

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Defence for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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. My comments and observations on these financial statements presented to the Ministry of Defence in terms of Section 11(1) of the National Audit Act, No.19 of 2018 appear in this report. The summary report containing my comments and observations on the financial statements of the Ministry of Defence was issued to the Chief Accounting Officer on 23 June 2022 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report was issued to the Chief Accounting Officer on 28 July 2022 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report is submitted to Parliament in pursuance of provisions in the article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act No. 19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Ministry of Defence as at 31 December 2021, and its financial performance and cash flows 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 described 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 is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

The Chief Accounting Officer are 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 Ministry 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 Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry 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 Ministry's 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 Chief 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) and Section 38 of the National Audit Act, No. 19 of 2018.

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

Reference to the Paragraph	Audit Observation	Recommendation
2.1.3(a)	In accordance with paragraph (05) of the Fiscal Policy Circular No 01/2015 dated 20 July 2015 and the provisions of the Financial Regulations 128 (2) (i), although the fees charged for various services may need to be revised from time to time to taking in to accounts changes in the economic situation when necessary, the gun license fees levied under the Firearms (Amendment) Act No.22 of 1996 had not been amended during the year under review in a timely manner.	Actions should be taken to revise the fees as per the Circular.

1.6 Comments on Financial Statements

1.6.1 Receipts of Revenue

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
A deference of Rs. 512,200 were observed between the arrears license fee income,	Only the outstanding balance as at 31 December 2019 has been included in the financial statement, and due to an	Reconciliation statements should be submitted for audit according to the guidelines issued by the Public Accounts Department.

indicating in the Arrears Income Statement which was presented to Auditor General according to the FR 128(2)(c) and the Fiscal Policy Circular No 1/2015, and the arrears license fee income indicating in the Foam ACA-(1)(i) of the Financial Statements. The difference was due to the non-disclosure of outstanding license fee income as at 31 December 2018 in Form ACA – 1(i).

omission, the outstanding balance as at 31.12.2018 has not been included for this calculation. In the future, the outstanding balances of the previous years will be added to calculate this value.

1.6.2 Non-Financial Assets

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>(a) Under the expenditure code 103-01-01-2103, Rs. 25,000,000 had allocated for the acquisition of machinery and equipment for the Minister's office and out of the allocation Rs. 24,340,905 had been spent to purchase firearms for the Presidential Security Division. This purchase had not included in the Ministry's procurement plan or annual action plan and after the purchase these firearms were handed over to the Sri Lanka Army but it was observed that the equipment was listed under the asset acquisition</p>	<p>These assets have been included in the asset management program as an asset acquisition in 2021. However, the ownership of those assets has been transferred to the Sri Lanka Army. In the year 2022, the value of those assets has been removed from the value of the Ministry's property and equipment, and the information required to include the value of those assets in the Army's asset management program has been provided to the Sri Lanka Army.</p>	<p>Non-utilization of Ministry allocations for the purchase of assets related to other expenditure heads and the value of the assets should be correctly indicated in the financial statements.</p>

of the Ministry. Accordingly, the property, plant and equipment shown in the financial statements had been overstated by Rs. 24,340,905.

- (b) According to the financial statements of the year 2020, the balance of non-financial assets as at 31 December 2020, was Rs. 27,508,087,238 and according to the financial statements of the year 2021, the opening balance as at 01 January 2021 had stated as Rs. 27,642,454,195. Accordingly, an increase of Rs. 134,366,957 was observed in bringing forward the balance. Although the adjustments made for the year 2020 in the year 2021 had caused this increase, by the accounts had not disclosed the adjustments made to the opening balance.
- The adjustments for this increase were not disclosed in the financial statements, and such adjustments will be disclosed in the financial statements in future.
- The opening balance should be correct and the adjustments made to the opening balance should be disclosed.
- (c) As per Treasury Table SA 82, assets of Rs. 20,324,727 were adjusted to the opening balance of fixed assets as at 01 January 2021, but assets of Rs. 134,366,957 were added to the opening balance shown in the financial statements. Accordingly, a difference of Rs. 114,042,230 was observed.
- Though the Table SA 82 of the year 2021 had recorded, due to an omission in the preparation of the ACA 6 form of the financial statements, there has been an increase in the opening balance of 2021 by including Rs. 101,460,000 in the opening balance. Also, the value of Rs. 12,586,987 acquired before the year 2021, which was not facilitated to be included in the asset management program through the online method, has been included,
- The balances shown in the financial statements should be reconciled with the treasury balances.

- so there has been an increase in the opening balance of 2021.
- (d) According to the statement of non-financial assets (ACA-6 format), the value of acquisition of non-financial assets during the year under review, was Rs. 8,031,748,960 and according to the treasury printouts and the financial performance statement, the value had stated as Rs.8,288,156,006. Accordingly, a difference of Rs.256,407,046 had shown.
- The value of the Oyamaduwa armory accounted by the Army under the expense code 103-01-02-2104 but not accounted for as an asset of the Ministry was Rs. 269,521,433. The arrangements are being made to account for it through the monthly account summaries of May 2022. Although purchased in December 2020, the value included in the asset management program as purchases in the year 2021 is Rs. 27,378,115. As a result, this value is shown as higher than the value of assets purchased as per the ledger of 2021. Assets worth Rs. 14,263,728 have been purchased in 2021, and that value has not been included in the asset management program.
- (e) The closing balance of Non-Financial Assets as per Treasury Table SA 82 was Rs. 37,724,115,329 and as per Form ACA 6 (Statement of Non-Financial Assets) the balance was Rs.36,714,333,377. Accordingly, a difference of Rs. 1,009,781,952 was observed.
- Rs. 1,009,781,952 of assets has been accounted for twice in the accounting of non-financial assets in the CIGAS programme. On the advice of the Public Accounts Department, arrangements have been made to correct this situation through the June 2022 account summary.
- The balances shown in the financial statements should be presented by reconciling with the treasury printouts.
- Financial statements should present accurate information.

1.6.3 Financial Assets

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) A sum of Rs. 3,037,257 received as direct deposits to two bank accounts belonging to the Ministry were stated as unidentified deposits and those deposits were not specifically identified and accounted.	An amount of Rs. 2,946,346.90 has been recorded as unrecognized deposits in the December 2021 bank reconciliation statement. The respective sections have been informed to identify the money deposited for various services by the external parties and account promptly.	Unrecognized deposits should be promptly identified and reconciled in the financial statements.
(b) According to the reconciliation statement related to the bank account of the National Cadet Corps, a balance of Rs. 2,961,138 had shown under the unrealized deposits as at 31December 2021 and it was stated as an error in the cash book and the bank reconciliation had prepared. The error was not detected and accordingly the balance shown in the cash book had not matched with the balance shown in the bank statement.	Identified in January 2022 and taken to account through the Bank Reconciliation Statement.	The reconciliation statement related to the bank account should be prepared and the relevant corrections should be made.

1.6.4 Lack of Audit Evidence

Audit Observation	Comment of the Chief Accounting Officer	Recommendation

<p>The file relevant to month of October 2021, which was submitted to the stores by various sections of the Ministry applying for consumables/inventory items, was not submitted for audit, therefore the stocks issued during that period could not be checked. Further, since the issues entered in the stock books during the period from January 01 to September 30 of the year under review were recorded as an aggregate of all the issues made during that month, the correctness of the issues could not be ascertained.</p>	<p>The store keeper has accepted that the consumables requisition file related to the month of October 2021 has been misplaced by the store keeper, and has taken steps to establish an internal control system and take disciplinary action related to warehouse control.</p>	<p>Proper stock control practices should be followed and proper supervision should be maintained.</p>

1.6.5 Non-maintenance of Registers and Books

Audit Observation	Comments of the Chief Accounting Officer	Recommendation

<p>(a) It had not been maintained any inventory records related to 6 types of consumable items, purchased during the year under review with a cost of Rs. 6,489,796 by the Ministry. Due to stock books had not</p>	<p>Arrangements have been made to properly maintain and update stock records, and in the future internal investigations and criminal investigation department investigations will be conducted on this matter, and relevant legal action will be taken against the store keeper</p>	<p>Stock records should be properly maintained and updated.</p>

been maintained or based on the facts revealed. updated in respect of 143 types of toner and 12 items of stationery, the physical stock balance could not be meaningfully reconciled with the balance shown in the stock books.

2. Financial Review

2.1 Revenue Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Under the revenue code-20.03.06.00, the outstanding revenue as at 31 December 2021 from the United Nations Peacekeeping Operations was US \$ 9,954,775 and of which US \$ 2,092,466 had been outstanding for over a year.	As at 31 December 2021, US \$ 2,947,445 had been recovered from the arrears, and Sri Lanka Army had informed that the estimated arrears were subject to change due to the fact that the equipment is not in proper working condition during the equipment inspection conducted by the United Nations. Further, Sri Lanka Air Force had informed that they made reminds to the United Nations Organization regarding the recovery of the arrears income.	Adequate measures should be taken to recover the arrears income in time.
(b) A sum of Rs. 1,920,650 had remained outstanding as at 31 December 2021, from explosives and other fee income and of which Rs. 864,800 had remained outstanding for more than two years.	Arrangements have been made to inform the district secretaries to collect the arrears as at 31.12.2021 as soon as possible and to take legal action for the firearms licenses that cannot be recovered and to inquire about the future measures taken in this regard. Furthermore, all the district secretariats have been informed to report the	-do-

current progress of the revenue recovery to the Ministry.

- (c) Although the revised revenue estimate for the year 2021 submitted to the Department of Public Finance relating to revenue code 2003.06.00-United Nations peacekeeping operations income was Rs.4,208,140,000, the same value was stated as Rs.4,300,000,000 in the Form ACA – 1(ii) of the financial statement. It was resulted in a difference of Rs.91,860,000 between the revised revenue estimate and the value shown in Form ACA – 1(ii) of the financial statement.
- Although the revised revenue estimate for the year 2021 was Rs.4,280,140,000, the amount approved in the budget estimate issued by the Budget Department for the year 2022 was Rs.4,300,000,000, so that amount has been recorded as the revised revenue estimate in the ACA – 1(ii) form of the financial statement.
- Income estimates should be prepared accurately.

2.2 Expenditure Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>(a) A provision of Rs. 652,684,900 allocated for 19 capital expenditure subjects, and a provision of Rs 217,599,602 allocated for 20 recurrent expenditure subjects had been remained. It was further observed that even after transferring Rs. 113,987,000 to other expenditure subjects under the FR 66, the savings of these recurrent expenditure subjects had remained.</p>	<p>This was due to the limitation of expenses due to not being able to complete the expected tasks under the Covid-19 epidemic situation.</p>	<p>According to the Financial Regulations 50(ii), annual estimates should be prepared as completely and accurately as possible.</p>

These savings ranged from 25 percent to 99 percent as a percentage of the allocated net provision.

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| (b) | The supplementary provision of Rs. 157,500,000, which had been made for a capital expenditure subject, had completely saved. Also, 86% or Rs. 112,208,353 of the supplementary provision of Rs. 131,000,000 that had been made for another capital expenditure subject had saved. | - Do - | Needs should be properly identified and supplementary estimates should be prepared. |
| (c) | The total provision of Rs. 17,450,000 for 22 expenditure subjects had been completely saved. | Non-appointment of separate staff for ministerial office. | - Do - |
| (d) | The total allocation of Rs.4,600,000 related to 02 recurrent expenditure subjects had been transferred to other expenditure subjects under the provisions of FR 66. | As the operating lease interest payments ended and only installments were payable, no requirement arose. Due to Covid epidemic situation, since the foreign training programs were not conducted, provisions could not be utilized. Allocations were transferred by F.R.66 to cover essential expenses with the approval of the Treasury. | Annual estimates should be prepared as complete and accurate as possible. |
| (e) | Rs. 42,078,000 had been transferred from other expenditure subjects under FR 66 which was more than double of the allocation Rs. 18,000,000 for three expenditure subjects by the annual budget estimates. | Arrangements have been made to transfer allocations from expenditure subjects where savings were expected to three expenditure subjects for which not sufficient provision for the year 2021. | Transfer of provisions should be done with proper management. |

2.3 Imposing Unrealistic Limitations

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Although the minimum limit of receipt imposed by the 2021 budget estimates for the advance accounting work of public officers was Rs. 223,000,000 and the actual income was Rs 79,227,522, so the minimum receipt limit was not reached and it was observed that the minimum receipt limit was unrealistic when compared with the actual income.	According to the estimate presented by the Ministry for the year 2021, the minimum receipt limit was Rs. 45 million, but the Budget Department has approved these limits.	Actions should be taken to impose realistic limits.

2.4 Incurring of Liabilities and Commitments

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) According to Notes No. (iii) and (iv) of the financial statements, the total value of the commitments and liabilities as at 31 December 2021 were Rs. 2,287,685,069 and according to the treasury printouts, the amount of liabilities were Rs.1,218,883,761. Accordingly, a difference of Rs.1,068,801,308 was observed between the amount of obligations and liabilities represented by the financial statements and the amount of commitments and liabilities shown by the treasury printouts.	At the end of the year, some amount of the total value has not been updated due to a technical issue in updating the liabilities of the Defense Headquarters Construction Project and the liabilities included in the ministry expenditure head by the three armed forces to the CIGAS Programme.	Correct values should be indicated by reconcile with the treasury print outs.

- (b) According to Financial Regulation 94, any liability or expenses for providing work, supply or service should not be incurred unless the financial provisions of the Annual Estimates are provided. Also, in accordance with paragraph 2 (d) of Public Accounts Circular No. 255/2017 dated 22 April 2017, all liabilities related to a particular financial year must be paid and released within that year and no liabilities should be carried forward with the intention of settling in the next financial year. However, it was observed that the Ministry was liable for liabilities amounting to Rs. 4,216,773 in respect of 4 expenditure subjects in excess of the annual provision.
- Instructions have been given to the officers in charge of the relevant expenditure subject to be responsible for managing the expenditure and arriving at the liabilities within the allocation limit allotted by the Appropriation Estimate.
- Financial Regulations and relevant circulars should be followed.
- (c) At the sample test on the payment vouchers in the months of January and February 2022, the expenses related to the year 2021 amounting to Rs. 8,590,715 had been spent from the provisions of the year 2022, but those expenses were not identified as liabilities in the financial statements of the year 2021. As a result, the liabilities of Rs. 8,590,715 were understated in the financial statements.
- Liability records had not been presented in time by some institutions under the Ministry and the liabilities not included in the financial statements were presented later for the payments. Necessary instructions have been given to prevent this situation in the future.
- Liabilities should be properly identified and shown in the financial statements.

2.5 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

	Observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----	
Reference to Laws, Rules and Regulations -----	Non-compliance -----			
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Financial Regulations 384 and 390	Even though checks should be used paying attention to the control procedures indicated by the Financial Regulations, it was observed that checks were used carelessly by the National Cadet Corps.	Action had been made to overcome these deficiencies which have been pointed out by the audit in the future.	Should be followed the Financial Regulations.
(b) Financial Regulations 715(2)	Contrary to the Financial Regulation, Instances were observed during the sample audit tests, where the goods were issued without proper approval and the Instances where not followed stock control practices by the consumables stores of the Ministry.	Changes and awareness have been made relating to the internal control system of the store.	- Do -	
(c) Financial Regulations 715(3)	Although the stores officers are responsible for supervision of the functions of the storekeepers, checking the records, registers and accounts of the	There had been some omissions due to the current workload. But the duties of the supervisory officers have been revised so that proper supervision	Internal control should be strengthened by following the Financial Regulations.	

- storekeepers or verifying and control can be their stocks, such done by avoiding that supervision had not been situation. done in relation to the consumable stores of the Ministry and the stores of the National Cadet Corps.
- (d) Paragraph 3.1 of Public Administration Circular No.30/2016, dated 29 December 2016. Although the fuel consumption should be checked based on a certain period or number of kilometers driven or repairs and then records should be maintained on form containing information about the fuel consumption of each vehicle, it had not been done such fuel check or record keeping for the Ministry and National Cadet Corps vehicles. Checking of the fuel consumption has been started for vehicles of the Ministry and instructions have given to check the fuel consumption of All vehicles of National Cadet Corps. 36 vehicles have been tested. Actions should be taken according to the relevant circulars.
- (e) Paragraph 2 of Asset Management Circular No. 02/2017 dated 21 December 2017. Although the vehicles used without registered ownership should be registered to the name of the user with the concurrence of the registered owner or formally transferred to the registered owner or act as other instructions indicated therein, the circular instructions had not followed regarding 36 vehicles used by the Ministry and the National Cadet Corps. Arrangements are being made to take over the registered rights as per asset management circular. Actions should be taken according to the relevant circulars.
- (f) Section- 4.2.3. of the Procurement Guidelines of Democratic Socialist Republic of Sri Lanka Although the approved period from the inspection of draft bid documents to the stage of determination of Procurement Committee is 147 days in relation to the Procurement of The draft bid documents were submitted to the Ministry on 16.02.2021 by the Technical Evaluation Committee and after Procurement guidelines should be followed.

Provisioning and the inspection it was Installation of Microwave submitted to the Radio Communication Standing Cabinet System, due to taking Appointed Procurement 306 days an additional 159 days had been spent for this procurement. Committee (SCAPC) on 04 March 2021.

2.6 Operation of Bank Accounts

Deficiencies revealed at the audit test checks carried out on operation of bank accounts, appear below.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) According to the Financial Regulation 395 (c), Even though every department having a bank account shall prepare a bank reconciliation statement before the 15th day of the following month regarding the transaction status at the end of each month, bank reconciliation statements had not been prepared or certified by the National Cadet Corps	Currently, the preparation of bank reconciliation statements has been started by re-examining the cash books and vouchers for the years 2020 and 2021.	Should be followed the Financial Regulations.
(b) Regarding 53 checks worth Rs. 7,098,659 issued by Headquarters of the National Cadet Corps but not presented for payment in more than 6 months, had not followed Financial Regulation 396.	Actions were taken to prevent the deficiencies pointed out by the audit from occurring in the future.	- Do -

3. Operating Review

3.1 Planning

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Though the provision made on annual budget estimates for the Defense Headquarters	After submitting the information for this observation from the concerned department will be	The provision made on the budget estimates should be taken into consideration.

Construction Project was informed immediately. Rs. 10,000 million, according to the 2021 procurement plan prepared by the Ministry, 404 procurement works with a cost of Rs. 17,848 million were planned under 08 priority phases. However, it was observed that these plans were not prepared based on the annual budget allocation.

3.2 Delays in the Execution of Projects

The following observations are made.

Audit Observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) Although 275 contract works under priority stage 02 to 07 of the Defence Headquarters Complex Construction Project were planned to be completed during the year under review, as at 31 December 2021, 85 of those contractual tasks had not been achieved any physical progress and the progress of 58 tasks were in between 1 and 30 low percentage.	After submitting the information for this observation from the concerned department will be informed immediately.	Actions should be taken to achieve the expected performance as planned.
(b) According to the initial plans of the Strategic Defence Communication Network Project, the construction was proposed to be completed by the end of the year 2016, but the project period had been extended by 06 years, and the	Although the project was scheduled to be completed between 2014 and 2016, due to re-calling of bids for the microwave radio communication system and delay in tower constructions, the project period had to be extended up to 31.12.2022.	- Do -

overall physical and financial progress at the end of the year under review was 73 percent and 53 percent respectively. Due to the fact that the project was not completed within the planned timeframes, it had been further delayed in achieving the primary objective of maintaining joint strategic communication between the armed forces in a timely manner.

- (c) The procurement work for the purchase of microwave radio communication system and the bids called on several occasions had been cancelled. The procurement works were restarted on 11 January 2021; those works were still at the Procurement Appeal Committee stage as at 31 December 2021. Thus, almost 05 years had passed for this procurement work and it had directly affected the project delay.
- Re-bidding took an unexpected time as it went through the appeals process. Although the appeal process was scheduled to be submitted for Cabinet approval, expenditure control methods should be followed according to the National Budget Circular No. 03/2022.
- Contract works should be executed as planned.
- (d) It was observed that 22 generators which were purchased and installed for the project in the years 2016 and 2017 at a cost of Rs.38.54 million had remained idle for almost two years due to the delay in concurrent actions. Furthermore, the 11 communication towers which were completed in
- Most of the towers are currently being used for the communication needs of the Armed Forces, Police and Special Task Forces and some towers have been leased to mobile phone service providers.
- The project should be completed as planned and deployed for the intended purpose.

2020 at a cost of Rs. 562.16 million for this project and the associated equipment rooms were being delayed for further use of the related project purposes and it was expected to incur an expenditure of Rs. 05 million in the year 2022 for the maintenance and operation of the towers.

3.3 Procurements

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) It was observed in the sample tests, that there were instances such as purchasing computers without considering the recommendations of a technical evaluation committee, and not signing contracts for goods supply contracts worth more than Rs.500,000 etc., contrary to the provisions of paragraphs 2.8.1(a), 7.7 and 8.9.1(b) of the procurement guidelines.	Purchase of computers was directly purchased from a government agency as per the provisions given by Cabinet approval. The procurement was done as there was an urgent need to purchase for work from home and food surveillance and procurement duties and there was a severe shortage of computers and accessories in the market. Due to the restrictions on the visit of officials under the epidemic situation, it was practically difficult to enter into agreements in relation to every procurement exceeding Rs.500,000. Bid acceptance and contract award letters will be accepted as contractual documents.	The provisions of the procurement guidelines should be followed.

- (b) According to the paragraph 2.3 of the National Budget Circular No. 01/2016 dated 17 March 2016, when procuring vehicles under the operating lease method, though it should be invited competitive biddings following the government procurement process, on 16 March 2018, the supplier was selected based on the only bid received for the procurement of 08 cars and 02 cabs under the operating lease method. Accordingly, the expected competitiveness of the government's procurement process had not been obtained for this transaction of Rs. 98,300,940 for the next five years.
- After submitting the information for this observation from the concerned division, it will be informed immediately.
- The circular instructions should be followed.
- (c) As stated in 5.3.11 of the Procurement Guidelines, a bid security obtained shall be irrevocable and unconditionally convertible to cash upon the first written request of the procuring entity. But, a check of Rs. 46,000 had obtained as bid security for the purchase of 20 printers and 20 computers for the National Cadet Corps Headquarters. When it is specified in the bidding documents that a submission of bid security is required, although the bid should be rejected considering its
- According to this call for quotations, the supplier who submitted the lowest bid was given a check of Rs.46,000 instead of bid security at the time of order opening. If the purchase was made from the second lowest bidder, there would be a loss of Rs. 1,043,500 and since the epidemic situation was at its peak and since buying computers was a necessity, on the approval of Technical Evaluation Committee and Procurement Committee, 11 computers and 08 printers have been purchased by considering the check of Rs.46,000 as the bid
- The provisions of the procurement guidelines should be followed.

non-submission as a security. major deviation, the check of Rs 46,000 submitted with the bid was considered as bid security and the contract had awarded to that bidder.

- (d) As per 7.5.1 of the Procurement Guidelines, the contract should be awarded in accordance with the procurement time frame and within the bid validity period, otherwise the bid validity period and the bid security validity period should be extended. However, in the procurement related to the provision and installation of microwave radio communication systems, the bid validity period and the bid security validity period had expired, no arrangements had made to extend the validity period.
- Bidders were notified on 24.04.2022 to extend the validity period of bid and bid security. Accordingly, two bidders have extended the bid validity period and the validity period of bid security and one bidder has extended the validity period only. One bidder was informed that the bid validity period or bid security period could not be extended.
- The provisions of the procurement guidelines should be followed.

3.4 Assets Management

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Due to the fact that the stock books were not properly maintained in order to show the stock receipts, stock issues and stock balance of the toner and stationery items purchased by the Ministry and due to proper supervision was not carried out,	Kindly mention that action has been taken in this regard as indicated in the remarks given for observation 1.6 above.	Stock records should be maintained properly.

the existing book balance and the actual balance could not be reconciled with meaningfully.

3.5 Public Officers Giving Securities

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>Although the officers who liable to giving securities to ensure that their duties are performed honestly, should be given securities in accordance with Authority 612 of the Public officers Securities Act and the Financial Regulation 880, it had not been acted accordingly.</p>	<p>In accordance with the Public Officers Securities Act, though a register should be prepared which contained the details of the officers and employees who give securities, due to the conditions of the said Ordinance are not update, the register has not been prepared. Also, such register has not prepared due to actions are being taken to recover the loss to the government by taking actions against the officers who violate Financial Regulations, Establishment Code and other circulars due to negligence /willful fraud of officers who are responsible and performing duties in relation to government money, property and assets.</p>	<p>Financial Regulations should be followed.</p>

3.6 Losses and Damage

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>(a) Due to a fire in the year 2014, assets worth Rs. 12,312,766 belonging to</p>	<p>According to the police report, since the reasons for this incident has not been</p>	<p>Proper actions should be taken regarding the losses and damages.</p>

the three armed forces headquarters project had been damaged and the recovery from the responsible parties or taking follow-up actions were being delayed.

identified and no suspect has been arrested. It was informed by the defence headquarters project, that the court had put the case on hold until the progress was reported. Actions are being taken to call a progress review report.

- (b) During the year under review, an investigation committee was appointed regarding the fire of a generator worth Rs.1,959,660 belonging to the Defence Headquarters Project, but no report had been submitted even though more than 6 months had passed. Also, the F.R.104 (4) report, which should be prepared within 3 months of the loss, was not submitted, so the identification of the responsible parties related to the loss was being delayed.

The responsible parties involved in this incident have been identified and the preliminary investigation board report has been completed, and the Director, Project Management Unit has informed that it will be submitted to this ministry soon along with the report under F.R. 104 (4). Further, the information has been submitted to the purchasing entity for estimating the repair cost of this generator.

Financial Regulations should be followed.

3.7 Uneconomic Transactions

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>The contract period had to be extended due to the inability to complete the contract within the expected time due to delays in the construction of the Defense Headquarters Project, delays in opening letters of credit etc. By the end of the year under review,</p>	<p>The progress of the project was slow due to factors such as not providing adequate allocations, late receipt of treasury approvals for letters of credit in 2015 and 2016, delayed Cabinet approval for procurement and the decision to re-call biddings. Due to the above facts, the works and services of the external</p>	<p>Efforts should be made to reduce excess claims and unnecessary expenses due to unnecessary delays.</p>

05 such supply contractors could not be completed within the 24 time extension claims expected time. Hence (claims for EOT) extensions of time had to be granted and claims for amounting to Rs. 1,126,141,457 and US\$ 1,606,201. extension of time have been applied for to recover the additional expenses incurred. These claims have been submitted to the Central Engineering Consultancy Bureau (CECB) for review.

4. Human Resource Management

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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(a) There were 79 vacancies in the ministry, of which 16 were senior level posts. There were surplus of one senior level post and 44 development officer posts.	Requests have been made to the Ministry of Public Services, Provincial Councils and Local Government to fill the vacancies of senior level positions and to the General of Combined Services regarding the vacancies of combined services positions. Even though showing surplus because of graduate trainees attached to the Ministry as Development Officers, have been employed in the available vacancies of Management Service based on service requirements.	Adequate staff should be maintained.
(b) There were 68 vacancies in the National Cadet Corps and the vacancies of Accountants and Administrative Officer had adversely affected the efficient performance of financial control and administrative functions of the institution.	National Cadet Corps has 02 senior level vacancies of Accountant and Medical Officer posts. Duties are covered by temporarily attached officers for these positions. Tertiary Level Administrative Officer and 3 posts of Nursing Officer are vacant.	Adequate staff should be maintained.