

Head 222- Sri Lanka Army

1. Financial Statements

Qualified Opinion

The audit of the financial statements of Sri Lanka Army for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance and cash flow statement for the year then ended was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. The summarized reports on the financial statements of the Sri Lanka Army to be submitted in terms of the paragraph 11(1) of the National Audit Act No. 19 of 2018 which contained my comments and observations had been submitted to the Accounting Officer on 16 June 2020. The detailed management report of Sri Lanka Army to be submitted in terms of the paragraph 11(2) of the National Audit Act No. 19 of 2018 had been submitted to the Accounting Officer on 15 September 2020. This report in pursuance of provisions in Article 154 (6) of the Constitution read in conjunction with paragraph 10 of the National Audit Act No. 19 of 2018 is presented to the Parliament.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements which was prepared in terms of the public finance circular No.271/2019 dated 03 December 2019 give a true and fair view of the financial position of Sri Lanka Army as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards

(SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Chief Accounting Officer and Accounting Officer for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of paragraph 38 of the National Audit Act, No. 19 of 2018 for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act No. 19 of 2018, Sri Lanka Army is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of Sri Lanka Army.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in Sri Lanka

Army and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carry out.

1.4 Auditor's Responsibility for the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements

can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Audit Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also,

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Sri Lanka Army.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

As required by Sub-section 6 (d) and Section 38 of the National Audit Act, No.19 of 2018, I state the followings.

- (a) Financial Statements are consistent with the previous year
- (b) The recommendations on financial statements for the previous year made by me had been implemented by the Sri Lanka Army.

1.6 Comments on Accounts

1.6.1 Accounting Deficiencies

(a) Property Plant Equipment

Audit observation	Recommendation	Comments of Accounting Officer
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(i) Total value amounted to Rs.468.62 million relevant to biological assets, computer software, buildings and machinery of fuel filling stations and trade centres had not been accounted for as assets.	Assets should be properly accounted for and disclosed in the financial statements.	It was stated that accounting activities being carried out.
(ii) Revenue from the sale of extinguishers for Rs.5.291 million shown in the statement of financial position was credited to the asset account and the relevant adjustments had not been made thus the total assets had been understated by the same amount.	Assets should be properly accounted for and disclosed in the financial statements.	It was stated that in future opening balances would be correctly stated in the financial statements.

- (iii) An extent of 160 plot of lands owned by Sri Lanka Army had not yet been valued and not taken in to accounts. Lands which was owned by Army should be identified, valued and accounted for expeditiously. It was stated that after the completion the valuation.

(b) Non availability of audit evidence

Audit observation	Recommendation	Comments of Accounting Officer
<p>(i) Amounted to Rs.2,590 million shown as other assets in the building and constructions under the statement of financial position and other assts under machinery and machinery equipment amounted to Rs.111.22 million and the schedule represented by it had not been submitted for audit.</p>	<p>Action should be taken to identify the assets accurately.</p>	<p>It was stated that detail report on other assets under buildings and constructions would be submitted in future and that other assets under machine and machinery equipment would be carried forward as opening balances from several years.</p>
<p>(ii) According to the general conditions No.07 of the letter No.mod/dev/rvsa/61/2012 of the Ministry of Defense and Urban Development dated 19 July 2012 in the payment of Ranaviru Parental Care allowance out of the total recipients for the years 2017, 2018 and 122,699 recipients in the first half year 2019 amounted to Rs.3,297.03 million had been paid without obtaining biographical</p>	<p>Action should be taken to obtain biographical records prior to the payment.</p>	<p>The letter stated that the Army had informed all locations and all regimental bases about the general conditions and that it would seek instructions from the Ministry of Defense to suspend the allowance of those who did not submit biographical reports.</p>

records.

02. Financial Review

2.1 Expenditure Management

<u>Audit observation</u>	<u>Recommendation</u>	<u>Comments of Accounting Officer</u>
(a) In year 2019 amounted to Rs.3,297.07 million had been transferred for 12 expenditure codes in 05 instances by the Sri Lanka Army, supplementary estimates amounted to Rs.3,153.80 million in 04 instances had been approved.	Budget estimates should be prepared as accurately as possible.	It was stated that provisions were transferred from the supplementary estimates and from F.R.66 on annual requirement.
(b) Substantial amounts of provisions had been saved due to not managing the provisions efficiently for the expenditure codes. There were 35 expenditure codes with such saving of more than 10 percent and that value was amounted to Rs.11,111.66 million.	Provisions should be managed efficiently.	Although for the settlement of the bills for 18 expenditure codes had been submitted to the payment offices, it was stated that the treasury had not received sufficient liquidity.
(c) Even though provisions amounted to Rs.1,500 million and Rs.225 million had been made available for 2 numbers of expenditure codes under	Provisions should be utilized as planned.	It was stated that the procurement activities could not be completed during the year due to

the Indian credit series but no expenditure had been incurred on those expenditure codes during the year.

the Easter attack.

- (d) Provisions amounted to Rs.4,659.60 million for 07 expenditure codes and supplementary provisions amounted to Rs.604.70 million and the total expenditure amounted to Rs.3,266.66 million out of the estimated amount of Rs.1,392.94 million and the total supplementary provisions of amounted to Rs.604.70 million had been saved.
- Preparation of strategic plans in a timely manner for its utilization in allocating provisions on annual requirement, timely implementation and follow up.
- It was stated that bills could not be settled due to insufficient liquid funds.
- (e) Even though budget provisions for 2019 amounted to Rs.200 million and amounted to Rs.30 million respectively had been made available for number of 02 expenditure codes under the Pakistan Credit Series, but out of it respectively amounted to Rs.84.80 million and amounted to Rs.29.76 million or 42.40 percent and 99 percent had been saved.
- Preparation of strategic plans in a timely manner for its utilization in allocating provisions on annual requirement, timely implementation and follow up.
- Procurement was completed and it was stated that the provisions were saved due to not confirming the bank of Pakistan to settle the money.
- (f) Even though provisions amounting to Rs.100 million had been made available through a supplementary estimate for expenditure code which was not made available provisions
- Preparation of strategic plans in a timely manner for its utilization in allocating provisions on annual requirement, timely implementation and follow up.
- It was stated that the divisional secretariats fail to get the participation of substantial number of

from budget, But amounted to on annual requirement, students and had not
Rs.97.04 million or Rs.97.04 percent timely implementation received adequate liquid
savings remained by the end of the and follow up. funds.
year.

2.2 Imprest Management

Audit Observation -----	Recommendation -----	Comments of Accounting Officer -----
(a) The unsettle imprest balance as at 31 December 2019 relevant to year 2019 was amounted to Rs.195.88 million.	Actions should be taken in terms of the Financial Regulation 373.	It was stated that steps are being taken to settle.
(b) The unsettle imprest balances relevant to years 2008, 2011, 2017 and 2018 amounted to Rs.2.81 million, amounted to Rs.2.65 million, 3.46 million and 9.18 million respectively had not been settled even during the year under review.	Settlement activities should be expediate.	It was stated that steps are being taken to settle.

2.3 Entering in to Liabilities and Commitments

Audit Observation -----	Recommendation -----	Comments of Accounting Officer -----
Although in terms of the F.R.94 (1) the liability and the amount of expenditure incurred should never exceed the allocation for the year, the Sri Lanka Army had been committed liabilities exceeding to Rs.30.09 million relevant to 03 expenditure codes during the year under review.	Should not be committed to liabilities exceeding the savings in allocations in terms of the F.R. 94(1).	It was stated that the reason was the inadequate provisions made to settle the brought forward commitment and liabilities.

2.4 Utilization of provisions given by other Ministries and Departments

Audit Observation	Recommendation	Comments of Accounting Officer
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A sum of Rs.864.02 million had been provided in year 2019 by 07 other Ministries and Departments for the implementation of 44 various programmes and project activities out of which incurred provision was amounted to Rs.672.45 million. Out of was spent amounted to Rs.191.57 million or 22 percent of the allocation had not been incurred. Further out of which expected 44 activities provisions of 12 of them had not been utilized.	To perform the assigned duties proper plans should be implement timely and follow up.	It was stated that the progress of the relevant activities as at 31 December 2019 was 78 percent.

2.5 Issuance and settlement of advances

Audit Observation	Recommendation	Comments of Accounting Officer
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According to the reconciliation statement furnished to audit the outstanding loan balances amounted to Rs.62.87 million existing the range between 01 year to more 05 years but no actions had been taken to recover those loan balances.	Acting in terms of the provisions of paragraph 4 of chapter xxiv of the establishment code.	Outstanding loan balances being recovering.

2.6 Deposit Balances

Audit Observation	Recommendation	Comments of Accounting Officer
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Even though deposits exceeding 02 years on the date of deposit should be credited to the government revenue or should be refund in terms of the Financial Regulation 571(3), deposits amounting to Rs.1.10 million as at 31 December 2019 had not been act upon exceeded 2 years.	Should follow the circular instructions.	Steps being taken to settle.

3 Operating Review

3.1 Assets Management

The following facts were observed during the inspection of the 01 General service Brigade of Sri Lanka Army at Panagoda.

Audit Observation	Recommendation	Comments of Accounting Officer
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(a) When conducting the inspection of the dry food ware house eleven items valued at Rs.102.02 million which should be stored dry and cool environment condition had been stored fully covered high temperature warehouse.	Actions should be taken to store food in a manner that protects its quality.	No problem have arisen So far and the focus is on the possibility of converting the warehouse in to a cold warehouse.
(b) Total value amounting to Rs.4.25 million 2,489 units of 188 items which was received during the period from the year 2011 to year 2016 in Mechanical Transport 1 warehouse as at 19 February 2020 had not been issued.	Actions should be taken to purchase by identifying the annual requirements accurately.	It was stated that this was due to the removal of the vehicles from the use of those mechanical transport spare parts items and the incompatibility of those spare parts with existing vehicles.
(c) There were 74 batteries total value amounted to Rs.0.63 million Mechanical Transport 11 as at 19 February 2020, out of which was total value amounted Rs.0.41 million of 56 batteries which was purchased in years 2013 and 2014 and received to stores were at the end of the lifespan.	Actions should be taken to purchase by identifying the annual requirements accurately.	It was stated that the batteries were received to the warehouse from another warehouse and when it was receiving that the warranty period was due to expire and that it was not possible to issue these batteries as it was currently expired.
(d) A valued at Rs.3.20 million tires and tubes and 329 units of 22 related items which was received to mechanical transport store during the period from year 2013 to year 2017 had not been issued.	Actions should be taken to purchase by identifying the annual requirements accurately.	It was stated that the stock of spare parts was left over as there were only a limited number of vehicles involved in these spare parts.
(e) Stock of L-Angle iron bars valued at Rs.0.85 million purchased for	Steps should be taken to purchase and use	It was stated that the length of the iron could

United Nation Peace keeping duties according to the not be stored in the
 was received to the supply transport correct requirement. warehouses and it was
 II warehouse on 22 November 2018, underway to place it in
 but those were piled up in the the warehouse.
 outdoor corridor of the warehouse
 premises and most of them had been
 decayed.

3.2 Loses and Damages

Audit Observation	Recommendation	Comments of Accounting Officer
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<p>There were 120 events of recovering damages, written off and waived off during the year 2019 in Sri Lanka Army and those value was amounted to Rs.47.11 million. Further there were 172 events either to recover or write off or waived off and there value was amounted to Rs.14,368.75 million of these events relevant to 72 exceeding 10 years was valued at Rs.675.68 million, relevant to 38 events between 5-10 years was amounted to Rs.77.37 million and the value less than 05 years relevant to 62 events was amounted to Rs.13,165.70 million. In addition, the estimated value of the fire damage at the Sri Lanka Army in Salawa Camp in year 2016 was amounted to Rs.12,829.23 million, of which the value of state properties was amounted to Rs.12,817.76 million. It was included in the losses to be further write off or waived off.</p>	<p>Emphasizes the need to write off or waive off from books or expedite the process of recover.</p>	<p>It was stated that action would be taken to settle the matter expeditiously.</p>

4 Human Resource Management

		Audit Observation			Recommendation	Comments of Accounting Officer
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Description		Approved Cadre	Actual Cadre	Vacancies	Amend the approved staff in a timely manner or take action to recruit the staff as appropriate.	Not commented.
Regular	Officer	7,760	7,132	628		
Brigade	Other ranks	119,704	101,053	18,651		
Volunteer	Officer	2,899	2,050	849		
Force	Other ranks	70,149	56,012	14,137		
Total	Officer	10,659	9,182	1,477		
	Other ranks	189,853	157,065	32,788		

5 Information regarding the Civil Service served in the Sri Lanka Army was as follows

		Audit Observation			Recommendation	Comments of Accounting Officer
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Employ Category		Approved Cadre	Actual Cadre	Vacancies	Amend the approved staff in a timely manner or take action to recruit the staff as appropriate.	Not commented.
Senior Level		-	-	-		
Tertiary level		19	11	8		
Secondary level		204	146	58		
Primary level		9,575	9,963	960		
Casual/contract		1,348				
Total		11,146	10,120	1,026		