

Head 224 - Sri Lanka Air Force

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Air Force for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 Summary Report containing my comments and observations on the financial statements of the Sri Lanka Air Force was issued to the Accounting Officer on 28 June 2021 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Department was issued to the Accounting Officer on 28 October 2021 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared give a true and fair view of the Sri Lanka Air Force as at 31 December 2020 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters appear in Paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Chief Accounting Officer and the Accounting Officer on Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that 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, the Sri Lanka Air Force is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

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 the Sri Lanka Air Force and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for the Audit of 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 summary 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 and its materiality depends on the influence on economic decisions taken by users 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events 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

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act No. 19 of 2018.

- (a) The financial statements are in consistent with those of the preceding year.
- (b) The following recommendations made by me regarding the financial statements of the preceding year had not been implemented .

Reference Paragraph	to	Audit Observation	Recommendation
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154(6) 2019 3.6 (b)	Report of	Internal funds had been established at the Sri Lanka Air Force Headquarters, various camps and units in accordance with Paragraph 5 of the Air Force Order No. 852 of 30 November 2011 . The physical and human resources of the Sri Lanka Air Force had been utilized for the operational activities of these funds and for – profit projects. As a result of non-establishment of these internal funds as statutory funds as per Financial Regulation 154, it was further observed that their activities were not under the control of the Treasury and the Parliament of Sri Lanka.	There is a need to set up a mechanism to regulate Parliamentary oversight on the operation of for-profit projects in accordance with the provisions of the Constitution of the Democratic Socialist Republic of Sri Lanka and the Directives of the Public Accounts Committee Meeting held on 24 June 2016 .

1.6 Comments on Financial Statements

1.6.1 Non- compliance of the Financial Statements with the Provisions of Circulars

Even though the financial statements were required to be prepared in accordance with Guideline No. 06 issued by the Department of State Accounts, the instances where those requirements were excluded are shown below.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) The difference in advance payments amounting to Rs. 126,425 and the difference in advance receipts amounting to Rs. 129,345 in relation to the advances' to public officers account had not been adjusted to the Imprest adjustments account.	Accounts have been submitted reconciling the Formats based on Treasury computer printouts with the Treasury Accounts in terms of Paragraph 6-3 of the State Accounts Guidelines.	Financial Statements should be prepared in accordance with the instructions and Guidelines specified in Guideline No. 06 (iv) of the Department of State Accounts.
(b) The difference in between the Treasury computer printouts and the value of Departmental Books under payments related to deposit accounts amounting to Rs. 15,527,400 had not been adjusted to the Imprest adjustments account.	-do-	-do-
(c) The expenditure under Head 224 was Rs.39,360,340,597 and it was Rs.40,578,619,466 as per the Treasury printouts. Accordingly, the expenditure incurred amounting to Rs.1,218,278,868 by other Departments and Institutions under Head 224 had not been adjust to the imprest adjustment account.	The value of Rs.1,218,278,869 represents direct debits. That value has been adjusted by cross entries in the imprest adjustment account.	-do-
(d) The expenditure incurred for the other Departments amounting to Rs. 965,826,042 had been adjusted as Rs. 899,951,757 and therefore a sum of Rs. 65,874,305.93 had been understated.	Only the expenditures made in cash have been adjusted as other Departmental expenses.	-do-

1.6.2 Non-revenue Receipts

Audit Observation	Comments of the Accountng Officer	Recommendation
The other receipts shown under non-revenue receipts in the annual financial statement pertaining to the ACAF Format was Rs.367,439,004 and as that amount was Rs. 1,277,948,568 according to the Treasury printouts, there was a difference of Rs. 910,509,564 .	Since the Guideline No. 06 did not specify the items to be included in the other receipts or the way of calculation, other receipts have been included on a cash basis (excluding cross entries) .	Analyze the differences in between the financial statements and Treasury computer printouts and present financial statements in a way that matches each other.

1.6.3 Reconciliation Statement of Advances to Public Officers' Account

Audit Observation	Comments of the Accountng Officer	Recommendation
(a) Even though the receipts of advances to public officers according to the Departmental Books was Rs.131,901,952, thus it was Rs.132,031,297 as per the Treasury printouts, the difference was Rs. 129,345 . Further, although the advance payment was Rs. 123,461,375 according to the Departmental Books and thus it was Rs.123,587,798, the difference was Rs. 126,423.	Format ACA 5 indicates the Advance Account 011 within the cash value and 012 as Cross entries . Accounts have been submitted adjusting with the Format ACA 5 with the Treasury Accounts based on the Treasury printouts as per Paragraph 03 of 06 of the State Accounts Guidelines issued.	Analyze the differences in between the financial statements and Treasury computer printouts and present financial statements in a way that matches each other.

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| <p>(b) There was a difference of Rs. 2,241,464 in between the amounts mentioned in the list of civil officers accounts submitted with the advances to public officers' B account and the debt balances sent by Katunayake, Diyatalawa, Chinabay and Morawewa camps .</p> | <p>Relevant corrections were made during the checks made during the balancing of final account. Existing accurate credit balance lists have been forwarded to the relevant camps.</p> | <p>Actions should be taken to maintain up-to-date data on accurate credit balances by establishing and maintaining a proper monitoring process on credit balances.</p> |
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1.6.4 Deposits

Audit Observation

The value of general deposit payment value was Rs.409,428,340 as per computer printouts in terms of Format ACA4 and since it was Rs. 393,900,939 as per Departmental books, there was a difference of Rs. 15,527,401 .

Comments of the Accounting Officer

It has been indicated that there was no difference in between the values in Annual Financial Statements and Treasury Financial Statements.

Recommendation

Arrangements should be made to analyze and correct inconsistencies between Treasury values in computer printouts and Departmental book values.

1.6.5 Property, Plant and Equipment

Audit Observation

Although the total acquisition of capital assets included in the capital expenditure as per the statement of financial performance for the year under review was Rs. 1,898,013,532 , the total of purchases and acquisitions of non-financial assets during

Comments of the Accounting Officer

The purchases of the year was 1,284,253,758 within the balances of the report of the Department of State Accounts and the Rs. 2,132,982,818 which was included as new balances as per the instructions of that Department.

Recommendation

The values of property plant and equipment should be maintained in accordance with Treasury printouts and financial statements.

the year was Rs.613,759,774 as per ACA 6 Formats.

Identification of inclusions under the online system amounting to Rs. 848,729,060 as new purchases in the Treasury computer system.

1.6.6 Lack of Evidence for Audit

Audit Observation

Comments of the Accounting Officer

Recommendation

A sum of Rs. 4,075,530 had been reimbursed to the Air Force Welfare Fund from March to July 2020 and the invoice of the relevant supplier had not been submitted for audit.

It has been informed that the actions were taken to make aware the Heads of Divisions of the Sri Lanka Air Force to submit the relevant bill payment with vouchers so that such audit observations do not occur in future.

Arrangements should be made to submit the required primary documents to the audit divisions without limiting the scope of the audit.

2. Financial Review

2.1 Revenue Management

The following observations are made in this regard.

Audit Observation

Comments of the Accounting Officer

Recommendation

(a) The Sri Lanka Air Force has reduced and revised the revenue estimates for the year under review as well as for the last 4 years from 33 per cent to 80 per cent in

The reasons such as

- Limited number of aircraft that can be used for commercial operations.
- Unexpected suspension

When preparing revenue estimates, actions should be taken to prepare estimates as realistic and accurate as

the preparation of Revenue Estimates under Revenue Head 20-03-02-16-. Aircraft Rent Revenue, Further, earnings of the revenue had ranged of 24 per cent to 89 per cent variation with adverse decline compared to the year 2016.

of domestic flights due to legal issues

- Establishment of private aircraft services at low cost
- Covid 19 epidemic situation existing from 2020
- Actions will be taken to prepare as realistic and accurate revenue estimates as possible in future have been submitted.

possible in terms of Financial Regulation 85 (1) (c) and a timely and efficient programme should be implemented to recover that revenue.

- (b) Special arrangements should be made by the Revenue Accounting Officers in respect of the immediate collection of arrears of revenue receivable to the Government in terms of the Financial Regulations 128 (2) e. Nevertheless, there were arrears aircraft rent income totalled to Rs. 12,674,073 by the end of the year under review from 10 government institutions and 02 private institutions ranging from 02 years to 17 years.
- An internal control system has been set up and implemented in a way that does not cause such an arrears again.
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2.2 Expenditure Management

Audit Observation

Comments of the Accounting Officer

Recommendation

There were savings of Rs. 1,136,078,861 in 22 objects ranging from 10 per cent to

Plans were made only for the first 4 months according to the instructions received

Actions should be taken to utilize the estimated provisions to achieve the

82 per cent and there were savings of Rs. 2,133,683,282 ranging from 13 per cent to 99 per cent in 18 capital expenditure objects.

at the time of making provisions from the Vote on Account of this year. Problems have arisen in doing so. Especially most purchases of the Air Force are made with foreign market. Problems that arisen there have also contributed to this.

desired objectives as much as possible.

2.3 Utilization of Provisions Made by Other Ministries and Departments

Audit Observation	Comments of the Accountng Officer	Recommendation
<p>The provisions amounting to Rs. 1,042,464,388 had been received in order to spend for other Departments/Ministries through 11 expenditure objects under 08 Heads during the year under review and out of this the provision of Rs. 76,638,327 had saved. Of that, the total provision received under expenditure object No. 232-02-01-00-2002 amounting to Rs. 929,300 had remained unspent at the end of the year under review .</p>	<p>The reasons such as 232-01-1-2002 Receiving of provisions in October 2020 and inability to complete the procurement process. 253-01-2-0-1501 Reason of death of pensioners in the year 2019 403-2-6-3-2104 Procurement could not be completed as per the date on which the provisions were made 436-02-3-1-1501 Corona epidemic 103-01-2-1-1501 Allowances to parents of war heroes including death of parents, termination of service of service personnel and war heroes 103-02-12-27-2509 Failure to procure as planned due to Corona , have been submitted.</p>	<p>Actions should be taken to utilize the estimated provisions to achieve the desired objectives as much as possible.</p>

2.4 Certifications to be Made by the Accounting Officer

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>The Chief Accounting Officer and Accounting Officer should ensure that an effective internal control system for the financial control of the Sri Lanka Air Force is being carried out and to conduct periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out and even though such reviews should be made in writing and submit a copy to the Auditor General, the statements that such reviews were made had not been furnished to audit.</p>	<p>The activities such as conducting quarterly audit and management committees, reviewing internal control systems, maintaining audit expenditure and services maintenance , conducting internal audits and submitting audit internal audit reports, submission of evaluation reports on internal audit reports quarterly, delegation of authority as per Financial Regulation 135-139 and conducting Boards of Surveys and submitting to the Auditor General before 31 March of each year have been carried out.</p>	<p>Actions should be taken in accordance with the Provisions of Section 38 of the National Audit Act No. 19 of 2018 .</p>

2.5 Issuance and Settlement of Advances

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) The debt balances of Rs.596,942 due from deceased civil servants, debt balances of Rs.514,035 due from retired civil servants and debt balances of Rs.7,568,745 due from retired civil servants had remained for more than 05 years.</p>	<p>(i) The Director of Civil Administration has been informed about the unresolved debts pertaining to the deceased and retired officers. (ii) The debt collection process has declined in the wake of the Corona epidemic.</p>	<p>Need to set up effective and efficient methods and update credit information to recover the balances receivable from the officers expeditiously.</p>

(iii) Arrangements are being made to obtain provisions by having information through documents related to old documents pertaining to deceased and retired officers and submit them to the Department of Pensions and the loan balances which were not recovered from the committed pension are being charged in installments from the monthly pension.

(iv) The information of the officers who have left the service has been handed over to the houses by the Divisional Secretary, Grama Niladhari .

(b) Although the actions should be taken to recover the advance balances due from the officers who had left the service and the retired officers as mentioned in Section 4.1 of Chapter xxiv of the Establishments Code, the loans due from retired and deceased officers and the officers who had left the service amounted to Rs. 5,291,449 and Rs.11,359,775 respectively at the end of the year under review. Out of that, the balances receivable for more than 05 years were Rs. 1,110,887 and Rs. 8,382,641 respectively.

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3. Operating Review

3.1 Procurements

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) A sum of Rs. 4,199,076 had been paid to the selected bidder for the purchase of 1000 mattresses required by the Air Force. There, a bid security as per 5.3.12 of the Procurement Guidelines had not been furnished and instead, a bid security statement had been provided 13 days after the bid was opened. Although the bids should be rejected at the time of opening, actions had been taken to offer the procurement to the same bidder.</p>	<p>The relevant bidder has been established as a Non-governmental Fund of the Sri Lanka Air Force. Likewise, it has been registered as a supplier with the approval of the Department Procurement Committee. Although the Bid Securities were not offered, the bid security statements were made instead.</p>	<p>Procurement should be carried out in accordance with the provisions specified in the Procurement Guidelines.</p>
<p>(b) Seventy two aircraft parts had been sent overseas for repairs during the period from 2004 to 2014 and those aircraft spare parts had not been received to the Sri Lanka Air Force again for a period from 6 to 16 years.</p>	<p>The reasons such as appointing of a Court of Inquiry into the aircraft spare parts sent abroad for the period 2004-2019 and carrying out the investigations were being under the supervision of the Air Force Headquarters and maintaining aircraft parts currently were being done in overseas from 2016-2019 have been furnished.</p>	<p>It is needed to implement an efficient system to maintain proper monitoring of assets sent abroad and to regain those assets properly.</p>

3.2 Assets Management

The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) Twenty nine buildings owned by the Air Force with 49,999 square feet had remained in idle from 2010 to December 2020 the date of audit.	It has been informed that these buildings are being repaired and the demolishing of the unsuitable buildings will be carried out in future.	Actions should be taken to renovate and utilize the usable buildings and ensuring optimal use of all buildings belonging to Air Force .
(b) The acquisition activities of the ownership of lands where 02 camps and Force Regiment Training School are located by the Air Force was not completed even by the end of the year under review.	The lands where the camps located are owned by the Department of Forest Conservation and the camps are carrying on annually by license. Letters have been sent to the Forest Department to hand over the relevant lands.	Actions should be taken immediately to take over the legal ownership of the buildings used by the Force.

3.3 Losses and Damages

The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) Actions should be taken to expedite and to recover the damages in accordance with Financial Regulations 101 (2), 105 (2) (b) and Special Rules 07 made on the losses of the Three Armed Forces . Nevertheless, there were 287 incidents of damages	<ul style="list-style-type: none">• Occurring delays when recoveries make in monthly basis from the persons responsible for damages.• When the responsible party for damages have left the service, legal actions have to be	Actions should be taken to expedite the valuation of damages in terms of Financial Regulations in respect of the damages and losses.

and losses totalled to Rs.970,821,082 as per the notes submitted with the financial statements and of these, 26 cases amounting to Rs. 15,935,809 were over 10 years. Another 21 cases amounting to Rs. 119,015,015 were the damages occurred in between 05 and 10 years. Likewise, there were 240 cases totalling to Rs. 835,870,258 for less than 5 years .

taken to recover the relevant money due from them.

- .Delays in recovery of damages until the end of the case at trial regarding damages.
- Postponement of investigations by institutions such as the Police Criminal Investigation Department into damages etc. have been mentioned as the reasons for delays in recoveries.

(b) The value of the damage should be calculated and full reports should be submitted within 03 months from the date of the damage in terms of Financial Regulations 104 (4) and the Special Rules made on the losses of the Three Armed Forces. Nevertheless, the value of the damages on 09 incidents of losses and damages for the Year 2019/2020 included in Notes (i) of the damage and losses statement of the annual financial statement had not been calculated for a period of 1 year to 6 months.

Because of the damage to properties have been covered by insurance, the reasons such as no damage had occurred and that the damage could not be calculated by the time of the presentation of statement of damage of the year 2020 have been mentioned.

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| (c) | Even though the approval of the Secretary to the Treasury was obtained on 03 June 2020 to write off the damage of Rs.113,150,000 occurred due to the crash of the Bell-206 (SHT 551) helicopter on the way to take off on 25 May 2016, from the books under F.R.109, it had not been written off during the year under review. | Approval for writing off from the books has been forwarded to the Director of equipment provision and accounting units and supplies on 26 June 2020 and function of writing offs are being carried out by now. | Immediate actions should be taken to remove the damage/loss as per the order of writing off from the book in accordance with Financial Regulations. |
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4. Human Resources Management

Audit Observation

The approved number of commissioned officers was 2545 at the end of the year under review and there were 488 vacancies. The approved number of non-commissioned (other ranks) officers was 34,344 and out of that, there were 2953 vacancies. The highest number of vacancies in other ranks, that is 1956, were for Leading Aircraftmen and Aircraftmen posts.

Comments of the Accounting Officer

A number of 478 vacancies out of the total vacancies have been completed.

Recommendation

The optimal staff should be maintained that helps to achieve the desired objectives.