

## **Report of the Auditor General on Head 224 –Sri Lanka Air Force - Year 2016**

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The audit of the Appropriation Account ,Revenue Account and the Reconciliation Statements including the financial records, books, registers and other records of the Sri Lanka Air Force -Head 224 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 Commander of the Sri Lanka Air Force on 21 July 2017. The audit observations, comments and findings on the accounts and 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 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements**

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The Chief Accounting Officer and Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account ,Revenue Account and Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and the 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**

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### **2.1 Appropriation Account**

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#### **(a) Total Provision and Expenditure**

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The total net provision made for the Sri Lanka Air Force amounted to Rs 53,653.75 million and out of that Rs.35,460.17 million had been utilized by the end of the year under review. Accordingly the savings out of the net provision made for the Sri Lanka Air Force amounted to Rs.18,193.58 million and represented 33.9 per cent of the net provision. Details are given below.

| Expenditure<br>----- | As at 31 December 2016<br>----- |                  |                  | Savings as a<br>percentage of Net<br>Provision<br>----- |
|----------------------|---------------------------------|------------------|------------------|---|
|                      | Net Provision                   | Utilization      | Savings          |   |
|                      | Rs. Millions                    | Rs. Millions     | Rs. Millions     |   |
| Recurrent            | 33,994.75                       | 31,059.02        | 2,935.73         | 8.64  |
| Capital              | 19,659.00                       | 4,401.15         | 15,257.85        | 77.61   |
| Total                | <b>53,653.75</b>                | <b>35,460.17</b> | <b>18,193.58</b> | <b>33.9</b>   |

**(b) Utilization of Provisions made available by other Ministries and Departments**  
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Provisions totalling Rs.967.95 million had been received from 03 other Ministries, 04 Departments for various activities to the Sri Lanka Air Force. Out of this, provisions of Rs.925.77 million had been utilized at the end of the year under review. Accordingly, provisions of Rs.42.18 million or 4.36 per cent from the provisions provided had been saved.

**2.2 Revenue Account**  
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**Estimated and Actual Revenue**  
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The Sri Lanka Air Force had prepared Revenue Estimate amounting to Rs.170.00 million in respect of the Revenue Code of 20.03.02.16 for the year 2016 and Revenue amounting to Rs.193.75 million had been collected during the year under review. It had been exceeded 13.97 per cent of the estimated revenue.

Details are given below.

| Estimated<br>Revenue | Revised<br>Estimated<br>Revenue | Actual<br>Revenue | Exceeding the<br>Revised<br>Revenue<br>Estimate | Exceeding as a<br>percentage of Revised<br>Revenue Estimate |
|----------------------|---------------------------------|-------------------|---|---|
| -----                | -----                           | -----             | -----   | -----   |
| Rs.Millions          | Rs.Millions                     | Rs.Millions       | Rs.Millions                                     |   |
| 255.00               | 170.0                           | 193.76            | 23.75   | 13.97   |

### 2.3 Advances to Public Officers Account

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#### Limits Authorized by Parliament

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Limits authorized by Parliament and the actual values relating to the Advances to Public Officers' Account item No.22401 in relation to the Sri Lanka Air Force are given below.

| <u>Expenditure</u> |               | <u>Receipts</u> |               | <u>Debit Balance</u> |               |
|--------------------|---------------|-----------------|---------------|----------------------|---------------|
| <u>Maximum</u>     | <u>Actual</u> | <u>Minimum</u>  | <u>Actual</u> | <u>Maximum</u>       | <u>Actual</u> |
| <u>Limit</u>       |               | <u>Limit</u>    |               | <u>Limit</u>         |               |
| Rs. Millions       | Rs. Millions  | Rs. Millions    | Rs. Millions  | Rs. Millions         | Rs. Millions  |
| 550.00             | 387.36        | 460.00          | 465.14        | 1,000.00             | 269.74        |

### 2.4 Imprest Account

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The balance remained as at 31 December 2016 in the Imprest Account No.7002/0000/00/0030/0016/000 of the Sri Lanka Air Force was amounted to Rs.3.05 million .

### 2.5 General Deposit Account

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The balances of the 4 Deposit Accounts of the Sri Lanka Air Force as at 31 December 2016 totalled Rs. 24.02 million. Particulars are as follows.

| <u>Deposit Account No.</u> | <u>Balance as at 31 December 2016</u> |
|----------------------------|---------------------------------------|
|                            | <u>Rs. Millions</u>                   |
| 6000/0000/00/0013/0097/000 | 17.67                                 |
| 6000/0000/00/0002/0065/000 | 1.13                                  |
| 6000/0000/00/0018/0021/000 | 4.31                                  |
| 6000/0000/00/0020/0001/000 | 0.91                                  |
|                            | -----                                 |
| Total                      | <b>24.02</b>                          |
|                            | =====                                 |

### 2.6 Audit Observation

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The Appropriation Account ,Revenue Account and the Reconciliation Statements of the Sri Lanka Air Force for the year ended 31 December 2016, have been prepared satisfactorily 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**

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#### **3.1 Appropriation Account**

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##### **3.1.1 Budgetary Variance**

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Savings after utilization of provisions had taken a percentage ranging from 12 to 100 per cent of the net provision, due to excessive provision made available relating to 43 Objects. Even though provisions totalling Rs.13,250 million had been provided under the Object No.224-1-3-2502(12) and (17) of the Annual Budget Estimate of 2016, the total provisions had been saved. Even though provisions of Rs.1,400 million had been requested for the Base Maintenance Centre proposed to construct under the Russian Loan Scheme in the year 2016, the Commander of the Sri Lanka Air Force had informed to audit that provisions amounting to Rs.13,250 million had been provided under that Objects by the Annual Budget Estimate.

#### **3.2 General Deposits Account**

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Action in terms of Financial Regulation 571 (2) had not been taken with regard to 02 deposits totalling Rs.99,998 which had exceeded a period of 2 years even by the end of the year under review.

#### **3.3 Revenue Account**

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Function of preparation of revenue estimates, collection of revenue, accounting and submission of accounts under Revenue Code 20.03.02.16 had been assigned to the Commander of the Air Force as the Revenue Accounting Officer. Following lapses were observed in audit sample checks carried out with regard to that Revenue Code.

- (a) According to the Revenue Account presented to Audit, Revenue totalling Rs. 13.47 million had been in arrears and the arrears of Revenue related to periods ranging from 01 year to 15 years. The follow-up action on the recovery of arrears of Revenue had been at a weak level.
- (b) Although the hire charges revenue of the aero planes of the Air Force should be collected by the Commander of the Air Force as a relevant Revenue Accounting Officer. However, collection of revenue had been done by a private firm using receipt books issued for the name of the Firm ,instead of being done the operational activities under his direct supervision . A long period had been consumed to remit the revenue collected accordingly to the Sri Lanka Airforce.

### 3.4 Advances to Public Officers Account

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According to the Reconciliation Statement of the Advances to Public Officers Account Item No. 22401 presented to audit , the balances that remained outstanding as at that date totalled Rs.20,592,838. Even though those outstanding balances remained over periods ranging from 1 year to 5 years totalled Rs.11,473,624 and the balances over 5 years totalled Rs.9,119,214, the follow-up action on the recovery of the outstanding balances had been at a weak level.

### 3.5 Assets Management

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The following deficiencies were observed during the course of audit test checks of the assets of the Sri Lanka Airforce.

#### (a) Control over Assets

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The following observations are made

- (i) It had been mentioned in terms of the Letter No.PCMD/RP/2013 dated 05 June 2013, that the old vehicles and machineries decayed and not used in the Government Institutions should be disposed or auctioned or handed over to the Steel Corporation at Oruwala within the 3 ensuing months according to the disposal procedure in terms of the Financial Regulations. However, 67 vehicles belonging to the Sri Lanka Air Force which could not be used and handed over for the disposal procedure had been decayed in the Supplies and Maintenance Division at Katunayake over a period of 4 years by 31 May 2017. Further,79 vehicles which could be repaired had been remained at Repairing and Maintenance Division of vehicles at Katunayake and Vaunia.
- (ii) A stock of cloths valued at Rs.75,088,113 exceeded the maximum stock level at the cloths stores at the Suppliers and Maintenance Division of the Air Force Camp at Katunayaka had been stored without used within a time period of 1 year to 2 years.

#### (b) Unsettled Liabilities

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The unsettled liabilities of the Sri Lanka Air Force as at 31 December 2016 amounted to Rs.765,498,905 and the observations in that connection are given below.

- (i) A sum of Rs.3,241.36 million payable in respect of purchase of aero plane spare parts and other purchasing as at 31 December 2016 had not been entered in the Register of Liabilities.
- (ii) A sum of Rs.223.85 million had been incurred of commitments exceeding the savings after utilization of the provisions provided for 20 items of Objects .

### 3.6 Non-compliances

#### ----- **Non-compliance with Laws, Rules and Regulations** -----

Even though a sum of Rs.99,424,634 had been spent for the obtaining of goods relevant to 29 Objects , payments had been made by certifying that paying voucher before obtaining those goods contrary to the Financial Regulation 237.

### 3.7 Performance

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The observations on the progress of the Sri Lanka Air Force according to the Annual Budget Estimate and the Action Plan of the year 2016 are given below.

#### (a) **Activities contrary to the Main Functions** -----

Even though the Helitours Company which is maintained as a private institution belonging to the Airforce by utilizing the physical and human resources as well as the Funds belonging to the Sri Lanka Air Force, had been incurred a profit of Rs.43.7 million during the period of 7 years from the year 2010 to the year 2016 ,the dividends had not been credited to the Government revenue as a benefit of the investment made by the Sri Lanka Air Force.

#### (b) **Key Functions not Executed Adequately** -----

Maintenance ,renovation and repairing of motor vehicles are done by the 2 MTR and OW Unit at the Airforce Base Office Vaunia.

Period over two years had been elapsed after establishing this unit and 55 motor vehicles had been obtained for the repairing by 02 December 2016. It was observed that only 19 vehicles out of that had been returned after completion of the repairing purposes. Further it was observed that 33 vacancies were existed in the staff which required for the maintenance of the activities of this Unit systematically and efficiently. As such, the activities of repairing of 10 motor vehicles engines had been handed over to a Private Company on 05 June 2016 at a cost of Rs.4,739,060.

#### (c) **Maintaining of Internal Funds** -----

The following observations are made.

- (i) In terms of Paragraph 5 of the Order of the Air Force No.852 dated 30 November 2011 of the Commander of the Air Force ,97 internal Funds had been established in various Camps and Units of the Head Office of the Sri Lanka Air Force. The physical and human resources belonging to the Sri Lanka Air Force had been utilized for the operating activities of this Funds and the Projects generating profits implemented by the Funds. According to the Constitution 149(a) of the Constitution of the Democratic Socialist Republic of Sri Lanka , the funds of the

Republic not allocated by law to specific purpose shall be credited to the Consolidated Fund . However, action had not been taken to collect the revenue generated by that funds to the Government Revenue.

- (ii) In terms of the Public Finance Circular No.7/2016 dated 29 July 2016 and constitution 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka and mentioned in the Gazette Extraordinary No.1933/15-2015 dated 21 September 2015 , it had been informed that the Funds should be reviewed and action should be taken to furnish to the Director General of Public Finance within 14 days from the date of issuing it ,according to the Form presented by the Circular .The Sri Lanka Air Force had maintained 97 statutory and non-statutory Funds but only the information of 7 statutory Funds out of that had been presented on 02 September 2016. The information on other Funds had not been presented even by 30 June 2017.

### **3.8 Transactions of Contentious Nature**

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The Sri Lanka Air Force had supplied 13,641 cubes of granites and 5,475 cubes of sand from the Industry Projects of the Sri Lanka Air Force for the various constructions in the year 2016.However, the expenses incurred for that Projects and the income gained therefrom could not be verified in audit.

### **3.9 Irregular Transactions**

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It was observed that the certain transactions entered into by the Sri Lanka Air Force had been done irregularly. Certain such instances are given below.

#### **(a) Deviation from Government Procurement Procedure**

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The following observations are made.

- (i) Bids had been called from 87 bidders including non-registered seven bidders in the purchasing of 187 made concrete cubes valued at Rs.3,169,622 for the Rathmalana Air Force Camp. It was observed that bids had been called from the bidders who are not supplied concrete mixtures among those bidders. Among those bidders, the bid had been awarded to the only bidder who had paid his response. According to the guideline 6.2.2 of the Government Procurement Procedure, a minimum period of 21 days had not been granted for the calling of bids.
- (ii) A sum of Rs.10,931,111 had been spent for repairing of the engine of a aero plane belonging to the Sri Lanka Air Force. In terms of Guideline 7.12.1 of the Government Procurement Procedure, bids could be rejected when lack of effective competition is clearly evident. However, the contract had been awarded for the only supplier who presented bids for that repairing. Even though in terms of Guideline 6.2.2 of that Guideline, a minimum of 42 days should be granted in calling of Limited International Bids, actions had not been taken accordingly.

- (iii) Even though an air compressor had been purchased at Rs.125,000 on 18 June 2016 for the repairing of the cool room at the food stores of the Air Force Officers in the Air Force Base Camp at Vaunia, it had been inoperative after few hours of the establishment of that machine. A Guarantee Certificate had not been obtained for that machine. Therefore, it was observed at audit that the cool room was remained as an idle asset from February 2016 to 30 June 2017.

### 3.10 Losses and Damage

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The Sri Lanka Air Force had not taken action even by 31 December 2016 to recover, write off or omit the losses and damage totalled Rs.30.39 million outstanding from the period more than 5 years relating to 70 incidents.

### 3.11 Uneconomic Transactions

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Agreements had been signed on May 2009 for the purchase of 187 solar street lamps valued at Rs.19,961,000 under a guarantee period of 15 years from two Private Companies in the year 2009. Accordingly, out of the street lamps and batteries fixed in the year 2009, 148 street lamps and 33 batteries valued at Rs.16,024,000 had been inoperative by 20 April 2015 and accordingly a loss of Rs.19,961,000 had been occurred. Even though it had been pointed out at the audit carried out in the preceding year that informed a legal action would have been taken in this connection. However, those activities had not been completed even by 03 June 2017.

### 3.12 Human Resources Management

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#### (a) Approved and Actual Cadre

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Cadre position as at 31 December 2016 was as follows.

|       | Category of Employees                         | Approved Cadre | Actual Cadre | Number of Vacancies |
|-------|---|----------------|--------------|---------------------|
|       | -----   | -----          | -----        | -----               |
|       | <b>Civil Division</b>                         |                |              |                     |
|       | -----   |                |              |                     |
| (i)   | Senior Level                                  | 07             | 04           | 03                  |
| (ii)  | Tertiary Level                                | 05             | 04           | 01                  |
| (iii) | Secondary Level                               | 193            | 85           | 108                 |
| (iv)  | Preliminary Level                             | 3,340          | 2,684        | 656                 |
| (v)   | Others (Casual/ Temporary/<br>Contract Basis) | 430            | 100          | 330                 |



**Service Division**

|       |             |        |        |       |
|-------|-------------|--------|--------|-------|
|       | -----       |        |        |       |
| (vi)  | Officers    | 2,156  | 1,784  | 372   |
| (vii) | Other Posts | 35,844 | 34,534 | 1,310 |
|       |             | -----  | -----  | ----- |
|       | Total       | 41,975 | 39,195 | 2,780 |
|       |             | =====  | =====  | ===== |