

Report of the Auditor General on Head 223 –Sri Lanka Navy - Year 2015

The audit of the Appropriation Account, Stores Advance Account and the Reconciliation Statements including the financial records books, registers and other records of the Head 223 – Sri Lanka Navy for the year ended 31 December 2015 was carried out in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Navy Commander on 21 July 2016. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, Stores Advance Account and the Reconciliation Statements in accordance with the provisions in Articles 148,149,150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2. Accounts

2.1 Appropriation Account

(a) Total Provision and Expenditure

The total net provision made for the Sri Lanka Navy amounted to Rs.58,043 million and out of that Rs.57,043 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision of the Sri Lanka Navy amounted to Rs.1,000 million or 1.72 per cent. Details appear below.

Expenditure	<u>As at 31 December 2015</u>			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs.Millions	Rs. Millions	Rs. Millions	
Recurrent	48,188	48,026	162	0.34
Capital	9,855	9,017	838	8.50
Total	58,043	57,043	1,000	1.72

(b) Utilisation of Provisions made available by other Ministries and Departments

Provisions totalling Rs.1,877.12 million had been made available by other 03 Ministries and 03 Departments for various purposes and out that a sum of Rs.514.12 million had been utilized as at the end of the year under review. Accordingly, the savings out of the provisions amounted to Rs.1,363 million or 72.61 per cent. Details appear below.

Ministry/ Department which gave Provisions	As at 31 December 2015		
	Provisions	Utilisations	Savings
	Rs.Millions	Rs.Millions	Rs.Millions
Ministry of Defence	474.00	456.00	18.00
Ministry of Transport	9.00	9.00	-
Ministry of Finance	92.00	31.00	61.00
Presidential Secretariat	72.00	18.00	54.00
Department of Pensions	1230.00	-	1230.00
Sri Lanka Air Force	0.12	0.12	-
Total	1,877.12	514.12	1,363.00

2.2. Advance Account

2.2.1 Advances to Public Officers Account

Limits Authorised by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account of the Sri Lanka Navy under, Item No.22301 and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs.Millions	Rs.Million	Rs.Millions	Rs.Million	Rs.Millions	Rs.Millions
640.00	533.08	480.00	624.54	900.00	342.81

2.2.2 Stores Advance Account

(a) Limits Authorized by Parliament

The limits authorized by Parliament for the Stores Advance Account of the Sri Lanka Navy under, Item No.22302 and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
345.00	343.91	360.00	509.95	350.00	150.11

2.3 Imprest Account

The balance of the Imprest Account No.7002/0000/00/0029/0015/000 of the Sri Lanka Navy as at 31 December 2015 amounted to Rs.58 million.

2.4 General Deposit Account

The balance of the Deposit Account, No. 6000/0000/00/0015/0104/000 of the Sri Lanka Navy as at 31 December 2015 amounted to Rs.289 million.

2.5 Audit Observation

The Appropriation Account, the Stores Advance Account and the Reconciliation Statements of the Sri Lanka Navy for the year ended 31 December 2015 had been satisfactorily prepared, subject to the audit observations appearing in the Management Audit Report referred to in Paragraph 1.1 above. The material and significant audit Observations out of the audit observations included in the Management Audit Report appear in Paragraph 3.

3. Material and Significant Audit Observations

3.1 Non – maintenance of Registers and Books

It was observed during audit test checks that the Sri Lanka Navy had not maintained the following Registers.

Type of Register	Relevant Regulation
(i) Register of Security	Financial Regulation 891 (1)
(ii) Register of Electrical Equipment	Financial Regulation 454 (2)
(iii) Register of Losses	Financial Regulation 110
(iv) Attendance Register of Procurement Committee and Technical Evaluation Committee Meetings	Guideline 2.11.2 of Government Procurement Guidelines

3.2 Appropriation Account

3.2.1 Budgetary Variance

The following observations are made.

- (a) Out of the provisions made for 09 Objects, provisions ranging from 18 per cent to 97 per cent had been saved due to a limitation of issuing imprests to the Sri Lanka Navy by the Department of Treasury Operations and non-receiving goods and services relating to the orders issued by the Navy to the suppliers in the year under review.
- (b) Provisions of Rs.10,000,000 had been obtained through a Supplementary Estimate Allocation Warrant by stating that the provisions made for Capital Object were not adequate. Nevertheless, the entire provisions had been saved by the end of the year due to non-execution of the respective activity.
- (c) The liabilities incurred exceeding the savings by Rs.97,500,035 after utilization of provisions made for 05 Objects of Sri Lanka Navy.

3.3 Imprest Account

The following observations are made.

- (a) Even though the ad-hoc sub imprests obtained should be settled immediately, after completion of the purpose in terms of the provisions of Financial Regulation 371, the ad-hoc sub imprests had been settled with delays ranging from 30 days to 90 days after completion of the purpose.
- (b) The sub imprests had been obtained exceeding the required amount for an activity and those imprests had been retained in hand without utilizing and had been settled after a long period of delay.

3.4 General Deposit Account

Action in terms of Financial Regulation 571 had not been taken on 45 deposits older than 2 years totalling Rs.3,232,175.

3.5 Reconciliation Statement of the Advances to Public Officers Account

The following deficiencies were observed during the course of audit test checks of the Reconciliation Statement as at 31 December 2015 relating to the Advances to Public Officers Account, Item No.22301.

- (a) According to the Reconciliation Statement presented to audit, the balances that remained outstanding as at that date totalled Rs.9,669,257. Even though those outstanding balances remained over periods ranging from 01 year to 05 years, the follow-up action on the recovery of the outstanding balances had been at a weak level.

- (b) A register had not been maintained to record the special advances granted and recoveries of loan installments and interests.

3.6 Stores Advance Account

Sri Lanka Navy had executed the activities of a Stores Advance Account during the year under review. The following deficiencies were observed during the course of audit test check relating to the account presented to audit.

- (a) The balance of the Letter of Credit Account as at 31 December 2015 amounted to Rs.7,053,510 and the balance of the Accrued Letter of Credit Account amounted to Rs.6,896,612, thus a difference of Rs.156,898 was observed. The reason for the difference was not explained.
- (b) The revenue according to the Revenue Account of the Stores Advance Account (explosives) as at 31 December 2015 amounted to Rs.107,010,874 while the net revenue of the Stores Advance Account amounted to Rs.108,673,320. Thus, the difference of Rs.1,662,446 was not explained to audit.

3.7 Good Governance and Accountability

3.7.1 Annual Action Plan

Even though an annual Action Plan for the year 2015 had been prepared by the Sri Lanka Navy, it had not been included the basic requirements which should be included in an Action Plan such as responsible officers for execution of the purpose and annual budgetary provision and the manner of the utilisation of budgetary provision among each activity. Similarly, a progress report indicating the progress of the execution of the activities include in the action plan had not been prepared.

3.7.2 Procurement Plan

Even though an Annual Procurement Plan for the year 2015 had been prepared, it was not deployed as an activity plan due to non preparation of a procurement time schedule.

3.7.3 Audit and Management Committee

In terms of the Management Audit Circular No.DMA/09/01 dated 09 June 2009 an Audit and Management Committee should be established and the meetings should be conducted once in a quarter. Nevertheless, only 03 Audit and Management Committee Meetings had been conducted in the year 2015.

3.8 Assets Management

The following deficiencies were observed during the course of audit test check relating to the assets of the Sri Lanka Navy.

(a) **Idle and Under - utilized Assets**

Seventy eight condemned vehicles had remained in the vehicle park of the Sri Lanka Navy and out that 06 vehicles, 02 vehicles and 11 vehicles had remained as condemn for over 05 years, 04 years and 03 years respectively.

(b) **Conduct of Annual Boards of Survey**

Even though the Boards of Survey should be conducted and the reports thereon should be furnished to the Auditor General before 17 March 2016 in terms of the Public Finance Circular No.02/2014 of 17 October 2014, the Boards of Survey Reports of the Sri Lanka Navy had not been furnished to audit even by 31 May 2016.

(c) **Assets given to External Parties**

Instances of certain assets released irregularly to external parties by the Sri Lanka Navy were observed. Details appear below.

Category of Assets	Assets given to	Value	Period
		Rs.	
Motor Vehicles	01 Ministry of Defence	8,249,999	From 2011
Motor Vehicles	03 Ministry of Defence	7,636,973	From 2015
Motor Vehicles	01 Defence Services College	3,477,402	From 2012
Motor Vehicles	01 Defence Services College	1,850,000	From 2015
Sea Ambulance Vessals	01 Northern Province Governor's Office	28,572,353	From 2015

(d) **Irregular Use of Assets not Vested**

The following assets belonging to other institutions had been deployed by the Sri Lanka Navy for the activities of the Sri Lanka Navy without being formally vested.

Category of Assets	Number of Units	Value
		Rs.
(i) Lands (Acres)	182	588,730,600
(ii) Buildings	83	155,052,670
Buildings	174	Value not assessed.
(iii) Motor Vehicles	62	427,752,330
Motor Vehicles	33	Value not assessed.

3.9 Irregular Transactions

Certain transactions entered into by the Sri Lanka Navy had been devoid of regularity. Several such instances observed are given below.

(a) Deviation from the Procurement Guideline Procedure

The following observations are made relating to the Procurements made by the Sri Lanka Navy.

- (i) The “Bearing Heaters” amounting to Rs.720,226 had been purchased for Sri Lanka Navy based on one bid, contrary to the Guideline 3.4.1 (a) of the Government Procurement Guidelines.
- (ii) Even though a formal agreement should be signed for the purchases exceeding Rs.500,000 in terms of the Guideline 8.9.1 (b) of the Government Procurement Guidelines, a formal agreement had not been entered in to with the supplier in purchasing Bronze Hollow Shaft valued at Rs.2,867,130.
- (iii) The bid securities had not been obtained from the contractor for the value of the contract amounting to Rs.2,204,991 in terms of Guideline 5.3.11 (b) (iii) of the Government Procurement Guidelines.

(b) Transactions without Authority

Certain transactions without authority revealed during the course of audit test checks are given below.

- (i) The Committee on Public Accounts held in 11 June 2011 had pointed out that the Pre Payment Remittance Method followed is entirely a wrong system of which writing cheques before receiving goods expect to purchase and giving cheques to suppliers and committee directed to correct that method of transaction. Nevertheless, goods had been purchased by spending Rs.2,729,523,290 using that method in 8653 instances during the period from July 2011 to December 2015. contrary to above directions.
- (ii) Out of the services rendered to the external parties by the Sri Lanka Navy, sums of Rs.1,604 million, Rs.90 million, and Rs.113 million had been collected through the Navy Welfare Project Fund in the years 2014 and 2015, Malima Hospitality Service in the years 2014 and 2015 and Sri Lanka Navy Welfare Fund in the year 2014 respectively. Out of that revenue, a sum of Rs.710 million only had been credited to the Consolidated Fund. Action had not been taken to credit the balance amount of Rs.1,097 million to the Consolidated Fund.

3.10 Identified Losses

The observations on losses and damage observed during the course of audit test checks are given below.

- (a) Even though 03 vehicles belonging to Sri Lanka Navy valued at Rs.1,577,792 had been misplaced, the Sri Lanka Navy had failed to identify the responsible persons thereon.
- (b) The original copy of the invoice required for the investigations carried out relating to the discrepancy of 6600 litres of Kerosene Oil valued at Rs.300,000 occurred in the

Western Naval Command of the Sri Lanka Navy, had been misplaced and as such that investigations had been stopped. Even though the original copy had been obtained from the Ceylon Petroleum Corporation, the Sri Lanka Navy had failed to finalise the investigations and identify the responsible persons even by August 2016.

- (c) A sum of Rs.84,672 had been over paid in purchasing of Heavy Duty GI Pipes for the Sri Lanka Navy, due to purchasing from the supplier who offered higher bid more than the lowest bid according to the specifications without giving a justifiable reason.
- (d) When purchasing “Anchor Rodes” to the Sri Lanka Navy, the quotations had been invited thrice due to spending a long period of time for the purchasing process. A sum of Rs.781,340 had to be overpaid due to increase of the prices of the goods during that period.
- (e) In purchasing stationery for the Parakrama Navy stores of the Sri Lanka Navy, the purchases had been made through petty cash imprests without purchasing from the suppliers of the Rate Contracts and as such a sum of Rs.71,000 had been over paid. The Navy Commander had informed to audit as a reply, that the petty cash imprest had been used to fulfil the stationery requirement as the continuous supply was not made available through the rate contractors due to various reasons.
- (f) Even though the Tender Board had decided to pay Rs.58 per kilogramme of white and red raw rice, the suppliers had been paid at the rate of Rs.60 per kilogramme of rice and as such a sum of Rs.124,950 had been overpaid for 62,475 kilogrammes of rice supplied to Sri Lanka Navy.
- (g) Action had not been taken to recover the loss incurred from the Company even by end of August 2016 due to decaying 02 Jeeps which handed over for repairs on 24 May 2009 to a Company by Sri Lanka Navy as the repairs had been delayed.

3.11 Uneconomic Transactions

Certain uneconomic transactions revealed during the course of audit test checks are given below.

- (a) The electricity supply had been disconnected from 01 December 2013, due to non-settling of bills in respect of Naval Detachment of Neelabamma belonging to the Sri Lanka Navy, Thambapanni Navy Institute. The electricity bill for this Naval Detachment had been approximately Rs.20,000 per month. A sum of Rs.60,000 per month had been spent to obtain electricity from the electric Generator for the Naval Detachment only for 7 hours per day. Accordingly, a sum of Rs.1.2 million approximately had been spent as fuel and maintenance expenditure for the Generator during the above period. Even though more than 30 months had elapsed after the disconnection of the electricity supply, action had not been taken to obtain electricity supply again.
- (b) As payments had not been settled for 20 electricity bills in due dates in respect of the months of January, February, March 2015 by the Sri Lanka Navy, a penalty

amounting to Rs.174,045 had to be paid in addition to the monthly electricity bill. Similarly, more than Rs.29 million had been paid during previous 4 years period as penalties.

3.12 Management Weaknesses

The following weaknesses were observed during the course of audit test checks.

- (a) Six hundred and thirty six vessels and 143 ships belonging to the Sri Lanka Navy had remained idle as at 31 December 2015. Out of those vessels and ships, 39 ships and vessels had been purchased for USD 86 million and 100 ships and vessels had been purchased for USD 558 million. As these vessels and ships are remained without being repaired there was a risk in decaying, but priority had not been given thereon. Without being repaired of those vessels and ships, an agreement had been entered into with an Indian company to purchase two guard vessels on credit basis to the value of USD 133.10 million in the year 2013. Even though USD 66.55 million (Rs.8,800 million) had been paid (Rs.8,800 million) by August 2016, those two vessels had not been received by Sri Lanka Navy even by August 2016.
- (b) At the examination of the annual Action Plan furnished to audit and the Annual Performance Report prepared by the Training Divisions, it was observed that Rs.710 million spent for Capacity Building (Training) of the Sri Lanka Navy had not been utilized effectively according to a plan to achieve the objectives of the Sri Lanka Navy.
- (c) Even though over one year had elapsed since handing over of 02 vehicles belonging to Sri Lanka Navy to an outside institution for repairs, action had not been taken to obtain those vehicles to the Sri Lanka Navy after repairs done.
- (d) Twenty two Turbo Charges in the Engineering Workshop of the North Central Naval Command had been retained without doing repairs. As such it was observed that these Turbo Charges will become to a position which could not be used.
- (e) Hundred and forty one spare parts valued at Rs.973,318 had remained for a long period in the spare parts Distribution Centre in the North Central Naval Command.

3.13 Human Resources Management

(a) Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2015 had been as follows.

Civil Cadre

Category of Employees		Approved Cadre	Actual Cadre	Number of Vacancies
(i)	Senior Level	06	05	01
(ii)	Tertiary Level	10	04	06
(iii)	Secondary Level	145	66	79
(iv)	Primary Level	1768	1633	135
(v)	Others (Casual/ Temporary/ Contract Basis)	290	243	47
Total		2219	1951	268

Uniform Cadre

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess Cadre
Officers and Sailors	51,423	53,056	4,885	6,518

The following observation is made.

The Sri Lanka Navy had not taken action to obtain a formal approval relating to the excess cadre recruited.

(b) Irregular Release of Human Resources to Other Parties

The particulars of irregular release of human resources to other parties during the year under review by the Sri Lanka Navy are given below.

Category of Employees	Number	Other Party	Period of Release
Officers	03	Media Centre, Ministry of Defence	From 2005
Sailors	16		
Sailors	05	Ranaviru Seva Authority	From 2009
Officers	02	Sri Lanka Land Reclamation and Development Corporation	From 2011
Sailors	01		
Officers	05	Department of Civil Security	From 2009
Sailors	02		