

Head 224- Sri Lanka Air Force

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Sri Lanka Air Force 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 Air Force 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 03 June 2020. The detailed management report of Sri Lanka Air Force 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 02 September 2020. This report in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 prepared in accordance with the provision of State Account Circular No. 271/2019 of 03 December 2019 give a true and fair view of the financial position of Sri Lanka Air Force as at 31 December 2019 and its financial performance and 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 paragraph 16(1) of the National Audit Act No. 19 of 2018, Sri Lanka Air Force 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 Air Force.

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 Air Force 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 summarized 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 Auditing Standards, I exercise professional judgment and maintain professional skepticism 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 Air Force.
- 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

In terms of Sub-section 6 (1)(d) and Section 38 of the National Audit Act, No.19 of 2018, I state the followings.

- (a) The financial statements had been consisted with preceding year.
- (b) The Recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Statement of the Financial Performance

Audit Observation	Recommendation	Comments of the Accounting Officer
The revenue generated during the year under review by the revenue generated projects including holiday bungalows and farms had not been brought to account.	The human and physical resources of the Sri Lanka Air Force are being used for these projects operated in commercial basis and the information in connection with the financial performance thereon is needed to be disclosed in the financial statements.	As the revenue generated from these projects are being used for the welfare activities, such information is not included in the financial statements.

1.6.2 Certification required to be done by the Accounting Officer

Audit Observation	Recommendation	Comments of the Accounting Officer
The Chief Accounting Officer and Accounting Officer needs to certify that an effective internal control system on financial control is established and continuously maintained by the Sri Lanka Air Force in terms of provision of the paragraph 38 of the National Audit Act No. 19 of 2018 and periodical reviews should be carried out to ensure that the respective system are effectively implemented and make necessary modifications. The details of such reviews need to be documented and copies of the documents should be submitted to the Auditor General. However, the declarations on such reviews had not been presented to audit.	Need to be complied with the provisions made under the paragraph 38 of the National Audit Act No. 19 of 2018.	It had been informed that the copy of the performance report will be given after being tabled in the Parliament.

1.6.3 Improper Transactions

The following observations are made.

Audit Observations	Recommendations	Comments of the Accounting Officer
(a) A sum of Rs. 2.93 million had been paid to the Welfare Fund of the Sri Lanka Air Force without following Financial Regulations 138,137 and 138.	As per the Financial Regulation 138 (3), supervision is needed to be carried out before certify the expenses by the officer who certify the expenses. Further, out of allocation made for the Sri Lanka Ari Force under the annual allocation by the General Treasury, it is not suitable to given an approval to pay for the welfare fund.	Eventhough this has been done for fulfilment of the urgent expenses of the Ari force by the Executive Welfare Fund of the Sri Lanka Air Force, reimbursements are made in compliance with the Government Tender procedure. It was informed that the reimbursement of cash is made through the Director Finance by submitting the properly prepared files with the bills.
(b) According to the paragraph No 05 of the Air Force Direction No. 852 of 30 November 2011, the Internal Funds had been formed at the various camps and units of the Sri Lanka Air Force Headquarters. The physical and human resources of Sri Lanka Air Force are used for the operating activities of the Funds and profit generating project implemented by the respective Funds. Further it was observed that the operating activities of such Funds had not been monitored by the General Treasury and the Parliament, as a result of the respective Internal Funds were not established as the statutory funds in terms of F.R.154.	It is required to establish a mechanism to regularize supervision of the Parliament on the operations of the profit generating activities conducted by the Internal Funds as per the provisions made in the Constitution of the Democratic Socialist of Sri Lanka and the directions issued at the meeting of the Committee on Public Enterprises held on 24 June 2016.	The Internal Funds had been established under the Air Force Direction No 852 and the annual audits on the affairs of the Funds are carried out by the Executive Audit Section of the Sri Lanka Air Force.

2. Financial Review

2.1 Revenue Management

The following observations are made.

Audit Observations	Recommendations	Comments of the Accounting Officer
(a) The estimation had been made on income of hiring aircraft as Rs.220 million for year 2019 and subsequently it had been revised as Rs. 100 million by the Sri Lanka Air Force and a sum of Rs. 128 million had been collected during the year under review. The collected income was 128 per cent from the revised estimate.	It is needed to estimate the income accurately which expected to be earned by the entity for the strengthen the financial management on the Government income.	Number of air crafts of the Sri Lanka Air Force and their fitness for the use for commercial flight operation activities had declined and as a result, number of flights had to be limited.
(b) According to the Hiring of Aircraft Revenue Account No 20.03.02.16 presented to audit, revenue aggregating Rs. 13.17 million had been remained outstanding and out of that revenue aggregating Rs. 10.82 million had remained outstanding for over the period from 4 years to 15 years.	The Revenue Collecting Officer should take actions to collect the revenue promptly, as per Financial Regulation 175(2).	Action had been taken to sent reminders for the recoverable balances and the approval of the General Treasury had been sought to write off the balances recommended as unrecoverable.

2.2 Management of Expenses

The following observations are made.

Audit Observations	Recommendations	Comments of the Accounting Officer
(a) Eventough the Estimates should be prepared after being carried out proper studies to recognize the real requirement, provisions of Rs. 1,034.8 million had been transferred between the expenditure codes through Financial Regulation 66. Further, the additional allocations of Rs. 728.1 million had been obtained through Supplementary Estimates.	Action should be taken to prepare estimates accurately as per Financial Regulation 50	The estimates are prepared as per the cooperate plan of the Sri Lank Air Force, vision of the Sri Lank Air Force and directions and instructions issued by the General Treasury and Ministry of Defence. Provisions had been transferred without affecting to the activities of the expenditure objects, due to requested entire allocation had not been received.

- (b) Over provisions aggregating Rs. 5,513 million had been made under 51 Expenditure Objects and it was remained at a range from 10 per cent to 100 per cent of the net allocation. Further, allocations aggregating Rs. 2,544 pertaining to 7 Expenditure Objects included in the above mention expenditure objects had been remained unutilized entirely.
- Action should be taken to prepare estimates accurately as per Financial Regulation 50
- The reasons such as delays in receiving bills, imprests not available adequately, procurements not done during the year, the repairs of air crafts under the consultation of foreign experts were not completed during the year under review etc, had caused this savings of allocations.

2.3 Liabilities and Commitments Entered

Audit observation	Recommendation	Comments of the Accounting Officer
Liabilities amounting to Rs. 49.6 million had been entered over the allocation made for 2 Expenditure objects and liabilities amounting to Rs. 3.2 million had been entered for the another 2 expenditure objects without estimating by the Sri Lanka Air Force	Need to comply with the Financial Regulation 94.	Commitments had been entered over the provisions of the two expenditure object, in consideration of the overall allocation of the expenditure objects of the Sri Lankan Air Force, liabilities had not been exceeded by the commitments. It had informed that it was made as per the service requirements.

2.4 Utilization of allocations transferred from other Ministries and Departments

Audit Observation	Recommendation	Comments of the Accounting Officer
A sum of Rs. 832 million had been transferred to the Sri Lanka Air Force by other 05 Line Ministries and 03 Departments for the works expected to be done from the Sri Lanka Air Force. Out of that a sum of Rs. 620 million had only been utilized at the end of the year under review. Accordingly savings of allocation was 25.5 per cent.	The reasons for savings of the allocation need to be explored and action should be taken to utilized it for the intended purposes.	Not Commented.

2.5 Advance Account Balances

Audit Observation	Recommendation	Comments of the Accounting Officer
the total balance of the advances made to the officers amounted to Rs 13.71 million had remained outstanding as at 31 December 2019 and respective outstanding balances had been remained for over period ranging from 01 to 05 years, excluding the advance balances to be recovered from the officers who transferred out.	Action should be taken against the defaulted officers in terms of the paragraphs 8.1 and 8.2 of the Chapter XLVII of the Establishment Code.	Action had been taken to send reminders to the respective officers on recoverable balances and referred to the General Treasury to write off the balances of advances recommended as un-recoverable.

3. Operating Review

3.1 Activities Extraneous to the Main Purposes

Audit Observation	Recommendation	Comments of the Accounting Officer
The Heli Tours Limited managed by the Sri Lanka Air Force as a private company using its physical, human and financial resources had earned profits aggregating Rs 57.4 million during 10 years from 2010 to 2019. However, no any return had been received on investments made by the Sri Lanka Air Force.	Action need to be taken to obtained adequate return to the Sri Lankan Air Force.	It was informed that the matters on the share ownership of the Company had been discussed with the General Treasury and expected to implement as per the decision thereon.

3.2 Annual Performance Report

Audit Observation	Recommendation	Comments of the Accounting Officer
Eventhough total progress of the annual action plan was 99 per cent, progress of the procurement plan was 66 per cent. It was observed that the progress of the implementation of the internal audit plan was 91 per cent.	As per the Action Plan, after being reviewed the progress need to achieve a satisfactory progress.	Not Commented.

3.3 Procurements

Audit Observation	Recommendations	Comment of the Accounting Officer
<p>02 Washing Plant valued at Rs. 65.41 million had been procured on 20 September 2018 for the purpose of wash the motor cars and vans by the Sri Lankan Air Force. It was observed that the respective 02 machine had been remained idled over 08 months at the date of audit on 01 October 2019 after being used for the 2,534 vehicles. In procurement of those machines another accessory had been provided instated of the Pre Washing Plant accessory mentioned in the specification and payment had been made thereon after deducting Rs. 356,000 from the bid value. Eventhough it was agreed to provide cleaning items for use of 6,000 vehicles, provided cleaning items was enough for the use of 2,534 vehicles only.</p>	<p>Action need to be taken to obtained cleaning items required for the use of 6,000 vehicles as agreed by the supplier and attention need to be drawn to procure required cleaning items from the local supplier.</p>	<p>It was informed that the action is being carried out to obtained cleaning items required for wash the 6,000 vehicles and steps will be taken to procure the cleaning items from the local suppliers after expiration of the warranty period.</p>

3.4 Assets Management

The following observations are made.

Audit Observations	Recommendations	Comments of the Accounting Officer
<p>(a) It was observed that the Material drill khaki (8325001050) clothes of 61,327 metres valued at Rs. 25.76 million had remained underutilize for over 02 years by the date of 20 November 2019 in the Base Camp at Katunayake and Higurakgoda.</p>	<p>It is necessary to identify the requirement before making procurement and maintain the stock control system in optimum level.</p>	<p>It was informed that approval was received to sew trouser and court from the respective stock and balance stocks will be over after being used in year 2021.</p>
<p>(b) White shirts (84905002030) valued at Rs.1.36 million each at Rs. 1,475 given for the use of employees who sever in the mess of the Sri Lankan Air Force and white T-Shirts cloths of 12,139 metres had been remained underutilized as at 03 November 2019. Out of that white T- shirt cloths of 195 metres valued at Rs. 66,300 had been removed from the usage, due to reduce in colure of the cloths.</p>	<p>Need to make the procurement after being identified annual consumption perfectly.</p>	<p>It was informed that it is expected to issue for the next years.</p>

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| (c) (i) | 38 items of spare parts of aircraft sent during the period from 2004 to 2013 and 7 items sent in year 2016 to the foreign countries for repairing purposes had not been received back to the Sri Lankan Air Force. | Action should be taken to bring back spare parts sent to the foreign countries promptly. | It was informed that 5 items had been brought and action is being carried out to bring the other items which was sent to the foreign countries. |
| (ii) | 27,541 items pertaining to 442 stocks categories not issuing and slow moving had been stored in the E- category. | It is need to be used after being informed the other camps regarding the stocks. | It was informed that stocks of the stores had been transferred to the non moving stores and 225 categories of stocks is being issued now. |
| (d) | It was observed that 31 defender vehicles had remained at the repair premises at Katunayake base camp as at 05 November 2019 and out of that 16 vehicles had been remained over the periods ranging from 02 year to 08 years. Further, 145 other vehicles remained and out of that 25 vehicles had been remained over 04 years. Eventhough 84 vehicles unable to use had recommended to dispose over 01 year, disposal activities had not been carried out. | Action should be taken to repair the vehicles before obsolete and vehicles that unable to repair need to dispose promptly. | It was informed that the steps had been taken to repair by obtaining the required spare parts and action is being carried out to disposed the vehicles that could not be used. |

3.5 Losses and Damages

The following observations are made.

Audit Observations	Recommendations	Comments of the Accounting Officer
(a) According to the Statement of Losses and Waive Offs prepared in terms of the State Account Circular No.271/2019, a sum of Rs. 955.18 million on 252 incidents including amount aggregating Rs.815.62 million related to 205 incidents less than 5 years, an amount of Rs. 122.03 million on 19 incidents between 05 years to 10 years and a sum of Rs. 17.53 million on 28 incidents over 10 years had been reported as losses remained either to be recovered, write off or waive off.	Need to take action as per the Financial Regulations.	It was informed that the action would be taken either to recover, write off or waive off.

- (b) A contract valued at Rs. 0.16 million had been awarded to an entity after being called the quotations on 20 November 2009 for the repair of the engine of the truck no 5078. Eventhough respective engine had been handed over to the entity for repairing purposes on 21 June 2010, action had not been taken to bring the engine valued at Rs. 1.34 million to the camp after being repaired.
- Action should be taken to obtain the spare parts given for the repairing purposes to the external parties as soon as possible and need to take action against the parties who responsible for the losses.
- It was informed that the recommendation had been made to recover the respective losses from the officers and employees.
- (c) Concrete slab had been fallen during the constructions is being carried out in the China Bey Academy for the purposes of parking of aircraft and Sri Lankan Air Force had given steel and advances to the respective construction company. In this regard a loss of Rs. 30.95 million had to be incurred to the Sri Lankan Air Force.
- Responsible parties needs to take action to recover the losses.
- Reports of the Court of inquiry were referred to the Ministry of Defence. It was informed that the action was being taken to black list the respective company.
- (d) A loss of Rs. 98.69 million had been incurred by the Sri Lanka Air Force, due to a Radar Receiver and an Antenna Scanner had been sent to foreign country in 2015 for repairing purposes and displaced while transporting by air. Action had been taken to recover Rs. 493,438 out of the loss from an officer who responsible losses, as action had not been taken to obtain an insurance cover thereon. Out of that Rs.112,888 had only been recovered as at 30 September 2019.
- Need to take action to recover the loss from the respective company and black list the company. Further, need to take insurance cover before sent the goods to foreign countries for repair purposes.
- It was informed that the respective amount had been recovered from the salary of the respective officer and entire amount will be recovered by 2023.
- (e) 187 Solar Power Street Lamps had been procured from the 02 supplier in year 2009 by the Sri Lankan Air Force and out of that 148 Street Lamps valued at Rs.19.94 million could not be used for the purposes. It was unable to recover the respective losses from the two private companies which responsible for the losses.
- Responsible parties needs to take action to recover the losses.
- It was informed that the action is being taken through the Attorney General to recover the losses from the mother company of that company, due to respective company has become inactive.

4. Human Resources Management

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Approved carder was 40,505 to fulfill the functions of the Sri Lankan Air Force as at 31 December 2019 and vacancies of 3,455 had been remained at the end of the year under review including 50 vacancies in seniority level, 441 vacancies in territory level, 2,070 vacancies in secondary level and 830 vacancies in primary level. Further, a sum of Rs. 28,170 million had been incurred under personnel emolument code by the Sri Lankan Air Force for the year under review. Accordingly, per capita expenditure was Rs. 397,640.</p>	<p>Recruitment need to made for offices of the air force and other rankers.</p>	<p>Not commented.</p>