

Head 223 - Report of the Auditor General on the Sri Lanka Navy - Year 2017

The Appropriation Account and the Reconciliation Statement, Stores Advance Account and an Income Account relating to the Revenue Code included in Tables 3.1.2 of the Annual Budget Estimate under Head and Item Number stated in the First Schedule and Third Schedule of the Appropriation Act, No. 24 of 2016 as amended by the Appropriation (Amendment) Act, No.32 of 2017 were presented to Audit by the Sri Lanka Navy. The financial and physical performance reflected by the said accounts and the reconciliation statements were audited in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Management and Accountability

The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of Government in terms of Financial Regulation 124 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka. The Chief Accounting Officers have been appointed by the Minister of Finance to discharge the above responsibility in terms of Financial Regulation 124(2). The Head of the Department will be the Accounting Officer in respect of all the financial transactions of his Department in terms of Financial Regulation 125(1)(a) and the Revenue Accounting Officer has been appointed by the Treasury. This responsibility includes designing, implementing and maintaining internal controls relevant to the maintenance, preparation and fair presentation of Accounts and Reconciliation Statements presented within the limitations imposed by Parliament 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, Government Financial Regulations and Administrative Regulations.

1.3 Scope of Audit

The audit of the Sri Lanka Navy – Head 223 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources, apply of internal control systems, compliance with laws, rules and regulations and maintenance of books, registers, records and reconciliation statements in an updated manner, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review was issued to the Navy Commander on 22 October 2018. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, accounts, reconciliation statements and performance reports 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.

1.4 Audit Observation

The audit observations of the Sri Lanka Navy for the year ended 31 December 2017 revealed in audit, appear in the Management Audit Report in detail, mentioned in paragraph 1.3 above. The material and significant audit observations out of those observations appear from paragraph 2.1 to 2.12 of this report. It was observed that the accountability as the Accounting Officer had been satisfactorily executed, to ensure the adequacy of the financial administration subjected to the following summarized audit observations revealed in the execution of the provisions of the Financial Regulation 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

	Accountability of the Accounting Officer in terms of Financial Regulation 128(1)	Non-compliance with that Provision by the Accounting Officer	Reference to the Paragraph of the report which included the Observation
	-----	-----	-----
Financial Regulations -----			
128(I)(a)	That the work of his department is planned and carried out with due dispatch, having regard to the policy laid down by the Government and the intentions of Parliament in granting him financial provision for the activities authorised and that an endeavour is made to complete the programme of work laid down for the year and/or to attain the targets specified ;	1. Deficiencies in implementing the procurement process 2. Management weaknesses 3. Non-utilization of provisions made	2.2.1 2.5 2.6
128(I)(b)	That the organization for financial control and accounting in his department is effective, and provides adequately for the correct ascertainment, where necessary, of dues to Government, the systematic, complete and prompt collection of dues, and bringing to account of monies received, the authorisation of commitments on behalf of the Government, the supervision and examination of services and supplies	Deficiencies in human resources management	2.12

rendered, and the prompt and correct payment therefor from public funds;

128(1)(c)	The Financial Regulations and other supplementary instructions of the Government are adhered to in his department, and that they are supplemented by departmental instructions, where necessary;	Deficiencies in the General Deposit Account	2.10
128(I)(e)	That adequate and proper arrangements are made for the safe custody and preservation of money, stores, equipment and other assets belonging to the Government, or is in its custody, and that these are verified from time to time; and, where they are disposed of, such disposal is according to prescribed Regulations and instructions;	Deficiencies in assets management	2.3
128(I)(f)	That such information, statements and returns as are called for by the Chief Accounting Officer or the Treasury, are rendered correctly and promptly;	Non-preparation of the Annual Performance Report/delay in presentation	2.1
128(1)(g)	That the returns showing the progress of collection of dues to Government are rendered regularly to the Chief Accounting Officer;	Observations on Stores Advance Accounts	2.8
128(1)(h)	That special arrangements are made to recover outstanding dues and that the officers assigned that task report to him at least once a quarter or as otherwise directed regarding arrears and action pursued to expedite their recovery;	Recovery of outstanding loan balances in the Advances to Public Officers Account	2.7
128(1)(o)	The procedure laid down in Financial Regulations 103 to 108 is adhered to in case of losses to Government by the delays, negligence, faults or frauds on the part of officers/employees and surcharges are imposed on officers/employees responsible for such losses in terms of F.R.156(1).	Failure in obtaining security deposits from officers who had taken action relating to cash	2.12

2. Material and Significant Audit Observations

2.1 Performance

Annual Performance Report

In terms of Public Finance Circular No.402 dated 12 September 2002, the performance report should be tabled in Parliament by the Department within 150 days after the closure of the financial year. However, the said report relating to the year under review had not been tabled in Parliament even by 18 October 2018.

2.2 Obtaining Supplies and Services through the Procurement Process

2.2.1 Implementation of the Procurement Process

The matters revealed in this connection are shown below.

- (a) In terms of Guideline 4.3.1 (a) of the Procurement Guidelines, Total Cost Estimate including all associated costs shall be prepared by the Procurement Entity. However, Total Cost Estimates for supplies and services amounting to Rs.142.39 million had not been prepared.
- (b) According to the Master Procurement Plan, it had been planned to purchase 7,122 units of uniforms comprising shoes, caps and physical exercise kits. Nevertheless, 14,954 units had been purchased in the year under review. Accordingly, uniforms valued at Rs.4.37 million had been purchased in 14 instances exceeding the estimated quantity. Moreover, the requirement of web belt (olive green) had been 527 units. However, an overpayment of Rs.1.52 million had been made due to purchase of 2,250 units.
- (c) In terms of Guideline 4.2.3 of the Government Procurement Guidelines, procurement activities should be implemented by entering into agreements during the period mentioned in the relevant Guideline from the date of scrutinizing bidding documents. However, in the implementation of procurement activities for supply services from Rs.5 million to Rs.100 million, delays from 16 weeks to 2 years and 4 months were observed.
- (d) Even though a Bid Security should be obtained from bidders in terms of Guideline 5.3.11(b) of the Government Procurement Guidelines, Bid Securities had not been obtained in purchasing uniforms and machine spare parts valued at Rs.257 million in 71 instances during the year under review.
- (e) In addition to the aforesaid matter, contractors are required to provide a performance security of an accepted institution not less than 10 per cent of the cost of Goods for a contract of purchase of Goods in terms of Guideline 5.4.10 of the Government Procurement Guidelines. However, performance securities had not been obtained relating to purchases valued at Rs.172 million in 49 instances.
- (f) In the purchase of uniforms for Navy officers, the Sri Lanka Institute of Textiles and Apparels had reported that the samples supplied by the institution that submitted the

lowest quotation are in compliance with the specifications mentioned in the invitation to Bid. Nevertheless, the institute which had submitted the lowest quotation had been rejected and bids had been awarded to another institution and as such, an over expenditure of Rs.1,040,400 had been incurred.

- (g) In terms of Guideline 8.9.1(b) of the Government Procurement Guidelines, a formal contract should be entered into, relating to purchase of goods exceeding Rs.500,000. However, contracts had not been entered into, relating to purchase of uniforms, machinery, spare parts of vessels etc. valued at Rs.407 million in 178 instances in the year under review.
- (h) Items of 54,916 uniforms valued at Rs.34,528,903 had been purchased by 32 orders extraneous to the Master Procurement Plan prepared for the purchase of Items of uniforms such as T-shirts, shoes, buttons and gloves and accessories.
- (i) In the purchase of spare parts of boats and ships, the contract had been awarded to the second lowest bidder who had submitted the quotation of Rs.4,988,211 by rejecting the bid of the lowest quotation of Rs.3,023,828 mentioning that additional certificates for assurance of quality were not available. However, it had not been indicated that the certificates required for assurance of quality of the invitation to bid should be submitted together with the bid.

2.3 Assets Management

(a) Documentation of Assets

The value of assets totalling Rs.19,373,586,031 shown in the Report on Movement of Non-current Assets in the Appropriation Account relating to the year under review had not tallied with the value of Rs.42,782,100,263 shown in the Register of Fixed Assets. As such, the accuracy of those values could not be confirmed in Audit.

(b) Utilization of Motor Vehicles

In terms of Public Administration Circular No. 13/2008 (iii) of 21 October 2009, an officer is not entitled to an official motor vehicle or the service of a Driver during a period exceeding one month with pay or without pay during the period abroad. It was revealed during the course of Audit test checks that the Sri Lanka Navy had used official motor vehicles during the year under review in 25 instances of officers remaining abroad, by mentioning the name of the relevant officer in Form General 268 contrary to provisions of the aforesaid Circular and that an expenditure of Rs.7.20 million had been incurred therefor.

(c) Idle and Underutilized Assets

- (i) One hundred and forty old ships and vessels valued at Rs.1,770 million acquired from the year 1971 had remained inoperative by 31 December 2017 in the dockyards owned by the Sri Lanka Navy and 55 vessels out of those, had been repaired by 30 September 2018. Accordingly, 85 ships and vessels had remained inoperative as at

that date. A proper arrangement had not been made to repair or dispose of these ships and vessels valued at a total of Rs.922 million.

- (ii) One hundred and one machine guns valued at Rs.239 million purchased in the years 1995 and 1996 but had become unserviceable, had remained idle in stores.
- (iii) Even though a Cab vehicle costing Rs.1.26 million had been kept in the North Central Navy premises for repairs for over a period of 02 years, those repairs had not been completed even up to the end of the year under review.

(d) Irregular Use of Assets not vested

The Sri Lanka Navy was making use of 221 buildings belonging to other institutions and persons and 454 hectares of land in extent of the Private Sector even by 31 December 2017 and a proper arrangement had not been made to vest the ownership thereof or to vest same again. A sum of Rs.927.87 million had been spent as at 31 December 2017 by utilizing provisions made by the Treasury for the development of buildings on private lands not properly vested by the Sri Lanka Navy.

2.4 Commitments and Liabilities

The following observations are made.

- (a) The Sri Lanka Navy had incurred commitments valued at Rs.154.02 million or US\$ 9.9825 million by 31 December 2017. However, it had not been revealed in the Appropriation Account.
- (b) In terms of Financial Regulation 94(1), except where otherwise provided for, no expenditure or commitment shall be incurred by any department for work, service or supply, unless financial provision exists therefore in the Annual Estimates. However, contrary to that, the Sri Lanka Navy had incurred commitments of Rs.37.57 million during the year 2017 relating to 10 Objects.
- (c) An agreement had been entered into with an Indian Company on 13 May 2013 for purchase of two naval patrol vessels valued at US\$ 133.10 million under Object 223-1-2-1-2502 (12) and the local currency relating to the liability of US\$ 3.3275 million as at 31 December 2017 therefor had not been computed and revealed under liabilities in the Appropriation Account. Even though this matter had been pointed out as well by Audit observations for the Appropriation Account for the years 2015 and 2016, it was further observed that the Appropriation Account for the year under review had been prepared without considering the said matter.
- (d) Even though it was observed during the course of Audit carried out on the payment vouchers of January and February 2018 that a sum totalling Rs.149.67 million relating to the year 2017 had been spent from the provisions in the year 2018, the value of those expenses had not been included in the statement of liabilities in the Appropriation Account of the year 2017.

2.5 Management Weaknesses

- (a) In terms of agreement entered into on 13 May 2013, two naval ships valued at approximately Rs.19,950 million equivalent to US\$ 133 million manufactured in the Indian naval dockyard according to the requirements of the Sri Lanka Navy on the financial provisions under the Indian Loan System had been received to the Sri Lanka Navy in the year under review. Even though a space had been allocated for parking 02 small sized helicopters in these patrol vessels, small sized observation helicopters to suit that space had not been purchased. As such, the opportunity of obtaining the maximum efficiency of the vessel had been lost.
- (b) Spare parts of vessels and measuring equipment valued at Rs.1.76 million had been given to an external institution for repairs by the Western Naval Area Commodore Superintendent Dockyard and even though a period from 08 months to 22 months had lapsed as at 31 December 2017, the said parts and equipment had not been taken over after completing repairs.

2.6 Utilization of Provisions made available by Parliament for Performance of Functions

Information on provisions made for the Department during a period of 05 years ended 31 December 2017, utilization and savings thereof and audit observations thereon appear below.

Year	Type of Expenditure	Net provision	Utilization	Savings	Savings as a Percentage of Net Provisions
		Rs.Millions	Rs.Millions	Rs.Millions	%
2013	Recurrent	38,556.03	36,692.88	1,863.15	4.83
	Capital	4,778.50	3,248.78	1,529.73	32.01
	Total	43,334.53	39,941.66	3,392.88	7.83
2014	Recurrent	48,432.62	48,343.49	89.14	0.18
	Capital	5,886.62	5,826.64	59.97	1.02
	Total	54,319.24	54,170.13	149.11	0.27
2015	Recurrent	48,187.80	48,025.63	162.17	0.34
	Capital	9,854.58	9,016.80	837.78	8.50
	Total	58,042.38	57,042.43	999.95	1.72
2016	Recurrent	48,730.50	46,874.21	1,856.29	3.81
	Capital	13,194.37	9,860.41	3,333.97	25.27
	Total	61,924.87	56,734.62	5,190.26	8.38

2017	Recurrent	48,570.86	47,709.02	861.84	1.77
	Capital	9,142.56	7,332.51	1,810.04	19.80
	Total	57,713.42	55,041.53	2,671.88	4.63

The following observations are made in the year under review.

Non-utilization of Provisions

The savings, after the utilization of provisions ranged between 11 per cent and 80 per cent of the net provisions due to failure in taking action to obtain only the provisions required after looking into the matter properly or failure in achieving specific performance targets within the due period by the Management.

2.7 Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account of the Department 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.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
550.00	532.90	500.00	510.28	910.00	323.54

The following observation is made in this connection.

Non-recovery of Outstanding Loan Balances

In terms of the Reconciliation Statement presented to Audit, except for the loan balances of transferred officers, the loan balances remaining outstanding for over a period of one year totalled Rs.24.68 million and a sum of Rs.23.10 million out of that had been outstanding for over a period of 05 years. It represented 93.6 per cent of the outstanding loans.

2.8 Stores Advances Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Stores Advances Account of the Department 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
575.00	513.19	595.00	646.04	380.00	60.79

The following observations are made in this connection.

- In terms of the income statement presented to Audit, the original income estimate value of 2017 was Rs.95 million. However, the value according to the Revenue Estimate amounts to Rs.100 million, thus indicating a difference of Rs.5 million.
- In terms of the income statement of the Stores Advances Account, the net income of the year was Rs.112.53 million. However, according to the Memorandum Income Statement, the net income as at that date had been shown as Rs.118.58 million, thus indicating a difference of Rs.6.05 million.
- In terms of Financial Regulation 136, the approval of the Ministry of Defence had been obtained for purchase of 126,000 kilogrammes of water gel. However, 135,000 kilogrammes had been purchased. Accordingly, 9,000 kilogrammes had been purchased exceeding the approved limit and an additional sum of Rs.4.18 million had been paid therefor.

2.9 Imprest Account

The following observations are made in respect of Imprest Accounts maintained by the Department.

- In terms of Financial Regulation 371(5) as revised by Public Finance Circular No.3/2015 of 14 July 2015, the ad-hoc sub-imprest should be settled within 10 days after completing the purpose for which it is granted. Nevertheless, ad-hoc sub-imprests totalling Rs.15.84 million granted in 36 instances, had been settled after a delay ranging from 01 month to 10 months of completing the purpose.
- In terms of Financial Regulation 371(5), the balance remaining without being spent from a sub-imprest issued, should be settled not later than the 31st of December of the financial year in which that sub-imprest is issued. However, ad-hoc sub-imprests of Rs.321,746 granted in 07 instances by the Sri Lanka Navy had not been settled even by 31 December 2017.

2.10 General Deposit Account

The balances of 04 General Deposit Accounts of the Sri Lanka Navy totalled Rs.271.56 million as at 31 December 2017. The following observations are made in this connection.

- (a) In terms of Financial Regulation 571(3), deposits lapsed for 02 years from the date of deposit should be credited to the Revenue or paid back. However, action had not been so taken relating to lapsed deposits of Rs.63.15 million remained as at 31 December 2017.
- (b) A sum of Rs.13.17 million had been received from Government institutions for implementation of various projects and it was observed that those moneys had been retained in the Deposit Account of the Sri Lanka Navy throughout a period from 1 ½ years to 5 years without using for the relevant purposes.

2.11 Human Resources Management

2.11.1 Approved Cadre and Actual Cadre

The position on the approved cadre, actual cadre, excess cadre and vacancies as at 31 December 2017, are shown below.

Uniformed Staff

Category of Employees	Approved Cadre	Actual Cadre	Vacancies	Excess
	-----	-----	-----	-----
(i) Regular	43,923	39,340	4,583	-
(ii) Volunteer	5,500	4,256	1,244	-
(iii) Volunteer Special Scheme	2,000	7,241		5,241
(iv) Regular Naval Reserve	-	257		-
(v) Voluntary Naval Reserve	-	119		-
	-----	-----	-----	-----
Total	<u>51,423</u>	<u>51,273</u>	<u>5,827</u>	<u>5,241</u>

Civil Staff

Category of Employees	Approved Cadre	Actual Cadre	Vacancies
(i) Senior Level	08	08	-
(ii) Tertiary Level	10	03	07
(iii) Secondary Level	132	68	64
(iv) Primary Level	1,768	1,502	266
(v) Other (Casual/ Temporary/ Contract basis)	195	195	-
Total	<u>2,113</u>	<u>1,776</u>	<u>337</u>

The following observations are made in this connection.

- (a) Ninety seven officers of the Sri Lanka Navy and 3,748 other ranks had been released to external institutions.
- (b) It is observed that a plan on the manner in which the future utilization of labour of the Navy Officers/sailors is carried out after the war victory in the year 2009, had not been implemented.
- (c) The following matters were revealed at the examination on holiday resorts and reception halls of the Navy.
Seven holiday resorts comprising 06 Naval Commands and 05 reception halls are maintained by the Sri Lanka Navy for the welfare of the Navy and from January 2016 these holiday resorts are maintained without the intention of earning profit according to orders of the Sri Lanka Navy. Activities thereof are maintained considering as Non-Government funds and it was observed that the income received is not credited to the State Consolidated Fund.
It was observed that 27 officers and 448 other ranks had been attached to these holiday resorts and reception halls as at 31 December 2017. Moneys had been spent from provisions made under the Consolidated Fund for operation and maintenance of relevant holiday resorts and reception halls and for salaries and allowances of officers utilized. However, action had not been taken to present the financial statements and internal audit reports therefor to the Auditor General for audit.

2.12 Failure in furnishing Security by Officers entrusted with the Custody of Public Money

In terms of Financial Regulation 880 (ii), provided that any officer may be exempted by the Secretary to the Ministry concerned from furnishing security, if he is satisfied that, inter alia, that amount of money in the personal charge of the officer on any particular day does not exceed three months' salary of the officer while all other officers entrusted with the custody of money shall furnish security. However, contrary to that, a sum of Rs.35.28 million had been granted to 10 officers in 54 instances.