

## **Head 222 – Sri Lanka Army**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Army 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 statements 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 including my comments and observations on the financial statements of the Sri Lanka Army was issued to the Accounting Officer on 30 June 2022 in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report of the Sri Lanka Army was issued to the Accounting Officer on 04 August 2022 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 give a true and fair view of the Sri Lanka Army as at 31 December 2021 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**

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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 responsibilities 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 Responsibility of the Chief Accounting Officer and the Accounting Officer on the Financial Statements**

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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 in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Accounting Officer determines 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 Army 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 to be prepared of the 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 the Sri Lanka Army 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 Responsibility for the Audit of the Financial Statements**

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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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sri Lanka Army '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 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**

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As required by Section 6 (1) (d) of the National Audit Act, No.19 of 2018, I state the followings:

- (a) The financial statements are consistent with the preceding year,
- (b) Recommendations made by me on financial statements of the preceding year, had been implemented.

**1.6 Comments on Financial Statements**

**1.6.1 Accounting Deficiencies**

**(a) Capital Expenditure**

| Audit Observation   | Comments of the Accounting Officer   | Recommendation  |
|---|--|---|
| <p>i. When comparing balances of 33 categories of assets, remained as at 31 December 2020 mentioned in the statement of non-financial assets for the year 2020, with balances remained as at 01 January 2021, a sum of Rs.27.28 billion was in excess and there was a deficit of Rs.51.3 billion between those balances relating to 23 other categories of assets.</p>                | <p>Even though the mobility report submitted along with the financial statements is prepared on accrual basis, Treasury printouts have been prepared on cash basis, thus observing such differences.</p> | <p>Reason for the non-comparison of relevant figures should be disclosed in the financial statements.</p>                           |
| <p>ii. A year-end work-in-progress balance amounting to Rs.7.91 billion had been indicated in the statement of non-financial assets (ACA-6) submitted along with the financial statements and according to the information made available to Audit, the work-in-progress balance as at 31 December 2021 had been Rs.3.17 billion, thus observing a difference of Rs.4.74 billion.</p> | <p>This difference has resulted due to differences between the actual expenditure incurred during the year and provision made for engineering services.</p>  | <p>Work-in-progress should be brought to account at the end of the year based on the value of certified works of the Architect.</p> |

**1.6.2 Non-maintenance of Registers and Books**

| Audit Observation   | Comments of the Accounting Officer  | Recommendation  |
|---|---|---|
| <p>In terms of Treasury Circular No.842 of 19 December 1978 or Appendix II of F.R. 502 (2), Registers of Fixed Assets should be maintained. However, lands of 9,420 Acres in extent relating to 213 plots of land belonging to the Army and used for a long period had been recorded in a register and in terms of said provisions, details had not been included in a Register of Fixed Assets properly.</p> | <p>Even though legal vesting activities of those lands in the Army have been completed, those had not been brought to account due to delays in valuation. As such, action will be taken to value and account these lands as soon as possible.</p> | <p>Action should be taken in terms of relevant circular provisions and Financial Regulations.</p> |

### 1.6.3 Deposit Account Balances

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| <b>Audit Observation</b>   | <b>Comments of the Accounting Officer</b>   | <b>Recommendation</b>                                     |
|--|---|---|
| -----  | -----   | -----   |
| Cheques valued at a total of Rs.24.19 million which were issued relating to 04 Bank Current Accounts operated by the Army, but not submitted to banks even after 06 months, had been transferred to a Deposit Account instead of taking action in terms of F.R. 394 (c). | After crediting lapsed cheques to the Government revenue, those have been retained in the relevant General Deposit Account as per the F.R. 570 to avoid requests for withdrawal of them as far as possible. | Action should be taken in terms of Financial Regulations. |

### 1.6.4 Rent and Work Advance Account

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| <b>Audit Observation</b>  | <b>Comments of the Accounting Officer</b>   | <b>Recommendation</b>  |
|---|---|--|
| -----   | -----   | -----  |
| New agreements had been entered into in the year under review for buildings obtained on rental basis from 03 private institutions and instead of updating the said position, even rent advance balances of the preceding year were based. As such, disclosures had been made in the Rent and Work Advance Account and Rent and Work Advance Reserve Account submitted along with financial statements by overstating and understating by Rs.18.37 million and Rs.86,750 respectively. Further, the year-end balance totalling Rs.16.48 million to be disclosed as at the end of the year under review for rent advance agreements entered into with individuals and five private institutions in the year under review and the preceding year, had not been disclosed through financial statements. | Requests have been made to the General Treasury for rectifications through Journal Entries and action will be taken to include the amount further recoverable in the financial statements of the year 2022. | Action should be taken to maintain the Rent and Work Advance Account in an updated manner and to disclose those updated figures in the financial statements. |

## 2. Financial Review

### 2.1 Imprest Management

| <b>Audit Observation</b>  | <b>Comments of the Accounting Officer</b>     | <b>Recommendation</b>                                    |
|---|---|--|
| The unsettled imprest account balance as at 31 December 2021 had been Rs.131.23 million and advances totalling Rs.5.26 million granted for Sudan and Mali peacekeeping duties and foreign advances amounting to Rs.448,198 granted in the year 2017 as well had not been settled. | Action will be taken to settle expeditiously. | Action should be taken to settle balances expeditiously. |

### 2.2 Expenditure Management

| <b>Audit Observation</b>  | <b>Comments of the Accounting Officer</b>  | <b>Recommendation</b>  |
|---|--|--|
| (a) The entire provision totalling Rs.1.03 billion made for two Capital Objects and provision of Rs.100 million made for Capital Object 222-01-13-2104 had been saved.  | Delays in procurement activities due to Covid pandemic had attributed to these savings.  | Action should be taken to prepare estimates as accurately as possible. |
| (b) Provision totalling Rs.2.84 million of the total net provision amounting to Rs.7.1 billion made for 16 Capital Objects and provision totalling Rs.401.77 million of the total net provision amounting to Rs.2.74 billion made for 07 Recurrent Objects had not been utilized. Those savings had ranged between 7 per cent and 93 per cent of the net provision made relating thereto. | Delays in procurement activities due to Covid pandemic and failure in receiving adequate liquid funds had attributed to these savings. | - do -   |
| (c) Sums of Rs.1.26 billion and Rs.177.87 million had been transferred from other Objects under F.R.66 due to inadequate provision made for four Recurrent Objects and a Capital Object respectively and provision amounting to Rs.10.12 billion and Rs.3.54 billion  | Relevant transfers have been done as per the instructions given by the Treasury to manage provision saved from Objects.                | - do -   |

had to be made from supplementary estimates due to inadequate provision of Rs.85.97 billion and Rs.1.95 billion made for eight Recurrent Objects and five Capital Objects.

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|-----|---|--|--------|
| (d) | The entire supplementary estimated provision totalling Rs.507.56 million made for two Capital Objects had been saved as at the end of the year.   | Failure in receiving adequate liquid funds had attributed to these savings.  | - do-  |
| (e) | Provision totalling Rs.1.49 billion representing 49 per cent of the supplementary estimated provision totalling Rs.3.04 billion made for four Objects in four instances had been saved as at the end of the year.   | - do -   | -do-   |
| (f) | Estimated provision of Rs.4 billion had been made for the Object 222-01-02-0-1205 (Supplies-Other) and a sum of Rs.1.19 billion from this Object, neglecting future expenses of Rs.864.71 million, had been transferred to three other Recurrent Objects under F.R. 66 on 25 October 2021.  | Relevant transfers have been done on the concurrence of the General Treasury as per limits of the space of public finance. | - do - |
| (g) | Even though estimated provision of Rs.15.08 billion had been made from the Action Plan for 23 Objects/programmes/projects, a sum of Rs.9.08 billion representing 60 per cent of the said estimated amount had been saved at end of the year due to failure in achieving the expected physical performance. Further, when considering liabilities of Rs.1.57 billion incurred as at the end of the year for these Objects, the financial performance achieved had been limited to 50 per cent. | Failure in receiving liquid funds had attributed to these savings.   | - do-  |
| (h) | Even though provision totalling Rs.1.24 billion had been made for 03 projects / programmes such as construction of three-storied central armory building in the Pangoda Army Camp with a view to improving communication systems and defence  | Practical issues arisen due to the Global Covid pandemic had attributed to these savings.                                  | - do - |

and the project of prevention of terrorism(Sri Lanka -India), the said entire provision had been saved at the end of the year.

### 2.3 Incurring of Liabilities and Commitments

| Audit Observation<br>-----   | Comments of the<br>Accounting Officer<br>-----  | Recommendation<br>-----  |
|--|---|--|
| (a) There were 3,027 items of liabilities which could not be settled within a period of one month in terms of provisions of Financial Regulations 94 (1) and 214 and the value thereof was Rs.2.27 billion.  | Non-receipt of liquid funds from the Treasury had attributed to this situation.                                 | Action should be taken to settle liabilities expeditiously.  |
| (b) Liabilities totalling Rs.3.61 billion payable to 43 institutions included in the statement of liabilities submitted along with the financial statements, had not been confirmed by those institutions. Further, 04 institutions by which confirmations were given, had understated liabilities by Rs.57.86 million in reports and 11 institutions had overstated liabilities by Rs.578.29 million in reports than the amount revealed by the financial statements. | A difference could be available between balances due to non-receipt of certain bills to the Army by 31.12.2021. | Rectifications should be expedited by finding reasons specifically for differences between balances. |

### 2.4 Utilization of Provision granted by other Ministries and Departments

| Audit Observation<br>-----   | Comments of the<br>Accounting Officer<br>-----  | Recommendation<br>-----   |
|--|---|---|
| Out of the provision totalling Rs.937.83 million made relating to seven Objects for other Ministries and Departments, only a sum of Rs.497.22 million had been spent as at the end of the year under review, thus observing savings of provision of Rs.440.61 million ranging from 2 per cent to 97 per cent. Further, percentage of completion of these projects/programmes as at the end of the year had ranged between 03 per cent and 98 per cent. | Reasons such as changes in plans, changes in procurement decisions and delays in submitting bills had attributed to relevant savings. | Provision granted by other Ministries and Departments should be utilized. |

## 2.5 Issuance and Settlement of Advances

| Audit Observation   | Comments of the Accounting Officer                               | Recommendation   |
|---|--|--|
| (a) Loan balances relating to distress, festival and special advances totalling Rs.53.18 million had not been recovered in terms of provisions of Section 4.3 of Chapter XXIV of the Establishments Code, from 3,754 Army officers and 527 civil officers who had left the service within a period between one and 31 years. Out of these loan balances, a sum of Rs.8.12 million were the loan balances between 10 and 31 years and the value of loan balances over 05 years was Rs.25.12 million. | Various measures have been taken to recover these loan balances. | These loan balances should be recovered expeditiously. |
| (b) Loan balances remained unrecovered for a period ranging from one year to 16 years from 569 retired Army offices and 117 civil officers, totalled Rs.50.67 million and even though, a sum of Rs.3.28 million out of these loan balances were the loan balances older than 05 years, these loan balances had not been recovered in terms of provisions of Section 4.2 of Chapter XXIV of the Establishments Code.   | - do -   | - do -   |
| (c) Loan balances recoverable from 208 deceased Army and civil officers totalled Rs.5.44 million and a sum of Rs.341,169 of these loan balances were the loan balances older than 05 years. However, action had not been taken to recover these loan balances in terms of provisions of Section 4.4 of Chapter XXIV of the Establishments Code.   | - do -   | - do -   |
| (d) Loan balances older than 05 years recoverable from 5 civil officers who had been interdicted, totalled Rs.69,671.   | - do -   | - do -   |



## 2.6 Non-compliance with Laws, Rules and Regulations

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

| Reference to Laws,<br>Rules and<br>Regulations  | Audit Observation<br>Non-compliance  | Comments of the<br>Accounting<br>Officer   | Recommendation  |
|---|--|--|---|
| <p>(a) <b>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b></p> |  |  |   |
| <p>(i) <b>Financial Regulation 103 (1) (b)</b></p>  | <p>Losses valued at Rs.2.03 million occurred due to accidents of 03 motor vehicles owned by the Army in the year under review, had not been reported to the Police.</p>  | <p>Instructions have been given to report motor vehicle accidents to the Police in future.</p> | <p>Action should be taken in terms of relevant Financial Regulations.</p> |
| <p>(ii) <b>Financial Regulation 104 (3),(4)</b></p>                                       | <p>Full reports on loss and damage valued at Rs.64.89 million occurred to 73 motor vehicles from the year 2017 to the year 2020, and Preliminary reports on loss and damage valued at Rs.5.17 million occurred to 13 motor vehicles owned by the Army in the year under review and full reports on loss and damage valued totalling Rs.9.36 million relating to 9 motor vehicle accidents, had not been submitted.</p> | <p>Necessary action is being taken to submit relevant reports.</p>                             | <p>- do -</p>   |

|  |   |  |  |
|--|---|--|--|
| <p>(iii) <b>Financial Regulation 770(4) and 770 (a) (b)</b></p>                                      | <p>A number of 127 motor vehicles removed from running in the year 2020 or in preceding years and 28 motor vehicles removed from being use in the year under review, had been decided as unserviceable articles. However, action had not been taken to dispose of them.</p>   | <p>Action will be taken to dispose of vehicles acquired from terrorists as scrap materials and problems arisen in disposing other vehicles are being solved.</p>               | <p>- do -</p>  |
| <p>(b) <b>Paragraph 3.1 of the Public Administration Circular No.30/2016 of 29 December 2016</b></p> | <p>The consumption of fuel had not been tested in the year under review or in preceding years relating to 2,464 motor vehicles which are in running condition and used by the Army and fuel balances were made in running charts/ transport warranties according to quantity of consumption of fuel determined by Transport Division.</p> | <p>The consumption of fuel had been tested in considerable number of vehicles at present and steps will be taken to test the fuel consumption in these vehicles in future.</p> | <p>Action should be taken in terms of circular provisions.</p> |

**3. Operating Review**  
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**3.1 Non-achievement of expected Output Level**  
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| <b>Audit Observation</b><br>-----   | <b>Comments of the Accounting Officer</b><br>-----  | <b>Recommendation</b><br>-----                         |
|---|---|--|
| <p>Even though 100 per cent targeted physical progress had been shown on 23 various programmes including constructions, procurements and staff trainings according to the Action Plan, the physical progress of 16 programmes had been at a level of 50 per cent or less than that.</p> | <p>Non-receipt of liquid funds from the Treasury, delays in acquiring lands and in procurements had attributed to this situation.</p> | <p>Action should be taken to reach targeted plans.</p> |

### 3.2 Procurements

The following observations are made.

| <b>Audit Observation</b>   | <b>Comments of the Accounting Officer</b>   | <b>Recommendation</b>  |
|--|---|--|
| -----  | -----   | -----  |
| (a) A Master Procurement Plan had not been prepared for anticipated procurement activities for a period of three years and quantity of goods or service units procured had not been indicated in the Procurement Plan prepared with an estimated cost of Rs.36.59 billion for the year under review. | That further action will be taken to prepare a Procurement Plan for a period of 3 years and action will be taken to include quantity of units procured in future, in the detailed Procurement Plan. | Plans should be prepared in terms of Procurement Guidelines.   |
| (b) General matters revealed in respect of procurements valued at Rs.521.22 million carried out by following Shopping Method, National Competitive Bidding Method and Limited/Restricted National Competitive Procurement Methods in the year under review, are as follows.                          |   |  |
| (i) Even though quotations had been called for from over 200 institutions, number of quotations received stood below 10 and postal receipts or e-mail message confirmations that records on calling for quotations, were sent to bidders, were not made available to Audit.                          | That many institutions had not submitted quotations due to Covid Risk.  | Action should be taken to find out alternative methods for calling for bids and to make relevant information available to Audit. |
| (ii) It had not been revealed to Audit whether the bids were received by mail or deposited in the Tender Box and registers on opening of mail bids received under registered post or registers on opening of Tender Box, had not been maintained.  | The Accounting Officer had not commented.   | Relevant registers should be maintained.   |

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|---|---|---|
| (iii) In certain purchases, a large number of suppliers had registered for each supply category. However, quotations had been called for from a very limited number of suppliers and the basis of selection of these suppliers had not been revealed to Audit.  | - do -  | The basis of selection of bidders should be revealed to Audit.  |
| (iv) Duplicates of bids in respect of procurements valued at Rs.88.87 million carried out under National Competitive Bidding Method had not been made available to Audit.   | - do -  | Duplicates of bids should be made available to Audit.   |
| (v) Limited / Restricted National Competitive Bidding Method had been applied for procurements valued at Rs.352.78 million neglecting criteria mentioned in Guideline 3.3.  | - do -  | Most suitable procurement method should be selected in terms of Procurement Guidelines.   |
| (c) Matters observed on each procurement, are given below.  |   |   |
| (i) It was observed at the audit test checks carried out in respect of purchase of building materials at a cost of Rs.274.05 million that registers to be maintained in terms of Guidelines 6.3.3 and 6.3.6 for opening bids, had not been maintained properly. Moreover, in terms of Guideline 8.9.1, agreements had not been entered into with suppliers. Further, documents on confirmation of receipt of relevant materials to stores or goods received notes had not been made available to Audit. | Action will be taken to obtain a bid security or performance security instead of entering into agreements and to maintain registers for signing at the bid opening.                                     | Action should be taken in terms of Procurement Guidelines and goods received notes should be made available to Audit.   |
| (ii) Even though it had been reported that a pre-bid meeting was held in purchasing signals/computer equipment at a cost of Rs.66.26 million, reports thereof had not been made available to Audit and penalties amounting to Rs.7.95 million had not been recovered.   | That a pre-bid meeting has been held only with the participation of two institutions subject to travel restrictions and that procurement activities have been carried out by calling for quotations due | Information relating to examination of pre-qualifications should be made available to Audit and penalties should be recovered in terms of agreements and in purchasing vast |

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|---|--|--|--|
| Further, action had not been taken in terms of Guideline 9.7.2. | to close down of institutions as a result of travel restrictions.  | information systems, action should be taken in terms of relevant Procurement Guidelines.   |  |
| (iii)   | Penalties of Rs.5.05 million recoverable relating to purchase of 7,500 metres of Cloth Suede Scarlet “58/60” by incurring an expenditure of Rs.37.88 million, had not been recovered and as a result of the delay, the Government had to incur an additional cost of Rs.4.08 million to procure the relevant stock of cloth material due to the increase in the US Dollar.   | The receipt of the stock of goods had delayed due to the delay in transport of ships as a result of a military training conducted in the Port of Shanghai.   | Penalties should be recovered in terms of agreements.      |
| (iv)  | In the purchase of 1,400 Single Axis Foots and Components and 1,920 Adaptors by spending a sum of Rs.36.45 million, a Procurement Time Schedule had not been prepared in terms of Procurement Guideline 4.2.3 and the cost benefit which could have been reaped in procurement packaging due to operating as two tenders with the expectation of carrying out through minor procurement committees, could not be reaped. In terms of Procurement Guideline 2.14.1, the lowest bid had not been obtained and in terms of Procurement Guideline 7.7, procurement decisions had been made by using evaluation factors not specified in bidding documents. As such, the bidder who submitted the lowest bid had not been selected and as such, a sum of Rs.12.96 million had been overspent in making purchases. | Quotations were called for, under two files on priority requirement due to the Corona pandemic that prevailed in the country and as such, the quotations were limited and receipt of stocks was delayed. | Action should be taken in terms of Procurement Guidelines. |

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| (v)    | In the purchase of 10,500 pairs of Black Synthetic shoes by spending a sum of Rs.18.03 million, purchases had not been made from the supplier recommended by the Technical Evaluation Committee and the said goods had been purchased from a supplier who had submitted a higher quotation of Rs.737,100 with 06 unspecified specifications and as a period of nearly 20 months had delayed, the requirement of shoes of the civil officers could not be fulfilled during the relevant period. Moreover, penalties of Rs.111,205 had not been recovered. | The Technical Evaluation Committee has considered priorities based on field and quality test reports while delays have taken place due to the Corona pandemic that prevailed in the country.  | The recommendations of the Technical Evaluation Committee should be considered while taking action to recover penalties in terms of agreements.   |
| (vi)   | In the purchase of drugs and dressings by spending a sum of Rs.15.98 million, a period of one year and 03 months had been taken to deliver a quantity of 10 per cent of the stocks ordered and adequate measures had not been taken relating to suppliers for failure in supply of goods.  | The Corona pandemic that prevailed had been the main reason for these delays.   | Necessary measures should be taken to carry out procurements as planned and on delays of the supplier.  |
| (vii)  | In the purchase of Single Axis Foots, 880 Dynamic Foots and 610 Adaptors by spending a sum of Rs.14.86 million, a period over two years had been taken to deliver the said goods to the relevant stores and penalties of Rs.1.26 million had not been recovered. Even though quality certificates had been given for products of Australia and New Zealand, equipment manufactured in Germany had been purchased by incurring a cost over Rs.8.1 million.  | Closing of foreign supply institutions and taking a long time to open letters of credit due to the Covid pandemic that prevailed had been the reasons for this delay and action was taken to purchase equipment of the best quality considering criteria such as the hygiene, durability and convenience in handling. | Procurement activities should be well planned and carried out in compliance with Procurement Guidelines in a manner beneficial to the Government. |
| (viii) | In the purchase of 535 items of 14 types of Knee Joint and Components by spending a sum of Rs.14.52 million, a Procurement Time Schedule had not been prepared and a period of nearly 02 years had been delayed for procurement activities.  | Closing of supply institutions had been the reason for this delay and action was taken to make purchases on the recommendation of the Technical Evaluation  | Supplies should be obtained by identifying the period of requirement and procurement should be carried out in a manner beneficial to              |

As such, it had been a hindrance in fulfilling requirements of disabled soldiers. The Technical Evaluation Committee had recommended to purchase 45 Socket adaptor with pyramid and 75 Socket attachment block for thermo plastic Socket (circumference distal 400 mm) from the institution which submitted the lowest quotation and as that supplier had disagreed to supply only the said items, the Technical Evaluation Committee had recommended again to purchase those items as well from the selected supplier. Had the said two items and all items been procured from the said bidder who submitted the lowest quotation, the Government could have saved an expenditure of Rs.7.34 million. Moreover, even though it had been mentioned that purchases had been made from the selected supplier based on an test report of Orthopaedic Technicians, such a report including recommendations of Orthopaedic Technicians had not been made available to Audit. Furthermore, the supplier who supplied 50 Clutch locks on an expenditure of Rs.1.09 million, had not agreed with the specifications and the Technical Evaluation Committee has pointed out the unavailability of any certificate whatsoever of the guarantee period. Nevertheless, purchases had been made from the same supplier.

Committee, considering the Government. factors such as the hygiene, durability and convenience in handling as war heroes should be provided with equipment of the best quality.

- (ix) Evaluation criteria not specified in the bidding documents had been used in the evaluation of bids in purchasing 60 computers of i5 type and 60 UPS by spending a sum of Rs.7.88 million. As quotations for computers with Casing Type ATX Tower with 400 W or a higher PSU value used in special occasions have
- Equipment with technical specifications required for the Army, can be purchased.
- Procurement activities should be well planned, specification should be prepared by identifying requirements as well as market situation and specifications

been requested through the specification, only 07 out of 184 bidders had submitted quotations. Moreover, the computer with Casing Type ATX Tower with 260 W for which only one bidder has submitted quotations, had been recommended as suitable and purchased and it is observed as action taken to limit the price competition and calling for quotations for one type of good and purchasing another type of good. Furthermore, a period of nearly 04 months had been delayed without approval to supply again two PSUs that had not been supplied according to prescribed standards by the supplier.

should not be based for limitation of price competition.

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|------|--|---|---|
| (x)  | Even though a sum of Rs.1.52 million had been estimated in the Procurement Plan in procuring a PA SYSTEM by spending a sum of Rs.4.6 million, the said equipment had been procured by spending a sum of Rs.4.59 million. Moreover, in terms of Procurement Guideline 6.3.6, opening of bids had not been reported as per prescribed formats.   | It had been overestimated as the Dollar value has fluctuated and participation of persons at the opening of bids had been limited due to travel restrictions.   | Action should be taken in terms of Procurement Guidelines and estimates should be prepared as accurately as possible. |
| (xi) | Specification had not been prepared in the purchase of 240,000 yards of piping by spending a sum of Rs.2.84 million and it had been indicated that bidders were selected from among the registered suppliers of the Ministry of Defence. However, action had not been taken accordingly. Purchases had been made by selecting two institutions operated in the name of the same person or in the names of his relations. The documents to be maintained in terms of Procurement Guideline 6.3.3 had not been maintained. Moreover, penalties of Rs.113,600 had not been recovered. | As a result of the Covid risk, specification has not been prepared as the assistance of specialist institutions could not be obtained and even though relevant stocks have been received on the due date, accounting of stocks and issuing of certificates of receipts have been delayed. | Action should be taken in terms of Procurement Guidelines and penalties should be recovered in terms of agreements.   |



- (xii) In purchasing 750 sheets of size 8'x32" of G28 thickness with GI folds and 870 sheets of size 12'x32" for the Diyakawa military training event by spending a sum of Rs.1.22 million, roofing sheets had been purchased from a bidder who submitted roofing sheets with less thickness of G34 instead of G28 thickness expected to be purchased and moreover, requirement had not been identified when drafting technical specifications. Furthermore, 1,620 sheets had been purchased after calling quotations for 450 sheets. As such, discounts or cost benefit could not be gained due to the increase in quantity.
- Purchases have been made in this manner due to lack of goods and as purchases could not be made by calling quotations on the prescribed date on service requirement under the circumstances due to the Covid pandemic which prevailed in the country and as it was the only institution which agreed to supply goods on credit basis. Moreover, the relevant goods have been purchased neglecting estimates with the intention of obtaining expedite service appropriately.
- Action should be taken in terms of Procurement Guidelines and steps should be taken to limit price competition and to avoid calling quotations for one type of good and purchasing another type of good.
- (xiii) Two sofa sets and 2 coffee tables purchased by spending a sum of Rs.1.08 million had not been included in the Annual Procurement Plan and even though it was mentioned that specification has been sent to bidders, bids had not been submitted according to specifications. As such, quotations had been submitted with large price fluctuations from 6 per cent to 52 per cent. Moreover, specifications had been unheeded when making the purchase. A guarantee period had not been provided for goods by the supplier as well.
- Action will be taken to give recommendations by testing samples provided, by visiting the institutions which submitted quotations and purchase had been made by testing the quality, finish, durability and strength.
- The bidders should be provided with specific specifications and specifications should be considered in the evaluation of bids as well and action should be taken to obtain a guarantee period more beneficial to the Government.

### 3.3 Assets Management

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| <b>Audit Observation</b>  | <b>Comments of the Accounting Officer</b>   | <b>Recommendation</b>  |
|---|---|--|
| -----   | -----   | -----  |
| <p>(a) Goods, armoured and unarmoured vehicles and equipment required for 685 troops who were expected to be deployed in the State of Mali for peacekeeping duties, had been procured in the years 2016 and 2017. Out of those procured transports and other equipment, a stock of transport and equipment valued at Rs.1.38 billion and stocks of other vehicles and equipment of which the value had not been revealed, had remained idle in stores in various regions of the Island.</p>   | <p>Action will be taken to utilize relevant goods, armoured and unarmoured vehicles and equipment as required.</p>  | <p>Goods and services should be procured as per requirement and this stock of transport and equipment already purchased, should be utilized so as to reap maximum benefit to the Government.</p> |
| <p>(b) The legal ownership of 595 vehicles acquired from terrorists during the period of war had not been transferred to the Army and insurance coverage had not been obtained for 3,070 vehicles belonging to the Army.</p>  | <p>Requests have been made from the Department of Motor Traffic on several occasions for transfer of the said vehicles and action will be taken to obtain insurance coverage for the remaining vehicles without insurance coverage.</p> | <p>Action should be taken to transfer the legal ownership of vehicles and to obtain insurance coverage for the vehicles without insurance coverage.</p>  |
| <p>(c) The Divisional Secretary, Kundasale had vested in the Army, a land of 14 hectares in extent in the Kundasale Divisional Secretariat Division of the Kandy District in the year 2007 by legal plan No. P.P.KA 3784 made by the Surveyor of the Provincial Land Commissioner's Department in the year 2007. As this land remained unutilized, it was revealed to the Army during the survey in the year 2016 that unauthorized occupants were forcefully using this land. However, no steps had been taken for legal action against the unauthorized occupants of this land or any other appropriate measures to evict them.</p> | <p>Requests have been made to the Attorney General for settling the relevant land.</p>  | <p>Action should be taken to secure assets of the Army.</p>  |

- (d) Attention had not been drawn so far to obtain other lands or buildings owned by the Government in place of 39 blocks of land belonging to 5.74 acres in the Batticaloa District by spending a sum of Rs.1.7 million annually for the construction of houses or stores, for obtaining 39 buildings of 217,191 square feet in extent from various areas of the country for accommodation, office and storing facilities by spending a total of Rs.187.37 million annually and for lands and buildings obtained on rental basis for over a period of 30 years
- Action will be taken to identify the owners of these lands and buildings, to hand them over and to obtain 39 buildings on rental basis as per requirement of the Army.
- Action should be taken for maximum utilization of assets owned by the Government and to limit expenditure.
- (e) Three command and staff vehicles, 02 Double Cabs, 04 jeeps, 06 cabs, 05 buses, 02 goods transport vehicles, 17 water bowsers, one tipper, one Gully Trailer, 07 Ambulances and 11 motorcycles of other Government institutions including ministries and departments are being used by the Army without taking over formally.
- Other civil institutions including Government departments have donated vehicles to the Army and according to the procedure of the Sri Lanka Army, ෫෧ numbers have been provided for the convenience of administration activities.
- Action should be taken for formal takeover of relevant assets or to release to the relevant institutions.
- (f) The Toyota Corolla motor car bearing No. KA – 5972 (෫෧ 16024) and the Nissan Double Cab bearing No.52 – 5035 (෫෧ 0157) belonging to the Army, had been released to third parties without obtaining formal approval.
- The motor car has been provided for the use of a close relative of Major General Anuruddha Ratwatte since the year 2005 and the Double Cab has been provided to Siri Seelavishuddhi Mahanayaka Thero since the year 1995.
- Assets of the Government should not be released to third parties without obtaining proper approval.
- (g) The guarantee period of 66 electrical items including 29 washing machines, 16 digital scales, television sets, television sets and stabilizers purchased during the period from the year 2010 to the year 2021 by incurring an expenditure of Rs.2.44 million without identifying the requirement properly, had expired and those goods had remained idle without being made use of.
- These electrical items have been obtained for Corona Quarantine Centres and they are stored safely.as the spreading of the pandemic cannot be forecasted.
- Purchases should be made by properly identifying the requirement and issuance.

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| (h) | Sixty five items of electronic and electrical equipment including 34 digital scales of 50 kg, 08 deep freezers of 20 cubic feet and 03 refrigerators of 08 cubic feet purchased by incurring a sum of Rs.3.9 million with a guarantee period of only one year, had remained idle in the Ragama and Weyangoda stores of the Army during a period from 05 to 12 months after purchasing.   | Scales and refrigerators will be issued according to requirement.  | Purchases should be made by properly identifying the requirement and issuance. |
| (i) | Twenty five iron tables, 222 steel cupboards and 113 visitors' chairs purchased without identifying the requirement and utilization before several years, had been kept in the stores of the Army in Ragama without issuing. Moreover, stocks units of 69,669 of 16 stock items of uniforms consisting official badges, caps, shirts and buttons purchased even before the year 2011, had been kept in the stores of the Army in Weyangoda. These clothes and official badges were discoloured and decayed due to slow issuance and the value of the said stocks had not been revealed to Audit. | These stocks will be issued according to requirement.  | -do-   |
| (j) | Two hundred cover outers purchased by spending a sum of Rs.3.4 million, had been kept in the Ragama stores complex for nearly a period from 01 to 05 years without issuing. As such, their efficiency had been affected.   | The vehicles using these cover outers have been removed from running and as such, this situation has arisen and they are issued according to quantities requested. | -do-   |
| (k) | A land of 20,656 acres in extent belonging to 569 blocks of land used by the Army, had not been valued and brought to account.   | The delay in issuing valuation reports had been the reason therefor and steps will be taken to expedite valuation of lands and bring them to account.              | Valuation of relevant lands should be expedited and brought to account.        |

### 3.4 Management Weaknesses

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| <b>Audit Observation</b>   | <b>Comments of the Accounting Officer</b>   | <b>Recommendation</b>  |
|--|---|--|
| An army medicine warehouse had been established in Werahara area and this building had not been established in compliance with the appropriate standard for storage of drugs. A security camera system also had not been installed. Medical items valued at Rs. 45.6 million which are needed to prevent COVID – 19, huge amount of ethanol and sanitary items had been stored in the staircase of the building and the corridor of the upper floor improperly. There was a risk of rainwater running into the said storage materials on rainy days. Although it had been planned to construct a store room of 14,450 square feet in extent in this premises for storage of drugs, constructions had not been commenced. | This building has been established temporarily and constructions of the new building are due to be commenced. | Action should be taken to accelerate the construction of the planned drug warehouse building and to ensure that the relevant drug and medical supplies are stored without damaging the materials until then. |

### 3.5 Losses and Damages

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| <b>Audit Observation</b>   | <b>Comments of the Accounting Officer</b>  | <b>Recommendation</b>  |
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| (a) A closing balance totalling Rs.14.06 billion remained in the year, comprising sums of Rs.13.78 billion and Rs.282.05 million respectively relating to 125 losses and damages occurred to various assets including weapons of the Army due to terrorist attacks and 497 vehicle accidents. Moreover, losses of Rs.840.7 million and Rs.12.99 billion relating to 119 and 263 incidents over 10 years and 05 years remained respectively relating to the said losses and damages. The recovery or writing off of these balances were sluggish and only an opening balance of Rs.47 million had been disclosed relating to 16 losses and damages in the | Action necessary for recovery or writing off of relevant balances is being taken while action will be taken to disclose opening balances through financial statements. | Action should be taken to recover or to write off relevant losses and damages and to disclose opening balances through financial statements. |

statement of writing off from books presented along with the financial statements. Opening balances of other losses and damages had not been disclosed.

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| (b) | Information relating to 12 vehicle accidents had not been included in the statement of losses and waivers presented along with the financial statements and the number of vehicle accidents occurred during the period from the year 2017 to the year 2020, of which losses were not estimated, stood at 88. | Action will be taken to estimate these losses and damages and to disclose them through financial statements.      | The relevant losses and damages should be estimated and disclosed through financial statements. |
| (c) | Departmental fees of 25 per cent relating to coupon irregularities amounting to Rs.4,47 million occurred in the Army, had not been recovered so far.   | Necessary action is being taken to recover Departmental fees by revising the Conclusion of Commander of the Army. | Relevant Departmental fees should be recovered.   |

### 3.6 Uneconomic Transactions

| -----<br><b>Audit Observation</b><br>-----  | <b>Comments of the<br/>Accounting Officer</b><br>-----  | <b>Recommendation</b><br>-----  |
|---|---|---|
| <p>Certain equipment, stationery, electrical equipment, cover outers and batteries purchased during the past years without properly identifying the requirement, had remained idle in the stores of the Army in Ragama for a long period. As those items of stock have expired or become unusable, 390 items of goods belonging to 10 types of goods valued at Rs.100,405 had been disposed of in the year 2021 and it had been proposed to dispose of 353 items of goods belonging to 27 types of goods valued at Rs.3.37 million in the year under review. As such, the Government had not reaped economic benefits from purchases of goods and equipment valued at a total of Rs.3.47 million.</p> | <p>As goods which have become unusable without being made use of, they will be submitted to a Condemnation Board and action will be taken to dispose from stocks.</p> | <p>Goods should be procured considering the requirements and quantities issued.</p> |

**4. Human Resource Management**

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**Audit Observation**

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Entire vacancies of 1,456 of the Civil Staff comprising 04 vacancies of Senior Level, 83 vacancies of Tertiary and Secondary Levels and 20,923 vacancies of Primary Level, Secondary Level and Tertiary Level of the Army existed. However, various administrative issues had arisen due to failure in taking action to revise the approved cadre as appropriate or to fill those vacancies. Moreover, the number of officers/employees of the actual cadre deployed in the service referred for any training in the year under review, had been limited to 52,752.

**Comments of the Accounting Officer**

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As filling of vacancies of the Primary Level in the Public Service has been suspended until further notice, those vacancies could not be filled. Moreover, the Ministry of Public Administration has been informed on filling of vacancies in the Primary, Senior and Tertiary Levels and this situation has arisen as a result of inability in implementing training programmes planned, due to the Covid pandemic which prevailed in the country.

**Recommendation**

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Action should be taken to fill vacancies or to revise the approved cadre as appropriate for the actual cadre and to improve performance through training of employees.