

## **Head 222- Sri Lanka Army**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of Sri Lanka Army 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 Army 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 31 May 2019. The detailed management report of Sri Lanka Army 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 Army 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 Chief Accounting Officer and Accounting Officer 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 Army 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 Army.

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

Army 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.

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

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) and Section 38 of the National Audit Act, No.19 of 2018, I state the followings.

- (a) As there was no requirement of preparation of financial statements by the Sri Lanka Army 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 Army for the preceding year, recommendation on financial statements had not been made by the this report.

## **1.6 Comments of the Financial Statements**

### **1.6.1 Accounting Deficiencies**

#### **(a) Statement of Financial Position**

<b>Audit observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
Biological assets valued at Rs.4.69 million, computer software valued at Rs.16.09 million and work in progress of building valued at Rs.530.53 million had not been stated in the financial statements.	All the assets should be included in the financial statements.	Actions will be taken to account by obtaining instructions from the Department of state Accounts.

### **1.6.2 Common Deposit Account**

<b>Audit observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
A sum of Rs.66.95 million in 04 deposit accounts had not been settled for 02 years.	The action should be taken to settle deposit money according to circular instructions.	Actions are being taken to settle.

### **1.6.3 Advance Account balance**

<b>Audit observation</b>	<b>Recommendation</b>	<b>Comments of the accounting officer</b>
Even though loan balances amounting to Rs.68.90 million were outstanding for a period of 01 to 05 years as per the reconciliation statement submitted to the audit, action had not been taken to recover those balances.	Actions should be taken to recover the outstanding loan balances promptly.	Outstanding loan balances are being recovered.

#### 1.6.4 Imprest Balance

<b>Audit observation</b>	<b>Recommendation</b>	<b>Comments of the accounting officer</b>
A balance amounting to Rs.85.25 million was there in the unsettled imprest account.	Action should be taken as per the Financial Regulation 373(1)	Action is being taken to settle.

## 2. Financial Review

### 2.1 Management of Expense

<b>Audit observation</b>	<b>Recommendation</b>	<b>Comments of the accounting officer</b>
Even though a sum of Rs.300 million had been allocated for the staff training vote through a supplementary estimate, out of that a sum of Rs.233.92 million was remained unutilized.	Allocation should be made based on the requirement.	Since agreement had not been signed with the supplying entity, expenses were not incurred.

### 2.2 Liabilities and Comments Entered

<b>Audit observation</b>	<b>Recommendation</b>	<b>Comments of the accounting officer</b>
Liabilities amounting to Rs.15.63 million had been entered exceeding the savings in allocations relevant to 04 expense codes.	Action should be taken to expend within the allocation limit.	Since adequate provisions had not been received to settle the liabilities of the preceding year, bills had to be settled through the provisions for the year 2018.

### 2.3 Utilization of the allocations given by other Ministries and Departments

<b>Audit observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
Allocations totaling Rs.1,016.66 million had been transferred to the Sri Lanka	Action should be taken to undertake the activity and utilize the funds within the	Since adequate liquid funds were not there to complete the activities, allocations were remained.

Army by 04 other ministries year. and 92 offices to undertake various activities. Out of that, sum of Rs.939.96 million only had been utilized as at the end of the year under review.

### 3. Operating Review

#### 3.1 Procurement

Audit observation	Recommendation	Comments of the Accounting Officer
(a) Even though bids had been invited to purchase Rs.75,000 ( pairs of black color high leg boots) for an annual requirement of the year 2016 of Sri Lanka Army, entering into agreements with the selected supplier had been done on 02 July 2018 due to various reasons. According to the agreement, the supply should be completed before 16 February 2019, supplying period had been extended up to 15 June 2019. However, relevant stocks had not been completed even by 13 May 2019.	Action should be taken to formalize the procurement process and purchase according to annual requirements.	Since the annual requirement of the year 2017 amounted to Rs.75,000 it had been stated that the purchase had been made after obtaining instructions from the Ministry of Defense. Further, the supplying organization had failed to complete the order within the supplying period.
(b) According to the quotations called on 29 May 2017 for the procurement of 399 feed containers, 06 institutions had submitted the quotations and an institution being rejected by the Technical Evaluation committee had been selected for the purpose. The price of the selected institution was higher than the lowest bid of Rs.72,160 by Rs.9,540 since Sri Lanka Standards Institution had	Action should be taken to purchase as per the recommendations of the Technical Evaluation Committee, rectify the deficiencies of the above procurement procedure, and to identify the responsible parties thereto.	It had been stated that the purchase had been made according to the approval of the procurement committee.

specified those goods are not up to the proper standard, containers had not been accepted. However, purchase had been made at Rs.79.700 under a discount of Rs.2,000 later on According, a sum of Rs.30.28 million had been over paid as a result of not purchasing under the lowest bid.

### 3.2 Assets Management

<b>Audit observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
<p>It was observed that 379 standard typed foot cycles being used for patrol activities in the island had been parked outside the store house of the 5 armaments regiment at kankassanthure. Further, 355 double iron beds used by the dissolved units had been kept insecurely in the store house land.</p>	<p>Asset should be stored be stored securely.</p>	<p>Foot cycles had been parked in such a way because patrol activities in that area using foot cycles had been stopped after dissolving the relevant units. Iron beds had been stored outside the store house due to lack of storage facilities.</p>

### 3.3 Losses and Damages

<b>Audit observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
<p>Losses and damages with a total value of Rs.13,600.30 million relevant to 169 incidents in the Sri Lanka Army had been identified as at 31 December 2018. There was a of Rs.88.29 million over 05 years relevant to 37 incidents and a sum of Rs.637.41 million over 10 years relevant to 63 incidents. Further, this included the estimated value</p>	<p>Action should be taken to write-off from books, waive or recover the damage from the responsible parties.</p>	<p>Action will be taken promptly to finalize the settlement activities.</p>

Rs.12,829.22 million relevant to fire damage occurred at the Sri Lanka Army Camp- Salawa in 2016. These incidents had not been settled even by the end of the year under review.

### 3.4 Performances

Audit observation	Recommendation	Comments of the accounting officer
(a) Since lands and buildings of the Army headquarters had to be released for the development activities of the Colombo city, a sum of Rs.1,566.45 million had been spent for obtaining buildings on rental basis from the year 2011 onwards in order to maintain branches and Director Board Offices of the Army Headquarter.	Construction activities of the building should be completed in a prompt manner.	Since the use of building had been given for the development activities of the Colombo city, buildings had to be obtained on rental basis.
(b) The following observations are made during the audit inspection carried in December 2048 at the Sri Lanka Sinha Regiment located at Ambepussa.		
(i) In the cement bricks manufacturing project, 25,779 bricks had been sold to internal locations of the Army and 32,763 to external parties at Rs.34 per one brick during the year under review. However, a sum of Rs.608,800 had been spent on the purchase of 5,600 and 3,600 bricks at Rs.65 and Rs.68 respectively from the external market for the	The priority should be giving to utilize the cement bricks manufactured by the cement bricks project of the regiment for internal activities.	Since the cement bricks project is not registered at the security Division and not a listed institution in Sri Lanka Telecom Rainbow pages, purchase of cement bricks for the requirements of the camp had not been made.

external market for the internal requirements of the camp. A sum of Rs.0.30 million could have been saved if bricks were manufactured and obtained.

- (ii) The annual coconut production at the camps land amounted to 29,041 coconuts and those had not been used for the requirements of the camp. Instead coconuts had been sold to employees at prices between Rs.20-25 per one. A sum of Rs.8.33 million had been spent to purchase 119,026 Kg of coconuts at Rs.70 per 01 kg from external suppliers for the annual food requirement of the camp.
- The priority should be given to us the coconut harvest for the requirements of the camp.
- Purchases for the food requirements of Army Camp were made from the external suppliers following the open tender procedure under the approval of the Ministry of Defense.
- (iii) Quarry had been carried out utilizing a rock located in the camp premises from the year 2014 to March 2018 and income amounting to Rs.7.14 million had been generated by selling 2,213 cubes of granite to the Sri Lanka Army itself. The sales income had been credited only to the regiment account maintained for the welfare activities of the army officers. Since this project had been stopped in March 2018,
- A part of the earned income should be credited to the consolidated fund.
- As the income had been utilized for the construction and development activities required for the welfare of all officers of the regiment, it had not been credited to the consolidated fund.



roller machine and workshop procured at a cost of Rs.2.03 million out of the Regiment Chairman's Account, had been abandoned.

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| (c) | Repairing activities had not been carried out for over 08 years with regard to 156 items of 16 types of goods retained at the industrial warehouse located at Mattegoda and 04 motor vehicles handed over for repairing activities for a period of 02-05 years. | Action should be taken to expedite the use of non-moving stocks and repairing activities.  | Action will be taken to expedite the repainting activities in future.   |
| (d) | At the inspection carried out on 11 December 2018 at the fuel station of the Sri Lanka Army Service Seventh Force. It was observed that there was a surplus of 1199 litres of super diesel between the book balance and the physical balance.                   | Action should be taken to check the reasons for surplus balances and shortages between the book balance and the physical balance of the fuel stock and to rectify. | A variance of 500 litres of fuel stock between the book balance and the physical balance could be existed according to the normal course. |

#### 4. Human Resources Management

<b>Audit observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
There were 33,278 vacancies since the approved cadre was 200,242 and the actual cadre was 167,234. There were 1,472 vacancies at the officer level and 31,806 vacancies in other positions. Action had not been taken to fill those vacancies. The approved cadre and the	Action should be taken in such a way vacancies and excesses are not arising in the cadre.	It had been stated that there were vacancies and excesses in the staff.

actual cadre of the civil staff was 11,146 and 10,306 respectively and as a result, there were 1,044 vacancies and the excess cadre was 204. An action had not been taken to fill those vacancies.