

## **Head- 103- Ministry of Defence**

### **1. Financial Statemets**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Head 103, Ministry of Defence 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 containing my comments and observations on the financial statements of the Ministry of Defence was issued to the Chief Accounting Officer on 31 May 2023 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report related to the Ministry was issued to the Chief Accounting Officer on 19 June 2023 in terms of Section 11(2) of the National Audit Act, No. 19 of 2018. This report is submitted to Parliament in pursuance of provisions in the article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act No. 19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Ministry of Defence as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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

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

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

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's summary report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional 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 Ministry's internal control.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5 Report on Other Legal Requirements

I express the following matters in terms of Section 6 (1) (d) 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 not been implemented.

<b>Reference to the paragraph of the report related to the preceding year</b>	<b>Recommendation not implemented</b>	<b>Reference to the paragraph of this report</b>
2.1.3 (a)	In terms of provisions in Paragraph (05) of the Public Finance Policy Circular No.1/2015 dated 20 July 2015 and Financial Regulation 128 (2)(a), the charges levied for various services should be timely revised, where necessary, by taking into account the changes in economic position.	1.6.1 (a) (v)

## 1.6 Comments on the Financial Statements

### 1.6.1 Accounting Deficiencies

#### (a) Receipts of Revenue

The following deficiencies were observed in accounting for the revenue receipts relating to the Ministry.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(i) Although revenue totaling USD 19,177,125.83 had been collected under the Revenue Code 20.03.06.00 during the year under review, including USD 8,211,373.98 and USD 10,965,751.85 collected by Sri Lanka Army and Sri Lanka Air Force, respectively, in respect of performing duties in the United Nations peacekeeping operations, USD 7,506,868.47 or Rs. 2,447,153,974 only had been stated as the revenue for the year under review according to the revenue statement ACA-1.	Revenue is retained in the NRFC accounts of the Sri Lanka Army and the Sri Lanka Air Force until it is remitted to the Treasury. In case of incurring expenditure in Dollars for those two Forces, the relevant payments are made after crediting those retained revenue to the Revenue Code 20.03.06.00 on the approval of the Ministry of Finance. An expenditure is incurred out of the revenue thus credited to the NRFC accounts for the salaries and wages of the peacekeeping forces and under no circumstances will that Dollar value be credited to the	The Government Revenue estimated for the year in which F.R.128 (2) (b) and F.R.151 statements are prepared and the actual collection of the Government Revenue of that year should be shown in the account, and revenue collected in terms of Public Finance Policy Circular No.1/2015 shall not be retained in the retention accounts or deposit accounts.

Furthermore, USD 8,057,402.58 of this revenue had been credited to the Government Revenue after 31 December 2022 and USD 3,612,804.78 had been retained in a foreign currency account of the Sri Lanka Army with the concurrence of the Treasury for the convenience of opening Letters of Credit. Accordingly, revenue of USD 11,670,207.36 out of the revenue related to the year under review was not shown in the accounts. That value was Rs. 4,205,942,733 according to the exchange rate as at 31 December 2022. Furthermore, this retained revenue had not been disclosed in the financial statements.

relevant revenue head through the Ministry of Finance.

It is pointed out that clarifications on these types of changes that occurred in the preparation of revenue account will be made specified through a note in the future.

- (ii) According to the primary revenue estimate, the licence fees revenue under the Revenue Head 10.03.07.05 had been estimated as Rs. 22,050,000 and it had been revised as Rs. 28,890,000 by the revised estimate presented by the Ministry to the Department of Public Finance on 29 July 2022. Similarly, this revised revenue estimate had been further amended as Rs. 22,000,000 as per the revised interim budget, 2022. However, the actual revenue of the year was Rs. 42,416,904 and accordingly, the difference between the estimated revenue and actuals was Rs. 20,416,904. As it was 93 per cent of the revised revenue estimate, the estimation of licence fees was observed to be erroneous.
- It is informed that the following matters might have contributed to the difference between the estimated revenue and the actual revenue in the year 2022.
- Extending the licence renewal period for the year 2022 and starting the renewal of licences for the year 2023 on 01 October 2022 and ending on 31 December 2022.
  - Increase in the demands for the licences as a result of reducing the considered extent of cultivated lands from 05 acres to 02 acres in issuing firearms for the protection of cultivations.
  - Revision of handling charges of the ships with hazardous containers from Rs.1,500 to Rs.5000 and the revision of charges for the marine protection operations from Rs.5,000 to 10,000.
- Action should be taken to carry out revenue projections as accurately as possible.

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| (iii) | There was an outstanding amount of USD 4,545,589.43 from the United Nations peacekeeping operations as at 31 December 2022 and out of which, USD 344,559 remained outstanding for more than a period of one year.  | The Sri Lanka Air Force has been instructed to take necessary measures to recover this outstanding revenue expeditiously by informing the Permanent Missions of Sri Lanka to the United Nations.   | Action should be taken to recover the outstanding revenue without delay and follow-up should be continuously carried out thereon.  |
| (iv)  | The outstanding revenue related to explosives and firearms licences, and the security agencies regularizing charges as at 31 December 2022 was Rs. 2,582,270. Out of that amount, a sum of Rs. 1,326,890 remained outstanding for more than a period of one year and Rs. 942,690 remained outstanding for more than two years.   | In order to recover this outstanding revenue, the Additional Secretary (Civil Security and Development) has been informed and all the District Secretariats have been instructed to recover the outstanding revenue at present. Accordingly, the Civil Security and Development Division has informed the measured taken by the District Secretariats to recover this outstanding revenue. | Action should be taken to recover the outstanding revenue without delay and follow-up should be continuously carried out thereon.  |
| (v)   | A difference of Rs. 626,500 was observed between the statement of outstanding revenue as at 31 December 2022 submitted to the Auditor General in terms of Financial Regulation 128 (2)(c) and the Public Finance Policy Circular No.1/2015, and the revenue in the Format ACA-(i). The failure to state the outstanding licence fees as at 31 December 2019 in the Format ACA-(i) had attributed to this difference. | Action will be taken to calculate this amount by adding the previous years' outstanding balances in the future.  | The accurate revenue in outstanding should be stated in the statement of outstanding revenue in terms of Financial Regulation 128 (2)(c) and the Public Finance Policy Circular No.1/2015. |
| (vi)  | Although the net revenue collected during the year 2019 was Rs. 21,372,185,188 when stating the net revenue collected during the past 03 years in the Format ACA-1 (i), the net revenue collected in the year 2019 had been stated as Rs. 2,802,302,525.   | This has occurred due to a mistake in stating the net revenue of the immediate 03 preceding years in the statement of final accounts and action will be taken to prepare final accounts based on the accurate information in the future.   | Accurate and specific information should be presented through accounts.  |

**(b) Property, Plant and Equipment**

The following deficiencies were observed in accounting for property, plant and equipment.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>(i) Although non-financial assets should be valued in terms of Paragraph 06 of the Assets Management Circular No.04/2018 dated 31 December 2018, as delays had occurred in the valuation of 21.0437 hectares of land on which the Defence Headquarters Complex is situated and vested to the Ministry of Defence on 15 February 2012, and the 1.4164 hectares of land on which the Suhurupaya building is located, those had not been brought to account.</p>	<p>On 28.07.2022, requests were made to the Department of Valuation for the valuation of Suhurupaya land and the building. Accordingly, the deed and the approved plan of the building have been sent on 06.09.2022. It is informed that due to the delay on the part of the Department of Valuation, this valuation task has been delayed.</p>	<p>In terms of Paragraph 06 of the Assets management Circular No.04/2018 dated 31 December 2018, the non-financial assets should be valued and accounting value should be obtained, and the assessed value should be accounted for in accordance with General Guideline 8.2 of the State Accounts Guidelines No.2022/5 dated 13 December 2022.</p>

**(c) Imprest Balance**

The following deficiencies were observed in accounting for the imprest balance.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>(i) Delays ranging from 26 days to 05 months were observed in settling advances of Rs. 1,768,330 granted on 23 occasions for various purposes from January to December of the year under review contrary to Financial Regulation 371 (2) (b).</p>	<p>Action will be taken to put in place necessary internal control systems to minimize these types of delays.</p>	<p>Action should be taken to settle the imprest immediately after the completion of the purpose for which the sub-imprest was given.</p>
<p>(ii) Although the imprest received from the General Treasury stood at Rs. 11,578,631,743 according to the statement of imprest accounts, a sum of Rs. 12,066,410,675 had been stated as imprest receipts under the cash flow generated from the operating activities in the cash flow statement. Accordingly, a sum of Rs. 487,778,932 had been overstated.</p>	<p>The imprest received from the Treasury has been stated as Rs. 11,578,631,743 in the statement of imprest accounts and a sum of Rs. 498,150,820 has been stated therein as the imprests received from other sources. Accordingly, the total sum of Rs. 12,076,782,563 has been identified as the total imprest receipts.</p>	<p>Cash flow statement should be prepared based on the correct values.</p>

Furthermore, the value of imprest settled to the General Treasury was Rs. 10,371,888 according to the aforesaid statement, whereas it had been stated as Rs. 498,150,820 in the cash flow statement, thus overstating by Rs. 487,778,932. Accordingly, it was observed that the cash flow statement had not been prepared based on the correct values.

**(e) Non-maintenance of Registers and Books**

The Ministry had not maintained following certain documents, while some other registers had not been properly maintained in an updated manner.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
<b>(i) Ad hoc sub imprests</b>	It is informed that the necessary internal control systems are presently adopted to properly enter each ad hoc sub-imprest given from 23 June 2022 in that register.	A register of ad hoc sub-imprests should be maintained so as to regularly check the imprests and ad hoc sub-imprests in terms of Financial Regulation 372.
<b>(ii) Record of Losses</b>	As pointed out, action will be taken to properly update and maintain records on the losses and damages caused by accidents in respect of which those reports have not been submitted thus far.	A record of losses and damages should be maintained in terms of provisions in Financial Regulation 110 and information should be updated.

## 2. Financial Review

### 2.1 Revenue Management

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
In the preparation of 2022 revenue estimates and revised revenue estimates for the Revenue Head 10.03.07.05 (Licence Fee Revenue) in terms of F.R.128 (2) (d), estimates regarding the revenue proposed to be collected by each District Secretariat had not been called for.	Arrangements have been made to prepare annual estimate by calling for estimates from those institutions in the future.	If the Government Revenue is collected from other departments and offices in terms of Financial Regulations, action should be taken to obtain records from those departments and offices and include the matters in those records in the estimates.

### 2.2 Expenditure Management

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) According to Financial Regulation 50 (ii), annual estimates should be prepared as completely and accurately as possible. Nevertheless, additional provisions of Rs. 409,510,000, which is approximately five times the provisions of Rs. 85,063,000 made by annual estimates for seven Objects, had been obtained under the supplementary estimates and F.R.66 transfers. Accordingly, it was observed that annual estimates had not been prepared completely and accurately.	The amount of provisions estimated for the year 2022 was not received and the provisions made by the revised budget had been limited. Therefore, as the provisions allocated for the Object for the year 2022 were inadequate, additional provisions had to be obtained under the supplementary estimates and transfers through F.R.66. Furthermore, the budget estimate for the year 2022 had been prepared based on the market price in June 2021. However, due to the price hike experienced in every sector as a result of inflation, the estimated provisions were insufficient, and accordingly, additional provisions had to be obtained due to the that reason as well.	According to Financial Regulation 50 (ii), annual estimates should be prepared as completely and accurately as possible.



- (b) Project 103-01-01- Provisions of Rs. 18,015,000 had been made for 21 recurrent and capital objects of the Minister's Office. It had been stated by the accounts that the total provisions thus made for the recurrent Objects and capital Objects had been saved as staff had not been appointed to the Minister's Office. However, it was observed that Rs. 16,805,000 or 93 per cent of those provisions had been transferred to another 17 Objects under the Financial Regulation 66 and spent. Nevertheless, only a sum of Rs. 1,210,000 that further remained after transferring the provisions through Financial Regulation 66 had been stated as 100 per cent savings by the expenditure statement.
- Project 103-01-01 has been reserved for the expenditure of the Minister of Defence and the His Excellency the President functions in the capacity of the Minister of Defence. As all the expenses on behalf of the president are borne by the Presidential Secretariat, the provisions of Project 103-01-01 were saved by the end of the year.
- When scheduling expenditure in terms of Financial Regulation 04, it should be ensured that the approved provisions are limited to the programmes which are achievable within the financial year. Estimates should be prepared after properly identifying the requirements and when transferring provisions, it should be done under a proper management.
- (c) Although provisions of Rs. 15,000,000 had been made for the Object 103-2-17-7-2509-0-13 for which provisions had not been made by the annual budget estimate, a sum of Rs.10,371,888 or 69 per cent of those provisions had been saved.
- Provisions of Rs.15,000,000 had been granted by supplementary estimates for the Object 103-02-17-7-2509-0-13 of the Disaster Management Centre. This is a new project funded by the UNDP and more than two months had to be spent for the approval of the regulatory framework and initial works of the project. As imprests were received in October, only the selected programmes were implemented during the year 2022. Since the remaining programmes will be implemented in the year 2023, the provisions of allocated therefor are shown as savings of Rs. 10,371,888.
- Estimates should be prepared by properly identifying the requirements.

- (d) Provisions of Rs. 78,080,000 had been made for the capital Object No. 103-2-19-6-2509-0-17 by the annual estimates, while Rs. 260,000,000 had been obtained through the supplementary provisions, and Rs. 125,000,000 through the transfers from Financial Regulations 66. Nevertheless, out of the net provision of Rs. 463,080,000 made, the actual expenditure incurred was Rs. 261,500,000. Accordingly, there were savings of Rs. 201,580,000 or 43 per cent from the net provisions made.
- It can be noted that non-receipt of adequate imprests from the General Treasury, due to the confinement of the government expenditure by the Expenditure Control Circular No.03/2022, resulted in these savings of provisions.
- Estimates should be prepared by properly identifying the requirement.
- (e) Although the total expenditure of Rs. 136,096,605 was incurred during the year under review for 4 capital and recurrent objects for which provisions of Rs. 141,100,000 had been made, additional provisions of Rs. 46,500,000 had been transferred through Financial Regulation 66, stating that such provisions were essential and the available provisions were inadequate. However, the additional provisions thus transferred were entirely saved and there were savings of Rs. 5,003,395 of the initial provision.
- The inadequacy of the imprests, incurring only the essential as per the Budget Circular No.03/2022, and restrictions imposed on the capital assets improvement resulted in the saving of entire additional provisions.
- Estimates should be prepared by properly identifying the requirement and the transfer of provisions should be carried out under proper management.
- (f) It was observed during the course of audit test checks that there were some instances where expenditure had been incurred uneconomically, despite the instructions given by the National Budget Circulars No.03/2021 dated 21 December 2021 and No.03/2022 dated 26 April 2022 to control public expenditure.
- (i) An expenditure of Rs. 5,197,413, including Rs. 1,924,000 as lecture hall charges, Rs. 2,327,906 as refreshment expenses, and Rs. 945,507 as other expenditure had been incurred for 400 personnel including 300 officers in three forces who participated in the one-day workshop conducted by the Office of the Chief of Defence Staff on 13 January 2022.
- This expenditure had to be essentially incurred due to the reasons such as obtaining foods and beverages for the official food supplier of the Bandaranaike Memorial International Conference Hall in which the course was conducted, following food and catering procedures of all three armed forces as the senior officers participated in the event, ensuing
- Action should be taken to control public expenditure in keeping with the circular instructions and expenditure should be economically, efficiently and effectively incurred ensuring minimum

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|              | security, conducting essential rehearsals, and to decorating the venue in enchanting manner.   | cost and optimum output to the Government.   |
| <b>(ii)</b>  | Despite paying lecturer allowances of Rs. 2,322,261 at a rate of Rs.3000 per hour  | The lecturers are brought from the universities situated within  |
|              | for the lecturers of the course conducted by the National Security College, expenditure of Rs. 2,756,383 had been incurred from January to October 2022 for the supply of two vehicles on monthly rental of Rs.295,920 for transport facilities, while fuel expenses had also been incurred for those two vehicles.  | 15 kilometers from the College and it was possible to successfully complete the course as scheduled without any impediments as the visiting lecturers could be brought in time and provided with return transport facilities.  |
| <b>(iii)</b> | For the purpose of providing accommodation facilities for 31 academics who participated in the first course conducted by the National Security College, a housing complex with 24 housing units had been obtained for a period of 02 years from 01 November 2021 on a lease agreement worth Rs. 72,000,000 and paid Rs.3,000,000 as the rental per month. Furthermore, a bus had been obtained on a monthly rental of Rs.199,500 for a period of one year from 01 January 2022 for providing transport facilities from that housing complex. | Academics who participated in the course from distant areas were provided with accommodation facilities in nearby locations to the College and transport facilities were also provided. Thereby, it was possible for the academics to proceed with their academic activities properly in time with sound coordination and a higher level of mentality. |
| <b>(iv)</b>  | As the courses had not been arranged so as to commence the next course immediately after the completion of one course, an uneconomic expenditure of Rs. 10,500,000 had been incurred in respect of lease rent of the housing complex that remained idle for nearly a period of 03 months.  | Even after the completion of the course, they were provided with accommodation facilities until their further academic activities were successfully completed.<br><br>Accommodations were provided in this housing complex for 14 days for the academics who participated in the pre-course of the 2023/02 course.                                     |

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### 2.3 Incurring Liabilities and Commitments

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(a) According to Note No. (iii) and (iv) stated in the financial statement, the value of the commitments and liabilities as at 31 December 2022 totaled Rs. 449,815,619 and as per the Treasury computer printouts, the commitments and liabilities totaled Rs. 452,564,354. Accordingly, a difference of Rs. 2,748,735 was observed.	It is informed that measures will be taken to prevent that error from occurring in the future.	Correct values should be stated by carrying out comparisons with the Treasury computer printouts.
(b) During the course of audit test check on the payment vouchers of the year 2023, it was observed that the expenditure totaling Rs. 28,642,188 on 4 occasions related to the year 2022 had been incurred for the provisions of the year 2023. Nevertheless, those expenditures had not been recognized as liabilities in the financial statements of the year 2022. As a result, liabilities of Rs. 28,642,188 had been understated in the financial statements.	As the arduous allowance and combined allowance are paid after the end of December and there were no sufficient provisions, it has not been included in this report.	Commitments and liabilities related to the year should be properly identified and stated in the financial statements.

### 2.4 Non-compliance with laws, rules, and regulations.

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

Reference to laws, rules, and regulations	Observation Value Non-compliance	Comment of the Chief Accounting Officer	Recommendation	
	Rs.			
(a) Public Finance Circular No. PED/RED/2015/8/Gen.(1) dated 09 October 2015 and Guideline No.01 of the Public Finance Circular No.01/2020 dated 28 August 2020.	1,336,746	The loan balance due from the officers who were transferred, retired, deceased, interdicted and those who had vacated the service amounted to Rs. 4,244,535 as at 31 December 2022 and that loan balance included an outstanding balance of Rs. 1,336,746 that	Relevant measures are continuously being carried out to recover these loan balances.	Action should be taken in accordance with circulars.

continued to exist for more than a period of 05 years. Action had not been taken in accordance with circulars regarding these longstanding loan balances.

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| <p><b>(b)</b> Fianccial Regulation 128 (I) (e)</p>   | <p>-</p> | <p>Although sufficient and formal arrangements should be made to ensure the safeguarding of the government assets and adequate measures should be taken to carry out periodic verifications, an annual survey on articles had not been conducted with regard to 25 vehicles owned by the Disaster Management Division.</p> | <p>It is noted that action will be taken to include the vehicles in the fixed deposit register and thereafter, to conduct a survey on the vehicles after appointing a committee chaired by a Mechanical Engineer in the future, because a survey on the vehicles of the Disaster Management Division had not been conducted by 31.12.2022.</p> | <p>Annual survey should be conducted in accordance with the regulations and thereby, safety of the assets should be ensured.</p> |
| <p><b>(c)</b> Financial Regulation 128 (2) (a) and Public Finance Policy Circular No.01/2015 dated 20 July 2015 and Public Finance Circular No.1/2020 dated 28 August 2020</p> | <p>-</p> | <p>Although the charges levied in terms of regulations should be timely revised, the timely revision of the charges levied under the Firearms (Amendments) Act, No.22 of 1996 were further experiencing delays.</p>  | <p>The Department of Legal Draftsman referred the new Firearms Ordinance to this Ministry on 08.02.2023 and the final amendment of the Firearm Ordinance is to be received.</p>  | <p>The charges levied in terms of circulars should be reviewed and revised.</p>  |

## 2.5 Handling Bank Accounts

The deficiencies observed during the course of audit test check on the handling bank accounts are as follows.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
It was observed that there were unidentified deposits totaling Rs. 1,233,439 received as direct deposits to the bank accounts during the year under review and as a result, the accounts of the year under review remained unmatched.	Apart from the deposits worth Rs. 531,199, the other deposits have been identified by the end of March 2023. It is informed that the relevant money will be accounted for as per the order of receiving the bank receipts in the future.	Action should be taken to identify the unidentified receipts and adjust accounts.

## 3. Operating Review

### 3.1 Construction of Defence Headquarters Complex

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
Due to reasons such as delays in certain constructions, and delays in the opening of Letters of Credits related to the Defence Headquarters Construction Project, the contracts could not be completed within the initially projected period and as a result, the contract period had to be extended. As 06 of such supplier contractors had demanded Rs. 1,389,272,688 and 28 Claims for EOT worth USD 6,212,417 by the end of the year under review, there was a contingent liability.	Since it was not possible to complete the contracts within the related timeframe due to the reasons such as delays in the receipt of provisions, lack of required liquidity cash to make payments to the contractors, delays in the receipt of Treasury approval for the Letters of Credit, extension of term claims (EOT Claims) had been made. These EOT Claims have been referred to the Central Engineering Consultancy Bureau (CECB) for reviewing the again and calculating actual expenditure and the Ministry has also appointed a Dispute Adjudication Board. Payments of Rs. 8,640,503.46 have been made in the year 2017 and 2019 on the approval of the Procurement Committee.	Uneconomic expenses should be minimized by way of minimizing the additional claims arising out of the unnecessary delays.

### 3.2 Failure to Achieve the Expected Level of Output

The following observations are made.

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
<p>(a) According to the initial plans of the Strategic Defence Communication Network Project, the contractions of the project should have been proposed to be completed by the end of the year 2016, whereas the expected performance level had not been achieved within the scheduled timeline due to various delays. Although the period of the project had been extended by 06 years, the overall physical progress by the end of the year under review was reported to be 71.5 per cent. As a result of not completing this project, the expected objective of the project to maintain combined strategic communication between the armed services was further experiencing delays. Although the procurement activities related to the purchase of a shortwave radio transmission system for this project had commenced in the year 2016, bids had been canceled for various reasons. Even though the procurement activities were recommenced on 11 January 2021, granting recommendations from the Procurement Committee had been delayed up to 20 April 2022. Subsequently, the procurement had been temporarily suspended due to lack of provisions. Accordingly, spending nearly a period of 06 years on this procurement process had directly contributed to the project delay.</p>	<p>Although bids were invited on several occasions to purchase the shortwave radio transmission system after commencing the procurement activity in the year 2016, the bids had been canceled due to reasons such as failure to carry out the bidding process owing to the differences in the amendments of the bid documents, not fulfilling the bid conditions by the bidders, and due to the requirement to amend specifications to suit to the modern technology. Since the delay occurred in the bid evaluation recommenced on 11 January 2021 and due to resorting to the procurement appeal process, committee recommendations were delayed up to 20 April 2022. As the provisions had been blocked owing to the financial position that prevailed in the year 2022 and expenses had been limited, the procurement process has been stopped up to date. As a result of the above matters, a period of nearly 06 years had been spent for the procurement process and it has directly contributed to the delay of the project.</p>	<p>Action should be taken to achieve the expected performance level by completing the project as scheduled.</p>
<p>(b) Even though the National Defence College was established in May 2021, according to a Cabinet decision taken on 18 October 2016, and its first certificate awarding ceremony was</p>	<p>The Act related to the establishment of this College is being drafted and the operations of the College are carried out according to a decision taken at the 6<sup>th</sup> management committee meeting of the</p>	<p>The legitimacy of the College should be established by adopting the relevant Acts.</p>

conducted on 14 September 2022, the relevant bill for the establishment of the College had not been adopted, and as such, legal provisions related to the College had not been made.

National Defence College held on 12 January 2022.

- (c) The Institute of National Security Studies had been established in July 2016 according to a Cabinet decision taken on 30 March 2016. Nevertheless, the establishment of this institute on legal basis had been delayed for more than a period of 6 years.

The amended bill was sent to the Attorney General's Department on 30.03.2023 and by the letter dated 09.05.2023, it had been informed in writing that the Attorney General would proceed with further activities of the bill and refer it to the Cabinet.

The legitimacy of the Academy should be established by adopting the relevant Acts.

Although delays occurred in passing the Act, implementation of expected objectives and institutional goals and planning of future activities have been timely and meaningfully carried out.

### 3.3 Failure to Achieve Expected Outcome

The following observations are made.

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
<p>(a) Twenty two electricity generators purchased at a cost of Rs. 38.54 million in the year 2016 and 2017 and 11 transmission towers and equipment compartments constructed at a cost of Rs.562.16 million for the Strategic Defence Communication Network Project could not be used for the expected purpose from the year 2020 due to the long delays experienced in the parallel activities.</p>	<p>The 22 soundproof generators were installed, and the construction of compartments was also completed by 31.12.2020. Even though these instruments could not be used for the intended purposes, they are currently being used for the radio re-transmission requirements of the three forces and the Special Task Force.</p>	<p>Strategic Defence Communication Network Projects should be timely used for the intended purposes.</p>
<p>(b) It was observed during the course of the audit test check that the Disaster Management Division had made an assessment to pay compensation totaling Rs. 1,315,519 to 38 persons in the Divisional Secretariat Divisions of Galenbindunuwewa, Thalawa, and Thambuttegama whose houses and properties had been damaged in</p>	<p>As the provisions made by the General Treasury in terms of Disaster Management Circular No.1/2020 for the fourth quarter of 2022 to pay compensation for the damaged properties exhausted by November 2022, it was not possible to disburse provisions for the remaining compensations of that year. However, those provisions have now</p>	<p>Compensations for the house and property damages should be paid in accordance with the Disaster Management Circular No.1/2020.</p>



consequence to the natural disasters including storms caused in the years 2020, 2021 and 2022. Nevertheless, except for the payment of an advance of Rs.300,000 at Rs.10,000 each for a housing unit, the remaining amount of Rs. 1,015,519 had not been disbursed even by the end of the year under review. Furthermore, 231 individuals who were victimized to the disasters in the year 2022 in 19 Divisional Secretariat Divisions in Anuradhapura District had not been paid compensation even by 31 December 2022.

been made to the District Secretariat. Compensations were not paid to the individuals who failed to confirm their right to the properties and they were informed to correct the relevant documents and refer the same.

### 3.4 Procurements

The following observations are made.

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
<p>(a) i According to Supplementary 35 for the Guideline 2.14.1 of Government Procurement Guidelines, a project procurement committee has the authority to grant approval for procurements up to Rs.200 million. However, despite having the ability to purchase 390 sofa sets and 110 Coffee Tables for the buildings 1,2 and 4 of the Defence Headquarters Construction project at the same time, they had been purchased from the same supplier by calling for bids on 03 occasions during the same period of time and it had resulted in a price variation disadvantage of Rs. 3,855,140.</p>	<p>It is informed that additional expenses, as detailed in the Audit Report, had to be incurred since it was necessary to award contracts by calling for bids separately for the sofa sets and Coffee Tables due to the following reasons.</p> <ul style="list-style-type: none"> <li>• From the beginning, it was decided to carry out contract activities/ supply services of each building separately for the convenience of the administrative affairs.</li> <li>• Although the same service is carried out for each building, the final responsibility thereof rests with each Force and the Ministry of Defence. As such, arrangements were made to maintain files separately from calling for bids.</li> <li>• The uncertainty about whether contractual companies would come forward to supply an amount of 387 sofa sets and 110 tables during the same period of time if the three procurements were carried out at the same time, and creating competitiveness by providing</li> </ul>	<p>Action should be taken to maximize the economy, efficiency and the productivity by taking action in terms of Procurement Guidelines.</p>

opportunities for the small-scale suppliers as well.

- Providing all interested parties with fair and equal opportunities as per the Guideline 3.6.1 of the Government Procurement Guidelines.

- ii.** In terms of Guideline 8.9.1 of the Government Procurement Guidelines, following the acceptance of a bid submitted by a bidder, a formal letter of acceptance shall be issued forthwith to the bidder by the Procuring Entity. Nevertheless, delays ranging from 33 days to 52 days had occurred to award orders to the supplier selected by the Ministry to supply sofa sets.
- Necessary instructions to efficiently carry out relevant activities of this project will be provided by the project management unit, procurement divisions and the CECB in the future.
- In terms of Guideline 8.9.1 of the Government Procurement Guidelines, following the acceptance of a bid submitted by a bidder, a formal letter of acceptance shall be issued forthwith to the relevant bidder.
- (b) i** Although it has been stated in the bid documents related to the purchase of 529,000 meters of polyester wool clothes and according to the Cabinet Appointed Standing Procurement Committee Decision dated 29 July 2021 that the bid evaluation will be carried out based on the laboratory quality assurance test reports on the quality of clothing samples obtained from 03 recognized institutions on textile and garment technology, contrary to the Guideline 7.9.1 (a) of the Government Procurement Guidelines, bid evaluation had been carried out based on a quality test report obtained only from one institution according to a procurement committee decision taken after opening bids.
- The Cabinet Appointed Standing Procurement Committee met on 11.08.2021 instructed to carry out the evaluation taking into consideration the reports obtained from one recognized institution and such reports obtained from the field inspection.
- Action should be taken in accordance with the terms and conditions in the Procurement Guidelines.
- (ii)** Eighteen parameters had been identified for the evaluation of the quality of the clothing samples, of which 08 had been stated as Critical Parameters. However, one such parameter (Dimensional Stability to Dry Cleaning) had not been tested
- It is kindly informed that by taking into consideration the time and the cost that will be incurred for the quality test of the procurements carried out in the future, necessary instructions will be obtained from the procurement committee to proceed with the future
- Action should be taken in accordance with the terms and conditions in the Procurement Guidelines.

and the technical evaluation had been carried out based on a report obtained without evaluating a key parameter considered in the evaluation of the quality of textiles. Furthermore, although the Sri Lanka Army had carried out a test similar to this test and submitted it to the Technical Evaluation Committee, it was questionable to accept this report as a report issued by a recognized institution based on a scientific basis.

activities based on the quality test reports obtained from 03 recognized institutions.

### 3.5 Losses and Damages

The following observations are made.

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(a) During the year under review, 306 wire rolls that existed in a sub-store of the Defence Headquarters Construction Project had been misplaced and the identified loss was Rs. 793,688. Although the responsible parties had been determined in this connection, further actions relating to the recovery of the relevant amount had not been carried out.	On 16 November 2022, the Navy Headquarters has been informed to recover the dues from the relevant service personnel. Accordingly, by the letter dated 03 May 2023, requests have been made seeking necessary approval to make the recoveries in installments from the relevant responsible parties, and necessary further activities to grant the approval therefor are in progress.	Appropriate control practices should be introduced to minimize the losses and damages and identification of the parties responsible for the losses and damages and the recovery process should be expedited.
(b) Although a loss of Rs.2,077,328 had been incurred due to the misplacement of EXPO OTDR Tester belonging to the Defence Headquarters Project from 02 April 2019, the amount recovered from the aforementioned loss was only Rs.180,035 even by 03 May 2023.	The Navy Headquarters proceeds with further activities relating to the recovery of the value of the loss caused by the misplacement of this instrument and Rs. 1,897,293 is to be recovered for the time being.	Recovery process for the losses and damages should be expedited.

#### 4. Human Resource Management

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) There were 70 vacancies in the National Cadet Corps, and the vacancies of the posts of Accountant and Administrative Officers had adversely affected the efficient performance of the financial control and institutional administration affairs.	The National Cadet Corps consists of 42 institutions, and 91 civil employees, 48 civil employees employed under F.R.95, and 22 employees recruited under the Multipurpose Service have been deployed in the duties of this corps. When they performed their duties, these posts became vacant, and it resulted in difficulties in efficiently carrying out financial control and institutional administrative affairs.	Adequate staff should be maintained.
(b) It was not revealed that activities such as determining necessary staff for the National Defence College, creation of posts, formulation of schemes of recruitment, and obtaining approval from the specific institutions including the Department of Management Services had been carried out. A staff with 132 personnel, including officers of the three armed forces and the other ranking officers had been deployed for the administrative activities. Since the maximum capacity of the current course is 40 persons, it was observed that relatively a larger number of staff had been employed.	Since this College is a higher education institute imparting knowledge on national security to the senior officers in the three armed forces and the Police Department, and as it is located in the vicinity of Colombo abundant with a civil community, this college cannot function like a typical civil institution. In relation to the security of the College, the security duties should be performed round the clock, similar to those in an army camp. Further, it is pointed out that the staff have been employed in order to maintain the College properly and elegantly for the purpose of creating a more conducive environment for education activities.	Essential and adequate staff should be maintained.
(c) As the staff of the three forces, 700 officers and other ranking army personnel had been employed for the duties of the Ministry and other divisions under the Ministry and their remunerations had been borne by the relevant three forces.	Not replied.	Essential and adequate staff should be maintained.