

Head 222 – Sri Lanka Army

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of Sri Lanka Army for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. The summary report including my comments and observations on the financial statements of Sri Lanka Army was issued to the Accounting Officer on 30 May 2023 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 and the Detailed Annual Management Audit Report relating to the Army in terms of Sub-section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 31 May 2023. This report will be presented in Parliament in pursuance of provisions in Article 154 (6) of the Constitution 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 Sri Lanka Army as at 31 December 2022, and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-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 annual and periodic financial statements to be prepared.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of Sri Lanka Army exists, 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 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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Sri Lanka Army.
- 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 / 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 and Regulatory Requirements

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

- (a) The financial statements are consistent with the preceding year.

(b) The recommendations made by me on the financial statements of the preceding year, had been implemented.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

a) Capital Expenses

The following deficiencies were observed in accounting for capital expenses in the financial statements.

	Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(i.)	The expenditure incurred in the year under review on rehabilitation, improvement and acquisition of capital assets valued at Rs. 3,423.04 million, had been understated by Rs. 420.62 million in the statement of non-financial assets (ACA-6)	The balance that could not be accounted for by the end of the year 2022 due to technical issues, will be brought to accounts in the year 2023.	Capital expenses should be accounted for correctly.
(ii.)	According to information presented to the Audit, the balance of work in progress relating to other machinery, equipment and 18 capital items purchased in the year, had been overstated by Rs. 1.81 billion in the statement of non-financial assets (ACA-6).	Information furnished to the audit is being examined, and corrective measures will be taken in due course.	Capital expenses and balance of work in progress, should be correctly accounted for.
(iii.)	The value of works completed in the year under review including a part of constructions/modifications continued from the preceding years, amounted to Rs. 467.3 million, and that value had not been capitalized by the end of the year under review.	Corrective measures are being taken after informing the Department of State Accounts.	The value should be capitalized.

- (iv.) Vehicles, motorcycles, 334 tractor trailers, 91 items of office furniture and electrical appliances, and 26 heavy machinery belonging to the Army had been disposed of and sold at a value of Rs. 289.91 million in the year under review. However, cost of those assets had not been eliminated from the non-current assets.
- Action will be taken to eliminate the value from the register of properties, and information thereof along with journal entries will be provided soon to be included in the financial statements.
- Cost of the relevant assets should be eliminated from the accounts.

b) Property, Plant and Equipment

The following deficiencies were observed in accounting for Property, Plant and Equipment.

	Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(i.)	The value of lands in extent of 10,240 acres belonging to 15 plots owned by the Army and 330 lands being used by the Army along with buildings worth Rs. 80.67 billion, had not been disclosed in the statement of non-financial assets (ACA-6) presented with the financial statements of the year under review. As such, the value of those assets had not been shown in the financial statements of the year under review.	Action will be taken to account for the said assets after being assessed.	The lands and buildings belonging to the Army should be brought to accounts after being assessed. Those assets being in use over an extensive period, should be disclosed in the financial statements.
(ii.)	The closing balance of 28 types of assets shown in the statement of non-financial assets (ACA-6) as at the end of the preceding year, had been understated by Rs. 182.82 million when brought forward as the opening balance of the year under review.	Values not included in the closing balance of the preceding year, had been accounted for, thus giving rise to the said difference.	Reasons for non-reconciliation of the values, should be disclosed in the financial statements.

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| (iii.) | According to information presented to the Audit, the balance of work in progress had been overstated by Rs. 5.79 billion in the statement of non-financial assets (ACA-6) furnished with the financial statements. | Action will be taken to identify the said issue and account for in the year 2023. | Correct values should be identified and brought to accounts expeditiously. |
| (iv.) | Two horses worth Rs. 03 million, had been received from the Government of Pakistan as donations, but the Army had not inventoried them. The loss caused due to death of those horses in the year under review, had not been recorded as losses or damages, nor been adjusted in the accounts. Furthermore, a dog of unknown value belonging to the Army had also died in the year under review, and that had not been recorded as losses and damages or adjusted in the accounts as well. | The loss had not been recorded in the register due to a mistake, thus failing to be accounted for. The said horses and dog will be inventoried and brought to accounts, thus necessary action will be taken promptly as per the procedure relating to losses and damages. | When assets are received as donations, and losses are caused on them, such assets should be correctly accounted for and showed in the financial statements. |

c) Non-maintenance of Books and Registers

The following observation is made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
Fifteen land plots owned and used by the Army over an extensive period and 2,163 buildings worth Rs. 35.09 billion had not been recorded in the Register of Fixed Assets in terms of Treasury Circular, No. 842 dated 19 December 1978 and Appendix. II of Financial Regulation 502 (2), nor had been recorded in the Cigas programme in terms of Paragraph 8.1 of the State Accounts Guideline No. 2022/05 dated 13 December 2022.	Action will be taken to account for after being assessed by the Department of Valuation.	Action should be taken in terms of Financial Regulations and Circulars of the Government.

d) Lack of Evidence for Audit

The following observation is made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
A sum of Rs. 17.04 billion had been shown in the statement of non-financial assets (ACA-6) presented with the financial statements of the year under review as additions made to the opening balance of 29 types of assets relating to 05 classes of assets. Those values had not been verified to the Audit.	Once the values not included in the opening balances as at 31 December 2021, had been identified, those values had been brought to accounts.	The differences should be corrected through journal entries and disclosed in the financial statements.

2. Financial Review**2.1 Management of Expenditure**

The following observations are made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
a) The total net provision of Rs. 205 million made for the security and counter terrorism project (Sri Lanka - India), under the Code, 222-01-03-005-2509, had been saved in full.	The saving occurred due to suspension of procurements scheduled to be made under foreign loans owing to the economic crisis in the country.	Action should be taken to prepare estimates as accurate as possible, and cost on public loans should be taken into consideration.
b) A sum of Rs. 11.22 billion had been saved out of the total net provision of Rs. 40.87 billion made on 22 recurrent Objects, whereas a sum of Rs. 419.94 million had also been saved out of the total net provision of Rs. 1.76 billion made on 08 capital Objects. Those savings ranged between 6 - 88 per cent of the net provision made.	Lack of receipt of funds for settlement of bills, scarcity of goods, and lack of foreign exchange owing to the economic crisis in the country, had attributed to the savings.	Estimates should be prepared as accurate as possible.

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| c) | Due to inadequacy of provision made for 05 recurrent Objects and 03 capital objects, provision amounting to Rs. 4.61 billion and Rs. 145.5 million had respectively been transferred from other Objects in terms of Financial Regulation 66 whilst provision amounting to Rs. 9.64 billion had also been made with respect to 02 recurrent Objects through supplementary estimates. | In the wake of economic crisis, provision was not adequate for some of the Objects, provision saved under other Objects, and liquid funds had not been received; hence, the said situation. | - Do. |
| d) | Due to inadequacy of total net provision with respect to 27 Objects, liabilities worth Rs. 9.81 billion had been incurred by the end of the year. | - Do. | - Do. |
| e) | Of the provision amounting to Rs. 09 billion made through supplementary estimates on Object Code, 222-01-02-1203 (food and uniforms), a sum of Rs. 8.91 billion or 99 per cent had been saved by the end of the year under review whilst 32 per cent of the provision amounting to Rs. 37.83 million transferred to 02 Objects from other Objects in terms of Financial Regulation 66, had also been saved by the end of the year. | This situation arose due to lack of receipt of funds in the wake of economic crisis. | - Do. |

2.2 Incurring Liabilities and Commitments

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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a) Liabilities valued at Rs. 12 billion could not be settled within a period of month due to failure in complying with directives made as per Financial Regulation 94(1) and 214.	Those bills are being settled at present.	Action should be taken for the prompt settlement of liabilities.

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| b) | Confirmation of balances had been requested from a sample of 67 institutions mentioned in the statement of liabilities presented with the financial statements, and liabilities totalling Rs. 5.36 billion payable to 30 institutions were not confirmed by those institutions. Furthermore, 03 institutions that furnished the confirmations, agreed with the balances. Sixteen institutions understated the liabilities disclosed in the financial statements by a total of Rs. 2.22 billion whilst 18 institutions overstated the liabilities by Rs. 1.57 billion. | The financial statements have been prepared based on bills presented by Board of Directors of the Army responsible for managing each Object. | Reasons attributing to the differences between balances should be specifically identified, and corrections should be made without delay. |
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2.3 Utilization of Provision Given by Other Ministries and Departments

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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a) A sum of Rs. 634.16 million had been saved by the end of the year under review out of capital provision totalling Rs. 1,152.83 million made for 15 projects/programmes relating to 07 Objects of other Ministries and Departments. Those savings ranged between 8-90 per cent. The progress of constructing the access roads of Laggala & Gajasinghepura and construction of building at the Primary school in Meemure for which provision totalling Rs. 58.63 million had been allocated in the year under review, remained as low as 5 per cent, 15 per cent and 20 per cent respectively. Furthermore, provision amounting to Rs. 10.64 million had been received to	The provision was not adequate due to delay in procurement activities and increase in the prices of goods and services following the unfavorable situation in the country, thus giving rise to the said scenario.	The provision given by other Ministries and Departments should be optimally utilized.

incur expenses on the development of playgrounds under “Gama Samaga Pilisandara” programme from the Ministry of Youth and Sports. That provision had been saved in full by the end of the year without implementing those projects.

- b) Progress of the renovation of tank cascade system (Ellanga system) under Grama Shakthi People’s Movement.

Following instructions of the Hon. President in the year 2018, some of the works such as, renovation of bunds, bathing spots, breakwater, access roads, main agricultural canals, removal of silt, construction of spillways and spill gates relating to 11 tanks in Anuradhapura district, and making name boards, had been assigned to the Army by the Presidential Secretariat thereby allocating provision amounting to Rs. 100 million. The following observations are made in that connection.

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| (i.) | Progress in the completion of renovating the tanks of Dunumadalawa, Nabadagasdigiliya, Galahitiyawa, and Helamba, remained 70 – 90 per cent. As some of the essential renovation works had not been done with respect to those tanks, construction materials like huge stones had been dumped in the tanks thus inconveniencing the rural masses using the tanks. | The renovation works of those tanks had been suspended due to non-approval of provision, but many tasks have been completed. | The estimated renovations should be carried out, and people being inconvenienced, should be taken into consideration. |
| (ii.) | Having spent a sum of Rs. 28.01 million under approval of the Presidential Secretariat following a request made by the Army, 10 tractors, 05 motorcycles, 05 desktop computers, a | Those assets had been purchased as per instructions of the Presidential Secretariat and used for the project. | In the backdrop where provision made for the project was insufficient, only the expenses |

- photocopier, 05 LED TVs, 03 grass cutters, and 03 chainsaws, had been purchased. However, it could not be revealed as to whether those office equipment and machinery had been used for the intended project. Furthermore, a sum of Rs. 1.84 million had been spent on inauguration ceremonies that had not been mentioned in the estimates for construction of tanks. A sum of Rs. 3.8 million had been spent for repairing heavy vehicles and machinery of the Army by stating that they had been required for renovating the tanks.
- (iii.) The Army had collected 2802 bags of cement each weighing 50 Kg from the District Secretariat, Anuradhapura in accordance with the initial estimate of the project, and of that, 1482 bags of cement worth Rs. 1.6 million had been used for miscellaneous constructions at their camps not directly related to the project.
- (iv.) Having spent a sum of Rs. 1.54 million, 400 cubic meters of stones had been procured from the Army in order to construct the breakwater of Nambadagasdigiliya tank. More than 50 cubic meters therefrom had been dumped in the tank.
- The Army had been informed by the Presidential Secretariat that the inauguration ceremony be held by the Army. The machines / vehicles deployed by the project had to be repaired as well.
- A number of 393 bags of cement had been used for constructions relating to the project whereas 218 bags of cement had become unusable due to delay of the project. The rest of the cement had been used for the project.
- Construction works could not be completed as provision had not been given after the year 2019.
- Resources given for the project should be used economically, thus ensuring success of the project.
- The stones brought in for the project, should be utilized for the intended purpose.
- mentioned in the project estimate should be incurred, thereby taking action to make the project a success.

2.4 Issue and Settlement of Advances

The following observations are made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
a) Balances of distress loans, festival advances, and other advances totalling Rs. 43.23 million due from 444 civil officers and 3,314 officers of the Army who had deserted the Army before 01-31 years ago, had not been recovered in terms of Section 4.3 of Chapter XXIV of the Establishments Code. Of those loan balances, a sum of Rs. 13.95 million continued to exist over 10 years.	Various measures have been taken for recovery of those loan balances.	Such balances should be recovered without delay.
b) The loan balances not recovered over a period of 01-17 years from 182 retired Army officers and 68 officers of the civil service, totaled Rs. 14.78 million. Of the said balance, a sum of Rs. 3.04 million continued to exist over 05 years, but those balances had not been recovered in terms of Section 4.2 of Chapter XXIV of the Establishments Code.	- Do.	- Do.

2.5 Non-compliances with Laws, Rules, Regulations, and Management Decisions

An instance of non-compliance with provisions of Laws, Rules, and Regulations observed in audit test checks, is given below.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
Reference to Laws, Rules and Regulations	Non-compliance	
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Financial Regulation 104 (4) of the Financial Regulations	Detailed reports had not been presented with respect to losses and damages valued	Such reports can not be made available until the repair value of
		The Financial Regulations should be followed.

Democratic Socialist Republic of Sri Lanka. at Rs. 5.86 million vehicles is caused by accidents disclosed by the preliminary Board of Inquiry. involving 05 vehicles of the Army in the year 2021.

3. Operating Review

3.1 Failure to Achieve the Expected Outcome

The following observations are made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
A physical progress of 100 per cent had been expected with respect to 06 Objects as per the Action Plan though, the physical performance stood at 50-74 per cent whereas the physical progress of 03 programmes remained 75-89 per cent.	Considering the unsettled liabilities due to non-receipt of liquid funds, the performance thereof remained between 86 and 100 per cent.	Targeted milestones should be acquired.

3.2 Procurements

The following observations are made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
a) A main Procurement Plan had not been prepared for procurement activities envisioned for a period of 03 years. The Procurement Plan prepared for the year under review with an estimated cost of Rs. 47.45 billion, had not mentioned the number of units of goods or services to be procured.	In order to prepare a Procurement Plan for a period of 03 years, the number of units to be purchased in due course, will be included in the detailed Procurement Plan.	Plans should be prepared in accordance with Procurement Guidelines.
b) The matters observed in general on procurements valued at Rs. 886.76 million done in the year under review by following the limited/restricted national		

competitive bidding method, national competitive bidding method, and shopping method, are as follows.

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| (i.) | By disregarding the criteria given in Guideline 3.3 of the Procurement Guidelines, the limited/restricted national competitive bidding method had been followed for procurements worth Rs. 692.82 million. | This method of procurement had been followed to ensure smooth functioning of the procurement process considering the complexities exclusive to the armies. | The most suitable method of procurement should be selected in accordance with the Procurement Guidelines. |
| (ii.) | Although a large number of suppliers had been registered with respect to each category of supply, quotations had been requested from a limited number of suppliers, and the basis for selecting them was not revealed to the Audit. | The Accounting Officer had not replied. | The basis on which the bidders had been selected, should be revealed to the Audit. |
| (iii.) | As quotations had been requested without ensuring the availability of stocks with the selected suppliers, the number of quotations received was less than 10 although quotations had been requested from over 200 institutions. Postal receipts or email verifications to the effect that bid documents had been sent to the bidders, were not made available to the Audit. | Whether or not stocks exist, is not checked. No liaison is kept with the relevant institutions before calling for quotations. | Alternative methods of calling for bids should be looked into, and action should be taken to furnish the relevant information to the Audit. |
| c) | Following are the matters observed with respect to each procurement. | | |
| (i.) | As for the procurement of 165,100 badges embedded with the Army emblem being worn by officers/other rankers of the Army at an expenditure of Rs. 132.45 million, the annual procurement plan had been exceeded by 28 per cent. As the specifications had been prepared with inefficiencies, the | Situations such as, devaluation of the Rupee, and limitations on air travel due to Covid-19 pandemic had to be faced. Samples of the items supplied, had been approved by the Procurement | Action should be taken in accordance with the agreement against the suppliers who neglected their responsibility. Action should be taken so that the |

procurement process had delayed, thus the badges had been received after a period of 02 years. Accordingly, those badges had not been worn at the 73rd independence day parade following orders of the Commander of the Army. Furthermore, the purchase had been made by incurring an overcost of Rs. 51.08 million having disregarded the recommendations of the Directorate of Personnel Administration and request of the lowest bidder. The Army had agreed to the proposal made by the selected supplier that after supplying 30 per cent of the order, the rest would be supplied at a price increased by Rs. 34.21 million.

Committee. The items should be used for the Procurement Guidelines had intended purpose, been followed by and maximum economic benefits considering the possibility of would be reaped increased prices by the Government and time to be spent in case of through minimum calling for bids costs ensuring higher quality of the items.

- (ii.) As for the purchase of 810 rolls of chain link mesh (G-100) for securing the camps at an expenditure of Rs. 83 million, a qualified bidder with a low bid value had informed through the bid document that the items would be supplied only on cash basis. Although the said bidder was a registered supplier, no attempts were made to get his consent, thus an overpayment of Rs. 29.73 million was paid to purchase goods sans SLS certification.
- Considering the Flexibility should be ensured in dealing with suppliers knowledgeable about the payment procedure of the Government thus reaping maximum economic benefits.
- (iii.) As a delay of over 04 months had occurred to take procurement decisions on procuring reinforced steel bars for Manning Town quarters of the married officers at an expenditure of Rs. 71.27 million, validity period of the prices had expired. As such, the
- Due to reasons such as, the economic crisis and unexpected increase in foreign exchange rates, the procurement had been awarded to
- The Procurement Guidelines should be followed to make procurements at minimum costs ensuring maximum

selected suppliers had refused to supply the steel bars at the prices agreed. Hence, quotations had been called again, and purchases had been made from the refused supplier and two other suppliers at prices as high as Rs. 28.3 million equivalent to 123 per cent. Agreements had not been entered into in both instances with the suppliers in terms of Procurement Guideline 8.9.1 (b). Furthermore, the stock of steel bars had been purchased in 03 instances without considering the discounts that would have been obtained had the purchases been made at once.

the relevant economic benefits. supplier by following the proper procurement procedure. Purchases had been made from the service station that had implemented the relevant project.

- (iv.) With a view to ensuring efficiency and higher standards of the affairs of the Army, and providing medical services for the general public in addition to the members of the Army during natural disasters, pandemics and special duties relating to security, a bus equipped with a mobile medical laboratory and a pharmacy and another bus with mobile laboratory facilities had been purchased incurring a sum of Rs. 38.51 million and provided for the Army Hospital in May 2022. Nevertheless, 805 patients had received treatments from those 02 busses and 03 days had been spent for tests, hence utilization of the busses remained low in the year under review. Furthermore, approval had been given by the Department of National Budget that the busses be purchased at a sum of Rs. 12.58 million, but that financial limit had been exceeded by 206 per cent, and the Technical Evaluation Committee
- The two busses will be used more productively in due course, and as the Rupee had been devalued following delay in procurements and the pandemic, the estimated values had increased. As two different specifications had been used in the purchases, the two purchases had been made as two procurements.
- Those assets purchased amidst economic hardships should be utilized to achieve the objectives of this purchase. The estimates should be adhered to ensuring maximum economic benefits to the Government.

had been appointed after 06 months from the date of calling for bids contrary to Procurement Guideline 5.3.1 (d). The purchases had been made from the same institution though, the purchases had been made through 02 procurements by disregarding the discounts and price reductions.

- (v.) Procurement of ready made concrete and building materials required for miscellaneous purposes to construct the ammunition warehouse in Angunuwalpelessa and the 15 storied building at the Army Hospital in Narahenpita and repair equipment for central engineering services workshop in Habarakada to the value of Rs. 367.59 million had been done without bid securities, performance securities and agreements contrary to Procurement Guidelines 5.3.11, 5.4.10, and 8.9.1. Hence, concrete valued at Rs. 126.95 million, spare parts valued at Rs. 5.21 million and construction materials valued at Rs. 3.3 million ordered in different instances from the year 2019 up to the year under review, had not been supplied by the suppliers. However, action could not be taken against them.
- Legal action can not be taken against the contractor.
- Action should be taken in accordance with the Procurement Guidelines.
- (vi.) As for the purchase of 4500 items of Uniform Rib Stop Olive Green Kits to be used by the Air Mobile Brigade incurring an expenditure of Rs. 70.47 million, it had been mentioned in the specification that the uniform should be made of 100 per cent cotton. Only one
- As purchasing uniforms had been limited after the year 2020, the said purchase had been made after a field inspection to be used for the
- The standards, specifications, and proper control should be adhered to. Fair, equal and maximum opportunities should be given to

of the 03 bidders who had collected the bid documents, had presented a bid. The said bidder had informed that uniforms made of 45 per cent polyester and 55 per cent cotton would be supplied, and the purchase had been made after being agreed by the Technical Evaluation Committee, thus observing that this situation had imposed restrictions on competition. Furthermore, the Technical Evaluation Committee had stated that samples of the supplier had not complied with the technical specifications though, that recommendation had later been amended following results of a field inspection; and, it had been informed by the Air Mobile Brigade that the caps of those uniforms had not been suitable as well. Although it had been informed by the Directorate of Quality and Assurance that colors of ready to wear garments valued at Rs. 60.09 million supplied in 02 instances had differed from the color initially agreed, such differences had not been taken into consideration.

independence day parade considering the urgent nature of requirement.

eligible and interested parties to take part in the procurement process.

- (vii.) The specifications presented with respect to the purchase of 1600 items of Cap Peak Brown Chin Trap Gold and Silver Buttons for senior officers of the Army at an expenditure of Rs. 50.36 million, had not been detailed enough. In evaluating the bids later, comprehensive specifications relating to the subject matter had been used, and hence, the evaluation process had not been done fairly contrary to Procurement Guideline 7.7. As
- At the time of making this procurement, the color codes had not been mentioned in the specifications. At present, an agreement has been reached upon those observations, and the specifications have been updated.
- Action should be taken in accordance with the Procurement Guidelines, and specifications suitable for requirements of the Army, should be prepared.

such, the relevant items had been procured by incurring an over expenditure of Rs. 13.04 million.

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| (viii.) | Building materials had been purchased by the Engineering Service Regiment -17, Diyatalawa at an expenditure of Rs. 22.52 million in 21 instances by exceeding the maximum financial limit mentioned in Procurement Guideline 2.14.1 | The value of Rs. 01 million had been exceeded due to Value Added Tax of the Government being added. | The Procurement Guidelines should be followed. |
| (ix.) | As for the purchase of vehicle spare parts for the electrical and mechanical engineering workshop, Slave Island and building materials for the Engineering Service Regiment-1, Panagoda at an expenditure of Rs. 22.2 million, the minimum period for bidding had not been allowed contrary to Procurement Guideline 6.2.2 | This situation arose due to urgent requirement of repairing vehicles of the security division. Due to a mistake in purchasing the building materials, the date of calling for bids had been erroneously mentioned. | Action should be taken in accordance with the Procurement Guidelines. |
| (x.) | Suppliers had not responded in several instances as technical specifications had been narrowly described with respect to the purchase of 450 uniforms and 25,000 meters of clothing for the ranks of Major General, Brigadier, and Colonel at an expenditure of Rs. 17.14 million. Later, uniforms not complied with specifications given by the Army, had been purchased. Furthermore, as for the purchase of 25,000 meters of Cloth Rib -Stop Black CR/SF Pattern, fees had been charged from a supplier for quality assurance tests, and the supplier had been selected without conducting the tests as scheduled. | Specifications will be updated with color codes in respect of all the badges and clothes in due course. A field inspection had been conducted by the Technical Evaluation Committee, and using facts gathered therein, a visual test had been carried out thus making the purchase matching the specification. | Procurements should be made in accordance with fixed technical specifications. Recommendations should be given on results of quality assurance tests as scheduled. |

- (xi.) A laboratory report had not been obtained as scheduled when purchasing 25,000 meters of Tricot warm clothes for the officers at an expenditure of Rs. 11.25 million. As the lowest bidder had been rejected without a satisfactory justification, the stock of clothes had been procured at an overprice of Rs. 6.28 million.
- A laboratory test had not been conducted due to Covid-19 prevailed in the country. Instead, action had been taken for making the purchase by conducting a field inspection and a visual test.
- Decisions should be taken based on laboratory reports as scheduled.

3.3 Assets Management

	Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(a)	Goods, armed and unarmed vehicles, and instruments required for 685 soldiers deployed in peace keeping mission in the state of Mali, had been purchased in the years 2016 and 2017. Of them, transport and other instruments worth Rs. 1.38 billion and other stocks of vehicles and instruments with an undisclosed value had been stored at various areas in the island.	Action will be taken to utilize the armed and unarmed vehicles, and instruments as per requirements.	Goods and services should be procured based on requirements, and the stocks already purchased, should be utilized ensuring maximum benefits for the Government.
(b)	A land in extent of 14 acres located in the division of Kundasale of Kandy district had been handed over to the Army in the year 2007 by the Divisional Secretariat, Kundasale through the preliminary Plan No. 3784 prepared by the Surveyor of the of Provincial Land Commissioner's Department. The Army had revealed during the survey in 2016 that the land had been encroached due to being idle, but no legal or other action had been taken against them.	Action had been taken to seek instructions of the Attorney General to settle the rights to the land.	Assets of the Army should be secured.

- (c) Thirty nine land plots in extent of 5.74 acres in Batticaloa district had been used for constructing houses or warehouses paying a lease rent of Rs. 1.74 million annually, and 39 buildings from different areas of the country with an area of 226,160 square feet had been used for accommodation, office and storage facilities paying a lease rent of 187.37 million annually. However, Attention had not been brought to obtain lands or buildings belonging to the Government rather than using lands and buildings on lease over a period of 31 years.
- Action will be taken to identify the owners of those lands and buildings and hand over the properties to them; and, once the proposed facilities are provided through the Army Head Quarters project, the buildings would be returned.
- Maximum utilization of Government assets should be ensured thereby limiting the expenses.
- (d) Without being properly acquired, the Army used 32 trucks, 17 ambulances, 11 tractors, 11 cabs, 05 jeeps, 04 tractor trailers, 04 water and fuel bowsers, 03 buses, a tipper, a commanding and staff vehicle, and 08 motorcycles belonging to the other Ministries, Departments and institutions of the Government.
- Vehicles of the Government Departments and other civil institutions have been donated to the Army, and as per procedure of the Army, UHA (“ඌහ”) numbers have been given to ease the administrative process.
- Action should be taken either to properly take over the assets or release them to the relevant institutions.
- (e) A number of 1,320 vehicles owned by the Army, 1,839 vehicles being used by the Army and 42 vehicles received from other institutions, had not been insured for the year under review.
- Those vehicles could not be insured due to delay in obtaining registration certificates and assessment reports of the year under review.
- Relevant vehicles should be insured without delay.

- (f) A number of 1,888 items of 216 spare parts and vehicles valued at Rs. 4.33 million and purchased during 1998-2017, and 838 items of 37 spare parts the value of which had not been disclosed, remained at the electrical and engineering workshop at Slave Island without being used even by the end of the year under review. Action had been taken to release those spare parts for repairs done at the main workshop. Requirements and issues should be properly identified before making purchases.
- (g) A number of 15,237 items pertaining to 119 building materials worth Rs. 2.09 million remained unissued over a period of 04 years at the warehouse of the Engineer Services Regiment, Panagoda. As such, the economic productivity thereof had become deteriorated whilst 39 items of building construction equipment worth Rs. 2.56 million remained unissued until expiration of the warranty period. Furthermore, 185 items pertaining to 21 equipment worth Rs. 13.43 million with a warranty period of one year, remained idle at the warehouse without being used for 08-11 months. At present, some of those items have been issued, and necessary action will be taken to issue the other items for services to be rendered in due course. Requirements and issues should be properly identified before making purchases.

3.4 Losses and Damages

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) The Army sustained a loss totalling Rs. 13,455.87 million comprising Rs. 13,233.66 million relating to 173 damages caused to miscellaneous assets and a value of Rs. 222.21 million pertaining to 303 vehicle accidents. The said balance comprised a balance of Rs. 197.22 million continued to exist over 10 years relating to 88	Necessary action is taken either to recover or write off those balances.	Action should be taken either to recover or write off those balances.

incidents and a balance of Rs. 12,933.89 million relating to 166 incidents older than 05 years. Progress in the recovery or writing off those balances remained poor.

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| (b) | According to documents maintained by the Army, losses and damages amounting to Rs. 733.76 million caused to 69 types of fixed assets, had been written off from books. However, those written off values had not been included in the statement of write-offs presented with the financial statements. | Corrective measures will be taken in the year 2023. | The written off values should be disclosed in the financial statements. |
| (c) | The sum of Rs. 846.46 million being the closing balance of the preceding year relating to 252 incidents, had not been shown as the opening balance of the year under review in the statement of write-offs presented with financial statements. A balance totalling Rs. 252.18 million relating to 106 incidents of losses and damages that had not been shown as the closing balance of the preceding year, had been shown as the opening balance of the year under review. Furthermore, write-offs relating to 17 incidents in the preceding year had been brought forward in the statement of write-offs of the year under review after being overstated by Rs. 29.43 million whilst write-offs relating to 05 incidents had been brought forward in the statement of write-offs after being understated by Rs. 11.15 million. | Corrective measures will be taken in the financial statements of the year 2023. | Closing balances of the preceding year should be shown as opening balance of the year under review. |

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| (d) | The statement of write-offs presented with the financial statements had not disclosed the losses and damages valued at Rs. 24.02 million relating to 52 items of assets of the Army during the period from 2008 up to the year under review. | Those losses and damages will be disclosed in the financial statements of the year 2023. | The relevant losses and damages should be disclosed in the financial statements. |
| (e) | Necessary action had not been taken and completed the inquiry on 306 accidents involving vehicles of the Army during 1990-2020. | Action is being taken on those non-completed files. | Necessary action should be taken and the inquiry should be completed. |

3.5 Transactions of Contentious Nature

The following observation is made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
The relevant institutions verified to the Audit that a sum of Rs. 137.15 million remained payable to 07 private institutions for providing supplies and services for the Army during 2012-2021. The audit was informed by the Army that those institutions had not presented bills to that value.	No bill whatsoever had been presented to the Army relating to those values.	Matters relating to those contradictory issues should be looked into and necessary action should be taken.

3.6 Uneconomic Transactions

The following observation is made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
As 218 cover outers, 80 vehicle batteries, and miscellaneous office and electric items worth Rs. 5.39 million purchased for stores of the camps in Diyathalawa, Panagoda and Anuradhapura, had become unusable due to not being used within the period of warranty, and needed to be disposed of.	Items of usable stocks should be issued, and the other stocks will be disposed of.	Purchases should be made after properly identifying the requirements.

3.7 Management Inefficiencies

The following observation is made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
The drugs storage building located at the Army Hospital in Werahera, had not been constructed in accordance with internationally accepted standards of the Ministry of Health and Medicines Regulatory Authority. Despite being planned in the year 2019 to construct a storage building in extent of 14,450 square feet for storing drugs, that requirement has not been fulfilled thus far.	It is scheduled to request for provision in the year 2024 for the said construction.	The building should be constructed as planned thus facilitating the safe storage of drugs.

4. Human Resource Management

The following observation is made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
There existed a total number of 34,770 vacancies including 32,599 vacancies in the Army staff, 03, and 60 vacancies in the senior and tertiary & secondary levels respectively in the civil staff of the Army.	As recruiting to the Government service has been restricted, the Army has complied with that decision.	Action should be taken either to fill the vacancies or revise the approved cadre in accordance with the actual cadre.

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