

Head -223 Sri Lanka Navy

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Sri Lanka Navy for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 Navy 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 29 May 2019. The detailed management report of Sri Lanka Navy 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 31 May 2019. This report in pursuance of provisions in Article 154 (6) of the Constitution 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 give a true and fair view of the financial position of Sri Lanka Navy as at 31 December 2018 and of its financial performance and its 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 Management and Those Charged with Governance 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 Section 16(1) of the National Audit Act No. 19 of 2018, Sri Lanka Navy 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 Navy.

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

Navy 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 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 Navy.
- Evaluate the overall presentation, structure and content of the financial statements in a manner that achieves fair presentation.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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

As required by Sub-section 6 (d) of the National Audit Act, No.19 of 2018, I state the followings.

- (a) As there was no requirement of preparation of financial statements for the preceding year, I could not state that the financial statements of the year under review are consistent with the preceding year.
- (b) As there was no requirement of preparation of financial statements by the Sri Lanka Navy for the preceding year, recommendations on financial statements had not been made on this Report.

1.6 Comment on Financial Statements

1.6.1 Non-compliance of the financial statements with the circular instructions

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
The reconciliation is required to be made with values of non-current assets shown in the Ledger Accounts when it is reported and any unidentified balance need to be remained until passing journal entries to amend the balances, However, it was revealed that the Rs. 36,872,707,423 of the property, plant and equipment shown in the statement of financial position was not correct.	Action need to be taken as per Circular No 267/2018 of 21 November 2018.	Action will be taken to comply as at 31 December 2018.

1.6.2 Statement Financial Performance Deposits

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) According to the Financial Regulation 571(3), the deposits unsettled over 02 years should be paid back or credited to the government revenue. However, no action had been taken on deposits aggregating Rs. 13,262,391 remained over 02 years as at 31 December 2018.	Need to comply with the Financial Regulation 571.	Credited the Government revenue on 08July 2019.

- (b) A sum of Rs. 6,702,483 had been retained in the General Deposit Account instead of being treated as revenue in terms of the paragraphs 5.1 and 5.3 of the State Account Circular No, 243/2015 of 24 June 2015. Need to comply with the provision made in the paragraphs 5.1 and 5.3 of the State Account Circular No, 243/2015 of 24 June 2015. Credited to the revenue of the government on 08 July 2019.

1.6.3 Statement of Financial Position

The following observations are made.

Audit observation	Recommendation	Comments of the Accounting Officer
(a) A difference of Rs. 17,499 had been observed between the balances shown as at 01 January 2018 in the statement of non-financial assets and the balance of statement of the movement of non-financial assets shown under the Appropriation Account as at 31 December 2017.	Need to make comparison with the balances of the corresponding records.	Agreed to rectify it as at 31 December 2018.
(b) Eventhough the capital assets valued at Rs. 7,478,715,659 had been acquired as per Program ACA-2(i), no any acquisition of assets had been indicated in the Statement of Acquisition of Non- Current Assets.	Need to make comparison with the balances of the corresponding records.	Action had been taken to rectify it in 2019.
(c) The values of the assets aggregating Rs. 36,872,707,423 included in the statement of non-financial assets had not been agreed with the balances aggregating Rs. 70,626,649,223 shown in the Register of Fixed Assets. Therefore, the accuracy of the balances shown in the Register of Fixed Assets could not be confirmed.	Need to make comparison with the balances of the corresponding records.	Action had been taken to rectify it as at 31 December 2019.

1.6.4 Advance Account Balances

The following observations are made.

Audit Observations	Recommendation	Comments of the Accounting Officer
(a) According to the reconciliation statements of the Advance Account “B”, the balance of the Control Account of the Sri Lanka Navy amounted to Rs. 301,462,323 as at 31 December 2018. However, the total of the classification summary of the individual balances amounted to Rs. 278,750,836 as at date.	Need to make comparison with the balances of the corresponding records.	The respective difference between the Control Account and the individual balances is continued over long period action is being made to analyse it. There was no increases of the difference in the recent past.
(b) According to the age analysis of the staff employees presented for audit, the balances to be recovered over a year from the officers except the naval officers in service amounted to Rs. 23.46 million and out of that balances aggregating Rs.22.18 million had remained outstanding for over 05 years. It represented 76 per cent of the total advances to be recovered.	The responsible officers are required to take action in terms of the paragraph 8.1 and 8.2 of the Section XXVII of the Establishment Code.	The requests had been made under the Financial Regulation 109 to the Line Ministry and the General Treasury to write off the balances aggregating Rs. 18,699,779 out of the advances aggregating Rs. 22,187,681 remained outstanding for over 05 years. The action had been taken to refer to the Legal Division to initiate the legal action to recover the balances aggregating Rs. 576,480 while taking action to identify and recover the rest of balances.
(c) According to the instructions issued by the State Account Circular No. 262/2017, the balances of advances to be recovered from the officers who obtained retirement/ death benefits during 2018 and onwards should not be included in the Advance “B” Account of the respective institutions. However, the balances of advance aggregating Rs. 4,516,307 to be recovered from the retired and deceased officers had remained in the Advance Account.	Action should be taken according to the instruction given by the Circular No.267/2017.	According to the Circular No. 267/2017 the cheques for the settlement of balances are sent by the Department of Pension, to the respective Institutions.

1.6.5 Imprest Balance

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
The Imprest Account balance amounting to Rs.27,134,100 as at 01 January 2018 shown in the financial statements under the Format No. A.C.A 3 had not been shown in the Imprest Account.	The figures shown in the financial statement need to be reconciled with the corresponding records	According to the Letter dated 24 April 2018 of the Department of treasury Operations, the balance of the Imprest Account amounting to Rs.27,134,100 as at 31 December 2017 had been transferred to 2018. Therefore. The opening balance had not been shown in the Imprest Account. Action will be taken to rectify it.

1.6.6 Records and Registers not maintained

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
According to the Financial Regulation 214, it is the duty of the Authorising Officers as well as the Certifying Officers to inspect the Commitment Register in order to ensure the availability of funds to settle the bills receiving regularly. However a Commitment Register had not been maintained by Sri Lanka Navy.	The commitments are needed to record in a Register enable to inspect it regularly, as required by the Financial Regulation 214	Not Commented.

1.6.7 Lack of evidence for audit

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
A sum of Rs. 19,473,838 had been shown as payable in the value Added Tax Control Account, the documentary evidence thereon had not been presented.	The accounting treatments should be made based on the evidence.	The payable balance of Rs. 19,473,838 shown in the Value Added Tax Control Account represented the Value Added Taxes recovered by the Department of Customs on items imported until receiving the respective documents items. Action will be taken to obtain the documents from the Department of Customs.

2 Financial Review

2.1 Management of Expenses

The following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
The savings aggregating Rs. 131,448,677 related to 18 recurrent expenditure items and savings aggregating Rs. 44,812,047 related to 05 capital expenditure items representing at a range of total allocation of 5 per cent to 99 per cent had been reported, due to requesting of financial allocations without assessing real needs and inability to achieve the performance in timely manner.	The attention should be made under the provision of 150 Financial Regulation in prepare Annual Estimate	The imprest of balance had not been received on time to make the payments.

2.2 Entering into the Liabilities and Commitments

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
(a) The contracts on procurement of goods, construction works and services etc had been entered into or orders made in order to complete it in 2018. However, the contracts and orders valued at Rs. 49,375,073 had remained uncompleted as at 31 December 2018 and the details thereon had not been disclosed in the statement of Liabilities and Commitments. Further, the liabilities and commitments valued at Rs. 3,151,988,065 at the end of the year under review had been shown as Rs. 3,111,158,837 and as a result, the liabilities were understated by Rs. 40,829,228 in the Statement of Liabilities and Commitments.	The liabilities at the end of the year under review need to be disclosed in the financial statement.	The difference was made due to an accounting error. Further, the amount of Rs.40,829,228 to be settled to the Ministries, Departments, Public Corporations and Statutory Boards etc, had not been taken into consideration by mistake and as a result, the total commitment had been understated.
(b) According to the Financial Regulation 94(1), the Department is required to enter into commitment only if the allocation made in the Annual Estimate or provisions made otherwise. However, contrary to the requirement, Sri Lanka Navy had entered into the contracts under 11 expenditure items exceeding the allocations by Rs. 1,800,148,557 in 2018.	The commitments should not be made unless the allocation made to ensure the financial controls of the Entity in terms of the Financial Regulation 94(1)	Not commented.

2.3 Advances released and settled

The following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
In terms of the Financial Regulation 371(5) amended by the Public Finance Circular No. 03/2015 of 14 July 2015, the ad-hock advances are required to be settled within 10 days after completion of the purpose of the advance. However, the ad hock advances aggregating Rs. 4,795,282 made in 49 instances had been settled after the period ranging from 01 month to 08 months.	Need to be comply with the Financial Regulation 371.	The reasons such as the delays on settlement of bills, differences of items procured had caused the delays and action will be taken to sort out.

2.4 Operations of the Bank Accounts

The following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
Action had not been taken as per Financial Regulation 396(d) on 03 unrepresented cheques of Rs. 1,300,862 remained over 06 month period.	Action is required to be taken a per Financial Regulation 396(d).	Action has already been taken in terms of Financial Regulation 396(d) on unrepresented cheques.

3. Operating Review

3.1 Procurements

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) According to the paragraph 5.3.11 (b) and 5.4.10 of the Government Procurement Guideline, bond guarantees and performance guarantees are required to be obtained. Contrary to the above, no guarantees obtained on procurement of belts at a cost of Rs. 1,717,525.	The bond guarantees are required to be obtained to certify matters stipulated in the paragraph 5.3.11(b) of the Government Procurement Guideline. Further, the performance guarantees need to be provide a security to the procurement entity when the failure of the performance of the supplier.	It was instructed by the Director General Supplies and Services) by his Letter dated 08 July 2015 to obtain the performance bonds on the value of procurement which exceeds Rs. 5 million and action had not been taken to obtain the guarantees on the value of procurement not exceeds Rs. 05 million.
(b) According to the paragraph 8.9.1(a) of the Government Procurement Guideline, an agreement is required to be signed on the contracts exceeds the value of Rs. 250,000. However, the agreements for work contracts valued at Rs. 11,659,997 had not been signed in 19 instances. Further. According to the paragraph 8.9.1(b) of the Government Procurement Guideline, an agreement is required to be signed on the contracts for procurement of goods exceeds the	The agreements need to be signed as per the paragraph 8.9.1(a) and (b) of the Government Procurement Guideline.	The agreement had not been sign on the contracts for procurement and action will be taken to inform this matters to the naval officers.

value of Rs. 500,000 and no contracts had been signed on procurements of machinery and spare parts valued at Rs. 20,985,359 made in 14 instances during the year under review.

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| (c) | According to the paragraph 4.2.3 of the Government Procurement Guideline, the procurement process relating to the contracts valued at a range from Rs. 25 million to Rs.100 million is required to be completed within 15 weeks. However, the instances of spending over 34 weeks to complete the procurement process were observed. | The procurement process need to be completed within the time stipulated in the paragraph 4.2.3 of the Government Procurement Guideline. | There are several instances that delays in the completion of the bidding process. However, action will be taken to minimise such delays. |
| (d) | According to the paragraph 4.2.3 of the Government Procurement Guideline, the procurement process relating to the contracts valued at a range from Rs. 5 million to Rs.25 million is required to be completed within 12 weeks. However, the instances of spending over 26 weeks to complete the procurement process were observed. | -Do - | -Do - |
| (e) | According to the paragraph 4.2.3 of the Government Procurement Guideline, the orders relating to the procurements valued at Rs. 5 million or below is required to be issued within 10 weeks. However, the procurement of caps at a cost of Rs 5,716,175 had been made by spending 18 weeks. | -Do - | -Do - |

3.2 Assets Management

The following observations are made.

Audit Observations	Recommendation	Comments of the Accounting Officer
(a) It was observed that 101 Machine Guns procured in 1995 and 1996 at a cost of Rs. 239 million had remained obsolete and unutilized at the stores premises.	Action should be taken in accordance with the provisions made in Circulars No.353 of 30 September 1997 , No.438 of 13 November 2009 and public Finance Circular No.353(5) of 03 January 2003 and financial Regulation 771 on idle or underutilised assets.	Action will be taken to dispose.
(b) Action had not been taken to bring back 12 items of machineries and equipment valued at Rs.1,110,200 of which handed over to the outside parties for repairing purposes even after lapse of 06 months as at 31 December 2018. In addition, the repair works of OBM machines and other 05 machines handed over to the navel workshop for repairing purposes had not been completion even after lapse of the period ranging from 06 months to 17 months.	Action should be taken to complete the repair works to obtain the maximum benefits of the assets.	Repairing works are being made.
(c) The repair work of 12 motor vehicles of Sri Lanka Navy had not been completed even after lapse of the period ranging from 07 to 30 months as at 31 December 2018.	Action should be taken to complete the repair works and bring back to the pool of motor vehicle to obtain the maximum benefits of the assets.	Repairing works are being made.
(d) Eventhough boats procured at a cost of Rs.43,053,724 had remained obsolete at the Eastern, Western and Northern Navel Bases over period ranging from 03 to 05 years as at 31 December 2018. However action had not been taken either to repair or dispose.	Action should be taken in accordance with the provisions made in Circulars No.353 of 30 September 1997 , No.438 of 13 November 2009 and public Finance Circular No.353(5) of 03 January 2003 and financial Regulation 771 on idle or underutilised assets.	Repairing works are being made.

3.3 Security Bonds of the Government Officers

The following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
Eventhough the security bonds are needed to be obtained from the respective officers as per Financial Regulation 880(ii), necessary action had not been taken to obtain the security bonds from the officers who bear the responsibility to retain cash balances raging from Rs. 320,271 to Rs. 2,605,845 in hand in a day in 50 instances.	Need to be comply with the financial Regulation 880 (ii)	Obtaining of security bonds is not a task of Account Section and action will be taken to obtain replies from the Navel Officers.

3.4 Management Weaknesses

The following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
A boat valued at Rs.32,900,000 had remained obsolete over 02 years at the Eastern Naval Base.	Need to be repaired the boat to obtain maximum benefits.	The repairing works are being done.

4. Human Resources Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The actual cadre of Naval Officers of the Sri Lanka comprised with excess of 4,900 uniform officers recruited under a special scheme and vacant of positions of 7,046 non-uniform officers. Further, action had not been taken to recruit persons for civil cadre of the vacant positions of 373 primary level and 427 positions of secondary and territory levels.	Action should be taken to fill the vacancies and obtained the approval from the Department of management Services for excess cadre.	Action will be taken to fill the vacancies.
(b) It was observed that 07 Holiday Resorts and 05 Reception Halls were run by the Sri Lanka Navy in 06 base camps since 2016 on non-profit earning basis. The naval and other	The resources such as buildings and staff assigned are belongs to the Sri Lanka Navy	The revenue generated from such units are spent for operational and maintenance

officers were assigned for the purpose of operating and maintenance of such Holiday Resorts and Reception Halls. Eventhough the salaries and other allowances of the officers had been paid by the Consolidated Fund, No action had been taken to present financial statements or Internal Audit Reports of the respective Holiday Resorts and Reception Halls to the Auditor General. Further, revenue generated by the Holiday Resorts and Reception Halls were not credited to the Consolidated Fund.

and the related costs are borne by the Consolidated Fund . Therefore, it is essential to make a contribution to the Government.

purposes and therefore, it is not credited to the Consolidated Fund. The Internal Audit Sections attached to the Naval Bases which located provincially are carry out audits quarterly and while the annual audits are done by Internal Audit Section of the Sri Lanka Navy and the external auditors.