

Report of the Auditor General on Head 223 - Sri Lanka Navy - Year 2016

Head 223 - The audit of the Appropriation Account, Stores Advance Account and the Reconciliation Statements including the financial records, books, registers and other records of the Sri Lanka Navy for the year ended 31 December 2016 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 19 July 2017. 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. 61,924.87 million and out of that Rs. 56,734.62 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. 5,190.25 million or 8.38 per cent. Details appear below.

Expenditure	<u>As at 31 December 2016</u>			Savings, as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs.Million	Rs. Million	Rs. Million	
Recurrent	48,730.50	46,874.21	1,856.29	3.81
Capital	13,194.37	9,860.41	3,333.96	25.27
Total	61,924.87	56,734.62	5,190.25	8.38

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

Provisions totalling Rs. 1,965.24 million had been made available by 04 other Ministries, a Department and an office for various purposes and out of that a sum of Rs. 1,746.32 million had been utilized as at the end of the year under review. Accordingly, the savings out of the provisions amounted to Rs. 218.92 million or 11.14 per cent.

2.2. Advance Account

2.2.1 Advances to Public Officers Account

Limits Specified 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 values are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs.Million	Rs.Million	Rs.Million	Rs.Million	Rs.Million	Rs.Million
600.00	547.27	510.44	589.15	900.00	300.92

2.2.2 Stores Advance Account

The Sri Lanka Navy had maintained a Stores Advance Account, Item No.22302 for sale of explosives, firearms and bullets.

(a) Limits Specified by Parliament

The limits specified by Parliament and the actual values regarding the Stores Advance Accounts maintained by the Sri Lanka Navy with regard to sale of explosives, firearms and bullets appear below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs.Million	Rs.Million	Rs.Million	Rs.Million	Rs.Million	Rs.Million
480.00	475.09	450.00	567.92	390.00	127.94

(b) Financial Results

The financial results of the Stores Advances Account relating to Item No. 22302, sale of explosives, firearms and bullets appear below.

Advance Account Activities	Profit without Hypothetical Charges	2016	2015	
		Profit with Hypothetical Charges	Profit without Hypothetical Charges	Profit with Hypothetical Charges
	Rs. Million	Rs. Million	Rs. Million	Rs. Million
Sale of explosives, firearms and bullets	125.42	101.47	108.67	86.90

2.3 Imprest Account

The balance of the Imprest Account No.7002/0000/00/0029/0016/000 of the Sri Lanka Navy as at 31 December 2016 amounted to Rs.14.02 million.

2.4 General Deposit Account

The balances of 04 Deposit Accounts of the Sri Lanka Navy as at 31 December 2016 aggregated Rs. 248.47 million. Details appear below.

Account Number	Balance as at 31 December 2016
	Rs. Million
6000/0000/00/0001/0065/000	0.19
6000/0000/00/0002/0083/000	1.92
6000/0000/00/0013/0055/000	214.50
6000/0000/00/0016/0035/000	31.86
Total	248.47

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 2016 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 at audit test checks that the following registers had not been maintained by the Sri Lanka Navy.

Type of Register	Relevant Regulation
(i) Register of Electrical Equipment	Financial Regulation 454 (2)
(ii) Register of Losses	Financial Regulation 110
(iii) Register of Liabilities	Financial Regulation 214

3.2 Appropriation Account

3.2.1 Budgetary Variance

The following observations are made.

- (a) Overprovision had been made with regard to 37 Objects. As such, the savings after utilization of provision made for those Objects ranged from 10 to 100 per cent of the net provision made. The following observations are made with regard to the capital savings of Rs. 3,333.97 million of those savings.
 - (i) The Sri Lanka Navy had entered into an agreement with an Indian company to purchase 2 modern off shore patrol vessels at a cost of Rs. 133.10 million American Dollars in 2013 on an Indian Import and Export Bank Loan Credit provision. A sum of 99.82 million American Dollars (Rs. 33,656 million) had been paid in this connection by June 2017. A naval vessel had been received by 02 August 2017 as per agreement. The other naval vessel was due to be received by the Navy during February 2018. According to the explanations of the Navy Commander, the Navy had requested a provision of Rs.7,040 million for the year 2016 under the Object 223 - 1 - 2 - 2502(12). However, a sum of Rs. 8,145 million had been provided under that Object by the budget estimates of 2016 and the institution manufacturing ships could not achieve its planned target for the year under review and as such a sum of Rs. 2,355 million had been saved out of the provision made. The bills furnished by the manufactures of ships on 30 November 2016 had not been settled during 2016. Meanwhile, the liability concerned had not been disclosed in the Appropriation Account too. The said liability of Rs. 1,009 million had been paid on 17 January 2017.
 - (ii) Payments for bills amounting to Rs. 581 million had not been settled as a result of not receiving the imprest although the work had been completed. The local agency cost of purchasing the ship had not been forwarded and as such a sum of Rs. 38 million had been saved. Due to the overprovision made to the Navy than what was required by the Navy, a sum of Rs. 317 million had been saved as at end of the year under review together with a savings of Rs. 43 million caused due to various other reasons.
- (b) According to the instructions in paragraph 2 of the National Budget No. 7/2015 of 29 December 2015, 15 per cent of the provision made for fuel under the Object Code

1202 of the Annual Budgeted Estimates of 2016 amounting to Rs. 476 million and 10 per cent of the provision for transport under the Object Code 1401 amounting to Rs. 24 million should be compulsorily saved. However, the amount saved amounted to Rs. 11 million and Rs. 7 million respectively.

- (c) Provision had been obtained in excess of the required amount by supplementary estimates. As a result, the savings in provision after utilization of the provision obtained had exceeded 50 per cent. Details appear below.

Object	Provision obtained by Supplementary Estimates	Utilization	Savings	Savings, as a Percentage of Net Provision
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	Rs.	Rs.	Rs.	
233-1-1-4-2502	3,500,000	475,000	3,025,000	86.43
223-1-3-2101	22,791,261	11,395,630	11,395,631	50.00

- (d) Liabilities exceeding the savings by Rs. 322,518,552 had occurred in 15 Objects after utilization of the provision made.

3.3 Imprest Account

Ad - hoc imprests should be settled immediately after fulfilment of the purpose in terms of Financial Regulation 371. However, ad - hoc imprests had been settled with a delay of 30 to 190 days after fulfilment of the work.

3.4 General Deposit Account

Action had not been taken in terms of Financial Regulation 571 with regard to deposits of Rs. 63,972,649 exceeding 2 years.

3.5 Reconciliation Statement relating to the Advances to Public Officers Account

The following deficiencies were observed during the course of audit test checks with regard to Item No. 22301, Advances to Public Officers Account as at 31 December 2016.

- (a) According to the Reconciliation Statement presented, the balance of the Control Account as at 31 December 2016 amounted to Rs. 300,921,421 and the summary of classification of individual balances as at that date aggregated Rs. 259,349,239. Accordingly, a difference of Rs. 41,572,182 had been revealed. However, this had not been reconciled and rectified even by end of the year under review. Meanwhile, during the past 12 years it had been pointed out in audit that the total of summary of classification of individual balances had not been reconciled with the balances appearing in the Control Account.
- (b) According to the age analysis of the employees' loans furnished for the year 2016, the arrears of balances of the employees' loans over 5 years amounted to Rs. 5,100,278.

3.6 Stores Advance Account

The following observations are made.

- (a) The activities pertaining to the Stores Advance Account of sale of explosives, firearms and bullets had been carried out by the Sri Lanka Navy during the year under review. Potassium Chlorate and Red Phosphorous had been purchased by spending Rs. 23.6 million and Rs. 18.4 million respectively. The purchases should have been based on the Status Test Report of the Industrial Technology Institute. However, instead of doing so, the purchases had been made on the basis of the Status Test Report of the supplier.
- (b) According to the financial statements presented, purchases during the year under review amounted to Rs. 387 million. These purchase had not been made according to the procurement calender by preparing a main procurement plan in terms of Guideline 4.2 of the Government Procurement Procedure.

3.7 Good Governance and Accountability

3.7.1 Annual Action Plan

The Sri Lanka Navy had prepared an annual Action Plan for 2016. However, the prime necessities to be included in the Action Plan such as, the officers responsible for fulfilling the functions and the manner in which the annual budgeted provision would be utilized among each function had not been integrated in it.

3.7.2 Annual Procurement Plan

An Annual Procurement Plan for the year 2016 had been prepared. But, a Procurement Calender had not been prepared. As such, it had not been utilized as an implementable plan.

3.8 Assets Management

The following deficiencies were observed during the course of audit test checks carried out regarding the assets of the Sri Lanka Navy.

(a) Idle and Underutilized Assets

The following observations are made.

- (i) One hundred and one machine gunus valued at Rs. 239,969,891 and an Anti-Aircraft Gun valued at Rs. 47,971,847 respectively had been purchased during the period 1995 to 1997. However, those firearms had become unusable. Action had not been taken to dispose of, those firearms by obtaining the recommendations of a board of examination even by end of the year under review.

- (ii) There were 74 condemned vehicles in the vehicle division of the headquarters of the Sri Lanka Navy. Seven, six and sixteen respectively of these vehicles remained in a condemned position for over 5, 4 and 2 years respectively.
- (iii) Many items of stock had been lying at the stores of the Western Naval Area without being used (issued) even by end of 2016. Details appear below.

Centre	Item of Stock	Quantity of Stock	Value	Idle Period
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			Rs.	
Vehicle Spare Parts Stores	Spare parts of vehicles	280	476,876	From 2005
Electrical and Electronic Stores	Maalima Machine	01	186,862	From 2005
Vehicles Spare Parts Stores	Spare parts of vehicles	192	370,304	6 to 9 years
Vehicle Spare Parts Stores	Spare parts of vehicles	78	178,470	Over 5 years

- (iv) Two thousand sixty two items of stock valued at Rs. 32,801,226 remained idle at the stores for many years at the Northern Naval Area.
- (v) A ship purchased in 1999 by paying 2,028,000 sterling pounds remained in a condemned state for over 03 years at the Wayamba Naval Command. Necessary action had not been taken to dispose of it.

(b) Irregular Use of Assets not Acquired

 The Sri Lanka Navy had utilized the following assets of other institutions for activities of the Sri Lanka Navy without properly acquiring them.

Type of Assets	Number of Units	Value
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		Rs.
(i) Lands (Acres)	- Government	4,386.43
	- Private	764.30
		670.48
(ii) Buildings		219
(iii) Motor Vehicles		38
		17
		Value not assessed
		340,006,000
		Value not assessed
		299,546,200
		371,997,308
		Value not assessed

3.9 Non - compliance

Non-compliances with Laws, Rules and Regulations

Instances of non - compliance observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Value	Non-compliance
	Rs.	
(a) Statutory Provision		
(i) Article 149 of the Constitution of the Democratic Socialist Republic of Sri Lanka	1,179,300	The income derived from the civil canteen of the Navy had not been credited to the Consolidated Fund.
(ii) Sub section 2(a) of the Nation Building Tax Act No. 9 of 2009	4,302,148	Two per cent of tax should be recovered and remitted to the Department of Inland Revenue from the total sales of imported goods. But, due to the errors in computing the Nation Building Tax, tax amounting to Rs. 4,302,148 had been paid less.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) Financial Regulation 137	25,973,758	Electricity bills amounting to Rs. 25.9 million had been settled on 37 instances without obtaining approval.
(ii) Financial Regulation 1653	3,097,653	The milometers of 06 vehicles of the North Central Area had malfunctioned. However, a hypothetical distance of 32,077 kilometers had been performed by spending Rs. 3,097,653 on fuel. The milometers of these vehicles had been referred to the Motor Traffic Workshop for repairs. However, repairs had not been made due to many reasons.

- (iii) Financial Regulation 1653 - Thirty two vehicles of the Southern Naval Area had performed with inoperative milometers.

3.10 Irregular Transactions

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

Deviation from the Government Procurement Procedure

The following observations were made during the course of audit test checks carried out regarding procurements made by the Sri Lanka Navy.

- (a) According to Guideline 5.3.11(b) (iii) of the Government Procurement Procedure, if the contract is awarded during the period of validity security bonds should be received from the bidders in order to avoid rejection of supplies. However, such action had not been taken with regard to 12 orders aggregating Rs. 22,182,269.
- (b) According to Guideline 8.9.1(b) of the Government Procurement Procedure, a proper agreement should be signed for purchase of goods exceeding Rs. 500,000. However, agreement had not been signed for 161 orders aggregating Rs. 260,534,582.

3.11 Identified Losses

The losses and damages revealed during the course of audit test checks appear below.

- (a) Due to the failure of issuing purchase order during the effective period of bids, a sum of Rs. 227,384 had to be overpaid to the supplier for purchase of PVC Coated Chan Link.
- (b) Quotations had been called for, to purchase 300 rolls of barbed wire weighing 25 kilograms on 21 March 2015. However, the evaluation committee had again decided on 09 May 2015 that it was suitable to make purchases from the institution which had quoted the second lowest price of Rs. 1,445,220. However, that decision had been cancelled and again quotations had been called for on 28 May 2015. After analysing the quotations, a decision had been made on 24 November 2015 that it was suitable to make the purchase from the same institution at a cost of Rs. 1,656,342.
- (c) The delay caused during the purchase of 20 Driven Fire Pump for Rs. 13,812,840 by the Navy was 30 days. As such, the demurrage recoverable as per agreement amounted to Rs. 244,000. Action had not been taken to recover this.

3.12 Uneconomic Transactions

Payments for monthly electricity consumption of the Sri Lanka Navy had been delayed. As such, a sum of Rs. 7,975,203 had been paid as fines during the year under review, in addition

to the charges payable. A further sum of Rs. 72,603,641 remained payable as arrears of electricity charges. This arrears had not been settled and as such the interest payable on monthly electricity bills continued to increase further.

3.13 Management Weaknesses

The following observations are made.

- (a) Six items of machinery and equipment had been handed over to external institutions for repairs by the Eastern Naval Area. Action had not been taken to get them repaired and to receive them back at the Navy as 6 months had elapsed since the time of handing over.
- (b) It was revealed at audit test checks that there had been instances where certain stocks decided as necessary and about to be ordered for purchases after calling for quotations (after about one year) had subsequently been decided as not necessary.
- (c) Over one year had elapsed since 244 orders were issued for purchase of 244 goods (items) aggregating Rs. 9,630,730 for the Southern Naval Area in December 2016. Subsequently, the Navy had not taken action to purchase those goods (items). Meanwhile, 88 orders had been issued to purchase goods (items) for the Naval Area at a total cost of Rs. 10,809,712. However, the goods concerned had not reached the Navy even by end of November 2016 although over 06 months had elapsed by end of November 2016.
- (d) The Eastern Naval Command had handed over 10 out boat motors to the repairs division and over one year had elapsed since the time of handing over. However, repairs had not been effected. Repairs to 04 of those machines had not been completed over 05 years.
- (e) About 06 to 12 months had elapsed since the date of issue of purchase orders by the Western Naval Area for machinery, equipment and musical instruments valued at a total cost of Rs. 8,490,597. Action had not been taken by the Navy to receive them.
- (f) Over 06 months had elapsed since the issue of purchase orders for furniture, equipment and barbed wires valued at Rs. 2,246,640 and Rs. 1,088,751 respectively. However, the suppliers had failed to supply those goods to the Navy.
- (g) Repairs to 24 out of 120 vehicles of the Western Naval Area sent on 30 November 2016 had not been carried out although over one year had elapsed.
- (h) Eight vehicles were lying at the North Central Naval Area repairs division for many years without being repaired. 03 of those vehicles were beyond repairs and were lying for over 04 years.
- (i) Six machines of the North Central Naval Area had been handed over for repairs to the Yanmer 6L 2A – STP Engine Division. Over 02 years had been spent to complete the repairs. Further, 04 other machines of North Central Naval Area handed over for

repairs to the Yanmer Engine Division had not been completed although over 02 years had elapsed.

- (j) Twenty one vehicles were lying at the Naval Motor Transport Workshop and at the Zonal Office of the Northern Naval Area without being repaired during an entire period of 6 to 25 months.
- (k) There were 08 naval crafts at the Northern Naval Area without completing repairs for over 06 months. Further, the naval craft assigned to the Northern Naval Area by the Department of Coast Conservation remained inoperative for 6 months.
- (l) Over 06 months had been spent to repair 29 machines and equipment handed over for repairs at the Northern Naval Area. Of these, 06 machines and equipment remained without repairs being completed although over 04 years had elapsed.
- (m) Repairs to 05 computers had not been completed at the Northern Naval Area although a period of 06 months had elapsed.
- (n) Two hundred and two purchase orders for goods (items) valued at Rs. 18,853,362 had been issued at the Northern Naval Area. However, those goods (items) had not been received at the Navy even by December 2016. Of those, 41 goods (items) valued at Rs. 880,808 had not been received at the Navy although over 06 months had elapsed.
- (o) Twenty five goods (items) valued at Rs.608,377 had been purchased by the Northern Naval Area. These were not upto specifications and as such had been returned. Action had not been taken by the Navy to obtain them although 01 to 10 months had elapsed by 31 January 2017.
- (p) Two thousand six hundred and two items valued at Rs. 32,801,226 were lying at the stores of the Northern Naval Area for 01 to 04 years without being issued.
- (q) There were 04 inoperative naval crafts and a ship at the Wayamba Naval Area. Of these, 2 naval crafts costing Rs. 7.2 million remained without repairs being completed although a period of 03 years had exceeded.
- (r) The Wayamba Naval Area had handed over 04 crafts and 05 machines and equipment to external institutions for repairs. However, repairs to those items had not been completed and handed over to the Navy, although a period of over 06 months had elapsed.
- (s) Twenty one machines were lying at the repairs sections of the Wayamba Naval Area without repairs being completed although one year had elapsed.

3.14 Human Resources Management

Approved Cadre and Actual Cadre

The position of cadre as at 31 December 2016 appears below.

Uniformed Staff

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Officers	3,577	3,027	577	27
(ii) Sailors	51,423	52,216	5,436	6,139
Total	55,000	55,153	6,013	6,166

Civil Staff

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	08	08	-	-
(ii) Tertiary Level	10	04	06	-
(iii) Secondary Level	132	67	65	-
(iv) Primary Level	1,768	1,552	216	-
(v) Others (Casual/ Temporary/ Contract basis)	-	214	-	214
Total	1,918	1,845	287	214

The following observation is made.

Action had not been taken to obtain proper approval for the excess cadre recruited.