

Head 224- Sri Lanka Air Force

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Sri Lanka Air Force 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 Air Force 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 Air Force 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 29 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 Air Force 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 Air Force 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 Air Force.

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 Air Force 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 Air Force.
- 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 Department 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 Air Force for the preceding year, reconciliations on financial statements had not been made by the Department.

1.6 Comments on Financial Statements

1.6.1 Statement of the Financial Position

The following observation is made.

| Audit Observation | Recommendation | Comments of the Chief Accounting Officer |
|---|---|---|
| The revenue generated by the projects owned by the Sri Lanka Air Force such as Eagle's Bay View Rest, Eagle's Lagoon View, Eagle's Lakeside Reception Hall, Marble View Rest and farms etc had not been brought to account. | It is necessary to adhere with the provisions stipulated by the Circulars and keep accounting records of the performance of the Funds. The human and physical resources of the Sri Lanka Air Force are being used for these projects operated in commercial basis and the information in connection with the financial performance thereon is needed to be disclosed in the financial statements. | The revenue generated from these Projects are being used for the welfare activities and as the result such information is not included in the financial statements. |

1.6.2 Advance Account Balances

The following observation is made.

| Audit Observation | Recommendation | Comments of the Accounting Officer |
|---|--|--|
| According to the reconciliation statement presented for audit, the total balance of the advances made to the officers amounted to Rs. 11.58 million had remained outstanding for over period ranging from 01 to 05 years, excluding the advance balances to be recovered from the officers transferred out. Further, the processes on recovering of advances and follow-up actions thereon had remained weaken. | Action should be taken against the defaulted officers in terms of the paragraphs 8.1 and 8.2 of the Chapter XLVII of the Establishment Code. | Action had been taken to send reminders to the respective officers to recover the advances and referred to the General Treasury to write off the balances of advances recommended as un-recoverable. |

1.6.3 Lack of evidence for Audit

| Audit Observation | Recommendation | Comment of the Accounting Officer |
|--|--|--|
| Annual Performance Report required to be submitted along with the financial statements in terms of paragraph 16(2) of the National Audit Act had not been furnished. | Need to be complied with the requirement stipulated under the paragraph 16(2) of the National Audit Act No.19 of 2018. | It was informed that a copy of the Annual Performance Report will be submitted after tabling it in the Parliament. |

1.6.4 Certification required to be done by the Accounting Officer

The following observation is made.

| Audit Observation | Recommendation | Comments of the Accounting Officer |
|---|---|--|
| The Accounting Officer needs to certify that an effective internal control system is established continuously maintained by the Sri Lanka | Need to be complied with the provisions made under the paragraph 38 of the national Audit Act No. 19 of 2018. | The Commander issues necessary instructions at the meetings of the Audit and Management Committee. |

Air Force . Further, periodical reviews should be carried out to ensure that the respective system are effectively implemented and make necessary modifications. The details of such reviews need to be documented and copies of the documents should be submitted to the Auditor General. However, the declarations on such reviews had not been presented to audit.

2. Financial Review

2.1 Revenue Management

The following observations are made.

| Audit Observation | Recommendation | Comments of the Accounting Officer |
|---|---|--|
| (a) According to the Revenue Account presented to audit, the balances of revenue aggregating Rs. 14.24 million had remained outstanding as at 31 December 2018 and out of that balances of revenue aggregating Rs. 11.73 million had remained outstanding for over the period from 4 years to 15 years. The follow up activities on recovering of outstanding amounts of revenue remained weaken. | The Revenue Collecting Officer should take actions as per Financial Regulation 175(2). The action should be taken to the officers in default according the paragraphs 8.1 and 8.2 of the Section XLVII of the Establishment Code. | Action had been taken to sent reminders to the officers and the approval of the General Treasury had been sought to write off the balances recommended as unrecoverable. |
| (b) The income of hiring aircraft in 2015 amounted to Rs. 246.30 million and after that it was shown declining trend. The income of the year under review amounted to Rs 74.57 million and declined by 49 per cent. | Reasons for declining of income comparing the previous years should be investigated and action should be taken to rectify it Therefore the entity should take action to face with the competitiveness in the market. | Number of air crafts of the Sri Lanka Air Force and its quality for the use for commercial and operational activities had remained declined and as a result, number of flight had to be limited. |

2.2 Management of Expenses

The following observations are made.

| Audit Observation | Recommendation | Comments of the Accounting Officer |
|--|---|--|
| (a) The Estimates should be prepared after being carried out proper studies to recognize the real requirement. However, the budgetary allocation had remained inadequate as a result of, action not taken accordingly. Therefore, provisions of Rs. 656.80 million had been transferred between the expenditure codes through Financial Regulation 66. Further, the allocations aggregating Rs 627.40 million had been obtained through Supplementary Estimates. | Action should be taken to prepare estimates accurately as per Financial Regulation 50 | Not Commented |
| (b) It was observed that the over provisions aggregating Rs. 1,585 million had been made under 20 Expenditure items. It remained at a range from 8 per cent to 85 per cent of the net allocation. | -do- | The reasons such as delays in receiving bills, impress not available, procurements not done during the year, the repairs of air crafts under the consultation of foreign Experts were not completed during the year under review etc, had caused above mentioned savings of allocations. |

2.3 Liabilities and Commitments Entered

The following observation is made.

| Audit observation | Recommendation | Comments of the Accounting Officer |
|--|--|--|
| The liabilities amounting to Rs. 788 million had remained unsettled by the Sri Lanka Air Force as at 31 December 2018. Further, it was entered | Need to comply with the Financial Regulation 94. | Action will be taken in future to rectify this deficiency. |

commitments amounting to Rs.434 million over the allocation made for 21 Expenditure items.

2.4 Utilization of Allocations transferred from other Ministries and Departments

The following observation is made.

| Audit Observation | Recommendation | Comment of the Accounting Officer |
|--|--|--|
| A sum of Rs. 1,026 million had been transferred to the Sri Lanka Air Force by other 03 Line Ministries and 03 Departments expected to be done from the Sri Lanka Air Force. Out of that a sum of Rs. 883 million had only been utilized at the end of the year under review. Therefore. Allocations amounting to Rs.143 million had not been utilized for intended purposes. | The reasons for savings of the allocation need to be explored and action should be taken to utilized it for the intended purposes. | It was accepted that a sum of Rs. 143 million had remained unutilized. |

3. Operating Review

3.1 Activities Extraneous to the Main Purposes

The following observation is made.

| Audit Observation | Recommendation | Comment of the Accounting Officer |
|---|---|---|
| The Heli Tours Limited managed by the Sri Lanka Air Force as a private company using its physical, human and financial resources had earned profits aggregating Rs 54.50 million in 09 years from 2010 to 2018 and no return had been made on investments made by the Sri Lanka Air Force. The share ownership of the company had been completely vested with 05 officers of the Sri Lanka Air Force and the activities proposed to | A return on the investment need to be made. | The matters on the share ownership of the Company had been discussed with the General Treasury and expected to implement the decision to be made. |

reformation of the Company to transfer the share ownership to the General Treasury had not been completed even as at 31 December 2018.

3.2 Procurements

The following observations are made.

| Audit Observations | Recommendations | Comment of the Accounting Officer |
|---|---|---|
| (a) It was observed in audit investigation carried out on 31 January 2019 that 54 items of spare parts essential for the repairing purposes of the air crafts had been retained at the Export Division in the Base Camp at Katunayake, as a result of intermeddling activities not done to send such items to the foreign suppliers to carry out repair purposes. Such items were received to the Export Division over a year ago, the necessary intermeddling procurement activities could not be completed. | Action need to be taken to expedite the repairing activities through completion of procurement activities in efficient manner, as enable to minimize the possible risks on damaging of respective items in stock. | There is a probability to delay several items of procurements, due to delays on confirmations from the foreign suppliers. |
| (b) It was observed that 120 items of spare parts sent to the foreign countries during the period from 2004- 2016 for repairing purposes had not been received back to the Sri Lanka Air Force even as at 31 December 2018. | Action should be taken to avoid the instance to remain idle the air craft due to delays in receiving spare parts back. | It was accepted that 120 items of spare parts were not returned. |

3.3 Assets Management

The following observations are made.

| Audit Observations | Recommendation | Comment of the Accounting Officer |
|---|---|---|
| (a) It was observed at the physical verifications made on 27 November 2018 that a file of clothes of 99,615 metres under 09 category valued at Rs.31.35 million had remained underutilize for over 02 years at the stores of the Base Camp at Katunayake. | It is necessary to identify the requirement before making procurement and maintain the stock control system in optimum level. | It was informed that the action will be taken to use the stocks at the end of 2019. |
| (b) The stock of 15,555 units of Field Cap | Need to make the | Action will be taken |

other Rank under the item No 845009034 valued at Rs 3.39 million had remained unutilized at the stores at Katunayake over a period of 02 years. procurement after being assessed the actual stock requirement. issue the stock in 2019.

- (c) It was observed that 16,813 items of 20 types of cutleries valued at Rs 7.90 million had remained unutilized over a year at the store No 17 of the Base Camp at Katunayake. -do- These items are remained in stock to utilize at various official functions.
- (d) It was observed that 37 defender vehicles and 69 other motor vehicles had remained idle at the repair premises at Katunayake over the periods ranging from 01 year to 05 years. Action should be taken to bring it back to running condition avoiding barriers thereon. At present, the repairing works of 12 defender vehicles out of 37 vehicles had been completed and action had been taken to repair other vehicles also.

3.4 Losses and Damages

The following observations are made.

| Audit Observation | Recommendation | Comments of the Accounting Officer |
|--|---|---|
| (a) According to the Statement of Losses and Waive offs prepared in terms of the State Account Circular No.267/2018, the losses aggregating Rs.1,165 million related to 277 incidents including a sum of Rs 1,105 million on 224 incidents over 05 years, a sum of Rs 43.13 million on 18 incidents remained in the period from 05 years to 10 years and a sum of Rs. 16.83 million on 35 incidents over 10 years had been reported as losses remained either to be recovered, write off or waive off. | Need to take action as per F.R.105. | It was informed that the action would be taken either to recover, write off or waive off. |
| (b) It was observed that a Radar Receiver, and an Antenna Scanner remained at the Spare Parts Division of the Base | Need to take action to recover the damage from the responsible parties. | Legal action had already been taken and determinations thereon |

Camp at Katunayaka had been sent to China on 25 April 2014 for repairing purposes and displaced while transporting by air. Therefore, a loss of Rs 74.46 million had been incurred by the Sri Lanka Air Force. The preliminary investigation report had been submitted on 31 August 2015 and no action had been taken up to the date of this report to recover the loss from the responsible parties.

will be issued in due course.

3.5 Improper Transactions

The following observations are made.

| Audit Observations | Recommendation | Comments of the Accounting Officer |
|--|--|--|
| <p>(a) According to the paragraph No/05 of the Air Force Direction No 852 of 30 November 2011, the Internal Fund had been formed at the Headquarters, various camps and units of the Sri Lanka Air Force. The physical and human resources of Sri Lanka Air Force are used for the operating activities and profit generating activities implemented by the respective Funds. The operating activities of such Funds had not been monitored by the General Treasury and the Parliament as a result of the respective Internal Funds were not established as the statutory funds in terms of F.R.154. Further, according to the explanation made by the Air Vice Marshall, the annual audits on the affairs of the Funds are carried out by the Executive Audit Section of the Sri Lanka Air Force. However the copies of the Internal Audit Reports were not furnished to the Auditor General.</p> | <p>It is required to establish a mechanism to regularize supervision of the Parliament on the operations of the profit generating activities conducted by the Internal Funds as per the provisions made in the Constitution of the Democratic Socialist of Sri Lanka and the directions issued at the meeting of the Committee on Public Enterprises held on 24 June 2016.</p> | <p>The Internal Funds had been established under the Air Force Direction No 852 and the annual audits on the affairs of the Funds are carried out by the Executive Audit Section of the Sri Lanka Air Force.</p> |
| <p>(b) The Museum conducted by the Sri Lanka Air Force at the Base Camp in Rathmalana had generated a revenue</p> | <p>The recurrent expenditure of the Museum is needed to be covered by the</p> | <p>The portion of income is credited to the Consolidated Fund and</p> |

amounting to R.s 1,719,826 in April May and June of 2018 and out of that the only 10 per cent to 20 per cent had been credited to the Consolidated Fund. Even though the objective to retain the balance of the income in hand is to incur the expenses of the Museum, a sum of Rs 808,267 had been utilized, out of the contribution of the Consolidated Fund during the period from January to August in 2018.

retained income in order to strengthen the financial controls.

the income from other sources are used for the welfare activities of the solders through respective Funds.

4. Achievement of Sustainable Development Goals

The following observation is made.

| Audit observation | Recommendation | Comments of the Accounting Officer |
|---|---|--|
| Action had not been taken by the Sri Lanka Air Force to identify the Sustainable Development Goals, targets, turning points to reach the Goals and indicates to measure the achievements etc, due to lack of understanding of action to be taken by the every public entity in terms of the Agenda 2030 of the United Nations on Sustainable Development Goals. | Action should be taken to identify the targets under the Sustainable Development Goals. | Action will be taken to prepare plans thereon in due course. |