bureau on 1 June 2020, for a value of Rs. 1,092 million. According to the agreement, the work was expected to be completed by 6 September 2021, but by 31 December 2023, only concrete slabs up to the 10th floor had been laid, and internal structure work had been completed only up to the 7th floor.

The project for establishing the Faculty of Allied Health Sciences

The project to establish a Faculty of Allied Health Sciences at Ruhuna University, aimed at launching four new health-related programmes and producing approximately 350 graduates annually, was awarded to a private company in December 2020 for Rs.1,501 million. According to the agreement, the work was expected to be completed by 02 June 2023, but even after an extended deadline of 10 April 2024, the project was not yet completed.

University of Peradeniya

Construction activities of the water supply project

The construction work for the university’s water supply project, valued at Rs.714 million, had been handed over to the National Water Supply and Drainage Board in 2018, with the aim of completing it by 10 July 2020. A sum of Rs.421 million had been paid by 31 December 2021, but the physical progress was only around 52%, and the construction work was abandoned. Subsequently, an additional estimate of Rs.785 million, exceeding the original estimate, was provided again by the Board on 20 July 2023, and the construction work for the project was restarted.

Payment of the Agrahara insurance premium through the University Fund

From the year 2019 to 2023, a total amount of Rs.49.8 million had been paid from the university fund as the employees’ Agrahara insurance contribution.

University of Moratuwa

The biogas production project

A sum of Rs. 1.4 million had been spent in 2017 on a pilot project to manage food waste from the university canteen to generate biogas for cooking. However, due to the insufficient quantity of biogas produced to power the canteen stoves, it was proposed to enhance the system's capacity. Yet, no steps had been taken to improve and utilize the system even by 30 April 2024.

Underutilized Funds

Under the university's Development Fund, a balance of Rs. 265 million remained unutilized in 91funds accounts maintained for respective departments and courses. Of these, Rs.5.60 million in 15 accounts had not been utilized for seven years.

Failure in disbursing scholarships from the 27 scholarship funds

As at 31 December 2023, no scholarships had been awarded from 27 scholarship funds, with a total accumulated value of Rs. 19.39 million, over a period ranging from 3 to 13 years.

Failure to complete the research, despite receiving research funding

Out of 155 long-term research grants awarded to 124 lecturers by the University of Moratuwa between 2015 and 2021, 66 research projects, amounting to Rs. 83.58 million, had not been completed even as of 31 December 2023.

Providing the necessary facilities for clinical training in professor units for medical students

Although clinical training for final-year students of the university's Faculty of Medicine is scheduled to begin in January 2025 in essential professorial units, due to the lack of necessary facilities at Nagoda Hospital, where the training is currently provided, a recommendation was made to use Neville Fernando Hospital for this purpose, based on the decision of the Committee on Public Enterprises held on 15 November 2023, and a prior Cabinet decision. However, this recommendation had not been implemented as of April 2024. Accordingly, it was observed that if Neville Fernando Hospital is unable to operate as a government hospital with professorial units by January 2025, there is a significant risk that final-year medical students will not be able to obtain their degree within the prescribed timeframe.

Failure to complete the project in accordance with the prescribed standards

The roof panels of the multi-purpose building constructed for the Faculty of Engineering and the Faculty of Architecture building, which were completed in the first phases respectively in 2016 and 2021, had deteriorated and caused water leaks before being brought into use. Consequently, an additional cost of Rs. 14 million was spent on removing and reinstalling the panels, but these funds had not been recovered from the consultancy service provider.

Sri Lanka Buddhist and Pali University

The project for constructing a hostel building

Following the extension of the project in two phases, the construction of the hostel building for 200 foreign students at the Sri Lanka Buddhist and Pali University was due for completion by 30 August 2022. However, by that date, the physical progress stood at only 75%, and despite Rs.148 million being spent on the project, construction work had been halted midway since May 2022.

The construction project of a five-story building for the External Examination Unit

Despite the payment of an advance amounting to Rs.14 million to the contractor for the proposed five-story building for the university's external examination unit, the contractor had not commenced the construction work. Later, the Council had decided to halt the construction, and due to the expiration of the bond period, an amount of Rs. 2.78 million could not be recovered from the advance.

University of Kelaniya

Construction of a building for the Faculty of Commerce and Management

Although a total of Rs. 15 million was paid as consultancy fees to the consultancy firm in 2020 and 2021 for the construction of a 10-story building for the Faculty of Commerce and Management, the construction work had not commenced by 31 December 2023.

Construction of a residential building

Construction work on the 4-story hostel building, which commenced on 10 August 2020, was instructed to be halted by the letter dated 21 June 2021 of the Director of the Ministry of Education (Infrastructure Development), due to reasons beyond the control of the university and the contractor. Due to the mutual agreement between both parties to terminate the contract midway, an additional payment of Rs. 4.03 million had to be made to the contractor. Furthermore, no efforts had been made to construct the necessary hostel building for students by the end of 2023, resulting in an unproductive expenditure of Rs. 65.46 million.

Sabaragamuwa University of Sri Lanka

Failure to complete the project in accordance with the specified standards

During the construction of a housing complex for the university's staff, 370 doors that were supposed to be finished using Powder Coated Aluminium and Cladding were instead made of Plywood. Additionally, Door Closers were not installed on 316 of these doors. Despite this, a lump sum amount for the total value of the housing units as approved in the price proposal had been paid, resulting in a loss of Rs. 13.94 million. Furthermore, according to the final bill presented by the contractor, payments amounting to Rs. 2.60 million had been made based on the engineer's certification for 03 work items that were neither completed nor requested by the contractor.

Non-compliance with Procurement Guidelines

In the purchase of library books for the Faculty of Technology in 2021 by the Science and Technology Human Resource Development Project under the Asian Development Bank loan, a supplier with no prior experience had been selected contrary to government procurement guidelines and 421 units of 118 book categories, amounting to 76% of the total procurement value, or Rs.20.20 million had been purchased. Out of this, 114 units of 33 book categories, valued at Rs. 7.59 million, were used books. Additionally, 179 units of 69 book categories that were not relevant to the syllabi had been purchased at a cost of Rs. 6.92 million. During this procurement, due to purchasing 227 units of 63 book categories at higher prices compared to the minimum prices at which old and new books are sold in the international market, a financial loss of Rs. 12.11 million had occurred.

The project to build the main library building

Despite paying Rs.63.01 million to the contractor as mobilization advances for initiating the construction of the main library building at Sabaragamuwa University, the contractor abandoned the project midway. However, due to the failure to encash the Rs. 72.46 million advance bond (including

VAT) before its expiration, it was not possible to recover Rs. 28.81 million from the advance payment.

University of Colombo

Non-completion, and cancellation of the research

Despite the fact that 13 research projects valued at Rs. 8.19 million, assigned to the academic staff of the University of Colombo between 2018 and 2020, were to be completed by the deadline, these projects were delayed for a period ranging from 1 ½ to 4 ½ years and had not been concluded. Furthermore, 17 research projects amounting to Rs.8.82 million were either abandoned or canceled due to various reasons during the years 2018, 2019, and 2020.

Direct acquisition of foreign grants

Without the knowledge or agreement of the Department of External Resources, the University of Sri Jayewardenepura and the University of Colombo had directly obtained foreign grants amounting to Rs. 144 million and Rs. 340 million, respectively, during the year under review.

Payments for unapproved medical insurance schemes

Despite instructions from the Budget Circular to cease the payment of any allowances, implementation of welfare programs, and provision of development assistance or relief not approved by the Cabinet, the University of Sri Jayewardenepura had paid Rs. 34.8 million for an internal insurance scheme from May 2022 to September 2023, while the University of Colombo had paid Rs. 37 million during the year under review, contrary to these guidelines.

Rajarata University of Sri Lanka

Failure to record the arrival and departure

According to Section 3.1 of Chapter xx of the University Establishments Code, all employees at every higher education institution are required to record their arrival and departure times. However, the academic staff had not complied with this requirement.

University Interconnectivity Management Software System

A contract agreement worth Rs. 17.5 million had been signed on 31 December 2020, to install a university interconnectivity management software system. Although the system was to be installed and handed over by 31 December 2021, it was not completed and handed over to the university up to 01 April 2024.

Constructions that halted midway

A contract agreement worth Rs. 52.7 million had been signed on 23 December 2016 for the construction of 04 dual-staff official residences in the Mihintale premises, with Rs. 15.86 million paid as mobilization advance. However, the contractor had halted the construction midway, and by the time work was stopped, the value of the completed work stood at Rs. 10.62 million. Accordingly, the university terminated the contract on 20 February 2019 and by that date, a sum of Rs. 15.76 million was still payable by the contractor to the university. Although there was an opportunity to cash the Rs. 3.95 million advance bond and Rs. 10.54 million performance bond before their expiry, no action was taken in this regard. No action had been taken against the responsible officials for failing to recover the excess payments and minimize the loss as of 01 April 2024, the date of audit.

Revaluation of the bond

According to the Internal Audit Circular Letters No. 03/2022 dated 12 December 2022, and internal circular No. 02/2022 dated 22 June 2022, it was not possible to revalue the bonds. However, contrary to these directives, it was decided through the 272nd Council Decision No. 05.10.27 dated 26 June 2023, that the bonds should be revalued in relation to the two lecturers who had violated the bond terms. Accordingly, the bond violations amounting to Rs. 15.15 million, which were due from the aforementioned two lecturers by 01 January 2023, had been written off from the 2023 financial statements.

Bhiksu University of Sri Lanka

Payment of water and Electricity bills for official Residence beneficiaries from the University Fund	According to the Establishments Code of the Democratic Socialist Republic of Sri Lanka and the circular of the University Grants Commission, although official residence beneficiaries are required to bear water and electricity expenses, a total of Rs. 15.48 million had been spent from the university fund on water and electricity in official residences during the year 2023.
Idle Assets	Although the construction of the hostel, which had been built to accommodate 25 international monk students without conducting a feasibility study, was completed on 14 January 2020, the proper procedures for enrolling foreign monk students for degree programmes were not established and implemented. As a result, the related buildings and installations, valued at Rs. 84.25 million, remained idle for over a period of 04 years.
Enterprise Resource Planning System	The contract for the establishment of an Enterprise Resource Planning (ERP) system for asset management, valued at Rs.8 million, was supposed to be completed by 31 May 2018 as per the agreement. However, it had still not been completed even as at 01 April 2024, the date of audit, and Rs. 4 million had already been spent.

Eastern University of Sri Lanka

Acquisition of lands for the Faculty of Health Care Sciences	The process of acquiring land for the Faculty of Health Care Sciences at the university had commenced in 2009 and the relevant land valuation report had been obtained by the Divisional Secretary in 2016. A sum of Rs.65.8 million had been allocated for payment to the Land Reform Commission in the year 2017, but money was not paid to the Land Reform Commission as per Section 17 of the Land Acquisition Act. As a result, the above lands were not acquired till 31 December 2023.

Education

The investments made by a country in education sector will define the future prosperity of that country. Although the rate of literacy in Sri Lanka surpassed many of the developed countries, the existing system of education has been unable to produce professionals skilled enough to be on par with demand of the world due to conventional methods followed in education sector. As such, it is the responsibility of the education sector to pave way for a society equipped with technical skills and knowledge through modern means of education. The key functions and responsibilities of the education sector, focused on achieving this objective are as follows.

Functions

Formulation and implementation of sectorial policies ensuring proper coordination between early childhood, and primary, secondary and tertiary sections.

To create a national system of education in view of a generation of children and adolescents facing the global challenges with confidence.

To provide policy guidelines for formulating a well-defined roadmap that spans from preschool education to the completion of higher education.

To ensure every child's right to access education and promote both curricular and extracurricular activities within schools.

To provide the necessary human and physical resources for national schools and to improve all physical facilities in all schools, including sanitation services, child-friendly classrooms, and residential and rest facilities for teachers

Regulation of international and private schools in accordance with national policy on education.

To implement the required policy steps to uphold the quality of education, student discipline, and ethics in an exemplary manner.

To take necessary steps to enhance national and link language education and to ensure educational opportunities for students with special needs.

To promote the studies of Buddhist and Pali studies, and promote education provided through Pirivena thereby ensuring achievement of objectives expected from religious education.

Staff management in the services of Sri Lanka Education Administrative Service, Principal’s Service, And Teachers’ Service and other services of education.

Development and promotion of school libraries, and implementation and operation of programme to facilitate school textbooks, uniforms, and other requirements of students.

Implementation, promotion, and development of modern technical facilities for learning and teaching processs.

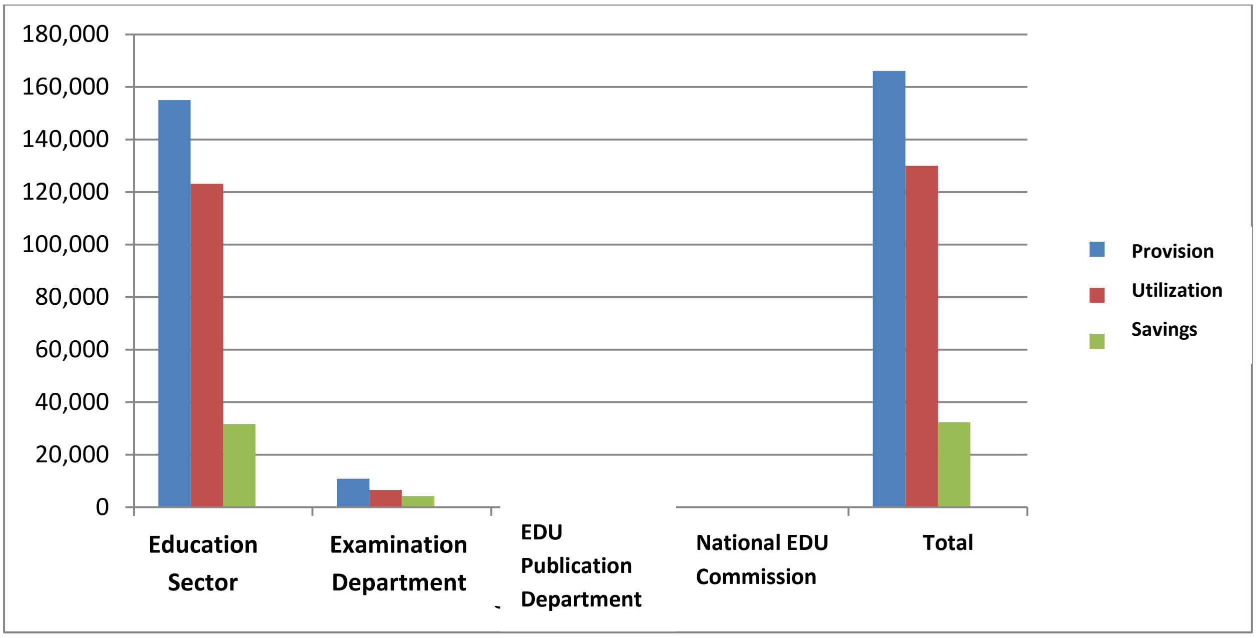
Introducing educational reforms that encompass the entire education sector in alignment with global needs.

Referring the recommendations of the Presidential Task Force and special committees on educational reforms to public discourse and developing an action plan to implement them appropriately for the advancement of education.

Expanding distance education opportunities through the integration of information technology.

Creating and training teachers, along with enhancing their skills, to ensure a productive teaching and learning process.

To accomplish these responsibilities, the Education Sector of the Ministry operated 02 departments and 02 statutory bodies. The details of the allocated funds and expenditures for these institutions are as follows.



Provision	154,951	10,813	173	78	166,015
Utilization	123,190	6,574	90	67	129,921
Saving	31,761	4,239	83	11	36,094

Figure 2.30 : Provisions and actual expenditure

Source: 2023 Financial Statements

Necessary changes to the provisions of the circular regarding the admission of students to the first grade of national schools

Due to the high number of applicants submitting deeds of lease to verify residency during the admission of students to the first grade of popular schools, and the fact that these applicants had entered into lease agreements at addresses close to the school to secure the 50 points for proximity, those holding deeds of lease were able to obtain higher scores than applicants with permanent residency. Even for deeds of lease registered for less than 6 months, applicants received 0.5 points and, by securing the 50 points for proximity from their residence to the school, a large number of students were admitted to the school. As a result, children with permanent residency in the area who had been living there for a long time lost their opportunity to be admitted to the school.

Under the category of children of parents who are alumni of the relevant school, the applicant is entitled to a maximum of 25 points for educational achievements gained during school years, 25 points for achievements in co-curricular activities, 24 points for membership in the alumni association, post-school educational achievements and various forms of support given for the school's progress, totaling 74 points. The 74 points were divided into subcategories based on the agreement of the interview board, as provided by the circular. In this process, the schools had used various modified criteria. As a result, there were irregularities due to awarding 74% of the total points based on the interview board's consensus.

Transactions of a Fraudulent nature

The property of the schools transferred to the government in accordance with the Assisted Schools and Training Colleges (Supplementary Provisions) Act No. 8 of 1961, is owned by the Ministry of Education, and the Western Provincial Council does not have the legal capacity to approve the lease properties belong to the Ministry to another individual. Nevertheless, according to the decision of the Western Provincial Cabinet, the land and buildings of the Co/Pinwatta Upananda School, covering 40 perches, were leased to an individual for the operation of an ancient puppets institution for a period of two years starting from 01 November 2008. Although the lease period has ended, no action has been taken to recover the property. Although the closure of a school should be done with the approval of the Schools Structure Committee, no approval from the Provincial Schools Structure Committee was obtained for the closure of this school.

Weaknesses in asset Management

According to the Assisted Schools and Training Colleges (Supplementary Provisions) Act, the Ministry of Education or the Provincial Offices did not maintain a data system that includes details such as the name, location, number of buildings, land area, and specifically from whom the schools and teacher training colleges were transferred, or any other related information.

The Abeygunasekara account, established for the benefit of the current and future students of Matara Rahula College, remained inactive for about six years, with Rs. 4.94 million deposited into the account. However, these funds were not utilized for the benefit of the students and it remained idle for about 06 years.

Despite having 06 conference rooms and auditoriums with a seating capacity ranging from 25 to 320 within the Ministry premises, a large number of workshops conducted by the Ministry of Education were held using lecture halls in external institutions, for which Rs. 10.59 million was paid.

Abandonment of projects without completion

Although the national program "Nearest School is the Best School," which was implemented from 2016 to 2020, had a financial liability of Rs. 5,439.91 million, it was terminated by 31 December 2020, without being fully completed. Similarly, the program to establish 1,000 national schools was initiated, yet it was halted midway after converting only around 23 schools into national schools.

Under the "Nearest School is the Best School" project, 45 projects worth Rs. 367 million, which were completed with the required consent, and 32 projects worth Rs. 352 million, which were partially completed due to funding limitations, remained within the Central Province by the end of the review year.

Under the national program for developing 1,000 secondary schools, three science laboratories, which were part of the project to build technological laboratories in schools, were discontinued halfway through, and Rs. 24.69 million had been spent on these laboratories.

Non-compliance with rules and regulations

According to Circular No. 20/2007 dated 13 December 2007 issued by the Secretary of the Ministry of Education, the maximum period of service for a teacher at a highly convenient school classification is limited to 6 years. However, in the four highly convenient schools examined, 113 teachers who had served for more than 10 years were still in service.

Despite the rule that no meetings, workshops, or events should be organized on the public days, the Ministry of Education had conducted 102 workshops on such days, according to the sample audit.

Contrary to the directives in the letter from the Director General of Establishments dated 27 April 2017, a sum of Rs. 7.42 million was paid in 2023 as resource contributor allowances to officials who were involved in non-lecture-related tasks, including preparing various subject-related manuals, compiling guidelines, drafting circulars, and developing teacher training modules, all of which were subject-oriented tasks.

Failure to update guidelines

In making decisions regarding current structural committee activities, actions were taken according to the guidelines compiled in 1981, which had not been updated to suit present-day needs. Furthermore, these guidelines had not received formal legal approval. The Ministry of Education continued to operate in accordance with these outdated guidelines.

Initiating new classes midway without structural committee approval

According to the Circular No. 17/2023 dated 25 April 2023, issued by the Secretary of the Ministry of Education, the number of classes or parallel classes in a national school should not be changed without the approval of the Ministry of Education's structural committee, and in the case of a provincial school, without the approval of the provincial structural committee. However, new classes for intermediate grades were commenced without the approval of the structural committees.

Starting new classes midway caused the loss of opportunities for children who had successfully passed the scholarship exams.

After children were admitted to the Grade 6 class based on the scholarship cut-off marks, some schools proceeded to admit new students to the Grade 7 class, which caused the loss of opportunities for children who had successfully completed the scholarship exam to enter those schools. Thus, in the 70 schools subjected to examination, new admissions to the 7th grade were recorded as 470 in 2016, 503 in 2017, 718 in 2018, 829 in 2019, 382 in 2020, 707 in 2021, and 889 in 2022.

According to Circular No. 13/2021 dated 28 May 2021, and the Cabinet decision issued on 02 January 2022, under No. 22/1960/607/079, the student numbers were set at 40 for classes from Grade 1 to Grade 5 and 45 for classes from Grade 6 to Grade 11. While this allowed the inclusion of an additional 5 students in each class through scholarships, the limit of 40 students was exceeded by the time students reached Grade 5, and more children were admitted into the classes. Out of the 70 schools examined, 25 schools had admitted 548 children beyond the limit. As a result, although the maximum student number in a class was increased from 40 in Grade 5 to 45 in Grade 6, there were still less number of vacancies in these classes. Consequently, the opportunity for more children to enter these classes through scholarship cut-off marks was lost.

Failure to establish a procedure for the regulation of international and private schools

It was observed according to the annual performance reports from 2015 to 2019 that, legal barriers to intervening in the regulation of international schools were identified, and advice was sought from the Attorney General's Department for amendments to the existing regulations. Accordingly, by 2019, it was expected that regulations would be established and legal provisions would be made for government-approved private schools. In this regard, the special performance report issued by the National Audit Office, titled "Regulation Process of Non-

Governmental Schools," highlighted the need for such actions. However, no steps were taken in this regard after 2019.

Failure to make use of the special education centre built for children with special needs.

A special education resource and information centre in Veniwelkola was established with an investment of Rs. 247 million, aiming to provide equal access to primary and secondary education for children with special needs. Although the centre was opened on 09 September 2019, it has not been built according to the children's needs and the specified contract requirements. As a result, even after four years, the centre had not been utilized for the children's benefit.

Performance of the Pirivena Sector

Although the amendments to the Pirivena Education Act No. 64 of 1979, proposed in 2018, were submitted for the Attorney General's approval, the Act was not amended even by 31 December 2023.

According to the 2013 Annual Performance Report, there was a mention of preparing a National Pirivena Education Plan. However, by the year 2023, the relevant plan had not been formulated.

According to the 2011 Annual Performance Report, 45 pirivena institutions had commenced trilingual education programmes. However, as of now, while 822 pirivena institutions are operational, none have implemented the trilingual education programme.

Failure to implement national educational reforms.

The State Ministry of Education Reforms, Open University, and Distance Education was established in 2020, and during the three years from 2020 to 2022, an amount of Rs. 5,219 million was spent. However, the planned national educational reforms could not be implemented.A provision of Rs. 200 million was allocated for the year 2023, but due to the temporary suspension of educational reforms in March 2023, the planned national educational reforms could not be implemented. Only the development of the national education policy framework was completed in 2023. As a result, the implementation of new educational reforms had been further delayed.

National Education Management Information System

A computer system (NEMIS) under 09 modules, which includes information about school students and teachers, was established with an investment of approximately Rs. 61 million. However, due to the failure to update the data system properly and carry out necessary improvements during the year under review, it was not possible to achieve the expected level of performance.

Performance of the Secondary Educational Sectorial Development Programme

According to the loan agreement entered into with the Asian Development Bank, it is required to pay interest on the loan amount received by the Government of Sri Lanka under a floating interest rate and a commitment fee of 0.15 percent on the uncollected loan amount. Accordingly, a total interest payment of Rs. 3,592 million was made on the released amount of USD 216 million for the year ended 31 December 2023, and a commitment fee of Rs. 103 million was paid on the unreleased amount of USD 184 million. Due to the delay in implementing the release-related indicator by the Ministry, commitment fees had to be paid, and if the programme continues to be unsuccessful, uneconomical costs will continue to arise, with the paid commitment fees also becoming a fruitless expense.

Failure to enter into agreements for maintenance services

In the year 2018, a 250-kilowatt solar energy system costing Rs. 28.5 million was installed in the department. The system must be maintained for a period of seven years from the date of installation, and a contract for maintenance services must be signed by the supplier before releasing 10% of the retained money, as stated in the bid documents.

Despite the fact that all funds related to this project were settled by the Examination Department by 12 July 2018, the department did not enter into an agreement with the service provider until 31 December 2023. Consequently, the maintenance of the solar energy system was not performed properly.

Although the service agreement related to the department's official website and e-services expired on 30 November 2021, the website remained unsecured due to the inability to update it.

The delay in computerizing exam result records from years prior to 1990

The project to develop software that would allow for the scanning and storage of exam results prior to 1990 in a way that they could be easily issued to the public when necessary, was not completed even by 31 December 2023. As a result, it was not possible to achieve the objectives of preserving old result records, scanning the original copies, obtaining certificates/verified copies based on the information in the result records, setting up a data system that would allow for accurate retrieval of exam results based on the index number and year, and maintaining all the details of the exam certificates within a computer information system.

Assets that have not been used since the date of purchase

Although a Wrapping Solution part valued at Rs. 8 million was purchased in 2018 for the web digital printing machine to ensure the confidentiality of question papers, it has remained inactive since it does not align with the current confidential document packaging procedure.

The Stitch Master Gathering and Wire Stitching machine purchased in 2005 was removed from use from the time of purchase until the end of the year under review due to paper falling out during operation.

Delays in the distribution of Braille textbooks

Out of the 5,698 Braille textbooks that were to be provided to 10 special schools/zones for the year 2023, only 1,659 books had been distributed by August 2023.

Recruitments not in conformity with the approved scheme of

recruitment

Despite a year having passed since the management of the National Institute of Education accepted all the deficiencies pointed out by the audit regarding two officers holding Deputy Director-General positions without the necessary qualifications in accordance with the relevant scheme of recruitment, these officers continued to receive their salaries and allowances.

Special Audit Report on the Admission of Students to Intermediate Grades in National Schools in the Years during the Period from 01 January 2020 to 31 May 2022

Admission on Letters issued by the Secretary Himself

The audit called for information from the principals about the admission of students to the schools, using 4,775 letters issued by the Secretary of Education from the year 2020 to 31 May 2022, apart from the formal system introduced through circulars by the same Secretary to admit students in the intermediate grades of national schools. Accordingly, in 37 schools that received that information, 2,237 students had been admitted by those principals to their schools using those letters.

Approval of Applications forwarded Directly to the Ministry

Despite specific procedures had been introduced by the circulars, the Secretary had issued 3,308 letters approving the admission of students to schools for applications/requests addressed directly to the Ministry principals only during the audited period from January 2020 to 31 May 31, 2022 without forwarding applications by parents/guardians to school in contrary to the provisions mentioned in those circulars.

Various Authority Orders

It was observed that about 2,367 of the 3,308 approved letters equivalent to 72 per cent were made as per the representations that could be identified as various authoritative persons/places/orders from public representatives including government Ministers, Heads of Departments, the President's Office, the Prime Minister's Office, Parliament etc.

Deprivation of equal Admission opportunities for students

In making requests by public representatives, the requests/orders/recommendations had been submitted to the Secretary of the Ministry of Education to admit the students stating various relationships with the applicants and although such things may happen depending on the relationship between public representatives and citizens, it was further observed that the Secretary had violated the circular by issuing unconditional letters on such requests and deprived the students' equal access opportunities.

Deprivation of opportunities for scholarship students

The 371 scholarship students who passed a very competitive entrance exam were deprived of the opportunity to be admitted to an extremely popular school in various ways and the Secretary had arranged to give the opportunity to the students who were not qualified and/or did not apply for admission to that school based on the scholarship results at that time.

Failure of formulating of National Education Policy

Even though the Cabinet of Ministers had ordered the Secretary of the Ministry of Education to prepare the National Education Policy, It was not observed in the audit that such a national policy had been prepared till the date of this report.

Informal Process of Admission of students to Intermediate Grades in National Schools

Even though a detailed audit has been conducted regarding the admission of students to intermediate grades in national schools during the period from January 2020 to 31 May 2022, according to the audit test check conducted after that period up to 31 October 2022, a number of 281 students had been admitted to 09 schools. Further, even though the new circular 17/2023 dated 25 April 2023 had been issued with the aim of streamlining the system of admission of students for intermediate grades according to the decision of the Cabinet of Ministers dated 02 January 2023 , it was observed during the audit test check that 103 students were admitted to 09 national schools even after that circular. Accordingly, it was observed that the Secretary of the Ministry of Education is continuing the informal process that has been carried out since the past at his own discretion, overriding the circular provisions in admitting students to the intermediate grades of national schools.

Skills Development and Vocational Education

Setting the background to establish a regional innovation hub by creating a smart society equipped with knowledge, professional competence and skills and creating an ecosystem conducive to the promotion of research and innovation is a pressing need today. For that end, it is essential that the current and future workforce be modernized to suit a more complex economic pattern. Higher and tertiary education opportunities in the economy should be increased to fill the gap between skills and knowledge to achieve that purpose. One department and 20 statutory bodies under the Skills Development, Vocational Education, Research and Innovation Division under the purview of the Ministry of Education should have performed the following role in order to fulfil that expectation.

Functions

Formulate and implement strategies to increase the orientation towards vocational education.

Creating opportunities to get professional education regardless of educational qualifications, providing career and facilities to students who are not qualified for university education. Formulating policies to expand educational opportunities

Modernization of technical and technological education to create a workforce suitable for local and foreign job markets.

Modernizing the professional curricula - Networking the relevant institutes under the concept of One TVET and turning them into institutions awarding technological degrees.

Taking steps to promote apprenticeship training opportunities.

Increasing the existing National Vocational Qualification (NVQ) levels from level 7 to level 10 and revising the Sri Lanka Qualification Framework (SLQF) accordingly.

Revision of Curricula to include entrepreneurship, information technology, English and other languages in professional education courses.

Expanding vocational training opportunities through mobile technical education services.

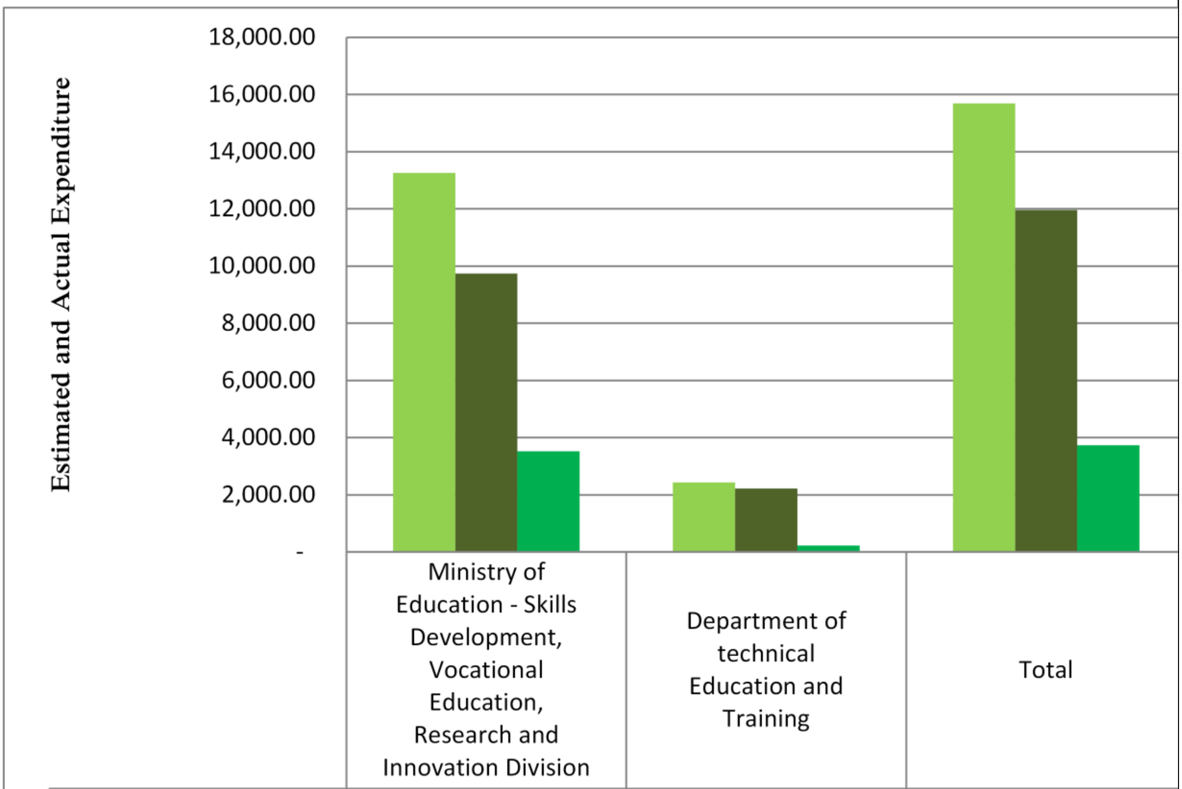
Facilitating research institutions to collaborate with international research institutes.

Taking necessary steps to establish national innovation institutes and developing an efficient mechanism to utilize outcomes of innovation and research.

Taking necessary steps to expand scientific, industrial and social, economic, research and development activities.

Directing and motivating the community for new discoveries.

The Parliament had made an allocation of Rs. 15,690.10 million for the year under review in order to fulfill the above-mentioned role. A sum of Rs. 11,952.82 million, out of that, had been utilized. Accordingly, allocation amounting to Rs. 3,737.28 million or 24 percent of the allocation made by the Parliament during that period had not been utilized. Details are indicated in the diagram.



	Ministry of Education - Skills Development, Vocational Education, Research and Innovation Division	Department of technical Education and Training	Total
Provision (Rs.Million)	13,253.10	2,437.00	15,690.10
Expenditure (Rs.Million)	9,737.86	2,214.96	11,952.82
Savings (Rs.Million)	3,515.24	222.04	3,737.28

Diagram 2.35 – Provision made by the Parliament and Utilization
Source - Final Accounting Statements of the General Treasury

Audit Observations

Ministry of Education - Skills Development, Vocational Education, Research and Innovation Division

Sending Skilled Workers Abroad

A Memorandum of Understanding was signed between the State Ministry of Skills Development and Foreign Employment Promotion with the aim of sending 100,000 skilled workers abroad in the year 2021. However, only the information of 1,606 trainees had been forwarded to the Sri Lanka Bureau of Foreign Employment in 05 instances until 31 December 2023 under this aim. The Ministry had not possessed the information related to the actual number of trainees who went abroad, their jobs and problems.

Shortage of Skilled Workers

When comparing the foreign employment related information sent by the Foreign Employment Bureau in 02 instances, there were highly-demanded job opportunities of 65,657 in the field of foreign employment, and out of those job opportunities, there were 33,596 job opportunities, for which skilled workers could have been directed further. However, steps had not been taken to direct the skilled workers for those job opportunities.

Skills Development Officers

A strong contribution should be obtained from Skills Development Assistants to create a skilled workforce for contributing to industry and service sectors for the achievement of the economic growth in Sri Lanka, and for that, 317 Skills Development Assistants had been attached to 474 Divisional Secretariats across the island and the 58 of Skills Development Assistants had also been attached to the District Secretariats. However, when checking the performance of those officers in the year 2023, the progress of the year in relation to 18 of the 22 main tasks that had been assigned to them had been a low value ranging from 0 percent to 35 percent.

Tertiary and Vocational Education Commission

National Vocational Education Development Plan

The preparation of the National Vocational Education Development Plan, which was one of the primary objectives of the Tertiary and Vocational Education Commission Act No. 20 of 1990, had not been carried out even by the end of the year 2023 although 32 years had passed since the establishments of the Commission. Although the Commission had started preparing a vocational education and training plan for the Western Province in the year 2013, it had been unable to prepare and complete the plan even by the end of the year 2023.

Unregistered Institutions	Even though it had been recommended at the meeting of the Committee on Public Enterprises in the year 2023 to amend the Act in a way that it is possible to take legal action against the institutions operating outside the regulation of the Tertiary and Vocational Education Commission, the work of amending the Act had not been completed in the year under review. Furthermore, it was observed in the audit test check carried out on 15 September 2023 regarding the institutes temporarily banned from conducting courses by the Commission, 13 institutes, out of 16 institutes, are enrolling students for those courses and carrying out their teaching activities as usual, ignoring the orders of the regulatory body.
Non-renewal of the Registration	Requests had not been made by 16 institutions, whose registration had expired for more than 20 years, and by 486 institutions whose registration had expired for a period of 05 years to 20 years, to renew their registration by the month of March 2024, out of the institutions, which had registered with the Commission. Furthermore, the Commission had not implemented any programme to check whether vocational training activities are being carried out without the renewal of the registration. Moreover, 36 institutions had requested to renew their registration from 2016 to 2022, but the registration of those institutions had not been renewed.

University of Vocational Technology

Quality Assurance of the Courses	Accreditation could not be obtained due to the inability to assure the quality of the degree courses up to the expected standard until 31 December 2023 for the engineering degree courses operated by the University of Vocational Technology even though more than 10 years have passed since the establishment of the University.
Incomplete Constructions	The Cabinet of Ministers had approved the construction of a building with a multi-purpose studio complex and a lecture hall complex for the university on 27 April 2011, and for that purpose Rs. 434.4 million had been allocated from the Treasury and through the Sectoral Skills Development Project. A sum of Rs. 304.5 million, out of that, had been spent by 31 December 2020. However, the building could not be utilized.

Vocational Training Authority of Sri Lanka

Vocational Training Centres

Suspending the constructions midway

A sum of Rs.19.05 million had spent for the construction of the workshop building, which had been started at Hambantota Mirijjawila National Vocational Training Centre of the Vocational Training Authority of Sri Lanka and the construction had been suspended from January 2015. The construction work had not been completed and the building was not ready for use even by the end of the year 2023.

Idle Assets – Hostels

Even though a fully equipped hostel for students with 48 rooms that can accommodate nearly 100 students had been constructed at Sri Lanka National Vocational Training Institute at Orugudawatta owned by the Authority in the year 2020 with the assistance of the Korean government, necessary action had not been taken to provide residential facilities for students, who follow full time courses.

Although a two-storied and fully equipped hostel building consisted of 12 rooms that can accommodate 52 apprentices of the Kuchchaveli Hotel School belonging to the Authority had been constructed at a cost of Rs. 140.21 million from the funds of the Skills Sector Development Project, it was not possible to use that hostel also due to the inability of getting a permanent water supply.

Idle Assets – Lands

The land in extent of 02 roods and 33.5 perches located in Welewatta of Henakaduwa in Hambantota District, which was purchased by the Authority at a cost of Rs.5.82 million in the year 2010 and a land in extent of 01 acre in Modarawila of Panadura which was acquired in the year 2017 at a cost of Rs.34.03 million on a long term lease basis had not been used for vocational training activities even by the year 2023.

Information and Communication Technology Industry Skills Council

Information System

Even though a mobile application had been designed by the Council at a cost of 11.23 million to register students industrialists, who complete the courses in the Technical, Vocational Education and Training (TVET) Sector & industries, the relevant stakeholders could not get the benefits as the facilities had not been provided to implement it.

Ocean University of Sri Lanka

Not providing Sisu Saviya bursaries

A sum of Rs.6.63 million had been provided to the Ocean University of Sri Lanka for 418 students in June 2023 under Nipunatha Sisu Saviya bursary scheme implemented by the Ministry for students with financial difficulties. Only a sum of Rs.0.62 million, out of that, had been paid for 178 students and the remaining amount of Rs. 6.01 million had been credited to a current account and retained the amount idly in that account up to 31 December 2023.

Sri Lanka Institute of Advanced Technological Education

Incomplete Constructions

Even though the work of 3 floors of the building constructed at a cost of Rs.20.49 million in the premises of the Institute of Advanced Technology at Dehiwala with the aim of conducting the head office of the institute had been completed and handed over to the institute on 21 February 2017, the building remained idle due to the non-completion of the work of the remaining two floors. A sum of Rs. 64.48 million had to be spent as rent for conducting the head office for the period from the year 2017 to December 2023 due to non-completion of the building as expected. Although an amount of Rs. 4.25 million had been spent for the modernization of the building, the operations of the head office had not been started in that building until 30 June 2024.

National Apprenticeship and Vocational Training Authority

Non-availability of equipment for training

The Katunayake Institute of Engineering Technology owned by the Authority had received a sum of Rs. 1,936 million as foreign aid (loan) under the Austrian project led by the line ministry in the year 2021. Training equipment amounting to Rs. 13.7 million to be received under that had not been received by the institute until the year 2024. Even though a sum of Rs. 68.5 million had been paid to bring the training equipment worth Rs. 87.6 million into usable condition, they had not been installed in a way that the equipment could be used, and not receiving the other equipment required for using the training equipment, the equipment could not be used effectively even though 02 years had passed.

National School of Business Management (NSBM)

Operational Manual on Finance and Accounting

Action had not been taken to get the approval of the Director General of the Department of the Public Enterprises according to the relevant Guidelines and Public Enterprises Circulars for Operational Manual of Finance and Accounting prepared by the School.

Furthermore, the approval of the Director General of Public Enterprises had not been obtained as per the relevant circulars for the specific staff and remuneration, schemes of staff recruitment and promotion used by the School.

Increase in Course Fees

The approval had been obtained subject to the increase of the course fees of the Phase II project of the National School of Business Management once in every three years only. However, the course fees had been increased in contrary to that for 12 courses in the years 2020 and 2021 on the basis of once a year and for 17 courses in the years 2022 and 2023 on the basis of twice a year in a range of 17 percent to 75 percent for the degree courses approved by the University Grants Commission and foreign university affiliated degree courses.

University College of Anuradhapura

About 600 students study annually in the buildings constructed in the land in extent of 01 acre, out of the land in extent of 02 acres, 03 roods, and 17 perches, proposed to be provided to the University College of Anuradhapura by the Secretary of the Ministry of Youth Affairs and Skills Development through the letter No. 4-1/2/1/4/4/III dated 04 September 2013, with the approval of the Director General of the Department of Technical Education and Training. There were 04 old houses belonging to University College of Anuradhapura located in the remaining area of the land, and those houses were planned to be demolished after 03 years and the residents were to be evicted in the year 2017. However, the Governing Authority had not taken steps to complete the work and get the undisturbed possession of the land until December 2023. Due to this, it was not possible to construct buildings for the development of the University College and to create a free and beautiful physical environment for the students within the limited space available.

Arthur C. Clarke Institute for Modern Technology

Idle Assets	Even though the Arthur C. Clarke Institute for Modern Technology had purchased an unmanned aerial vehicle worth Rs.10.56 million in the 2016 and had spent a sum of Rs. 0.11 million to operate it, and necessary training and permission to fly had been obtained with the purpose of taking photographs for archaeological exploration and excavation work, it remained idle without being used for the relevant purpose since the date of its purchase.

Sri Lanka Inventors Commission

Information System	The data system prepared by the Commission in the year 2018 at the cost of Rs. 4.6 million without a proper feasibility study and plan for handling the applications received for obtaining loans and grants through the Innovation Acceleration Mechanism remained inactive by the year under review and all the applications that have been received so far had been 39.

Public Administration

The Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government functions to pave way for a "Work culture for the country" based on national policies to be implemented by the Government.

Functions

Formulation of policies related to Home Affairs, Provincial Councils and Local Government.

Implementation of projects under the National Budget, and State Investment and National Development Program.

Administrative and Personnel Management in Sri Lanka Administrative Service, Sri Lanka Accountancy Service, Sri Lanka Planning Service, Sri Lanka Engineering Service, Sri Lanka Scientific Service, Sri Lanka Architect Service, Sri Lanka Technology Service and combined Services.

Perform the tasks to be performed by the government related to Parliament and the affairs of the members of Parliament.

Provision totalling Rs. 51,285 million had been made of the Ministry for the year 2023, and only a sum of Rs. 39,447 million had been utilized therefrom by the end of the year under review, thus failing to utilize a sum of Rs. 11,837 million. Twenty-five District Secretariats, 341 Divisional Secretariats, 341 Local Authorities, 03 Departments, 05 Corporations/Boards, and a Commission function under this Ministry to achieve the objectives thereunder.

A summary of significant and material audit observations made in the sample audits conducted on the discharge of said functions by the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government, is given below.

Audit Observations

Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government

Failure to Take Action to Recover the Outstanding Rents on Buildings

According to Paragraph 4(b) of the Fiscal Policy Circular No. 01/2015 dated 20 July 2015, action should be taken expeditiously by the Revenue Accounting Officer to recover the outstanding revenue and avoid the further accumulation of outstanding revenue. However, an outstanding rent on buildings totalling Rs.

332.7 million remained due from 32 institutions as at 31 December 2023. A sum of Rs. 198.7 million therefrom should have been recovered during a period of over 03 years prior to 31 December 2020. A sum of Rs. 59 million equivalent to 18 per cent of the said due balance, remained recoverable from Government bungalows, circuit bungalows, and official quarters under this Ministry.

Furthermore, development of the database relating to the buildings under revenue code of the Ministry, had been commenced in the year 2021, but that process was not completed by the Ministry even by 30 May 2024.

Improper Scheduling of Government Quarters

Houses could be built for posts and scheduled in terms of Sections 1.1 and 1.2 in Chapter XIX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka. Accordingly, it was determined that there were no scheduled houses under this Ministry in accordance with the Public Administration Circular No. 11/2003 dated 17 October 2003. However, contrary to the Establishments Code and the said Circular, 06 and 16 common houses had been scheduled under approval of the Minister and Secretary of the Ministry respectively, and given to the officers.

Non-implementation of the Transfer Policy

Transfers of the officers in all island and combined services had not been executed thus failing to achieve the objectives mentioned in Paragraph 247 of Chapter XVIII in the procedural rules given in Gazette Extraordinary No. 2310/29 dated 14 December 2022. It was also observed that transfer policy had not been properly executed for officers subject to mandatory transfer. Transfer orders had been given only to 197 of the 602 officers in Sri Lanka Administrative Service, Sri Lanka Accountants' Service and Sri Lanka Planning Service who had furnished applications and 3,916 of the 14,323 officers in 07 categories of services under combined service who had furnished applications.

According to the decision, taken at the Cabinet meeting held on 29 November 2022 relating to the criteria for the appointment of

District Secretaries, that a Committee be appointed to revise the criteria for appointment of District Secretaries, a Committee comprising 03 officers had been appointed on 02 December 2022. However, the relevant criteria had not been prepared and presented to the Cabinet even by 30 May 2024.

Underutilization of Provision of the e-Grama Niladhari Project

It had been planned that the first stage of e-Grama Niladhari Project facilitating the collection of data on day to day requirements relating to the services rendered by the Grama Niladharis to the general public be implemented at 133 Grama Niladhari divisions in 04 selected Divisional Secretariats as a pilot project under an estimated cost of Rs. 56.94 million; and, based on the success thereof, the second stage be implemented in 7,000 Grama Niladhari divisions at an estimated cost of Rs. 1,689.22 million. Only 2.5 per cent or Rs. 37 million of the total provision made in that connection amounting to Rs. 1,500 million for the year 2023, had been expended. Annual provision had not been separately shown for the years 2017-2019, and although provision amounting to Rs. 3,080 million had been made on the project for the period from 2020 to 31 December 2023, only a sum of Rs. 368 million had been expended as the project had not been implemented as planned.

Abandonment of Constructions of the 2000 Seat Auditorium in Galle

Provision amounting to Rs. 2,700 million had been made on this construction during the period 2019-2020, but construction works had been abandoned by 14 June 2023 after expending a sum of Rs. 718.6 million. Action had not been taken either to encash or extend the validity period of the performance bond worth Rs. 133 million and expired on 15 February 2022. Furthermore, validity period of the advance bond given by the contractor, had not been extended after 29 January 2022 whilst the value of non-settled advance, amounted to Rs. 475 million. A photograph of the auditorium, the constructions of which had been abandoned, is given below.

Photograph No.2.1 A photograph of the auditorium, the constructions of which had been abandoned

Underutilization of Funds on Foreign-funded Projects

Name of Project	Provision for 2023 (Rs. Million)		Expenditure during 2023 (Rs. Million)
Operation of a business centre for incubator – Jaffna	Foreign grants – Government of Sri Lanka -	250 50	0.49
Waste to value Project	Grants from German Government – Government of Sri Lanka -	260 15	None
Water and waste water t Investment Management Programme - Greater Colombo.	European investment banks Government of Sri Lanka-	947 380	None
Infrastructure development of the rural bridge and construction project.	Credit from United Kingdom -	200	None

Failure to Present the Report of Delimitation of Boundaries

Two years had elapsed since the first Cabinet Decision had been given on delimitation of boundaries whereas a year had passed since the first Cabinet Decision had been given. Although a sum of

Rs. 7.76 million had been expended in that connection during the years 2021 and 2022, the detailed final report with approval of the coordinating committee, had not been presented to the Cabinet even by 30 May 2024.

District Secretariats

The following matters were observed in sample audits conducted on the Grama Shakthi People's Movement implemented by the District Secretariats.

Grama Shakthi People's Movement

A balance of Rs. 33.62 million remained idle over 03 years as at 31 December 2023 in 111 bank accounts being maintained under Grama Shakthi Associations in the divisions of 12 Divisional Secretariats of Hambanthota district using funds granted under Grama Shakthi People's Movement implemented from provision of the head of expenditure of the President during 2018-2019. Of the loan totaling Rs. 5.14 million granted under circular loan scheme by 13 Grama Shakthi Associations in 06 Divisional Secretariats, a sum of Rs. 1.33 million comprising a loan amount of Rs. 1.28 million and interest of Rs. 52,824, had not been recovered as at 31 December 2023.

A number of 103 Grama Shakthi Associations had been registered under this programme in 09 Divisional Secretariats of Kalutara district; and, 80 of those Associations equivalent to 78 per cent remained non-functional as at 31 December 2023. As such, a balance of Rs. 28.323 million remained idle in the bank accounts of those Associations as at that date. Out of the self-employment loans granted to the members of such Associations that remained functional in 05 Divisional Secretariats, a sum of Rs. 2.285 million also remained unsettled as at 31 December 2023.

Ninty-nine Associations of the first and second stages of the Grama Shakthi People's Movement pertaining to the Matara Divisional Secretariat of Matara district, remained non-functional, and a balance of Rs. 36.2 million remained idle in the bank accounts of those Associations as at 31 March 2023.

A sum of Rs. 77.97 million or 44 per cent of the sum of Rs. 178.79 million granted for circular loan programme and capacity development of the Kurunegala district under first stage of the Grama Shakthi People's Movement implemented in Kurunegala district, had not been utilized even by the end of the year under review.

A building and a cold room had been constructed for storing seed beans at an expenditure of Rs. 6.9 million in the year 2018 under Grama Shakthi People's Movement implemented at Hanguranketha Divisional Secretariat of the Nuwara Eliya district. However, those assets remained idle without being used for the intended purpose even by 31 December of the year under review.

A number of 61 of 85 Grama Shakthi Associations established in the divisions of the Divisional Secretariats of Elahera, Thamankaduwa, Medirigiriya, Lankapura, Hingurakgoda, Welikanda and Dimbulagala in Polonnaruwa district, remained non-functional; and, a balance of Rs. 16.37 million remained idle in the banks accounts of those Associations as at 31 December 2023.

A number of 121 of the 166 Grama Shakthi Associations established under first and second stages of the Grama Shakthi People's Movement in 16 Divisional Secretariats of the Puttalam district, remained non-functional; and, a balance of Rs. 102.39 million in the bank accounts of those Associations remained idle as at 31 December 2023.

District Secretariat, Ampara

Obtaining Allowances for the Paddy Purchasing Programme

According to the Section 4.2 of the Circular No. DRD/2023-1 of the Ministry of Finance, Economic Stabilization and National Policies dated 09 February 2023 relating to paddy purchasing programme for the Maha Seasosn of 22/2023 and programme for the disposal of paddy stocks, the District Secretary should take measures to incur operational expenses on the purchase of paddy in accordance with the relevant Financial Regulations, Circulars and other approvals of the Government.

However, the District Secretariat, Ampara had made provision amounting to Rs. 30.890 million equivalent to 01 per cent of the 3,089 million - the total amount provisioned, for administrative expenses of the District Secretariat and 17 Divisional Secretariats in the manner as same as allocations had been made on administrative expenses of the normal projects. Accordingly, following a decision taken by a Committee chaired by the District Secretary, Ampara, a sum equivalent to ¼ of the basic salary of the officers totaling Rs. 15.58 million had been paid as administrative expenses in full by July 2023 sans approval of the Treasury based on the number of months in which those officers had taken part in the project. In addition to that, a sum of Rs. 0.37 million had been paid out of those funds as holiday pay, overtime payments and travelling expenses to 16 officers of the Divisional Secretariat, Uhana.

Funds not Received by the District Secretariat

As for the remaining stock of paddy at the District Secretariat, Ampara under the programme for purchasing paddy in Maha Seasosn of 2022/2023 and disposal of paddy stocks, a buyers had been selected by calling for tenders in September 2023. However, action had not been taken by 24 mill owners in 07 Divisional Secretariats to provide 1,226,373 Kg of paddy valued at Rs. 170.12 million to the buyer even up to 05 May 2024 thus failing to give the funds to the District Secretariat.

District Secretariat, Anuradhapura

Loan Programme on Livestock Resources

A loan programme had been implemented in the year 2010 by the Sri Lanka Women's Bureau under supervision of the Women Development Officers. By stating that the sum was insufficient for the intended purpose, a sum of Rs. 33 million remained idle over 02 years in the bank accounts opened for granting livestock loans relating to 10 Divisional Secretariats.

Release of Lands for the Construction of Communication Towers

In instances where owners give on lease a part of their lands vested in them through deeds of transfer, for the commercial purpose of constructing communication towers, such deeds of transfer should be taken over by the Government and action should be taken in accordance with Part VI of the Circular No. 2020/02 titled "follow up action on the deeds of transfer issued under Land Development Ordinance of the Commissioner General of Lands" dated 06 February 2020. Nevertheless, it had not been so done with respect to 139 communication towers built in the divisions of 14 Divisional Secretariats of the Anuradhapura district.

It had been allowed to construct 04 communication towers at lands in extent of over 66.9 perches granted under deeds of transfer in the division of Divisional Secretariat, Polpithigama in Kurunegala district without being approved by the Government. The relevant owners were earning an income through those towers. However, the relevant authorities had not taken action in order for those lands to be taken over by the Government and dispose.

District Secretariat, Badulla

Obtaining Fuel Allowance While Using Pool Vehicles

Having used the pool vehicle for all official purposes and obtained fuel through fuel orders, 02 of the Divisional Secretaries of Divisional Secretariat, Kandaketiya had also obtained fuel allowances valued at Rs. 0.8 million during the period from February 2022 to April 2023. Nevertheless, the overpaid fuel allowance had not been recovered in terms of Financial Regulation 119 even by 31 December 2023.

Non-resettlement of Families at Higher Risk for Landslides

A sum of Rs. 46 million had been expended relating to 02 Divisional Secretariats for the resettlement of 236 families in 03 Divisional Secretariats who had been at higher risk of landslides. Despite the lapse of 03-10 years since the implementation of the project, no measures had effectively been taken to resettle those families. As such, it was observed that the said families still dwelled at the same places irrespective of the risk for their lives.

Underutilized Assets

Two pepper drier machines costing Rs. 4.5 million installed on 20 and 21 May 2022 by the Divisional Secretariats of Kandaketiya and Haldummulla with respect to the projects for production of white pepper, remained underutilized even by 31 March 2024.

District Secretariat, Batticaloa

Issue of One Day Permits for Mining and Transporting of Sand, Soil and Gravel without Authority

According to Mines and Minerals Act No. 33 of 1992 and the Amended Act No. 66 of 2009, the Director General of the Geological Survey and Mines Bureau is authorized to issue a one-day permit on sand, soil and gravel for non-commercial purposes whereas the Divisional Secretaries were responsible for issuing licenses on mining and transportation. As defined by the Guidelines of the Geological Survey and Mines Bureau, the non-commercial activities included small scale mining done for self requirements without commercial objectives. Nevertheless, it was observed that a one day permit had been issued on commercial purposes by the Divisional Secretariat of Manmunai South-West. Accordingly, a one day permit had been issued for 04 persons to mine and transport 64 cubes of sand and 508 cubes of soil & gravel over a period of 16 months from January 2022 to 30 April 2023.

Encroachment of Lands

In terms of Land Directive No. 180, Circular No. 2008/04 of the Commissioner General of Lands , and Circular No. 10 of the Ministry of Lands dated 15 June 1995, it is the responsibility and obligation of the Divisional Secretaries and Grama Niladharis to prevent the encroachment of Government lands. Nevertheless, a Government land in extent of 04 acres located in the Grama Niladhari division of Kannakipuram, had been encroached by 02 Grama Niladharis attached to the Divisional Secretariat, Koralai Paththu, but no action whatsoever had been taken by the Divisional Secretary in that connection.

Improper Release of Lands

A Government land used for common activities located near the housing scheme at the Grama Niladhari division of Kuburu Molai in Divisional Secretariat, Koralai Paththu, had been released to 50 persons who had not been selected by properly conducting land kachcheris. As for the said alienation of the Government land, the blocking out diagram (BOD) of the Department of Surveys had been blocked, and approvals of the district land use committee, provincial commissioner of lands and commissioner/general of the land kachcheri, had not been obtained. With the objective of alienation, the electoral register of those persons had intentionally been transferred to the Grama Niladhari division of Kumpurumulai in the Divisional Secretariat, Koralai Paththu. It was observed in audit that many of them had not occupied those lands and more than 50 plots had been demarcated using fences and makeshift huts had been made.

Resettlement of Tsunami Victims

Lands had been acquired from Thirai Madu area in the Divisional Secretariat, Manmunai North under the Land Acquisition Act in the year 2005 for the resettlement of Tsunami victims. Fifty of those land plots had been granted by the Divisional Secretariat to the Government officers who had not been affected by Tsunami. In addition to that, they had also been given housing loans by the National Housing Development Authority (NHDA), thus observing that the lands so acquired, had been misused.

District Secretariat, Gampaha

Abandonment of Projects Halfway

Having expended sums of Rs. 8.4 million, Rs. 0.6 million, and Rs. 5.1 million on 19, two and 14 projects implemented by the Divisional Secretariats of Dompe, Divulapitiya, and Attanagalla respectively, those projects had been abandoned.

Construction of Seva Piyasa and Buildings for Official Services

The Divisional Secretariat, Mirigama had expended a sum of Rs. 1.4 million for constructing 07 buildings for providing official services whilst a so 8.2 million had been expended to construct 10

Seva Piyasa buildings. However, those buildings could not be used as the constructions had not been completed.

District Secretariat, Kalutara

Failure to Vest the Rights to the Houses in Beneficiaries

As disclosed in a sample audit, the rights to the lands and houses purchased from the grants of Rs. 24.075 million given by the Ministry of Disaster Management through the District Secretariat, Kalutara to 16 beneficiaries from 04 Divisional Secretariats, had not been vested in the relevant beneficiaries. Furthermore, a sum of Rs. 4.6 million had also been granted to 03 beneficiaries from 03 other Divisional Secretariats for purchasing houses. The lands with houses, purchased by them, had later been sold to other parties, but no action had been taken in that connection. Rights to the lands and buildings purchased from grants amounting to Rs. 9.5 million paid to 6 beneficiaries in 03 Divisional Secretariats, had not been vested in the relevant beneficiaries.

Buildings not in Use

According to information made available to the Audit, 65 buildings belonging to 09 Divisional Secretariats in Kalutara district remained idle and decaying as at 27 February 2024. Ownership of 26 of those buildings belonged to the Divisional Secretariat whereas the other 39 buildings belonged to other external government institutions, and 48 of the buildings remained usable after being repaired, but no attention had been brought thereon.

Saubhagya Production Villages Programme

A sum of Rs. 8.723 million had been expended on the project for value addition to spadeleaf implemented under the Saubhagya Production Village programme at the Divisional Secretariat, Milleniya in Kalutara district. A food drier and a grinding machine the values of which had not been made available to the Audit, and remained unused for 05 years despite being received by the Divisional Secretariat in the year 2017 under the National Food Programme, were also provided for the project. In spite of being mentioned that it was a key objective of the project to obtain quality assurance certificates for the products, such certificates could not be obtained due to failure in fulfilling the necessary requirements. As such, the products could not be introduced to the foreign and local markets as expected. The project was suspended rather than taking suitable measures by recognizing the requirements to obtain the said certificates in the future.

Furthermore, 72 beneficiaries had been provided with flower pot moulds, roofing sheets and GI pipes valued at Rs. 6.492 million by the Divisional Secretariat, Bandaragama in order to improve the cement-related products under this programme. It was revealed at the sample field inspection carried out by the Audit on 20 beneficiaries of the programme that the said items worth Rs. 1.312 million given to 14 beneficiaries, remained underutilized even up to the date of audit on 19 January 2024.

District Secretariat, Kilinochchiya

Non-recovered Lease Rents

Lease rents and fines totaling Rs. 3.13 million relating to the land given on lease by the Divisional Secretariat, Karachchi during the period 2005-2023, had not been recovered.

Underutilized Assets

A sum of Rs. 62.64 million had been expended by the District Secretariat for the production of jaggery, papadam, toddy packaging, compost, and moringa leave powder, and purchasing machinery to process fruits and vegetables under miscellaneous Ministries and projects as well as restoration of buildings and construction of yards and centers relating to various objectives. Those items had been handed over to 04 cooperative societies and 02 village development societies in the years 2018 and 2019. However, it was observed that the said machinery, yards and centers remained idle over 05 years without being utilized for the intended purposes.

Unused Assets

Four community halls and buildings worth Rs. 4.6 million pertaining to the Divisional Secretariat, Palai, remained unused over a period of 01-10 years. Four community halls and buildings worth Rs. 4.6 million pertaining to the Divisional Secretariat, Palai, remained unused over a period of 01-10 years.

District Secretariat, Kandy

Failure to Obtain the Expected Benefits

A period of 02 years had passed since a 4.08 Kw solar system worth Rs. 01 million had been installed on the roof of Nila Piyasa Government housing scheme pertaining to the District Secretariat, Kandy in the year 2021. However, action had not been taken even by the end of the year under review to generate an income through the sale of 4.08 Kw electricity generated by the solar system.

Uneconomic Transactions

Despite the non-implementation of development projects on budget proposals rurally after April 2022, special allowances totaling Rs. 2.1 million had been paid to 20 officers of 17 Divisional Secretariats and the District Secretariat during the period from 01 April 2022 to 31 December 2023.

Saubhagya Production Village Programme

Under the Saubhagya Production Village Programme in the year 2021, a flour grinding industry had been commenced for the low income families in the Grama Niladhari division of Bulathwelkandua by the Divisional Secretariat, Minipe. Accordingly, a sum of Rs. 4.65 million had been expended on the project activities including the construction of a building for flour processing center, purchase of a drier machine, and providing 33 grinding machines for 33 beneficiaries. However, it was observed in the physical inspection carried out on 27 February 2024 that a drying process was not done at the flour processing center, thus the sum of Rs. 2.9 million incurred thereon had become fruitless.

Acquisition and Transfer of Lands

In examining a sample of 350 files relating to acquisition and transfer of lands pertaining to 15 Divisional Secretariats, it was observed that the process of acquisition or transfer of lands had not been completed even though a period of 03-40 years had been spent.

Failure to Resettle the People Living in Landslide-prone

Areas

It was observed that 1386 of the 1845 families living at areas of higher risk for landslides in 20 Divisional Secretariats of Kandy district, had lived in the same area as at 31 December 2023.

District Secretariat, Matale

Failure to Renew Licenses for Firearms

It was stated in Paragraph 01 of the Circular No. 2023/04 of the Ministry of Defense dated 19 September 2023 that all the licenses for firearms in the district should be renewed prior to 31 December 2023. Nevertheless, 60 persons from the Divisional Secretariats of Galewela, Dambulla, and Ambangaga Korale, had not done so even by February 2024.

Transactions of Fraudulent Nature

Necessary action had not been taken even up to 31 December 2023 by completing the investigation on financial fraud of Rs. 4.6 million committed at the Samurdhi community-based bank in Birindawela during 2014-2016.

Procurements

Although 19 items of work of the project for construction of a new building of the Divisional Secretariat, Ukuwela (Part – B, Stage 06), had not been executed, a sum of Rs. 1.3 million had been paid by recommending bills stating the works had been executed. Furthermore, a sum of Rs. 1.5 million had been paid on 11 items of work under the project for completion of additional works of the new building, but those items of work had not been executed. The performance security had expired on 15 January 2024, and the date of completion of works was 11 December 2023, but due to failure in completing works even by 05 February 2024, a penalty for delay amounting to Rs. 0.8 million should have been recovered. Nevertheless, that amount had not been so recovered.

Outstanding Loans

It was found in examining a sample of 11 Samurdhi community-based banks in Matale district that loans totaling Rs. 19.3 had been granted to 176 beneficiaries as of 30 June 2023, but a sum of Rs. 10.3 million remained due.

Delay in Paying Compensation

The compensation for the acquisition should be paid as at the date the award is made in terms of Section 38 (a) of the Land Acquisition Act No. 09 of 1950. However, due to delay of 03-10 years in paying compensation, an interest amount totaling Rs. 5 million had to be paid to 06 land owners in 02 Divisional Secretariats.

District Secretariat, Mannar

Peanut Cultivation Project

The growth rate of peanuts under the peanut cultivation project implemented by the Department of Agriculture incurring a sum of Rs. 17.5 million on machinery and seeds from the grants of International Labor Organization, ranged only between 25-50 per cent, thus indicating a poor result. As such, the beneficiaries were forced to purchase peanuts again and re-cultivate.

Misappropriation of Funds

Having violated the Financial Regulations 136-140, the Samurdhi Bank of Musali had given a sum of Rs. 3.392 million to the Samurdhi Development Officer. This amount had been misappropriated by the officer, and recognized as a loss. Although a sum of Rs. 2.650 million had been recovered therefrom, the balance amount of Rs. 0.942 million had not been recovered up to December 2023.

Non-payment of Samurdhi Benefits

Monthly allowances had not been utilized by 223 Samurdhi beneficiaries relating to a period of 10-48 months. As non-entitled Samurdhi beneficiaries had been selected, a sum of Rs. 17.74 million had saved without being utilized.

District Secretariat, Matara

Unused Official Residence

Although a sum of Rs. 11.8 million had been expended on the construction and repair of the official quarters of the Divisional Secretary, Welipitiya of the Matara district during the period 2007-2022, that official residence remained idle without being used for any purpose throughout the 16 preceding years.

Idle Assets

Three playgrounds in the Divisional Secretariats of Dikwella, Athuraliya and Welipitya that had been developed at a sum of Rs.

4.2 million under the rural playgrounds development project implemented by the State Ministry of Rural and School Sports, and Infrastructure Development of the Matara District, remained idle without being used for the intended purpose.

Furthermore, 611 items of equipment worth Rs. 5.5 million had been granted to 83 beneficiaries in the 03 Divisional Secretariats of Athuraliya, Mulatiyana, and Thihagoda relating to development projects on the production of Batik, bailing cinnamon, and bamboo products respectively. However, those equipment remained idle without being used for the intended purposes.

District Secretariat, Mulativu

Monies Recoverable on Government Lands

Based on the value estimated by the Committee of the Divisional Secretariat, Thunukkai appointed under Circular No. 2021/02 of the Commissioner General of Lands dated 22 October 2022, and as recognized by the colonial officer in the year 2019, a sum of Rs. 3.268 million remained recoverable with respect to 19 Government lands. Nevertheless, no effective measures had been taken to recover that sum during the 01-05 preceding years.

Non-settlement of Funds Given to Purchase and Sale of Paddy

A sum of Rs. 14.26 million equivalent to 69 per cent of the advance amounting to Rs. 20.73 million given in the year 2015 by the District Secretariat, Mullaitivu to 02 multipurpose cooperative associations without entering into any agreement for purchasing paddy, had not been settled thus far.

District Secretariat, Kurunegala

Water Pipe Extension Project

Sums of Rs. 9.62 million and Rs. 4.74 million had been paid in the year 2014 to the National Water Supply and Drainage Board in respect of the projects implemented under provision from the Ministry of Economic Development in the year 2014 to extend water pipes between Gonnawa bridge and Bamunakotuwa junction, and from Bamunakotuwa junction to Thimmanagama respectively. Even after 10 years since the payments had been made to the Board, those projects were unable to supply water to the people, thus the sum of Rs. 14.38 million so spent, had become futile.

Unused Buildings

Lands in extent of 80 acres with 60 buildings pertaining to 19 divisions of Divisional Secretariats in Kurunegala district, had remained idle without being used for any useful activity.

Acquisition of Lands

Acquisition of lands for the implementation of 45 projects in the 05 Divisional Secretariats of Kuliyapitiya (West), Kobeigane, Pannala, Mallawapitiya and Rideegama in Kurunegala district, had been delayed over a period of 02-47 years, but the acquisition process had not been completed.

Resource Profile

According to resource profiles of 30 Divisional Secretariats in Kurunegala district as at 31 December 2022, there were 4,744 temporary houses, 6,596 encroachments, 3,908 households without electricity, 17,372 unprotected wells, 33,513 half built houses, 3,818 make shift toilets, 7,654 households without toilets, and 4,505 families without houses. However, it was observed that attention should be brought thereon to make proposals in implementing development projects in the district utilizing the provision.

Transfer of Lands

A period of 03-13 years had elapsed since requests had been made for vesting the lands and buildings of the Government institutions located at 08 Grama Niladhari divisions in 03 Divisional Secretariats of Bamunakotuwa, Maho, and Mawathagama, in the relevant institutions. However, the process of vesting had not been completed.

Multipurpose Development Assistants

By the end of the year under review, 324 multipurpose development assistants who had not received permanent appointments, were attached to the Divisional Secretariats in Kurunegala district. However, they had not been assigned to approved posts or a specific duties.

District Secretariat,Monaragala

Failure to Account for the Assets

As office buildings, land, Government houses, communication equipment, computers and accessories, furniture, agriculture instruments, and electric appliances valued at Rs. 106.807 million along with passenger transport vehicles and agricultural vehicles worth Rs. 58.88 million belonging to the Divisional Secretariat, Madulla, had not been shown under Property, Plant and Equipment in the statement of financial position as at 31 December 2023, the Property, Plant and Equipment and reserve of Property, Plant and Equipment had been understated by that amount.

Failure to Assess the Assets

Government quarters built by the Divisional Secretariats of Wellawaya and Thanamalwila, and official quarters of the Administrative Officer of the Divisional Secretariat, Monaragala along with the lands thereof, had not been assessed and the value had not been included in the statement of financial position as at 31 December 2023.

District Secretariat, Nuwara Eliya

Projects for the Resettlement of Families Living in Landslide-prone Areas

After being decided that 12 families at Samanalagama, Hatton in the Divisional Secretariat of Ambagamuwa that had been identified as having a high risk for landslides, should be resettled, provision amounting to Rs. 6.3 million had been released to construct houses at a Government land for 06 of those families. However, the constructions had been abandoned halfway without being completed even after 06 years as at 31 December 2023.

Furthermore, 04 of the families so removed in the year 2019 from the said Divisional Secretariat, had been paid a sum of Rs. 2.7 million for purchasing lands and constructing houses on lands so purchased. However, the progress of constructions remained as low as 30 per cent even by 31 December 2023.

Delays in Implementing Projects

It had been planned by the disaster relief services division to construct houses and resettle 159 families identified with higher risks for landslides in 05 Divisional Secretariats under the opportunity given to beneficiaries to purchase lands using a Government grant of Rs. 400,000 and construct houses using financial aid also given by the Government. However, action had not been taken to resettle 115 of those families. Furthermore, under the programme of constructing houses by the Government, it had been planned by the disaster relief services division to resettle 970 families currently living in Nuwara Eliya district, at safe places. Nevertheless, action had not been taken to resettle 798 of those families at safe places.

Failure to Recover the Possession of Lands as per Court Orders

Action had not been taken to recover the possession of relevant land even up to 31 May 2024 in accordance with the verdict returned by the high court of Nuwara Eliya on 01 October 2010 and the verdict returned on 28 November 2006 relating to the Case No. 76818 by the Magistrate’s Court in Nuwara Eliya demanding the removal of encroachers at Blackpool thus recovering the possession of the land in terms of State Lands (Recovery of Possession) Act, No. 07 of 1979 as amended by Act Nos. 58 of 1981 and 07 of 1979.

Failure to Obtain the Expected Benefits

Allowances totaling Rs. 8.8 million payable for 881 applicants in the waiting list of the Divisional Secretariats of Thalawakele and Nuwara Eliya for elders, disabled, and kidney allowances relating to the period July-August 2023, had not been paid to the relevant beneficiaries.

District Secretariat, Polonnaruwa

Distribution of Organic Fertilizer

It was observed under the programme to distribute environmentally-friendly fertilizer implemented in Polonnaruwa district that organic fertilizer worth Rs. 298.1 million and 681.4 million relating to the Yala Season of the year 2022 and Maha Season of 2022/2023 respectively, had not been issued as per recommended standards and within the duration. Accordingly, the organic fertilizer worth Rs. 9.5 million to be distributed among 211 farmers in Pulasthigama agrarian services division during the Yala

Season of the year 2022 and Maha Season of 2022/2023 was expiring due to being rejected by the farmers.

Purchase of Paddy

Paddy had been purchased through the Divisional Secretariats of Dimbulagala, Thamankaduwa, Lankapura, Elahara and Hingurakgoda under the programme implemented by the District Secretariat of Polonnaruwa in the year 2021 to purchase paddy from the farmers through the small and medium scale paddy mill owners, convert the paddy so purchased into rice and hand over to the Government. However, the paddy mill owners had not taken action to provide 2.18 million kg of rice worth Rs. 215 million for the Government in accordance with Section 7 (1) of the Circular No. DFD/Paddy/2021-3 of the Secretary to the Treasury dated 22 July 2021.

The Development Officers in charge of supervision had prepared the relevant forms to the effect that paddy had been purchased from 294 farmers through 19 small and medium scale mill owners in Yala Season of the year 2021, thereby a sum of Rs. 87.46 million on paddy and Rs. 7.68 million on container bags and charges for drying had been paid by 05 Divisional Secretariats. Nevertheless, it was observed that the paddy had not been obtained.

Construction of the Administrative Building Complex

The contract for the construction of an administrative building complex valued at Rs. 1,303.86 million had been awarded to the Central Engineering Consultancy Bureau on 15 December 2016 under the development programme of Pibidemu Polonnaruwa – Rajarata Nawodaya. Although the project was scheduled to be completed by 15 December 2018, the project had not been completed and delivered even by the end of the year 2023; and the physical and financial progress remained 79 per cent and 94 per cent respectively.

Constructing the Upper Floor of the Bus Station in Hingurakgoda

The project for constructing the upper floor of the Hingurakgoda bus station had been implemented in the year 2019 under the development programme of Pibidemu Polonnaruwa – Rajarata Nawodaya. As technical issues arose due to officers in charge of the project who had disregarded the instructions of the State Engineering Corporation, the construction works had not been completed. As such, it was observed that the sum of Rs. 11.17 million incurred on the project, had become fruitless.

District Secretariat, Puttalam

Saubhagya Samurdhi Production Village Programme

The value-added dried fish production village established at an expenditure of Rs. 6.84 million in the years 2021 and 2022 by the Divisional Secretariat, Kalpitiya under Saubhagya Samurdhi Production Village Programme - 2021, remained idle without drying fish even by 31 December 2023.

Payment of Interest on Delay

The Bill No. 14 valued at Rs. 28.37 million relating to the main building of the District Secretariat under construction had been rejected for payment. Payments had been made later following the arbitration process. Hence, an overpayment of Rs. 10.35 million had been paid as interest on delay.

District Secretariat, Ratnapura

Failure to Pay Compensation on Houses Damaged due to Floods and Landslides

The compensation payable on houses that had been damaged due to floods and landslides during 2017-2023 totaled Rs. 338.402 million as at 31 December 2023; and, the said amount also comprised a balance of Rs. 312.44 million that remained payable during the period 2017-2019. Delay in making payments had been attributed by the lack of provision for compensation.

Unused Government Quarters

Seven Government quarters belonging to the District Secretariat had remained unused over a period of 05 years, and hence, those houses had been engulfed by encroaching wilderness with doors and windows stolen. Those houses had been used by drug addicts for acts of immorality and posed a risk of being encroached. There was a delay in providing Government quarters for 77 officers in waiting list as well.

Failure to Call for Competitive Bids

The contract, valued at Rs. 11.96 million for laying water pipes at Nalanda Ellawala Industrial Park in Kuruwita, had been awarded to community-based associations under 04 stages without calling for competitive bids. When refilling was done after laying pipes, overpriced sand had been used to fill the ditches rather than the existing soil, a cost as high as Rs. 9.67 million equivalent to 87 per cent of the contract value had been incurred thereon.

Unsuccessful Projects

A number of 10,522 chicks had been given to 973 families in 09 Divisional Secretariats. Due to reasons such as, death of 3,288 chicks valued at Rs. 1,489,500, veterinary recommendations of the Government had not been sought prior to purchasing the chicks, lack of follow-up action, alternative foods preventing hens from laying eggs due to higher food prices, and failure to follow the Procurement specification of the rate of once cock per 09 chicks, this project had become unsuccessful.

Non-standard Constructions

The stage of cultural center in Opanayaka had not been constructed in compliance with standards, and the wooden boards scattered on the frame of the stage had been decayed. As such, this cultural center could not be used until a standard stage was built. The sum of Rs. 4.11 million incurred on the construction of the building had become fruitless.

Informal Recovery and Expenses of Funds

Having established an informal financial committee in respect of the Ama Dahara Poson Zone – 2023 organized by the Divisional Secretariat, Embilipitya, a sum of Rs. 1.304 million had been collected from general public without issuing receipts contrary to Financial Regulation (2) 170. Rs. 1.296 million of that sum had been expended with using vouchers or following procurement process.

District Secretariat, Vauniya

Unused Economic Center

The economic center in Vauniya constructed at an expenditure of Rs. 291.64 million following budget proposals of the year 2018, had not been declared open for the general public until 31 December 2023. Nevertheless, a sum totaling Rs. 5.86 million had been paid on the economic center for 06 preceding years as security fees, cleaning charges, and water charges.

Failure to Recover the Lease Rents

The Divisional Secretariat, Vauniya had not taken action to recover the sum of Rs. 45.39 million receivable from the Bank of Ceylon in Vauniya as lease rent and fines on the Government land that had been given on long term lease for a period of 12 years.

Projects Abandoned Halfway

The contract for construction of a preschool building under the Divisional Secretariat, Vauniya had been scheduled to be completed by the year 2019 at an expenditure of Rs. 2 million. However, the works had not been completed, and the sum of Rs. 1.55 million spent thereon had become futile.

District Secretariat, Trincomalee

Failure to Properly Implement the Paddy Purchasing Programme of the Government

It was mentioned in Paragraph 2.3.2 of the Circular No. DFD/2023-1 of the Ministry of Finance, Economic Stabilization and National Polices dated 09 February 2023 relating to the purchase of paddy in Maha Season of 2022/2023 that the capacity of small and medium scale paddy mill owners to convert the paddy stocks at hand to rice in order to be distributed in March and April 2023 should be taken into consideration, and the monies required to purchase the paddy should be paid to the relevant paddy mill owner. However, it was observed in a field audit inspection carried out on 12 October 2023 that 427,440 Kg of paddy worth Rs. 42.74 million had been kept at a store of a paddy mill in the Divisional Secretariat of Padavi Sripura over 06 preceding months.

The sum of Rs. 6.49 million relating to 77,146 Kg of paddy due from 04 paddy mill owners in the Divisional Secretariat of Kantale and the Landa Sahtosa under the expedited programme for purchasing paddy of the Maha Season of 2019/2020, had not been recovered by the District Secretariat even after 03 years.

District Secretariat, Jaffna

Unused Economic Center In Madduvil

Using provision granted by 02 Ministries in the years 2018 and 2020, the economic center in Madduvil had been constructed in the year 2021 at an expenditure of Rs. 196.04 million. Nevertheless, the economic center had not been used by the general public until 31 December 2023.

Waste Recycling Project

Using funds amounting to Rs. 75.32 million granted by a Ministry in the year 2018, the District Secretariat had awarded a contract for a waste recycling project in Chunnakam area. The project had been scheduled to be completed by the year 2019, but remained incomplete even up to 31 December 2023 despite the sum of Rs. 65.95 million incurred thereon.

Plantation

The Vision of the Ministry of Plantation Industries had been the development of plantation crop with modern technology and high value addition to win the unique international market segments, increasing the foreign exchange earning to the country, bringing the income of the grower to a higher level with a view of development of plantation industry to create national prosperity. There were 02 Departments and 28 State Corporations and Statutory Bodies related to this Ministry. This Ministry and the institutions should have performed the following tasks.

Functions

To increase the international competitiveness for productivity in the field of plantation industry, take necessary steps to uplift industries related to value added products based on plantation crops aimed at the International Market.

Activities related to development, promotion and research of tea and rubber industries.

Limitation of the construction of settlements by fragmentation of tea, rubber and coconut plantations, issuance of permits on fragmentation of tea, rubber and coconut plantations and control.

Increasing adoption of new technology in plantation crops industries.

Development of allied cropping activities including land owned by public and private plantation companies.

Promotion of rubber related products aimed at domestic and foreign markets.

Preparation a plan for the systematic utilization of land in the estate sector and implementation .

Implementation of a programme to encourage small plantation crop growers.

Implementation of necessary policies to promote sustainable resource use and biosecurity, including value-added products.

Optimum utilization of plantation land through multi-cropping and integrated farming systems and increasing production and employment thereby.

Audit Observations

Ministry of Plantation Industries

Arrears of Lease Revenue

A total of 249,843 hectares of land owned by the government had been transferred to 23 local plantation companies on a lease basis for a period of 53 years in the year 1992 and the lease revenue of Rs. 587 million had been in arrears to the government from 10 of those companies as at 31 December 2023.

Kurunegala Plantation Company

As per the amended lease agreement No. 1558 entered into with the Kurunegala Plantation Company on 27 November 1995, the lease rent calculated on the net assets as at that date was payable in four equal annual installments over a period of 53 years . Due to underpayment of lease payable by the company per annum stating that the net assets have decreased at present, a sum of Rs. 326.5 million had to be collected from Kurunegala Plantation Company as at 31 December 2023 and of which, a sum of Rs. 168 million had remained in arrears for more than 05 years.

Sri Lanka Rubber Research Board

Failure to Recover Bonds

A sum of Rs.4.2 million to be received to the Board from 05 officers who breached the bond conditions after taking paid leave for academic purpose during the period from 06 to 33 years had not been recovered even by 31 July 2024 as per Section 4:7 of Chapter XV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.

Pilot Project to Introduce Biofuel Wood Species

An agreement had been entered into with the Food and Agriculture Organization of the United Nations in 2017 to implement a Pilot Project to introduce biofuel wood for rubber smallholdings and the project was supposed to be completed in the year 2022. Nevertheless, Due to failure to complete scheduled tasks successfully, out of the Rs. 10.4 million that had been received for that purpose, a sum of Rs. 4.2 million equal to 40 per cent, remained inactive by 31 December 2023.

Finite Element Analysis and Simulation Centre

The Finite Element Analysis and Simulation Centre (FEAS CENER) which had been started at a cost of Rs.49.7 million for planning and performance evaluation of rubber products as a business model through public private partnership had been entirely stopped from October 2023. Therefore, the relevant building and the computers and software, machines, wood and office equipment cost at Rs. 38.9 million had remained in idle. Further, the objectives of establishing the Center were to develop the skills required to use particle finite services for the design and simulation of rubber products to add value to natural and synthetic rubber in Sri Lanka to compete effectively in the market and to become a center of excellence in providing particle finite services to the region could not be fulfilled.

Coconut Development Authority

Failure to Perform Quality Checks

Although the authority should set and maintain standards for the quality of the export coconut products in terms of Section 51 of the Coconut Development Act No. 46 of 1971 as amended by Act No. 24 of 1975 and Paragraph 3 of the First Schedule of Extraordinary Gazette No. 69/4 dated 31 December 1979, even though a number of 172,685 Mt. of coconut-related products (excluding Desiccated Coconuts) valued at USD 277,510 had been exported in the year 2023, the quality checks had not been done.

Quality Checks for Exports to Special Markets

Collecting samples of 25 per cent of the daily production and checking whether the samples so collected conform to the specifications of Sri Lanka Standards for inspection, sampling, quality assurance of desiccated coconut products exported to special markets like USA, Canada, Australia, New Zealand etc. should be done as per Sections 3 and 4 of the Internal Circular පොසංඅ/දිපො/මො/87/15 dated 10 December 1987. Nevertheless, although 5,082 metric tons of coconuts were exported to those countries in the year 2023, it was observed that only 10 per cent of samples had been collected for testing.

Dunkannawa Coir Development and Training Center

Dunkannawa Coir Development and Training Center had been established in the year 2006 as a training center to develop the coir industry. Nevertheless, training courses had not been conducted there in 2023 and it was observed that the objectives of establishing the Training Center are not being fulfilled due to the fact that 14 out of the 18 machines in the factory are inoperative and the other machines are in a condition that needs to be repaired and all the existing assets are remain decaying.

Coconut Research Institute

Non-recovery of Bonds

The amount of Rs. 45.7 million to be collected from 08 officers who went abroad after taking study leave and did not return and, from one officer who did not complete the mandatory service period, had not been collected even by the end of the year 2023 .

Kiniyama Project

A piped water system had been installed to cover the total area of 141 acres where the Kinyama Project belonging to the Research Institute is implementing and a private company was paid Rs. 21 million for that. Nevertheless, due to the lack of required capacity and a part of the pipe system being inoperative, it was observed during the audit that only 5 per cent equal to 400 trees that were planted could have been watered and the remaining 95 per cent had to be watered by bowsers.

Sri Lanka Tea Board

Decline in Global Tea Market Share

Due to the lack of gradual growth in Sri Lanka's total tea production and export although it was observed that the global tea market share (World Prod Share) for Sri Lankan tea which was 18 per cent in 2011 had decreased to 3.88 per cent by 2023 according to the Tea Committee News Supplement (Supplement to Annual Bulletin of Statistics 2023), it was observed that the Board had not taken appropriate and adequate measures to increase the market share.

Global Promotional and Marketing Programmes

A sum of Rs. 174.3 million had been spent from 2016 to 2020 to use the media of television to create television commercials in English and to translate them into six languages: Chinese, Japanese, Arabic, Ukrainian, German and Turkish for traditional high level advertising under global promotion and marketing programme for "Ceylon Tea". However, since evidences related to the payment to the media organizations for advertising the advertisement was not submitted to the audit it was not confirmed that the advertisements were published in the media. Further, 31 creative works such as digital products, digital videos, poster designs etc. created at a cost of Rs. 39.8 million had not been utilized even by the end of the year 2023.

Media Surveys and Preparation of Media Plans

An amount of Rs. 107 million had been spent during the period from 2019 to 2023 for the media surveys and preparation of media plans to promote Sri Lankan tea globally. Nevertheless, out of the media plans that had been prepared, except for the media plan that was presented for the State of Chile, although the periods mentioned in the media plans that were presented for 10 other countries had expired by the end of the year under review, the plans had not been implemented.

Free Trade Agreements

Although there was a Preferential Tariff Rate Quota for tea under the Indo-Sri Lanka Free Trade Agreement (ISFTA) and the Pakistan-Sri Lanka Free Trade Agreement (PSFTA), a significant utilization had not been recorded from 2021 to 2023. Further, the exports to India and Pakistan had decreased by 10 per cent and 100 per cent respectively as compared to the preceding year.

Formulating of Information Technology System for Tea Industry

A contract had been awarded to a private institution in the year 2020 at a cost of Rs.53.9 million to develop an Information Technology system for the Tea Industry. Based on the confirmations of the Assistant Director (Information Technology) of the Board, a total of Rs.15.7 million had been paid for the contract by 31 December 2023. According to the agreement, although the activity should be completed in 18 months, this Information Technology System had not been prepared though it took almost 03 years. Similarly, the validity of the performance security of Rs. 26.9 million given by this private institution had expired on 30 April 2022.

Loss at the Colombo Tea Sales Centre

A loss of Rs.62.6 million had incurred to the Board from the Colombo Tea Sales Center named "Tea Moments" which was started in 2014 and although it had been informed by the letter dated 06 December 2016 from the Secretary of the Ministry of Plantation to the Chairman that, appropriate actions should be taken against the officials who acted carelessly, actions had not been taken even by 31 December 2023 .

Loan given to Janatha Estates Development Board

According to the Order No. 11 of the Committee on Public Enterprises for the Sri Lanka Tea Board held on 19 June 2012, the ownership of the "Ceylon Tea Museum" at Hanthana, which belongs to the Janatha Estate Development Board, was decided to be transferred to the Board by the Janatha Estate Development Board in the year 2003 on behalf of a loan amount of Rs.25 million. Although more than 10 years had passed since the relevant order was issued, arrangements had not been made to take over the ownership of the asset or to recover the loan amount by the end of 2023. Furthermore, in the year 2020, only one million rupees had been recovered from the loan amount of Rs.10 million given to Janatha Estates Development Board by the Board on the approval of the Board of Directors in the year 2020.

Tea Smallholdings Development Authority

Idle Assets

Project materials valued at Rs. 3.5 million rupees purchased in 2020 and liquid sprinklers and water pumps valued at Rs. 6 million to be distributed to tea smallholders in 2020 and 2021 had remained in the warehouse.

A contract of Rs. 4.9 million had been awarded to a private company for "Procurement of installation of internal equipment of the mobile advertising vehicle of the Extension Division " in the year 2021, and as per the agreement, although a generator should be installed to get the electricity supply of the advertising vehicle, a generator had not been installed even by the date of the audit and the digital screen (LG Panel 55 video wall) purchased at a cost of Rs. 1.8 million had also kept inactive in the auditorium of the Authority.

Sri Lanka State Plantation Corporation

Defaulting of paying Contribution Employees Provident and Employees Trusts funds

Employees' Provident Fund contributions amounting to Rs.689 million, Employees' Trust Funds contributions amounting to Rs.49.7 million and in addition Estate Staff Provident Fund amounting to Rs.73 million and Ceylon Planters' Provident Society Contributions amounting to Rs.18 million for the period from 2000 to 2023 had not been paid up to the end of the year under review. Further, the surcharge value of the estate sector to be paid, as at 31 December 2023 for Employees' Provident Fund and Employees' Trust Fund had been Rs. 78 million and Rs. 9 million respectively.

Payments Arrears of gratuity

Payment of gratuity shall be made within 30 days from the date of retirement or death of an employee in accordance with Section 5(1) of Section 02 of the Payment of Gratuity Act No. 12 of 1983. Nevertheless, due to non-payment of gratuity by the Corporation for the past few years and in the year under review, the value of gratuity to be paid as at 31 December 2023 was Rs.629 million and the surcharges for that had been Rs.25.8 million. Due to the non-payment of the above funds, the Corporation also had to pay attorney's fees of 1.9 million for the related cases.

Failure to Receive Expected Tea Harvest

The total tea harvest of the State Plantation Corporation in the year 2023 was 5,089,282 kg, which is a decrease of about 24 per cent compared to the year 2022. Similarly, although it was estimated to harvest 9,170,548 kg of tea in the year 2023, only 55 per cent of the target had been achieved. Even though a harvest of 940,151 kg of tea was expected from the area given to outside planters, only 364,597 kg of tea was actually obtained. It is a 61 per cent decrease compared to the expected tea harvest. The production cost of one kilogram of tea in 13 of the 14 estates owned by the Corporation had increased from 03 per cent to 444 per cent in the year 2023, as compared to the year 2022,

Eight out of 16 estates Reported Losses

Eight out of 16 estates owned by the Corporation were in loss condition in the year 2023 and although Gomara and Kalabokka estates made a profit of Rs. 8.9 million and Rs. 31 million respectively in the year 2022, they had losses of Rs. 46.7 million and Rs. 16.8 million in the year 2023. The employee cost of the Corporation had been more than 50 per cent as compared to the total cost and the employee cost of Hare Park Estate was 98 per cent of its total cost and 112 per cent compared to its cost of sales. Being the cost of workers in Hunnasgiriya, Rangala, Hagala and Woodside Estates more than 80 per cent of the total cost of those estates, had directly affected to the loss of the estates.

Idle Factories

Although there are 09 tea factories in the Corporation at present, only 03 factories are doing production and 05 factories had been closed for a long time. One of the tea factories was closed for maintenance from October 2022 and although the Knuckles Bungalow in the disused Gomara Estate was among several sightseeing spots, the Corporation had not taken steps to repair and use that bungalow.

Kurunegala Plantation Company

Non Perfoming Assets

The CCTV camera equipment valued at Rs. 0.97 million purchased in December 2023 to be installed in 07 estates belonging to the Hiriyala Provincial Estate Office, had remained idle in the Ganewatta Warehouse without being used for the intended purpose.

Chilaw Plantation Company

Debt and Interest Write off

The amount of loan given by the Chilaw Plantation Company to Janatha Estates Development Board, Elkaduwa Plantation Company, State Plantation Corporation, Rubber Manufacturing and Export Corporation and the Ministry of State Resources and Enterprise Development in the year 2010 amounting to Rs.105 million and its interest of Rs.119.7 million had been written off considering as a total loss in the year 2014 only on the Decision of Board of Directors.

Janatha Estates Development Board

Failure to Verify and Assess of Biological Assets

As per the Paragraph 12 of Sri Lanka Accounting Standards 41, although the biological assets should be initially recognized and measured at fair value after deducting costs for sales at the end of each reporting period, the Board had continued to carry forward the value of consumable biological assets of Rs.33 million as a fixed value without assessing it annually. It continued. Annually updated tree census and assessment reports had also not been submitted to the audit to verify the value. Likewise, the value of 11,585.44 hectares of land belonging to 18 estates administered by the Board belonging to Janatha Estates Development Board had not been assessed and shown in the financial statements.

Damages and Statutory Liability

Due to continuous losses, the net assets and working capital of the Board as at 31 December 2019 had negative values of Rs. 607.02 million and Rs. 1,795.70 million respectively and as the defaulted statutory payments on that date had also been Rs. 1,513.49 million, there was a quantitative uncertainty in going concern of the Board. The Board of Directors had also stated in the financial statements that Board should be restructured. The statutory liability to be paid by 31 December 2023 had increased to Rs.2,883.43 million.

Preparation of a Business Plan

A sum of Rs. 2 million had been paid to prepare a Business Plan for the period 2022 - 2024 for a private entity decided by the Board of Directors without following the Procurement Guidelines. The Line Ministry had not approved it due to the inclusion of objectives and tasks which could not be implemented in practical in the Plan prepared by that institution. Even though this Plan had not been implemented a payment of Rs.2 million had also made for a period of one year from May 2022 to analyze the progress of the Business Plan.

Arrears of Lease Rent

Even though the Hantana Tea Factory had been leased out to a private company, since the lease rent had not been paid as scheduled for the period from 2021 to February 2024, the arrears of lease rent and 5 per cent delay charges of Rs.18.8 million should have been charged as at 29 February 2024 .

Payment of Unentitled Fuel and Transport Allowances

A sum of Rs.20.9 million had been paid to 16 officials who were not entitled to fuel and transport allowances in the years 2021 and 2022 and a sum of Rs.10.25 million had been paid to 11 officials who were not entitled to those allowances in 2023 in contrary to Public Enterprises Circular No. 01/2015 dated 25 May 2015. Also an officer who owns an official vehicle has to choose only one of the two options of using the institution's official vehicle and getting fuel allowance or getting transport and fuel allowance according to Paragraph 3.3 of the Circular, the Chairman of the Board receives transport allowance and fuel allowance and uses an official vehicle of the Board and the fuel cost for that vehicle is borne by the institution. The Board had paid Rs. 4.4 million as fuel and vehicle allowances to the Chairman from the year 2020 to 31 December 2023.

Arrears of Lease Revenue

An arrears of lease revenue amounting to Rs. 387.8 million had to be received to the Board from the land and buildings owned which had been handed over on the basis of long-term lease by the Janatha Estates Development Board for 31st December 2023.

Unapproved and Irregular Appointments

An officer in salary scale JM 1-1 serving in the post of Confidential Secretary to the Chairman Division has been appointed by the Chairman from 15 October 2021 to cover the work of Personal Assistant to the Chairman which was not in the approved staff and was rejected by the Department of Management Services and the officer had been paid Rs 4.5 million, including MM 1-1 salary category allowances and fuel, transport and special allowances up to December 2023. Likewise, this officer had been appointed as the Manager (Consumer) from November 2023 with the approval on the Board of Directors.

Industries and Manufacturing

The Ministry of Industries functions to ensure a conducive environment which is technology intensive, knowledge and innovative thinking driven in order to encourage diversified, high value added and innovative products, green practices, better market access and inclusive of industrial development. Two Departments, 11 Statutory Boards, and 08 Companies are functioning under the Ministry. The following duties were assigned to the those institutions.

Duties

- To increase the contribution of the industrial sector to the GDP up to 30 per cent by the year 2030.
- To increase the contribution of the manufacturing industry up to 20 per cent by the year 2030.
- To increase the contribution through enterprises to the national economy up to 10 per cent by the year 2030.
- To increase the contribution of technology based exports to the GDP up to 20 per cent by the year 2030.
- To increase the extent of lands allocated for industries up to 01 per cent by the year 2030 (international standard is 03 per cent).

Net provision amounting to Rs. 8,489 million had been granted to the Ministry of Industries in order to execute the said duties in the year 2023. Only a sum of Rs. 6,920 million had been utilized by the end of the year 2023 whereas provision amounting to Rs. 1,569 million had saved as at that date. Of the provision so utilized, a sum of Rs. 880 million had been expended on development programs relating to industrial parks, a sum of Rs. 268 million had been expended on a special zone in Eravur for textile related products, a sum of Rs. 100 million had been expended for improving the saltern in Alimankada, a sum of Rs. 2,594 million had been expended on pilot and entrepreneurial development projects on small and medium scale industries, and a sum of Rs. 211 million had been expended on circular fund for the environmentally-friendly solutions.

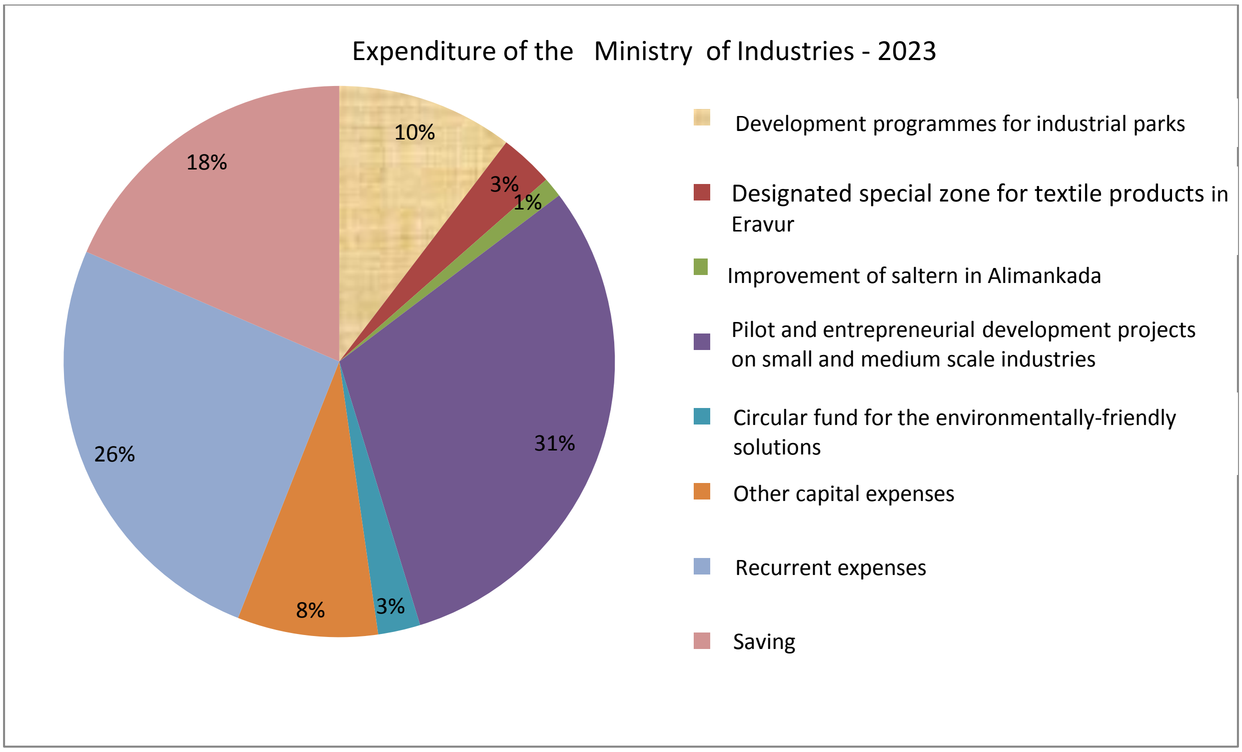


Diagram No. 2.36: Expenditure of the Ministry of Industries- 2023

Audit Observations

Non-Allocation of :ands to the Industrialists

As 89 plots of land in extent of 109.5 acres relating to 17 industrial parks had not been allocated and released to the industrialists as at 31 December 2023, those lands remained unused.

Failure to allocate lands to Industrialists

Forty three plots of lands had been allocated at the industrial park in Buttala. The total acreage of 04 acres and 20.13 perches allocated to 07 industrialists had remained idle without being used for any development activity.

Failure of Industrialists to Develop the Lands

With emphasis of the conditions in National Environmental Act published in Gazette No. 772/22 dated 24 June 1993 necessitating that an environmental assessment report should be obtained only for development activities involving lands over 10 hectares (24 acres), proposals were made to establish the Raigama industrial park at an area of 24 acres out of the land in total extent of 200 acres thereby implementing the project by

	deviating from the requirement of obtaining an environmental assessment report.
Delay in the Development Works of the Industrial Park in Raigama	Due to delay in development works of the Industrial Park in Raigama, 04 of the Cabinet-approved investors who had been selected by the divisional industrial services committee, had terminated their investments. As such, the opportunity of having 715 employments in the industrial sector through the investment of Rs. 1,185.4 million had lost.
Unused Administrative Buildings	Two administrative buildings valued at Rs. 31.66 million and Rs. 87.96 million had been built at the industrial parks in Bataata and Raigama respectively, those buildings remained closed and unused.
Public Protest against the Proposal for Disposing Waste into the Ocean	Following the Cabinet approval dated 18 August 1999, an industrial park had been established for leather industry at a land in extent of 105 acres in Hambanthota at an expenditure of Rs. 343.41 million. However, the constructions had been abandoned following protests of the fisher folks against the waste to be directed to the ocean. As such, a sum of Rs. 17.55 million had been paid as compensation to 06 investors of the project relating to the period 2019-2022.
Underutilization of Lands	The industrial park had been redeveloped as a mixed development zone in terms of the Cabinet decision dated 15 February 2006. However, of the lands in extent of 70 acres 01 rood and 2.3 perches provided for 23 industrialists, only 10 of the industrialists whom 34 acres and 03 roods of land had been granted to, had productively used their lands, thus observing that approximately 60 of the 105 acres of land allocated for the industrial park remained idle without being utilized. Furthermore, the expenditure of Rs. 252.7 million incurred on an industrial park established at a 20 acre land in Suriyawewa, had also become fruitless.
Industrial Park, Mannar	A period of 13 years elapsed since an industrial park had been established on a 24 acre land in Mannar at an expenditure of Rs. 356 million. However, it was observed that only one industrialist had maintained a textile industry at a land in extent of 06 acres. Other industries had not been started up to 31 December 2023.

Lack of Employee Opportunities as Expected

It was expected to generate 10,475 employment opportunities as per project proposals presented by 13 industrialists with respect to 16 industrial parks. However, there were only 1,504 employments thus indicating that the achievement of expected outcome was 14 per cent.

Outstanding Lease Rents

The lease rents due from 107 industrialists with respect to 13 industrial parks, totaled Rs. 205.23 million as at 31 December 2023.

Failure to Enter into Long Term Lease Agreements with Industrialists

According to the land allocation letter issued at the time of releasing lands to the industrialists, a long term lease agreement should be entered into for a period of 35 years once the land is allocated. However, no lease agreements had been entered into with 322 industrialists relating to 25 industrial parks.

Progress of the Activities

A provision of Rs.1,000 million had been estimated on development expenses of the industrial parks for the year 2023 whereas the expenditure of the year 2023 amounted to Rs. 880 million. Of that, the total expenditure of Rs. 489.55 million estimated on 19 development works relating to 09 industrial parks, had been settled at once, but the progress of those works remained 0 per cent. The estimated expenditure on the construction of fence and gate of the industrial park in Dambulla totalling Rs. 14.96 million had been paid at once, but the progress thereof remained 15 per cent.

Projects being Suspended

Under the project to establish small and medium scale industrial zones at divisional and district level, a sum of Rs. 3.27 million had been expended in the year 2022 on the activities of 04 industrial parks under State III in Giradurukotte, Dimbulagala, Dickwella and Trincomalee, such as, surveying, clearance and allotment of lands. However, as the projects had been suspended in the year 2023, the expenditure incurred thereon had become fruitless.

Symposium for Commercializing Innovations

Three symposiums for commercializing innovations had been held at a private hotel in the year 2023 at an expenditure of Rs. 5.55 million. Fifteen of the 115 innovations had been recognized for commercialization, but agreements had been entered into with respect to only 04 of them. Discussions were being held for commercializing 11 innovations. As such, less than 03 per cent of the innovators had consented to enter into agreements for commercialization.

Obtaining Sri Lanka Standards Certificate

Provision amounting to Rs. 4.5 million had been made in the year 2023 on a project for providing financial assistance to obtain Sri Lanka Standards Certificate on locally produced tile products using red clay. It was expected that 50 per cent of the initial certification fee for the Standard Certificate would be incurred by the Ministry for 30 industrialists subject to a maximum of Rs. 150,000 per institution. Although 10 industrialists had applied , not at least one industrialist had completed the said process of obtaining the Standard Certificate and received the financial assistance even by 31 December 2023.

Lanka Porcelain Corporation

Failure to Achieve the Annual Production Target

According to Action Plan of the year 2023, it was expected to reach an annual production target of 6,125,000 units comprising 2,875,000 units through recommencement of operations at the factory in Mahiyangana and 3,250,000 units from the factory in Eragama. According to information on the production of two factories in the year 2023, the actual production of factories in Mahiyangana and Eragama remained as 231,239 units and 887,205 units respectively thus indicating a total of 1,118,444 units. As such, the progress of achieving the expected annual production target was 18 per cent.

Expected Revenue through Sales

A 25 per cent increase in sales had been expected as against the preceding year, but the sales revenue of Rs. 90.77 million in the year 2022 had dropped to Rs. 65.29 by Rs. 25.47 million or 28 per cent by the year 2023. Increase in the discount rate from 03 per cent to 20 per cent by the year 2023 had mainly attributed thereto.

Leasing of the Factory in Weuda

The factory and the land in Weuda belonging to the Corporation had been assessed to the value of Rs. 136.7 million in July 2019. Irrespective of that and without assessing the lease rent for the year 2023, the land and the building had been given on lease to a person at the value of Rs. 10 million for a period of 05 years without being approved by the Line Ministry

	and Board of Directors or calling for bids as per the Procurement procedure.
Encroachment of Lands	The encroachment of 3.5 acres from the land belonging to the Eragama factory by a private party, encroachment of the land of the factory in Mahiyangana by 125 families prior to the year 2015, and encroachment of a part of the land in Elayapattuwa, had not been solved.
Unused Premises of the Factory in Bangadeniya	Buildings of the land where Bangadeniya factory had been established, were demolished, and the land in extent of 07 acres, 01 rood and 28 perches remained unused. Furthermore, production works of 05 more factories had not been continued, and hence, the lands and buildings of those factories remained idle over extensive period.

National Design Center

Introduction of New Designs	With the objective of conducting island wide training programmes to fulfill the requirements of craftsmen under the project to disseminate knowledge on new designs and technology, a sum of Rs. 8.5 million had been allocated to conduct 29 programs. However, only 17 programmes had been conducted. Although it was scheduled to introduce 450 new designs to the craftsmen through those programmes, only 216 new designs could be introduced and 234 could not be introduced.
Idle Machines	A refinery system had been established at an expenditure of Rs. 2.99 million on 16 December 2021 to provide common amenities for the craftsmen and teaching on the Batik productions in the year 2020, but objective of the system could not be achieved in the year 2023, and the machines remained non-functional.
Non-availability of Stock Information for the Audit	The Center had participated in 06 sales exhibitions organized by external institutions in the year 2023. However, information such as stocks sent for each exhibition, stocks sold, remaining stocks, and sales income, had not been made available to the Audit.

National Crafts Council

Failure to Account for the Missing Stock

All the losses relating to the stocks should be recognized as an expenditure of the period in terms of Paragraphs 44 and 47 of the Sri Lanka Public Sector Accounting Standard 09. Although a stock of 2099.5 Kg of copper cables costing Rs. 1.32 million had been misplaced at the training center in Waragoda, no disclosures had been made in the financial statements in that connection.

Failure to Disclose the Bank Balances

The balances of 75 bank accounts maintained by the training centers of the National Crafts Council totaling Rs. 4.22 million, had not been disclosed in the financial statements.

Failure to Supervise the Crafts Associations

A number of 178 crafts societies had been established in all provinces and districts as at 31 October 2023, but no supervision or guidance had been provided except for registration although registration and supervision of crafts societies should have been done by the National Crafts Council.

Assets Remaining Idle at the Ceramic Training Center

The Ceramic Training Center in Waragoda had been established to primarily conduct ceramic training courses thus providing services to the craftsmen. However, machinery belonging to 05 divisions such as, electric furnaces, wood furnaces, gas furnaces, Ball Mill machines, weighing scales, and a blender costing Rs. 19.41 million, remained idle since the year 2019. Furthermore, 02 Ball Mill machines and 03 electric furnaces, valued at Rs. 2.8 million remained non-functional over several years.

Moreover, the instruments valued at Rs. 1.14 million purchased in the year 2021 for being used at raw material banks proposed to be established at the training centers in Waragoda, Molagoda, Polgolla and Bulathsinhala, remained underutilized.

Production of Cane Machines

A sum of Rs. 3.85 million had been paid to the Industrial Development Board in the year 2022 for the production of 03 cane machines, the Council had not received those machines even by 31 December 2023.

Construction of

Kawanthissapura Village The village, Kawanthissapura had been constructed on a land in extent of 1.6187 hectares obtained on long term lease from the Divisional Secretariat, Thissamaharama in the year 2013. Lease rents totaling Rs. 3.36 million , financial assistance from the Government of India amounting to Rs. 18.43 million and a sum of Rs. 8.74 from the Council, had been incurred thereon as at 31 December 2023. Nevertheless, the land and the buildings remained idle even as at that date.

Sri Lanka Handicrafts Board

Lack of Land Use Rights and Enjoyment Despite Making Payments The buildings and the land in extent of 01 acre and 30.6 perches belonging to Salusala in Unawatuna, Galle, had been vested in the Board through the Cabinet Decision No. 12/1523/553/020 dated 11 October 2012. A sum of Rs. 15.25 million had been paid by the Board on 12 December 2012 as consideration. Nevertheless, legal rights and enjoyment of the property could not be obtained even up to 31 December 2023.

Dues from the Department of Museum A sum of Rs. 2.01 million had been expended in the year 2023 on sales showroom at the museum. However, as the Laksala showroom had been removed from the premises of the museum in November 2023, those expenses had become uneconomic. Furthermore, a sum of Rs. 91 million remained receivable from the Department of Museums with respect to the modification of the showroom at an expenditure of Rs. 175.11 million during 2013-2015.

Failure to Pay Social Security Contribution Levy Based on self assessment, the levy should be paid to the Department of Inland Revenue monthly in terms of the Social Security Contribution Levy Act No. 25 of 2022. However, due to failure in doing so, a sum of Rs. 6.59 million remained further payable as at 31 December 2023.

Failure to Pay Audit Fees Audit fees totaling Rs. 9.29 million payable to the National Audit Office for conducting audits on the Board during 2011-2022, had not been settled up to 31 December 2023.

Payment of Loans and

Interest

A sum of Rs. 256.81 million remained further payable as at 31 December 2023 out of the loan obtained from the Bank of Ceylon by the Board by pawning the Laksala building in Fort during 2011-2017. Sums of Rs. 75.79 million and Rs. 51.23 million had been paid as loan installment and interest respectively in the year 2023. Sums of Rs. 103.28 million and Rs. 53.26 had been paid as total loan installments and interest respectively in the year 2023. That amount represented 24 per cent of the generated revenue. Attention had not been brought on preparing a plan for repaying loans thus controlling the costs.

When quotations had been called for the security service, the Technical Evaluation Committee had selected the 6th lowest bidder without any logical basis. due to the selection of that bidder, it was observed that the Board had sustained a financial loss of Rs 1.45 million in the year.

Sri Lanka Standards Institution

Examining the Compliance of Specifications of Goods with SLS Logo

Once a license is issued to use the SLS logo, samples of the product should be obtained from the open market and compliance with the specifications should be examined through tests in order to verify the compliance with conditions and the standard. Nevertheless, 924 items had obtained the SLS logo as at 31 December 2023, but market surveys had been conducted only on 183 items in the year 2023 equivalent to 20 per cent.

Industrial Technology Institute

Drug Testing Laboratory Remaining Idle

A modern drug testing laboratory on par with GLP certification as in developed countries and accreditation, had been maintained under the institution since 2019 at an expenditure of Rs. 99.42 million incurred through Treasury provision. However, in supplying and distributing all the western medicines, inclusive of hospitals in the country, the National Medicines Regulatory Authority had not taken action to obtain services from the said laboratory. Hence, the key objective of establishing the laboratory, using as a third party laboratory with independent accreditation for development of medicines in Sri Lanka, could not be achieved.

Petroleum and Lubricant

Testing Laboratory Remaining Idle

Following the Cabinet Decision No. CP/16/1576/19/96 dated 31 August 2016, a petroleum and lubricant testing laboratory had been established by acquiring equipment at an expenditure of Rs. 117.7 million to conduct tests on third party petroleum products in compliance with conditions of the Public Utilities Commission of Sri Lanka (PUCSL). However, due to lack of a methodology to collect petroleum samples for the laboratory, the key objective of establishing the laboratory was not achieved. Although there was a public opinion that issues existed on the quality of petroleum being imported into the country, the laboratory established for that very purpose, could not execute its duty

Failure to Make Use of Technologies Invented through Researches

New technologies invented through researches conducted under 05 projects using Treasury provision amounting to Rs. 9.02 million by the material and technology laboratory during the 05 preceding years, had remained unused even by the end of the year 2023 after more than 03 years. Researches such as, improved heat conductivity at nano scale using rubber and plumbago conducted in the year 2018, using nano particles to reduce vehicle emissions, and inventing a technology to produce environmentally-friendly polythene for being used as lunch sheets, had been conducted. However, due to failure in recognizing a party who could make use of the technologies, the productivity remained unsatisfactory as compared to the cost incurred. The benefit of improving the use of local resources through value addition, had also been lost by the local industry. Nevertheless, it was observed that the technology so invented, had been used for environmental requirements.

Fisheries

It is expected from this sector to increase the per person consumption of fish up to 43.28 grams per day in Sri Lanka through a sustainable fishing industry highly contributing to the national economy by properly utilizing the area of 517,000 square kilometers in territorial waters of the unique economic zone of Sri Lanka, international waters, and lagoons & internal reservoirs of 489,000 hectares thereby properly maintaining the nutrition of people, contributing to the national economy and growth of foreign exchange through export of fish, and uplift the livelihood of fishermen. In order to fulfill those objectives, the following key functions were discharged by a Department and 06 statutory institutions functioning under the Ministry of Fisheries.

Functions

Introduction of a scientific method to increase the fish population in coastal areas.

Modernization of fishery harbors and construction of new fishery harbors as required. Improvement of all the fishery harbors and anchorages with state-of-the-art communication facilities, refrigerators, supply of fuel and sanitary facilities.

Providing opportunities for local companies to expand fishing in international maritime area.

Encouraging private companies and investors to expand the canned fish industry.

Expand marketing and development activities for fish production in a way that is fair to the producer and the consumer.

Elimination of illegal fishing in North and East Seas and strengthening of naval and coastguard units and resolution of conflicts with India.

Introducing an effective banking and insurance system for the fishing community.

Implementation of technical and management training programs on Fisheries for youth using Ocean University.

Providing necessary facilities for establishment of ornamental fish industry aimed at export market.

Formulation of necessary strategies to popularize freshwater fish farming in lakes, lagoons and on land.

Development of refrigeration systems using sea water for multiday fishing vessels and encouraging use of solar energy.

Improvement of knowledge and Professional training of fishermen and those involved in the industry.

Utilization of Provision

Provision totaling Rs.9,202 million had been made for the Ministry of Fisheries and the Department of Fisheries and Aquatic Resources in the year 2023 to discharge the said functions. By the end of the year under review, only a sum of Rs.8,210 million utilized therefrom, thus failing to utilize provision amounting to Rs.992 million. Particulars are given below.

	Ministry of Fisheries	Department of Fisheries and Aquatic Resources	Total
Net Provision Rs. Million	7,511	1,691	9,202
Expenditure Rs. Million	6,612	1,598	8,210
Saving Rs. Million	899	93	992

Table 2.21 : Utilized the Provision

Given below is a summary of audit observations made in audit test checks conducted on the discharge of said functions by the Ministry of Fisheries, Department of Fisheries and Aquatic Resources and statutory institutions.

Ministry of Fisheries

Construction and Improvement of Fishery Harbors and Anchorages

In order to construct an anchorage at the coast of Kaikawala in Galle district under 02 packages within a period of one year as per the approval of the Cabinet, two agreements had been entered into on 14 September 2014 with a selected bidder at the value of Rs. 245.8 million. Accordingly, the contractor had begun constructions under both packages, and a mobilization advance of Rs. 49.16 million had been paid by the Ministry on 29 September 2014 for the two packages. However, due to lack of a construction license for those contracts, the constructions had been stopped as soon as they had been commenced.

Although a period of 09 years had elapsed since the payment of advance, that sum had not been recovered.

Payment of Interest on Delay

The Ministry of Fisheries had paid a sum of Rs. 209.69 million as interest on delay to 02 contractors relating to 05 fishery harbor construction projects as at 31 December 2023. It was certified to further pay an interest amount of Rs.20.49 million on delay. Accordingly, the total of interest on delay so paid amounted to Rs.230.19 million.

Failure to Achieve the Targeted Fish

The overall production of fish through the 05 areas of offshore, coastal and lagoons, aquatic farming, prawns, was 397,230 Metric Tons in the year 2022, and in the year 2023, the produce was 407,070 Metric Tons, thus indicating an increase of 9,840 Metric Tons equivalent to an improvement of 2.5 per cent in the overall production. The per person consumption of fish was 43.28 grams per day in the year 2023 whereas the actual consumption was 32.5 grams per day thus failing to achieve the required target in the year 2023.

Damages Caused to the Official Quarters of the Secretary to the Ministry

The Audit was informed through the reports of the annual survey on articles - 2023 that all the inventoried items, supplied by the Ministry of Fisheries to the official quarters of the Secretary to the said Ministry located at the address of No. 18/146B, Muhandiram E.B. Dabare Mawatha, Narahenpita, had been misplaced. Furthermore, doors, windows, locks and fittings of the building had been stolen. However, action had not been taken as per Financial Regulations on the loss of Rs.1.81 million thus failing to identify the parties responsible for the security of Government assets and recover the loss.

Department of Fisheries and Aquatic Resources

Diyawara Diriya Credit Scheme

With the objectives of developing fishing industry through the introduction of modern technology to salt water fishing and fresh water fishing in Sri Lanka, and producing an increased yield of fish of good quality, the Delaware Diriya Credit Scheme had been launched in the year 2011 under the sponsorship of the Department of Fisheries and Aquatic Resources and Bank of Ceylon in view of modifying the fishing trawlers and providing relief for the fishing community. The sum of Rs.12 million, being the subsidy for interest on the loan of Rs.776 million as at the end of the year 2023, had been settled to the Bank of Ceylon by the Department of Fisheries and Aquatic Resources in the year 2023. No follow up action had been taken throughout the entire period with respect to the matters such as, loan amount granted to the fishermen, recovery of loan installments, interest recovered, measures taken on fishermen from whom loans had not been recovered, contribution of the beneficiaries to increase the production of fish, and reliefs for the fishing community. As detailed information had not been furnished to the Audit in that connection, accuracy of the said transaction could not be verified in audit.

Production of Fishing Trawlers under 50 per cent Subsidy of the Government

In order to provide a 50 per cent subsidy by the Government on the production cost of 10 fishing trawlers with modern technology in length of 55 feet following a Cabinet Decision taken in the year 2016, a sum of Rs.130 million had been paid by the Department to an external institution in the year 2016. Two of those fishing trawlers in length of 55 fees being manufactured under the 50 per cent Government subsidy scheme, had not been completed and delivered to the owners as at the date of audit even after a period of 08 years.

Lagoon Demarcation Project

A number of 1,784 demarcation posts were required to mark the boundaries of Chilaw lagoon under the lagoon demarcation project of the lagoon development programme. However, as that number had been mentioned as 4,060 posts in the procurement process, 2,276 posts value d at Rs. 3.83 million had been made in excess, and those posts had been stacked at 13 locations in the Chilaw lagoon. The Accounting Officer should be responsible for economy, efficiency, propriety and integrity when public funds are expended in terms of Financial Regulation 128 (1) (i), but it was observed that this had not been taken into consideration. Although it was later decided that the concrete posts purchased in excess, be used to mark the boundaries of Puttalam lagoon, action had not been taken even by 31 December 2023 to transport those posts to the Puttalam lagoon.

Peliyagoda Central Fish Market Complex Management Trust

Although a period of 12 years had elapsed by the end of the year under review since the inception of Peliyagoda Central Fish Market Complex Management Trust, action had not been taken to incorporate the Management Trust through an Act of Parliament. Furthermore, Guidelines have not been introduced to certify that fish is kept hygienically in the market complex and quality & standard of fish being sold have been maintained properly.

National Aquaculture Development Authority of Sri Lanka

Failure to Account for the Assets Vested by the Aquatic Resource Development and Quality Improvement Project

The shrimp hatchery in Pudukudirippu worth Rs.75.88 million, had been vested in the Authority on 30 December 2009 by the Aquatic Resource Development and Quality Improvement Project, but those assets had not been recognized and brought to accounts through the books. According to the assessment report as at 22 June 2015, the values of the land of the hatchery and the building amounted to Rs. 3.72 million and Rs. 44.23 million respectively whilst the value of other items such as furniture and fittings, motorcycles, air conditioners, generators and other stock value, totaled Rs.3.15 million. However, none of those values had been brought to accounts, and the existence of such assets had not been verified even through the reports of the survey.

Fruitless Expenses

In order to develop infrastructure relating to 04 lands not owned by the Authority in extent of 1,361.76 hectares and a land of unknown area, a sum of Rs. 107.6 million had been expended since the year 2017. However, as no project had been implemented up to 27 May 2024, the said expenditure had become fruitless.

The National Aquatic Resources Research and Development Agency

Fish Feed Making Machine Given on Lease

The fish feed making machine valued at Rs.16.868 million received as a donation in the year 2018, had been given on lease and installed at a land owned by a private company. According to Condition 08 of the lease agreement, a monthly lease rent of Rs.150,000 be paid to the Agency with effect from 05 June 2020. However, as no lease rent has so far been received, the sum of Rs.4.650 million receivable for a period of 31 months, had been lost by the Agency.

Ceylon Fishery Harbours Corporation

Increase in the Debtor Balance

As for the fulfillment of objectives and functions of the Ceylon Fishery Harbours Corporation, revenue is generated through the sale of fuels, electricity and water for the fishing trawlers. They also generate revenue by giving on lease to private parties the properties such as, lands of the harbours, ice making plants, warehouses, and buildings, and through anchorage fees. However, as the revenue of the Corporation is properly recovered annually, the revenue debtor balance was increasing annually; and hence, the debtor balances for the years 2021, 2022 and 2023 were increasing by Rs. 599.81 million, Rs. 819.34 million and Rs. 871.22 million respectively.

Livestock

Sri Lanka is a country where the rural population is higher than the urban population, and the rural people are often engaged in primary industries. Accordingly, the purchase of agricultural and animal products, which were the main livelihood of these rural people, and providing a good price for them and the provision of the necessary infrastructure for the production and converting the primary products into secondary products and send them to the foreign market should be the role of the government institutions related to that. Accordingly, the role related to the livestock sector in Sri Lanka was as follows.

Role

Conduct research to introduce livestock to suit different geographical areas and encourage small and medium scale farm development.

Promotion of livestock related production and encouraging the export.

Introduction of high-quality fodder through National Livestock Development Board.

Provision of necessary land and investment facilities in coordination with the relevant institutions for the construction of medium and large-scale cattle farms.

Implementation of programmes for maximum utilization of government-owned animal farms.

Expansion of chicken and egg production and encouraging export.

Expanding local production and consumption opportunities by promoting small and medium scale producers.

Introduce international standards and effective monitoring systems for animal farms and production facilities.

Facilitating small and medium scale farmers by expanding veterinary facilities.

Certain matters observed during the audit in relation to the functions conducted by the National Livestock Development Board and Milco (Pvt) Company related to this sector to fulfill the above role are summarized below.

Department of Animal Production and Health

Goat Breeding Project

Boer type goat breeding project had been started in Imbulandanda Goat Breeding Centre in the year 2019 with the aim of fielding 250 goats at a rate of 50 per year in 05 years. A sum of Rs. 91.97 million had been spent on this project by the end of the year 2023, and only an income amounting to Rs. 2.36 million had been earned during that period. Moreover, it was observed that only 23 goats were released to the field during that period, and as a result, the expected objectives of the project had not been fulfilled.

Financial Irregularity of the Cashier

The cashier of Gannoruwa Veterinary Research Institute had committed an irregularity by taking an amount of Rs. 14.75 million from the income collected daily during the period from 2018 to July 2023 for personal use without handing over the amount to the chief cashier at the head office. Full reports in relation to the inquiry had not been issued in terms of FR 104 (4) even by the closing date of the year under review.

Idle Assets

Although an automatic bio-treatment machine was purchased at Rs.96.55 million and installed at Polgolla Animal Virus Laboratory on 15 August 2022, it remained unutilized till 31 December of the year under review.

National Livestock Development Board

Insurance compensation receivable for Dead imported cattle

It had not been possible to recover the insurance compensation amounting to Rs. 19.25 million prevailed from the year 2013 and receivable for dead imported cattle till 31 December 2023.

Arrears ground rents and fines

Arrears ground rents and a fine, prevailed for more than 5 years and to be recovered from brokers as at 31 December 2023 due to non-removal of coconut stocks within the prescribed time periods according to the regulations issued by this Authority in the coconut auctions conducted by the Coconut Development Authority, had been Rs. 8.81 million, and effective steps had not been taken to recover these balances.

Idle or underutilized property, Plant and Equipment

There had been 4 machines capable of producing 3.75 TONS of cattle feed at one time per day in 4 farms of the Livestock Development Board. Although 10,800 MT of cattle feed can be produced per year at the rate of 900 MT (3.75*30 days*8 hours) of cattle feed per month could be produced using those machines, it was revealed that the machines have been idling for 15 years.

There were 04 poultry feed processing machines owned by 4 farms under the National Livestock Development Board and Mahaweli Livestock Enterprises Limited had 1 poultry feed processing, grinding and mixing machine. This machine had the capacity of producing 30,960 MT per year in the rate of 2,580 metric tons (10.75*30 days*8 hours) of poultry feed per month. However, it was revealed that those machines were idle for 15 years and one year respectively to 31 December 2023.

Variation in expected milk production and Actual milk production

According to the action plan, decrease in the expected milk production and the actual milk production of the Board from 2019-2023 were observed as follows.

Year	Expected milk production according to the Action Plan (million litres)	Actual milk production (million litres)	Decrease (million litres)	Percentage of reduction %
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2019	17.91	12.43	5.48	31
2020	15.11	12.03	3.08	20
2021	15.22	9.7	5.52	36
2022	12.54	6.43	6.11	49
2023	8.92	4.87	4.05	45

Table No 2.22- Expected and actual Production

Milco Private Limited

Production of milk powder not suitable for human consumption

After the installation of the new plant under the Projects of modernizing milk powder production factory, test reports had been issued that 771,652 kg of milk powder produced in July 2017 had been free from defects and the quantity of milk powder had been sold. The stocks had been brought back to the warehouses owing to customer complaints that the milk powder was not suitable for human consumption. After selling 720,000 kg of milk powder worth Rs. 475.2 million as animal feed from the year 2018 to the year 2022, the remaining 17,938 kg had been stored at Ambewela Dairy Factory by 31 December 2023. However, any inquiry had not been conducted in relation to the officers responsible for the production of milk powder that was unsuitable for human consumption.

Purchase of Liquid Milk

In order to achieve the desired market share, it is essential to purchase a significant amount of the total production of liquid milk in the country, which is the main input to carry out the target production. However, it was observed that the purchase of the required quantity of milk by the company for its production activities was as low as 14, 13 and 9 percent of the total liquid milk production in the country in the years 2020, 2021 and 2022 respectively, and the purchase of liquid milk in the year 2023 had been dropped by 7,762,535 litres or 16 percent compared to the year 2022.

Year	2020	2021	2022	2023
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Collection of Liquid Milk (Litres) (According to records of the company)	67,287,519	67,905,259	47,538,337	39,775,802
Total milk production (Litres)	491,538,618	513,305,478	506,449,602	*
(According to records of the Department of Census and Statistics)				
Progress in Acquisition	13.68	13.22	9.38	

*Not Available

Table No 2.23 : Total milk production and Purchase of company

Construction of factories without considering the utilization

The Company had entered in to a contract for a contract value of Rs.9.93 billion to establish the Badalgama Milk Processing Factory, and Rs. 11.86 billion had been spent by 31 December 2021, and the construction work of the project was currently being implemented. After the completion of the factory, it was reported that the company needs 400,000 litres of liquid milk per day according to the machine capacity of the factory. At present, it was observed that there was an uncertainty about the possibility of using these machines at their full capacity as the daily amount of liquid milk that can be collected by the institution for the other 04 active factories is only 200,000 litres.

Idle or underutilized Property, Plant and Equipment

The yoghurt mixing machine worth Rs. 104.18 million, which had been purchased on lease basis on 20 January 2011 and installed in the Polonnaruwa milk factory belonging to the Company remained idle without utilizing for 13 years due to manufacturing defects and the ice cream container manufacturing machine worth Rs. 15.45 million and located in Digana milk factory owned by the Company remained idle without utilizing for 11 years.

Environment Sector

The mission of the Ministry of Environment is to provide leadership for sustainable environmental management by ensuring the realization of the vision of a sustainably developed Sri Lanka and environmental protection through sustainable natural resource management. The following duties and functions should have been performed by the Ministry of Environment and the 04 statutory boards/institutions under it which were in operation in the year 2023, viz, Central Environment Authority, Geological Survey and Mines Bureau, GSMB Technical Services Company and Sri Lanka Climate Fund (Pvt) Ltd. in order to fulfill that mission.

Functions

To identify and analyze problems in the environment and natural resources sectors through a coalition of stakeholders to use them in the formulation of the sustainable development policies.

To inform relevant stakeholders to formulate policies related to environment and natural resource conservation and ensure the implementation of the policies.

Preparation of strategies and action plans and implementation of pilot projects to enable the implementation of policies that are compatible with the environment and natural resources.

Educating the people at the national level about policy reforms and sustainable environmental concepts as well as major environmental processes related to the environment and natural resources.

Confirming the fulfillment of international obligations to be fulfilled by Sri Lanka in accordance with the multilateral environmental conventions that Sri Lanka has signed.

Setting up follow-up methods related to the environment and natural resources sector and applying appropriate strategies for environmental management based on the information obtained from the follow-up.

Conducting research on the effects on the environment during the implementation of policies, analyzing that information and forwarding that information to the relevant divisions including the general public.

Creating a conducive environment for the commitment of the public and political sector for a better environmental management.

net provision amounting to Rs. 2,233 million had been allocated by the Parliament to the Ministry of Environment for the accomplishment of the aforementioned role in the year 2023, and only a sum of Rs.1,796 million, out of that, had been utilized by the end of the year under review. Accordingly, the balance as at the end of the year was Rs. 437 million.

Audit Observations

Ministry of Environment

Climate Mitigation Action Support Project

Climate Mitigation Action Support Project was launched on 11 April 2019 on the foreign grant of US$ 1.8 million received as a grant of the International Bank for Reconstruction and Development with the primary objective of strengthening the beneficiary's capacity and systems to implement policies, strategies and plans of preparedness for climate change.

A contract was entered into with a private company to provide consultancy services to establish a National Climate Change Data Sharing Networking System to achieve the objectives of this project. Although 55 stakeholder organizations such as the Department of Meteorology, the Department of Irrigation, the Building Research Institute, etc. that can provide data related to climate change were identified in order to provide data to the system, action had not been taken to specifically identify the data that should be provided from the relevant institutions and to obtain agreement in that regard. It was also observed that out of the 55 identified institutions, It was observed that the Modes of Understanding had been signed with only 08 institutions, out of he 55 of the identified institutions, and the Ministry had not given permission to access to the data network for the institutions providing data.

Although a sum of Rs. 29.76 million had been spent for obtaining consultancy services as at 31 March 2024, this system had not been in operational condition even by that date. The performance bond amounting to Rs. 3.1 million obtained for this purpose was to be expired on 12 April 2024. Even though the system was not in operational condition, a maintenance cost amounting to Rs. 1.8 million had also been paid without considering that fact.

Fifty-five (55) desktop computers had been purchased by the project on 30 December 2020 at a price of Rs. 12.4 million without VAT and they had been provided to the 55 stakeholder organizations after 14 months of the purchase without entering into Modes of Understandings. Twenty (20) stakeholder organizations, out of the 27 stakeholder organizations that had undergone the audit test check, had not been used to transmit data to this desktop computer network or to process data related to that.

Even though it had been emphasized in the Committee on Public Accounts held on 19 November 2021 that there should be a system for updating the data system and the need for continuous follow-up of this system as the progress of this project was not at a satisfactory level, the Ministry had not taken measures the necessary for that purpose.

Healthy Landscape Project

The objective of this project is to manage agricultural landscapes located in socio-economically sensitive areas for healthy landscapes, promotion of food security, well-being, and healthy ecosystems. This project is being implemented by the Ministry of Environment, Biodiversity International, and the South Asian Cooperative Environment Programme (SACEP) under the financial assistance of US$ 11.05 million comprised of US$ 2 million from Global Environment Facility (GEF) of the United Nations and US$ 9.05 million as support assistance.

The Thumbikulam tank belonging to the Bellankadavila tank cascade system of the Palugaswewa Divisional Secretariat Division had been rehabilitated by this project under the restoration of the rural tank cascade system selected as a pilot model.

Although the Thumbikulam lake had been renovated at a cost of Rs. 51.56 million for the purpose of obtaining water for cultivation, action had not been taken to restore the canals to make the spilled water of the lake flow to the lakes located below the tank cascade system. Therefore, it was not possible to release water from the lake for cultivation activities.

Even though restoration of 200 acres of paddy fields and restoration of the ecosystem have been specified as outputs of the agreement related to the restoration of Thumbikulam lake, it was also observed that the said agreement contained legally unattainable results as Thumbikulam lake and an area of 2,744 hectares associated with that had been designated as an area belonging to the Thumbikulam forest reserve by Gazette No. 1821/34 dated 01 August 2013.

According to the minutes of the Palugaswewa regional coordination meeting on 26 January 2022 regarding the restoration of Thumbikulam lake under the project, the officials of the Department of Forestry and Wildlife Conservation had agreed to construct this lake without a sluice for the benefit of wildlife. However, it was observed during the physical audit conducted on 14 August 2023 that a sluice had been constructed in this lake at a cost of Rs. 1.5 million.

Even though construction of a road, modification of an already constructed road, use of such a constructed road are prohibited in a forest reserve according to Section 7.1 (k) of the Forest (Amendment) Act No. 65 of 2009, an access road had been built at a cost of Rs. 2.1 million under the Healthy Landscape Project, and it was observed that this activity had been a violation of the Forest Act as the project area was belonged to the Thumbikulam Reserve.

Uneconomical Transactions

A vehicle, for which only the third party insurance had been obtained, and belonging to the Ministry was met with an accident in the year 2013. It had been kept in a private garage for over 10 years as it was not possible to cover the cost of repairs. However, the inquiry under Financial Regulation 104(4) had not been conducted regarding this accident within this 10-year period, and the manner of recovering the repair cost had not been decided correctly. In the year 2023, this vehicle had been disposed of for a sum of Rs.1.8 million, and a sum of Rs.1.6 million, out of the disposal amount, had been paid as the repair cost, and the balance was remitted to the General Treasury. Accordingly, the government had incurred a loss of Rs. 1.6 million.

Central Environment Authority

Not obtaining Environmental Protection Licenses

In accordance with the National Environmental Acts, environmental protection license must be obtained to discharge the said waste in accordance with the prescribed standards before starting any business activity. However, there were 272 businesses that had been operated without obtaining licenses in the areas under the supervision of the North Central and Western Provincial Offices and Kandy and Monaragala District Offices. It was observed that although there were businesses that had been operated for more than 1 ½ years to 28 years, and businesses, of which the year of commencement had not been identified, the Authority had not taken necessary measures regarding those businesses in time.

Not taking action in accordance with the conditions of licenses

There were 10 granite and dolomite mining industries, belonging to Matale and Dambulla divisional secretary's divisions, that had not complied with the conditions and terms mentioned in the environmental protection licenses by 21 May 2024. Furthermore, there were 03 industries that released waste water to water sources, 02 industries that had released waste to the external environment without treatment, and 07 industries in Colombo district that had not complied with the prescribed standards and criteria. Furthermore, the Authority had not taken necessary action in relation to 25 industries that had not duly submitted the reports that should be submitted in advance such as analysis reports and mining licenses.

Non-renewal of Licenses, which had expired the validity period

Even though it should be applied and renewed the license before 03 months of expiration of the validity period as per the conditions mentioned in the environmental protection license, there were 396 businesses in Matale, Dambulla, Colombo, Kandy, Monaragala and Anuradhapura Divisional Secretary's Divisions, which were conducting business activities without renewing the license in that manner even by 20 May 2024.

Payments Made Without Complying To Circular Provisions

Even though it had been pointed out by the audit queries that a sum of Rs.34.2 million had been paid for unused leave of the employees for the year 2022 in contrary to the Public Enterprises Circular No. PED 08/2022 dated 21 December 2022 by the Authority while the Authority had received provision from the Treasury, a sum of Rs. 31 million had also been paid for the unused leave for the year 2023.

Marine Environment Protection Authority

Idle Cash Balance

A compensation amounting to Rs.10 million received from shipwreck in the year 2011, and Rs.100 million, out of retained earnings in the year 2022 had been credited to an account called as Marine Environment Protection Fund and the amount was being invested in treasury bills and the balance of that Fund was Rs. 119.5 million by collecting the investment interest in that Fund by the end of the year under review. Nevertheless, this fund remained idle as the functions to be carried out for the prevention of marine environmental pollution had not identified and discharged.

Expert Committee Allowances

A committee comprised of five members was appointed according to a Cabinet decision dated 30 January 2023 to decide the allowances to be paid to the expert committee appointed to assess the damage related to the MV-X Press Pearl shipwreck. Four (04) members of that committee had decided to pay US$ 584,500 at the rate of US$ 350 per day, without getting the recommendation of the officer of the National Salary Commission, who was nominated to that committee. Moreover, evidence was not presented to the audit to measure the period of performing duties by the members of the expert committee and to confirm the recommended rate as an international rate. it was not confirmed to the audit how the allowance of Rs. 6.5 million paid to the expert committee during the period up to 31 December 2023 was calculated.

Expenditure incurred for picking up Beads scattered from the ship

A sum of Rs. 248.2 million had been spent as allowances to pick up beads scattered from the ship MV - X Press Pearl from October 2021 to December 2023 with the participation of community and a sum of Rs. 553.8 million had been spent for equipment, transportation, food and other expenses. The average value of the total amount of beads collected daily has decreased from 44 kg in the year 2022 to nearly 20 kg by the year 2023, i.e. by 55 percent. However, the decrease in the expenditure incurred for community participation had been only Rs. 18 million or 15 percent from Rs. 124 million to Rs. 106 million.

Department of Coastal Conservation and Coastal Resource Management

Unauthorized constructions

During the period from 2012 to 31 December 2023, 2,445 unauthorized constructions, out of 2,763 unauthorized constructions, identified, had not been removed. Moreover, action had not been taken to recover a sum of Rs. 3.3 million, which had been the 85 percent of the Rs. 3.9 million to be recovered to the Department for the demolition of unauthorized constructions from 2015 to 2023.

Not obtaining expected results from the projects implemented for stopping beach erosion

Even though 19 project works had been carried out from the year 2017 to 31 December 2023 at a cost of Rs.189 million as a remedy to stop the sea erosion since the coastal erosion around Kalutara became a serious problem due to the widening of the mouth of the Kalu Ganga as a remedy to control the flood situation in the year 2017, it was not a permanent solution to the problem.

Coastal Protection Reward fund

According to the details obtained from 31 police stations, action had not been taken to obtain a sum of Rs. 10.1 million to be received from courts for the period from the year 2014 to the year 2023.

Forest and Wildlife

The Ministry of Wildlife and Forest Resources Conservation and three departments under its purview, a statutory body, three statutory funds and a foreign aid project were operational in the year 2023 with the Vision of "A sustainable country where wildlife and forest resources conserved and to fulfill the mission of "Having the objective of nurturing the biodiversity through conservation wildlife and forest resources, to give leadership to make policies on in-situ flora conservation and in-situ and ex-situ conservation of fauna and for the promotion of sustainable timber industry, coordination and steering of leading institutions for the implementation**"**, and the Ministry should have performed the following roles.

Roles

Based on other national policies expected to be implemented by the government to formulate policies related to the subject of wildlife and forest conservation in accordance with the prescribed laws and ordinances to create "wildlife protection and forest conservation".

Implementation of projects under the national budget, public investment and national development programme

Formulation, implementation, follow-up and evaluation of the subjects and functions of the institutions under the purview of the ministry and related policies, programmes and projects.

Provision amounting to Rs. 8,671 million had been allocated by the Parliament to the Ministry of Wildlife and Forest Resources Conservation and 03 Departments to fulfill the above role in the year 2023, and only a sum of Rs.7,775 million, out of that, had been utilized by the end of the year under review and Rs.896 million had been saved.

Audit observations

Department of Wildlife Conservation

Elephant-human conflict

The amount spent on electric fences only during the period from 2021 to 2023 had been Rs. 2,355.9 million and it comprised of Rs. 58.6 million for the construction of electric fences and Rs. 14.4 million for its maintenance in the year 2023. The total length of electric fences was 5,389.97 km as at 31 December 2023. However, when considering the elephant deaths, human deaths and property damage that occurred in the last 5 years, it was observed that despite the construction of electric fences, the human-elephant conflict has not been reduced.

	2023	2022	2021	2020	2019	Total
	--------	-------	--------	--------	-------	--------
Wild elephant deaths	488	439	375	327	407	2,036
Human deaths	184	145	142	113	122	706
Physical damages	239	179	58	75	145	696
Property damages	3,429	2,668	1,326	850	2,148	10,421

Table Number 2.24: The Elephant Deaths, Human Deaths and Property Damage that occurred in the last 5 years

Enrichment of Habitats of Elephants

A sum of Rs. 57.4 million had been incurred for the removal of 315 hectares of in the Tabbowa Sanctuary from the year 2019 to the year 2023 and enrichment of habitats for elephants, and Rs. 5.8 million had also been spent for the maintenance of the area, where invasive alien species were removed. However, invasive alien species were regrown in a large area of land by the end of the year 2023. it was observed that elephants find it difficult to stay in the reserve due to this, and they travel to villages about 50 kilometres away.

Department of Forest Conservation

Outstanding Rental Revenue

A land had been given to a private company to operate a small-scale hydro power plant and to since 2016, the Company had been using a land, 72 perches more than the land given to the company. The company had stopped paying the annual license fees since the year 2019. Accordingly, Rs. 5.4 million of rentals (including VAT) for 72 perches from 2016 to 2019 and for 174 perches from 2019 to 2023 had not been recovered.

Arrears license fees

The Department had lost an income of Rs. 22.8 million as at 31 December 2023 due to non-renewal of annual licenses of 06 telephone transmission towers built within the limits of Divisional Forest office of Nuwara Eliya. This was due to weaknesses in the follow-up of transmission towers.

Arrears Quarry Revenu

The Geological Survey and Mines Bureau must notify according to a decision of the Cabinet of Ministers the calculated quantity of excavation carried out at each mining site according to the contour line maps to the relevant government land management institution, the Explosives Control Authority and the excavator once in every 06 months. However, due to the failure of the Department to obtain the reports related to the areas under the management of the Department of Forest Conservation within the prescribed periods, it was not possible to timely and properly collects the arrears of charges for the excavations carried out by the quarry owners by exceeding the limit in those areas. Accordingly, the arrears of revenue to be collected from the quarry owners of Badulla, Ampara and Monaragala districts as at 31 December 2023 had been Rs. 5.2 million, Rs. 34.1 million and Rs. 7.6 million respectively.

Not Gazetting the Forests

There were 147 forests in extent of 25,892 hectares that were not gazetted as forest reserves after the year 2021 in Monaragala district and 64 forests in extent of 22,657.78 hectares that were not gazetted after the year 2019 in Ampara district. Unauthorized encroachment of lands had taken place abundantly in the vicinity of the reserved forests due to the delay in gazetting and publishing the forests under the control of the Department of Forest conservation. Therefore, the lands had to be exempted from Conservation as reserves and that may lead to a gradual decrease in the percentage of natural forest cover and thereby there may have negative effects on achieving the sustainable development goals.

Damaging of Saplings planted

Since there had been no planned programme to distribute saplings planted, 861,921 different types of saplings that had been planted in 49 major plant nurseries under various programmes had been damaged since 2019. Most of the 160,000 saplings that were planted in the year 2021 in Nariya Kanda pine forest plantation area in extent of 42 hectares associated with the Diyatalawa military camp were also damaged, and 210,759 saplings, out of the 325,500 saplings that were planted in 04 plant nurseries belonging to the Walasmulla Range Forest Office, were damaged

Inability to obtain the maximum timber yield

Three (03) commercial forestry plantations belonging to the Ampara District Forest Office, which had completed the expected growth period between 1998 and 2011, had not been released to the State Timber Corporation for felling even by 31 December 2023. It was observed that the opportunity to get the maximum timber yield is lost due to damages and forest crimes occurred to the forestry plantations due to natural causes and human activity. Moreover, it was observed that the improvement of wood production from the forestry lands required for local consumption and export had suffered a setback.

Unauthorized Cultivation in Kabiliththa Forest Reserve

Nearly 25,000 acres had to be excluded from the administration of the Department due to unauthorized cultivation in the lands of the Kabiliththa forest Reserve for a long time. It has become a difficult task for the Department to protect the reserve due to issues such as not demarcating the forest area belonging to the Department by erecting boundary posts, lack of officers, lack of infrastructure for the officers, and the demands for lands for Chena Cultivation have also been increased.

National Zoological Department

Non-fulfillment of the objective of Establishing Zoos

Pinnawala Zoo has been established with the aim of protecting endemic and endangered species of Sri Lanka. There were only 10 animals belonging to 03 species endemic to Sri Lanka in the existing 26 animal species. However, the cubs were not born due to the age gap between the two female and male bears and the incompatibility of the 05 leopards.

Disposal of Waste in contrary to the Environment Protection Act

The Pinnawala Elephant Orphanage had not obtained an environmental license in terms of Sections 23(a) and 23(b) of the National Environment Act No. 47 of 1980. Meanwhile, waste water treatment plant, which purifies the waste water removed by cleaning the elephant stables of the elephant orphanage, has been inactive since 31 October 2020, and the waste water was being released to Ma Oya every day.

Ecosystem Conservation and Management Project

Idle Equipment

Under this project, part of the equipment purchased for the construction of electric fences around villages and paddy fields in Anuradhapura and Kurunegala districts in 2020 and 2021 had been released to the relevant societies and the offices of the Assistant Director of the Department of Agrarian Development in Anuradhapura and Kurunegala. However, equipment worth Rs. 80.7 million and 16 batteries of 12V (90Am) worth Rs 0.5 million purchased to power energizer were not utilized and stored insecurely in the premises of Ritigala, Moragoda and Maha Divulwewa Wildlife Beat offices even by the end of the year under review. Furthermore, only 56 units, out of the 3,183 Tension Spring units purchased in 2020, were issued for electric fences, and thereby 3,127 units worth Rs. 7.8 million and 09 units of Fence voltage alarm with siren and flashlight, which sound in case of damage to the electric fence worth Rs.1.4 million, had been remained idle and stored in the warehouse of Moragoda Wildlife Beat Office without utilizing them even by the end of the year under review.

Non-recovery of losses in relation to damages to assets

One hundred and Fifty Four (154) wire rolls worth Rs. 2.8 million purchased for the construction of electric fence were insecurely stored in a temporarily constructed shed in Ritigala Wildlife Office and 122 nut & bolts, of which the value had not been assessed, were stolen by thieves in the year 2022. Action had not been taken even by the end of the year under review to identify the responsible officials for that and to recover the loss from the officers responsible.

Wild Life Conservation Fund

Purchase of goods not in the prescribed Standard

The approval had been granted by a Cabinet decision dated 15 March 2021 for the procurement of 6,000 wild elephant movement barrier discs to cover 500 metres and the equipment required for the construction of 1,500 km long electric fence in Udawalawa area from a state-owned company within 90 days at an amount of Rs. 87.3 million. Accordingly, it was observed that only items worth Rs.13.4 million had been received by the Department and they had been accepted without testing for the quality. Furthermore, the goods provided were also broken and destroyed in the places where they were stored. The contract had been cancelled on 30 December 2022 as supplies were not carried out properly and the Fund had not made arrangements to settle the mobilization advance amounting to Rs. 8 million from the related advance bond.

Zoological Gardens Development and Welfare Fund

Project for Buying Birds In the year 2020, 136 foreign birds were purchased by paying Rs. 66 million to exhibit them at the Hambantota Safari Park. The construction of the bird sanctuary to be built for the exhibition of these birds had not been completed even by the end of the year under review and Rs. 18.8 million had been spent by that time. As a result, 57 birds were kept in other cages of the Safari Park without being exhibited.

State Timber Corporation

Guarantee deposited for work Sites The Corporation had not taken action to recover Rs. 10.2 million which had exceeded 02 years, out of the guarantee amounting to Rs. 15.9 million that was kept as a guarantee for the coupe in the Department of Forestry. It was also not possible to get the guarantee deposits of the coupe, where work had been completed, due to the failure of obtaining clearance certificates from the Department of Forest Conservation for certain work sites that had been handed over.

Not Proceeding in relation to Timber of Forest Crimes Action should be taken in relation to timber of forest crimes as per the guidelines issued by the Judicial Service Commission No. 422 dated 10 October 2018. The Corporation had to face difficulties such as destruction of timber of forest crimes, difficulty in managing timber and storage facilities due to the failure of the Corporation to take action accordingly. There had been 159.90 cubic decimeters of stamp timber and 30.93 cubic decimeters of sawn timber only related to Kandy region that had been decaying, and the storage facilities had also been blocked.

Removal of donated timber A sum of Rs. 41.9 million had to be paid to private contractors for 1,157 removals of the donated timber in the year 2023 due to non-establishment of a proper system to remove timber received as donations. Further, the removal of trees which should be removed immediately with great risk was delayed due to taking long time to grant approval from the head office for works costed over Rs.100,000 and cutting trees with losses over Rs.15,000.

Underutilized Goods

More than 75 chain saws, out of 100 chain saws worth Rs. 35.8 million purchased by the Corporation in the year 2023 without specifically identifying the requirement and distributed to 13 regional offices, remained underutilized due to not preparing a formal programme for their efficient use.

Amounts to be recovered for Credit Sales

The credit balance to be recovered for wood and wood-related furniture provided on the credit basis as at 31 December 2023 had been Rs. 966 million, and out of that, the outstanding credit balance that had exceeded 01 year to over 04 years had been Rs. 240 million.

It is intended to ensure access to water and sanitation for all and sustainable management **as** per the 06 Sustainable Development Goals on Water and Sanitation in the 2030 Agenda for Sustainable Development of the United Nations. Fulfilling the role of the government regarding the overall water supply of the country based on the above goals are being done by the Ministry of Water Supply and Estate Infrastructure Development and the Department of Community Water Supply under it, the National Water Supply and Drainage Board, the Water Resources Board, including the water supply and sanitation improvement project, local and Projects on the basis of foreign loan assistance. The Ministry of Water Supply, established under the vision of safe drinking water and sanitation for all, has to perform the following roles to ensure the necessary access to provide safe and adequate drinking water facilities to the entire population, and to ensure adequate and fair sanitation facilities for all.

Functions

Formulation of policies related to drinking water supply and sanitation, implementation of projects under National Budget Provisions.

Preparation, implementation, monitoring and evaluation of policy programmes and projects related to the subjects and functions of the institutions under the Ministry.

There is no specific and accurate data on the amount of safe drinking water supply in the country and the piped water coverage of the country had been 61.6 per cent of the total population by the end of the year 2023. Particulars are given below.

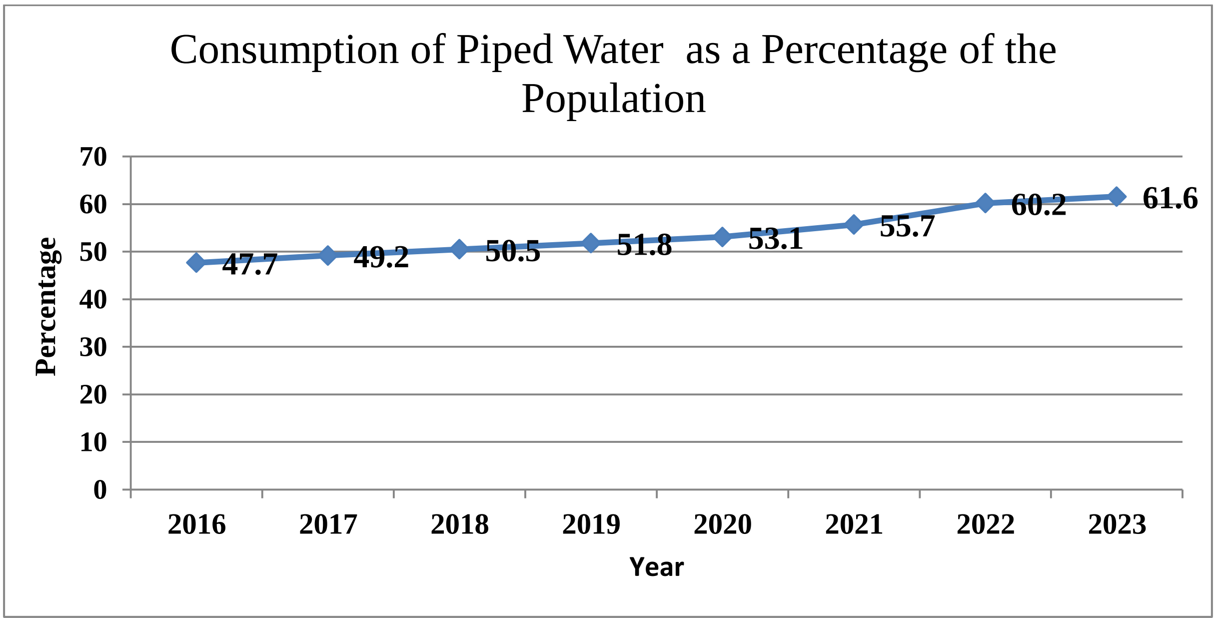
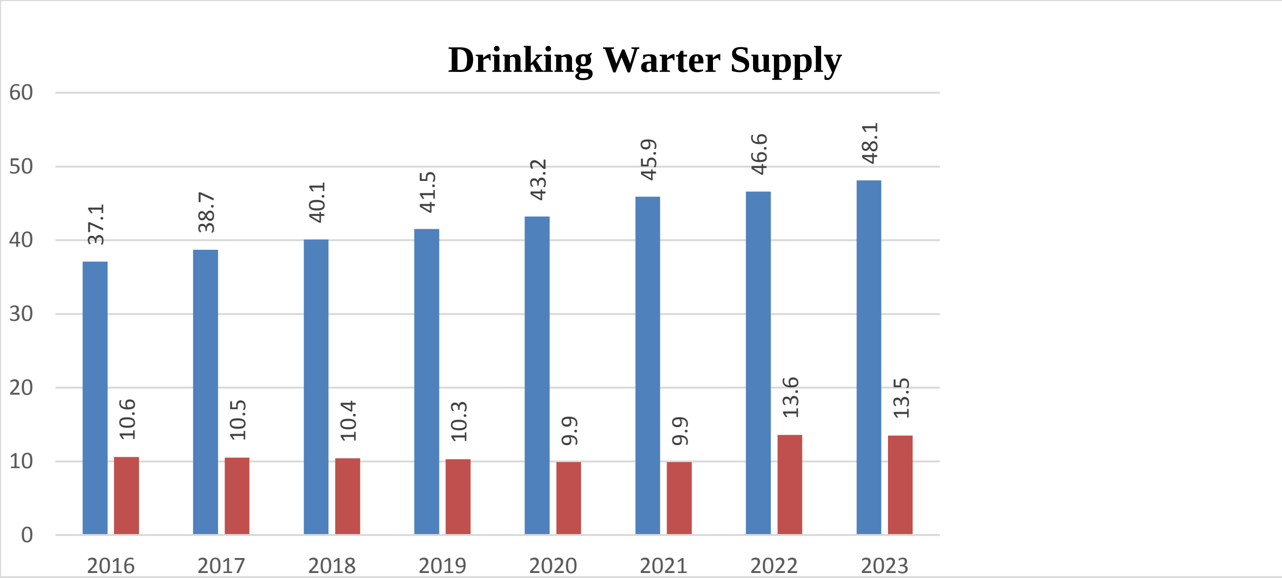


Diagram No. 2.37 Drinking piped water supply in the country (from 2016 to 2023)
Source: National Water Supply and Drainage Board



Supply and Drainage Board   Community Based Organizations, Local Authorities and other sectors to supply drinking water

Diagram No 2.38 Contribution of National Water Supply and Drainage Board and Community Based Organizations, Local Authorities and other sectors to supply drinking water

Source: National Water Supply and Drainage Board

The National Water Supply and Drainage Board plays the leading role in the drinking water supply in the country and the Board had covered about 48.1 per cent of the total drinking water supply in the country in the year 2023 as compared to 2022 with a growth of 1.5 per cent. However, as compared to the year 2022, the total drinking water supply in the country had grown by 1.4 per cent in 2023 and the contribution received from projects carried out by community-based organizations had decreased by 0.1 per cent.

Ministry of Water Supply and Estate Infrastructure Development - Water Supply Division

An annual allocation of Rs .74,520 million had been received for the Ministry of Water Supply under the annual provision of the year 2023 and a sum of Rs. 47,109 million had been spent on development and other administrative activities implemented by the Ministry.

Audit Observations

Menikkadavara and Mahapallegama Community Water Project

The land where the Menikkadavara and Mahapallegama Community Water Project commenced under the Rural Water Supply and Sanitation Services Improvement Programe had experienced a landslide and the project had been stopped by the date of audit March 2024. Even though it was had been stated that the relevant land was not suitable for construction as per the Geological Survey Reports of National Building Research Organization in August 2020, the Project had been started without implementing 02 recommendations out of the 7 recommendations given The government had spent Rs.32.86 million for the Project by the time the project was stopped and the entire amount had become an useless and uneconomic expenditure.

Payment of Port Delay Charges

Since more than a year had elapsed due to failure of clearing 122 containers with imported pipes and fittings from the Port in the year 2022 for the 'Water for All' programme initiated by the National Water Supply and Drainage Board in 2021 with the aim of providing drinking water to all, a sum pf Rs.945.08 million as delay charges had been paid uselessly during the year 2023 to Colombo International Container Terminals (CICT) for 117 containers and to Sri Lanka Ports Authority for 05 containers.

Department of National Community Water Supply

A provision of Rs.1,959.6 million had been made to the Department National Community Water Supply under the Budget Provision of 2023 and of which , Rs.896.38 million equal to 45.73 per cent, had been utilized for this sector.

Audit observations

Failure to Utilization of Provisions

Out of the total provision totalled to Rs. 389 million during the year 2023 for the implementation of rural water projects by the Ministry of Housing and Urban Development and the Ministry of Water Supply and Estate Infrastructure Development a sum of Rs. 216.65 million, equal to 56 per cent, had not been utilized by the Department for the tasks provided.

Sixty six per cent equal to Rs. 6.56 million of the foreign grants received from the United Nations International Children's Emergency Fund (UNICEF) for the development of the infrastructure of the country had remained unutilized for the related tasks. The Department had continuously neglected to effectively utilize this money received annually as a grant and provide relief to the beneficiary people, and the saving of provision of the previous year in relation to that had been Rs. 2.32 million.

Water Projects in Matale District

Even though it had been expected to provide water to 970 families through 05 water projects in Matale District with an estimated total value of Rs.47.90 million, the water supply was actually provided to only 377 families and there were no records confirming that the water was clean drinking water.

Water Projects in Kurunegala District

Nine community water projects with an estimated value of Rs. 77.68 million had been entered into agreements with a private company to build them in Kurunegala District in the year 2021. Out of those 9 contracts, the construction of 6 contracts whose total estimated value was Rs 51.22 million had been abandoned and the contracts had been terminated by mutual agreement. The total of Rs.38.31 million spent on those contracts had not been effective.

Nineteen community water projects commenced in Kurunegala District in the years 2019, 2020 and 2021 had not been possible to finish construction and provide drinking water to the beneficiary people due to incomplete construction of pumping stations, wells, water tanks, water towers and non-delivery of water pumps and other equipment required for the water project and a sum of Rs. 105.67 million had been spent on 14 of those projects by 31 December 2023. Similarly, the construction works of 11 community water projects which were started in the year 2021, in the Districts of Puttalam, Trincomalee, Matale, Batticaloa and Galle had been stopped due to various reasons and, the amount of Rs.18.64 million spent by the Department for those projects by that time had also been futile.

Projects that had been funded but not completed

Although about 03 years had elapsed since the Department received an amount of Rs 7.25 million in 2020 from the Vavuniya District Secretariat and the Hambantota Provincial Ministry of Agriculture for the first phase of the Aravantulawa Water Supply Project in Vavuniya South and for the construction of the Mahahilla Parakum Water Supply Scheme in Hambantota District respectively, the works on those projects had not been completed even by 31 December 2023 .

Further, out of the money received for the projects, an amount of Rs. 5.56 million had been retained in the general deposit account without being utilized.

Installation of Nano Refineries

The Department had planned to install 08 Nano Refinery Machines, each costing Rs. 2.43 million, at a cost of Rs. 19.44 million for 08 community water projects in the year 2021 and 2022 in Anuradhapura District. Since all the contracts were awarded to one private company without considering the financial and operational feasibility while selecting the contractors and the work had been stopped whilst construction without being completed. Accordingly, the total cost Rs. 6.56 million incurred for the project had been futile.

Payment for Uncompleted Construction and Fixtures

By making a payment without carrying out an examination on payment of Rs.1.36 million for the unfinished works of 05 water projects in Ratnapura District, whose construction was started in the year 2021, and Rs.1.15 million for the unfinished construction and installation of the Opalgala Metsith Water Project in Matale District, losses had occurred to the government .

Conducting Water Tests

As the primary role of the Department is to provide clean drinking water as per the Cabinet Memorandum No. 17/2014 dated 13 March 2014 related to the establishment of the Department, although the Department had given instructions to community-based organizations to conduct 2 water tests per year in water projects, it was observed that water tests are not being conducted. Further, the Department did not have a formal work plan to clean the water reported as unfit for drinking as per the proper standard.

National Water Supply and Drainage Board

The goals and achievements of the Corporate Plan which had been prepared including the number of new water connections expected to be provided under the Water for All Project for the years 2020-2025 and then under the Capacity Enhancement and Distribution Expansion Project for the National Water Supply and Drainage Board which is the main institution facilitating the provision of safe drinking water and sanitation in Sri Lanka, are as follows.

Performance Index	Unit	2023	
		Target	Achieved
Safe drinking water coverage	From Population %	-	97.3
Pipe borne water supply coverage	From Population %	59.8	48.1
New water supply connections	Number	160,000	115,509
Safe piped drainage facilities	From Population %	2.1	2.07
Non-revenue water supplies			
Colombo city	From Purified Water %	19	19.25
All over the island	From Purified Water %	23.91	25.32

Audit observations

Procurement of Solar Power Systems

The Procurement Committee had directed the Technical Evaluation Committee (TEC) to re-evaluate the procurement No. DGM/M&E/SOLAR/2021/01, which had been reported by the Technical Evaluation Committee to re-bid due to unavailability of substantially responsive bidders was a major deviation. However, the Procurement Committee chaired by the Chairman of the Board had decided to award the contract related to the procurement of this solar power system those value was Rs.73.07 million after re-evaluation. Eighty per cent of the shares of the company that was awarded the contract was owned by one of the chairman's siblings and the children of the said sibling and according to the requirements of Section 05 (04) of the National Water Supply and Drainage Board Law No. 02 of 1974, the Chairman had not disclosed the conflict of interest in this contract to the Board of Directors.

Issues of Independence of Board of Directors

Although the Directors should be independent from the Board, in terms of Paragraph 4.4.1 of the Chairman and Board of Directors Good Governance Manual of Public Enterprises issued by the Sri Lanka National Council for Human Resource Development the officer who served as the General Manager of the Board until she retired in September 2023 was appointed as a Member of the Board of Directors from October 2023 and was also appointed as a Member of the Audit and Management Committee. During the discussion of the facts related to that officer which had been discovered during the audit test checks, it was observed during the audit that it affects the independence of that Committee.

Failure to take actions on Vehicle Accidents

The official vehicle which had reserved to the General Manager of the Board was experienced in an accident on 12 April 2023 and the estimated loss was Rs. 13 million. Although the court had decided that the accident was caused by the carelessness and negligence of the driver, the Board had not conducted a preliminary and formal investigation in accordance with Financial Regulation 104 (3,4) and determined those responsible. The Secretary of the Ministry and the Department of Public Finance had not been informed about the above losses and the above losses had not been recovered from the insurance due to the fact that the necessary documents were not produced as scheduled.

Releasing of the Officers of the Board to the Ministry

A sum of Rs. 263.33 million had to be reimbursed from the Line Ministry from the year 2015 to the end of the year 2023 including Rs.24.34 million in the year 2023 as salaries and allowances of fifteen employees released to the Line Ministry. Out of these, four of the employees were employed in the Minister's office. Further, a sum of Rs.5.04 million should have been charged to the Board for an employee released to the President's Office from 2020 to the end of 2023. In addition to that, another employee of the Board had been released to the he Prime Minister's Office without paying salaries.

Misappropriation of Project Funds

A super luxury sports utility vehicle, which has no any contribution to the operations of the project had been purchased for Rs.39.2 million using the provisions for the importation of vehicles required for the operations and maintenance of the Kandy Municipal Wastewater Project. This vehicle bearing the number CBG-7386 had been released to the Ministry of Water Supply from the year 2019 when it was imported and without bringing it to the project premises, it was given to the use of a Coordinating Secretary of the Minister. It was observed that the said vehicle had been informally taken to another Ministry after the resignation of the said Minister from 19 January 2023. The said vehicle had not been handed over to the Ministry or for the work of the relevant project even by 14 May 2024.

Vehicle Misuse

Although the Chairman and Vice Chairman of the Board shall be assigned one official vehicle each for duty and personal use as per Section 2 of Public Enterprises Circular No. PED i / 2015 dated 25 May 2015, two official vehicles shad been assigned to the President and Vice President respectively for the years 2022 and 2023. Although the approved fuel limit for the Chairman and the Vice Chairman is 145 liters per month each according to the provisions of Public Enterprises Circular No. 01/2015 (ii) dated 14 January 2022, it was observed that the Chairman and the Vice-Chairman had spent Rs. 1,945,159 for 5,806 liters of fuel and Rs. 2,290,662 for 6,393 liters in the years 2022 and 2023 without having a proper approval.

It was observed that the cab number PK-3575, which was given to the Vice Chairman of the Board, was given on 07 occasions for the use of other persons outside the duties of the Board during the period 2022-2023 and it was also observed that 13,698 kilometers had been driven by those outside people.

The Board had issued internal circulars allowing personal use of Board vehicles after office hours and on holidays on cash charging base in contrary to terms of existing Public Enterprises Circulars. According to that, on the basis of payment of Rs. 2.50, Rs .7.50, Rs. 15.00 for 1 km, the officers' vehicles had been used for personal purposes and during the inspection of a group of 13 officers from January to July 2023, it was observed that 12,009 liters of fuel had been used for personal use and it was observed that the Board had spent Rs. 3,929,918 only for the cost of fuel apart from other expenses for maintenance.

World Water Day Conference

A Conference was held in conjunction with the World Water Day in the year 2022, for which a sum of Rs. 23.44 million was spent, including Rs. 18.15 million from project funds. An event management company had been employed for the organization of the event and a sum of Rs.18.16 million had been spent for it. It was mentioned that bids had been invited before obtaining the approval of the relevant Board of Directors to select a company and according to 6.2.2 of the Procurement Guidelines, although 21 days should be given to publish the invitation to bid and submit bids, only 10 days were given for that.

Removal of Sheet Pile of Nilwala Salinity Barrier

A salinity barrier had been constructed across the Nilwala River in the year 2023 to prevent salt from mixing with the water drawn from the Matara Nilwala River catchment. The sheet pile had been removed at a cost of Rs.7.8 million due to the influence of farmers and local residents due to the flood situation in 2023. Based on the study on the impact due to the development of the Nilwala Salinity Barrier, the reports issued by the Lanka Hydraulic Institute have emphasized that the sheet pile should be re-established to achieve the purpose of this construction, and a report issued by a Committee of the Environment Authority also emphasized that construction of the salinity barrier and other reasons had contributed to the inundation of the Matara District. It was pointed out that the construction of the salt bar and other factors contributed to the submergence.

According to the quality test reports of the Board, it has been confirmed that there is salt in the water obtained for treatment after removing the sheet pile. Therefore, the cost of installation and removing the sheet piles as well as the cost of constructing the salinity barrier, which is about Rs.2,482 million, has been an uneconomic expenditure. Further, the value of the compensation recommended by the Committee appointed by the Matara District Secretary to determine the compensation for the agriculture damaged by inundation due to the Nilwala salinity barrier during the period from 2019 to 2022 was Rs.1,208.4 million.

Recovery of Debtor Balances

Trade debtors, new connection debtors, sewer age debtors and other debtors amounting to Rs 2,344.78 million had not been recovered for more than two years. Further, an amount of Rs.3.51 million for 23 water connections provided to the government quarters of the Members of Parliament remained outstanding for a long time without being collected at the end of the year 2023.

Loans and advances given to former employees amounting to Rs. 17.5 million remained in arrears for a long time. It was observed that more than 90 per cent of the employees who have taken the above loans and advances had been retired without collecting the amounts receivable.

Maintaining Funds In Idle

Although at the end of the year under review six loan installments of USD 45 million were repaid after the grace period for the loan granted by the China Development Bank for the Gampaha, Atthanagalla and Minuwangoda water supply project, out of the loans granted by the China Development Bank, an amount of 52 million dollars equivalent to Rs.16,836.51 million equal to 29 per cent of the loans, had been retained in the Escrow Account without being utilized for project work at the end of the year under review.

Arbitrary Determination of Payment for Contract Price Variations

Although requests were made for associated costs and time extensions by the Contractor's Claims 1 and 2 under the Kandy Municipal Wastewater Management Project Package 2 Contract, as the Engineer-in -charge of the Project did not agree in this regard the claim had been submitted to the Disputes Adjudication Board. Due to the employer giving Dissatisfaction Notice regarding the decision of the Dispute Adjudication Board. The settlement process through Amicable settlement had started in September 2019. In this case, the contractor proposed Rs. 1,745.20 million and Rs. 1,304.69 million, the engineer recommended Rs. 89.36 million and Project Management Unit suggested Rs.791.12 million and Rs. 1,138.31 million. Despite these varying amounts, without formally verifying the accuracy, completeness or validity. The board of directors gave their concurrence through board decision no. 4299(g) dated 20 December 2021, to pay Rs.1304.69 million to the contractor.

Women and Child Affairs

With the vision of an advanced society that enjoys the full benefits of development fairly and equally, the Ministry of Women, Child Affairs, and Social Empowerment undertakes its operations with the mission of formulating and executing programs that provide and enhance legal, institutional, and human resource services for the economic empowerment and social protection of women, children, and vulnerable and disadvantaged individuals, taking into account national priorities and requirements alongside international standards.

Functions

Implementation of the Women's and Children's Charter.

Formulation and implementation of strategies to promote participation and representation of women in political and state affairs.

Taking measures to empower women affected by conflicts and poverty.

Implementation and strengthening of legal frameworks and policies relating to the prevention of violence against women and children, and prevention of discriminatory treatment of women based on sexuality and gender.

Formulation and implementation of policies and programs to empower women-based housing units, achievement of sustainable development goals relating to women and child affairs, implementation of family counseling service.

Formulation and implementation of a national policy for preschools.

Formulation of policies and programmes on early childhood care and development with the aim of raising physically and mentally healthy children.

Formulation and implementation of programmes and projects in line with international standards to protect the rights of children in unprotected conditions.

Regulation of child care centers and implementation of the Sevana Sarana Foster Parent Initiative.
To provide financial assistance to improve special skills of children.

Implementation of Samurdhi Programmes.

Evaluation, restructuring, and introduction of suitable new reforms for public assistance schemes.

Providing assistance to patients with tuberculosis, kidney disease, leprosy, cancer, and epilepsy, and their dependents.

Engaging in activities aligned with international conventions on persons with special needs and coordinating with institutions to provide training and employment opportunities for them.

Making necessary policy changes to enable persons with special needs to integrate with populace and implementing required facilities and programmes, along with social security systems for them.

Caring for the elderly, promoting their participation in social development, and taking required actions to preserve the rights of senior citizens.

For the execution of these functions, 03 departments under the Ministry and 12 statutory bodies were active. The matters uncovered during the audit of these institutions are presented below.

Audit Observations

Ministry of Women, Child Affairs, and Social Empowerment

The non-functioning of the Lanka Women E-market Website

With the aim of improving the living standards and economic empowerment of women entrepreneurs by promoting their products through an online platform, the Lanka Women E-market website was launched as a digital marketing platform on 08 March 2022, at a cost of Rs. 4.4 million. Although two years had passed since its launch, no sales of products had been made, and only supplier registrations for online sales had taken place. Furthermore, the website was not developed in accordance with the agreed specifications, and there was a lack of technical support required to maintain the E-market system. The limited technological literacy of women entrepreneurs, their inability to capture clear images of their products, and the absence of adequate follow-up regarding the operation of the system contributed to the failure of the digital marketing platform.

Grama Shakti Programme

According to a Cabinet decision, with the aim of eradicating poverty in Sri Lanka by 2030, a Gram Shakti Bureau was established under the President's Office to alleviate poverty. Under the 'Grama Shakti' programme, 3,618 societies had been established in 25 districts in Phases I and II by 31 December 2023. However, 2,067 of these committees, approximately 57%, were inactive, and funds totaling Rs. 635.7 million in Gram Shakti societies and micro-finance accounts remained unutilized.

Department of Probation and Child Care Services

Lack of a data system for street children

Although the mission of the Department of Probation and Child Care Services is to safeguard the rights of all children, ensuring equal opportunities for them in accordance with national policies and standards, with particular attention to orphans, abandoned, and destitute children, as well as children facing legal issues, no proper mechanism has been established and implemented so far to identify street children at serious risk, maintain a data system for these children, and safeguard their rights.

Providing children for adoption abroad

During the period from 2019 to 2023, 32 Sri Lankan children were provided for adoption abroad. According to Section 10C of the Adoption Act, follow-up reports on these children should be obtained for up to 10 years after adoption. However, due to the failure to obtain these follow-up reports continuously for 10 years, it has not been possible to confirm the safety of these children.

Underutilization of Provisions

Out of the total allocation of Rs. 35.9 million received from UNICEF for child development activities in 2023, Rs. 21.3 million, or 60 percent, remained unutilized. Additionally, a grant of Rs. 7 million was provided to assist in the implementation of the child protection system, aimed at preventing and responding to all forms of violence, exploitation, abuse, neglect, and harmful practices. However, it was observed that, out of the 23 projects implemented through the Divisional Secretariat using above grant, 11 were used for activities completely unrelated to the intended objectives.

Cessation of Training and Counseling Services

The Paratha Child Training and Counseling Services National Centre, the only existing institution providing counseling to female children who have been victimized by abuse and face various challenges, as well as promoting life skills, vocational training, and social integration, along with the National Training and Research Centre, were handed over to the Panadura Divisional Secretariat to be used as COVID-19 intermediate care centers in May 2021 and were returned on 06 June 2023. However, the institution's physical assets and surrounding environment had not been restored to their original condition. Although an estimate of Rs. 3.85 million was made for the restoration of the two centers, no repairs were carried out. As a result, the training programs and counseling services provided every six months for 40 selected institutionalized girls by the Provincial Resettlement Department came to a standstill.

National Child Protection Authority

Non-implementation of the National Child Protection Policy

Although the National Child Protection Policy was approved on 29 October 2019, the Cabinet's approval for the five-year action plan to implement this policy had not been obtained by the end of 2023. As a result, the Authority was unable to establish and operate the national operational committee, provincial committees, district committees, and regional committees as independent technical bodies

Lack of proper coordination between the relevant institutions

Due to the failure to implement a proper coordination mechanism between the Sri Lanka Police, the Department of Probation and Child Care Services, and the Line Ministry through the establishment of a data system to address child abuse issues by the end of the review year, the audit revealed that the Authority was unable to determine the number of child abuse complaints received nationwide or confirm the current progress of these cases.

Failure to establish video evidence recording units

Although Cabinet approval was granted in 2021 to establish video evidence recording units at the provincial level, no such units were set up in the 7 provinces by the end of the year under review. The video evidence recording unit in the Southern Province was started in 2013, but due to existing shortcomings, the unit and the technical equipment provided remained inactive since 2015. An estimate of Rs. 7.8 million was made to restore the equipment.

Failure to maintain a safe house for accommodation of victimized children

According to Section 2.5 of the video evidence recording guidelines issued by the Attorney General's Department, the Authority was unable to maintain a safe house for providing accommodation to the victimized children by the end of the year 2023.

Idle lands

The building, owned by the Mulathivu District Secretariat and verbally handed over to the National Child Protection Authority for use since 2014, remained unused and unproductive by the end of the year under review. A total of Rs. 1.08 million was spent on providing security services for the building during the year 2023 alone.

Additionally, the plot of land worth Rs. 18.3 million, adjacent to the National Child Protection Authority, was leased in 2016 for a 30-year period, but it remained idle without being used for any purpose by the end of the year 2023.

Department of Samurdhi Development

Investment of Mandatory Savings of Samurdhi Beneficiaries

By 31 December 2023, a sum of Rs. 43 billion, held as mandatory savings from the Samurdhi beneficiaries' welfare funds, was invested in fixed deposits, and the investment interest as at that date was Rs. 2.8 billion. Although the banking financial sector invested these funds at interest rates ranging from 11 per cent to 26 per cent, the interest rate offered by the bank for these deposits was only 5 per cent. Out of this, the interest payable to the Samurdhi beneficiaries stood at 4 per cent. Due to the failure to directly remit the mandatory savings funds to the bank and instead keeping them within the bank's financial sector for investment, the opportunity for the community based bank to invest the funds itself and generate interest income was lost. As a result, the chance to use these funds for the development of the community's livelihoods was also missed.

Providing Loans to Beneficiaries

Under the Samurdhi Community Based Bank System, loans were provided under 34 types of credit in 2023, totaling 350,604 beneficiaries, with loans granted for 12,309,875 beneficiaries. As at 31 December 2023, the outstanding loan balance was Rs. 73.8 billion. While the total investment of the entire banking system was Rs. 242 billion, the loans provided to the beneficiaries amounted to Rs. 73.8 billion, which represents 30 per cent of the total investment.

Idle expenses

During 2019, it was aimed to extend the Samurdhi welfare support to another 600,000 people and strengthen them by setting up 5,000 export-oriented villages, with an objective of earning one million dollars annually. A sum of Rs. 144.7 million had been spent from the Social Security Fund to implement 350 programmes across the country for the provision of ownership under the work plan, with awareness campaigns conducted at the divisional secretariat level. To settle the expenditure, Rs. 500 had been collected from the Samurdhi beneficiaries' assistance fund, amounting to Rs. 143 million by 31 December 2023. However, the objectives under the programme were not achievable.

Non-auditable funds

All immovable and movable property of the Samurdhi Development Authority, Southern Development Authority, and Udarata Development Authority, established under the laws repealed according to Section 44 (a) of the Divineguma Act, must be handed over to the government. However, the fixed assets and fund balances of these institutions were held as fixed deposits under the Department's banking financial sector until 31 December 2023. Furthermore, it was observed that the Department's banking financial sector held 15 non-statutory funds, including insurance funds, of which 6 were operational, and the remaining 9 were inactive as of that date. All funds in these Funds were invested by the banking financial sector, and by 31 December 2023, the total investment fund, including interest, amounted to Rs. 49,523 million. However, no annual financial statements were prepared for any of these Funds and submitted to the Auditor General. As a result, it was not possible to examine whether public funds were misused, and thus, these funds are beyond the scope of government financial control.

Providing Employees Loan

For the officers in the staff of the community based banks, district offices, and the banking financial section under the department, various employee loan schemes such as consumer loans, housing loans, special employee loans, and distress loans have been provided contrary to Chapter XXIV of the Establishments Code. The outstanding balance of these loans was Rs. 14,286 million as at 31 December 2023.

Non-reimbursement of funds obtained from Samurdhi Community Based Banks

In order to provide a Rs. 5,000 allowance to low-income beneficiary families to maintain their standard of living, the Treasury obtained Rs. 32,418 million through the banking system in 2020 from the mandatory savings and fund accounts of the Samurdhi Beneficiaries. However, more than three years had passed by 31 December 2023, but the funds had not yet been reimbursed to the bank.

Financial frauds of the banking system

From 2019 to 31 March 2023, a total of 165 financial frauds valued at Rs. 234.9 million were reported to the Departmental Investigation Division. Out of these, disciplinary action was still ongoing for 98 cases, involving Rs.218.4 million. Meanwhile, activities related to 15 financial irregularities valued at Rs. 263.8 million that occurred in banks and bank societies between 03 January 2014, and 31 August 2018, had not been concluded. It was observed that the recurring financial frauds by officials were due to the shortcomings in the banking system and the leniency of punishments under disciplinary orders.

Submission of forged educational certificates

According to Sections 59 and 97 of the Procedural Code of the Public Service Commission, if it is revealed that an individual has submitted false information or fraudulent (forged) documents to the appointing authority for any position in the public service, such appointments must be immediately nullified and declared void. Furthermore, all salaries and allowances paid by the government up to that point should be recovered from the concerned officials. However, it was confirmed through personal files that the educational certificates submitted by 363 officers recruited to the Samurdhi Development Department were forged. Out of them, 77 officers were dismissed from service, while 20 officers agreed to leave the service with compensation in accordance with the Act. The audit test check revealed that 30 officers from Hambantota District, who had either retired without a pension or are still serving, had received Rs.195 million in salaries and allowances from their date of appointment. Additionally, Rs.40 million was paid since 1999 for 04 officers in 04 Divisional Secretariats in the Monaragala District, and Rs. 8.7 million was paid in 2023 for 17 officers in the Colombo and Matara Districts. However, the necessary measures had not been taken by the responsible officials in this matter.

Social Security Board

Lack of a computerized Information system

Although a new software system for the Social Security Pension Scheme was initiated in 2017, the installation of the computerized system had not been completed even by the end of the year under review.

National Institute of Social Development

Underutilization of Funds

From the revenue generated by the courses run by the institution, 20 per cent is annually credited to the Fund. According to Section 7.1.4 of Chapter 11 of the Public Financial Circular No. 01/2020 dated 28 August 2020, although these funds can be used for infrastructure development of the institute, only Rs.3.5 million, or 43 per cent of the Rs. 8 million accounted for during the year under review, was spent on the digitization program and quality certification programme. Furthermore, although Rs.4.2 million was transferred to the Fund from the course revenue in previous years, no funds were spent on the institution's infrastructure development activities. As a result, the fund balance had increased to Rs. 13.6 million and remained underutilized by 31 December of the year 2023.

Port and Naval

It is the vision of the Ports and Shipping sector of the Ministry of Ports, Shipping and Aviation to position Sri Lanka as the leading maritime transportation center in the Region for all the clients by providing high par maritime services through the development of Sri Lanka as the most competitive maritime service center in the South Asian Region. The following duties and functions are executed by a Department and 05 statutory institutions functioning thereunder such as, Merchant Shipping Secretariat, Sri Lanka Ports Authority, Ceylon Shipping Corporation Ltd, Jaya Container Terminals Ltd, Port Management & Consultancy Services Ltd, and Magampura Port Management Company (Pvt) Ltd.

Functions

Development and Management of Commercial Harbors and expanding their investment opportunities

Development and administration of container yards, port oil installations, light houses and beacons.

Ship owning and operating, ship managing, ship brokering and agency services coordinating and assisting in establishing consultative coordination between shipping services and users.

Regulation of naval fees, freight and shipping services and regulating coastwise passenger traffic
Receiving wrecks and ocean salvages.

Provision amounting to Rs. 3,962 million had been granted by Parliament to the Ministry of Ports, Shipping and Aviation in the year 2023 for discharging the above functions, and only a sum of Rs. 3,176 million had been utilized therefrom by the end of the year under review. As such, a sum of Rs. 786 million had been saved without being utilized during the year 2023

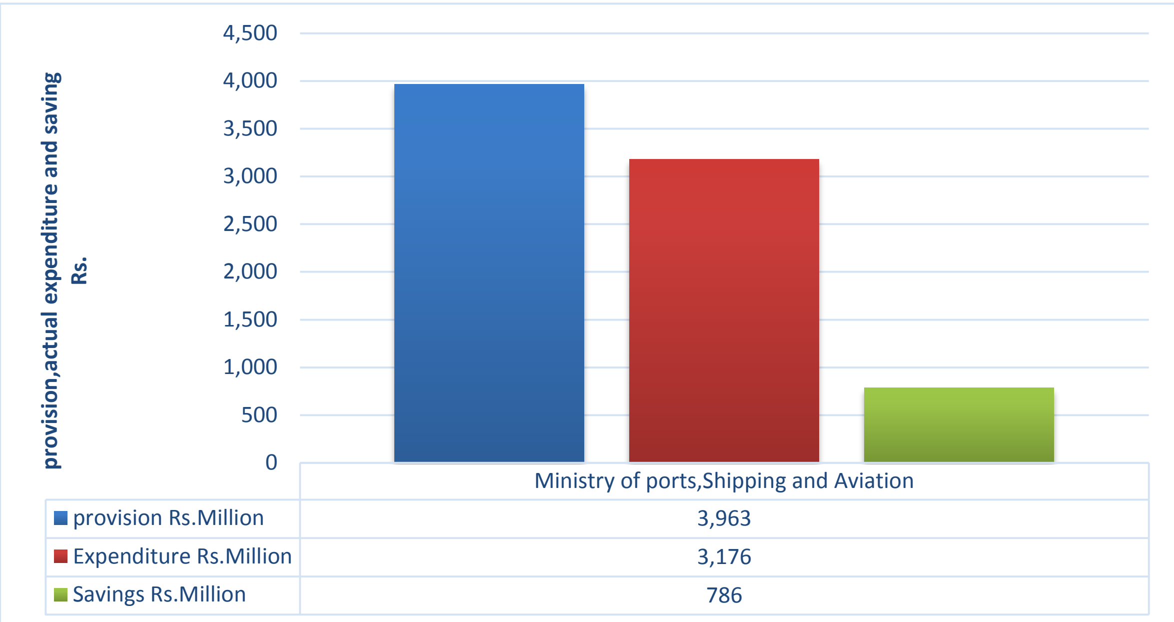


Table No. 2.39 - Annual provision ,Actual expenditure & Savings
Source – Annual financial statements-2023

Audit Observations

Ministry of Ports, Shipping and Aviation

Expenses Incurred Contrary to Objectives of the Ministry	The Ministry had been assigned to settle the loan and installment (including interest) totaling Rs. 11,796.87 million payable within 15 years computed at an interest rate of 33.30 per cent (variable interest rate) on the loan amount of Rs. 3,950.85 million obtained from a state bank on 14 December 2017 for settling the loan payable to a contractor for constructing the Suriyawewa Cricket Stadium vested in Sri Lanka Cricket. As such, the sum of Rs. 1,149.9 million comprising loan installments amounting to Rs. 329.2 million and interest amounting to Rs. 820.7 million had not belonged to the scope of the Ministry in the year under review, but the payment had been made under Expenditure Head of the Ministry.
Main Development Projects	Fourteen per cent of the net provision amounting to Rs. 240 million made for the year 2023 to prepare a feasibility report on the Colombo north Port development project under the development programme of the Ministry, had saved. Furthermore, activities of this project had been scheduled to be completed on 23 May 2021 within 15 months from 24 February 2020. However, the feasibility report had been given on 17 February 2023.
Payment of Commitment Charges and Loan Interest in Vain	Government of Sri Lanka had entered into an agreement with the Exim Bank of India on 10 January 2018 to obtain a loan of US $ 45.27 million for the rehabilitation of Kankasanthurai Port. Even though 06 years had elapsed after signing the loan agreement, the construction works of the port had not been commenced so far. Furthermore, only US $ 905,194 had been utilized from the loan, and a sum of Rs. 20 million had been paid uneconomically on commitment charges for unutilized loan and interest thereon as at 31 December 2023.

Sri Lanka Ports Authority

International Ranking

According to the Alpha Liner Report issued on operations of the ports in the world for the year 2023, the Colombo port had carried out 6,949,912 Twenty Equivalent Units and ranked 24 in the world. As compared to the year 2022, a growth of 1.3 per cent was observed in the cargo operations. Container operations of the Sri Lanka Ports Authority had increased by 2.04 per cent in the year 2023 as compared to the year 2022.

Cargo Operations

The number of vessels arrived in the main ports of Colombo, Galle, Hambanthota, and Trincomalee was 4,708 in the year 2019 whereas that number had Increased to 4,809 by the year 2023. However, the number of Twenty Equivalent Units of container operations had decreased from 7.23 million in the year 2019 to 6.9 million by the year 2023. Furthermore, the operations of conventional cargo had decreased from 9.5 million metric tons in the year 2019 to 6.3 million metric tons by the year 2023. Particulars are given in Table 2.26.

Description	2019	2020	2021	2022	2023
Number of vessels arrived	4,708	4,337	4,180	4,073	4,809
Number of container operations in Twenty Equivalent Units (TEUs) (‘000 units)	7,228	6,854	7,249	6,862	6,949
Weight of conventional cargo operations (‘000 MT)	9,530	8,894	9,229	6,249	6,271

Table No. 2.26 Number of containers and conventional cargo operations at main ports.
Source – Performance Review Report of the Sri Lanka Ports Authority -2023.

Arrival of Vessels

As compared with the preceding year, arrival of vessels in the Colombo Port had increased by 589 vessels equalent to 16 per cent in the year under review. As large vessels had arrived rather than vessels of small and medium size, a gradual decrease in the arrival of container vessels was observed between 2018-2021, but as against the year 2022, an increase of arrivals by 603 container vessels equivalent to 18 per cent was observed in the year 2023. Arrival of other vessels was also decreased by 4.55 per cent as against the year 2022. Particulars are given in Figure 2.40 and Figure 2.41

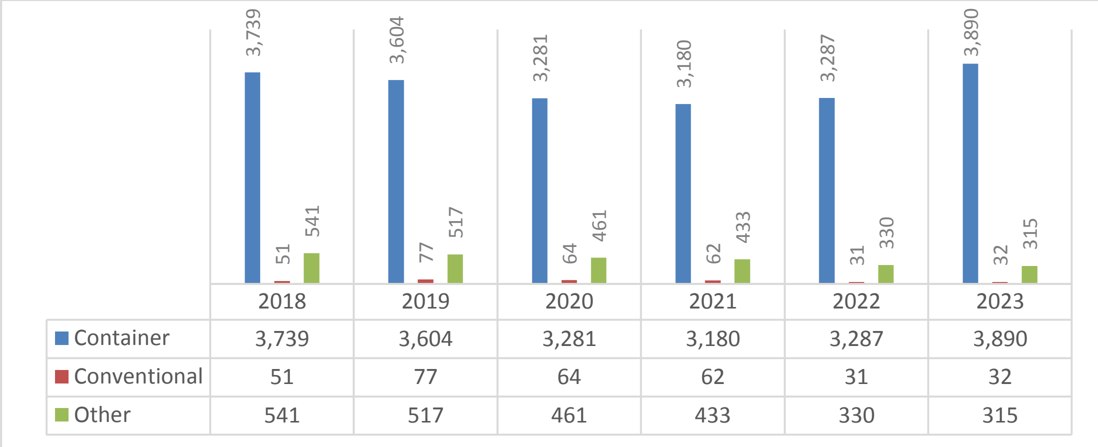


Diagram 2. 40 - Arrival of vessels in the Colombo Port- with classification.
Source - Performance Review Report of the Sri Lanka Ports Authority 2023.

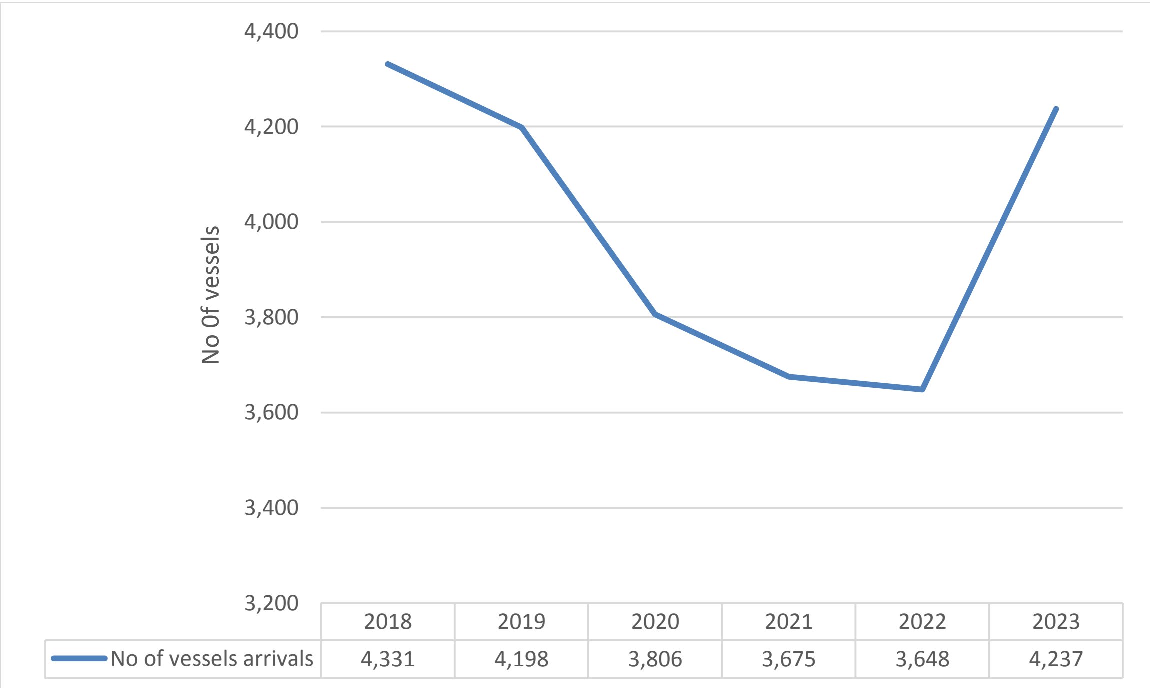


Diagram 2.41 Arrival of vessels in Colombo Port – Total number of vessels
Source - Performance Review Reports of the Sri Lanka Ports Authority for the year 2023

Terminal Operations

A number of 1,726,616 container operations had been done by the Colombo Port in the year 2001, and by the year 2023, that number had increased to 6,949,912. However, during the period of 22 years from 2001 to the end of 2023, the market share of the Sri Lanka Ports Authority in Colombo Port had declined from 81 per cent to 28 per cent. Operations of the Ports Authority in Colombo Port had been done only by the Jaya Container Terminals Ltd (JCT) until the year 2021; and, East Container Terminals (ECT) started operations from the year 2021. The South Asia Gateway Terminals Ltd (SAGT) had started operations in the year 2001 under long term lease and secured a market share of 26 per cent. The Colombo International Container Terminals Ltd (CICT) commenced operations in the year 2013 and acquired a market share of 46 per cent by the year 2023. Particulars on container operations in 05 preceding years, are given in Table 02.

Year	SLPA (Annual Terminal Capacity for containers; 3.550 million Twenty Equivalent Units of containers)	Market Share	SAGT (Annual Terminal Capacity for containers; 1.950 million Twenty Equivalent Units of containers)	Market Share	CICT (Annual Terminal Capacity for containers; 2.400 million Twenty Equivalent Units of containers)	Market Share	Total Amount of Containers in Twenty Equivalent Units
2019	2,282,618	32	2,052,153	28	2,893,566	40	7,228,337
2020	2,097,804	31	1,872,052	27	2,884,906	42	6,854,762
2021	2,198,334	30	1,838,693	25	3,212,331	45	7,249,358
2022	1,925,895	28	1,752,236	26	3,184,053	46	6,862,184
2023	1,965,131	28	1,763,863	26	3,220,918	46	6,949,912

Table 02.27– Particulars on container operations relating to 05 preceding years.
Source - Performance Review Reports of the Sri Lanka Ports Authority for the year 2023

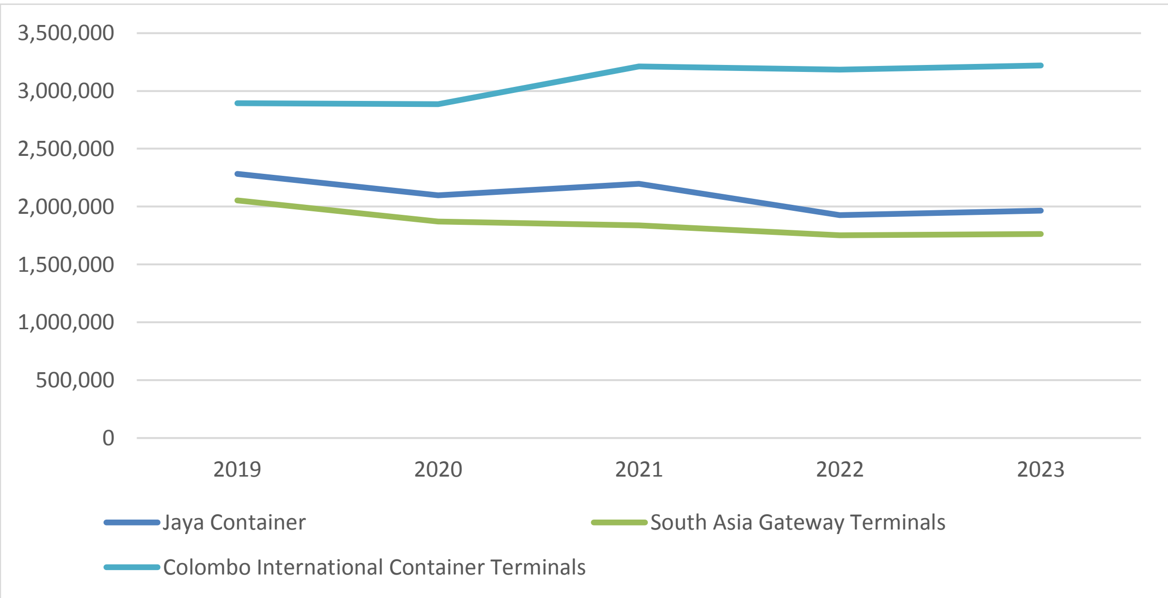


Diagram 2.42. – Terminal operations of the Sri Lanka Ports Authority
Source - Performance Review Report of the Sri Lanka Ports Authority for the year 2023.

According to the data given above, the market share for container operations of the Sri Lanka Ports Authority had gradually been acquired by the private sector. Considering the Berth Occupancy Ratio of the Authority (JCT), the ratio was indicated as 70, 72, 70, 63, and 58 during the years 2019-2023 respectively. Accordingly, the Berth Occupancy Ratio of the Authority had decreased by 8 per cent in the year 2023 as compared to the year 2022. Capacity of the SAGT and CICT stood at 1.95 million and 2.4 million in Twenty Equivalent Units respectively, but the actual number of containers operations in the year 2023 remained 1.96 million and 3.22 million in Twenty Equivalent Units respectively whilst the CICT Terminal had exceeded the maximum capacity. However, the capacity of all the terminals of the Authority (JCT and ECT) remained 3.55 million in Twenty Equivalent Units, but only 58 per cent or 1.92 million container operations in twenty equivalent units of container operations had been utilized in the year 2023. As such, it was observed that utilization of capacity of the terminals owned by the Ports Authority remained low.

Underutilization of the East Container Terminals (ECT)

Out of the container handling terminals currently constructed at Colombo Port, only the Colombo International Container Terminals (CICT) and the East Container Terminals (ECT) are the terminals where large ships requiring a basin in the depths of over 14.25 meters can arrive. Due to insufficiency of capacity of the JCT Terminal, funds had been supplied by the Bank of Ceylon under Colombo Port Expansion Project for construction of the ECT Terminal, and accordingly, construction of Stage I of East Container Terminals in the length of 440 meters at a depth of 18 meters capable of handling a capacity of 0.8 million containers in twenty equivalent units per year had been completed in April 2016 at a cost of Rs. 11,168 million. However, due to lack of cranes for handling containers, three cranes purchased for the for the Jaya Container Terminal which were capable of carrying out ship to shore operations had been installed at the East Container Terminals (ECT) in accordance with the Decision No. PA/HD/25 of the Board of Directors dated 07 February 2020, and operations thereof had been commenced. Thereafter, approval had been given through the Cabinet Decision No. CP/21/0198/328/005/TBR dated 09 February 2021 to develop the East Container Terminals, purchase the operating equipment, and carry out operations as a container terminal fully owned by the Sri Lanka Ports Authority. during the years 2023, thirty large scale container ships with depths over 14.25 meters had arrived in the Terminal, and 495,541 containers had been operated in the Terminal. The capacity utilization ratio of the terminal which stood at 43 per cent in the year 2021, had increased to 62 per cent by the year 2023. The procurement had been awarded on 18 December 2021 to purchase 12 Ship To Shore (STS) cranes capable of carrying out operations on the ground from the ship and 40 Automated Rail Mounted Gantry (ARMG) cranes installed on railway tracks at an estimated cost of US $ 282.56 million. Three of those cranes had been received on 07 February 2024 and 03 more cranes had been received 05 June 2024 whereas 12 automatic cranes to be installed on railway tracks had been received to the Port on 05 August 2024. As construction works of the second stage of East Terminal had been commenced from 04 January 2022, capacity of the terminal could not be utilized in full.

Delayed Projects

As Jaya Container Terminal which carries out the main operations of the Sri Lanka Ports Authority at present, is only 600 meters in length, facilitating 02 large ships in length of 330 meters at once is difficult. As such, the Authority lost business opportunities, and hence, approval of the Cabinet had been given in July 2017 to extend the terminal by 120 meters and deepen the basin by 15 meters. According to the agreement entered into by the Ports Authority with the contractor on 29 November 2018, the cost of the contract amounted to Rs. 5,035 million (without VAT). The notice for commencement of the Project should have been issued within a period of 07 days as per the contract agreement, but the contract had not been commenced by issuing notices in that manner. The contract had been amended through the Cabinet Decision dated 29 September 2020, and due to that reason, the notice for commencement of the contract had been issued after a delay of 02 years on 23 November 2020. Accordingly, it was expected to complete the contract by 31 July 2020, but the physical progress of the Project remained 82.6 per cent only even by 31 December 2023.

Payment of Surcharge Tax Contrary to the Act

According to Section 2(1) (a) of the Surcharge Tax Act No. 14 of 2022, there shall be levied, , the Surcharge Tax from individual, partnership or company, whose taxable income calculated in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017, exceeds Rs.2,000 million, for the year of assessment commenced on 1st April 2020, at the rate of twenty five per centum on the taxable income for such year of assessment. However, instead of paying the surcharge tax of Rs. 1,196.94 million on the taxable income of the Authority for the period 2020/21, the Authority had paid a sum of Rs. 1,952.2 million thus overpaying a surcharge tax of Rs. 755.33 million. Action had not been taken to recover that sum in terms of Section 5(1) of the Surcharge Tax Act No. 14 of 2022.

Failure to Vest the Lands Properly

The land in extent of 02 acres 03 roods and 9.61 perches located on the D.R. Wijewardana Road valued at Rs. 628.5 million had been released to the Urban Development Authority for the construction of Lotus Tower, and the land in extent of 02 acres worth Rs. 947.5 million bordered to Main Street, Colombo 01 Canal Yard (West) and the Olcott Road, had been released to the Department of Customs for construction of a building. Nevertheless, the Authority had not received the compensation for those lands up to 31 December 2023. Furthermore, the values had not been eliminated from the registers of assets formally.

Within the balance of Rs. 37.9 million, receivable as at 31 December 2023 for releasing the land located near the place where the communication tower had been constructed on the D.R. Wijewardana Road, Colombo 10, to the Sri Lanka Telecommunications Regulatory Authority, there were balances amounting to Rs. 8.2 million and 29.7 million continued to exist without being settled over 1-5 years respectively. A lease agreement had not been entered into as well relating to this land, and the Authority had failed to recover that balance even up to the date of audit.

Furthermore, the land in extent of 01 acre 02 roods and 14.9 perches located on Cyril C Perera Road valued at Rs. 83.723 million had been taken over by the Urban Development

Authority, but the process of legally transferring the land had not been completed even by 31 December 2023.

Lands not Utilized for Economic Activities

A number of 147 cases were filed as at 10 July 2023 against those who had encroached the lands belonging to the the Trincomalee Port during 2017-2022, and 37 encroachers had not left the lands during the period. Furthermore, the number of encroachers whom cases were to be filed against in due course, was 46; and, 04 large plots of land belonging to the Trincomalee Port in extent of 1,871 hectares, had not been made use of economic activities.

Failure to Transfer the Share Right to the Authority

In order to exchange the value of 03 cranes given by the Sri Lanka Ports Authority at the time of establishing the South Asia Gateway Terminals Ltd (SAGT) in the year 2010, an agreement had been entered that shares of that Company valued at Rs. 141.63 million be given to the Authority. Nevertheless, those shares had not been given to the Authority even by the end of the year under review, and the said company replied through the confirmation of balance in the year 2023 that there is no balance payable for the shares.

Failure in Formulating Policies for the Subsidiary Companies

According to the Guideline for good governance incorporated for public enterprises issued with the Public Enterprises Circular dated 16 November 2021, a Subsidiary Policy should be formulated for the subsidiary companies under approval of the Board of Directors of the parent company and act accordingly. However, such a policy had not been formulated for the 03 subsidiary companies of the Authority.

Guarantee for the Loans Obtained by a Subsidiary Company

Magampura Port Management Company (private) Limited had been incorporated as a subsidiary company of the Sri Lanka Ports Authority on 05 July 2013 under the Companies Act, No. 07 of 2007, and this Company had been assigned with the management of operations of the Hambanthota Port through a management agreement. The Company had commenced operations as a fuel supplier of the Hambanthota Port under a license obtained from the Petroleum Corporation, and a loan amounting to US $ 24 million had been obtained by the Company from a private bank in the year 2014 in that connection. Accordingly, fuel had been imported in large quantities in view of storing and re-exporting to the international ships. However, following drop in oil prices at the world market, the Company sustained a considerable loss from the supply of fuel; and hence, a sum of US $ 26.49 million (Rs. 9,617 million) being the loan and interest, could not be settled even up to the date of this report. Operations of the Company had been suspended in November 2017, and due to lack of assets of the Company to settle the loan, the bank had filed 02 cases against the subsidy company and the Authority in the year 2020 at the District Court of Colombo in order to recover the loan but the cases had not concluded even by the end of the year 2023. Moreover, liquidation of the Company is in progress by appointing a liquidator on 01 June 2022 in accordance with the verdict of the Case No. HC (Civil) 97/2021/CO of the Supreme Court, Western Province.

Ceylon Shipping Corporation

Going Concern of The Company

The Ceylon Shipping Corporation Ltd is a Government owned enterprise established to cater to the sea transportation needs of the exports and imports of Sri Lanka. With a view to minimizing the import of goods by the Government institutions, Customs clearance, and other services provided by other shipping companies thereby rendering such services through a local institution owned by the Government thus retaining foreign exchange within the country, the Government had sponsored this Company. This Company owned the two vessels named, Ceylon Breeze and Ceylon Princess. The main sources of income for the Company included, earning income through the vessels (voyage), providing the vessels of the Corporation for other institutions on lease for operations, and charter hiring of vessels from external institutions. Income amounting to Rs. 878.67 million and Rs. 5,336.83 million had been earned in the year 2023 through voyage and charter hiring respectively. The Company had obtained US $ 70 million term loan and US $ 5.44 million as interest capitalized loan to pay the interest there on form the People's Bank in 2016 for the purchase to those vessels. Due to devaluation of the Rupee against the Dollar by 12.4 per cent during the year ended as at

31 March 2023, an exchange loss of Rs. 2,811.9 million had occurred thus causing an impact on the overall loss of the Company.

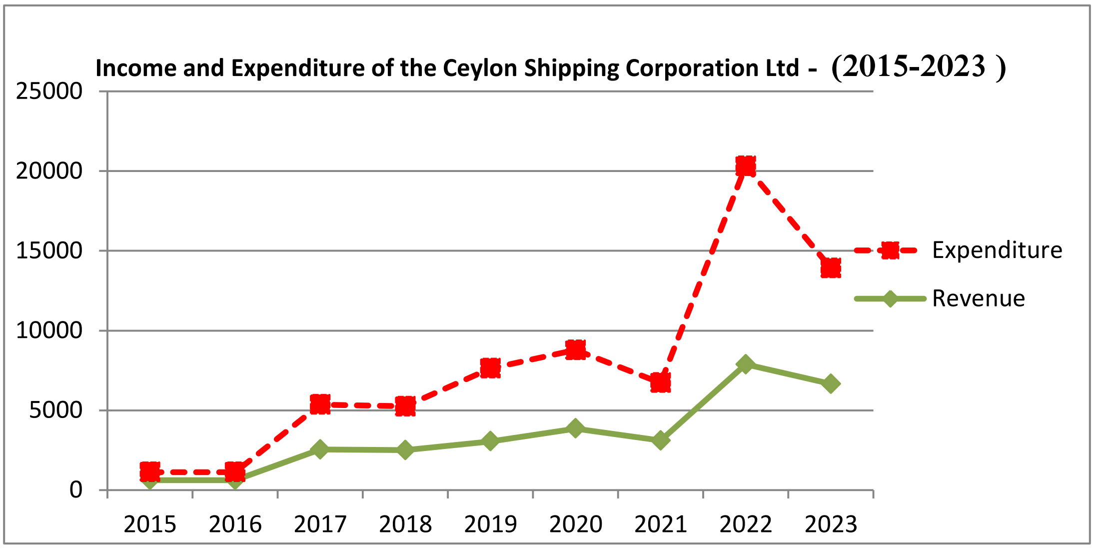


Diagram. 2.43 Revenue & expenditure of Shipping corporation 2015-2023
Source . Corporation's financial statements

The Company had sustained losses since the year 2016, and according to the financial statements as at 31 March 2023, the value of loss amounted to Rs. 1,857.13 million whilst the cumulative loss amounted to Rs. 10,855 million. Furthermore, the value of net assets of the Company indicated a minus value of Rs. 9,210.1 million. As such, the going concern of the Company remained uncertain.

Import of Goods by the Government Sector using Vessels

According to the Cabinet Decision No. CP/16/0035/737/003 dated 21 January 2016 and provisions of the Public Finance Circular, No. 415 dated 06 May 2005, all the Government institutions including the foreign funded projects, should import goods through the Ceylon Shipping Corporation Ltd with priority given to the Government institutions. However, during the period from 01 January 2018 to 31 December 2023, number of instances of transporting goods of the Government sector with the Company had relatively decreased. However, in case that the Government institution do not import goods via the Ceylon Shipping Corporation Ltd, such institutions should obtain waivers in that connection. Government institutions involved in import activities in large scale, had been given 185 and 118 waivers in the period 2021/22 and 2022/23 respectively. Those institutions had imported goods through other shipping corporations rather than the Ceylon Shipping Corporation Ltd.

Merchant Shipping Secretariat

Responsibilities and Planning

Merchant Shipping Secretariat which is the shipping administration arm of Sri Lanka has the overall responsibility for overseeing maritime concerns. The activities of the Merchant Shipping Secretariat are basically governed by the Merchant Shipping Act No.52 of 1971, Licensing of Shipping Agents act No. 10 of 1972 and also the relevant clauses of the Admiralty Jurisdiction Act No. 40 of 1983 and subsequent regulations made thereafter. Merchant Shipping Secretariat deals with ensuring safety of life and property at sea, maritime education, training, examination and certification, registration of ships under Sri Lanka flag, Licensing of Shipping Agents, Container Depot Operators, Container Terminal Operators, Container Freight Stations, Freight Forwarders or a Non Vessel Operating Common carriers and implementing provisions of all applicable international Maritime conventions and national regulations. Expenditure of the Secretariat for the year 2023 amounted to 115.7 million. According to the Corporate Plan, 12 key activities, 04 short term plans, and 03 long term plans had been scheduled. However, the Action Plan included only the activity of issuing identity documents to all the Sri Lankan Seafarers by integrating biometrics as per the ILO Convention, and no other activities had been included therein.

Unaccounted and Idle Assets

The non-financial assets recognized in terms of Section 08/02 of the State Accounts Guideline No. 05/2023 of the Director General of State Accounts dated 30 November 2023, should be brought to accounts at its cost or value of assessment. Nevertheless, the construction value of the non-financial assets such as, Merchant Shipping Secretariat sub office in Jaffna, circuit bungalow and *Diyathmaga* amounted to Rs. 79.28 million though, those non-financial assets had been understated by Rs. 45.48 million in the accounts. However, those assets remained idle even by 31 December 2023, and an expenditure of Rs. 3.4 million had been spent on the maintenance thereof for the years 2022 and 2023.

Sri Lanka Port Management & Consultancy Services Ltd

Financial Result Of the Company

In order to supply the essential services of Sri Lanka Ports Authority on par with international standards, this Company had been established comprising 40 per cent shares of the Sri Lanka Ports Authority and 15 per cent shares of the Ceylon Shipping Corporation. The functions of the Company discharged at present include, control and regulation of port transportation, handling goods, organizing employment agencies, administration and management of the Gall Face Green, and recruitment of seafarers. The income of the year 2023 totaled Rs. 145.66 million whereas the expenditure totaled Rs. 143.24 million. However, the income had dropped by 03 per cent as against the preceding year whilst the profit had also decreased from Rs. 7.1 million to 2.4 million. In the year 2014, the Company had obtained carrier vehicles from the Tangyo Haulage Pvt Ltd under an agreement, but due to failure in making payments in terms of the agreement, the court ordered to pay a compensation amounting to Rs. 28.9 million to the supplier company in the year 2017. Furthermore, an agreement had been entered into with a third party for maintaining a cafeteria at the Macculum Gate owned by the Ports Authority during 2008 – 2023. Although a sum of Rs. 4.5 million remained receivable to the Company in that connection, action had not been taken to recover that sum even by 31 December 2023.

Aviation

The main task of the Ministry of Ports, Shipping and Aviation is to formulate, implement, follow-up and evaluate policies, programmes and projects related to the ports, shipping and aviation sector and related statutory institutions in accordance with the existing policies of the government and according to the instructions given on various occasions. Civil Aviation Authority, Airport and Aviation Services (Sri Lanka) (Private) Limited and Sri Lankan Airlines Limited and its subsidiaries will be given the necessary guidance by the Ministry to achieve sustainable development goals.

Audit observations

Civil Aviation Authority of Sri Lanka

Not Accounting the Embarkation levy

Although service charge revenue on the embarkation levy should be recognized on accrual basis according to the revenue recognition policy of the Authority, the embarkation levy amounting to Rs.11,070.73 million to be received from six airlines by 31 December 2023 had not been accounted. Therefore, the disbursements to the General Treasury, Sri Lanka Tourism Development Authority and Airport and Aviation Services (Sri Lanka) (Private) Limited had been understated by Rs. 8,303.05 million, Rs. 899.50 million and Rs. 1,798.99 million respectively. In addition, the service charge revenue on the embarkation levy of the Authority had been understated by Rs. 69.19 million.

Not Crediting the Overseas Sales Surcharge (OSS) to Consolidated Fund

According to Regulations 07 and 08 of the Gazette extraordinary No. 1550/7 dated 22 May 2008 of the Democratic Socialist Republic of Sri Lanka and Cabinet Decision bearing No. 23/1937/628/094 dated 28 November 2023 issued, an overseas sales surcharge (OSS Levy) of US$ 60 or its equivalent shall be levied for every passenger ticket issued or sold outside Sri Lanka for flights originating in Sri Lanka, and the levy so charged shall be credited to the consolidated fund. However, the Authority had considered the money collected in that manner from the commencement of the gazette notification to 20 November 2023 as income of the Authority without crediting it to the Consolidated Fund.

Furthermore, the Authority had been instructed to credit the related surcharge to the consolidated fund by the Cabinet decision No. 23/1937628/094 dated 28 November 2023. Accordingly, the Department of Treasury Operations had instructed to credit the retained earnings of the Authority to the Consolidated Fund. However, the Authority had not credited the retained earnings even by 31 December 2023.

Over crediting of Fund Contributions

The Authority had included 7 different types of allowances in the calculation of the fund contribution in contrary to the earnings defined in the Employees' Trust Funds and Employees' Provident Fund Acts. Due to this miscalculation, a sum of Rs. 125.15 million had been overpaid to the Employees' Trust Fund and Rs.15.02 million had been overpaid to the Employees' Provident Fund during the period of audit test checks carried out from 2020 to 2023.

Lost Interest Income

Even though the interest rate for property and vehicle loans should be 7 percent according to the staff and administrative manual of the Authority, the Authority had charged only 4.2 percent as the interest rate. As a result, The Authority had lost a loan interest income amounting to Rs. 2.11 million in the year 2022 and Rs.1.79 million in the year 2023 as revealed in the audit test checks carried out in relation to the years of 2022 and 2023.

Airport and Aviation Services (Sri Lanka) (Private) Limited

Payments under the Supplementary Agreement

A supplementary agreement was entered into for the implementation of additional works, of which the total cost had been US$ 122.03 million, related to the Maintenance, Repair and Overhaul (MRO) Project of Mattala Airport for the main contract signed by the Company with China Harbour Engineering Company Limited (CHEC) on 06 September 2013 for the Mattala Rajapaksa International Airport (Hambantota International Development Project Contract signed on 27 November 2009). However, the credit facility provided by the EXIM Bank of China had not been taken by the Company as per the terms of the agreement, the parties of the agreement had not bound by it.

However, the Chairman of the Company had issued a Commencement Order to CHEC on 03 October 2013, and accordingly, the construction of a new gate lounge at the passenger terminal building had commenced, while the agreement was not valid.

The Committee had recommended the bills worth US$ 1.650 million equivalent to Rs. 565.49 million submitted by CHEC According to the decision given by the Committee appointed by the Secretary of the State Ministry of Tourism by the letter No. MMEZD/AV/04/AASL-MRIADEV and according to the supplementary report on re-estimation submitted in consultation with the Secretary of the Ministry of Ports, Shipping and Aviation. Finally, CHEC and the company had agreed to pay the above amount in three instalments on the basis of "Quantum of Merit" without the certification of the Engineer. However, an amount Rs.187.60 million (US$ 547,524), out of the said amount, had been uneconomical as the most of the plans were not suitable for the present and the construction of the buildings had not been started till then.

Not crediting the due Profit to the Consolidated Fund

According to the section 5.3 of the public enterprise circular No 01/2021 and date 16 November 201, at least thirty (30) percent of the profit after tax shall be disbursed to the consolidated fund/shareholders. The company had recorded a profit after tax amounting to Rs. 28,121 million for the year 2023, and accordingly, a sum of Rs. 8,436 million should be disbursed to the Consolidated Fund. However, the company had disbursed only a sum of Rs. 5,000 million.

Furthermore, the Company had recorded a profit after tax amounting to Rs. 4,802 million for the year ended 31 December 2022 and accordingly, Rs. 1,440 million should be disbursed. However, the company had disbursed only a sum of Rs. 1,000 million to the Consolidated Fund.

Uneconomical Expenditure

BIA Terminal 2 Development Project (Phase II, Stage 2) Project (Package A - Construction of Passenger Terminal Building) and the project related to the works associated with that, commitment fees and project-related expenses during the suspended period amounting to Rs. 184 million had been uneconomical.

The commitment chargers and project related expenses amounting to Rs. 184 million incurred for the construction of passenger Terminal Building-II associated works during the project suspended period was uneconomical.

Drop in Global Rankings

According to the information released by the Airports Council International (ACI) on world airports in the year 2018, Sri Lanka has been ranked 370th, out of 2583 airports in the world, in terms of total air craft movement, 205th, in terms of total passenger movement and 89th in terms of total cargo transportation. However, according to the ACI report for the year 2022, Sri Lanka was ranked 548th, out of 2677 airports, in terms of total air craft movement, 292nd in terms of total passenger movement, and 116th in terms of total cargo transportation. Accordingly, it was observed that the world rankings are declining compared to the statistics in the year 2018. According to the comments of the Management, the decline was mainly due to the Easter Sunday attacks and the Covid pandemic situation etc.

Airport Operations at Mattala Rajapaksha International Airport

The operating cost of the Mattala Rajapaksha International Airport had been Rs. 2,412.9 million and the operating income had been Rs. 288 million in the year 2023. Furthermore, the operating loss (before taxes) of the Airport had been Rs. 2,124.1 million and the net profit after tax for the year under review had been Rs. 926.6 million mainly due to the impact of foreign exchange gains. However, the cumulative net loss after tax from the year 2018 to the year 2023 had been Rs. 38,489 million. Although the expected annual passenger capacity of Mattala Airport had been around one million, the total number of passengers handled in the last six years had been only 190,750 and the total number of flights in the last six years had only been 2,182.

Therefore, the total amount of US$ 247.7 million equivalent to Rs. 36,564 million that had been spent including price increase and variances for the construction of the airport had not been utilized effectively. Furthermore, the Company had paid a sum of Rs.1,590 million as annual loan interest on the foreign loan of US$ 190 million initially taken for the above construction.

Bandaranaike International Airport Development Project

The construction activities of the Bandaranaike International Airport (BIA) Development Project under Phase II Stage 2 had been awarded to the Japanese contractor on 04 March 2020. Although the work had started under the contract after a delay of 9 months, the construction activities had been stopped due to the suspension of all payments under the loan facility by the donor owing to the policy decision taken by the Ministry of Finance regarding the loan servicing on 12 April 2022. At that time, the actual progress of the contract had been only 5.38 percent. Subsequently, the Company had proceeded to implement an identified item of work with a rough estimate of Rs.800 million on the approval of the Cabinet of Ministers.

According to the information contained in the file, it was initially planned to call for bids for the aforementioned contract through the national competitive bidding process with packages. However, the Company had invited limited quotations from two bidders by referring to a decision taken by the Cabinet Appointed Negotiating Committee (CANC) appointed by the Cabinet of Ministers for the above procurement at its meeting held on 03 February 2023. The estimated cost related to the above activities had been Rs.275 million with 10 percent of uncertainty.

It had been informed by the letter of the Head of the Project Division dated 01 March 2023 to engineering representative of the Consultant that only one price submission was received for a cost of Rs.640.28 million and it was Rs.365.28 million more than the engineering estimate. Furthermore, the engineering representative of the consultant had also highlighted in his letter No. IAS-NK/PMU/Pk A/23/1557 dated 07 March 2023 that the bid price was 100 percent more than the engineer's estimate. However, the letter of acceptance of bid had been issued on 31 May 2023 at a total cost of 475.13 million including 2.5 per cent of discount, 4.7 per cent of uncertainties and VAT after the negotiations. It was observed that the contract price was higher more than 73 percent when comparing it with the engineering estimate.

Sri Lankan Airlines Limited and Its Subsidiary

Profits/Losses of the Company and the Group

The profit of the Group (after taxation) had been Rs.7,925.01 million for the year ended 31 March 2024, and it was a loss of Rs.71,306.66 million in the year 2023. The accumulated loss as at that date had been Rs.592,626.52 million and the corresponding loss as at 31 March 2023 had been Rs.599,605.96 million. On that day, the group's current liabilities exceeding its current assets of the Group as at that date had been Rs. 327,144.66 million (In 2023 - Rs. 418,568.67 million) and the total equity of the Group had been Rs. (381,723.67) million (2023 - Rs. (494,429.99) million).

Furthermore, the Company has obtained a net profit of Rs.3,870.86 million for the year ended 31 March 2024, (2023 – a loss of Rs.73,621.53 million) and an accumulated loss amounting to Rs.607,613.60 million. (2023 - loss of Rs. 610,487.76 million) and current liabilities that had exceeded the current assets of the Company on that date had been Rs. 344,130.60 million (2023 - Rs. 431,624.55 million) and the total equity of the company had been Rs. (400,534.71) million (2023 – Rs. (509,174.88)) million.

The financial statements have been prepared on the going concern basis by considering the letter issued by the Secretary of the Treasury (Acting) on 11 July 2024 by confirming the financial support of the Government of Sri Lanka (GoSL) to the company for carrying out its operations on the assumption of going concern until it is restructured and privatized as per the Cabinet approval dated 25 April 2024.

The Fleet of Aircrafts

According to needs assessment of Sri Lankan Airlines, 27 aircrafts were required and the physical and operational fleet under the Company stood at 22 and 18 respectively as at 12 August 2024. However, 03 aircrafts, out of that, had been out of use from 29 October 2023 to August 2024 and Rs. 2,808.96 million had been paid during that period as lease rental.

Mihin Lanka (Private) Limited

Presentation of the accounts of the liquidator

The approval had been granted by the Cabinet decision No. CP/17/2383/733/026-1 dated 08 November 2017 dated for the proposals (a), (b), and (c) of the Cabinet Memorandum bearing No. MOF/DG/LAD/CO/142/2017 dated 30 October 2017.

Accordingly, a liquidator had been appointed on 18 March 2018 as per the request made by the Secretary to the Treasury from the Commercial High Court after passing a special resolution to liquidate the company. The financial statements for the period from the audited financial year of 2016/17 to the date of appointment of the liquidator had not been submitted to the Auditor General and the copies of the 07 half-yearly receipts and payments accounts of the liquidator for the period from 29 January 2018 to 28 January 2022 prepared by the liquidator in terms of Section 296 (1) of the Companies Act were submitted to audit. The opening cash balance had been Rs. 102.19 million according to the receipts and payments account of the liquidator presented on 28 January 2019, and the balance had been Rs. 384.75 million according to the financial statements prepared as at 31 March 2017. Therefore, a difference of Rs. 282.56 million was also observed. The reasons for the difference between these balances were not observed during the audit as accounts had not been presented for the period between the date of the audited financial statements and the date of the accounts of the liquidator.

Investment Promotion

Slow growth in per capita income in South Asian countries like Sri Lanka can often be attributable to the capital deficit. Promotion of investments is the best strategy that can be adopted to avoid this deficit. Accordingly, investment promotion means creating the necessary background for a country in order to be selected as a suitable location for investment. As such, investment promotion provides physical, theoretical, financial and environmental facilitation for the investors. Hence, the Ministry of Investment Promotion has been assigned with the following duties and functions.

Functions

Formulation of policies, strategies, programmes and projects to enhance regional trade and investment cooperation.

Promotion of economic potential in Sri Lanka thereby promoting foreign direct investment and private sector investment.

Promotion, regulation and monitoring of economic development zones.

Establishment of the Colombo Lotus Tower as a Business Model and promote it as a Tourist Centre.

Establishment of technological parks.

Matters relating to expansion of digital technology ventures.

In order to discharge the above functions, provision had been made for the following institution under the Ministry. estimated provision, actual expenditure and savings are given below.

Name of the Institution	Estimated Provision Rs. Million	Actual Expenditure Rs. Million	Saving Rs. Million
Ministry of Investment Promotion	1,485.8	1,215.25	270.55
Sri Lanka Export Development Board	824	378.74	445.26
Board of Investment of Sri Lanka	300	300	-
Colombo Port City Economic Commission	7	6	1
Techno Park Development Company Pvt Ltd.	-	-	-
Information Technology Parks	13	11.33	1.67
	2,629.8	1,911.32	718.48

Table 2.28 –Estimated provisions ,actual expenditure and savings of the Ministry & related institutions

Net provision totalling Rs. 2,629.8 million had been made by Parliament for the Ministry of Investment Promotion to discharge the said functions in the year 2023, and only a sum of Rs. 1,911.3 million therefrom had been utilized by the end of the year under review. Particulars are given in Figure ......

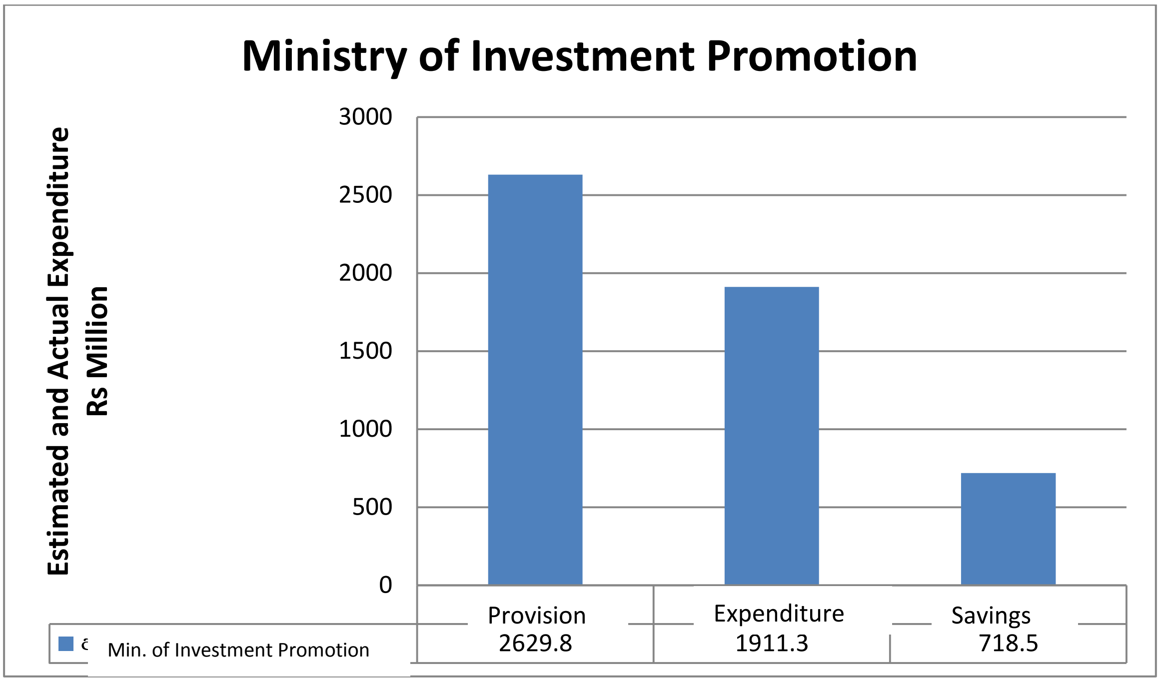


Diagram 2.47 – Estimated and actual expenditure
Source – Financial statements of the year 2023.

Given below is a summary of significant and material observations made in the audit on the discharge of said duties and functions.

Ministry of Investment Promotion

Delays in Implementing Projects

Port City Project

With a view to expanding the city of Colombo in the wake of increasing demand for lands, the Colombo Port City Development Project had been launched as a proposal to reclaim lands adjacent to the port of Colombo. This project had been suspended due to changes in policies of the Government of Sri Lanka, and hence, the company responsible for the project had demanded a compensation amounting to US $ 143 million. However, a land of commercial value had been released to the company in exchange for the compensation. The assessment value of this land had not been reported thus causing a loss to the Government.

A sum of Rs. 1,000 million had been estimated for a temporary solution until a permanent solution is put in place for the management of sewage system of the Port City. However, the estimated amount had increased to Rs. 3,700 million due to changes in the plan and increase in prices. This work should have been completed in the year 2019 in accordance with the tripartite agreement for the Colombo Port Expansion Project, but the project had been commenced in December 2022. The project had not been completed even by 31 September 2023 even though a sum of Rs. 1,600 million had been spent during the period 2017-2019. Furthermore, the activities of the permanent solution the estimated cost of which amounted to Rs.2,900 million, should also have been completed by the year 2022, but the works of the project had not been commenced even by 31 September 2023, and both the temporary and permanent solutions had not been implemented even by the year 2022. Hence, the Ministry had not brought attention to implement the permanent solution as the temporary solution had not been able to fulfill the expected objectives. As such, it was observed that that sum of Rs. 3,700 million spent on the temporary solution, had become a loss for the Government.

According to Schedule 10 of the tripartite agreement, improvement of sites at 118 plots of lands including commercial lands, common lands and lands for roads, should have been completed by 16 September 2019. However, the certificates of completion had been given only for 85 plots of land by 30 September 2023. Furthermore, roads, bridges and tunnels should have been completed by 14 March 2020 but the completion remained over 50 per cent as at 30 September 2023 and the constructions had not been completed. Only 77 per cent of the landscaping had been completed as at 30 November 2023 that should have been completed by 09 March 2020. The south sewage system planned to be completed in 07 stages, should have been completed by 11 July 2023, but 03 stages remained in planning phase even by 30 September 2023.

Sri Lanka Export Development Board

Non-recoverable Investment Funds

Investments in shares valued at Rs. 40.22 million pertaining to 26 companies, could not be recovered as those companies had been written off from the register of companies due to lack of follow up action on the going concern of those companies.

Failure to Take Follow up Action on the Investment Promotion Programmes

The Board had not taken sufficient follow up action to evaluate the progress of 81 exporters participated in 07 export promotion programmes held at an expenditure of Rs. 16.49 million during the year 2023.

Techno Park Development Company Pvt Ltd.

Delay in Construction of Technology Parks

Construction of Techno Parks in Galle and Kurunegala had begun 02 years ago in 2021, but the constructions had been abandoned on 05 February 2024-the date of physical examination. According to Section 14.6 of the contract agreements of the Techno Parks in Galle and Kurunegala, penalties for delay amounting to Rs. 236.36 million and Rs. 416.8 million had to be paid respectively to the contractor by the Techno Park Development Company Pvt Ltd. Accordingly, the loss sustained by the Government amounted to Rs. 653.16 million. Furthermore, a sum of Rs. 18.17 million remained payable to the engineering consultant of the Galle Techno Park since April 2022, and a sum of Rs. 36.19 million remained payable to the engineering consultant of the Techno Park in Kurunegala as at 31 December 2023 whilst a sum of Rs. 950.6 million remained payable to the contractor of the Techno Park in Galle as at 31 March 2022.

Additionally, the Company selected for construction of Techno Parks proposed for Nuwara Eliya and Kandy had presented the project proposals on 16 November 2021 and 24 February 2022, but the constructions had not been commenced even by 31 December 2023.

Information Technology Parks

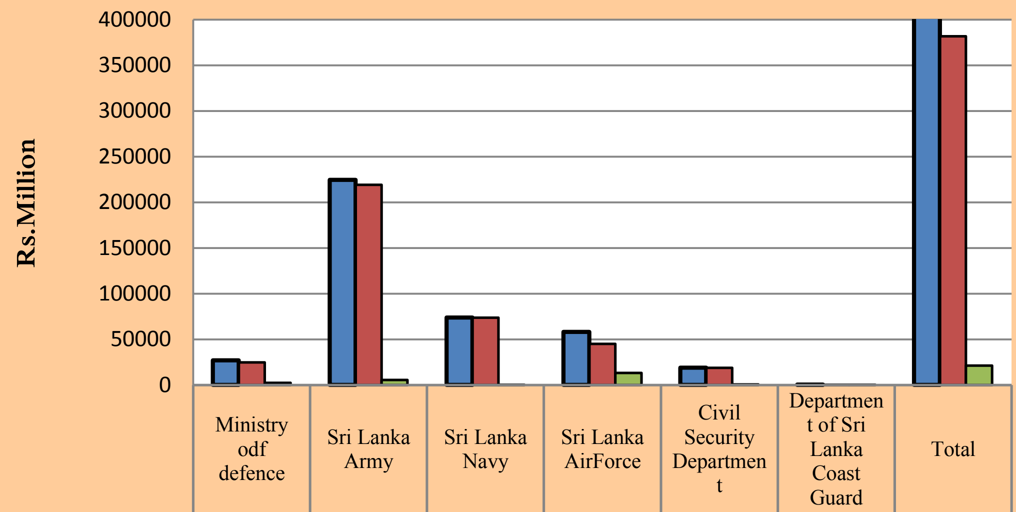
It was planned to enroll 320 students for 11 certificate and diploma courses and 03 workshops on online and Internet technology to be conducted at the IT Park in Jaffna in the year under review. However, only 13 per cent thereof or 43 students had enrolled for 02 courses and one workshop. It was further observed that the number of registered students had gradually decreased from 126 to 43 during the years 2020-2023. Although 300 students had been expected for 10 courses conducted at the IT Park in Mannar, only 155 students had enrolled for 03 courses. The course fee income expected from the IT Parks in Jaffna and Mannar amounted to Rs. 1.1 million and 2.19 million respectively, but due to poor student registrations, sums of Rs. 131,080 and Rs. 833,500 could be credited to the Government revenue from the IT Parks in Jaffna and Mannar respectively. The costs incurred on maintenance of those IT Parks in Jaffna & Mannar and conducting courses, amounted to Rs. 6.33 million and Rs. 05 million respectively. As such, the two IT Parks had incurred a sum of Rs. 10.37 million more than the income collected from 198 students.

National Security

The following functions and tasks should have been performed by the Ministry of Defense and 06 departments under it and 16 statutory boards/institution.

Functions	Ensuring national security, maintaining intelligence services related to state and internal security.
	Explosives and affairs of firearms.
	Providing security education and post service education for security service personnel.
	Administration of rescue operations and coast guard service.
	Activities related to extradition, prevention and control of the use of dangerous drugs.
	Provision of weather and climate services. Landslide disaster management and related research and development activities

Based on the revised estimate of the year 2023, the Parliament had provided a total of Rs. 402,948 million to the Ministry and 05 Departments related to the defense to fulfill the aforementioned role, out of which only Rs. 381,598 million had been utilized by the end of the year under review. Details are as follows.



	Ministry odf defence	Sri Lanka Army	Sri Lanka Navy	Sri Lanka AirForce	Civil Security Department	Department of Sri Lanka Coast Guard	Total
Net Provision Rs.Million	26,852	224,588	73,913	58,073	19,077	445	402,948
Net Expenditure Rs.Million	24,651	219,264	73,811	44,964	18,615	293	381,598
Savings Rs Million	2,201	5,324	102	13,108	462	152	21,349

Diagram 2.18- Provision made and Expenditure.
Source - 2023 Annual Financial Statements

Audit Observations

Ministry of Defense

Defense Headquarters Construction Project

The delay in the construction of the Defense Forces Headquarters building project, along with the delay in opening Letters of Credit, etc., made it impossible to complete the contract within the expected timeframe. Consequently, it became necessary to extend the contract period, and by the end of the year 2023, two such suppliers had submitted 19 claims for extension of time (EOT) amounting to Rs. 837.5 million and USD 3.68 million, creating a contingent liability.

Although the work of supplying and installing granite tiles on the ground floor and pantry surfaces of three buildings in the Defense Headquarters construction project, with an estimated cost of Rs.876.84 million, was divided into three procurement tasks and bids were called, all three contracts were awarded to a single contractor. As per Guideline 3.12 of the Procurement Guidelines, the bidder's financial, technical, production, and performance standards should have been pre-qualified, but these aspects were not properly evaluated when awarding the three contracts worth Rs. 927.66 million simultaneously. Despite four extensions of time being granted, which exceeded the approved contract period by threefold, the work remained incomplete even as of 31 December 2023.

The procurement of food supplies for the tri-forces

For the supply of raw and dry food items for 151,429 camp-based members of the Tri-Forces for the year 2023, bids were awarded based on an estimated budget of Rs. 96 billion. It was observed that the Tri-Forces had not followed a uniform and specific methodology when preparing these food estimates. Accordingly, although the daily rice requirement for a member of the Sri Lanka Army was standardly maintained at 190 grams in one variety of rice, it had been calculated as 633 grams in the preparation of estimates. Additionally, an unrealistic and inflated estimate was prepared for a single Navy member's daily food requirement, calculating 27 kilograms and 590 grams of food, including rice, grains, vegetables, meat, fish, and dried fish in 140 different food categories. When comparing the estimated and actual expenses over the previous three years, it was observed that the estimates were overstated by 192 per cent to 231per cent. Although there was the ability to prepare accurate estimates considering actual consumption in previous years, the Procurement Committee or the Technical Evaluation Committee failed to identify these persistent weaknesses in the estimates.

The overestimation of the annual food requirement resulted in inflated overall costs and a rise in the value of performance bonds, which severely restricted the ability of small and medium-scale entrepreneurs to participate in the procurement process. This had adversely affected the achievement of key goals of procurement, such as maximizing competition and providing equal opportunities, while the allocation of funds based on these inflated estimates also had a harmful impact on public financial management.

Disaster Management Activities

Under the disaster relief operations programme for the resettlement of families displaced by landslides and those living in high-risk landslide zones, 205 houses were constructed in three districts, with government financial assistance amounting to Rs. 344.4 million. However, due to the lack of water sources and the absence of electricity facilities in 82 houses, they remained unoccupied. Additionally, 17 beneficiaries, who had been entitled to receive total of Rs.15.9 million in benefits, abandoned ownership of the houses and lands.

Under the aforementioned programme, 258 beneficiaries from five districts who received Rs. 200.6 million in benefits had abandoned construction activities without completing the tasks related to the phase for which they received the benefits. Additionally, 90 beneficiaries who received a total of Rs. 82.7 million completed only the tasks relevant to the phase for which they obtained benefits but left the construction work unfinished. Furthermore, six individuals who were granted Rs. 9.6 million for purchasing a plot of land with a house had not purchased lands using those funds.

Sri Lanka Air Force

The Sri Lanka Air Force, guided by its vision of "Ensuring National Security through effective employment of Air Power," primarily fulfills five key responsibilities in line with its mission: "To train, equip, and deploy a professional Air Force, leveraging our core competencies to conduct air operations in support of National Security. To accomplish these responsibilities, the administrative structure of the Sri Lanka Air Force operates through five main bases, including the Air Force Headquarters in Colombo.

Outstanding aircraft rental By the end of 2023, a total of Rs. 12.7 million in aircraft rental income from 10 government institutions and 2 private institutions remained outstanding for periods ranging from 5 to 20 years.

Failure to credit government revenues and receipts to the Consolidated Fund

According to Financial Regulation 2.(1) (c), all income and receipts belonging to the government should be credited to the Consolidated Fund. However, Rs. 1.4 million earned in 2022 and 2023 by the Air Force for providing the runway at the Katukurunda Air Force Base for training in motor vehicle and motorcycle racing had been credited to the Services Institutions Fund, which is an un-statutory fund, instead of being credited to the Consolidated Fund.

The failure to comply with Financial Regulation 128 (2) (i) resulted in the signing of ten agreements—two for each of the five buildings at the Ekala Air Force camp. This included one agreement for collecting rental income for the government and another for a non-statutory fund. Consequently, the government lost Rs. 2.04 million in rental income from these five buildings.

Repairs to Aircrafts

Despite the time range of 9 to 19 years as of 09 February 2024, since the dispatch of 27 aircraft spare parts worth USD 191,289.22 for repairs between 2004 and 2014, and the dispatch of 32 aircraft spare parts with an unreported value but a salvage value of USD 63,000, these aircraft had not yet been returned to the Air Force.

Defence Services Command and Staff College

Failure to transfer land

Although the 11-acre land belonging to the Youth Services Council located in Heyiantuduwa was being utilized by the college, the formal ownership of the land had not yet been transferred to the college even by 31 December 2023.

Ranaviru Seva Authority

Irregular payment of allowances

A sum of Rs. 4.9 million, which was irregularly paid over a period of 18 months from June 2016 to November 2017 under the Ranaviru Foster Parents' Allowance Scheme had still not been recovered even by the end of the year 2023.

Sri Lanka Army

The Army, as the largest military force, is primarily responsible for preserving the country's unity, sovereignty, and territorial integrity through professionalism, trustworthiness, and honor and plays a vital role in enhancing state security by fostering a peaceful environment within the country and providing assistance in national development and emergency situations.

Peacekeeping Duties

An agreement had been reached for the deployment of a contingent of 685 personnel for peacekeeping operations within the Mali state and the necessary supplies, both armed and unarmed vehicles and equipment, were purchased during the years 2016 and 2017. However, due to delays in transporting the agreed-upon vehicles, equipment, and spare parts, as well as their unsuitable condition, only one team was deployed for the operation. Consequently, a total of USD 4.57 million worth of vehicles and equipment purchased remained stored in the warehouses of the Army. As a result, a potential income of USD 3.33 million, which could have been obtained for peacekeeping operations under the United Nations from 2019 to 2022, was lost.

Uneconomic Expenditure

During the years 2020 and 2021, it was anticipated to recruit 11,307 privates for the Nation Building Project and to enhance the operational strategies of the Army. However, due to the failure to recruit the relevant privates, 47 types of textiles and garments, valued at Rs. 271 million, remained idle in wearehouses.

Failure to procure supplies

Due to the non-inclusion of construction materials worth Rs. 872 million in the plans, the lack of notification to the Treasury about securing imprests, and weaknesses in entering into agreements, these procurements had been invalidated. This inability to obtain the aforementioned supplies has posed obstacles to the Army's construction and renovation efforts.

Delay in the procurement of medicines and Dressing Materials

In the year under review, medicines and dressing materials required by the army had been purchased at a cost of Rs.202 million. During the purchase of these medicines and medical devices of consumable nature, proper specifications were not prepared in accordance with the procurement guidelines and the regulations set forth by the National Medicines Regulatory Authority (NMRA). As a result, due to the inability to timely procure adequate supplies and services, patients had to purchase these medicines from outside sources.

Payment data system

In the year 2019, Moratuwa University had provided 18 conclusions and recommendations regarding the areas that need to be developed in the salary and allowances payment system of the Army. Additionally, 72 flaws in the existing system, which has been in operation since 2004, were identified by the Army. However, these recommendations have not been implemented, nor have any actions been taken to correct the identified flaws. As a result, there have been underpayments and overpayments in salaries and allowances, along with various irregular payments. There was a significant risk concerning the accuracy of salary and allowance payments made exceeding Rs. 140 billion annually. Furthermore, no efforts had been made to develop a system capable of regulating the financial and non-financial benefits provided to current Army personnel.

Sri Lanka Navy

The functions of the Sri Lanka Navy include the protecting Sri Lanka's sovereignty and territorial integrity requires taking necessary actions both within the country's maritime limits and beyond, preventing arms trafficking, drug trafficking by organized criminals, illegal fishing, and providing security to all ports, and working alongside other national security services to implement ground operations that maintain law and peace in the country. The Sri Lanka Navy conducts administrative activities across the entire island, organized into 07 naval commands.

Failure to submit the income and expenditure accounts reports of funds for audit

Although all income, expenses, and accounts of the Consolidated Fund should be audited as required by Sections 3 and 6 of the National Audit Act, accounts and documents related to the income and expenses of the Navy's Malima Hospitality Services, Malima Enterprises, fuel station, agricultural projects, whales watching projects, holiday resorts, etc. funds were not presented for audit. Moreover, although actions were taken regarding the amounts to be credited to the consolidated fund from those revenues as per the recommendations of the Secretary of the Ministry of Defence, the process of obtaining approval from the Treasury had not yet been completed.

Payment of value-added tax for goods exempted from such tax

An amount of Rs. 2.33 million had been paid to suppliers as value-added tax (VAT) on goods that were exempted from value-added tax under the foreign procurements. Although an investigation should have been conducted immediately upon the occurrence of a loss or damage in terms of Financial Regulation 104, no necessary actions had been taken by concluding the investigation into this matter.

Crediting revenue to the welfare fund

As per Financial Regulation 177 (1), although government funds collected should be remitted to the Treasury, an income of Rs. 19.88 million generated by the Sri Lanka Navy from 04 luxury buses and 02 vans used for welfare activities for naval officers and personnel during the years 2022 and 2023 was credited to the Navy Welfare Fund. During the same period, the Navy incurred a total expenditure of Rs. 21.6 million for these vehicles, which included Rs. 17.11 million for fuel and Rs. 4.49 million for vehicle repairs.

Failure to credit revenue to the Consolidated Fund

Under the implementation of observations and directives of the Committee on Public Accounts, it had been agreed to credit 40 percent from the income generated from services supplied to external parties to the Consolidated Fund. Nonetheless, out of the total earnings amounting to Rs. 337.5 million, Rs. 135 million to be credited to the Consolidated Fund further remained uncredited even by the end of the year under review.

Delays in repairing inactive Vessels

Out of vessels, boats, and crafts owned by the Sri Lanka Navy, 63 vessels and crafts, including 06 offshore patrol vessels, 03 fast attack crafts, 31 coastal defense fast attack crafts, 11 fast attack patrol crafts, 08 coastal patrol vessels, and 04 passenger and cargo transport crafts, were inactive by the end of the 2023. Although Rs. 38.14 million had been estimated for vessels, boats, and crafts repairs between 2019 and 2023, only Rs. 17.85 million was received, and Rs. 12.73 million of the received funds was utilized and it had mainly contributed to this situation.

Department of Sri Lanka Coast Guard

The department's operations consisted of 12 duties aimed at ensuring the protection, security, and purity of the marine environment, enforcing maritime law, managing biodiversity, overseeing natural and human-made disasters, safeguarding lives and property, maintaining environmental balance through marine conservation, and preventing marine pollution.

Failure to enact new legislation

Although Cabinet approval had been granted in 2016 to repeal the Coast Guard Department Act and draft a new Act, it had not been possible to draft the new legislation even by the end of the year 2023.

The Department possesses 04 ships and 27 vessels to cover a distance of 148,721 nautical miles surrounding Sri Lanka, of which 22 ships and vessels were operational in 2023. It was observed that 06 out of the 09 inactive vessels had not been used for more than three years due to the lack of funding for repairs and the unavailability of essential spare parts.

General Sir John Kotelawala Defence University

In accordance with the General Sir John Kotelawala State Defence Academy Act No. 68 of 1981, as amended by Acts No. 27 of 1988 and No. 50 of 2007, the academy has been established to conduct academic programmes and provide guidance on study areas relevant to national defense and military management for officers cadet, officers, and government officials.

Failure to account for printing press revenue and expenditure

According to Paragraph 99 of Sri Lanka Public Sector Accounting Standard No. 01, all income and expense items identified during the period should be included in the profit or loss. However, the printing press income of Rs. 18.5 million and the printing press expenses of Rs. 8.43 million, relating to the period from March to December 2023, had not been accounted for.

Establishing the printing press as an independent business unit

According to a decision made by the Board of Directors, the printing press was designated as an independent business unit separate from the university effective 09 March 2023, as mentioned in the Board meeting minutes No. 652 dated 27 March 2023. However, salaries amounting to Rs. 7.37 million for 14 employees of the printing office were paid through treasury recurrent grants for the year 2023. Additionally, the university had spent Rs. 2.96 million to purchase printing machinery, while business operations were conducted in a building located on the university premises. Based on these facts, recognizing the printing press as a separate business entity became a matter of contention during the audit.

Underutilization of the pneumatic tube system

In 2018, a pneumatic tube system was installed at the university hospital at a cost of USD 530,000 to transport laboratory materials and reports. This system was installed connecting 56 stations, but during the review year, only 52 stations were operational for transport. It was observed that 25 of these stations had conducted fewer than 100 journeys, leading to an underutilization rate of 44 per cent. Since the hospital was not operating at full capacity, certain stations were left unused, which contributed to the underutilization of the pneumatic tube system

Idle medical equipment

As of 31 May 2024, there were 183 units of 17 medical equipment items, worth Rs.15.03 million, stored at the university hospital that had expired their warranty period, and these items had been received by the stores in 2018, 2019, and 2021. Additionally, there were 18 units of 6 items, related to the installation of a cardiac thoracic unit within the university hospital, that had been purchased at a cost of Rs. 197.12 million during the years 2018, 2021, 2022, and 2023, and remained idle in stores as of the date of the audit, of which 14 units valued at Rs. 61.8 million had also surpassed their warranty period.

Management Information System

The management information system, intended to be installed at the hospital with an expenditure of USD 1.3 million, was to be completed by 28 May 2024, after two extensions. However, progress of the project as of 11 June 2024, was only 68.5 percent.

Delay in bill settlement, and payment of penalty

In the year under review, the electricity expenditure for the university hospital amounted to Rs.540.71 million, and due to delays in bill payments during certain months, an additional Rs.12.13 million had to be paid as penalties, indicating a weakness in financial management.

Hospital wards remain unused

At the end of the year 2023, the wards 5A, 7A, and 7B, as well as Intensive Care Units 02, 03, and 04, of the university hospital remained unused and medical equipment valued at Rs. 210.19 million in those sections were also lying idle.

Civil Security Department

Following the victory, the department was established with the mission of contributing to the national development process of the country, supported by 07 main objectives.

Failure to settle amounts owed to the government

Although a total of Rs. 62.76 million should have been paid to the Sri Lankan government for the rice, grain varieties, and other products obtained from 07 battalions during the years 2021, 2022, and 2023 by the special rice project carried out by the Welisara Sub-Unit, this amount had not been paid even as at 13 February 2024, and the Welisara rice project did not possess sufficient funds or rice stocks to settle this payment.

Failure to take action regarding the shortfall of cashew trees

The Marankeni cashew project, belonging to the Polonnaruwa battalion, consists of 187 acres, of which 155 acres are reported to have cashew trees planted. However, since this land area has not been accurately measured and mapped, the accuracy of calculating the area cultivated and the income and expenses was not confirmed. Although it is reported that there are 8,787 cashew trees in this project, currently only 3,682 trees remain, resulting in a shortfall of 5,105 trees. The department had not taken any action regarding this shortfall.

Expiration of pesticides

A total of 2,930 packets of the insecticide Mospilan Acetamiprid, each containing 100 grams, had been purchased in 2022 and 2023 and stored improperly in a temporary warehouse. By July 2023, all of these packets had expired, resulting in an estimated loss to the government of approximately Rs. 3.12 million.

Outstanding loan balances

The loan balance of Rs. 14.9 million due from 102 officers as at the beginning of 2023 could not be recovered throughout the year. Consequently, this opening loan balance remained unchanged in the advance balance at the end of the year as well.

Foreign Employment

Despite Sri Lanka’s abundant natural resources, it is compelled to maintain its status as a primary goods exporting country due to the absence of requisite technology and capital for products with inflexible demand in the foreign market. Similarly, the country’s import and export gap persisted unfavorable due to its reliance on the foreign market for all its energy needs, except for limited supply of hydroelectric power, which was necessitated by the shortage of mineral resource within the country. The optimal approach to overcome this position is to establish a foreign labor market with inflexible demand. However, to achieve this, efforts should be made towards developing a suitable trained workforce for foreign employments. To meet this requirement, the Sri Lanka Foreign Employment Bureau, operating under the supervision and direction of the Ministry of Labor and Foreign Employment, serves as the leading organization responsible for fulfilling the government's role in the field of foreign employment and its service provisions have been extended through the following organizational structure.

- Establishment of labour welfare sections in 15 Foreign Missions.

- Maintenance of 05 safe house under these welfare sections for temporary detention of migrant workers who have faced various problems after their leaving for foreign employments.

- Maintenance of 10 training centers throughout the island for familiarizing and training of migrant workers and establishment of 06 regional offices of Foreign Employment Bureau.

The Bureau had earned a total income of Rs. 12,222 million from its services in the year 2023, with a total expenditure of Rs. 4,439 million. The total investment value of the Bureau as at 31 December 2023 was Rs. 17,705 million.

According to the information of the Sri Lanka Foreign Employment Bureau, the number of individuals who registered with the Bureau and left for employment in the year 2023 was 297,656. Among them, 164,608 or 55.3% were male workers, while 133,048 or 44.7% were female workers.

According to the information of the Bureau, particulars of the migrant workers are as follows.

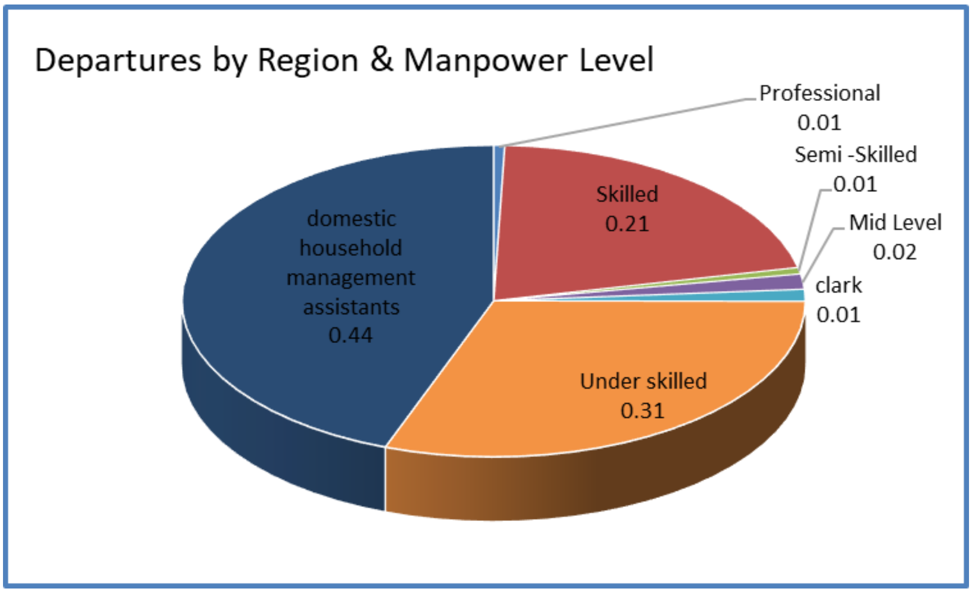


Diagram 2.45 training levels of expatriate workers

Skilled				Semi-skilled				Total
Male	Female	Total	%	Male	Female	Total	%	
106,763	101,823	208,586	70.08	57,845	31,225	89,070	29.92	297,656

Table 2.30 :Level of training according to the Male and Female

According to the registration statistics of the Bureau, 44% were domestic household management assistants, 31% under-skilled workers, 1% were semi-skilled workers, and 21% were trained workers. The remaining statistics fall under the non-labor category, with 2% at the mid-level and 1% as clerks. They are mainly employed in Gulf countries, including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Audit Observation

Sri Lanka Bureau of Foreign Employment

Failure to recover funds allocated for the housing loan scheme

As per the Cabinet decision dated 24 January 2013, a Memorandum of Understanding had been signed with the Samurdhi Authority for a period of 05 years to implement a Rataviruwo housing loan scheme in collaboration with the Sri Lanka Bureau of Foreign Employment. On 08 March 2013, the Bureau had paid Rs. 100 million to the Samurdhi Authority, and this amount was deposited in a fixed deposit under the name of the Samurdhi Authority. Although the validity period of the housing loan scheme ended on 07 March 2018, no action had been taken to recover the funds.

Crediting payable balances to the revenue without proper authorization

During the audit management meeting held on 22 December 2022, it was discussed to credit only a balance of Rs. 679 million, pertaining to the period from 2008 to 2018, into income from the refundable deposits. However, actions had been taken to credit Rs. 1,388.8 million into income, which included all refundable balances related to that period, without obtaining formal approval. It was not confirmed that every possible effort had been made to inform the concerned individuals and to ensure maximum attempts for payment before crediting these refundable balances as income.

Granting approval for the foreign deployment of workers in violation of the Act

In alignment with Section 53(3) of the Foreign Employment Bureau Act No. 21 of 1985, every Sri Lankan departing for employment outside Sri Lanka must register with the Bureau prior to such departure. However, since 20 March 2023, the Bureau has granted permission to foreign employment agencies to send house maids to the United Arab Emirates and Oman on tourist visas. For this, it had been approved by the Chairman's Circular No. 07/2023 dated 20 March 2023 that a fee of USD 100 must be paid to the Bureau. Through this method, house maids are sent abroad without an employment contract, and within a maximum of 30 to 45 days after their departure, information should be uploaded to the computer that the employment contract signed with the employer was submitted to the embassy. However, by 06 June 2024, a total of 4,942 house maids had been sent to the two countries on tourist visas, and the information regarding the employment of 3,954 of them had not been uploaded to the embassy's computer system. Accordingly, the Bureau itself had granted approval for sending workers abroad in a manner that was not compliant with the Bureau Act.

Recruitments for diplomatic mission staff

According to Chairman’s Circular No. 01/2023 dated 06 April 2023, it was stated that when recruiting for diplomatic mission staff, priority would be given to those who had never been recruited for the mission staff before. Additionally, as per the Board of Directors’ approval under No. 34.27.12 dated 02 July

2018 it was mentioned that candidates must have completed 3 years of service at the Bureau after returning from previous diplomatic mission duties. However, 16 employees from the Bureau had been recruited to the diplomatic mission staff, of whom 7 were officers who had previously served in diplomatic missions, and 2 of them were recruited for the 3rd and 4th times. It was further observed that one individual had not completed the required 3 years of service at the Bureau after finishing his previous diplomatic mission duties.

Payment of airline ticket fees twice

On 25 July 2023, six workers scheduled to depart for South Korea had purchased airline tickets directly from SriLankan Airlines for Rs.279,000 for the flight scheduled for that day. However, they were not allowed to depart on that day since they had not purchased the tickets from the foreign employment agency, which was priced at Rs. 319,522 or Rs. 40,522 more. One of the workers eventually purchased another seat on the same flight by paying Rs.319,522 and was able to leave. The remaining five workers had to repurchase tickets for Rs.329,291 each and were sent a month later. Accrdingly, the Bureau’s top management arranged for Rs. 3.6 million to be spent on tickets for these six workers instead of the Rs. 1.7 million that could have been spent initially.

Incurrence of idle costs due to delays in the handover of safe house

Only three individuals had been appointed to the Labor Welfare Division of the Oman Embassy for official duties, and due to the lack of a qualified and sufficient staff, incidents of misconduct occurred between August and December 2022. This led to disturbances caused by detainees staying at the safety home, resulting in damage to the facility. Since the rental period ended on 31 January 2023, it was necessary to promptly investigate the damages that occurred and restore the original condition before returning it to the owner. However, the absence of a responsible officer in the Welfare Division led to a delay in assessing the damages until 16 May 2023. Accordingly, due to the delay, a total of Rs. 19.13 million had to be paid for rent, water bills, electricity bills, and damages for the seven-month period from 01 February 2023, to 31 July 2023 until the building was repaired and handed back to the owner.

Failure to provide gift vouchers to entitled parties

Although 14,000 gift vouchers worth Rs. 10,000 each were purchased to be given to migrant workers going abroad for the first time in the domestic sector, only 46 vouchers had been issued by 31 December 2023. By 14 August 2024, only 995 gift vouchers worth Rs. 9.8 million had been issued. Accordingly, despite the lapse of 11 months from the purchase of the vouchers, gift vouchers worth Rs. 128.23 million remained unissued. Due to the delay in commencing the distribution of these vouchers until a ceremony could be held, a total of 13,261 house maids missed out on receiving the Rs. 10,000 gift vouchers. This total included 1,161 house maids and 12,100 workers who were released from training and falsely reported as having previously gone abroad, while they were actually about to proceed abroad for the first time. Consequently, the parties entitled to the benefits related to the incurred expenses did not receive them due to the irregular actions taken by the Bureau.

Release from training without work experience

According to the letter numbered CH/01/01 from the Chairman of the Bureau dated June 7,2022, approval was granted to the Deputy General Manager (Final Approver) to certify workers with prior experience in the domestic sector, whose experience could not be verified through written documentation, as having previous service experience when proceeding abroad, and to accordingly release them from training. According to the letter numbered TR-D/02-01-11 dated 09 January 2023, house maids proceeding abroad for the first time are required to undergo a 28-day residential training programme, for which the fee is Rs. 22,410. From January 2023 to 29 May 2024, information regarding the prior foreign migrations of workers released from training was obtained by the audit through the Bureau's registration information system. It was confirmed that the number of domestic workers registered with the Bureau and proceeding abroad for the first time was 28,165. Accordingly, the Bureau incurred a loss of training revenue amounting to Rs. 631.2 million from January 2023 to 29 May 2024.

Purchase of trade stalls

On October 15 and 16, 2022, a trade stall had been rented for Rs. 170,000 for the event held at the Galle Samanala Garden. However, during the 2023 Jaffna District programme, the institution had acquired a stall for Rs. 500,000 without documenting whether it was a rental fee or a purchase. Accordingly, Rs. 5.1 million had been spent for 30 stalls in 2022, while Rs. 12.5 million had been spent for 25 stalls in 2023. A procurement process had not been followed for the selection of institutions, and the purchase of these stalls had been made based on a letter from the Secretary of the Ministry of Labor and Foreign Employment dated 29 May 2023.

Sri Lanka Foreign Employment Agency

Foreign employment Placements

Although 2,860 and 2,303 overseas job offers had been received by the company in 2022 and 2023 respectively, only 316 and 663 individuals had been sent abroad for employment. This accounted for only 4% and 28.7% of the total job offers received in those years. Furthermore, out of the 663 individuals who were sent abroad in 2023, a total of 203 were workers who found employment opportunities through external parties. This accounted for 30% of the total number of individuals sent abroad in 2023. Although Rs. 8.004 million was allocated for overseas visits to promote the foreign employment labor market during the year under review, Rs. 12.04 million was spent on 06 overseas visits. Out of this, only Rs. 0.22 million was used for business promotion activities.

Non-refund of security deposits

In 2006, a sum of Rs. 15.2 million had been collected as security deposits on a refund basis from migrants departing to South Korea for employment. Although 15 years have passed, actions had not been taken to settle these deposits. Of the Rs. 4.7 million balance shown in the financial statements, there were balances of Rs. 4.09 million that had remained outstanding for a period of 5 to 10 years.

Problematic payments

Although no quotations had been called for the purchase of 5 trade stalls and a name board for the mobile job fair held on 15 and 16 July 2023 at the Muttraweli Stadium in Jaffna, quotations and invoices were submitted under the personal name of the company's chairman on 8 July 2023 without specifying the entity from which the purchase was made. A letterhead titled "Glocal Fair" was used for the name of the company, and Rs. 2.18 million was paid to a bank account under the name "Glocal Fair.

Higher-priced airline tickets

In violation of Guideline 2.7.5 of the Procurement Guidelines No. 25 of 2006, a total of 3,767 airline tickets required for workers departing to South Korea had been purchased through private agencies during the period up to 8 August 2023. An excess of Rs.122.6 million had been charged from the workers for these tickets, of which the Foreign Employment Agency and 04 private agencies had earned profits of Rs. 27.8 million and Rs. 94.8 million, respectively.

Purchase of airline tickets via private agencies

In terms of the Board of Directors' decision No. 51/2022 dated 26 October 2022, the company is required to issue tickets with a maximum profit margin ranging between 1% and 7% per ticket. However, in 2023, due to the purchase of tickets through private agencies at prices higher than those offered by SriLankan Airlines, the company's profit margin had dropped from 5% to 2.5%, resulting in a loss of Rs. 27.1 million for the company.

Labour Activities

Safeguarding the professional rights of the private and semi-government sector employees, social security, confirming the industrial peace and directing and employing the trained laborers for the foreign job market,ensuring job security and policy-making and implementing such policies required to improve the contribution provided by the local and foreign Labour force to the economic development by promoting productivity within the country have been the major mission of the Ministry of Labour and Foreign Employments. The roles of the Labor Division of the Ministry are as follows.

Functions

Implementation of the Sri Lanka National Manpower and Employment Policy on Migration for Employments.

Preparation and implementation of policies related to Labour relations,standards, employee administration, welfare and health in accordance with national standards.

Maintain collaboration with International Labor Organization and International Social Security Organizations.

Administration and regulation of the systems to empower the Employee Provident Fund, Personal Provident Funds and Personal Retirements.

Settlement of industrial relations and industrial disputes.

Introduction and implementation of the positive steps required to register the trade unions and to get the contribution of all the trade unions in the public and private sector of the country for the development of the country.

Preparation and implementation of policies and programs to increase the national productivity.

02 departments and 07 other statutory institutions were functioning under the Ministry in order to fulfill these roles. The particulars revealed during the audit of those institutions are given below.

Audit Observations

Ministry of Labour and Foreign Employment

Non-payment of Compensations

The compensation amounts worth Rs.12.34 million related to 54 cases to be entitled to the parties aggrieved while engaged in the service as decided by the court had not been paid to the employers according to the relevant orders even as at 31December 2023. Meanwhile, there were 11 cases that exceeded 10 years after the issuance of warrants, 22 cases between 5-10 years and 11 cases between 1-4 years.

Employees Provident Fund – Labour Sector

Existence of financial balances not credited to individual accounts

Rs. 95,625 million from the members' account balance of the Employees' Provident Fund as at 31 December 2023 remained without being credited to each member's account due to varied reasons.

A sum of Rs. 12,237 million collected from lawsuits against the employers in the Labour Commissioner's account in the membership fund and retained in the Central Bank of Sri Lanka, Rs. 440 million retained in a general deposit account of the Department of Labour until being settled subsequent to the collection from lawsuit, and the balance of Rs. 78,797 million which is being maintained separately in the name of employers in the Account called "Contribution No. 01 of the current year" as at 31 December 2023 had not been allotted to the respective members. Rs. 1009 million as the benefits retained without being paid to the members due to diverse reasons and the benefits not claimed as at 31 December 2023, Rs.2590 million as deficit / excess contributions, and Rs.552 million as deficit / excess benefit payments remained to be settled further under the membership fund.

The equipment Purchased for member registration project remained idle

60 computers, 60 cameras and 60 printers having a total value of Rs.27.89 million had been purchased for the project in 2022 and 2023. In the physical inspection of the warehouse on 14 March 2024, it was revealed that 51 computers, 53 cameras and 50 printers were underutilized without being distributed and consequently the expected results were not able to be achieved.

Non-receipt of the returns on investments

The benefits have not been received by the fund from the year 2019 for the investments in the ordinary shares in the year 2023 amounting to Rs. 17,401.39 million that had been done in 15 listed companies as at 31 December 2023, and for the investments in the ordinary shares amounting to Rs. 4,390.49 million that had been done in 9 listed companies.

Rs. 5,000 million from the investments done in the unlisted companies had been invested in a private company in the year 2013. Although the construction of the Colombo Grand Hyatt Hotel Complex that was to be built under that company was to be completed by 27 December 2021, the respective company had informed that the project could not be implemented. Consequently, even if 11 years have passed since the above investment was done, any profit had not been received by the Fund.

Filing a case to recover the overdue contributions and surcharges

The total number of cases filed by the fund against the external institutions for recovery of a total of Rs.12,755.09 million as at 31 December 2023 was 14,096. The number of cases filed by the external institutions against the Fund claiming a total of Rs. 201.3 million was 62. Also, 4,381 cases filed to recover a total of Rs.2,420 million as at the end of the year were in inactive status and the 2138 cases filed for the recovery of Rs. 1,232 million were in the open warrant status.

The Employers not Registered

Number of employers not registered in the Fund and registered only in the Employees' Trust Fund Board was 28,994 as at 31 December 2023 and the total of contributions received by the Employees' Trust Fund Board from those employers as at that day was Rs.401.25 million. Accordingly, a suitable program had not been prepared in coordination with the Board in order to identify and register the employers who should be registered in the fund, but avoided the registration.

Employees’ Trust Fund Board

Not crediting the contributions **received by the Fund to the accounts of the members**

The total contributions of Rs. 516.79 million credited to the Employees’ Trust Fund Board by 4,526 employer institutions related to the period from the year 1981 to the year 2022 had not been credited to the personal accounts of the relevant members as per the section 16 (3) of the Employees' Trust Fund Act, No. 46 of 1980 even by 01 April 2024. It was consequently observed that there is a disparity between the member fund balance and the total of individual account balances as well as an unfavourable situation for the members when they get their contributions back. The balance existing from a period of 09 to 42 years included in the above balance was Rs. 20 million.

Delay in the installation of Information System

A Memorandum of Understanding had been entered into between the Sri Lanka Institute of Information Technology and the Board in the year 2016 under the financial allocation of the Ministry of Finance to install an information system in order to facilitate the management of employer, member accounts and membership fund more accurate and reliable manner, and to facilitate the connection of the system through online communication for members and employers. Although a sum of Rs. 183.28 million had been spent by the Board to purchase hardware and to do training activities for the project, the project objectives had not been able to be achieved until that date.

General Benefits not claimed

The total of the balances over 20 years in the General Benefits accounts not claimed as at 31 December 2023 was Rs.3.83 million and the actions had not been taken to identify the respective members and to settle these amounts.

Death benefits not claimed

A sum of Rs.23.043 million was to be paid to 1,240 beneficiaries as unclaimed death benefits as at 31 March 2024. The amount of death benefit payable to 826 beneficiaries belonging to the period between 07 and 28 years included in this balance was Rs. 9.9 million.

Return on Investments

The outstanding interest amount to be charged for the debenture investment of Rs.15 million made by the Board in the year 1994 at a fixed interest rate of 14.48 percent in a plantation company as at 31 December 2023 was Rs.26.29 million.

Maintaining the Accounts without the Name and the Identity Card Number of the Member

There was an amount of Rs.41.22 million related to 7,566 accounts being maintained without the name and the valid identity number of the member as at 31 December 2023. Those member accounts that could not be identified until the year 2015 had been locked in the computer system and the owners of this money had not been identified and the respective amounts had not been credited to the member accounts as at 31 December 2023.

Department of Pensions

The provisions amounting to a total of Rs.418,720 million had been given by the Parliament in the year 2023 to the Department of Pensions; which operates with the vision of Building an economically and socially satisfied retired populace, to fulfill the above functions, and the pensions for 704,795 Pensioners and the gratuity grants for 55,091 Pensioners had been paid utilizing Rs. 416,333 at the end of the year under review

Payment of the Cost of Living Allowance for the pensioners having government salaries

According to Pension Circular No. 1/2014 dated 10 January 2014 and Pension Circular No. 8/2010 dated 7 September 2010, if someone receives a government salary with cost of living allowance, the cost of living allowance is not entitled to the pension during the period of such salary. However, it was observed during the audit inspection of Kalutara, Dambulla, Medadumbara, Hanwella, Bamunakotuwa, Matara, Mawanella, Kegalle Divisional Secretariats and in the checking of the department's data system that a sum of Rs. 94.5 million had been overpaid due to the payment of the cost of living allowance to 269 pensioners who are getting salaries from the government together with the cost of living allowance.

Unrecognizable Receipts

The receipts not identified Since the officers; who have taken leave to be spent out of the country in accordance with the Public Administration Circular No. 14/2022, 14/2022(i) dated 22 June 2022 and the Pension Circular No. 06/2022 dated 20 September 2022, remitted the contributions of widows / widowers and orphan pension to the Department of Pensions without undergoing a formal registration, the contributions amounting to a sum of Rs. Rs.47.2 million so remitted as at 31 December 2023 had been retained in the General Deposit Account as unrecognized receipts.

Over-payment of Interim Allowance

When several pensions are jointly received, the monthly interim allowance should be paid only to the combined pension as per the Pension Circular No. 13/2014 dated 03 November 2014. However, it was revealed that the interim allowance had been overpaid by a sum of Rs.13.7 million to 47 pensioners identified in the audit inspections carried out in Hanwella, Matara, Kegalle, Akurana, Yatinuwara, Bingiriya, Mawanella, Divulapitiya and Kalutara Divisional Secretariat and in the checking of the department's data system.

Sports

The mission of the Ministry of Sports and Youth Affairs was to create a youth community that actively contributes to the national economy and contribute to building a united and prosperous country through a disciplined, sporting society. To achieve those results, 11 statutory bodies, including the Ministry of Sports and Youth Affairs and the Department of Sports Development, along with a sports fund and 67 sports associations, were required to carry out the following functions.

Functions

To take necessary measures to encourage sports activities in Sri Lanka and promote sports education, training and research.

To promote and provide the necessary infrastructure to achieve the desired objectives in the field of sports.

Formulation of new strategies and implementation of programs to be able to use sports to build the image of Sri Lanka internationally.

Expanding the opportunities for athletes to participate in international competitions.

To promote sports medicine facilities and work to combat anti-doping in sports. To promote and co-ordinate the facilities necessary for the physical well-being of the general public.

Development and management of sports complexes, Organization of sports societies and promotion of sports tournaments.

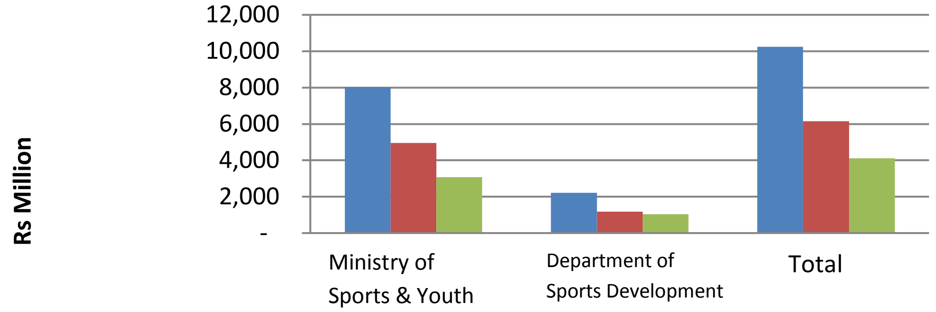
Compilation and implementation of attitude development programs aimed at a national program that fulfills the aspirations of the youth. To take measures to create young entrepreneurs and to introduce and implement methods to provide them with the necessary incentives and new opportunities.

Implementation of international cooperative development programs focused on the youth. Commencing a youth human resources bank to match local and foreign job opportunities.

Implementation of skill development programs focused on unemployed youth. Regulatory and development activities related to youth organizations.

Creating special programs aimed at the youth community so that the skills, talents and creativity of the youth will be socially recognized and they can develop their ambitions.

In the year 2023, a net allocation of Rs. 10,250 million had been given by Parliament to fulfill the above functions for the Ministry of Sports and Youth Affairs and the Department of Sports Development, and at the end of the year under review, only Rs. 6,146 million had been utilized. Thus at the end of the year Rs. 4,104 million was left in provision. The description is shown in Figure.



	Ministry of Sports & Youth	Department of Sports Development	Total
Net Provision	8,032	2,218	10,250
Expenditure	4,960	1,186	6,146
Savings	3,072	1,032	4,104

Figure No: 2.46 – Allocation and Expenditure given to Ministry of Sports and Youth Affairs and Department of Sports Development

Source: 2023 Financial Statements

The significant and material audit observations revealed during the sample audit conducted on the Ministry of Sports and Youth Affairs and the departments and statutory bodies under it regarding the performance of the aforementioned functions are summarized below.

Audit Observations

International victory In 2023, Sri Lankan athletes who participated in 19 major international tournaments, won a total of 48 medals, including 11 gold, 15 silver, and 22 bronze. Additionally, the Sri Lanka Women's Cricket Team emerged victorious in both the T20 and ODI series during their tour of England.

Ministry of Sports and Youth Affairs

Development of the Diyagama Sports Complex The Ministry had secured estimated budget allocations totaling Rs. 3,866 million from 2017 to 2022 to develop the Diyagama

Mahinda Rajapaksa International Sports Complex into a sports academy and an international stadium and only Rs. 606 million of this amount had been utilized. Out of this, Rs. 487 million was spent on constructing a 400-meter synthetic running track, but due to the damages in certain areas and the fading of lane lines, athletes have experienced difficulties when competing on the track. Additionally, Rs. 30 million was spent on a project to install generators. However, when it had achieved 65% construction progress, a decision was made to halt the project. Meanwhile, Rs. 34 million was spent on the construction of a small pavilion, which had reached 90% completion, but the agreement was terminated without fully completing the project. Furthermore, an advance payment of Rs. 5.4 million was made to a government construction institution without a formal agreement for kitchen renovations in 2019. However, the construction work was not carried out, and the Ministry had failed to recover the advance relevant payment.

Construction of the archery and shooting range at Kurunegala Maliyadewa College

Although the Ministry of Sports and Youth Affairs had awarded a contract worth Rs. 12.23 million to a private contractor on 28 March 2018, for the completion of the archery and shooting range at Maliyadeva College, Kurunegala within six months, a feasibility study was not conducted for the project. Furthermore, due to reasons such as extending the contract period by 20 months on several occasions, proceeding with additional work without obtaining formal approval from the Ministry of Sports, failing to promptly initiate an arbitration process, and the Technical Evaluation Committees appointed to review price fluctuations taking more than a year to make decisions, an additional amount of Rs. 4.23 million with tax was paid beyond the agreed value. Despite this, the Ministry had failed to make the sports grounds usable up to date.

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Department of Sports Development

Abandonment of projects without completion

Nine projects, with a total estimated value of Rs. 1,649.83 million, including the Monaragala District Sports Complex project valued at Rs. 557.03 million, were started between 2013 and 2020 but were left unfinished and abandoned. The total amount spent by the department on these projects as of 31 December 2023 was Rs. 606.13 million.

Delays in implementation of projects

Seven projects, which were supposed to be completed with an estimated cost of Rs. 1,024.86 million, remained still unfinished by the end of the year under review. Of these, 05 projects experienced delays ranging from 19 to 70 months. For the remaining two projects, the due dates for completion were not furnished to audit. The department had spent Rs. 802.52 million on these projects by 31 December 2023.

Annual action plans

According to Section 7 (xii) of the National Sports Associations Regulations No. 01 of 2016, National Sports Associations are required to prepare an annual action plan for the upcoming year and submit it to the Director General at least three months before the end of the current year. Accordingly, 72 associations were registered under the Department of Sports Development for the year 2023, but out of these, only 67 associations were active, and 63 of them had not submitted their action plans.

World Netball Championship

The department had not taken measures to introduce a proper procedure with a clear timeline for granting approvals to participants for the World Netball Championship held in South Africa in 2023. Additionally, a sum of Rs. 8.78 million was paid during the year under review for purchasing air tickets for participants of this championship. The purchasing company had presented higher prices during the first price calling and lower prices during the second price calling, and orders were obtained accordingly. Therefore, it was observed during the audit that the process for purchasing these tickets lacked transparency.

Commonwealth Youth Sports Festival

Due to the lack of proper planning, failure to prepare estimates, and the absence of transparency in the procurement of tickets regarding the Commonwealth Youth Sports Festival held in 2023, and the department was unable to economically and effectively purchase air tickets and visas on time, resulting in a financial loss of Rs. 13.81 million. As a result, the department also lost Rs. 7.03 million, which should have been collected as ticket fees by the National Olympic Committee. Furthermore, due to the inability to accommodate athletes and officials on time for the event, Sri Lanka was unable to achieve the expected victories.

Institute of Sports Medicine

Establishment of Human Performance Laboratory

The Institute of Sports Medicine had entered into an agreement with a private company on 16 November 2021 for the supply, installation, commissioning, training, and maintenance of equipment for the Human Performance Laboratory for an amount of Rs. 248.59 million. However, no cost-benefit analysis was conducted in this regard. The relevant company only completed the installation of equipment on 23 and 24 January 2023, but operations in the laboratory had not started. The supplier had not provided relevant services during the first and second years, and the Institute of Sports Medicine had not taken sufficient action in discussions with the supplier to obtain the services. Although the equipment was supposed to be installed within eight weeks from 16 November 2021 as per the agreement, the supplier completed the installation after a delay of 13 months. Further, a late fee of 1% per week, up to a maximum of 10%, which amounts to Rs. 24.86 million could have been recovered under the term 26.1 of the agreement. Nevertheless, the Ministry had not taken any action to conduct any analysis in this regard and recover this late fee.

Assets Management

As there was no radiologist at the Institute of Sports Medicine and the purchase of non-financial assets was not approved by the Atomic Energy Regulatory Council, the Mobile X-Ray machine worth Rs. 3.23 million, the Radiation Protection Accessories Set worth Rs. 1.11 million, the X-ray table worth Rs. 4.31 million, the X-Ray Digital Film Imaging System, and the X-ray room, which cost Rs. 1.63 million, remained unused and idle for 07 years, 06 years, and 02 years, respectively, since their purchase.

National Sports Fund

Not providing revenue

The Employees' Welfare Association of the Ministry of Sports and Youth Affairs had held a musical concert in 2023 with the aim of raising Rs. 5 million for the National Sports Fund. However, no income from the concert was received by the fund.

Expenditure beyond the objectives

Even though the Attorney General's Department had stated that legal assistance would be provided, legal fees totaling Rs. 8.25 million for six cases filed by and against the Minister were paid by the Fund for purposes beyond its intended objectives.

Sports infrastructure development projects

A total of Rs. 104.67 million was provided to various parties in 2023 for the implementation of 13 sports infrastructure development projects. However, instead of reimbursing the expenses according to the final phase of the work after the proper approval of project proposals and disbursing the mobilization advances upon such approval, the entire estimated amount was released to the project. There was no confirmation that the relevant constructions were completed within the specified timeframe introduced for the tasks to be carried out with the amount provided as mentioned above. Furthermore, as at 31 December 2023, the physical progress of 07 projects, expected to be completed with a value of Rs. 90.15 million, ranged from 0% to 60% and no certificate from an engineer confirming the successful completion of the remaining projects was submitted to the audit. Therefore, it was not possible to confirm whether the funds provided were actually utilized for the said projects and whether the benefits in commensurate with the amount freed up for these projects were obtained.

Sri Lanka Cricket

Providing funds to cricket clubs and associations

A total of Rs. 460.73 million had been provided as advances to 04 cricket associations for the development of sports stadiums for the proposed under 19 Cricket World Cup to be held in Sri Lanka in 2024. Although the relevant works were required to be completed before 19 January 2024, none of the projects were completed within the specified time. Due to the failure to complete the relevant works, the funds were returned after Rs. 195.10 million was withheld by the cricket associations, resulting in a financial loss of approximately Rs. 4.8 million to Sri Lanka Cricket. A sum of Rs. 79.73 million remained withheld by the 04 cricket associations, without being utilized for the respective works even by 31 May 2024.

Proposed Kandy High-Tech Training Center Project

The land of 1 acre, 3 roods, and 20.2 perches in the Kandy district had been acquired on lease by Sri Lanka Cricket on a 30-year lease basis for Rs. 26.5 million on 20 April 2017 for the construction of the proposed Kandy High-Tech Training Center project. While Sri Lanka Cricket had paid Rs. 0.5 million to the lessor on 25 January 2018 for the removal of an occupant from the land and existing a mismatch between the deeds of the land as well as unclear status of the land ownership, Sri Lanka Cricket paid Rs. 0.525 million to an attorney-at-law on 06 September 2017, to finalize a lease agreement for the property. Furthermore, no construction has taken place on this project since 2021, and even though 6 years had passed since the land was leased, only the initial phase of the construction was carried out.

Payment of allowances for coordination positions

With the approval of the executive board, Sri Lanka Cricket had recruited 44 individuals at various levels for coordinating positions at the provincial level and sums totaling Rs. 65.98 million was paid to them as monthly allowances, festival and arduous allowances, as well as for transportation expense reimbursements during the year under review. However, instead of identifying and assigning the coordinators with specific daily tasks to be carried out, only one or two tasks were assigned to them for completion within a very short period of time. Furthermore, the appointments were made without verifying their regular duties, and as a result, it was not possible to determine during the audit whether the services provided were commensurate with the amounts paid to them.

Loss of hosting rights for the Under-19 World Cup tournament

As Sri Lanka lost the hosting rights for the Under-19 Cricket World Cup scheduled to be held in 2024, Sri Lanka Cricket lost approximately Rs. 787 million, equivalent to USD 2.46 million, which was expected from the ICC Business Corporation FZLLC, as outlined in the agreement dated 13 October 2023. Furthermore, the foreign exchange earnings and tourism benefits that could have been gained from the 700 rooms reserved in tourist accommodations during the scheduled period of the World Cup were also lost to the country.

Special Audit regarding the International Cricket Council Men's T-20 World Cup Cricket Tournament – 2022

Expenses for Watching the Tournament

It was revealed that 14 members of the Executive Committee including 07 Office Bearers representing the Executive Committee of Sri Lanka Cricket had gone to watch the tournament held in Australia and Sri Lanka Cricket had paid Rs. 68.24 million for them as air tickets, visa fees, travel insurance, allowances and tickets for watching tournament. Out of this, 3 members of the Executive Committee had refunded Rs.2.65 million to Sri Lanka Cricket.

Provision of Sponsorship for Journalists

According to the decision taken by the Executive Committee through the letter dated 30 September 2022 addressed to four selected media organizations by the Secretary of Sri Lanka Cricket, it had been informed that one journalist will be given air tickets and a stipend of USD 1,500 to travel to Australia. Although the Executive Committee approved the sponsorship for the four journalists in the 12th Executive Committee Meeting dated 23 September 2022, it was not observed that what sponsorship was decided or that the Executive Committee approved the values to be paid.

Issuance of Visa Request Letters

It was observed that the Sri Lanka Cricket had issued visa request letters to the Australian High Commission for 11 members of the Executive Committee, 21 relatives and friends of the Sri Lanka Cricket Board Chairman's family, 02 friends of the Vice Chairman and 8 wives/9 family members of the Executive Committee, 11 other persons related to Sri Lanka Cricket and their two wives to obtain a visa.

Not returning to Sri Lanka after obtaining a visa

Although one person who was among those who have been issued letters for issuance of visa, left for Australia on 03 November 2022 after obtaining a visa to watch the T-20 tournament, it was observed that he had not returned to Sri Lanka by the date of 11 September 2023.

Expenses for Air ticket Purchases

Accordingly, it was observed that a total of Rs.50.85 million had been paid for the purchase of air tickets for 29 people in the form of a sum of Rs. 14.27 million for 07 office bearers of the Sri Lanka Cricket Executive Committee, a sum of Rs. 8.40 million for 07 Executive Committee Members, a sum of Rs. 6.03 million for 04 officers, a sum of Rs. 14.48 million for 05 additional players, a sum of Rs. 4.33 million for two supportive staff and a sum of Rs. 3.33 million for 04 journalists .

Purchase of Air Tickets by Two Officers

During the 2022 T-20 World Cup tournament, 29 people had bought air tickets to go to Australia on 29 occasions and the Administrative Manager of the Sri Lanka Cricket had purchased tickets valued at Rs. 26.45 million for 12 persons including the Chairman, Secretary, Chief Executive Officer of the Sri Lanka Cricket Institute, additional players, support staff and journalists and the purchase of tickets valued at Rs.16.25 million for the Chief Operating Officer and 12 other members of the Executive Committee was done by the Chief Administrative Officer of Sri Lanka Cricket and it was observed that calling of quotations by two officers separately is questionable.

Sugathadasa National Sports Complex Authority

Non-implementation of capital projects

Despite planning to implement 10 capital projects based on an initial estimate of Rs. 398 million as per the 2023 action plan, only one project had been completed during the currrent year, with an expenditure of Rs. 26.29 million.

National Youth Corps

Selection of a pool of athletes

Although Rs. 17.5 million was provided by the Ministry of Sports and Youth Affairs in 2022 to select a pool of 750 athletes based on their skills, with the expectation of representing and winning in the 2024 Olympic Games and securing employment for 150 athletes by 2025, this initiative had not been carried out even by the end of 2023. However, a sum of Rs. 7.5 million had been spent for this purpose, while the remaining Rs. 10 million had been invested in fixed deposits

Vacancies in positions The continuous vacancies in 137 key positions, including Heads of the Center and Advisors, which are essential for efficiently and effectively carrying out the primary tasks of the corps, such as youth development, job training, and vocational education, have significantly impacted the corps' ability to achieve its objectives and maintain the quality of its programs.

National Youth Services Council

Non – Receiving of Revenue Without the approval of the Board of Directors, Rs. 10.29 million had been spent by the Council on the 31st Night Youth Celebration music programme held at the Nelum Kuluna premises on 31 December 2023. The Council had not taken steps to secure the Rs. 6.86 million ticket revenue generated from the event.

Non-conducting of training programmes on farms As per Sections 4(f), 5(2)(g), and 5(2)(h) of the National Youth Services Council Act No. 69 of 1979, although the objective was to encourage youth towards the agricultural sector and establish farms, the Council had not taken steps to conduct training courses at the 09 existing farms.

Programs without Board of Directors' approval Without the approval of the Board of Directors, a program on youth contribution to climate change mitigation had been conducted at a private hotel at the discretion of the Director General, incurring an expenditure of Rs. 1.2 million.

Conducting National Youth Sports Festival In the purchase of food, bottled water, and T-shirts worth Rs. 9.7 million for the 34th National Youth Sports Festival, the relevant procurement had been carried out by a pricing committee without inviting competitive bids. Furthermore, 500 ml bottled water was purchased at Rs.70 per bottle, despite the actual price being Rs. 30, resulting in an irregular payment of Rs. 0.82 million.

Launch of new creations Although one of the objectives of the Council was to launch new creations with the contributions of youth of the youth societies, a television drama titled "Kinihiriya Mala" had been produced involving actors and actresses. A cost of Rs. 4.8 million had been incurred for that purpose up to date, but the activities related to the drama have yet to be concluded.

Malfunction of Fingerprint Machines

Although the Council had purchased fingerprint machines at a cost of Rs. 4.7 million in 2023 and previous years, these machines remained underutilized as they were not operating properly.

Ministry of Irrigation

The following functions and tasks had to be executed by the Ministry of Irrigation and One Department, four Statutory Boards, one State Company and fourteen projects under its purview.

Development of water resources, controlling of drainage and floods, development of reservoirs and irrigation facilities and providing the water necessary for agriculture, drinking water, electricity under proper management.

Net Provisions totaling Rs. 84,659 million had been provided by Parliament in the year 2023 to the Ministry of Irrigation and to a Department under its purview for the execution of the above function and, only a sum of Rs. 53,679 millions of it had been utilized by the end of the year under review. Details are shown below.

	Ministry of Irrigation Rs. Million	Department of Irrigation Rs.Million	Total Rs.Million
Net Provision	69,226	15,433	84,659
Expenses	41,249	12,430	53,679
Savings	27,977	3.003	30,980

Table No 2.31 : Provision, Expenditure,Savings

Audit Observations

Changes for the electricity generated from the Moragahakanda Hydroelectric war Plant

The Sri Lanka Mahaweli Authority had presented invoices totaling Rs. 3,697.43 million for the electricity generated under Phases I, II, and III of the Moragahakanda Hydropower Project during the 2021-2023 period. Of this amount, only Rs. 853.73 million or 23 percent was paid by the Ceylon Electricity Board. Adequate measures were not taken to recover the unpaid amounts from the invoices submitted since 2021.

Year --------	Revised Revenue Estimate ----------------- Rs.Million	Value of the submitted invoices --------------- Rs.Million	Recovered amount ------------- Rs.Million	2023/12/31 Revenue in arrears as at 31.12.2023 ---------------- Rs.Million	Total revenue I arrears as a percentage ---------- %
2021	1,221.67	1,200.62	643.73	556.89	46
2022	1,348.90	1,369.95	209.99	1,159.95	85
2023	1,335.90	1,126.86	-	1,126.86	100
Total	3.906.47	3,697.43	853.73	2,843.70	

Table No 2.31 : Invoice value Paid by the Electricity board

Uma Oya Downstream Development Project

Progress of constructions under the project

Although the estimate for the Uma Oya Downstream Development Project approved in 2010 was Rs. 9,352 million, it was later revised to Rs. 17,914 million, and by 30 June 2024, Rs. 16,269 million had been spent. However, it was observed that only 50 percent of the expected tasks of the downstream development project had been completed so far.

Failure to identify lands for providing irrigation facilities

Although the project was initiated with the primary objective of providing irrigation facilities to 4,500 hectares of new land and 1,500 hectares of existing land, so far, irrigation facilities have only been provided for cultivating 750 hectares of new paddy land, and the remaining lands have not yet been identified.

Downstream development activities

The water that was to be carried from the completed Alikota Ara reservoir through the Meegas Ara tank, located 18 kilometers away, to the Kuda Oya reservoir, which is 24 kilometers distant, was planned to ultimately reach Priyanta's tank. However, due to poor project planning, the downstream development activities were not completed, resulting in the inability to transport water even as far as the Meegas Ara tank.

Conveying water to the Kuda Oya Reservoir

With the objective of releasing water from the Uma Oya reservoir for agricultural activities in the Southern Province, plans had been made to construct the Kuda Oya reservoir with a capacity of 22.5 million cubic meters to retain water. However, the planned canal route, spanning 30 kilometers and bringing water from the Uma Oya to the Kuda Oya Reservoir, was constructed at an elevation higher than that specified in the reservoir's plan, having been revised it without proper approval. Accordingly, it had not been possible to achieve the objective of retaining the water brought through the diversion of Uma Oya.

The project for the Construction of feeder Canal form Siyambalangamuwa oya to Mahagaalgamuwa tank

Although this project was expected to be completed within the 3 year period from 2012 to 2014, it has not yet been completed despite 9 years having passed. A total provision of Rs. 580.93 million had been received for the project up to the year 2023, out of which Rs. 374.95 million had been spent

Operation of a power plant under the Deduru Oya Multipurpose Development Project

The Director General of Irrigation had entered into a Memorandum of Understanding with a private company on 13 October 2017 for operating a power plant under the Deduru Oya Multipurpose Development Project. According to the agreement, the company produced 11,519.679kWh of electricity between January 2021 and December 2022, which was added to the national grid. By selling this electricity to the Ceylon Electricity Board, the company had earned an income of Rs. 200.93 million, of which 15 percent or Rs. 30.14 million, should have been paid to the Department of Irrigation under the terms of the agreement. Out of this, only Rs. 6.09 million, which is approximately 20 percent, had been collected, but the remaining Rs. 24.06 million had not been properly recovered.

Furthermore, the amount of electricity produced in 2023, the income generated from its sale, and the corresponding revenue due to the Department of Irrigation had not been identified.

Basnagoda Reservoir construction project

Payment for price fluctuations contrary to recommendations

Having revised the condition of the original contract which stated that no payment would be made to the contractor for price fluctuations, Cabinet approval had been sought to pay Rs. 1,085 million, which is 47 percent of the total estimated cost, for price fluctuations. Despite the recommendation that the necessary funds should be secured by the Ministry of Irrigation without imposing any additional burden on the Treasury, the Secretary of the Ministry of Irrigation, disregarding this recommendation, had signed a revised contract agreement on 16 April 2024, in a manner unfavorable to the government, allowing payments for price fluctuations in the contract.

With approximately 20 percent of the project work remaining to be completed, construction on the project had been halted since May 2024.

Yan Oya Reservoir construction project

Revision of agreements

Under the Yan Oya reservoir project, it was proposed to construct the main dam, four saddle dams, a left bank canal with a length of 18 km, and a right bank canal with a length of 12 km. Under this, following the approval of the Cabinet to proceed with tasks excluding the right bank canal, a direct contract amounting to USD 176 million was signed with a Chinese company on 03 November 2011. On 16 August 2013, the contract was revised to restrict its scope to the construction of the main dam and four saddle dams, with the contract value set at USD 150 million. Once again, a contract worth USD 39.5 million was signed with the relevant contractor on 12th December 2017, for the construction of the left bank canal. Consequently, a total of USD 189.5 million had to be paid to complete the tasks that were initially agreed upon for USD 176 million.

Provision of alternative lands to those who lost their lands

Due to the construction of the Yan Oya Reservoir, 4,148 hectares of land, both terrestrial land and paddy land, belonging to the Horowpothana and Gomarankadawala Divisional Secretariat Divisions were submerged in water. Although the project was implemented with the primary goal of providing irrigation facilities to 1,515 hectares of new land for cultivation, to date, irrigation facilities have been provided to only 421 hectares of new paddy lands, which is about 28 percent of the intended target. Accordingly, it was planned to provide a maximum of 1.5 acres of paddy land each to those who lost their submerged paddy fields due to the project. However, the necessary lands were not identified and released from the Department of Wildlife Conservation. As a result, instead of providing alternative paddy lands, additional compensation amounting to Rs. 910.80 million was paid to 506 families at Rs. 1.8 million each by 31 May 2024.

Compensation payments for acquired lands

According to a Cabinet decision made on 28 March 2023, a detailed report on the compensation already paid and the compensation still to be paid related to the Yan Oya Reservoir construction project and the Left Bank Main Canal construction project, along with the progress of land acquisition for the project, was to be submitted to the Cabinet within one month by the relevant Minister. However, such a detailed report had not been prepared. As a result, it could not be confirmed during the audit that the land acquisition process had been completed and that the compensation was paid to the rightful individuals in accordance with the criteria approved by the Cabinet.

In relation to the project, compensation had been fully paid for 2,438 land parcels, but payments for an additional 1,481 land parcels were still pending. Furthermore, no compensation had been paid so far for 105 land parcels submerged by the reservoir and 170 land parcels affected by the Left Bank Canal.

Contractor's failure to vacate the site

Despite paying USD 4,672,247 to the contractor for site access and exit under the construction contract, the contractor had not vacated the site up to 31 December2023. The contractor continued to occupy the site, utilizing temporary office buildings, stone-crushing machines, and other equipment, while also arranging security services for these facilities.

Failure to conduct post-review regarding the achievement of outcomes

Although the main benefits of the project were identified as providing drinking water and irrigation water to 2,287 hectares and 5,360 hectares of agricultural lands, respectively, in identified areas of the Trincomalee and Anuradhapura districts, as well as starting clean drinking water supply projects in agricultural areas such as Wahalkada, Padaviya, and Gomarankadawala to control the prevalence of kidney disease, an effective post-review of progress of these goals had not been conducted. As a result, despite Rs. 40,385 million being spent on the project by 30 June 2024, it could not be confirmed whether the expected economic benefits were sufficiently contributed to the national economy.

Construxtion of Maduru Oya South Bank Canal

Improvement of Damminda – Walamandiya Road

For the Maduru Oya South Bank Canal Development Project, Rs. 38,500.90 million was estimated, with plans to carry out 14 development tasks, including the main canal. Of these tasks, the construction of bridges including the main marketplace road had been planned on an estimate of Rs. 7,475 million. Under this initiative, the section of the road from Damminda to Walamandia, from kilometer 0+630 to kilometer 4+030, was upgraded at an estimated cost of Rs. 93.46 million, starting on 30 July 2021. During the road rehabilitation, 3.4 kilometers were excavated in sections without a proper plan, and by September 2023, sums totaling Rs. 82.99 million, including VAT, had been spent on the project.

Payment procedure of the Irrigation Department

On 22 September 2016**,** the Committee on Public Accounts had instructed that the service of the accounting staff should be obtained to rectify the payment procedures at the regional offices of the Irrigation Department. However, disregarding this directive, the duties to be performed by an Accountant had been included in the service minute of the Engineering Assistant Service as published in the extraordinary gazette notification No. 2013/31 dated 07 April 2017.

From 01 January 2021 to 30 August 2023, payments amounting to Rs. 13.2 billion had been certified and made by the 52 divisional irrigation engineering offices under the Irrigation Department, certified by the Divisional Assistant without certification of an Accountant.

Deficiencies in the payment process

During the year 2022, a total of 1,177 cheques valued at Rs. 352.42 million had been issued under the name of the Divisional Irrigation Engineer, contrary to F.R. 385(1), and the Divisional Assistant, who certified the payments, had encashed the cheques after invalidating the crossings. The payment process exhibited deficiencies, including certifying payments without verifying the correct receipt of materials for construction and maintenance work, and certifying payments without confirming adherence to proper procurement procedures, paying salaries to casual workers engaged under service agreements without any documentation confirming their attendance, certification of vouchers without acquiring invoices from suppliers for equipment obtained on a rental basis from external parties, certifying payments without a bill during the execution of construction and maintenance work on a contract basis through agricultural organizations, and certifying the payments without the final work certification for activities performed under direct labor contracts related to institutional supplies or services.

Adopting the procurement system executed using the own workers and tools

Although the labor required for the construction and rehabilitation of tanks/reservoirs under the Force Account method should only be sourced externally when it cannot be provided by workers assigned to the Department of Irrigation, all skilled and unskilled labor requirements were fulfilled through labor suppliers, farmer organizations, or individual labor contracts. Under this method, although external machinery should only be obtained when the necessary services cannot be provided using the Department's existing equipment for tank/reservoir construction and rehabilitation, machinery was still rented from external suppliers despite some machines within the fleet of approximately 350 being in operational condition.

Vehicle Management

Although 654 vehicles were registered under the Ministry of Irrigation and 2,004 vehicles were registered under the Department of Irrigation, the vehicle records of the Ministry show that only 74 vehicles were owned and used by the Ministry, and the vehicle records of the Department show 1,544 vehicles were owned and used by the Department. Accordingly, 580 vehicles registered under the Ministry and 460 vehicles registered under the Department, totaling 1,040 vehicles, were not in the custody of either the Ministry or the Department. Due to the lack of a proper data management system for vehicle control, these assets could not be effectively managed.

Unauthorized constructions and cultivations

The Department had not maintained proper records regarding unauthorized activities in the reserve areas of the 387 reservoirs, tanks and anicuts, and schemes it operates and maintains. While the existence of 397 unauthorized constructions or cultivations in 116 of these areas was reported, the matter had not been formally reported to the District Secretary as required by Section 65 of the Irrigation Ordinance No. 32 of 1946.

Sri Lanka Mahaweli Authority

Although the lands belonging to the Mahaweli Authority should have been alienated through tenders or auctions, or based on a sponsorship or selective foundation under the State Lands Ordinance, the lands were primarily alienated under the selective foundation. Accordingly, the alienation of lands by the Authority as of 31 December 2023, was as follows.

Basis	Extent of Alienated Lands (Hec.)	Extent of Alienated Lands (Parcels)	Number of Long-term Grants and Free Grants issued (Parcels)	Number of Grants to be issued further (Parcels)	Number of Grants to be issued further as a percentage %
Commercial	289	9398	953	8445	89
Himes	1261	12390	3369	9021	72
Investment projects	6534	797	204	593	74
Temples	906	564	162	402	71
Government institutions and others	9776	1586	390	1196	75
	18766	24735	5078	19657	79

Table No 2.32 : Land belongs to Mahaweli Authority alienated under the selective foundation.

As of 31 December 2023, lands totaling 18,766 hectares in 24,735 parcels were alienated for commercial, residential, and investment projects, as well as for temples and government institutions. However, the Sri Lanka Mahaweli Authority had failed to issue long-term grants and free grants for 19,657 parcels, representing 79 percent of the total.

Under the Land Development Ordinance, lands had primarily been alienated to individuals in the farming community through land kachcheries. As of 31 December 2023, the alienations were as follows.

Basis	Extent of Alienated Lands (Hec.)	Extent of Alienated Lands (Parcels)	Number of Grants Issued (Parcels)	Number of Grants to be issued further (Parcels)	Number of Grants to be issued further as a percentage %
------------	-----------	----------	-------------	-------------	-------------------
Terrestrial	51387	201324	125912	75412	37
Irrigated	93438	101251	75008	26243	25
Rain-fed	13018	12954	3707	9247	71
	157843	315529	204627	110902	35

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Table No 2.33 : Under the Land Development Ordinance, lands had primarily been alienated to individuals in the farming community through land kachcheries

As of 31 December 2023, lands totaling 157,843 hectares or 315,529 parcels were alienated as terrestrial, irrigated, and rain-fed lands. However, the Sri Lanka Mahaweli Authority had failed to issue Grants for 110,902 parcels, representing 35 percent of the total.

Alienation of lands for public interests

Lands had been alienated deviating from the provisions of the Land Development Ordinance based on personal lists of the President and Ministers under the provision of public interest. According to the audit test checks , 395 individuals in the C zone and 91 individuals in the E zone were selected for land alienation on a selective basis from 1998 to 2022.

Alienation of lands for investment projects

There was no national policy for the alienation of lands for investment projects in the Mahaweli areas. Instead, land alienations had been conducted in accordance with the general laws related to land and the internal circulars of the Sri Lanka Mahaweli Authority, in terms of the powers vested by the Sri Lanka Mahaweli Authority Act No. 23 of 1979. Without obtaining a government valuation, taxes were levied based on rough estimates for lands totaling 229.3 hectares that were alienated for 186 investment projects in seven zones for which the audit received information. Although a period of 2 to 34 years had passed since these lands were leased, no efforts were made to obtain a government valuation. Although 6 to 13 years had elapsed on 10th of May 2024 since the expiry of the lease period for 421.22 hectares of land, which had been leased by the Authority for 30 years across five zones, no action had been taken to renew or terminate those lease agreements. Additionally, 85.42 hectares of land alienated for investment projects in the Zone C had been unlawfully transferred.

Undeveloped lands

According to the Cabinet Decision No: අමප /12/0581/508/013 dated 12 June 2012, a total of 1,000 acres from the Siddhapura and Muthuwella farms, with 500 acres from each, was leased to a private agribusiness company for animal husbandry activities for 30 years, starting from 02.11.2008, under a long-term lease. However, due to the failure to develop the land allocated for animal husbandry, the long-term lease was canceled on 29 September 2021. The Authority did not have a specific plan regarding the development and re-leasing of the land. A total of 400 acres from this land was leased to 16 other investors for short-term crop cultivation; however, out of the 16 investors, 9 had not paid the annual lease fees and had also failed to develop the land as agreed.

Levying taxes that less than the due amount

Under the agricultural project, 100 **acres** from the Aluthwewa unit of Dammninna Division in the Zone B, were leased to a company for coconut cultivation on a long-term basis starting from 13 December 1983, for a period of 30 years. Although the lease period ended on 14 December 2013, the lease was not renewed. However, a total sum of Rs. 80,330 was collected from the company, with Rs. 7,302 per year from 2013 to 2017 and Rs. 8,764 per year from 2018 to 2021 for the 100 acres. However, since the lease period for this land ended in 2013, another institution has been requesting a long-term lease for this land since that year. According to the government valuation obtained during this process, the 100 acres of coconut cultivation were valued at Rs. 15 million as of 12 December 2013, as reported by the Valuation Department. When calculation is made based on that valuation, the Authority should have charged a total of Rs. 5.88 million, with Rs.0.6 million per year from 2014 to 2018 (a total of LKR 3 million) and a total of Rs. 2.88 million, with Rs. 0.72 million per year from 2019 to 2022. However, only Rs. 80,330 was collected by the Authority.

Kotmale Holiday Resort

The Kotmale Holiday Resort, which includes the main building, sports complex, swimming pool, and 15 residential buildings situated on a 1.7176-hectare plot**,** was handed over to a private party under a management agreement on 25

November 2013, outside the standard procedures followed for leasing land and buildings to external investors. Although the holiday resort was handed over for a period of 10 years from November 2013 under a monthly management fee of Rs. 0.3 million, the approval from the Board of Directors and the process for determining the management fee were not presented for audit. The Authority had failed to collect the outstanding management fee for this holiday resort amounted to Rs. 5.1 million as at 30 November 2022 up to the date of audit on 22 March 2024**.** Although the parties agreed that the monthly management fee of Rs. 0.3 million would be increased after 05 years, according to the terms of the management agreement, no action was taken to increase this fee after 25 November 2018.

Digana Village Resort

The Digana Village Resort owned by the Authority, located on a 7-acre plot within Digana village, was handed over to a private company on 01 June 1993, through a Memorandum of Understanding. However, the expected benefits from this investment were not received, and the lessee generated income by providing various event and accommodation services to external individuals and institutions for 20 years since 1993, without paying any amount to the Authority. As per calculations, the outstanding rental amount stands at Rs. 4.5 million**.** While the dispute between the two parties was resolved through court intervention, the premises were to be handed back to the Authority by 26 February 2023, but it had not been so done. As a result, case was again filed at the Teldeniya Magistrate's Court on 10 March 2023. The party occupying the property had vacated the premises since 26 February 2023, without formally returning the property to the Authority. By the date of audit on 22 March 2024, the area had become so overgrown with weeds and vegetation that it was impossible to access the premises, leading to significant deterioration of the property. However, no actions had been taken to assess the damage that occurred to the premises, nor to collect the losses from the responsible parties. Additionally, necessary measures to ensure adequate security for the premises and other properties had not been implemented.

Unauthorized cultivation within reserves

Approximately 4,700 hectares of land of the Authority situated within the jurisdiction of the Mayurapura had been designated as the Hambantota Elephant Management Area through Extraordinary Gazette No. 2222/62, issued on 09 April 2021.

However, within this land area, two individuals had unlawfully planted approximately 6,000 mango trees. Although instructions were given to complete legal actions to remove the unauthorized cultivators with the support of security forces by 31 August 2021, no such actions were taken. However, efforts were being made by officials to remove a neighboring unauthorized chena cultivation conducted by two other individuals in the vicinity of this illegal mango plantation.

Improper land usage

A land area of 20.2343 hectares in the Mayurapura division had been alienated to a private company for a soil excavation project in 2016. This company had extracted 66,012 cubic meters of soil from the relevant land from 20 December 2016 to 19 December 2017; however, the land usage fees amounting to Rs. 51.53 million receivable to the authority had not been recovered up to the date of audit on 19 March 2024. Furthermore, restoration activities on the land had not been carried out as agreed-upon.

Failure to rehabilitate extraction sites

According to Section 12 (d) of the Mahaweli Authority Act, the preservation and maintenance of the physical environment in specific areas are recognized as the primary responsibilities of the Authority. However, when issuing licenses for mineral extraction, the Authority had not enacted laws related to the restoration of the extraction sites. Prior to 2019, permits were granted for the large-scale extraction of stones, soil, and gravel from Mahaweli areas for the construction projects of the Southern Expressway. However, due to the lack of legal provisions for the restoration of these lands and the failure to inform extractors about environmental conservation, by the audit date of 20 May 2024, these extraction sites were left as unsafe, large water-filled pits without any restoration efforts.

Not collecting outstanding revenues when issuing mineral extraction permits

Due to the absence of a systematic procedure for issuing new licenses after collecting outstanding land usage fees for previous years during the extension of mineral extraction permits, and the disregard by responsible officials for the timely collection of these outstanding fees, the total outstanding land usage fees owed to the Authority amounted to Rs. 1,898.91 million by the end of 2019. According to the Cabinet decision No. අමප/20/1852/317/012 dated 14 December 2020, it was permitted to waive 75 percent of the outstanding land usage fees to be collected from stones entrepreneurs, and to collect the remaining amount in 36 installments. Accordingly, the total outstanding fee that could have been collected by the Authority related to the C, H, L, and Walawa zones amounted to Rs. 1,311.08 million. The grace period for the payment of remaining outstanding balance ended on 31 December 2023; however, an amount of Rs. 271.42 million from 57 extractors had not been collected even by 20 May 2024.

Establishment of public-private partnerships

Approval had been granted by the Cabinet decision No. අමප/18/2083/803/031, dated 18 September 2018 to restructure the Mahaweli Livestock and Agricultural (Pvt) Company, initiated with the Authority's resources, as a public-private partnership with an external investor selected by the Project Committee. Accordingly, the Board of Directors of the company had granted approval on 28 February 2022 to call for expressions of interest to operate the company as an integrated public-private partnership. Although the project reports from the investors were to be reviewed and suitable projects selected by 22 April 2024 according to the timeline of the expected tasks relevant to the restructuring, these activities were not carried out.

Companies that have not completed the liquidation process

Although the decision was made to liquidate two subsidiary companies of the Authority, Mahaweli Venture Capital (Pvt) Ltd. in 2012 and Natural Resources Management (Pvt) Ltd. in 2019, and the preliminary steps were taken, the liquidation processes had not been completed even by the end of the year under review.

Although the 0.213-hectare land and buildings located on Baseline Road, Dematagoda, which were being used by the Mahaweli Livestock and Agricultural (Pvt) Company, were handed back to the Sri Lanka Mahaweli Authority in 2020, the proper procedures for the handover and takeover of these assets were not carried out. In 2018, the Department of Valuation had assessed the land at Rs. 296 million and the buildings at Rs. 619 million. However, during a physical inspection on 15 May 2023, it was observed by the audit that almost all the buildings on the land were collapsed and destroyed, with no household furniture or equipment present. Despite this, no action had been taken regarding the matter up to 28 April 2024, the date of the audit.

Failure to levy charges for water released for production activities

One of the primary functions of the Authority is the planning and implementation of the Mahaweli River Development Project, which includes the construction and operation of reservoirs, irrigation distribution systems, and places for installation of power generation plants. Accordingly, water is stored and released from the Victoria, Randenigala, Rantambe, Kotmale, Bowatenna, Maduru Oya, Polgolla, and Udawalawa reservoirs for the purpose of power generation, and the Authority incurs significant expenses annually for the maintenance and operation of these reservoirs. However, in 2022 and 2023, a total of 11,042.07 million cubic meters and 9,210.85 million cubic meters of water, respectively, were released from these reservoirs for hydropower generation, producing 2,327.461 GWh and 1,845.758 GWh of electricity, respectively. Yet, no fees were charged by the Authority. In addition, significant quantities of water have been supplied to various enterprises from the rivers, reservoirs, lakes, and canal systems owned by the Authority. According information that could be collected by the audit, 133,113 cubic meters of water are released daily to 48 farm/field locations; however, there is no specific procedure in place for charging fees for this. In addition to the aforementioned hydropower plants, although the Authority does not regulate them, there are 65 small-scale hydropower plants operating within the Mahaweli Special Power Zone that should be charged a water resource management fee. However, no formal agreements had been established for this.

Construction of hanging electrical fences

The Sri Lanka Inventors Commission had been provided with advances amounting to Rs. 4.84 million, Rs. 9.23 million, and Rs. 8 million, respectively, for the construction of hanging electrical fences around the Aralagandiya, Kandekadu, and Singhapura areas in the Mahaweli B Zone, as well as around the Mahaweli Training Center in the C Zone. The Cabinet's approval was not secured for awarding contracts and making payments to one particular institution in this manner outside the provisions of the procurement guidelines. Due to the lack of verification from the Authority's technical department or any other party regarding the proper construction of these elephant fences, and the failure to present proper bills, the advances could not be settled.

Lack of water facilities for resettled populations

The resettlement activities of the people who lost their homes and properties due to the construction of the Moragahakanda Reservoir had been completed by November 2022. However, due to the failure to initially plan properly for the provision of water, a basic necessity for the resettled people, for drinking and other purposes, it was still required to supply water daily via bowsers for 47 families in Wellewela and 426 families in New Guruwela as of the date of audit on 28 April 2024. The Authority had spent Rs. 40.73 million in 2023 and Rs. 8.55 million from January to March 2024 for this purpose. However, by 28 April 2024, the date of audit, 161 resettled families in Nawaguruwela, Nawa Laggala, and Neeram Oya units had still not been provided with paddy lands, making it impossible for them to maintain their livelihoods. Due to this, both the project in its initial phase and later the Authority, from July 2022 until the audit date on 28 April 2024, had spent a total of Rs. 13.88 million to provide dry rations to the resettled people, with Rs. 4.45 million in 2022 and Rs. 9.43 million in 2023. Furthermore, as of 28 April 2024, there remained 181.5 acres identified for conversion into paddy fields, out of which 72 acres of forest land still needed to be fully cleared, and 87 acres were yet to be leveled.

The Authority, in collaboration with the Regional Development Bank, had implemented 3 small and medium-scale loan schemes aimed at improving the living standards of Mahaweli settlers. The Mahaweli Saviya loan scheme, which was initiated in 2010 with Rs. 72.75 million, had a balance of Rs. 82.02 million, including interest, as of 31 December 2023. Although a sum of Rs. 66.57 million had been disbursed as loans under this loan scheme by 31 November 2023, according to the signed Memorandum of Understanding, the Authority is not entitled to any portion of the interest charged by the bank on the loans. The Moragahakanda Athwela loan scheme, initiated in 2017 with a capital of Rs. 25 million, had disbursed Rs. 11.68 million to the settlers by 31 December 2023. The interest income from the undisbursed loans was also not added to the revolving fund. Although the Authority had provided Rs. 50 million to the Regional Development Bank under the Small and

Medium Enterprise Loan Program in 2006, by 31 December 2023, the Authority did not have any information regarding how much of that loan had been disbursed or the amount of interest accrued.

Water Resources Board

Construction of a data center building

An amount of Rs. 259.1 million, equivalent to €1,473,462, had been allocated for the construction of a data center building on a land belonging to the Urban Development Authority at Battaramulla and an additional contingent allocation of Rs. 329.8 million, equivalent to €1,875,447, was also designated for use in the data center. Out of this total value, a sum of Rs. 544.2 million, equivalent to €3,094,488, accounting for 15 percent of the total amount, was paid as an advance to the Dutch contractor. However, due to the lack of land ownership, the data center has not been constructed and the advance of €3,094,488 had become ineffective.

For the preparation of the draft amendment to the Water Resources Board Act, a sum of Rs. 0.645 million had been paid to a private lawyer and a law firm by the audit date. Although it had been 4 years since the need to amend the Act was identified, this task had not been completed.

Head office of the Board

The Divisional Secretary of Thimbirigasyaya informed the Board to obtain an annual lease license by paying a lease of Rs. 12.77 million annually since 2013 for the land on Hector Kobbekea Mawatha in Colombo 07, where the head office of the Water Resources Board has been located since 1978. However, due to a failure to act accordingly, the Divisional Secretary filed a case in the Colombo High Court in 2019. Later, while the Attorney General had instructed the Divisional Secretary of Thimbirigasyaya to reach an agreement regarding the possession of the land, the premises that had housed the main office for approximately 45 years had been given to use for the expansion of the official residence of the then Prime Minister without following the Attorney General's directives or obtaining approval from the Cabinet. From 18 July 2021 to 15 July 2022, the main office operated in a private rental building in Rajagiriya, and from 01 August 2022, it moved to a private building in Koswatta, Nawala. During the period from 2021 to

2023, a total of Rs. 30.51 million had been paid as the building rent.

Mining and Excavation

Sri Lanka is a country rich in natural mineral resources. It is indisputable that there are many opportunities to use these resources for development. The regulation and management of these resources are carried out by the Ministry of Industry and the institutions under its purview, such as Geological Survey and Mines Bureau, Lanka Mineral Sands Limited, Lanka Phosphate Limited, Kahatagaha Graphite Lanka Limited and GSMB Technical Services (Pvt) Ltd. operating under the purview of the Ministry of Environment. The matters discovered during the audit test checks conducted in these institutions in the year 2023 are mentioned below.

Audit Observations

Geological Survey and Mines Bureau

Non-Establishment of the Enterprise Resource Planning system

A sum of Rs.1.66 million had been spent in the year 2022 to establish an Enterprise Resource Planning (ERP) system for the Bureau. It was observed that 60 computers for a sum of Rs.20.39 million had been purchased on 21 February 2023 for the purpose of implementing the system proposed by the Bureau, but it had been decided refrain from implementing the procurement work on 20 February 2023. Due to this, the expenditure amounting to Rs. 1.66 million included in work in progress account had been uneconomical. Furthermore, 12 computers worth Rs. 4.08 million purchased had been stored idly in the warehouse even by 15 March 2024, the date of audit.

Not obtaining the Exploration licenses

The exploration license bearing No. EL/406 issued to Lanka Mineral Sands Limited for mineral exploration had expired on 30 December 2022 and the company had been given a period of 2 weeks to implement the procedures to further confirm the relevant exploration area. However, exploration license No. EL/434 had been issued to another private company to carry out exploration activities in an area of 07 grids included in the exploration license during the period from 09 October 2023 to 08 October 2025.

Conducting a Extensive Research on Apatite and Phosphate Minerals

It had been decided by the case No. SE(FR)884-99 dated 02 June 2000 of Bulankulama v. Secretary of the Ministry of Industries and others that entering into any agreement for phosphate mineral would be prohibited until a survey would be carried out for Phosphate Mineral in Sri Lanka by the Bureau. Apart from this, it was decided that the Bureau should carry out extensive research on apatite and other phosphate minerals in Sri Lanka and publish a report on the consultation of the National Science Foundation and National Academy of Sciences. Accordingly, the report of the survey carried out by the Bureau regarding the Eppawala phosphate deposit after 22 years had been published on 21 June 2023 through the official website of the Bureau and newspapers before receiving the recommendations of the National Science Foundation and the National Academy of Sciences. It had been stated in the observation report submitted by the National Science Foundation on 25 August 2023 that the Bureau had failed to properly perform the tasks ordered by the court and the National Science Foundation had not approved the survey report. Although the Bureau should publish the survey report after granting the approval by the National Science Foundation according to the judgement, and should issue export licenses, the Bureau had given export licenses to the phosphate exporters selected by the Lanka Phosphate Ltd. in contrary to that. Two private exporters had exported 7500 metric tons and 2350 metric tons on that basis.

Vacancies for Enforcement Officer

Although an enforcement unit had been established in the Bureau and 06 posts of enforcement officers were approved with the aim of raiding illegal mineral mining, processing, and trading, those raids were weakened due to non-recruitment of persons for 3 vacant posts even by the end of the year 2023.

Not formulation of a National Policy on Mineral Resources

According to the notification made by the Cabinet of Ministers on 22 May 2017, action had not been taken to formulate a national policy on mineral resources and to obtain the approval for that even by 16 July 2024, the date of the audit.

Lanka Mineral Sands Ltd.

Unused machine (Spiral Machine)

A land in extent of 17.69 hectares had been purchased for Rs.2.25 million on 13 February 2013 to construct a new plant at Kokilai in Mullaitivu district for the processing of mineral sand. A spiral machine was purchased for Rs. 39.34 million in the same year before planning the plant works, and the machine was kept idle in the Pulmude plant. Although 117 employees were recruited for the plant in 2015, the work of the project had not been started until the end of the year 2023 and those recruited persons had been employed to work at the Pulmude plant. According to the action plan of the year under review, it was aimed to produce 100,000 metric tons of ilmenite during the period of 2023-2026.

Paying Two Types of Incentives

A request had made from the Treasury on 02 August 2022 for the payment of an incentive based on Ilmenite production without mentioning the approved incentive that is paid based on the profit and the Director General of Public Enterprises had given approval for that on 29 November 2022. Accordingly, a sum of Rs.193.68 million had been paid as incentive on annual profit during the year under review and a sum of Rs.84.16 million had been paid as incentive on Ilmenite production.

Stopping of the Ilmenite production due to exceeding the warehouse capacity level

The company had 105,282 metric tons of mineral sand at the beginning of the year 2023, and the company had produced 111,286 metric tons of mineral sand in the year under review. Only 30 percent of mineral sand, out of that quantity, had been sold during the year. A stock of 187,951 metric tons of mineral sand with a value of Rs. 1,854.19 million had been kept in the warehouses of the plant. A quantity of 53,856 metric tons of Ilmenite, the major mineral product had been produced in the year 2023 and 78,287 metric tons were remained at the end of the year and the production of Ilmenite had to be stopped by May 2024 due to exceeding the warehouse capacity level.

Uneconomical Expenses Although the company had 13 of wheel loader machines, only 7 machines were utilized during the year under review and the remaining machines were not repaired and put to use. The 7 machines put to use had only been utilized for 17,343 hours during the year and 21 of the wheel loader machine operators were employed and a sum of Rs.20.37 million had been paid as wages, allowances and overtime pay in the year 2023. However, a loader machine hired at an hourly rate of Rs. 12,400 had also been utilized. The rate of Rs.9,500 per hour had been estimated when the contractor had been selected. However, the contract had been awarded at a rate, Rs.2,900 higher than that rate at the time of selecting the contractor. The machine taken on hire basis had been utilized for 817.9 hours from 17 November 2023 to 31 December 2023 and a sum of Rs.7.16 million had been paid to the supplier of the machine.

Unused Machines A sum of Rs.45.12 million had been paid to import a dryer machine on 30 June 2016 to save 50 percent of the fuel costs, and action had not been taken to put the machine into usable condition and to utilize it.

Unutilized Plants The company had purchased two mobile plants worth Rs. 264.78 million in November 2022 with the aim of increasing the quality of mineral sand that had been mined, and reducing unnecessary transportation and operating costs. Even though it had been planned to install one machine worth Rs. 159.35 million in the Poduwakattu project according to the action plan of the year 2023, it remained idle in the premises without installing it even by 30 April 2024.

Lanka Phosphate Limited

Unutilized Machines A crusher machine which had been purchased at a cost of Rs. 35.87 million in the year 2014 had been kept idle in the company premises without put it into any use and the retentions related thereto amounting to Rs. 4.39 million had remained unsettled since 2014.

Stopping the Project of manufacturing

Coconut Fertilizers

The production activities of the Wariyapola coconut fertilizer project, which was started in the year 2014 with a capital expenditure of Rs.21.23 million, had been stopped by 05 May 2021 and a loss of Rs.31.71 million had been incurred through the entire project.

Uneconomical Expenses

The company had purchased a unit of rubber bush used for mineral grinding machines at Rs.350 each from a local company and continued to use it for the machines until 14 September 2023, which was the date of audit. Two hundred (200) units of rubber bush had been imported on 17 December 2022, for a sum of Rs. 15.82 million at the rate of Rs. 79,082 per unit by indicating that the stock had been zero while 81 units of the relevant good had been available in the warehouse. Accordingly, the company had incurred a loss of Rs. 15.75 million by importing the relevant items, which could have been purchased at a minimum cost of Rs.70,000, at a very high value. The purchased stock had been kept unused in the warehouse even by 14 September 2023, the date of audit, and 198 units of connecting nails had also been received with it apart from the rubber bush at the time of purchase. Since the nails were not of any use to the relevant machine, they had been kept idle.

Informal Procurement

A gearbox accessory for TGM-160 Six Roller Grinding Machine of the company had been imported in 2022 from a heavy machinery dealer in China for Rs.4.8 million (US$ 13,000). According to the report of the technical evaluation committee dated 24 November 2021, it had been decided to purchase the relevant accessory from the said company as the supplier was the representative of supplying spare parts for TGM grinding machine in the South Asian region. However, a formal evaluation had not been carried out in relation to the competitive market prices of the accessory, specifications and competing suppliers. The accessory was received at the main warehouse of the institution on 10 May 2023. A committee consisted of the members of the company appointed in this regard had reported that the accessory could not be acceptable as there was a change in the model of the gear box accessory. However, it had not been possible to reach an agreement with the supplier on the action to be taken as the full price had been paid and agreement had not been entered into with the supplier in the purchase of the accessory.

Kahatagaha Graphite Lanka Limited

Issues in relation to Land ownership and unauthorized occupation in Official Quarters	Outsiders had filed lawsuits in the years of 2004 and 2007 respectively against the company claiming rights over two parcels of land totaling to 32.5 acres belonging to Kahatagaha mine. However, the legal proceedings had not been completed even by 31 May 2023, the date of audit. Eleven (11) people, including three people, who had worked in the mine, were living illegally in official quarters located in an area of 2 acres, 2 roods and 7 perches within the mine site, and even though action had been taken in the Ministry level to evict the illegal residents, the issue could not be resolved until 31 December 2023.
Not manufacturing Value added, finished or Semi-finished products	Although the laboratory of the company had been established with the aim of carrying out value addition processes for graphite mineral, any function related to that had not been carried out. Only the percentage of carbon contained in the graphite samples prepared for export had been measured at the laboratory. At present, the company was exporting graphite only in the form of flakes (Flake- 97-99 percent of carbon) and chips (Chips- 90-92 percent of carbon) and value-added, finished or semi-finished products were not manufactured.
Informal Transfers of Lands	According to the letter of the Secretary of the Ministry of Policy Formulation and Implementation dated 15 October 2003, it was decided at the meeting of the Board of Directors held on 16 October 2003 to provide the necessary space facilities for the Dodamgaslanda Youth Corps Training Centre from the lands belonging to the Kahatagaha mine. Even though the land had been released for a period of 03 years from the year 2003, the training centre has been conducted for 17 years beyond that period even by 2023. However, the company had not entered into a lease agreement and had not collected the rent.
Underground development works	Even though a second shaft had been established from the first 1130 feet level to the access of the 2000 feet level of the mine

and the preliminary work had been started a few years ago and provision amounting to Rs. 8 million had been made in the year 2023 for the purpose of underground development works, future action had not been taken in that regard.

GSMB Technical Services (Pvt) Ltd.

The Project of Kantale Sand Mining and River bank Conservation

The project was assigned to the company by Sri Lanka Mahaweli Authority in the year 2019 to remove sand deposit of 103,128 cubes deposited as a threat to the protective dam of the Mahaweli River in Suriyapura Grama Niladhari Division of Kantale Divisional Secretary's Division. The project that had been implemented accordingly had been stopped from 10 July 2022, and sand mining work had not been carried out thereafter from that project. However, a sum of Rs.4.773 million had been spent under the project on salaries, allowances, house rent, office expenses, travel expenses, etc. from 01 August 2022 to 31 December 2023. The company had planned to construct 03 erosion control barriers in the Mahaweli River under this project at a cost of Rs.168.25 million. One erosion control barrier, out of those 03 erosion barriers, had been constructed and the progress in the construction of the remaining 02 erosion control barriers had been 75 and 54 percent respectively and the contract period of the construction of these erosion control barriers had been exceeded.

Mutur Sand Project

The mining activities of the Mutur Sand Project, which had been implemented by the Company, had been stopped from April 2022. A sum of Rs. 1.57 million had been spent on salaries, allowances, fuel, electricity, house rent, etc. by the end of the year 2023 without carrying out any sand mining activities.

Excavation of the Calcite Deposit

It had been decided to carry out a project together with the Post Graduate Institute of Science of the University of Peradeniya with the aim of excavating the calcite deposit in Rajawaka Reserve in Balangoda Divisional Secretary's Division of Ratnapura District, and adding value and exporting calcite and using it locally. The project had been abandoned even though the Company had spent Rs.3.3 million by the end of the year 2023 for the payment of consultancy service fees, transportation, travel expenses, combined allowances and test fees, etc. to the Post Graduate Institute of Science.

Commencement of a sand sales centre

Six (06) employees had been attached from June 2023 to start a sand sales centre at Sirimangalapura of Kantale and a sum of Rs.1.76 million had been spent on salaries and wages, fuel, house rent, amenities, electricity etc. However, it had been decided to stop the project in January 2024, and therefore, the money spent had been idle.

Foreign Funded Projects

Twenty seven projects related to the water supply and sanitation services sector were being implemented under domestic and foreign loan assistance by the end of the year 2023 under the supervision and direction of the Ministry of Water Supply and Estate Infrastructure Development and the National Water Supply and Drainage Board. According to the agreements, the total financial value of those projects had been Rs. 763,564.47 million. By the end of 2023, the total financial progress of those projects had been Rs 476,942.93 million.

Inability to complete within the stipulated time and provide the required service to the relevant beneficiaries was observed as a common shortcoming in the implementation of these projects and out of the above projects, 19 projects were given time extensions from 02 to 08 times beyond the time required to be completed according to the agreements. Accordingly, although the project duration exceeded the expected period by approximately 1.5 to 7 years, it remained uncompleted at the end of the year 2023. The following figure shows the details regarding the delays in those 19 projects.

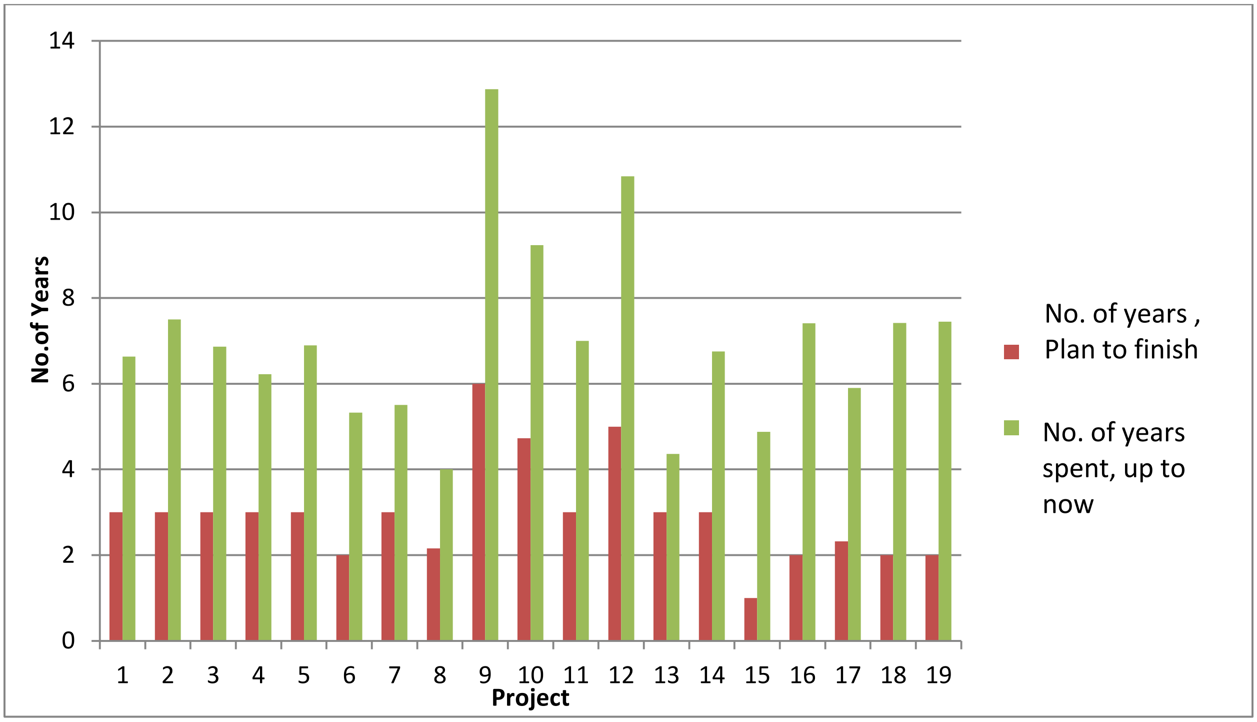

Table No. 2.47 Providing time extensions for projects
Source : National Water Supply and Drainage Board

Due to abnormal extension of project time as mentioned above it was observed that it had to face various adverse consequences as given in the following examples as well as inability to provide the required service to the people who are expecting benefits from those water supply projects and having to increase the water charges to cover the losses due to non-receipt of revenue to the Board on time, expenditure on consulting services in excess of the contractual value.

- The contract cost had increased by USD 3.46 million and Rs. 5,917 million compared to the initial contract cost of the Greater Colombo Water and Wastewater Management Improvement Investment Project Phase 01.
- Claims amounting to Rs.720 million had been made due to the delay in granting approval for design changes in the Ruwanwella Water Supply Project.
- The contractor had submitted a claim of Rs.1,304.69 million for the time extension of the Kandy Municipal Wastewater Management Project.

On the extension of the contract period for the design review and construction supervision consultancy service of the Ambathala Water Supply System Improvements and Energy Saving Project, the estimated cost of consultancy services had increased by Rs.159 million. Although the spread of the Covid-19 pandemic and the economic recession in the country were cited as the reasons for extending the duration of the projects, the dates for the completion of the above-mentioned 12 projects according to the original agreement were before the above-mentioned economic recession and the spread of Covid-19.

Due to the economic crisis in the country, after the government officially announced on 12 April 2022 that the repayment of loans for projects will be suspended, the payment of foreign loan installments of 31 projects was suspended. Accordingly, the Committee of Officers appointed on 28 October 2022, with the powers of re-strategizing and expediting large-scale development projects, had decided to complete 07 projects in 2022, to temporarily suspend 14 projects and to complete 10 projects in 2023.

Due to the above decisions, 14 projects which were in the final stage of construction had been stopped during construction. Due to the suspension of 05 projects cost at Rs.6,402 million which were subjected to audit test checks so, providing expected benefits to the people had been continuously delayed.

A price variation of Rs.16,750 million had been applied, for in relation to 24 of the above projects as at 31 December 2023 and out of this, a sum of Rs.13,631.4 million ad been paid in relation to price variations. Accordingly, the total of the price variations and demand values which are still under negotiation had been Rs. 3,118.5 million. Due to non-repayment of loans from the lending institutions after completion of construction within the stipulated time for 11 projects, a total amount of Rs.2,251.53 million had been paid by the Treasury to the relevant lending institutions from the beginning of the projects until 31 December 2023 and the country had not received any economic benefit from that expenditure. Further, even though the projects were not completed on the due date or were stopped in the during construction, the loan installments and interest payments related to those projects should have been made on the due dates. Accordingly, the people did not get the expected benefits related to 24 projects from the above mentioned projects and had to pay a total of Rs. 6,107 million as loan installments. Likewise, as mentioned above, it was also observed that the machinery and other assets purchased for the projects which have stopped during the construction are being idle or destroyed.

A few further observed deficiencies in the implementation of the above projects are mentioned below.

Water Supply and Sanitation Improvement Project

Comprehensive Strategic Plan	According to the Comprehensive Strategic Plan and Road Map published by the Ministry of Water Supply and Estate Infrastructure Development there had been no need for septage treatment plant for Monaragala, Kilinochchi and Mullaitivu, through the Water Supply and Sanitation Improvement Project during the period 2020-2030. However, the project had invested Rs. 345.53 million in the septage treatment plants in those Dstricts and was not operational from February 2023 due to non-completion of the access road to the septage treatment plant completed in Kilinochchi District.
Sanitation facilities of Beneficiaries with Special Needs	According to the Basic Action Plan of the Project, it was stipulated to construct 84 sanitary units for beneficiaries with special needs in Kegalle, Monaragala and Kilinochchi Districts at a cost of Rs.0.25 million each. However, by the end of the project period, only 48 units equivalent to 57 per cent had been built in Kegalle and Monaragala Districts and construction works had been suspended in Kilinochchi District.
Rideemaliyadda Rural Water Supply Project	The Rideemaliyadda Rural Water Supply Project, built in 2019 at a cost of Rs 26 million to distribute water to 250 beneficiaries, remained inactive for more than two years as the water condition was not at the expected level.

Urban Health and Sanitation Facility Improvement Project (Phase 1)

Non-related Expenses

An amount of Rs. 4.39 million had been spent as at 31 December 2023, for other purposes outside of the project objectives using the funds of this Project.

Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 01

Assets not included in the Asset Registers of the Board

Although it was stated that 14 Crew Cabs and 07 Double Cabs purchased under the Project were transferred to the Board, it was confirmed that 16 vehicles were given according to the asset records of the Board. Accordingly, the Management of the Project had failed to submit evidence to the audit about 5 vehicles totalling to Rs 28.46 million.

DMA meters being Inactive

This project was started with the aim of reducing the percentage of non-revenue water in the Northern and Eastern areas of Colombo city from 49 to 18 per cent and 36 DMA meters had been installed at cost o USD 383,710.2 , approximately Rs.115 million to obtain flow measurement data and monitor progress towards the target for implementation of managing non-revenue water. However, 31 of the above 36 DMA meters remained inactive as at 28 May 2024 the date of audit.

Failure of formally Handing over fixed assets

Even though the final bills of the contract have been paid to the contractors by completing the Project for two years, asset capitalization related to fixed assets valued at Rs 16,452.7 million had not been completed. Similarly, fixed assets have not been formally handed over to the National Water Supply and Drainage Board through the asset handover forms up to 31 August 2024. Further, although two years had passed since all the piped roads were handed over to the Colombo Municipal Council, actions had not been taken to recover the security deposit of Rs. 109.83 million kept in connection with the construction carried out by the Project.

Greater Colombo Water and Wastewater Management Improvement Investment Programme- 02 Projects

Being inactive of 23 DMA meters installed

Under the ICB 04 contract, 23 DMA meters valued at USD 246,337.80 (current value approximately Rs. 73.9 million) were installed to collect water flow measurement data for managing non-revenue water in 23 District Metering Areas (DMAs) in the southern part of Colombo city. However, it was observed during the audit conducted on 02 May 2024 that all the meters are faulty and some meters have been inoperative since 2021.

Displacement of a stock of Domestic Water Meters

A stock of 6,548 Ningbo type domestic water meters marked "NWS&DB" valued at Rs.51.36 million imported by the main contractor ICB 3 for project work was missing while in the contractor's custody. A number of 913 missing water meters so were found while being put up for sale in a private company.

Profit and Overhead Expenses

A sum of Rs.870 million had been paid to ICB 3 contractor for opening Letter of Credit (LC) for import of 122,500 domestic water meters and 100,000 gunmetal furrules for Water Supply Board in violation of project objective and a sum of Rs.113.56 million was included within that value as 15 per cent of contractor's profit and overheads. Further, water connection materials valued at Rs.1,657.87 million and chemicals valued at Rs.293.85 million had been procured through the main contractors of ICB 4 and ICB 3 for the use of the Water Supply Board by this project. However, the project had paid Rs. 254 million as contractors' profit and overheads (15%) in respect of the above supplies in violation of the main objective of the project.

Thelawala Training Centre

The Thelawala Training Center (CEWAS) was built under the Project Training and Development Capacity Enhancement proposal for Rs. 1,571 million so that it can be used not only for the internal needs of the Board but also for external activities on a commercial basis and its activities had been started from 16 December 2022 deploying the officers of the Board. About Rs.41.63 million had been spent in the year 2023 on its maintenance and the total income was Rs.27.28 million. Accordingly, the loss during that period was Rs. 14.35 million. Further , 337.5 square meters fully equipped office premises with equipment valued at Rs. 7.22 million , 2 computer labs of 74 square meters and 50 square meters, a library of 73 square meters and a 55 square meter gymnasium with pieces of exercise equipment valued at Rs. 4.1 million remained idle since its opening.

Achieving Goals

This project was started with the aim of reducing the percentage of non-revenue water to less than 18 per cent and effectively providing better water supply services. However, although 111 months had elapsed since the project started, only 25 out of 42 District Measurement Areas (DMA) had been fully completed and handed over to the Water Supply and Drainage Board. Due to this, it was not possible to confirm whether the desired goal was achieved. However, the government had paid Rs. 2,902.76 million loan repayments and Rs. 9.27 million and Rs. 295.86 million as bond charges and interest charges respectively as at 31 December 2023 .

Even though 2 years had elapsed beyond the revised completion date of the Project and up to the date of audit by 31 December 2023, fixed assets valued at Rs 14,599 million had not been handed over to the National Water Supply and Drainage Board.

Colombo Water and Wastewater Management Improvement Investment Programme Project – 03

Payment of Extension Fee

An amount of USD 385,759.65 million with Rs.345 million, US$. 1,637,367.61 along with Rs.89.7 million to ICB 01 and ICB 02 to contractors and Rs. 436.48 million to the ICB 3 contractor had been paid using project funds as prolongation cost based on the timelines given to the contractors by the Project without obtaining the approval of the project consultant.

Payment of Variable Claims

Although the Contractor has agreed that the Contractor shall not be entitled to claim any additional cost other than the Contract Value as per the Extensions of Time (EOT) documents steps had been taken to pay Rs.532.91 million and USD 3,046,465 for the contractor's variable claims by the Project in deviation from that condition.

Failure to do Final Material Reconciliation

Although the physical works of the ICB 01 and ICB 02 contracts of the project had been completed by 15 March 2022 and 21 May 2022 respectively, final bill payments had not been made even by May 2024 the date of audit. Also, although 2 years have passed since the completion of the two contracts, the final material reconciliation that should be done before settling the final bills has not been done according to Section 7.6 of the FIDIC conditions,

Ambathale Water Supply System Improvement and Energy Saving Project

Uneconomic Expenses

A sum of Rs.86 million was allocated under the ICB 3 contract, to construct a booster pumping station in Moragasmulla area to pump water to Moragasmulla water tank and the project was terminated when the Wwater Supply Board decided to supply water after the completion of 93.88 per cent of its construction work. The Moragasmulla water tank was pressurized by directly connecting the pipeline to the 1200 mm transmission pipe laid up to Maligakanda under ICB 03 contract. However, when this decision was taken, a total of Rs.66.5 million had been spent along with Rs.28.86 million for the price variation request.

Unfinished Construction

A contract valued at Rs. 129 million had been provided to a private contractor on 10 August 2021 for the construction of 6 employee quarters within a year. However, the Board had terminated the contract by mutual agreement with four extensions till September 2023 and remaining some work. A sum of Rs. 131.51 million had been paid to the contractor as per the final bill certificate value as at 11 September 2023 and of which a sum of Rs. 44.12 million had also been included as price variation payment. However, finishing works including tiling of the construction premises had remained even as at 10 July 2024, which was the date of audit. Accordingly, the project staff had failed to fully complete the construction within the awarded contract value.

Aluthgama, Mathugama, Agalawatta Integrated Water Supply Project

Not receiving expected water capacity	It was proposed to modernize the old Intake to ensure the water capacity of 78,500 cubic meters to be provided daily to the water treatment plant related to this Project and even though the contractor had been paid USD 7.2 million out of the estimated cost of USD 9.1 million, the renovation works were not completed and the new pumps installed could only have a water capacity of 57,000 cubic meters. The operation of the old Intake had been completely stopped by 02 February 2024 and the reasons such as defects in installation of new pumps, failure of controlling excessive vibrations in pumps had mainly affected to that.
Defects in New Pumps	Also, although it was planned to transmit the raw water from Kolemodara new Intake, which is 15.5 km away, to the Kethena water treatment plant only during the period of sea salt mixing. due to the defects in the new pumps in the old pump, raw water has to be pumped from time to time from the new pump to the refinery., the Board had to bear an additional electricity cost of Rs. 106 million only during the period when the pumps had been inactive and the Board had not taken steps to recover that cost from the contractor. Further, because the electricity generator installed at the cost of 490,000 USD in the old Dudumuwa premises was not of proper standard it was inactive before a year had passed and the Management of the Project had failed to take appropriate action before the expiry of the warranty period for its defects.
Sludge thickening Unit	The physical progress of the planned sludge thickening unit constructed instead of constructing a sludge tank at a low cost to match the capacity, at a cost estimate of USD 4,759,000 (currently Rs. 1,428 million) without proper supervision and review of the contractor's design plans, was only 90 per cent by 31 December 2023, and 98 per cent of the estimated amount had been paid to the contractor by that time. However, not even a single round of inspections had been carried out and the contractor had not provided the employee training programmes as per the contract.

Irrigation Sector

Name of the Project	Amount of Loan/Grant		Utilization on 31.12.2023			Progress as at 31.12.2023 (%)	
	USD Million	Rs. Million	Commenced year	USD Million	Rs. Million	Financial Progress	Physical Progress
Mahaweli Water Security Investment Programme (Government of Sri Lanka/Asian Development Bank) (MWSIP)	557.50	160,356	2015	368.16	92,849	57.90	45
Project on Strengthening the Resilience of Smallholder Farmers to in the Dry Zone to Climate Variability and Extreme Events Sri Lanka through an Integrated Water Management Approach (Green Climate Fund/United Nations Development Program) (CRIWMP)	52.08	10,416	2017	36.75	7,351	70.56	82
Integrated Water Aid and Water Resource Management Project (World Bank) (IWWRMP)	45.03	13,939	2021	10.31	3,215	23.07	38.6
Climate Resilience Multiphase Programme (CResMIPA)	93.00	18,600	2021	2.231	677.43	4.04	25.6
Pilot Project for Farm Land Redevelopment Study in Nachchiduwa Major Irrigation Project	93.00	156.	2020	0.0436	79.71	51.09	100

Strengthening Resilience of Subsistence farmers and Agricultural plantation communities residing in vulnerable river basins, watershed areas and downstream of the Knuckles Mountain Range (Green Climate Fund GCF Knuckels)	48.975	14,692	2023	0.0827	26.46	0.18	1
Uma Oya Multipurpose Development Project	514.06	89,748	2010	494.68	80,293	89.46	99.66

Table No.2.34 Irrigation Sector Projects

Mahaweli Water Security Investment Program- Phase 01

Minpe Anicut Heightening Contract

The contract for Heightening the Minipe Anicut with water control and measurement facilities for the left bank and right bank canals of Minipe was handed over to a foreign company on 05 January 2018 for a tax-free value of Rs.1,864.80 million It was supposed to end on 12 November 2020. Nevertheless, The contract period had been extended by 243 days up to 13 July 2021. Then this contract had been carried out for almost 02 years without having an extension and during this period, the construction progress of the contract was 22 per cent. It had been decided in the Meeting of Cabinet of Ministers held on 05 June 2023 to increase the value of this contract to Rs.2,912.85 million and to sign the revised agreement number 02 to have the remaining work done by the original contractor and to increase the contract period to 21 September 2023. Under this contract, it was planned to install a silt removal gate in the middle of the proposed Minpe Anicut , and it had become controversial that 134 days had been given to remove the work item after it was recognized that its installation would cause practical problems in later operation and maintenance of the gate.

Stopping the Construction of the canal

Despite the construction progress of the 6.225 km canal from Moragahakanda reservoir was 64 per cent the said contract was canceled on 13 July , 2021 due to the contractor being unable to continue the contract due to financial constraints. Due to a case filed by the contractor in an attempt to recover damages by encashing the contractor's performance security, The money could not be recovered. Accordingly, a sum of Rs.185.89 million from the advance security and the performance security valued at Rs.390.51 million could not be recovered up to now.

Construction of North Western Canal

Although the contract related to the construction of the canal of 17+050 km from Nabadagahawatta to Mahakitula entrance tunnel on the North-West Canal should be completed during 2018-2021, the contract period had been extended on 04 occasions till December 05, 2023 due to a delay of 2 ½ years in taking over the plots of land in the construction areas and settling the ownership of the land and handing it over. There, the contract was delayed for a long time, unable to construct 355 meters of the canal due to an issue related to compensation for 03 landowners. Due to this delay, the contract, which had been awarded for Rs 7,226.62 million inclusive of VAT, had increased by Rs 7,928.12 million, equivalent to 110 per cent, to Rs 15,154.74 million.. The Rs.162 million which was allocated for price variation had been increased to Rs. 5,827.7 million stating that the increase in the cost of construction materials due to the economic and financial recession from the year 2022. Although Rs 540 million has been allocated for additional works and quantity changes in the contract it had been increased to Rs.2,024.9 million from Rs. 1,484.9 million. There, the canal, which was planned to be made open to 13 meters wide, was later decided by the consultant company to be made into 02 canals with a width of 10 meters and closed with concrete and due to change of plans accordingly an additional 45,425 cubic meters of concrete was used and an additional amount of Rs 1,245.54 million had to be spent. Here, the design expertise of the consulting firm was challenged.

Planning and Providing Consulting Services

The Head of the team appointed by the Asian Development Bank for Technical Assistance (PPTA) for the preparation of this program later joined the service of the consulting company of this programme and is working as Team Leader & Chief Design Engineer of the Project for a period of 07 years. For that, a monthly salary of 26,000 euros (Rs. 8.5 million) was being paid and Rs. 702.18 million had been paid as wages by June 2023. The independence of programme oversight was challenged by the employment of a person who assisted in a number of programme preparation tasks on behalf of the Asian Development Bank in the program's consulting firm. Obtaining the services of this consultant was also contrary to Paragraph 1.11 of the manual for the use of consultants issued by the Asian Development Bank in 2013.

Payment of consultancy fees on time basis

Although consultancy fees are to be paid on the basis of performance in construction contracts, An agreement had been entered into with a local consulting firm for a period of 60 months from 16 November 2015 for a value of USD 22.09 million for payment of time-based consultancy fees. Due to the delay in the construction works, due to the extension of the project period, due to having to pay the consultancy fees based on this extended period, the contract agreement was extended on 06 occasions till 30 June 2024 and the cost had been increased to 41.56 million US dollars. As the Asian Development Bank had allocated USD 25.93 million to pay consultancy fees for Phase 01 and 02, The increased consultant fees had to be paid from the amount allocated for other expenses.

Domestic and Foreign Consultancy Services Expenses

At the beginning of the project, 34 foreigners were recruited for consultancy works and at present 08 foreigners were working. A foreign national was being paid a salary ranging from 16,000 to 26,000 Euros (Rs. 5.5 million to Rs. 9 million) per month and subsistence allowances ranging from 110 to 70 Euros per day. Salaries of 12,843,998 Euros (Rs. 4,341 million) and subsistence allowances of 1,068,599 Euros (Rs. 361.18 million) had been paid to these foreign persons as at 30 June 2023. The foreign consulting company had recruited 161 local employees through its 02 affiliated local companies For the work of the project and So far, 110 people have been working. In addition to this staff, consultancy fees were being paid on a time basis for a staff of 48 working in the Colombo Project Office and 08 worksite offices located in the contract areas.

Other expenses incurred by the Consulting Company

In addition to that, 14 vehicles and 03 motorcycles belonging to the project were given to the consulting company and a sum of Rs. 67 million for their operations and maintenance as at 30 June 2023, Rs.9.65 million for modernizing the Head Office of the consultancy company, Rs. 13.47 million for setting up offices belonging to the consultancy company and Rs.84.83 million for their maintenance had been paid as at 30 June 2023 .

Recruiting Consultants contrary to Guidelines

The selected consultant shall not be re-appointed for consultancy work if he/she has previously executed other contracts (e.g. preparation of design plans, environmental assessments) in relation to the relevant project according to Paragraphs 1.11 (b) and (c) of the Guidelines for the Engagement of Consultants by the Asian Development Bank and its Borrowers issued in 2013 and persons having family and business relations with the employees of the Asian Development Bank and borrowing institutions should also not be contributed to the consultancy activities. Nevertheless, in this program, a company which prepared the design plans, environmental assessment reports, feasibility study reports and modification reports for the construction of North Central and North West canals and Minipe canal rehabilitation projects and received a sum of Rs. 102.98 million through a state-owned company for that, has been working later as the Sri Lanka representative company of the main consultant company of this programme since 2015. Further, the main staff of this company consisted of retired officers from the borrower's Ministry of Irrigation and its subordinate institutions.

Construction of Mahakitula Tunnel, Mahakitula and Mahakirula Reservoirs and Canals

Due to lack of suitable staff and construction equipment for construction work, poor site management the company that has undertaken to build Mahakitula Tunnel, Mahakitula and Mahakirula Reservoirs 02 and the canal construction contract between these 02 reservoirs during the period 2020-2024 at a vcoct of Rs.9,978.48 million was not possible to maintain the construction progress as planned. As a result, the contract was cancelled on 26 May 2023 and, the construction progress was 2.97 per cent at that time.The Timber Corporation had cut down 47,552 trees in a 778-acre forest area for the construction of the Mahakitula and Mahakirula Reservoirs and the development of the Mahadamber Reservoir located in between.

By the time the contract was cancelled, 1.5 per cent of the work on the dam had been completed by constructing the foundations and putting clay to prepare the embankment of Mahakitula Reservoir and a sum of Rs. 58.2 million had been spent for that. A sum of Rs. 139 million had been spent as consultancy expenses for the supervision of the said construction.

Mahaweli Water Security Investment Programme - Phase 02

Construction of 277 km long Tunnel

The Department of Wildlife Conservation had informed during the construction of above Tunnel Canal, that the construction of the canal within the Minneriya-Giritale Nature Reserve, Sigiriya Sanctuary, Minneriya National Park and Hurulu Lake Reserve should be done using Cut & Cover, double Conduit or tunnel methods only. Here, the method of digging using 02 tunnel boring machines, which was a high-cost method, was chosen as the technically suitable, nationally effective, and environmentally least impact method.

01st Tunnel Excavator

The contractor was paid the total amount of Rs.6,690.97 million for the installation of the 01st tunnel boring machine imported from China and transported to the work site and , its cost had been Rs 2,155.97 million by the time the tunnel boring machine came out of the Trincomalee port. Accordingly, the fact that the machine was transported from Trincomalee to Namalpura and assembled and payment of a huge sum of Rs. 4,535 million for the contractor's profit had led to controversy during the audit.

2nd Tunnel Excavator

The Technology Appraisal Committee appointed by the Director General of the Department of Public Finance did not recommend the deployment of a 02nd Tunnel Excavator and despite the Special Technology Evaluation Committee appointed by the Secretary of the Ministry has recommended that the feasibility of the proposal is questionable and investment of additional funds for the contract cannot be justified, the recommendation was received to deploy a 2nd tunneling machine by a reappointed Special Technical Evaluation Committee. Agreeing to pay a total amount of Rs.6,690.97 million to the contractor for the installation of the 02nd tunneling machine imported from China and transported to the work site, a sum of Rs.6,021.87 million thereof had been paid by 15 March 2024. A sum of Rs. 3,635.61 million had been spent by the time the tunneling machine came out of Trincomalee port. Accordingly, the payment of Rs 3,055.36 million for the transportation from Trincomalee to Konduruwa and assembling and for the contractor's profit had raised controversy during the audit.

Lack of a plan for the construction of the remaining 68.3 km of the canal

As it has been planned by now to complete only the 27.7 km tunnel of the North Central Provincial Canal, which runs 96 km from Moragahakanda Reservoir to Kandara Oya by the time the programme ends in 2025, no specific plan for constructing the remaining 68.3 km canal and reaping its benefits was available up to the date of audit. Under this project, although the Anuradhapura North Water Supply Project under the estimated allocation of Rs 11,515 million has been started with the loan assistance of the Japan International Cooperation Agency and its work is about to being completed, to supply drinking water to Rambewa, Medawachchiya by using the water received from Mahakanadarava Reservoir through the construction of the North Central Provincial Canal, because the North Central Province Canal Project was not implemented within the stipulated time, this drinking water project was at a level that could not be implemented.

Integrated Water Aid and Water Resource Management Project

Reduction of Project Allocation

The Cabinet of Ministers had decided in the year under review, to reduce the amount of USD 75.03 million to USD 35.03 million by USD 40 million. Accordingly, it had been decided to cancel the USD 25 million agreed to be given to the project by the

International Development Association of the World Bank, and to remove another USD 10 million from the project works and to approve the District coordination and committee approval of irrigation in the 25 Districts, Mahaweli, Northern and Eastern Provincial Irrigation Department and to rehabilitate medium-scale irrigation through community-based organizations and to cancel the amount of USD 5 million s that the Sri Lankan government would use for the project.

Construction of Ampara Senanayake Riprap and Road

A contract valued at Rs. 532.85 million (excluding tax) was awarded on 28 December 2022 for the improvement of the existing road on the riprap and tank embankment of the Ampara Senanayake Samudra owned by the Irrigation Department. It had been advertised in the media that low-quality granite was used in the preparation of the riprap and high-quality granite was applied on its surface. In this connection, the project had conducted an investigation and it was found that 282 cubes of two types of granite, which had been transported to the work site for the preparation of riprap , were of substandard quality. Steps had been taken to get the contractor to remove them from the work site and remove the sub-standard stones used for the riprap and repair them again. Irrigation officials had also identified that the contractor had used substandard granite at some places in riprap.

Installation of Permanent Heavy Lifting Machines

An allocation of Rs.805 million had been allocated from the project to install 02 permanent weight lifting machines for 02 Polgolla and Udawalawa Reservoirs belonging to the Mahaweli Authority. Although 02 contracts were awarded for an amount of Rs.797.61 million on 08 April 2022, after 07 months of calling for tenders for this purpose, the contractor had later agreed to carry out these 2 contracts for Rs. 1,248.37 million due to the unwillingness of the contractor to execute the contract at the price previously offered and he had to pay higher prices for the imported raw materials due to the depreciation of the rupee. Accordingly, it was agreed through the agreements to pay Rs. 450.76 million more than the previous price and carry out the contract and, the construction progress of the heavy lifting machine for the Udawalawa Reservoir was 33 per cent and the construction progress of the heavy lifting machine for the Polgolla Reservoir was 37 per cent by the end of 2023 .

Installation of Automatic Geodetic Measurement System for Movement Monitoring

A contract had been awarded to a foreign company for USD 1.75 million (Rs 629.92 million) in the year 2022 to install an Automatic Geodetic Measurement System for Monitoring the movements of the Kotmale and Randenigala Reservoir Dams. The contract was awarded 11 months after the quotation was called and the contract was cancelled by the Mahaweli Authority on 24 February 2023 as the contractor did not accept the contract at the original price. Actions had not been taken to fulfill the contract even in the year 2023 .

Kalavewa Left Bank Canal Gates Repair

A contract to repair the gates of the Kalawewa Left Bank Canal belonging to the Mahaweli Authority was awarded on 24 January , 2022 at a tax-free value of Rs 153.99 million and the contract had to be completed on 23 January 2023. The construction progress was 39 per cent even by the end of 2023 and, the contract had been extended up to 30 July 2024 on 03 occasions. Due to the delay in the contract, the price variation had increased to Rs.28.18 million and thus the amount allocated for it was Rs. 13.99 million , a sum of 14.19 million had to be spent exceeding the limit.

Payment for Price Variation

The contract for the rehabilitation of Muthyankaddu South Bank Canal Phase 02 belonging to Mullaitivu District and the contract for the rehabilitation of the lower valley under the Pyramanthalaru Irrigation Scheme belonging to Kilinochchi District had been awarded in the year 2021.

Nevertheless, by having to extend the contract period to 2024 and 2023 respectively, the price variances for the contracts had increased to Rs 49.13 million and Rs 8.01 million respectively. The works to be performed under the contracts were reduced by Rs 33.85 million and Rs 7.02 million to pay for that increase.

Umaoya Multipurpose Development Project

The Ministry of Irrigation and Water Management of Sri Lanka and the Farab Company of Iran had entered into a contract agreement on 28 April 2008 under the Engineering, Procurement and Construction (EPC) contract system with the main objective of annually diverting 145 million cubic meters of water from the Uma Oya Basin to the Kirindioya Basin in the southern region suffering from water shortage. The revised total cost estimate was USD 529.06 million equivalent to Rs. 74,325.75 million. The project was initially expected to be completed in 07 years that is on 15 November 2015 after commencing in 2008. A sum of USD 504.05 million had been paid as as at 31 December 2023 certifying the capital works of the said project.

Financing of Project

A contract had been entered into on 27 November 2007 after the decision of Cabinet of Ministers to select the contractor without calling for competitive bids, subject to financing for the project by the Export Development Bank of Iran. Due to the suspension of the loan granted by the Export Development Bank of Iran due to the economic sanctions imposed on Iran in the year 2013, after financing USD 50 million or Rs.6,522.85 million under the foreign loan agreement, , the cost of this project amounted to USD 453.91 million equivalent to Rs.67,737.73 million had been financed by Government of Sri Lankan funds by 31 December 2023 .In deciding whether to proceed with this project through domestic funds, the Cabinet was not informed of the competitive advantages that the Government of Sri Lanka could have gained by inviting international competitive bids

Delays in Projects

The project was scheduled to be completed in 7 years that is on 15 November 2015 and , the delay period was 8 years and one month by 31 December 2023. It was estimated that no more than Rs.55 million will be saved for the Blectricity Board per day by adding 120 MW of electricity to the power generation system which was the expected benefits of the project. Accordingly, the loss caused by delaying the project for 8 years was Rs. 162,250 million. Due to this delay, the benefits such as provision of irrigation water for 4,500 hectares of new land and 1,500 hectares of land under cultivation in Wellawaya and Thanamalvila Divisional Secretariat Divisions of Monaragala District, provision of 30 million cubic meters of water for drinking and industries annually, provision of drinking water needs in Bandarawela and Atampitiya areas of Badulla District could not be gained.

Charging of Delay Charges from the Contractor

The attention had not been drawn on the loss incurred by the employer, the Republic of Sri Lanka, due to non-receipt of expected benefits during the said delay and about the ability to calculate the relevant periodic costs and recover them from the contractor as per the terms of the EPC Contract Agreement. Although 71 cabinet memorandum related to the Project had been submitted, the Cabinet of Ministers was not informed in any case that 0.01 per cent of the contract value up to a maximum of 5 per cent that is, USD 26.45 million can be charged in terms of Section 8.7 of the Contract Agreement. Only USD 6.63 million had been collected as the delay charges and USD 5.3 million had been refunded to the contractor as per the decision of the Cabinet of Ministers.

Extension of contract period without considering Finance Minister's observations

The Memorandum of Cabinet of Ministers had been submitted by the Minister of Irrigation on 08 January 2023 to extend the contract period of this project suggesting that the project completion date would be 30 June 2023. For that, the approval was given subject to the observation dated 16 January 2023 submitted by the Minister of Finance and the Finance Minister had proposed that due to the continuous delay of the Project, as every day of delay the national grid cannot add 120MW of power daily, since the Ceylon Electricity Board has to spend an additional Rs. 100 million per day to purchase electricity from external parties, if the contractor fails to complete the project by 30 June 2023, the project extension agreement should be prepared so that proper compensation can be obtained from the contractor for every day after 30 June 2023 . Nevertheless, without preparing the agreement accordingly, the project had been implemented ignoring the decision of the Cabinet of Ministers and extending the Project period. Further, As per the decisions of the Cabinet, as it was stipulated that the work of the Project should be completed within the extended period without any additional cost to the government, due to the extension of time in accordance with the provisions of the EPC contract agreement, although it had to inform the contractor that, the costs incurred shall be borne by the contractor and opportunity l costs arising due to non-completion of the project on the due date shall be recovered, it had not been so done.

Requests for Extension Costs by the Contractor

A sum of USD 105.16 million had been requested for 8 reasons related to extension of time by the second claim bill submitted by the contractor in July 2023. Within that, the personnel cost is USD 56.15 million and the cost of machinery is USD 4.56 million for the extended period from December 2020 to July 2023, USD 10.4 million as personnel cost and USD 0.4 million as machinery cost for the extended period from 21 March 2020 to 15 June 2020 had included. There, the contract administration was conducted without considering the restrictions imposed by the FIDIC International Agreement Terms and limits enacted by the Cabinet of Ministers and the information about this claim or the recovery of delay charges from the contractor had not been mentioned in the said Memorandum.

Requesting Contractor's Delay Charges claim

The contractor had claimed a delay charge of USD 181.34 from the employer government as the contractor's delay charge claim for delays in the project. The Cabinet of Ministers had appointed a negotiation committee consisting of 7 officers to look into this matter and make recommendations, and instead of the delay charge calculated and presented by the contractor of this project, the said Committee had recommended a delay charge of USD19.52 million. In addition to the said delay charge entitlement, an additional charge of USD19.09 million was also recommended to be paid by the Cabinet of Ministers on compassionate grounds for financial constraints faced by the contractor due to economic sanctions and other difficulties imposed by the Government of Iran. Accordingly, the Committee had recommended and interpreted the amount recommended to be considered on the basis of delay charge and compassionate grounds to pay USD 38.62 million as delay charges.

Payment of Additional Fees

By not including officials involved in the process from the beginning of this Project and having a full understanding of it, and by proposing to appoint a group of officials who were not directly involved in the project for the Consensus Negotiation Committee, the Committee has not communicated sufficiently with the essential parties, despite the work of the Project has been delayed for a period equal to the initial contractual period, no consideration has been given to the possibility of recovery of the loss incurred to the Republic of Sri Lanka and the related opportunity costs as per the terms of the EPC contract agreement, even though the condition of "completing all constructions within the extended period and formally handing over the project to the government" was imposed during the extension of the contract period, the condition was not considered, non-specific and unprofessional recommendations had been included to pay an additional fee of USD 19.09 million on the recommendation of the Cabinet of Ministers on compassionate grounds on the Committee's recommendation.

Payment of Delay Charges and Additional Charges

The approval of the Cabinet of Ministers had been received on 01 November 2021 and the Ceylon Electricity Board had paid USD 7.43 million in the year 2022 and USD 11.52 million in the year 2023 from the first 50 per cent installment of USD 19.31 million totaling to USD 18.96 million on the basis of first payment of only 50 per cent installment on the said approval and the balance after completion of the contractor's warranty period.

To extend 250 meters of the existing old road in Badulla, Welimada road, this was a prerequisite for the construction of the Puhulpola dam, which was included in the original design of the project’s replacement road, the contractor had consented to approve the estimate of Rs 133.47 million submitted by the Road Development Authority and deduct it from their invoices and pay excluding to his scope of work. Accordingly, although the road was planned to be handed over to the Road Development Authority to prepare it, the road was not prepared and an estimate of USD 1.51 million and Rs.1.32 million had been paid for the preparation of the access road and the new road at the Puhul Pola dam work site.

Compensation for Water Leakage

The contractor had received an compensation of USD 5 million from the respective insurance company as compensation for water leakage in the main tunnel of the project. The contractor had paid Rs.1,931.34 million in government money for the compensation to be paid to the victim parties as at 31 August 2021 and even though the Committee on Public Accounts had ordered on 22 May 2019 that the compensation paid by the government should be recovered from the contractor, out of which a sum of Rs. 1,124.62 million had not been collected even by the date of audit. The contractor company had made a request to refund the amount recovered from them. Furthermore, the company had requested the Project to provide the compensation paid to the affected people and the cost of USD 6.11 million spent by the company for providing drinking water.

With the completion of the construction work of the Uma Oya Multipurpose Project at a cost of USD 514 on 31 March 2024 although the Project Management Unit should hand over its operations to the Ceylon Electricity Board and Sri Lanka Mahaweli Authority, which maintain the project, and the assets and documents as well by the decision of the Cabinet of Ministers for the Cabinet Memorandum No. AMA/24/0044/623/002 submitted by the Minister of Irrigation on 05 February 2024, actions had not been taken to take over the relevant assets and documents by the Project Management Unit from the Farab Company and to hand over the to the relevant institutions .
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Health Sector

Name of the Project	Loan/Assistance		Commencing Year	Utilization as at 31.12.2023		Progress as at 31.12.2023 (%)
	US $ million	**Rs. million**		**US $ million**	**Rs. million**	**Financial Progress**
Health System Enhancement Project	Loan 37.5	6,937.50	2018	23.24	5,068.62	73
	Assistance 12.5	2,312.50	-Do-	6.28	1,329.68	57
	Domestic 10.00	1,850.00	-Do-	2.09	452.58	24
Health System Enhancement Project – Assitional Financing	Loan 110	21,975.00	2021	37.29	10,725.03	49
	Assistance 03	598.50	-Do-	Nil	Nil	0
	Domestic 10	1,995.	-Do-	0.21	69.99	3
COVID-19 Emergency Response and Health Systems Preparedness Project and Second Additional Financing for COVID-19 Emergency Response and Health Systems Preparedness Project	Loan 209.11	41,717.45	2020	215.39	42,466.35	102

COVID-19 Emergency Response and Health Systems Preparedness Project - Third Additional Financing	Loan 100 Revision 86.76	21000 Revision 18219.60	2021	86.76	18,219.60	100
Health System Response Project	Loan 100.00	35,000.00	2022	15.34	5,536.54	16
primary health care serve empowerment project - Component i	Loan 50.845	8,030.46	2019	18.9	2,993.	37
primary health care serve empowerment project - Component ii	Loan 14.22 Revision 5.22	2,590.74 951.03	2019	3.05	653.27	69
	Domestic 11.85 Revision 8.48	2,370.00 1,838.43	-Do-	-	25	1.4
Health and Medical Services Enhancement Project	Loan (Japanese Yen) 10,639	15,915	2018	243.10 (Japanese Yen)	437.19	2.7
	Domestic	713	-Do-		107.23	15

Health System Response Project

Renting a building for the Health Systems Response Project office

Contrary to the terms and specifications outlined in the tender documents, a condition had been specified that a two-month security deposit and a one-year upfront payment are required. Accordingly, although this tender should have been rejected, it was accepted against this requirement, and an amount of Rs. 6 million was paid as upfront payment, along with a security deposit of Rs. 1 million to the selected bidder. Therefore, this payment is considered an illegal transaction, and it is observed that the total amount of Rs. 7 million paid should be recovered in full as a lump sum.

Although the tender documents specified a requirement of 2,500 square feet, a space of approximately 5,000 square feet was obtained from the bidder at a higher price, with observations indicating that the entire ground floor of the building remains significantly underutilized.

Procurement of 3 million meters of surgical gauze

According to Cabinet Decision No. CP/12/1602/509/005-11 dated 05 December 2012, the annual requirement of surgical gauze for government hospitals was to be procured from local manufacturers with the aim of protecting local industries. Approval was granted to supply gauze based on an annual quota system to manufacturers registered with the Medical Supplies Division. However, in 2022, the Medical Supplies Division had taken steps to import and purchase 03 million meters of surgical gauze valued at Rs. 268,500,000 through the Health System Enhancement Project (HSEP).

Accordingly, in order to maintain a three-month buffer stock, approval was granted to obtain 3 million meters of gauze, to call for bids by reducing the tender quantity to 3 million meters due to the Project Procurement Committee’s inability to conduct procurements exceeding Rs. 500 million, and to award the order for 3 million meters of gauze to the sole bidder, Pvt Company by indicating it as an urgent requirement of the Medical Supplies Division during the Project Procurement Committee meeting held on November 21, 2022, with the participation of the Acting Director of Medical Supplies. It was observed that, at that time, there was no urgent need for the Medical Supplies Division to purchase gauze at a higher price. By the time the order was placed, local suppliers had already provided the Medical Supplies Division with a total of 3,635,700 meters of gauze, and approximately 8 million meters of gauze had been received and issued between September and December 2022.

The supplier from whom the order was received was a local supplier providing gauze at Rs. 74.96 under the quota system of the Medical Supplies Division. It was noted that this supplier had submitted a bid to provide gauze imported from India at a rate of Rs. 89.50 per meter. However, the Health System Improvement Project had not confirmed whether this stock was genuinely obtained from the Indian manufacturer or was produced locally.

Health System Enhancement Project

Provision and installation of a public addressing system for health promotion vans

Using the funds from the Health System Improvement Project, 09 'Nissan Urvan' vans, valued at Rs. 87.210 million, were purchased in 2021. Prior to deploying the aforementioned vans for public health promotion, it was planned to supply and install a Public Addressing System and initiate related activities in 2021. However, it was revealed that this procurement.

Activity had not yet commenced as of the date of audit on 31 May 2024. Accordingly, although more than three years have passed since the purchase of the nine aforementioned vans for conversion to the relevant purpose, the procurement process has failed to select a suitable institution. Meanwhile, it was observed that these vans were used for other transportation duties that were inconsistent with their intended purpose.

Urban and Housing Development Sector

	Loan amount		Duratiin	Utilization as at 31.12.2023	Progress as at 31.12.2023 (%)	
	US $ million	**Rs. million**	**Commencing Year**	**US $ million**	**Rs. million**	**Financial Progress**
Anuradhapura Integrated Urban Development Project	Euro 52	8,354.32	2016	5.07	1,783.14	21.34
Urban Project Preparation Project	5.27	1,064.79	2022	1.33	437.95	41.13
Support to Colombo Urban Regeneration Project (SCURP)	200 ** 130	35,163.7 ** 47,096	2019	58.75	15,985.67	33.94

	Loan amount		Duratiin	Utilization as at 31.12.2023	Progress as at 31.12.2023 (%)	
	US $ million	**Rs. million**	**Commencing Year**	**US $ million**	**Rs. million**	**Financial Progress**
Anuradhapura Integrated Urban Development Project	Euro 52	8,354.32	2016	5.07	1,783.14	21.34
Urban Project Preparation Project	5.27	1,064.79	2022	1.33	437.95	41.13
Support to Colombo Urban Regeneration Project (SCURP)	200 ** 130	35,163.7 ** 47,096	2019	58.75	15,985.67	33.94

Table No 2.36 Foreign Funded projects in Urban and Housing Development Sector

Metro Colombo Urban Development Project (MCUDP)

The International Bank for Reconstruction and Development agreed to provide USD 213 million, equivalent to Rs. 27,890.22 million, for the Metro Colombo Urban Development Project (MCUDP), which had an estimated total cost of Rs. 42,031.74 million equivalents to USD 321 million. However, by the project's completion on 31 December 2022, only USD 199 million, or 93 percent of the total, had been utilized.

Upon the completion of the said project, Rs. 198 million had been spent on the Integrated Flood Management System, but the work remained unfinished. Under this section, the tasks of integrating three constructed pump stations, three flood control gates, and other minor storage systems into the flood management system; directing the installed water level and rainfall gauge data to relevant centers; effectively operating a flood warning system for the Colombo metropolitan area to disseminate essential information to the public through a website; and providing support for risks arising from urban development and climate change could not be accomplished. As a result, the anticipated benefits could not be achieved from assets, including the three water control gates and three pump stations constructed at a cost of Rs. 600 million since 2016. Furthermore, it was observed that the Ministry did not have a proper plan in place to complete these tasks.

At the conclusion of the Metro Colombo Urban Development Project (MCUDP), assets valued at Rs. 28,115 million, along with 81 implemented development projects, and specialized expenses amounting to Rs. 2,929.44 million, were transferred to 4 local authorities, the Urban Development Authority, and the Sri Lanka Land Reclamation and Development Corporation at the discretion of the project, without the formal written authorization of the Chief Accounting Officer.

Strategic Cities Development Program (SCDP)

According to the loan agreement of the project, although the lending institution had agreed to provide USD 202 million, equivalent to Rs. 27,507 million, only USD 89.92 million or 44 percent equivalent to 16,437 million had been spent after seven years of project initiation. As a result, on 31 December 2021, the lending institution decided to cancel USD 92 million. Consequently, most of the project's intended objectives could not be achieved.

At the project's conclusion, there remained a balance of Rs. 649 million, and instead of retaining that amount to settle invoices related to incomplete sub-projects, arrangements were made to return the funds to the lending institution on 05 July 2022. Consequently, Rs. 277 million had to be covered by government funds for 22 incomplete sub-projects. By 30 September 2023, the Ministry had paid Rs. 22.78 million of that amounts.

Urban Project Preparation Project

According to the loan agreement for the project, the Asian Development Bank had provided an amount of USD 5.27 million equivalents to Rs. 1,064.79 million. The Government of Sri Lanka was required to contribute an equivalent of Rs. 232.35 million, which is USD 1.15 million. The project commenced on 06 March 2019 and was initially scheduled for completion by 31 December 2021. However, all operational activities of the project were halted by the end of 2020, and the contract period was extended once again until 31 March 2024.

The implementation of this project involved the selection of Dambulla, Trincomalee, Kurunegala, and Ratnapura cities under 03 components, and Rs. 418.29 million had been incurred for this from 2019 to 31 December 2022. During the extension period, it was decided to prioritize only the districts of Trincomalee and Dambulla, resulting in the funds allocated for the Kurunegala and Ratnapura districts being rendered ineffective.

Support to Colombo Urban Regeneration Project (SCURP)

Out of the loan of USD 200 million agreed upon by the lending institution for the Urban Regeneration Project, only Rs. 15,986 million, equivalent to USD 58.75 million, had been utilized by 31 December 2023, which is 4 years and 6 months after the commencement of the project.

Due to inefficiencies in the utilization of project funds, the Cabinet had decided to reduce the loan amount of USD 200 million by USD 70 million. Consequently, the activities of Phase 3 of the project were suspended, and the number of housing beneficiaries was also reduced by 1,272. Furthermore, the contribution from the Government of Sri Lanka, originally USD 42 million, was decreased by USD 14 million to USD 28 million. According to the amended agreement, private partnership contributions for land redevelopment had been completely removed.

Anuradhapura Integrated Urban Development Project (AIUDP)

Although the project was scheduled to commence on 01 December 2016, and be completed by 30 September 2023, only Rs. 1,773 million, equivalent to EUR 6.42 million, was utilized by 31 December 2023, out of the loan amount of EUR 52 million agreed upon by the French lending agency according to the loan agreement. Due to the utilization of only 12 percent of the loan amount, the project was unable to achieve its expected results. Subsequently, the project scope was reduced and only construction activities were carried out at the Southern Multi-Modal Transport Center, which was sustained solely through local funding during the year under review.

In the initial phase, Rs.288 million was spent on the foundational activities for the construction of the Northern and Southern Multi-Modal Transport Centers in Anuradhapura. When the construction activities resumed, the initial contract value was increased from Rs. 1,176 million to Rs. 1,795 million, reflecting a 53 percent increase, and a new addendum to the contract was signed. Additionally, based on the instructions provided by the National Operations Center, the project was implemented with a local funding allocation of Rs. 2,070 million in the year 2024. However, an agreement regarding the operational procedures with the lending institution had not been reached.

Transport and Highways Sector

Name of the Project	Loan/Assistance		Commencing Year	Utilization as at 31.12.2023		Progress as at 31.12.2023 (%)	
	US $ million	Rs. million		US $ million	Rs. million	Financial Progress	Physical Progress
Integrated Road Investment Program -1	800	104,000	2014	544	97,178	68%	Rural Roads : 93% National Roads : 54%
Integrated Road Investment Program -2	900	137,070	2018.	509	109,316	57%	67%
Inclusive Connectivity and Development Project	175	59,062	2021	48	13,952	27%	27%
Badulla-Chenkaladi Road Rehabilitation Project	120	15,600	2017	79	15,520	66%	92%
OPEC Funded Road Network Development Project	40	4,560	2013	34	5,264	85%	90%
Saudi Funded Road Network Development	*SRA-225	7,800	2013	*SRA - 219	8,292	97%	100%
Exim Bank of China (Hunan Branch) Funded Widening and Improvement of Roads and Bridges in Central and Uva Provinces Project	100	20,300	2018	73.15	14,070	100%	100%
Design and Construction of Kohuwala and Gatambe Flyovers Project	52 (Euro)	10,192	2021	13.85	3,238	26%	61%
Kandy Multimodal Transport Terminal Development Project	69.33	13,762	2021	0.85	153	1%	9%

Reconstruction of 25 Bridges Project	10 (Kuwaiti Dinar)	4,632	2015	6.6 (Kuwaiti Dinar)	4,128	66%	96%
Transport Project Preparatory Facility Project	10	1,457	2017	34	5,264	94%	94%
Transportation Connectivity and Asset Management Project	7	2,086	2017	5.97	1,749.15	93.39	98.81
Port Access Elevated Highway Project	293.89	46,381.72	2019	172.94	48,470.63	58.84	82 (Port Access Elevated Highway Project)
							34.9 (New Building of the Port Authority)
Colombo National Highway Rehabilitation and Improvement Project (OFID II)	50	6,499.57	2013	41.67	7,349.44	92	99
Western Province Road Project (OFID III)	17	2,209.84	2017	14.79	2,993.92	99.92	100
A-017 Road Rehabilitation and Improvement Project (OFID IV)	40	5,497.90	2022	7.72	2,529.19	35	39.17

Figure 2.37 – Projects in the transport and highway sector

Inclusive Connectivity and Development Project (ICDP)

Delays in the execution of project actiivities

Improvement of Institutional and Policy Framework for the Road Sector

According to the project evaluation document, a sum of 5 million US dollars had been allocated for the enhancement of the institutional and policy framework in the road sector under Subcomponent 1.2. This subcomponent aims to improve overall management in the road sector, thereby increasing efficiency and enhancing the capability to respond to emerging relationships and challenges. However, although two years had passed since the project activities began, this subcomponent had not yet been implemented.

Improvement of Supply Chain for Farmers and Access to Services

In accordance with Cabinet Approval No. 21/1524/319/028 dated 17 August 2021, in response to Cabinet Memo No. CM: 34/2021 dated 16 August 2021, a mechanism was planned to be established under Subcomponent 2 of the project for collaborative implementation with the Ministry of Agriculture. Initially, an allocation of 50 million US dollars was designated for this subcomponent; however, on 09 May 2023, it was reduced to 15 million US dollars as per the project restructuring document. Nevertheless, this subcomponent had not been initiated even by the end of 2023, contrary to the recommendations in the aforementioned Cabinet paper.

Integrated Road Investment Program (iRoad Program)

Contract Administration

Due to contractors obtaining injunctions against the collection of outstanding advances through guarantees secured from relevant financial institutions, a total of Rs. 2,793.41 million in advance payments from 12 suspended contract packages remained uncollectible from the contractors by 31 December 2023. Additionally, delays in collections from performance guarantees resulted in an outstanding amount of Rs. 2,668.47 million that remains to be recovered.

Due to payment delays to contractors and the limitation of loan assistance provided by the Asian Development Bank, it had been decided to carry out only essential works on the roads. As a result, the ability to recover the mobilization advances amounting to Rs. 6,250.03 million, which had been provided under road reconstruction contracts by 31 December 2023, remained uncertain.

According to Sub-section 14.7 of the Public Contract Conditions, the amounts certified for each interim payment should be paid by the employer within 56 days; however, by 31 December 2023, it was observed that the amount to be paid to contractors for civil works was Rs. 2,671.28 million. Consequently, in accordance with Sub-section 14.8 of the Public Contract Conditions, an amount of Rs.284.77 million was provided as delayed interest payable to the contractors by 31 December 2023. Thus, due to delays in payments to contractors, the government was compelled to incur additional expenses.

Obtaining vehicles on rent

Of the 335 vehicles purchased by the programme, 318 had been handed over to the Road Development Authority prior to the completion of the road restoration activities. Consequently, 14 vehicles were obtained on a rental basis for use in the Project Management Unit and provincial offices under the programme throughout the year. As of 15 December 2023, a rental cost of Rs. 16.36 million had been incurred for these vehicles.

Rehabilitation of roads not included in the original plan

In 2022, under the RMC 04 package, contract work (Variation) had been carried out on the Balangoda - Bowatta - Kaltota road as an additional work of the project related to the Pelmadulla - Embilipitiya - Nonagama route. The rehabilitation work relating to this route covering the entire 16-kilometer length was awarded to the same 04 contractors who had been already awarded the restoration work for the Pelmadulla - Embilipitiya - Nonagama rout. However, the relevant procurement procedures were not adhered to in this process. Furthermore, this road rehabilitation work had not been included in the initial plan of the programme. Although a preliminary investigation was conducted, and the relevant report was submitted by the Director General (Engineering) on 30 November 2023, the subsequent actions have not been disclosed in the audit.

Second Integrated Road Investment Program (Second iRoad Program)

Delays in certified bills

According to Sub-section 14.7 of the Public Contract Conditions, the amounts certified for each interim payment should be paid by the employer within 56 days; however, by 31 December 2023, it was observed that the amount to be paid to contractors for civil works was Rs. 5,558.94 million. An interim payment certificate valued at Rs. 1,188.03 million was certified in 2022, yet it remained unpaid even by the end of 2023. Additionally, under Sub-Section 14.8 of the Public Contract Conditions, provisions were made for a delayed interest payment of Rs. 2,074.11 million as of 31 December 2023.

Uncertainty in the collection of mobilization advances

Due to payment delays to contractors and the reduction in the scope of remaining road rehabilitation activities, as of 31 December 2023, the possibility of recovering the mobilization advance payments totaling Rs. 8,197.88 million remained uncertain.

Cancelled contract Package

It has was observed that, 10 contract packages in the Uva, Northern, and Western Provinces had been canceled by employers and contractors as of 31 December 2023, while an mobilization advance payment of Rs. 2,014.10 million remained uncollectible from these contractors as of 31 December 2023.

Decisions contrary to the Public Expenditure Review Committee Report

According to the Public Expenditure Review Committee report issued for the Ministry of Transport and Highways on 13 July 2023, it was recommended by the committee to restore ongoing road rehabilitation contracts to a drivable condition only and to hand over these roads back to the respective public institutions. However, contrary to these committee decisions, the programme had newly initiated the rehabilitation of 04 additional roads in the Gampaha District, spanning 9.02 km with an estimated cost of Rs. 321.71 million.

Colombo National Highway Rehabilitation and Improvement Project

Orugodawatta - Ambathale Road Phase II

According to the progress report dated 31 December 2023, although two years have passed since the completion deadline for Phase II of the Orugodawatta-Ambatale Road, the contract has achieved only 94.2 percent progress, with no extensions of time (EOT) approved thus far.

Transport Connectivity and Asset Management Project

Performance

While the deadline for the Transport Connectivity and Asset Management Project (TCAMP) was set for 30 September 2023, the actual physical performance achieved was 98.81 percent, falling short of the expected 100 percent.

Variable cost

It was observed that due to the identification of additional tasks under variable orders that were not recognized at the beginning of the contract, the basic scope of the consulting task has changed. Furthermore, without obtaining approval in accordance with the 14th supplementary to the contract implementation manual, a variation of Rs. 29.23 million was made, representing 17.79 percent of the total costs of the contract package.

Payments for consultancy Reports

According to Section 3.1 of the General Conditions of Contract (GCC), the service provider must perform the services in accordance with the specifications and service details. Although an amount of Rs. 161 million has been paid, it was observed that the consultancy report is in a condition that makes it unusable for the geometric design activities of the expressway. Furthermore, issuing payments without receiving reports as per the contract agreement was questionable during the audit process.

Although the purpose of the contract is to prepare road delineation and drainage maps, as well as to collect information on the existing drainage systems in the Western, North Western, and Sabaragamuwa provinces under the national GIS framework and identify necessary drainage improvements, it was observed that an amount of Rs. 10.79 million has been spent on paying driver salaries and providing a dual cab vehicle, as per Variation Orders

01, 02, 03, and 06, which were not related to the scope of the contract.

A-17 Road Rehabilitation and Improvement Project - Rakwana to Suriyakanda

Performance

Due to delays in the procurement process and land acquisition, project activities were initiated only at the end of 2022, four years later. Furthermore, it was observed that it has not been possible to accomplish project activities within the project timeline, with only 39 percent progress achieved relative to the expected progress of 46 percent.

Delay in land acquisition

According to the information received for audit, it had been scheduled to acquire 1,515 plots of land for the construction of the project. However, Section 38(a) had been issued only for 789 land plots by the project. Nevertheless, up to 31 December2023, no compensation had been assessed for any plots of land under Section 17. The weak oversight in the land acquisition process had primarily contributed to this delay, which could adversely affect the project's costs in the future.

Uncertainty in completing as planned

The road construction activities under the Suriyakantha - Rukwena project commenced on 17 October 2022, and are planned to be completed by 16 October 2024. However, according to the current low progress, it was observed that it will not be possible to complete the remaining road construction activities of the project before the original completion date of 16 October 2024.

Environmental conservation

According to the guidelines and proposals issued in the letter dated 18 February 2021, by the Natural Resources Management Center, slope cutting must be carried out during construction to minimize soil erosion and stabilize the slopes. Additionally, no waste materials used in excavations and construction should contaminate water, and the excavated soil should be transported to appropriate disposal sites without being exposed to erosion. However, the locations of soil excavation and inadequate water drainage facilities were noted during the physical inspection.

Port Access Elevated Highway built on pillars

Delay charges and extension Fees	According to the progress report of the consultant related to the construction of the flyover to the port access, there was a delay for which the contractor is responsible, and it was observed that completing the work by the expected completion date of 08 September 2024, was uncertain. Accordingly, after the extension of time approved for the last time in May 2024, the project had not taken action to charge late fees. It was noted that the project had paid an amount of Rs. 493.03 million for the cost of time extensions by 31 December 2023.
Marine Facilities Center	Due to the delay in completing the construction of the marine facilities and transferring them to the Sri Lanka Ports Authority, the project had incurred an expenditure of Rs. 221.53 million under 03 variations orders to move the existing staff of the Sri Lanka Ports Authority by 31 December 2023.
Failure to correct errors	It was observed that 21 non-conformance reports issued for the defects such as exceeding sequential temperature limits in 2021, 2022, and 2023; variations in ABC high levels; surface cracking on upper and side surfaces; low strength of the columns; inappropriate measures taken for slope safety; and mismatching bottom ducts, had not yet been rectified as of 31 December 2023.

Western Province Road Development Project (OFID III)

Project Activities	The reconstruction work along 25.8 kilometers of National Route 04 was anticipated to be carried out under 02 contract packages. Although the loan agreement was signed on 26 June 2015, the commencement of the restoration work for Contract Package 02 was delayed by 2 ½ years due to the delay in the land acquisition process, and the project cost had exceeded by Rs.645 million. Without completing the remaining work on the Kaduwela to Athurugiriya road, the project has already initiated the procurement process to reconstruct Bridge No. 9/1 on the Orugodawatta - Ambathale road, which is not part of the original scope of the project. Furthermore, the reconstruction activities for 1.25 kilometers of the Walagama-Athurugiriya road under the contract package have been removed from the project scope due to issues in the land acquisition process.

Receivable balances	By 31 December 2023, the project had not taken any action to recover the two receivable balances, totaling up to Rs.16.96 million, for expenses related to advertising, measurement activities, landslide studies, platform design, and environmental consultancy incurred over the past four years.
Key Performance Indicators	Key Performance Indicators (KPIs) had not been established to measure the outcome and benefits of project activities. Therefore, it was not possible to verify the level of benefits received by the public from the project.

Provincial Councils

Nine Provincial Councils have been established namely Western, Central, South, North-West, North-Central, Uva, East, North and Sabaragamuwa by Article 154 A (1) added to the Constitution of the Democratic Socialist Republic of Sri Lanka by the 13th Constitutional Amendment passed by the Parliament in the year 1987 .

A provincial council is under the control of the Governor and a Chief Secretary acts as the Administrative Officer. A Chief Minister is the Head of the legislature and a Provincial Council consists of 05 Ministers including the Chief Minister.

The Provincial Council Act No. 42 of 1987 has been passed by the Parliament to make arrangements for the working procedure to be followed by the Provincial Councils, matters related to the Provincial Council public service and related or ancillary matters. As the term of office of the existing 09 Provincial Councils has ended, those Councils have been deemed dissolved as per the provisions of Article 154(e) of the Constitution.
Accordingly, Sabaragamuwa, East and North Central Provincial Councils from 2017, North West, Central and Northern Provincial Councils from 2018, Western Uva and South Provincial Councils from 2019 have been running by the Governors of each Provincial Council in terms of the provisions of Section 2(1) (a) of the Provincial Councils (Ancillary Provisions) Act No. 12 of 1989, without a Council

Presentation of Financial Statements of Provincial Councils

Audit of Financial Statements

Each Provincial Council shall prepare and submit financial statements to the Auditor General to reflect the financial position and operating results of the Fund of the Council. The Auditor General shall audit the financial statements as per Article 154(3) of the Constitution and Section 23(1) of the Provincial Council Act No. 42 of 1987.

Failure of introducing a Uniform System of Accounts

A uniform accounting system has not been introduced to prepare the financial statements of the Provincial Councils from the beginning until now and In the years 2022 and 2023 and 09 Provincial Councils had prepared financial statements by following different methods.
The values were recorded using different formats, names and sources in preparing those financial statements. Neither the Government nor the Provincial Councils had issued a formal uniform guide or circular for the preparation of financial statements of Provincial Council Fund, and it was impossible to make decisions by analyzing and comparing them.

Due to the lack of specific guidelines and lack of regulation by the Ministry of Provincial Councils, it was observed that the Provincial Councils have the ability to conceal, omit or present information in a way that misleads decision makers.

Revenues and Expenditures of Provincial Councils

The income and expenditure of the Provincial Councils were prepared subject to the fact that Provincial Councils have used accrual basis, cash basis, improved cash basis as alternatives and not following uniform methods.

Provincial Council	Collected Revenue	As a percentage %	Total of Government Grants (Rs. Mn.)	Total Revenue (Rs. Mn.)	Total Expenditure (Rs. Mn.)	Surplus (Deficit) (Rs. Mn.)
Western Provincial Council	43,287	40.9	62,396	105,683	96,349	9,334
Central Provincial Council	5,692	11.1	45,409	51,101	51,032	69
South Provincial Council	8,053	13.9	49,555	57,608	58,461	(851)
North Western Provincial Council	10,186	19.2	42,658	52,844	49,527	3317
North Central Provincial Council	4,156	12.9	27,997	32,153	30,415	1738
Uva Provincial Council	2,032	5.6	33,790	35,822	38,766	(2944)
Eastern Provincial Council	3,362	7.8	39,228	42,590	40,287	2303
Northern Provincial Council	2,127	5.6	35,419	37,546	36,646	900
Sabaragamuwa Provincial Council	4,649	10.7	38,570	43,219	41,645	1574
Total	**83,544**		**375,022**	**458,566**	**443,128**	**15,440**

Table No.2.38 **Details of Revenue, Expenditure, Surplus/Deficit of Provincial Councils in 2023**

Revenues of Provincial Council

The 09 Provincial Councils had collected a total of Rs. 458,566 million of revenue in the year 2023 . That income consisted of

Rs. 83,544 million as tax, non-tax and other income. However, the total amount of government grants given by the Government to the Provincial Councils had been Rs. 375,022 million. Accordingly, as 82 per cent of the total income of the 09 Provincial Councils consisted of grants given by the Government, it was observed that, all the Provincial Councils are depending on the grants given by the Treasury.

Although the Provincial Councils are maintained depending on the Treasury allocations as indicated in table No. 2.38 it was observed that provincial councils had spent unsparingly by increasing the fuel allowances of the officers on the approval of the Governors of the Provincial Councils in contrary to the accepted general circulars, taking other types of unfair allowances and taking house rent allowances contrary to the Establishments Code.

Expenses of Provincial Councils

Every provincial council incurs annual maintenance costs including maintenance costs of private enterprises, other goods and services, and development costs in the form of capital . The 09 Provincial Councils had spent a total of Rs. 443,128 million in the year 2023. Out of that expenditure, 96 per cent was recurrent expenditure and 4 per cent had been spent as capital expenditure. Also, 77 per cent of the total recurrent expenditure had been spent on the payment of personal emoluments of the provincial councils.

Savings and Investments

Because of underutilizing grants received from Government by Provincial Councils or receiving excessive allocations from the central government without proper estimation of provincial council revenue, investing of year-end savings of provisions, in fixed deposits had gradually increased year by year. The details of money invested in fixed deposits are given below.

Cash and Bank Balance as at 31 December 2023 (Rs. Mn.)	Provincial Council	Investment Balance as on 31 December (Rs. Mn.)	
		2023	2022
3,748	Western Provincial Council	35,500	25,500
2,714	Southern Provincial Council	7,159	5,840
2,507	North Western Provincial Council	11,679	9,703
2,734	Sabaragamuwa Provincial Council	3,966	3,050
419	Uva Provincial Council	778	1,184
787	Central Provincial Council	274	19
5,124	North Central Provincial Council	1,983	1,793
1,280	Eastern Provincial Council	618	-
3269	Northern Provincial Council	-	-
22,582	**Total**	**61,957**	**47,089**

Table No..2.39 Details of Cash and Bank Balance, Savings and Investments of Provincial Councils

As stated above, thus increasing the sum of investment and savings accounts which was Rs 47,089 million in the year 2022 to Rs 61,957 million in the year 2023 the investments and savings had increased by nearly 32 per cent. However, since there was no uniform accounting system, it was not possible to get information about the investments of the Northern Provincial Council and the Eastern Provincial Council in the year 2022 to the audit.

Money and Bank balances of Provincial Councils

It had revealed that each provincial council had significant cash balances at the end of the year. Those cash balance are not returned to the Treasury.

As indicated in the above Table No. 2.39 it was confirmed that 09 Provincial Councils had cash and bank balances of Rs. 22,582 million as at 31 December 2023. Accordingly, it was observed that in giving allocations to provincial councils, institutions such as the Treasury, Finance Commission, Ministry of Local Government and Provincial Councils give allocations without paying any attention to the amount of investment and savings of the provincial councils.

Assets of Provincial Councils

The total assets of the provincial councils identified as Rs. 409,890 million as at 31 December 2022 had increased by Rs.107,222 million equal to 26 per cent as Rs. 517,112 million by 31 December 2023. Similarly, a sum of Rs. 413,336 million of the total assets of the provincial councils, equal to 80 percent of the total assets of the provincial councils, had been non-financial assets in the year 2023. Further, it was observed that the periodic actions had not been taken , to assess and account for the assets including land and buildings and to perform periodic audits and properly take over and account for the used assets by many Provincial Councils including the Western Provincial Council

Provincial Council	Balance of Non-Financial Assets as at 31 December 2023 (Rs. Mn.)	Balance of Total Assets as at 31 December 2023 (Rs. Mn.)	Total Asset Balance as at 31 December 2022 (Rs. Mn)
Western Provincial Council	51,606	98,356	64,965
Central Provincial Council	11,391	13,756	9,258
Southern Provincial Council	48,259	60,745	58,358
North Wesernt Provincial Council	90,373	106,380	96,693

North Central Provincial Council	28,793	35,864	31,997
Uva Provincial Council	82,952	85,387	88,220
Eastern Provincial Council	17,819	19,881	18,007
Northern Provincial Council	53,271	57,751	25,956
Sabaragamuwa Provincial Council	28,872	38,992	16,436
Total	413,336	517,112	409,890

Table No.2.40 Details of the Assets of the Provincial Councils in the years 2022 and 2023

Liabilities of Provincial Councils

Total liabilities of Provincial Councils which was Rs. 10,601 million as at 31 December 2022 had slightly decreased to Rs.10,492 million as at 31 December 2023. Details of the liabilities of each Provincial Council are given below.

Provincial Council	Total Balance of Liabilities as at 31 December 2023 (Rs. Mn.)	Total Balance of Liabilities as at 31 December 2022 (Rs. Mn.)
Western Provincial Council	644	520
Central Provincial Council	679	962
Southern Provincial Council	2,212	1,627
North Western Provincial Council	98	100
North Central Provincial Council	1,118	1,000
Uva Provincial Council	867	1,047
Eastern..Provincial Council	553	984
Northern Provincial Council	3,300	3,104
Sabaragamuwa Provincial Council	1,021	1,257
Total	**10,492**	**10,601**

Table No 2.41 Liabilities of Provincial Councils

Western Provincial Council

Wespro Press

During the stock audit conducted in relation to 38 items of printing materials based on the stock ledger maintained by the organization, worksheet summary, purchase summary in relation to the physical stock calculated as at 08 August 2023 of Wespro Press a shortage of printing stock valued at Rs. 42 million was observed and despite certain printing materials were not received by the company while purchasing relevant stock, the relevant payments had been certified and made by providing the documents that the institution has received them.

Expired Medicines

Even though there were expired medicines valued at Rs. 2 million and quality failed medicines valued at Rs. 19 million as on 31 December 2023 in 7 health institutions belonging to Provincial Health Services Directorate, actions had not been taken to dispose of those drugs promptly.

Recovery Arrears of Stamp Duty and Penalties

Even though the Provincial Revenue Department had received information valued at Rs. 7,303 million in the year 2023, from 4896 deeds related to the years 2019 to 2023 from 16 Land Registrar Offices, actions had not been taken to open files in respect of 4693 deeds and to take further actions to recover outstanding stamp duty and fines. .

Issuance of Licenses contrary to a Tender Procedure

Out of the 6,047 passenger service licenses issued by the Authority on 31 December 2023, a number of 5,454 licenses equal to 90 per cent of the number of licenses issued had been issued in contrary to the formal Tender Procedure.

Payment of monthly Official Quarters Rent Allowance

Although there is no possibility of payment of allowance as monthly house rent as per Establishments Code, a monthly official quarters rent allowance of Rs.25 million had been paid from November 2017 to 31 December 2023 to 14 officials holding the highest positions in the Western Provincial Council.

Failure to verify Daily Arrival and Departure

Salaries and allowances had been paid for 1,710 medical officers, 2,556 nursing staff and 7,224 other staff in the Western Province Health Services Department in the year 2023 based on the times mentioned in the day books maintained by them without verifying the daily arrival and departure .

Payment of Fuel Allowance

Fuel allowances amounting to Rs.16 million had been overpaid to 39 officers belonging to 14 positions related to 10 institutions of the Western Provincial Council with respect to the period from the year 2012 to 31 December 2023 on the approval of the Provincial Governor exceeding the limits mentioned in the Public Administrative Circular.

Failure of recovery of Financial Losses

Although the value of fraud and cash shortage committed by officers of 5 cooperative societies in Colombo and Gampaha Districts was Rs.338 million, actions had not been taken by the Assistant Co-operative Commissioners of the respective Districts to take necessary action in that regard and recover financial losses. Also, Rs. 13 million worth charge sheets had been issued to a Co-operative Development Officer who was the Chairman of Henarathgoda Society and 11 Committee Members in connection with financial irregularities. Even though 3 ½ years had elapsed since the end of the year 2023 the investigation was conducted in this regard, actions had not been taken to recover financial losses.

Vehicle Repair Costs

The repair cost of the Discovery type jeep which was involved in an accident on 21 September 2022, was Rs. 19 million and a sum of Rs.14 million as insurance compensation had been paid on 09 February 2024 by Co-operative Insurance Company. Actions had not been taken even by 31 March 2024, to identify the responsible parties related to the accident and pay the remaining amount of Rs. 5 million to be paid for the repairs and complete the repairs of the jeep and taken over it to the Ministry of Health.

Southern Provincial Council

Failure to return of Inventory Items

A number of 51 laptops, 54 tabs and a computers had been provided to the Ministers and Members of Parliament at a cost of Rs.10.5 million 25 August 2015. Even though the Provincial Council had been dissolved since 10 April 2019, they had not been returned to the Council Secretariat even as at 31 December 2023, and necessary actions had not been taken to recover them even up to that date.

Number of Members of the Provincial Public Service Commission

In the Southern Province Public Service Commission which currently has 06 members, the age of the Chairman was 78 years and the age of 5 members was between 67 and 77 years and their service period as Commission members had ranged from 03 years to 29 years. The two members, aged 77 and 78 years out of that , had been repeatedly appointed as members of the Commission since 1994 and 1997 respectively and their tenure in Public Service Commission had been 29 and 26 years respectively. It was observed that this situation may adversely affect the transparency and impartiality of the Commission's decisions.

Providing Self-employment Assistance

The Southern Provincial Development Authority had not prepared formal guidelines in respect of providing self-employment assistance. Self-employment assistance had been provided based on the name lists provided by the Members of Provincial Council and self-employment assistance had been provided under the names of Members of Provincial as Rs.3 million, as per the Members Provisions, name lists submitted by 13 Members , even in the year 2020 when the Provincial Council did not function.

Arrears of Stamp Duty and Recovery Penalties

As per the Provincial Council's Finance Statute, when the prescribed stamp duty has not been paid for the second copies of the deeds to be written and certified by Notaries, the outstanding stamp duty and fines shall be collected. Nevertheless, even though the information of 2784 deeds of Rs.9.6 million relating to 08 months from August 2021 to April 2022 had been received by the Provincial Revenue Divisional Office on 24 February 2023 from the Land Registrar's Office, Matara , actions had not been taken to open the files in this regard and take further actions even by 27 November 2023 .

Schedules in respect of 7481 deeds with value above Rs. 0.5 million pertaining to 19 months from May 2018 to August 2020 had been submitted to the Provincial Revenue Office from Land Registrar Office, Matara on 30 July 2020 and 07 April and 23 September 2021. Out of the deeds , actions had not been taken to identify and open files for deeds to be prioritized in respect of 5154 deeds even from 01 January 2023 to 24 November 2023.

Examination of Registration of Deeds relating to Transfers

of Lands

During the audit test check conducted at the Land Registrar's Office Matara on 27 November 2023, which was the audit date, regarding the registration of deeds related to land transfers in Matara District by Notaries of provinces except for the Southern Province, information related to 18 land exchange cases valued at Rs. 54.9 million was observed during the period from 2020 to 2023 and examinations had not been carried out on payment of due stamp duty by obtaining information related to 16 deeds and opening the files.

Defaulting of paying Property Transferring Charges

In transferring the property of Rs.243 million owned by a private institution to another private institution , payment of Rs. 9.7 million of stamp duty had been defaulted.

Medical Supplies Information Management System

Even though it had been stated in the circular of the Ministry of Health Secretary No. 01/2021 dated 08 December 2021 that the Medical Supply Information Management System (MSMIS), which has been in operation since 2016, should identify expired drugs within one year and arrange for disposal, and forward them to the Secretary of the Ministry of Health for deletion from the book in accordance with Financial Regulations 102 to 109, Galle District Medical Supplies division had not taken actions accordingly. Similarly, almost Rs. 23.6 million valued expired medicines discovered by the committee reports, had been deleted by the PRONTO system using the provided passwords to survey the goods without obtaining formal authorization.

Failure of Central Air Conditioning System

Even though a central air conditioning system had been installed at a cost of Rs.14.4 million (excluding tax) Kamburupitiya Base Hospital in 2015/2016, it has been inactive since installation . Further, Even though a central air conditioning system for Balapitiya Base Hospital had been installed on 20 June 2016 at a cost of Rs.7.7 million, It had also remained completely inactive by 03 December 2017. Accordingly, 22 Split AC machines had been installed at a cost of Rs.4.4 million to maintain the operating theaters in the two hospitals and actions had not been taken to identify the parties responsible for the failure of the above projects up to the date of audit and to recover the loss incurred by the Government.

Information Management system Implemented by Department of Agriculture

Even though the Southern Province Agriculture Department had established an Information Management System by spending Rs. 15 million from 2016 to October 2022, it had been impossible to meet the desired goals in the resignation of the Agricultural Advisers of the Department. Similarly, sufficient information had not been maintained by the Department on the current ownership and operation of the 225 tab computers provided at a cost of Rs 8.8 million for implementation of Information Management System.

Vehicles and Motorcycles which could not ascertained Physical Existence

The physical existence of 201 vehicles including 178 vehicles and motorcycles registered in the Department of Motor Traffic in the name of the institutions of the Southern Provincial Council and 07 vehicles mentioned in the vehicle lists presented by the institutions and 04 vehicles and motorcycles that were accounted for in the financial statements could not be verified. Out of which, 30 motorcycles registered under the name of Southern Province, Local Government Commissioner were given free revenue licenses on several occasions and it was problematic in the audit that how the revenue exemption permits were obtained without verifying the ownership and physical existence of the vehicles.

Issues in Transparency of Procurement

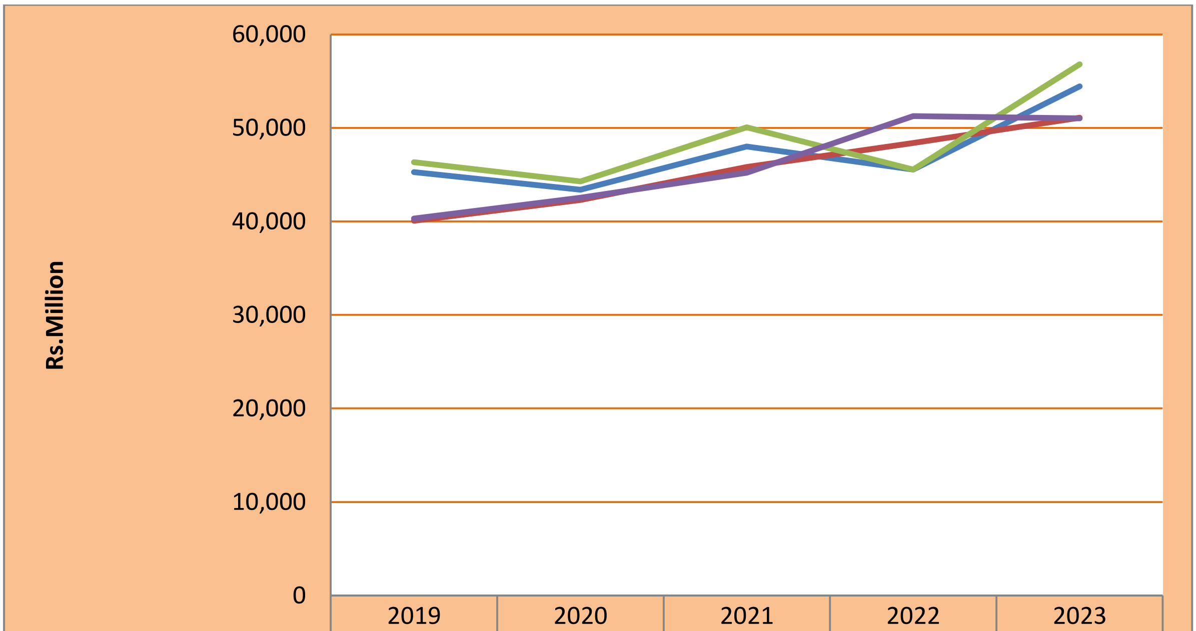
Procurement notices had been published in newspapers on 05 March 2024, preparing estimates of Rs.8.2 million for the construction of gabion embankment at Mulatiyana Gamagewatta Dam and Rs.11 million for the construction of Ratmalawa Dam in Matara District Office area of the Southern Provincial Irrigation Department and even before doing so, 355 cubic meters of Random Rubble Stones and 34 cubic meters of ABC were transported and stacked to the work site where the construction was expected to be carried out. Even though the management of the Department was aware of this, they had not taken necessary measures to deal with the matter legally. Due to this reason, the audit could not be satisfied with the transparency of the procurement for the project.

Idle Assets

Even though 587 days had passed as at 14 September 2023, after purchasing a machine valued at Rs.84 million for restoration by removing invasive aquatic plants in 905 tanks gazetted by the Southern Provincial Irrigation Department, the machine had been used for only 414 hours up to that date. Similarly, although the machine had been used for the renovation of 06 tanks, the machines had remained in idle for 234 days as only 03 tanks were repaired. Out of which 199 days had been spent for repair works and the importing company had not provided adequate servicing and repairs. Nevertheless, this had not been considered while purchasing the machine.

Central Provincial Council

The details of the estimated and actual income and expenditure of the Provincial Council in the year 2023 and the last 4 years are shown in the diagram below.



	2019	2020	2021	2022	2023
Estimated Revenue	45,256	43,403	48,021	45,558	54,444
Actual Revenue	40,066	42,304	45,811	48,375	51,101
Estimated Revenue	46,335	44,281	50,060	45,558	56,792
Actual Revenue	40,312	42,538	45,203	51,247	51,032

Diagram .2.48 - Estimated and Actual Income and Expenditure
Source - Central Provincial Council Financial Statements

Unaccounted Taxes

From a land that was leased out to a person in Walapane Divisional Secretariat, a sum of Rs.23.324 million of tax receivable had not been collected and the taxes to be collected had not been accounted for in the financial statements of the Department of Lands .

Arrears of Revenue

The arrears of revenue amounting to Rs. 135.833 million related to 04 objects of the Provincial Council Revenue Account as at 31 December 2023 had not been collected. Out of this, a total of Rs. 68.561 million had to be collected from the land lessees. Out of the total arrears, the uncollected amount for more than 05 years was Rs.28.513 million.

Failure to collect Additional Stamp Duty

In the audit test check carried out on 96 property sale revaluation cases conducted under Section 73(8) of the Central Provincial Finance Statute No. 17 of 1990, it was observed that the Revenue Department had not taken steps to collect additional stamp duty of Rs. 5.936 million from the respective buyers for a period between 10 months and 07 years in relation to 70 cases.

Failure of Recovery of Audit Surcharges

The total of 15 audit surcharges issued by the Department of Local Government for the period from 2013 to 2022 in relation to 06 local government bodies was Rs. 9.704 million and actions had not been taken even by the last date of 2023 to collect those surcharges from the respective parties or take legal action .

Expired Medicines

There were 452,650 units of expired medicines totalling to Rs.3.250 million within a period of 03 months to 96 months as at the last day of the year under review in 03 District and Regional Hospitals operating under the Department of Health and 72,206 units of failed quality drugs valued at .Rs 398,280 in Galagedara Regional Hospital.

Failure of Charging Taxes from Power Plants

Although 03 hydropower plants located in 02 Divisional Secretariats have produced electricity from 03 to 20 years and released electricity to the national system, due to failure of issuing water diversion permits and collecting taxes for those power plants by 31 December 2023, a Rs.4.668 million tax revenue had lost to the Provincial Land Department .

Failure of Functioning of Projects

Two industries valued at Rs.31.650 million approved for implementation under the Central Government Ministry of Education and 25 projects valued at Rs.239.619 million planned to be implemented in Nuwara Eliya District , the 33 projects valued at Rs. 421.321 million estimated to be implemented in the health sector of the Central Province under the HSEP project had not been implemented by the Department of Engineering Services during the year 2023 .

Failure to charge Security Deposit

Although a medical officer who worked at Theldeniya Primary Hospital had been approved for leave without pay between 02 May 2016 and 01 May 2021 and had gone abroad and though he had not reported for duty by October 2023 , actions had not been taken to recover the amount of Rs. 1.175 million to be charged as per the agreement.

Vehicles not Physically Available

According to the confirmations obtained from the Department of Motor Traffic and Provincial Transport Department, out of the 734 vehicles that were detected as belonging to the Provincial Council, the details of 12 vehicles were not disclosed by the institutions of the Central Provincial Council and it was not confirmed in any way that those vehicles are used by the institutions of the Central Provincial Council.

Uneconomic Transactions

After the dissolution of the Central Provincial Council on 18 October 2018, a number of 61 vehicles used by Ministers and private staff had been handed over to the Chief Secretary and other institutions. Without considering the availability of such vehicles to the Road Development Authority as per requirement, deploying 12 dual purpose vehicles for its Chief/Executive Engineers by the Authority during the period 2018 to August 2023. on hire basis, a total of Rs.75.092 million had been paid as rent to private parties.

Non-utilization of Provisions

Out of the allocations given by 03 non-governmental organizations for Early Childhood Development Projects between 2018 and 2023 a sum of Rs.3.033 million had been credited to the revenue without being applied to the relevant purposive works.

Non-current Assets

The Department of Tourism Affairs had built an Ayurvedic wellness center on a land belonging to the Rangiri Dambulu Rajamaha Vihara at a cost of Rs 7.95 million in the year 2016. Even though 07 years had passed for the construction by the end of 2023, the center remained unused. Arrangements had not been made to take over the ownership of this land.

Due to the delay in hiring the technically trained staff required to operate the machines at the Ambathenna service center belonging to the Road Development Authority, 03 machines purchased for the service center in the year 2016 valued at Rs. 4.04 million had remained in idle in the service center for more than 08 years.

Decrease in Number of Farms and Animal Population

Although increasing the production contribution of agricultural animals through the development of animal breeding activities is a major task of the Provincial Animal Production and Health Department and also the total number of registered farms in the Central Province in the year 2020 was 38,081, that number had decreased by 6,737 to 31,344 farms by the year 2022. Out of them, the number of cow and goat farms, which are the main contributors to local milk production, had decreased by 6,441 equal to 17 per cent. Also, the animal population of 100,423 in the year 2020 had decreased by 18,195 to 82,228 in the year 2022, which had affected the reduction of milk production. Even though a sum of Rs 123.16 million had been spent on various development projects in the livestock sector from 2020 to 2022, it was observed that a large number of farmers had abandoned animal husbandry.

Failure to initiate Soil Testing Activities

Even though a sum of Rs.17.52 had been spent for the modernization of the soil laboratory and soil testing equipment of the Nayalathanna District Agriculture Research and Training Center under the allocation made to the organic fertilizer production project in the year 2021,2023, and also more than a year had elapsed by the end of 2023, the equipment provided for that purpose was kept in its packaging and remained in idle without starting soil testing .

Terminated Projects

It had been contracted for Rs.10.23 to modernize Mulhalkele Agriculture Adviser Quarters as Assistant Director of Agriculture Office in Walapane under Provincial Specific Development Grants in the year 2021 and it had been stipulated to complete the construction by 30 December 2021. Neverthelss, the works had been terminated by 15 December 2022 and a sum of Rs.4.09 million had been paid for the work done. Due to the fact that its construction had not been completed by 31 December 2023 , the money spent for that had become useless expenses.

North Western Provincial Council

Vehicle Accidents

The motor vehicle used by a former Governor had met with an accident on 01 July 2020. Even though the Provincial Council had spent Rs. 5.3 million to repair that motor vehicle , only Rs. 3.9 million had been received from the insurance company. Even though it had been decided to collect the remaining amount of Rs.1.4 million from the driver, the amount had not been collected by the date of audit, 06 March 2024.

Despite a vehicle that was given to the use of the North West Provincial Council Secretariat office was given to the Deputy Chairperson of the Provincial Council without having formal approval, actions had not been taken even by 19 January 2024 to recover the loss caused by total fire and destruction of said vehicle on 11 October 2002 whilst parked insecurely.

The Provincial Council had spent Rs 1.4 million to repair the van that had been driven by the driver without having the permission of the Department in trms Provincial Finance Rule 54.4 on 03 January 2020 and experienced an accident in Samanpura area on Dambulu road. Even if the vehicle was fully insured , Sri Lanka Insurance Corporation had reimbursed only Rs. 0.4 million in the matter of driver's drunkenness. North Western Provincial Education Department had not taken actions in respect of recovery of loss even by 10 April 2024 .

Even though 3 ½ years and 02 years and 03 months had elapsed since two vehicles belonging to Kurunegala Regional Health Services Directorate had experienced an accident since the preliminary tests have been completed but the disciplinary tests have not been completed, the loss totalled to Rs. 18.3

million had not been recovered from the respective responsible parties.

Before the dissolution of the Provincial Council on 10 October 2018, the dual purpose cab allocated to the political authority had incurred a loss of Rs.6 million in relation to the accident on 30 December 2014 and out of which Rs. 3.96 million had been reimbursed by the insurance company. Necessary arrangements had not been made to recover the remaining amount of Rs.2.06 million from the respective responsible parties even by 08 August 2023 .

Vehicle Control

As per the information obtained from the Motor Transport Department and the Electronic Revenue Permit Issuance System regarding the registration of 288 vehicles, 38 vehicles that were registered in the name of the institutions of the North Western Provincial Council were not in possession of the institutions of the Provincial Council.

Registered vehicles in Personal Names

Three vehicles which are being used in the Agriculture Department of North Western Provincial Council had been registered in private names.

Construction of Folk Art Center Auditorium

Even though a sum of Rs. 209.7 million had been spent from 2017 to 2020 for the construction of the auditorium of Jana Kala Kendra , the Project had been terminated by 31 December 2023 .

Failure of Charging Advances by the Bills as prescribed

The advance amount given to the contractor on 24 December 2020 had been Rs. 185.1 million for the construction project of the six-storied building with a contract value of Rs.973.6 million which will be jointly built by the North-West Provincial Council and the Kurunegala Municipal Council. Although the value up to the eighth (08) bill paid in cash was Rs.87.7 million the advance amount that had been recovered was only Rs. 24.2 million.

Failure to take actions regarding Surcharges

Actions related to 07 surcharge certificates issued by the Auditor General in the period from 1996 to 2014 with a total of Rs. 3.3 million in connection with the activities of local government agencies in the North Western Province had not been taken by the responsible parties in the North Western Department of Local Government.

Failure of using Fingerprint Scanners

Although all government employees have to authenticate their arrival and departure from their place of work through fingerprint scanner machines, in terms of Public Administration Circular No. 03/2017 dated 09 April 2017 it had not been so done.

Failure to Ascertained Ownership of Lands

Actions had not been taken even by 20 February 2024, to ascertain the ownership of the premises/land of 364 schools belonging to 03 Zonal Offices belonging to the Department of Provincial Education.

Non-operating of Transfer Procedure formally

Although principals with more than 5 years of principal service in the same school should be transferred according to the transfer procedure of principal grades in the North Western Province , there were 72 principals working in the same school for a period of 05 to 14 years in the Kurunegala region alone due to failure to implement the transfer policy.

Co-operative Activities

Actions had not been taken to recover a sum of Rs.113.5 million, which was the outstanding contribution to the co-operative fund from 677 registered societies belonging to 04 Co-operative Assistant Commissioner Divisions by 31 December. Further, although there has been a delay of 01 months to 31 months, the judgements had not been given to 287 and 93 files related to Mahawa and Kuliyapitiya Assistant Commissioners respectively and a total of 380 files valued at Rs. 50.1 million related to debt and various disputes .

Even though Rs.88.4 million of money fraud and loss of money had been reported by the end of the year 2023 from 149 responsible officers of 61 co-operative societies located in North Western Provincial Cooperative Development Department Cooperative Assistant Commissioner Division 04, investigations related to it were at a weak level.

Land Administration Activities

As per the report of arrears of income as at 31 December 2023 submitted for audit, the outstanding long-term lease value to be collected from 55 institutions and individuals had been Rs 107.9 million as at that date.

Kurunegala Malkaduava 01 acres and 4.3 perches had been leased out for 30 years to a private educational institution and due to non-compliance with lease agreements a court order had been given to return the land. The private entity had not handed over the possession of the land to the Divisional Secretary and from the date of leasing out the respective land, a sum of Rs.52 million had to be paid as lease rent and interest thereon.

The government land of about 29 acres and 10 perches belonging to the division of Manativ Grama Niladhari of Puttalam Divisional Secretariat had been leased out in long term to a private company for a period of 30 years from 29 June 1988. The land given to the said private company had been sold by the said company to another private company on 11 June 2008 without obtqining the approval of the Provincial Land Commissioner.

Health Service Activities

Twenty two laptops, 20 code readers, 02 printed machines, 04 sticker printers and 15 sticker rolls that were given to Dambadeniya, Galgamuwa and Nikaveratiya hospitals to implement the Hospital Health Information Management (HHIMS) system had remained in idle.

Siambalangamuwa Primary Medical Care Unit

The Siambalangamuwa Primary Medical Care Unit, which was built in the year 2018 at a cost of Rs. 18.6 million for the medical care unit and quarters, had been commenced on 31 March 2022. However, just after the Chief Medical Officer who worked there was released from the place for training on 06 January 2023, the patient care services were stopped from that day and the unit had been closed inactively.

Idle Equipment

Four Emergency Trolleys and 08 Drugs Trolleys valued at Rs.1.2 million which were purchased under a project had remained in idle for 14 months in Marawila Hospital warehouse without distribution until March 2024.

Payment of Overtime for Normal Daily Services

Overtime allowances had been paid as Rs.1.9 million for 21 doctors and Rs.1.2 million for 11 doctors attached to Kurunegala and Puttalam regional health services directorate offices respectively as overtime allowances for the years 2022 and 2023 for one hour from 12.00 noon to 1.00 p.m including the 30 minutes for the day break included in the scheduled daily working hours.

Amounts to be paid to Local Authorities

The Chief Secretariat had not taken actions to provide court fines to be paid to 30 local government bodies in relation to the year 2023 amounting to Rs. 275.3 million and a sum of Rs.353.5 million in stamp duty payable to 22 Local Authorities, to Local Authorities even by 31 December 2023 .

Idle Warehouse for Onion

The onion warehouse at the Galgamuwa government farm which was completed and handed over on 02 February 2022 valued at Rs. 3.6 million had remained unutilized even by the end of the year under review.

Wannigama Integrated Farm Income and Expenses

The total income of the Wannigama Integrated Farm Development and Training Center in the year 2023 was Rs.12.57 million and the recurrent expenditure and capital expenditure were Rs.34.01 million and Rs.1.54 million respectively. Accordingly, the farm had not earned sufficient income to cover even the recurrent expenditure in the year under review.

Payment of Allowances without Legal Povisions

A sum of Rs.4.52 million had been paid as executive allowances for the period from 2015 to 31 December 2023 to the Executive Officers of the North Western Provincial Environment Authority without having legal provisions.. Further, a sum of Rs.2.32 million had been paid to 3 officers from the year 2018 to December 31 of the year under review on acting basis in the position of Assistant Director without legal provisions.

Appointments against the Laws and Rules

A Deputy Planning Director of the Ministry of Agriculture has been appointed on acting basis in the position of Management Director of the Regional Resource Development Authority and a sum of Rs. 1.57 million had been paid from 01 June 2017 to 30 November 2023 in contrary to the rules mentioned in the North Western Regional Resource Development Authority Charter, Code of Procedures And Establishment Code of the North West Provincial Council and Establishments Code.

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.Regulatory of Preschools

Although all pre-schools in the North Western Province should be registered under the North Western Early Childhood Education Development Authority 910 preschools had not been registered out of 2152 preschools operating in the North Western Province. Accordingly, 42 per cent of the number of pre-schools in the North-Western Province had not been regulated by the institution.

Running Charts Charges Receivable

Necessary actions had not been taken to recover the monthly ticket fees Monthly running sheet charges of Rs. 13.49 million and delay charges of Rs. 2.71 million receivable to the Road Passenger Transport Authority for the period from 2013 to 31 December 2023.

Transferring of Passenger Service Permits

Although it had been stated that a Passenger Service Permit may not be transfer to any other person and such transfers shall be null and void, actions had been taken to transfer 112 licenses valued at Rs.50.25 million to other parties during the year under review.

On two occasions in the year 2011, actions had been taken to call tenders through the newspaper advertisement and issue 40 road permits valued at Rs. 19.28 million for a valid period of 05 years and although nearly Rs. 38.57 million could have been earned after the validity period of those licenses ends in 2016, through re-tendering in 2016 and 2021, actions had not been taken for those 40 licenses or to re-tender.

Sabaragamuwa Provincial Council

Construction of Lecture Hall

Even though the Ministry of Agriculture had constructed a building at a cost of Rs.27.6 million as at31 December 2020 with a view to starting the Karapincha Agriculture Training Center as a residential training centre due to the non-completion of the construction of the lecture hall the residential training programmes at the training centre could not be commenced up to January 2024.

Distribution of Social Welfare Eequipment

A number of 143 hearing aid devices purchased by the Ministry of Social Welfare in November 2021 and issued to the Social

Services Division to be distributed to the disable people valued at Rs. 2 million and 44 crutches, 98 commode wheelchairs, 04 normal wheelchairs, 22 commode chairs, 84 walking frames, 63 crutches and 72 air mattresses received in the year 2023 valued at Rs.5.5 million had remained in the warehouse even by 05 March 2024, without being distributed to the relevant parties.

Networked Health Management Computer Information System

Due to non availability 08 stickers related to barcode printing A number of 131 technical equipments purchased and given to Hospitals in the province by the Provincial Health Ministry in the years 2021, 2022 and 2023 valued at Rs.9 million to implement the Networked Health Management Computer Information System, which was a major objective of the Primary Health Care Empowerment Project had not been used for the relevant purpose by 26 February 2024 .

Idle Assets

Even though the building with paying wards, which was built by the Chief Ministry at a cost of Rs. 67 million, was handed over to Kegalle Ayurveda Hospital on 09 November 2020, it was in idle even by 18 January 2024. Further, It was observed that this building was in a status of repair.

Retention of Excess stock

The Office of the Deputy Chief Secretary (Engineering Services) had purchased 970 barrels of tar valued at Rs. 38 million and 120 barrels of colas valued at Rs 5.3 million in the year 2023 and distributed them to the Executive Engineering Offices during the month of May 2023. At that time, when there was sufficient stock in the warehouses and there was the possibility of exchange of stock between the Executive Engineering Offices, due to repurchasing the stock, a number of 783.7 barrels of tar valued at Rs.31 million and 120 barrels of colas valued at Rs.5.3 million had been retained as excess stock in warehouses for a period of 07 months.

Insurance Schemes without formal approval

The Sabaragamuwa Provincial Council had implemented 02 insurance schemes for all councilors from 2011 until 2017 when the Provincial Council was dissolved, and for the Governor and Chairman after the dissolution of the Provincial Council on the decision of the Cabinet of Ministers. Since the insurance coverage provided by these insurance schemes was not in accordance with Section 2 of the Provincial Council

(Payment of Salaries and Allowances) Act No. 37 of 1988, a sum of Rs. 53.8 million had been illegally paid from the Provincial Council Fund from the year 2011 to the year 2022 as annual installments.

Eastern Provincial Council

Idle Assets

The Provincial Ministry of Agriculture had purchased 30 static shredder machines valued at Rs.17.67 million for the production of organic compost. Nevertheless, due to non-availability of four-wheel tractors to operate the shredders, they were not used for the intended purpose and remained idle for **02** years.

Non-utilization of Provisions for Related Activities

The amount of Rs. 96.97 million received by the Provincial Education Department for the nutrition programme, provincial specific development grant work, public education modernization project work and UNICEF's project work, had ben used to pay advances to government officers and settle public deposit balances, without being used for expected project activities in the years 2022 and 2023 .

Places with Tourists Attractions

Even though 48 tourist attractions had been identified in this province, actions had not been taken to perform 10 major tasks or earn own income in last 05 years in terms of Part IV(A) of the Special Gazette No. 1985/73 of the Democratic Socialist Republic of Sri Lanka dated 18 March 2016 .Nevertheless, an amount of Rs. 128.40 million had been paid from the Provincial Fund Account from the year 2019 to 2023 for various activities in the Bureau.

Uva Provincial Council

Construction of a Observation Deck and Rest House near Bandarawela Railway Station

The Ministry of Sports and Youth Affairs, Tourism, Transport, Culture and Small Industries of Uva Province had planned to build a Observation Deck and a rest house near Bandarawela Railway Station in 03 phases to increase the tourist attraction in Uva Province**.** Under its first phase, only the Observation Deck had been constructed at a cost of Rs 2.23 million**.** Although the steps leading to the Observation Deck were partially completed and at unusable condition, the total value of Rs.0.55 million had been paid according to estimates. Subsequently, as the project premises the work of the project has been stopped the project premises had overgrown with wild plants and the amount spent had been useless.

Inactive and Underutilized Assets

The Treadmill sprit fitness equipment valued at Rs. 1.19 million which was purchased in the year 2020 under the Primary Health Care System Empowerment Project remained idle in the warehouse of the Badulla Regional Health Services Directorate office evenas at 04 July 2023.

The total of Rs. 1.46 million equipment purchased by the Badulla Regional Health Services Directorate and issued to the hospital without identifying the prerequisites had not been used by the hospitals and had been returned to the Badulla Regional Health Services Directorate.

A number of 99 units related to 04 items of medical and other office equipment with a value of Rs.11.08 million purchased for the period from 2019 to 2023 were not used for the intended purpose even by 04 July 2023 and remained idle.

Six medical equipment totalled to Rs 11.09 million purchased and issued to Wellawaya Primary Hospital in the year 2022 remained idle in the medicines store even by 18 July 2023 which was the date of audit.

Failure to obtain the Expected Benefits

Despite the project for the renovation of the Gamewela Water Scheme, which was implemented by the Uva Provincial Roads Ministry with an estimated value of Rs 4.13 million had to be commenced in the year 2021 and to be completed by 31 October , only drains had been dug and pipes laid even by 23 January 2024.

The Uva Provincial Council had spent Rs. 70.7 million from the State Ministry of Agriculture and Rs. 21.24 million from the Provincial Specific Development Grant (PSDG), totalling Rs 91.94 million for the programme to promote production of organic fertilizers and other organic inputs for agriculture at provincial level. Under the programme, 1686 beneficiaries from Monaragala district and 2268 beneficiaries from Badulla district were selected to provide a package including financial assistance subject to a maximum of Rs.15,000 to encourage the production of organic fertilizers. However, due to non-delivery of 800,000 kg of Eppawala rock phosphate expected to be provided under the package, the production of 26,000 metric tons of organic fertilizers with phosphates could not be done as planned. Accordingly, the expenditure of Rs. 32.35 million which had been spent under the project had become a useless expenditure. The implementation of the programme had been suspended by 15 March 2024 .

School Uniforms

Due to ordering without accurate size estimation while ordering required uniforms for school students in the years 2021 and 2022 in 04 zonal education offices in Uva province, 6,424 sets of uniforms valued at Rs.2.47 million belonging to 47 types had been stacked in warehouses and Development Division.

Teacher Vacancies and Excesses

There was a shortage of 2,214 teachers in 382 rural schools and a surplus of 583 teachers in 165 urban schools due to the lack of formal teacher balancing in 06 regions belonging to the Uva Provincial Education Department. A sum of Rs.549.75 million had been paid as salaries for excess number of teachers from 01 January 2022 to 31 December 2023 .

Ineffectual Staff Appointments

A number of 32 laboratory assistants were appointed for 27 schools without a laboratory, and 17 library assistants were appointed for 14 schools without a library. During the period from 01 January 2022 to 31 December 2023, the salaries of these employees amounting to Rs. 28.621 million had been paid.

Nothern Provincial Council

Special Development Unit of Point Pedro

Due to failure to take actions for last 01 year to assign nurses, doctors and related staff required for the Special Development Unit to the Point Pedro Base Hospital hospital which was handed over with properties including buildings constructed with medical equipment and furniture by the Dutch Government at a cost of Rs. 04 billion and to provide health services, a situation had arisen where the Provincial Council could not receive the benefit during the warranty period of the medical equipment.

Failure to Auction Vehicles

Even though 56 motor vehicles cost at Rs. 16.97 million to be auctioned by 03 provincial Ministries and 05 Departments in the year 2023 had been removed from the financial statements of the respective institutions, they had not been auctioned.

Non-signing of Procurement Contracts

Eighteen types of cooked food and dry food valued at Rs. 33.03 million had been procured by the Mullaitivu Regional Health Services Directorate and the Indigenous Medicines Department without signing contracts in contrary of Procurement Guidelines.

Establishment of Technical Evaluation Committees

In purchasing materials for the laboratory by Kilinochchi District Hospital in contrary to Northern Province Financial Circular PF/06/2015 dated 14 July 2015, fifteen procurements amounting to Rs.35.95 million for more than Rs.0.5 million had been done without the formation of Technical Evaluations Committees.

Charging Excess Money for Term Tests

A sum of Rs. 18.95 million had been collected from the students in the year 2023 for the final term examination conducted for the year 2022 by the Provincial Education Department for the students from 06 to 11 years and the additional amount of Rs. 5.02 million collected from the students had been deposited in the Provincial Education Department.

Irrelevant Expenditures

Even though separate sub-meters had been installed for two telecommunication towers installed in Vavuniya General Hospital premises, the electricity bills had been paid by the Vavuniya District Hospital itself without being charged by the relevant institutions. Similarly, the Government Revenue amounting to Rs. 4.54 million had been transferred to Vavuniya District Patients Welfare Association during the period from 01 February 2016 to 31 January 2022 .

Non-implementation of Annual Transfer Orders

Due to non-implementation of annual transfer orders after 2017 for Northern Provincial Drivers Service Officers, drivers in some Departments had been allowed serving continuously from 06 to 19 years.

Overpayments of Allowances

Allowances of Rs.10.23 million which had been overpaid to teachers in the Islands Education Zone from 2019 to 2023 without providing related allowances to teachers as per the school classification circular had not been recovered.

Food Allowances of the Governor

Although no allowance has been mentioned for food to the governor as per the Presidential Secretariat Circular No. PS/CSA/11-18 dated 12 October 2018, a sum of Rs. 4.04 million had been paid for food.

Official Quarters Rent

Although the monthly rent of the Governor's sub-office building in Colombo had been assessed by the Chief Valuer as Rs.0.1 million per month, due to overpayments of Rs.0.08 million per month in contrary to this assessment, a financial loss of Rs 1.24 million had occurred to the Provincial Fund.

Failure of Repairing Computers and Equipment

Although 1,316 desktop computers, 101 laptops, 186 tabs, 91 multi-function projectors and 38 whiteboards provided to Northern Province schools had broken, actions had not been taken to repair them and put them to use.

Distribution of Teacher Resources

It was observed in the audit of the teaching staff as at 31 December 2023 in the Northern Provincial Department of Education that, there are 560 excesses and 439 shortages in 13 zones due to the fact that teacher resources in the Northern Province Education Department are not effectively distributed equally to benefit all students.

North Central Province

Arrears of Taxes

The long-term land license fees of 2,474 long-term land license holders in relation to the 24 Divisional Secretariat Divisions of the North Central Province as at 31 December 2023 amounting to Rs. 398.06 million had been in arrears.

Failure to make Payment to Pension Beneficiaries

The pension amount of Rs. 27.23 million payable under the North Central Province Cooperative Employees Pension and

Social Security Benefit Scheme by the end of the year 2023 had not been paid to the respective beneficiaries.

Distribution of Thriphosha Out of the Thriposha stock provided by the Sri Lanka Thriposha Company valued at Rs. 26 million for the period related to the first half of 2023 to be distributed to the beneficiaries of the Anuradhapura Regional Health Service area, a number of 2310 Thriphosha packets valued at Rs. 1.1 million were missing. Further, due to the fact that 52,500 thriposha packets valued at Rs. 23.5 million had been kept in the wagons of the Anuradhapura Railway for more than 02 months without being released, a delay charge of Rs. 1.08 million had to be paid to the Department of Railway.

Recovery of Mobilization Advance on Non-commencement of Work

During the year 2017 an agreement had been entered into a value of Rs.542 million for the construction of an auditorium for Palugasdamana Maha Vidyalaya at Pollonnaruwa ,with a construction company. Although a Mobilization Advance of Rs. 100 million had been given to the contractor the relevant work, it had not been commenced and it was impossible to recover the advance amount paid even by 31 December 2023 .

Construction of Habarana Tourists Information Centre

An agreement had been entered with a private company for a value of Rs.598 million for Habarana Tourist Information Center Construction Project and Mobilization Advance of Rs. 119.6 million had been given for commencement of work on 27 September 2017. However, the construction of the information center had been terminated and the amount spent at that time had been Rs. 369 million. Even though it has been more than 7 years since the construction was stopped, a sum of Rs. 45.1 million of overpaid advances had not been collected even by the end of 2023 .

Analysis of Examination Results Children of the North Central Province

As per the details given by Department of Provincial Education the following matters were revealed in the analysis of the results of the children in the North Central Province who appeared for the examinations conducted for school students at the national level .

As per the results of the G.E.C. (O/L) examination, the North Central Province, which was in the 06th position until the year 2017, had been placed in the 09th (last) position in the years 2021 and 2022 .

As per the results of the G.E.C. (A/L) examination, the North Central Province, which was in the 08th position in the year 2017, had reached the 09th (last) position by the years 2021 and 2022 .

In comparison of obtaining more than 100 marks in the Grade 5 scholarship examination from the year 2021 to the year 2023 with the results of other provinces the North Central Province was ranked 5th, 6th and 6th respectively. The percentage of children who scored more than 100 per cent did not reach the 50 per cent limit in the last 3 years.

Government Paddy Purchasing Programme

The Food Commissioner's Department had given Rs. 43 million to the North Central Provincial Cooperative Department for the Government Paddy Purchasing Programme. From that amount, a sum of Rs. 33 million had been given as loans to Anuradhapura District Paddy Producers' Cooperative Society Ltd. in the year 2021 and out of which, a sum of Rs. 27.65 million had not been recovered by 26 Februay 2024 due to non-recovery of debts receivable from the said society and due to the Department of Co-operative Development has stopped lending and retention of the balance amount of Rs. 15.35 million in general deposit account, the objective of the said programme "prevent shortage of rice in the open market and control the price of rice" had not been achieved.

Local Authorities

Local government activities in Sri Lanka are operated by 341 local authorities, including 28 municipal councils operating under the Municipal Councils Ordinance (Cap.252), 37 urban councils operating under the Urban Councils Ordinance (Cap.255), and 276 Pradeshiya Sabhas operating under the Pradeshiya Sabhas Act, No. 15 of 1987. A summary of the financial statements submitted for audit in 2023 and the opinion of the Auditor General regarding those financial statements is summarized in the table below.

Type of Local Authority	The number of Councils/Sabhas required to submit financial statements.	The number of Councils/ Sabhas that submitted financial statements by 29 February 2024.	The number of Councils/ Sabhas that issued audit reports	The audit opinion according to the reports issued by 15 August 2024.			
				Unqualified	Qualified	Disclamer of Opinion	Adverse Opinion
Minucipal Councils	28	24	24	0	20	3	1
Urban Councils	37	37	37	0	34	1	2
Pradeshiya Sabhas	276	276	276	8	256	6	6
Total	341	337	337	8	310	10	9

Table No. 2.42 Submission of financial statements and issued audit opinion

(The financial statements for the year 2023 of the Kalutara, Kegalle, Puttalam, and Vavuniya municipal councils had not been submitted for audit)

For the year 2023, the income billed for Rates and taxes property rentals, licence fees, and other revenues by the aforemetioned local authoroties totaled Rs.29,095 million. Further details are shown below.

Type of Local Authority	Rates and taxes Rs.Million	Rentals Rs.Million	Licence fees Rs.Million	Other Revenue Rs.Million	Total Revenue Rs.Million
Minucipal Councils	4,480	1,700	469	5,128	11,777
Urban Councils	1,336	824	91	1,424	3,675
Pradeshiya Sabhas	1,903	2,908	693	8,139	13,643
Total	7,719	5,432	1,253	14,691	29,095

Table No. 2.43 Rates and taxes, rent, licence fees, and other revenues

Audit Observations

Arrears revenue

The arrears of revenue that remained receivable to local authorities as at 31 December 2023 amounted to Rs.13,709 million. This was attributed to the failure to take action in accordance with provisions in Acts for the collection of Rates and taxes, non-compliance with the conditions of lease agreements for the collection of rental income, failure to file lawsuits for the recovery of outstanding trade license fees, and the failure to collect other revenue in line with the provisions in the Acts, by-laws, and agreements.
Details regarding this are as follows. The details are given below.

Failure to recover Rates

Due to delays in the assessment of Rates over a period of 5 to 10 years of the local authorities, the failure to recover the Rates by identifying developed areas, and the non-revision of taxes after issuing certificates of compliance following the granting of development permits, a significant amount of Rates due to local authorities has remained uncollected.

Receivable Rentals

The failure to reassess rentals in a timely manner, delays in collecting assessed rental taxes, and the lack of renewal of rental agreements have caused many local authorities to lose substantial rental income.

Failure to collect receivable court fines and stamp duties

According to the financial statements of the local authorities as at 31 December 2023, a total of Rs. 1,838 million in court fines and Rs. 8,999 million in stamp duties remained receivable from the Provincial Councils. The details are as follows.

Type of Local Authority	Court Fines Rs.Million	Stamp Duties Rs.Million	Total Rs.Million
Minucipal Councils	126	1,501	1,627
Urban Councils	25	647	672
Pradeshiya Sabhas	1,687	6,851	8,538
Total	1,838	8,999	10,837

Table No. 2.44 - Outstanding Court Fines & Stamp Duties

The Provincial Councils had failed to provide the court fines and stamp duties to the local suthorities as required, which adversely affected the budget and planning processes of the local authorities.

Assets and Liabilities- Lands and buildings

A significant portion of the country's high-value commercial lands and buildings is owned by the local suthorities. According to the financial statements, the value of these assets amounts to Rs. 260,789 million. The details are as given below:

Type of Local Authority	Value Rs.Million
Minucipal Councils	93,745
Urban Councils	43,292
Pradeshiya Sabhas	123,752
Total	**260,789**

Table No. 2.45 Land & buildings of the Local Authority

Among the lands and buildings included in the above asset value, only those belonging to the local authorities in the Western Province and the North Central Province have been revalued at the current market price and recorded in the accounts as per the Sri Lanka Public Sector Accounting Standards for Local Authorities.

Motor Vehicles

The number of motor vehicles owned by the local authorities as at 31 December 2023 amounted to 11,009 and their total value stood at Rs. 28,327 million. Details are given below.

Type of Local Authority	Number of Motor Vehicles	Value Rs.Million
Minucipal Councils	3,342	11,600
Urban Councils	1,167	2,508
Pradeshiya Sabhas	6,500	14,219
Total	11,009	28,327

Table No. 2.46 Motor Vehicles belongs to Local Authorities

Investments

Since the main objective of local authorities is to carry out the tasks assigned by Act, they must plan expenditure and prepare budget statements in line with the authorities' income. However, many local authorities have not properly prepared their budgets and supplementary estimates, resulting in savings of funds being invested in fixed deposits and other deposits with the aim of generating income. The details are given below.

Type of Local Authority	Investment Rs.Million
Minucipal Councils	12,479
Urban Councils	2,716
Pradeshiya Sabhas	11,531
Total	26,726

Table No. 2.47 Investment of the Local Authorities

When local authorities failed to properly carry out their responsibilities, including public health, public utility services, public thoroughfare activities, and public welfare tasks assigned to them, the practice of maintaining their funds as fixed deposits became a problematic situation.

Cash and Bank Accounts

The balance of funds in the bank accounts and the cash on hand of local authorities as at 31 December 2023 was Rs. 12,720 million. The details are given below.

Type of Local Authority	Amount Rs.Million
Minucipal Councils	1,704
Urban Councils	1,724
Pradeshiya Sabhas	9,292
Total	12,720

Table No 2.48 : Bank Balances and Cash in hand

Loans of local authorities

According to the financial statements presented, the amount of loans obtained by local authorities from the Local Loan Development Fund (LLDF) and other institutions was Rs. 7,747 million. The details are given below.

Type of Local Authority	Loan obtained from Local Loan Development Fund. Rs.Million	Other Loans Rs.Million	Total Rs.Million
Minucipal Councils	3,946	1,641	5,587
Urban Councils	93	44	1037
Pradeshiya Sabhas	35	388	1123
Total	5,674	2,073	7,747

Table No 2.49 : Loans obtained by the local authorities

Surcharges

By virtue of powers vested in the Auditor General under Section 226 of the Municipal Council Ordinance and Section 172 of the Pradeshiya Sabha Act, surcharge notices amounting to Rs. 79.247 million were issued to a total of 130 parties in 2023. Of these, Rs. 50.361 million from the notices served to 10 parties was paid to the relevant authority's fund. Of the surcharge notices issued as mentioned above, surcharge certificates amounting to Rs. 2.150 million were issued to 62 parties during the year under review.

Failure to recover surcharges

Surcharges amounting to Rs. 1,58 million issued to 254 parties by the Auditor General under Section 226 of the Municipal Council Ordinance, Section 182 of the Town Council Ordinance, and Section 172 of the Pradeshiya Sabha Act for the years prior to 2023 had not been recovered.

Western Province

Out of the 49 local authorities in the Western Province, 08 municipal councils are established and operate under the provisions of the Municipal Councils Ordinance (Chap. 252), 13 urban councils under the provisions of the Urban Councils Ordinance (Chap. 255), and 28 Pradeshiya Sabhas under the provisions of the Pradeshiya Sabhas Act No. 15 of 1987.

Colombo Municipal Council

(a) Despite the commencement of constructing a new canal route with 632 in length as part of the Norris Canal development under the Ministry of Urban Development and Housing funded by the World Bank loan assistance, aimed at rapidly diverting rainwater to Beira Lake, the contract could not be completed due to an dilapidated housing complex of 36 houses belonging to the Municipal Council. In the year under review, an allocation of Rs. 150 million was made under the Ministry of Urban Development and Housing to complete the remaining 105 meters of the canal route. However, due to the delay in the steps taken to relocate the residents, the Municipal Council was unable to utilize the allocated funds, resulting in the failure to prevent flooding on Dean's Road in Maradana caused by rainwater.

(b) A sum of Rs. 459.6 million, which was an unauthorized expenditure under Section 188(1) of the Municipal Councils Ordinance, had been used to purchase 134,000 gift vouchers from Lak Sathosa at Rs. 3,500 each. These vouchers were distributed without any criteria, according to the discretion of the municipal council members. While this was done to provide relief to the economically distressed population due to the prevailing economic inflation, it was observed that neither the Municipal Councils Ordinance nor the Poverty Ordinance provided legal provisions for such actions.

Dehiwala - Mount Lavinia Municipal Council

By the end of 2023, out of the 206 plots of land identified as belonging to the Municipal Council, deeds or title certificates had only been obtained for 48 plots.

Sri Jayawardenepura Kotte Municipal Council

Due to the underpayment of bill amounts since 2014 for the construction of the Janajaya City Commercial Complex, an unverified late fee of Rs. 31 million had been paid.

Kaduwela Municipal Council

Despite the lapse of 07 years from the inactivation of the elevator, for which Rs. 3 million was spent in 2013 to provide access to the upper floor shops at the Kaduwela bus stand premises, it had not been restored. A council decision made in 2021 concluded that the elevator was ineffective for the bus stand and recommended relocating it to the head office, but this recommendation was not implemented either.

Maharagama Municipal Council

The Maharagama Urban Council had not implemented any projects related to degradable or undegradable waste management, and in the year 2023, a sum of Rs. 113 million had been spent for waste disposal, utilizing the council's waste transportation vehicles and also the private vehicles and also the private vehicles for this purpose.

Kolonnawa Urban Council

No title deeds had been obtained for 21 plots of land with a total revaluation amounting Rs. 3,706.3 million,that are utilized by the council.

Homagama Pradeshiya Sabha

Due to the failure to settle land titles and the incorrectness of the agreements, the receipt of Rs. 255 million due from the Meegoda Economic Center by 31 December 2023, became uncertain.

Seethawaka Pradeshiya Sabha

Based on a 2020 budget proposal, a contract worth Rs. 11.6 million (including VAT) for the construction of a burial site for corpses on the Suduwella crematorium land, as recommended by the Director (Planning) of the Ministry of Local Government, had been awarded to a private company. Although a retention money of Rs. 896,624 was released on 31

January 2023 for this purpose, a physical inspection conducted by the audit on 04 December 2023 revealed that this contract had been handed over without completing the work. It was noted that the construction remained idle due to inability to use it until completion of the remaining works.

Peliyagoda Urban Council

A sum of Rs. 10.204 million spent for the construction of a public toilet system on property belonging to the Railway Department and not owned by the council was considered an irregular transaction. Additionally, the cost of constructing a large toilet system, which included 3 men's toilets, 3 women's toilets, 2 accessible toilets for the disabled, and 2 bathing facilities for both men and women in a non-public area, became an unproductive expense.

Miniwangoda Urban Council

The vehicle park on the council's premises located at the starting point of Newham Road was leased on a rental basis in 2019, and the lessee had constructed 10 temporary stalls at that location during the same year. These stalls were then leased to others for a period of 3 years starting in 2020; however, the council had not taken any action against this in accordance with the terms of the agreements.

Katunayake Seeduwa Urban Council

Due to the council's failure to conduct any monitoring regarding the unopened stalls at the Katunayake New Shopping Complex, the shopping complex had become deserted and a significant portion of the ground floor of this building, which could have been utilized for productive activities, had not been put to any use.

Mirigama Pradeshiya Sabha

In the Mirigama Pradeshiya Sabha, 31 stalls that had been leased in 2019 were operating for business activities. However, due to the failure to provide keys to the stalls after the advance payments were collected and the agreements were signed, the outstanding advance balance of Rs. 41 million remained uncollectible.

Dompe Pradeshiya Sabha

The building, including a meeting hall, which was constructed by the Dompe Pradeshiya Sabha in 2018 at a cost of Rs. 8.6 million from the council fund under the Local Infrastructure

Development Programme, has remained unproductive and unsafe since its completion.

Ja-ela Pradeshiya Sabha

In 2019, without calling for tenders, the Ragama weekly fair had been leased to the previous lessee based on a decision made by the council, and no formal agreement was entered into regarding this. The amount of Rs. 4 million that was due to be collected up to the year 2019 had not been collected as at 31 December 2023.

Mathugama Pradeshiya Sabha

Of the 252 lands identified as belonging to the Sabha, documents required to legally confirm ownership for 48 of those lands were not available with the Sabha.

Beruwala Pradeshiya Sabha

A long-term systematic plan for waste disposal, which accumulates significantly in the Beruwala Pradeshiya Sabha, had not been developed. The Sabha had not provided sufficient space facilities for the hygienic slaughter of cattle at the slaughterhouse belonging to the Sabha, nor had it obtained a license from the Central Environmental Authority for this purpose. Additionally, due to the lack of a proper mechanism for discharging water, wastewater was being discharged into the adjacent Bentara River.

Southern Province

Galle Municipal Council

The council had initiated a large-scale Kawashima compost project without conducting a feasibility study or obtaining an environmental permit from the Central Environmental Authority for mechanized compost production. Due to the council's failure to resolve the 07 existing issues of the project, the compost production project costing Rs. 220 million had not been productive.

Imaduwa Pradeshiya Sabha

Due to the failure to implement the recommendations provided by the National Building Research Organization regarding the 14 shops of the Imaduwa Shopping Complex, which covers 260 square meters and was constructed by the Imaduwa Pradeshiya Sabha 17 years ago at a cost of Rs. 9.6 million without a feasibility study, the those shops could not be utilized for productive economic activities.

Katuwana and Beliatta Pradeshiya Sabhas

According to Section 04 of the Circular No.දපපා /පපාකො/2010/01 issued by the Provincial Commissioner of Local Government (Southern) dated 27 December 2010, key money for shops rentals should have been collected at the time of lease or within 06 months, under a maximum of six installments. However, due to the failure to follow this procedure, the outstanding key money to be collected from the Katuwana and Beliatta Pradeshiya Sabhas as of 31 December 2023 amounted to Rs. 14.6 million.

Management Inefficiencies

A total of Rs. 3.9 million in fees, which should have been collected for 21 approved building plans by the Tissamaharama, Angunakolapelessa, Ambalantota, and Weeraketiya Pradeshiya Sabhas, had not been collected.

Tangalle Urban Counci

The lessee who leased shop No. 32, belonging to the Tangalle Urban Council since 19 May 1994 had defaulted on rent payments. Additionally, an unauthorized two-story building had been constructed at the shop's location, and a cafeteria was being operated there. The council management had not taken any legal action regarding this matter even by the end of the year under review.

Tissamaharama Pradeshiya Sabha

A new shopping complex with 28 shops and an open building, located within the Pannegamuwa public market belonging to the Tissamaharama Pradeshiya Sabha, had been constructed at a cost of Rs. 62.9 million by the District Secretariat and handed over to the Sabha in 2021. This shopping complex had not been utilized even by the date of audit on 11 December 2023, resulting in the surrounding area becoming overgrown and severely contaminated. Accordingly, the failure to use this complex, constructed with Rs. 62.9 million in public funds and handed over to the Sabha, is observed as a waste of public money and a loss of potential revenue for the Sabha.

Sooriyawewa Pradeshiya Sabha

Four shops, a library building, a community water project, and water tanks, constructed with Rs. 21.6 million from the Sabha's funds, remained idle without being used even by the end of the year under review.

Weligama Pradeshiya Sabha

In the year 2022, under the waste management project of the Weligama Pradeshiya Sabha, a piece of land was purchased by assessing its value at Rs. 16.8 million under the name of a fictitious owner for the construction of a sewage treatment center using wastewater discharged from the septic tanks. Additionally, a sum of Rs. 0.78 million was spent from the Sabha Fund for legal and stamp fees. However, due to insufficient land for implementing the aforementioned project, it could not be executed, and by the end of the year under review, it had not been used for any purpose.

In the year 2013, following the sale of land by subdividing into plots, the Kaluwara Bedda land measuring 1 acre, 1 rood, and 2.80, which was handed over to the Weligama Pradeshiya Sabha for public purposes, was exchanged for a private property consisted of 1 acre and 2 roods located Garanduwa Kadalana in the Kamburugamuwa West Grama Niladhari Division, which belonged to a former chairman's relatives and obtained on lease from 01 December 2012 to 30 November 2013. The exchanged Kaluwara Bedda land was fraudulently approved for subdivision, and Plot No. 4 and 5 of that land were purchased to the Sabha for Rs. 3.85 million for public purposes.

Despite receiving approval to transfer the land where the car park for the Warakapitiya Crematorium, owned by the Weligama Pradeshiya Sabha, is located to the Sabha under Section 27 of the State Lands Ordinance, Rs. 4 million was paid from Sabha funds to a third party by submitting false information and obtaining a valuation report accordingly.

A former chairman of the Weligama Pradeshiya Sabha had stored 58 development permit files related to unauthorized and unapproved buildings, as well as 134 files on land subdivisions, in his office in a way that prevented further action from being taken. Additionally, building plans had been approved by removing one of the 3 copies of building plans included in the files and using a forged seal.

Weligama Urban Council

In 2002, the Jayawikugama Preschool of the Weligama Municipal Council had been established at a cost of Rs. 6 million, comprising 05 classrooms and 05 toilets, to provide educational facilities for 100 children. However, by the year under review, the buildings were in a state of dilapidated, and although the property was being used unlawfully by external parties, the council had not taken any steps to address the situation.

Matara Municipal Council A total of Rs. 23.35 million had been paid to a contractor in two phases for the construction of the Urban Commissioner’s official residence of the Matara Municipal Council. However, due to inaccurate preparation of the total cost estimates, improper planning, use of incorrect rates, and the inclusion of undone work and work not completed to standard, an additional Rs. 4.2 million was overpaid to the contractor from the council's funds. Contrary to the provisions of Guideline 4:3:1 (c)(ii) of the Procurement Guidelines, 2006, an amount of Rs. 7.89 million was paid for extra work and excess work, exceeding the Rs. 1.2 million limit, which is the maximum 10% of the civil work value. This amounted to 61 percent of the total estimated value.

In 2021, when the contract for the construction of the wastewater and sewage recycling system at the Matara public bus terminal was awarded at a cost of Rs. 14 million from the allocations of the Ministry of Provincial Councils and Local Government, the procurement process was conducted in violation of the provisions of the 2006 Procurement Guidelines. Additionally, it was observed that the water released by the wastewater and sewage recycling system did not meet the required standards. Accordingly, as the wastewater released by the system exceeded the discharge limits for internal water bodies or effluent, it was not recommended to discharge without proper treatment. Therefore, the intended purpose of the construction was not fulfilled.

Although nearly 10 years had passed since the Matara Municipal Council initiated the waste-to-energy project, the project had not been completed by the end of the review year. The Council had not taken steps to collect a monthly rental fee for the 5 acres of land assigned to the relevant company, and, in a situation where the project was not operational, to cancel the temporary occupancy of that land by the end of the year under review. Additionally, to manage the large garbage mound that is being created, an excavator was used on a rental basis to cover the garbage with soil, and by the end of the year under review, the Council had paid a rental fee of Rs. 57.72 million from its funds for that purpose; however, this did not result in a sustainable solution.

Sabaragamuwa Province

Imbulpe Pradeshiya Sabha

Although the Pradeshiya Sabha spent Rs. 4.6 million by the year 2017 for the development of the Pambahinna weekly fair, the expenditure has become unproductive as the fair was not developed to a suitable standard for the weekly fair.

Kuruwita Pradeshiya Sabha

Although the Kuruwita Pradeshiya Sabha Shopping Complex was completed in 2022 at a cost of Rs. 35 million, it remained idle even by December 2023 due to the incomplete basic requirements. Furthermore, the audit observed that a sum of Rs. 3.2 million had been overpaid for the construction of the conference hall.

Ratnapura Pradeshiya Sabha

The preliminary investigation committee appointed for the matter reported that the officer in charge of the subject at the Pradeshiya Sabha had committed a financial irregularity of approximately Rs. 2.2 million by preparing forged documents when settling fuel bills between May 2023 and January 2024. This was caused by the lack of an internal duty distribution system. Although it was quite evident that all fuel orders attached to the vouchers were distorted, the negligent actions of the officers responsible for checking, recommending, approving, and certifying the payments were questionable.

Rathnapura Municipal Council

While 157 laborers, appointed permanently on a personal-to-the-holder basis, were employed by the Municipal Council exceeding the approved cadre, an additional 65 laborers and 40 on service agreements were recruited into the relevant sectors without proper approval, and Rs. 24 million was paid in salaries for the year 2023. A significant number of the excess workers were assigned to the administrative offices, libraries, and preschools without being given specific duties.

Warakapola Pradeshiya Sabha

Under the 2021 Pradeshiya Sabha Infrastructure Development project, a contract valued at Rs. 56.1 million for the construction of a new town hall building was signed on 12 August 2021, and work commenced with a completion deadline of 270 days. However, although the work was completed with a final value of Rs. 23.81 million on 02 December 2022, based on the agreement of both parties, the building remained unutilized as of 25 April 2024, due to its lack of completion in a usable condition.

Although the Warakapola Pradeshiya Sabha had installed a digital billboard in 2019 at a cost of Rs. 3.82 million, expecting an annual income of Rs. 2 million, only an income of Rs. 0.37 million was earned in 2021 and 2022. Additionally, the related file for the billboard had been misplaced.

Deraniyagala Pradeshiya Sabha

Although the Deraniyagala Pradeshiya Sabha constructed a biogas unit in 2023, only a minimal amount of the produced biogas is being utilized, while most of it is burnt and destroyed. The Sabha had failed to efficiently and effectively use the Rs. 8.7 million spent on all these constructions.

Rambukkana Pradeshiya Sabha

Although no freehold deed or deed of transfer was handed over for the 01 acre 04 perches land belonging to the Kataragama Devalaya, the Rambukkana Pradeshiya Sabha had constructed a building on the land spending Rs. 97.59 million.

North Western Province

Giribawa Pradeshiya Sabha

The compost fertilizer unit of the Niraviya solid waste management center, built by the Giribawa Pradeshiya Sabha in 2019 at a cost of Rs. 6.86 million, had been abandoned due to the lack of waste collection within the Sabha's jurisdiction.

Central Province

Kandy Municipal Council

Between 2018 and 31 July 2023, an irregularity of Rs. 8.28 million had been committed by recording false receipt numbers in the rent ledger for 31 stalls in the Keppetipola, Bogambara, Menikkumbura, and Central Public Market complexes, owned by the Municipal Council, without charging proper shop rent.

An irregularity of Rs. 13.60 million had been committed in the transfer of 18 stalls in the Manikkumbura, Keppetipola, Bogambara, and George E. de Silva shopping complexes, by preparing fake receipts and transferring shops without proper receipts and approval from the Health Committee and the Municipal Council and thereby without crediting the prescribed down payment to the revenue of the council. No action had been taken to conduct an investigation under F.R. 104(4) to recover the losses and to implement the necessary disciplinary measures related to this matter.

The financial officer of the Municipal Council had misappropriated sum of Rs. 5.16 million, which was collected daily on 2 days, without depositing it in the bank. No necessary actions were taken in this regard by conducting investigations under F.R.104 (4).

Nawalapitiya Urban Council

Despite a misappropriation of Rs. 1.43 million that occurred without crediting the rates collected in the years 2020 and 2021 to the revenue, no appropriate measures were implemented against the responsible individuals following the investigation into the matter.

Kundasale Pradeshiya Sabha

The Central Provincial Council had provided Rs. 90 million in the year 2021 for the development of the Digana Aluthwatta Waste Management Center, which was operated jointly by the Kundasale and Pathadumbara Pradeshiya Sabhas. Although these funds were expended by the end of the year 2023, the project was unable to achieve its expected objectives due to improper planning of the buildings and the inefficiency of the officials, resulting in the project not being constructed as planned. Similarly, Rs. 10.29 million was spent in 2021 to purchase equipment for the organic fertilizer yard to remove excess moisture from the waste; however, the equipment was not operational from the date of purchase until the end of the year 2023. Similarly, although the Sabha had entered into an agreement with a private institution on 28 January 2021 to produce fuel from polythene and plastic of the solid waste project, the project had not commenced by the end of the year 2023. Nevertheless, a sum of Rs. 29.78 million was spent from the Sabha's funds in 2021 and 2022 to prepare the project site. Nevertheless, the expenses incurred by the Sabha were rendered ineffective because the contractor, who was supposed to install this machinery, did not proceed with the installation. No actions were taken against the contracting company regarding this issue.

Matale Municipal Council

According to the Public Administration Circular No. 13/2008(vi) dated 29 December 2021, a fuel allowance had been provided by adding it to the salary for 135 liters of diesel. However, exceeding that amount, fuel worth Rs. 1.04 million had been obtained through the orders without approval for the travel of the Minucipal Commissioner of the Matale Municipal Council from June 2021 to October 2023.

During the period from 01 October 2022, to 30 April 2023, funds charged by officials for the cremation of deceased bodies at the crematorium and expenses related to burial of dead bodies were falsely documented as other revenue receipts. This included alterations such as changing receipts, modifying entries in the relevant licenses, and failing to issue receipts despite receiving payments, resulting in a misappropriation of Rs. 0.70 million without being credited to revenue.

For the funds recovered concerning the provision of 57 gully services in 2023, a misappropriation amounting to Rs. 0.49 million had been committed by including forged numbers in the receipts for other income in the application for services, depositing an amount lower than the due revenue, and not crediting the revenue to the Sabha Fund, citing the invalidation of the receipts.

Nuwara Eliya Municipal Council

According to Sections 24(c) and 24(d) of the National Environmental Act No. 47 of 1980, and in accordance with the Condition 03 of the III Schedule of the Extraordinary Gazette Notification No. 1487/10 dated 05 March 2007, the Municipal Council had spent Rs. 3.73 million to construct a building using concrete slabs in Phase IV of the Gregory Lake project without obtaining approval or recommendations from the Central

Environmental Authority. The Central Environmental Authority had taken steps to initiate legal action against the Municipal Council regarding this matter.

Kotagala Pradeshiya Sabha

A contract worth Rs. 83.37 million had been signed on 11 May 2015, to construct a new building for the Pradeshiya Sabha, and work commenced accordingly. By 31 December 2016, a sum of Rs. 21.56 million had been spent on the project. Despite the work being halted for over 8 years as at the end of the year under review due to administrative and technical issues, no action had been taken to complete the construction.

Uwa Province

Bandarawela Pradeshiya Sabha

Utilizing funds from the Local Development Support Project (LDSP), the Bandarawela Pradeshiya Sabha had purchased 02 container bins for Rs. 3.97 million for waste management, along with 05 mobile trade stalls for Rs. 3.45 million during the year under review. However, both the bins and the stalls remained idle without being put to use.

Local authorities in Monaragala District

According to Section 19(XII) of the Pradeshiya Sabha Act No. 15 of 1987, it is stipulated that the Pradeshiya Sabha must obtain prior approval from the Minister in charge of the subject when leasing out its shops for more than three years. However, contrary to this regulation, 96 shops belonging to the Pradeshiya Sabhas of Buttala, Badalkumbura, Wellawaya, Tanamalwila, and Bibile had been leased for periods exceeding 03 years without securing the necessary approval.

A total of 1,573 building plans approved by the Pradeshiya Sabhas of Buttala, Badalkumbura, Wellawaya, Madulla, Tanamalwila, Monaragala, Bibile, and Kataragama before 2021 had not been inspected, and the required certificates of compliance had not been issued, as required by Section 83(1) of the Urban Development Authority Act No. 41 of 1978.

The validity periods of 126 environmental protection licenses issued 07 seven Pradeshiya Sabhas of Badalkumbura, Wellawaya, Siyambalanduwa, Medagama, Tanamalwila, Bibile, and Kataragama had expired. Furthermore, 04 Pradeshiya Sabhas of Badalkumbura, Tanamalwila, Bibile, and Kataragama had not taken measures to issue licenses for 41 industries identified during the year under review as requiring environmental protection licenses. Consequently, it was observed that the industries in these areas were not subject to proper regulation.

Environmental protection licenses from the Central Environmental Authority had not been obtained for 04 solid waste management units oprtaed by the Madulla, Medagama, Tanamalwila, and Bibile Pradeshiya Sabhas.

Tanamalwila Pradeshiya Sabha

Shop units No. 05 and No. 06 near the Danduma weekly market, owned by the Tanamalwila Pradeshiya Sabha, had been leased out in 2019. Although the leasing files show that an advance payment of 50 percent of the bid amount, totaling Rs. 1.5 million, was made, this amount was not credited to the Sabha's fund.

Northern Province

Management Weaknesses

The project complted by the Point Pedro Pradeshiya Sabha at a cost Rs. 2.80 million for tourists in the Manalkadu area in 2016, and the Mudaliyakuliya drinking water scheme, completed in 2014 at a cost of Rs. 2.99 million by the Wadamarchchi South-West Pradeshiya Sabha, had been entirely abandoned.

A total of thirty advances amounting to Rs. 6.883 million given by the Jaffna Municipal Council to contractors for the period spanning 5 to 27 years has still not been recovered.

No actions had been taken by the Jaffna Municipal Council to utilize Rs. 373.562 million, which had been held in 03 reserves for over five years.

Long-term lease agreements for 238 shops owned by the Jaffna Municipal Council, Point Pedro Urban Council, Chavakachcheri Urban Council, and Wadamarchchi South-West Pradeshiya Sabha, which should be renewed every 3 to 5 years, had not been renewed for periods ranging from 3 to 43 years.

Thirty-one unauthorized constructions were identified, but the Vengalacheddikulam Pradeshiya Sabha had not taken legal action regarding this matter during the year 2023.

Assets Management

Although there were 91 long-term defunct vehicles belonging to the Manthai East Pradeshiya Sabha, Thunukkai Pradeshiya Sabha and Puthukudiyiruppu Pradeshiya Sabha, Vavuniya South Tamil Pradeshiya Sabha, Vavuniya South Sinhala Pradeshiya Sabha, Karachchi Pradeshiya Sabha, Pachchilaipalli Pradeshiya Sabha and Poonakari Pradeshiya Sabha, Mannar Urban Council, Mannar Pradeshiya Sabha, Manthai West Pradeshiya Sabha, and Musali Pradeshiya Sabha, no steps had been taken by the Sabhas to repair them for reuse or to dispose of them.

Despite the use of 80 vehicles by the Maritiumatty Pradeshiya Sabha and Puthukudiyiruppu Pradeshiya Sabha, Velanai Pradeshiya Sabha, Vavuniya South Tamil Pradeshiya Sabha, Vavuniya South Sinhala Pradeshiya Sabha and Vavuniya North Pradeshiya Sabha, Karachchi Pradeshiya Sabha, Pachchilaipalli Pradeshiya Sabha, Poonakari Pradeshiya Sabha, and Mannar Urban Council, steps had not been taken to transfer the ownership of these vehicles to the relevant Sabhas.

In violation of Section 1.1 of the Public Finance Circular No. 2016/01 dated 30 December 2015, 36 buildings had been constructed at a cost of Rs. 67,162,397 on lands not belonging to the Jaffna Municipal Council, Chavakachcheri Urban Council, Valvettithurai Urban Council, Chavakachcheri Pradeshiya Sabha, Karainagar Pradeshiya Sabha, and Point Pedro Pradeshiya Sabha.

Lands with a total value of Rs. 318,806,967, consisting of 67 plots and 29 wells that did not belong to the Chavakachcheri Urban Council, Point Pedro Urban Council, Valvettithurai Urban Council, Karainagar Pradeshiya Sabha, Nallur Pradeshiya Sabha, Kayts Pradeshiya Sabha, and Walikamam West Pradeshiya Sabha, had been included as fixed assets in the financial statements.

The ownership of 98 lands and buildings, 188 cemeteries, 193 wells, and 81 vehicles used by the Jaffna Municipal Council, Point Pedro Pradeshiya Sabha, Delft Pradeshiya Sabha, Kayts Pradeshiya Sabha, Velanai Pradeshiya Sabha, Valikamam North Pradeshiya Sabha, Valikamam East Pradeshiya Sabha, Karainagar Pradeshiya Sabha, Chavakachcheri Pradeshiya Sabha, Vadamarachchi Southwest Pradeshiya Sabha, Valikamam South Pradeshiya Sabha, Valikamam Southwest

Pradeshiya Sabha, and Valikamam West Pradeshiya Sabha had not been transferred to the respective municipal councils, urban councils, and Pradeshiya Sabhas.

No actions had been taken to assess the value and account for 345 plots of land belonging to the Valikamam North Pradeshiya Sabha, Vavuniya South Tamil Pradeshiya Sabha, Vavuniya North Pradeshiya Sabha, Karachchi Pradeshiya Sabha, Pachchilaipalli Pradeshiya Sabha, and Poonakari Pradeshiya Sabha.

Idle / Underutilized Assets

Although many buildings and public wells of the Manthai East Pradeshiya Sabha had been constructed at a total cost of Rs. 53,481,480, the Sabha failed to confirm ownership, and they have not been utilized to date.

Under the Northern Fast Track Rehabilitation Project, the Nedunkeni bus station and shops had been constructed in 2011 at a cost Rs. 26,137,591. However, the Vavuniya North Pradeshiya Sabha had not taken any necessary measures to utilize them for 12 years.

The Karachchi Pradeshiya Sabha constructed three market complexes, 23 shops, parks, and vehicle parking facilities with an amount of Rs. 100,165,848 under the Sabha Fund and the Local Development Fund; however, they have not been utilized for a period of 01 to 02 years.

The Karachchi Pradeshiya Sabha, under the Provincial Councils and Local Government Ministry, constructed a solid waste composting facility in Umayalpuram at a cost of Rs. 4,090,488 in 2017, whereas it had not been utilized for 06 years.

North Central Province

Anuradhapura Municipal Council

No disciplinary investigations or necessary legal actions had been conducted regarding fraud and losses amounting to Rs.56.42 million that occurred in previous years in relation to the Urban Council.

No legal measures had been taken to collect the outstanding rent of Rs. 11.23 million owed to the Anuradhapura Municipal Council for official residence owned by the Council.

Rambewa Pradeshiya Sabha

In September and October 2023, an amount of Rs.0.35 million received daily by the Shraff had been misappropriated without being credited into the Sabha Fund, resulting in the interdiction of the officer performing the duty of the position of the Shraff. However, no formal disciplinary investigation had been conducted regarding this matter and no actions had been taken to recover the loss in accordance with Pradeshiya Sabha Rules 13, 14, and 15 from the responsible parties.

Thalawa Pradeshiya Sabha

Although a decision had been made to recover Rs. 4.46 million from the parties responsible for the loss of a Sabha-owned cab involved in an accident on 15 April 2019, the funds have still not been collected.

Horowpathana Pradeshiya Sabha

The assets, worth Rs. 3.2 million that were constructed at the waste management center of the Sabha remained idle, and there was no production of organic fertilizer from the decomposed waste or sales from the sorted non-degradable waste. As a result, the waste collected daily from the Sabha's jurisdiction was irregularly dumped into the Motogonewa reserve.

Padaviya Pradeshiya Sabha

In 2023, 34 fishing boats had been purchased under income generating project. However, Thirty fishing boats out of that remained idle in the Sabha premises without being utilized for generating income.

Palagala Pradeshiya Sabha

The multi-purpose building and well, constructed in the Hinguruwewa area at a cost of Rs. 19.74 million in 2022, remained idle.

Nochchiyagama Pradeshiya Sabha

Three buildings valued at Rs. 11.69 million constructed by the Sabha, and an official residence whose value had not been disclosed remained idle due to the lack of necessary actions to utilize them for income generation purposes.

Kahatagasdigiliya Pradeshiya Sabha	Regarding the non-payment of Rs. 1.07 million in fees collected from the Kahatagasdigiliya weekly market to the Sabha between January and 31 June 2023, the Revenue Inspector who acted during that period had only been transferred to another Sabha, but no systematic disciplinary investigation was conducted to recover the loss incurred by the Sabha.

Failure of State Enterprises In Furnishing Financial statements to the Audit

According to Section 16 (2) of the National Audit Act, No. 19 of 2018, and Section 6.6 of the Public Enterprises Circular No. 01/2021 dated 16 November 2021, financial statements of the state owned enterprises functioning under supervision of the Department of Public Enterprises of the Treasury, should be presented to the Auditor General within a period of 60 days since the end of the year of finance. Nevertheless, the financial statements of 36 entities (Table Nos. 1, 2, and 3) comprising 13 public companies, 04 public Corporations, 06 statutory Boards, 03 statutory Authorities, and 13 other statutory entities, had not been presented to the Auditor General by the respective boards of management of those entities even by 31 July 2024; but, those entities had not been supervised by the Department of Public Enterprises of the Treasury.

The years in which the relevant entities had last presented the financial statements to the Auditor General, opinions of the Auditor General given on those financial statements, and information on total assets, equities, liabilities, total revenue and expenditure of the entities, are given in Table Nos. 1, 2, and 3 below.

Table 2.50. Public Companies **(Rs. million)**

Auditee	Year	Opinion	Total Assets	Equity	Total Equity	Total Revenue	Total Expenditure	Post Tax Profit/(Loss)
Milco Pvt Ltd.	2020	Disclaimed	21,511.87	653.81	20,858.05	11,191.16	10,965.40	226.00
Sri Lanka Poultry Development Company (Pvt) Ltd.	2021	Qualified	263.58	209.14	54.44	65.99	56.62	9.00
Mahaweli Livestock Enterprises Ltd	2019/2020	Disclaimed	132.55	(28.31)	160.86	130.13	159.30	(29)
Waters Edge Recreation Ltd	2022	Qualified	150.69	(8.09)	158.79	209.87	211.84	0.90
Waters Edge Ltd	2022	Qualified	7,448.02	1,486.76	5,961.26	2,322.41	1,878.87	353.20
Lanka Salusala Ltd.	2010	Disclaimed	275.62	(367.36)	642.98	231.21	150.99	80.21
Lanka Sathosa Ltd.	2022	Disclaimed	12,175.35	(12,609.84)	24,785.19	57,545.66	57,581.08	(35.42)
Sathosa Security and General (Pvt) Ltd.	2022	Qualified	119.15	45.20	73.95	249.77	255.04	(5.27)
Sathosa Construction and Engineering Pvt. Ltd	2020	Disclaimed	272.06	13.55	258.50	5.61	8.58	(3.86)
Lanka Rest houses Ltd	2021	Disclaimed	97.84	(32.27)	130.12	36.31	38.32	(2.0)
Elkaduwa Plantations Ltd.	2021	-	1,673.45	681.15	992.30	757.98	431.82	323.03

Sathosa Security and General (Pvt) Ltd.	2021	Qualified	119.15	45.20	73.94	249.76	255.03	(5.27)
North C Ltd.	2020/2021	Qualified	340.00	260.00	600.00	269.00	358.00	(89.00)

Table 2.51- Public Corporations/Statutory Boards and Authorities (Rs. Million)

Auditee	Year	Opinion	Total Assets	Equity	Total Equity	Total Revenue	Total Expenditure	Post Tax Profit/(Loss)
National Livestock Development Board	2020	Qualified	5,689.42	4,223.40	1,466.01	3,290.00	3,312.00	(22)
New Villages. Development Authority for Plantation Region	2019	Qualified	0.05	(0.45)	0.5	0.00	2.50	(0.50)
Janatha Estate Development Board	2019	Disclaimed	2,912.23	(924.83)	3,837.06	1,129.43	1,478.32	(415.29)
Spices And Allied Products Marketing Board	2021	Qualified	266.52	242.82	23.63	127.65	140.05	15.80
Kithul Development Board	-	-	-	-	-	-	-	-
Coconut Cultivation Board	2020	-	769.30	100.51	668.79	48.33	2.15	46.20
Sri Lanka State Engineering Corporation	2020	-	17,319.37	1,831.11	15,488.26	2,254.57	3,631.17	(1,561.41)
Building Materials Corporation Ltd	2018	Disclaimed	549.05	(930.23)	1,479.27	233.48	184.83	(167.21)
Paddy Marketing Board	2020	Disclaimed	10,483.65	(14,656.27)	25,139.92	1,459.58	2,857.75	1,398.17
National Enterprise Development Authority	2021	Qualified	31.02	14.33	16.69	35.36	58.66	8.68
Urban Development Authority	2021	Disclaimed	219,766.08	77,103.82	142,662.26	4,041.96	3,790.60	235.10

Ceylon Fishery Harbors Corporation	2022	Disclaimed	5,573.00	4,780.00	793.00	1,372.00	1,546.00	364
Ceylon Fisheries Corporation	2018	Disclaimed	1,985.00	397.00	1,588.00	3,179.00	3,213.00	(34.00)

Table 2.53- Other (Funds/Foundations/Economic Centers...) (Rs. Million)

Auditee	Year of Finance	Opinion	Total Assets	Equity	Total Equity	Total Revenue	Total Expenditure	Post Tax Profit/(Loss)
Tea Shakthi Fund	2017	Disclaimed	666.19	65.65	600.54	181.87	43.50	184.47
National Library	2021	Adverse	237.50	178.43	59.07	5.37	153.63	153.00
Saumya Moorthi Thondaman Memorial Foundation	2019	Qualified	438.90	326.00	112.60	-	23.30	5.30
Vijaya Kumarathunga Memorial Foundation	-	-	-	-	-	-	-	-
Buddhasasana Fund	2021	Qualified	845.24	843.24	-	42.44	24.80	17.70
Central Cultural Fund	2019	Disclaimed	8,574.98	7,564.03	1,010.95	4,016.05	4,164.28	1,917.00
JR Jaywardana Center	2022	Qualified	193.52	172.10	21.43	44.53	39.04	5.50
National Film Corporation Trust for Film Artistes and Technicians	2022	Qualified	18.2	18.10	0.10	1.80	9.90	0.20
Samurdhi Micro Finance Stationary Revolving Fund	2019	Unqualified	167.00	133.00	22.00	13.00	2.00	-
Samurdhi Social Development Trust Fund	2019	Qualified	65.13	65.13	-	66.00	5.00	-
Lakshman Kadirgamar Institute of International Relations and Strategic Studies	2022	Qualified	167.66	165.68	1.98	47.56	44.66	2.90
Veyangoda Economic Center	2021	Qualified	256.55	253.96	2.57	18.92	12.59	6.32
Piliyandala Economic Center	2021	Disclaimed	75.42	65.10	10.32	8.96	15.30	(6.34)

Non-operating State Enterprises

According to the information made available to the Audit, 10 public Companies and 02 public Corporations remained non-operative as at 30 July 2024. Sri Lanka Rubber Manufacturing and Export Corporation had been closed and the Elpitiya Foam Rubber factory owned by the Corporation had been given on lease. All the employees of Co-operative Wholesale Establishment had been retired as at 2023.09.30, but no action had been taken to liquidate the Corporation. Furthermore, the Board of Directors had decided that some of the companies out of the 10 non-operating public companies, be liquidated upon Cabinet Decisions, whilst the others be voluntarily dissolved due to sustaining continuous losses. Liquidation process of 04 companies that had been scheduled to be dissolved, was commenced, but not completed even up to 31 July 2024. Liquidation process had not been commenced with respect to 06 companies.

According to the financial statements last presented to the Audit by the relevant entities, particulars on audit opinions, total assets of the entities, liabilities, total revenue and expenditure relating to the years in which the financial statements had been presented, are given below in Table 04.

Table 2.54- Non-operating State Enterprises **(Rs. Million)**

Auditee	Year	Opinion	Total Assets	Equity	Total Equity	Total Revenue	Total Expenditure	Post Tax Profit/(Loss)
Sri Lanka Rubber Manufacturing and Export Corporation	2020	Adverse	924.10	(51.20)	975.30	75.10	5.10	(2.7)
Kantale Sugar Industries Ltd	2019	Disclaimed	162.95	(3.18)	166.13	0.42	19.77	8.60
Higurana Sugar Industries Ltd	2015	Disclaimed	300.29	(1445.21)	1,745.49	5.91	10.19	1.50
Natural Resources Management Services (Private) Ltd	2019	Qualified	7.51	6.46	1.05	0.71	2.31	(1.59)
Venture Capital Pvt Ltd	2018	Disclaimed	15.60	15.22	0.38	0.50	0.13	0.30
Venture Capital Pvt. Ltd.	2016	Disclaimed	275.25	(634.16)	909.41	36.02	41.70	5.68
SLINTEC Academy	2021/2022	Qualified	4.60	(8.6)	13.20	0.05	1.60	0.30
Lanka Gemological Laboratory (Pvt) Ltd	2013/2014	Unqualified	139.01	124.18	14.83	-	(0.26)	(0.26)

NatWealth Securities Ltd	2021	Qualified	1,286.47	811.26	475.21	61.55	79.49	(423.38)
National Wealth Corporation Ltd.	2021	Qualified	1,258.48	1,257.30	1.19	1.68	3.90	(2.2)
Co-operative Wholesale Establishment	2020	Disclaimed	11,050.71	(2,941.27)	13,991.98	26.39	645.37	(614.42)
Peliyagoda Warehouse Company Ltd	2016	Qualified	220.56	196.66	23.90	84.26	9.78	65.87

03

Non - Financial Audit

Performance Audit Division

The Auditor General has been empowered to conduct performance audits in terms of Article 154 of the Constitution and Section 19 of the National Audit Act of 2018. A Performance Audit Unit was established in the institution in the year 2012 and since then, nearly a hundred performance audit reports have been tabled in Parliament until the end of the year 2023 under various topics of national importance. Performance audit evaluates the economy, efficiency and effectiveness of a government institution, programme, project or unit of expenditure in selected areas. More attention is being drawn by the Supreme Audit Institutions of the International Organization of Supreme Audit Institutions (INTOSAI) member countries to performance auditing and in our country too, more attention has been paid to performance audit reports among the public and other parties.

Our audit is carried out in accordance with the requirements set out in the International Standards for Supreme Audit Institutions (ISSAI) introduced by INTOSAI, adapted to local requirements. Audits are being carried out by the established Performance Audit Division of the National Audit Office as well as at the branch level. Participation in the collaborative audits conducted by the International Body is also done by the established Performance Audit Division of the National Audit Office.

The summary of reports containing the main points of the performance audit reports carried out by the National Audit Office and tabled in Parliament in the year 2023 are as follows.

Auditing Implementation of the Sustainable Development Goals - Strong and Resilient National Public Health System (related to Sustainable Development Goal 3 (d)) in Sri Lanka

Background of Issuing

The Goal 3 of the 17 Sustainable Development Goals is to ensure healthy lives and promote well-being for all at all ages. The 3 (d) goals established to achieve this objective aiming to strengthen the capacity of all countries, especially developing countries, to reduce risks through early warning, manage national and global health risks, and achieving those targets are assessed by the International Health Regulations, Capacity and Emergency Health Preparedness, indicator 3(d) 1, and the proportion of bloodstream infections due to selected antimicrobial resistant , organisms indicator 3(d) 2. The International Health Regulations (IHR 2005) were adopted at the 58th World Health Assembly held on 23 May 2005 to prevent and control the spread of disease internationally and thereby controlling protection and a responding public health. As a member country of the United Nations, Sri Lanka is also obliged to follow International Health Regulations. At present , the world's population is at risk of infectious disease outbreaks, emergencies and disasters related to those uses and other hazards, and reducing these risks and their consequences is essential for health protection.
The purpose of the report was to evaluate the effectiveness of the country's preparedness and programmes to achieve these goals.

The Institutions for which the Report was issued are as follows.

Ministry of Health, Ministry of Finance, Economic Stabilization and National Policy, Ministry of Defense, Ministry of Public Administration, Home Affairs, Local Government, Ministry of Agriculture, Ministry of Fisheries, Ministry of Environment, Sustainable Development Council, Disaster Management Center, Department of Animal Production and Health, Finance Commission and Sri Lanka Atomic Energy Regulatory Council

Main Recommendations Provided, in Brief.

- To be re -established National Health Council immediately and collaborate the every activity done by the main stakeholders regarding 3d target through the continuous meeting of the Health Council with the IHR Steering Committee.

- Procurement guidelines should be followed for every purchases including vaccines and efficient inventory control system should be introduced for pharmaceuticals.

- Disaster Prepared and Response Division (DPRD) & International Health Regulations (IHR) focal points should take actions to make aware of all the stakeholders about their responsibility regarding National Action Plan for Health Security (NAPHS) and the Line Ministry of Health should get active involvement of all stakeholders when implementation of NAPHS.

- Establish a sound Health Information System to exhibit the overall health information of the country

- The actions should be taken in order to expedite the activities at lower-level State Part Self- Assessment Annual Reporting Tool (SPAR) for strengthening public health system. .
- Establish mechanisms for accountability, inclusive, independent, evidence based, transparent and lead to remedial actions.

- As the Sustainable Development Council is the main institution for monitoring and evaluation of Sustainable Development Goals (SDGs) under the Act, the council should maintain a continuous monitoring system for Sustainable Development Goals (SDGs) targets including SDG 3.d target.

- The projects / programmes regarding health security should be prioritized in Public Investment Programme 2021 to 2024.

- When comparing Annual Development Plan on provincial basis Line Ministry of Health of Provincial councils and Finance Commission should be coordinated with the main stakeholders in National Action Plan for Health Security (NAPHS) . The Line Ministry of Health should get active involvement with Provincial Councils should emphasize the importance of National Action Plan for Health Security (NAPHS).

- When allocating resources for Regional Directorates of Health Services (RDHSs), the distribution of the population and the availability of other relevant necessary factors should be considered .

Observations included in the report have been stated under the Health Sector.

Evaluation of the Role of Government Institutions on Production and Promotion of Export Agricultural Crops

Background of Issuing

Export agricultural crops have been cultivated over long periods, focusing on export and as well as on domestic consumption due to a climatic condition favourable for agriculture and a people who depend on an agriculture based lifestyle in Sri Lanka. However, the purpose of this report was the evaluation of the performance of the government institutions which faces issues on inadequate growth in the long term in the contribution of exports of agricultural crops, shortages in the domestic market, reduction in foreign exchange earnings due to low percentage of exports of value-added products, exporting of certain export agricultural crops at a higher cost compared to the export income of 1 kg of export, not receiving proper price to farmers Promotion of export agricultural crops in view of re-export issues and the need to earn foreign exchange.

The Institutions for which the Report was issued are as follows.

Department of Import and Export, Central Bank of Sri Lanka, Department of Agriculture, Export Development Board of Sri Lanka, Department of Export Agriculture, Ministry of Plantation Industries.

- An agriculture policy, including a policy on export agriculture, should be formulated and implemented In order to promote the export agricultural crops.

- Incorporating positive amendments to the Export Agriculture Promotion Act No. 46 of 1992 and promptly enforcing it.

- Promotion of exports with value added products by identifying research priorities and providing adequate provision for them.

- In addition to producing crops required for indigenous medicine, cultivation should be promoted in herbal gardens owned by the Department of Ayurveda.

- To identify value added products and byproducts out of agricultural crops as much as possible, and plan strategies in that connection.

- Since the Department of Export Agriculture has the necessary technical knowledge and expertise to certify the seeds and planting materials related to export agricultural crops, legal provision should be made in order for the Director General of Export Agriculture to be legally authorized in that connection.

- Minor export crops should be purchased, stocks should be given to the producers and products of higher quality should be made available to the consumers through the Spices and Allied Products Marketing Board.

- **To provide the necessary legal authority to the Department of Export Agriculture for the national technical capacity to ensure the relevant seeds and planting material of export agricultural crops.**

- **Issuing of plants only to identified growers who have the necessary facilities to provide the plants to the farmers and formulating a continuous system up to harvest**.

- **Encouraging farmers and producers of export agricultural crops to produce according to Good Agricultural Practices (GAP) and Good Manufacturing Practices (GMP) certifications**.

The observations given for the Report are included under the Agriculture Sector

Performance of Purchasing Containerized Mobile Diesel Generators

As the entire system breaks down due to generation shortages and minor shortages in generation of electricity by Ceylon Electricity Board, a decision had been taken to purchase 50 containerized diesel generators of 1 MW/1.25 MVA capacity, 25 containerized transformers and 25 containerized fuel tanks to avoid instances of minor shortages. The estimated cost of this project was Rs.3,000 million and necessary funds therefor had been expended by the Ceylon Electricity Board. Accordingly, the total value paid to the contractor with the advance of 10 per cent of the contract value as at 31 August 2023 was Rs.2,373.32 million equivalent to US$12.209 million. The purpose of this project was to supply an uninterrupted service at regional level during emergency collapses of the national grid. Although this project had been initiated with the aim of continuing the various activities of people's life by avoiding the interruptions caused by the breakdown of electricity, it was decided to carry out a performance audit in this connection due to failure in achieving the said objective.

The Report was issued to the following institutions.

Ceylon Electricity Board, Ministry of Electricity
Ministry of Finance, Economic Stabilization and National Policy

The main recommendations given are as follows.

- Implementing measures set out in the Long-term Generation Expansion Plan and the Long-term Transmission Development Plan with a minimum cost in the manner of enhancing the reliability of electricity supply.
- In case of commencement of projects deviating from such plans a feasibility study thereon should be carried out.
- In the preparation of bidding documents, Conditions should be set out so as to enable the proper achievement of relevant objectives.
- In the recommendation of pre-qualifications of bidders, it should be logical so as to reach the relevant objective
- Detailed cost engineering estimates should be prepared for procurements with a high value and an evaluation of variations between the estimates and costs of items presented by the contractor, should be carried out in the evaluation of bids.
- Two Envelope System should be used for integrated large scale, supply and installation contract, executing of projects as per a time frame, to carry out the civil works etc. to be done by the Board properly.
- Providing systematic training for the officials of the board regarding the proper execution of civil works etc. to be done by the board, operation and maintenance of generators, providing systematic training for the officials of the Board regarding operation and maintenance of generators.
- Special attention should be drawn towards the technical capability and experience of bidders in making purchases with high technology.

Section where Observations are Entered

Power and Energy Sector

The Performance of Utilization of bus fleet of Sri Lanka Transport Board at Maximum Capacity

Background of Issuing

At present, the Sri Lanka Transport Board is spread throughout the island and, 12 Regional Offices, 114 Depots, 11 Regional Workshops and 07 Driving Training Colleges have been established under it for the purpose of decentralizing the Board's activities. The total fleet was 6951 buses and only 84 per cent of the total running time target was run by 31December 2022.

Institutions Issued

- Ministry of Transport and Highways,
- Transport Commission

The Main Recommendations given are as follows.

- Expediting the preparation of the National Transport Policy.
- Carrying out related functions in terms of the Transport Commission Act No. 37 of 1991.
- Implementation of proposals so that the fleet can be utilized in a way that improves the quality of public transport service.
- Preparation of an annual action plan including the budget by incorporating the proposals of the National Transport Commission and the concerned Provincial Transport Authority and the Transport Board in accordance with Section 10.1.(a) of the Transport Board Act No. 27 of 2005.
- Running the buses on identified new routes by effectively revising currently existing destination of bus services, starting postal services and courier services.
- Introducing new office bus services, Proper utilization of financial allocations and repair of old spares parts and buses by regional workshops and depots.
- proper utilization of technical sector staff, increase the capacity of the tyre retreading factory and take action to rebuild and recap the tires needed for the Board's bus fleet.
- Meeting passenger transport needs on a common time table scientifically determined by the National Transport Commission to meet passenger transport needs and preparation of active time tables applicable to both public and private buses in a manner that provides safety and convenience to the passengers.

- Take relevant action for coverage by the Board of 40% of the total market share of the route or routes for which a time table is prepared.

- Conduct quality tests regularly on the fuel consumption of buses and formally arrange duty rosters to avoid the shortage of drivers and conductors..

- Keeping status records of the condition of the respective bus by the depot engineer when the buses arrive for repair work, Check whether the bus is in running condition during repairs and re-commissioning, carry out docking and greasing of the buses in a timely manner.

- Introducing a streamlined system for a centralized supply process instead of purchasing spare parts for buses from depots.

- Purchase of high value items such as turbocharger, radiator, starter motor, tyres, spares, batteries, fuel pumps and engine oil to stop at the at depot level and to procure required stocks through open quotations so that quantity discounts can be availed and distribute them to depots.

- That the bus fleet owned by the Sri Lanka Transport Board should be used economically, efficiently and effectively for a cost-effective, reliable and comfortable transport service for the public by timely obtaining smoke test reports and environmental Licenses for buses etc.

Section where Observations are Entered

Transport Sector

Performance Audit on Management of Overcrowding in Prisons

According to the study carried out by John Howard in England about the form of a prison, prisons should be clean, spacious, educational and religious teaching should be conducted and even after the respective persons have left, it has been identified as an entity that needs to be looked into them.. he argument that by detaining a prisoner as a criminal, he should be subjected to physical and mental pressure to punish the crime and the concept that harm should be proportionate to the offense has existed in the prison system in the past. his concept was severely criticized by the analysts and social reformers at that time. Based on these facts, the argument was made that the prison should not be a torture chamber, but it should be a social reformatory. ꘯ As a result, the prisons which were in the form of a torture chamber have become character reformatories and the prisoners are being controlled based on the reformation policy.

The Institutions/Institute for which the Report was issued

Department of Prisons, Ministry of Justice, Prison Affairs and Constitutional Reforms

Main Recommendations issued are as follows.

- To take actions in accordance with the provisions of Chapters 178 and 179 of the amendments made in relation to Section 54 of the Prisons Ordinance No. 16 of 1877.
- To establish a strong and adequate rehabilitation process to reduce re-imprisonment and strengthening livelihood training.
- To conduct of relevant parties to minimize delays in submission of pre-trial detention charges.
- To focus on the introduction of alternative accepted methods such as house arrest instead of remand imprisonment in Sri Lanka's criminal justice system and take appropriate action.
- To prompt submission of analysis test reports to the court which are related to the samples submitted by the Department of Police to the Government Analyst's Department in relation to the suspects who are imprisoned by the court.
- To enhance inter-agency cooperation mechanisms in the criminal justice chain approach and utilize modern technology as much as possible.
- To take actions to imprison of inmates in compliance with International and National Standards for accommodation and care of inmates.
- To draw attention on revising laws related to drug offenses without compromising social security to facilitate prison management.
- Adequate deployment of human and physical resources required to implement rehabilitation programs and make necessary revisions .
- Recruitment of officers for Prison Department posts vacancies.
- To develop the labor and knowledge of inmates for socially productive activities.

Section where Observations are Entered

Department of Judiciary, Prison Affairs and Constitution

Special Audit

The Auditor General has been empowered to conduct special audits in terms of Section 154 of the Constitution and the National Audit Act No. 19 of 2018. hese reports conduct investigations in depth any irregularity, fraud, wrongdoing, incident or transaction and make observations and make recommendations including corrective measures. Most of the attention was focused on the reports issued by the Auditor General on bond issue , the impact of the simultaneous change in sugar tax rates and on the public debt. Background information about the reports issued by the Auditor General during the year 2023, the institutions issued and the main recommendations given have been included in this Paragraph. Key observations included in these reports are included under the relevant audit section

Special Report on the Purchase of Electricity from ACE Power Embilipitiya (Pvt) Ltd by the Ceylon Electricity Board.

Background of Issuing of Report

Without implementing the decision taken to consider this plant for purchase by the Ceylon Electricity Board After the expiry of the initial contract period with Ceylon Electricity Board with Ace Power Embilipitiya (Private) Company actions had been taken extend the power purchase agreement a year after the end of the initial contract period. As a result, this report was issued to identify the negative effects on the financial status and profitability of the Ceylon Electricity Board, and to focus on those negative effects and to obtain the desired results in optimum from such projects in the future.

Institutions for which the Report was issued

Ministry of Power, Ceylon Electricity Board, Public Utilities Commission

Briefly Summarized Main Recommendations

- To re-review the economic benefit of the purchase of the power plant and if any favourable position is confirmed from the purchase, to focus attention on the purchase of the power plant immediately or following the expiry of the existing agreement.

- In case a value less than the correct assessed value has been received due to failure to pay sufficient attention regarding the matters to be paid heed by the Government Assessor in doing assessment or/and due to the negligence, to identify the parties who should be responsible for the matter and take appropriate measures.

- If the Ceylon Electricity Board had not provided adequate information to that assessment and if the assessment has decreased due to not providing necessary assistance for that purpose, to take necessary measures regarding that matter

- If the power plant is not purchased and measures are further taken to purchase electricity from this plant and agreements are entered into for that purchase, to enter into with agreements so as to receive maximum benefits to the Government from the above purchase

- To provide accurate information to the top management on the possible weakness in the electricity system and the system limitations, and the effective alternatives to be followed for those weaknesses and limitations, and to obtain information from the relevant divisions by the top management in a timely manner and to take optimum decisions while paying attention to that information .

Special Audit regarding the International Cricket Council Men's T-20 World Cup Cricket Tournament - 2022

Background of Issuing of Report

This special audit report was released including the transactions and incidents and other related issues as well revealed in respect of the Sri Lanka Cricket which is working on behalf of the Government of Sri Lanka with the International Cricket Council carrying the official flag of Sri Lanka in relation to the game of cricket regarding the 2022 T-20 World Cup (Men) held in Australia from 09 October to 13 November 2022 by the International Cricket Council.

Institutions for which the Report was issued.

Briefly Summarized Main Recommendations

- To draw attention on the ability to assign responsibilities and duties to sports associations engaged in prominent functions of representing national official brands and national sports teams as associations acting on behalf of the government or the nation in performing that function.

- Identify the parties who have acted in a way that causes financial disadvantage or damage to the reputation of the Sri Lanka Cricket and the Government of Sri Lanka and take appropriate action against them.

- To expand the regulatory activities of the Minister in charge of Sports, the Ministry of Sports and the Director General of Sports .

- To identify the responsible parties related to the informal transactions and incidents related to the capital purchases related to the Sri Lanka Cricket and take action against it and strengthen the formal methods and register the suppliers so as to maximize competition, make purchases only with the approval of the Procurement Committee.

- To stop the unnecessary expenses of the Sri Lanka Cricket and reduce the expenses as much as possible and develop the facilities related to the cricket game locally.

- To enact regulations or strengthen existing regulations to regularize the weak areas identified in this Report and strengthen the mechanism for monitoring compliance with regulations.

- That relevant Annual Reports should be given to Parliament so that parliamentary control is further strengthened in relation to all national sports associations and making the necessary amendments to the Sports Act so that the committee meeting can be convened.

Special Audit Report on Fraudulent Entry of Chassis Numbers and Engine Numbers of Illegally Imported or Assembled Vehicles into the Motor Vehicle Registration Data System and Issuance of False Motor Vehicle Registration Certificates – 2022

Background of Issuing of Report

By comparatively investigating the data system of the Department of Motor Traffic, the hard copy files used by the Motor Transport Department as well as the information included in the Electronic Revenue License (ERL) data system established for the issuance of revenue licenses for the North-Western Provinces and Central Provinces, this report was issued based on the observed facts.

Institutions for which the Report was issued.

Ministry of Transport and Highways, Department of Motor Traffic

Briefly Summarized Main Recommendations

- Development of the Department of Motor Traffic data system so that all the amendments made in relation to the registration of a motor vehicle are automatically stored in the system in relation to the past information and the details of the users who have contributed to the change in the said information.

- As the chassis number of a registered car cannot be changed in terms of the Motor Vehicles Act, amending the system in such a way that it is not possible to change a chassis number in any way in the computer system in the manner of such requests are automatically rejected.

- Taking necessary steps to prevent the opportunities given to users through the ERL data system to change the data transmitted to the computer system of the Department of Motor Traffic and issue revenue licenses and to prevent fraudulent issuance of revenue permits.

- Conduct an investigation at the institutional level regarding the relevant observations given in this report and take appropriate disciplinary action against the responsible officers in accordance with the Establishments Code of the Democratic Socialist Republic of Sri Lanka and other relevant laws.

- **Blocking of** Department of Motor Traffic **Data System to prevent the registration of any motor vehicle for numbers that have not been used by the** Department of Motor Traffic**, disabled numbers and numbers ending in the last four digits of the registration number, ending with 13 and the sum of those four numbers being 13.**

- The data system of Department of Motor Traffic should be blocked by confirming that no vehicle are being registered using unused blank numbers, disabled numbers and the last four digits of the registration number ended by 13and the sum of those four digits are being 13, then it should be announced to the general public about the registration numbers which are already unused and will be unused in the future in timely manner.

Special Audit Report on the Admission of Students to Intermediate Grades in National Schools in the Years during the Period from 01 January 2020 to 31 May 2022

Background of Issuing of Report

In admitting students to intermediate grades in national schools due to the Secretary of the Ministry of Education has issued letters directly to the principals regarding the admission of students and due to illegal intervention on the requests/recommendations/appeals/orders of various parties outside of the prescribed procedure the audit was able to identify that students were enrolled in those classes exceeding the maximum number of students that can be in a class according to the circular provisions. As a result, the public representations had been received to the audit on various occasions and the media had also discussed these matters from time to time.

Institutions for which the Report was issued.

Ministry of Education

Briefly Summarized Main Recommendations

- Preventing the introduction of various methods to admit students by exceeding the limits and functioning with transparency and openness in admitting students as the limits on the maximum number of students that should be in a class of a school have been determined by the decisions of the Cabinet of Ministers and by the Court orders.
- Since all the students have lost the equal access to a national school as the Secretary of the Ministry has taken action to admit students in contrary to the decisions of the Cabinet of Ministers to admit students to intermediate grades of national schools, Circulars and provisions issued by the Ministry from time to time, the existing rules and regulations must be followed in the admission of students to an intermediate grade and thereby, all the students should be provided with equal opportunities under the relevant criteria.
- Even though the Committee established in the respective school should give approval for the recommended students according to the relevant Circular in the admission of students to the intermediate grades of national schools, the relevant circular provisions have been violated as the Secretary had deviated from that methodology. Therefore, the Secretary should not issue letters under any circumstances on direct requests, recommendations, favours and letters appeared as orders made except in an instance, which is exceptional and rare and that can be specifically justifiable by the Secretary.
- As the Secretary of the Ministry of Education had taken action to admit students based on the requests, recommendations, favours and letters appeared as orders made by public representatives as well as other specific persons by disregarding the existing regulations, such opportunities can be identified as biased opportunities due to the fact that all students do not get opportunity of equal access and therefore, providing a special opportunity for such letters received should be prevented..
- A special opportunity has been given through the relevant Circulars to admit the children of the staffs, who have worked for more than three years in the Ministry of Education and institutions determined as affiliated to the Ministry of Education and it has been identified that equality is being violated as indicated in the above paragraph through the provision of such special opportunities. Therefore, the provision of such opportunities should also be reconsidered..
- When the Ministry of Education arranges for the admission of students for the intermediate grades of national schools, arrange for further inspections to be carried out to check whether any financial or other illegal transactions or various irregularities have taken place at any level due to failure to follow a clearly identified formal procedure for accepting relevant requests, issuing letters to schools and parents

- Avoiding the interference of external parties in decision-making and refraining from forming additional committees and appointing members in such a way as to exceed or suppress the powers given in the formal circulars to take relevant decisions and make recommendations.

Special Audit Report on Installation of Safety Systems for Railway Level Crossings in Sri Lanka

Background of Issuing of Report

This report was issued pointing out to the responsible parties the importance of scientific planning of railway safety systems and to focus on streamlining the existing safety systems.

Institutions for which the Report was issued.

Ministry of Transport and Highways, Department of Railways

Briefly Summarized Main Recommendations

- The 120-year-old Ceylon Railway Ordinance No. 09 of 1902, which is currently in force, quickly amended the provisions of the Act, including the rules, regulations, punishments and titles, to suit the present day and work to enforce the Act so that it can be used for efficient administration.

- Take necessary measures to properly deploy safety at Railway Level Crossings and taking every possible measure to prevent accidents by properly maintaining the safety systems established at high cost.

- Conduct an accurate study of the number of Railway Level Crossings in Sri Lanka and maintain an update data system, and take necessary steps to implement a formal program of compensation to persons killed and injured and property in unsafe Railway Level Crossing accidents.

- Proceeding according to the existing laws against the persons who served in the position of General Manager of Railway during the relevant periods regarding the damage caused to locomotives, carriages and the road due to failure to properly fulfill their responsibility for the implementation of road safety systems and the cost incurred to restore them.

- Since the relevant statements and reports do not confirm that the Technical Evaluation Committee has dealt with transparency in the evaluation of this procurement and considering the accomplishment of Technical Evaluation Committee's role in not providing sufficient and true information to the Cabinet of Ministers.

- Although a committee appointed by the department to look in to the possibility of canceling this procurement has recommended that the procurement to be cancelled and re-procurement be carried out and install the road safety systems, without evaluating those recommendations the concerned company was handed over the said procurement nearly after 2 ½ years and Action should be taken against the officials who acted in relation to it and should be checked whether any financial irregularity has occurred through it.

- Appropriate action shall be taken against the supplier company who misleads the department by submitting false information and fails to complete the procurement work within the relevant period..

Special Investigation Division

The word investigation is primarily used as a tool to identify the true form of an event or existing situation. The matters such as the background facts affect to an incident or an existing situation, the measures taken, its existing characteristics, the results that may be occurred by it and its stakeholders are analyzed in an investigation. In that way, when there is a need to conduct an investigative audit in relation to any unusual and suspicious transaction or incident related to an audit entity, such investigative and audit functions are carried out by the Special Investigation Division. For that purpose, a Special Investigation Division has been established with officers who are trained and employed by the National Audit Office with experiences in Special Investigations and Forensic Audits. The methodology use in carrying out these audits is included in the official website and accordingly, the risk framework regarding the incident is identified first. ඒ Accordingly, the steps such as planning the audit and deploying resources, executing the audit, gathering information, getting responses and reporting are followed..

Transactions and events that are of sufficient quantity and quality to be subjected to a special audit investigation considering the matters arising from public representations made to the Auditor General, as per Section 04 of the National Audit Act No. 19 of 2018, requests of the Committee on Public Accounts and the Committee on Public Enterprises, information received from heads of public institutions, information disclosed by the media, other economic and social issues of current importance are audited in this Investigation Division.

In addition to investigative audits conducted within the Division the officers of this Division are temporarily assigned in some cases to other Audit Divisions/Branches as per service requirement, Special Investigations related to the tasks assigned to those Divisions/Branches are carried out.

Quantitatively significant examinations out of the group of transactions and incidents that were undergone special investigations so in the year 2023 are shown below.

Transactions /Incidents /Entities undergone Investigations

I. Special Audit in relation to International Cricket T-20 World Cup (Men) 2022

II. The audit conducted on Transferring of a Portion of Land belonging to the Sri Lanka Port Authority to a Company at a Low Value.

III. Examination of the Balance of Rs. 3,047.107 million stated under trade debtor balance in the statement of financial position of the Paddy Marketing Board as at 31 December 2018 .

IV. Audit inspection on the construction of an Urban Park and Mixed Development Project at the Methotamulla landfill site.

V. Investigation on Taking over of the Lunawa Rest House land by the Government

VI. Examination of Representation on Empathy Project in the Learning Process implemented by Sri Lanka National Commission for UNESCO.

VII. Audit examination of the Establishment of a Co-operative Society instead of the restructuring of the Marketing Project implemented under the Hadabima Authority of Sri Lanka.

VIII. Audit of the Renovation and Improvement Works related to the Premises of the Ministry of Mass Media.

IX. Audit Examination on granting leave with pay to an officer serving in the Ministry of Finance for Reading for Ph.D .

X. Audit Examination conducted on Recruitments of National Housing Development Authority.

XI. Audit Examination on Provision of Counter-financing Loan Facilities and Recruitment of Officers of State Mortgage and Investment Bank.

XII. Audit Examination on Administration of the Chairman of the Construction Industry Development Authority.

XIII. Investigation of Misuse of Government Vehicles and Maintenance of Documents with Deficiencies in the Southern Provincial Road Development Authority.

XIV. Deleting the approval given by the Minister of Sports to place the activities of the Sri Lanka Karate -Do Federation under an Interim Control Committee and allowing the accused officers to run the Federation.

XV. Audit Examination on the Administration of Hockey in Sri Lanka during the period 2015-2022.

Certain observations revealed by the Special Investigation Division are tabled as Annual Audit Reports issued under Section 11 and 12 of the National Audit Act and as Special Reports issued under Section 13 of the Act, in terms of Article 154 of the Constitution and some observations are only included in reports issued to Management.

However, the officers in the Special Investigation Division are discharging functions and duties though there are a large number of vacancies in the audit staff in the year 2023, and under the circumstances, attaching the officers of the Division to other audit branches on temporary and permanent basis from time to time for the audit of financial statements had affected to make limitation in the functions of the Investigation Division.

Due to the facts such as the relatively long time taken for an investigative audit and the time spent by organizations to provide answers to audit observations as well as the need to repeatedly review those answers etc., inclusion of the observations of the special investigation audits conducted in each year in the above reports are being done during the year of the audit is conducted or almost in future years.

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE