

Head 224 - Sri Lanka Air Force

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Head 224 - Sri Lanka Air Force 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 statements for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. The Summary Report containing my comments and observations on the financial statements of the Sri Lanka Air Force was issued to the Accounting Officer on 26 May 2023 in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report of the Sri Lanka Air Force was issued to the Accounting Officer on 20 June 2023 in terms of Section 11 (2) of the Audit Act. This report is presented in Parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka which is 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 Air Force 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 appear in Paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility 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 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 the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

1.4 Auditor's Responsibility 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 judgement and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

1.5 Report on Other Legal Requirements

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

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

1.6 Comments on the Financial Statements

1.6.1 Accounting Deficiencies

(a) Capital Expenditure

The following observation is made in this connection.

Audit Observation	Comments of the Accounting Officer	Recommendation
A sum of Rs.15,795,903 of provision received for purchase of armoured cars (APC-15) under the Pakistan Credit Scheme under F.R.66/69 transfers had been used to purchase spare parts for the radar system under the Indian Credit Line.	(i)Provision of Rs.272,000,000 granted under the Indian Credit Line at the beginning of the year, had been reduced to Rs.15,000,000 by the revised estimate. However, about Rs.25,700,000 provision is required for clearing purposes of those goods. (ii).Inability of completing the procurement process in the year 2022 relating to APC 10 planned to be purchased in the year 2022 under the Pakistan Credit Scheme	As it is credit received for two objectives for two projects of two foreign countries, it should be spent only for the relevant objectives.

(b) Property, Plant and Equipment

The following deficiencies were observed in regard to accounting of property, plant and equipment.

Audit Observation	Comments of the Accounting Officer	Recommendation
(i)As per Format ACA 6, Non-financial assets – 9152, values relevant to debits and credits of transport equipment and machinery, were not reconciled with debit and credit balances of the Treasury trial balance by Rs.54,396,990 and Rs.87,423,189 respectively.	The report on non-financial assets uploaded to the CIGAS web application is included in Format ACA 6. Decreases and increases of non-financial assets during the year are included therein. However, only the financial transactions and journal values of the year are included in the debit and credit balances of the Treasury trial balance.	As debits and credits relating to accounting in Departmental books are reported to the Treasury through accounts summaries, there should be no difference between the trial balance of the Department and the trial balance of the Treasury.
(ii) In writing off damages to 03 aircrafts under F.R.109, a sum of Rs.85,255,268 had been written off in less of the approved value and in writing off damages of another aircraft under losses, it had been written off in excess of the approved value by Rs.14,772,702.	It has been forwarded to the responsible parties to write off losses from books in terms of F.R. 109 after obtaining necessary approval from the Ministry of Defence to write off from books once the losses relating to the 4 incidents are separately computed by a court of inquiry.	Damages and losses should be accurately identified and obtained approval before writing off.

2. Financial Review

2.1 Management of Revenue

The following observations are made in this regard.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) In terms of Financial Regulation 85(1)(c), estimates of revenue should be prepared as realistically and accurately as possible. However, in the preparation of estimates of revenue of aircraft rentals relating to Revenue Head 20.03.02.16, it had been abated and revised from 33 per cent to 91 per cent in the year under review as well as during 06 preceding years. Moreover, earning of revenue had been varied with unfavourable abatement between 24 per cent and 94 per cent in relation to the year 2016.</p>	<p>Steps will be taken to prepare revenue estimates of aircraft rentals more realistically and accurately.</p>	<p>In the preparation of estimates of revenue, action should be taken to prepare them as realistically and accurately as possible. A timely and efficient procedure should be implemented to recover the said revenue.</p>
<p>(b) In terms of Financial Regulation 128 (2) (e), special arrangements should be made by Revenue Accounting Officers for the expeditious collection of outstanding arrears of Revenue receivable to the Government. However, arrears of revenue totalling Rs.12,674,073 with a delay of between 4 years and 19 years relating to aircraft rentals had not been recovered. The arrears of revenue of Rs.3,612,665 receivable from 02 private institutions was included therein.</p>	<p>As provision is not available in ministries to settle these arrears, a request has been made to the Ministry of Defence to submit a Cabinet Paper relating to writing off arrears.</p>	<p>Special arrangements should be made by Revenue Accounting Officers for the expeditious collection of outstanding arrears of revenue receivable to the Government and renting out should be carried out on written requests and agreements of a responsible officer.</p>

(c) The revenue deprived of to the Government from the revenue of Rs.21,303,078 earned in the year 2022 in the Air Force Museum in the Ratmalana Air Force Base was Rs.18,912,131.

The Defence Secretary has briefed the Secretary to the Ministry of Finance on the internal administration of funds of the Three Forces. Accordingly, the Air Force has planned to take action relating to internal funds as per instructions received from the Ministry of Finance.

The revenue earned from utilizing Government assets, should be fully credited to the Government.

2.2 Management of Expenditure

The following observation is made in this regard.

Audit Observation	Comments of the Accounting Officer	Recommendation
It has been informed that all Government institutions should thoroughly follow the measures in terms of paragraph 02 of National Budget Circular No.3/2022 of 26 April 2022 of the Secretary to the Treasury of the Ministry of Finance for control of public expenditure, a sum of Rs.8,342,043 had been spent for foreign study tours and trainings under Expenditure Head 224-1-1-1102. Moreover, a sum of Rs.31,246,205 had been spent from May to August of the year under review for foreign tours and trainings.	An expenditure of Rs.8,342,042 had been incurred for foreign tours once prior approval of the Ministry of Defence is obtained under 224-1-1-0-1102 during the period from May 2022 to December 2022 after issuing the relevant circular.	Expenditure should be controlled in terms of the Circular as well as and considering the timely requirement of well-tightening of public expenditure due to the economic crisis that prevailed in the country.

2.3 Non-compliance with Laws, Rules and Regulations

The following observations are made in this regard.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Accounting Officer	Recommendation
(i) Department of State Accounts Guideline 4.5 of State Accounts Guideline	Any commitment or liability that is not reported should not be settled during the year 2022. However, contrary to that, liabilities totalling	Even though the said balance had been indicated in the CIGAS accounting system relating to the balances	That in terms of State Accounts Guideline, any commitment or liability that is not reported should not be

No.2021/02 of 26 October 2021	Rs.1,703,403 relating to 04 instances not included in the statement of liabilities of the preceding year, had been paid in the year 2022.	of liabilities, it had not been recorded in the statement of liabilities by mistake.	settled during the year under review.
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(ii) Financial Regulation 128 (2) i	The Accounting Officer should take adequate steps to ensure that rates and charges or taxes, fees, etc., are reviewed and that due action is taken to revise them from time to time, where necessary, having regard to changes in economic and other circumstances. However, contrary to that, only a sum of Rs.161,200 of the total rental revenue of Rs.1,511,000 recovered for renting out 04 buildings in the Ratmalana Base had been credited to the Government and building rental revenue totalling Rs.1,349,200 had been deprived of to the Government.	(i) As indicated in the audit paragraph, action will be taken to give necessary instructions to responsible parties for crediting the Government assessment value to the Government account. (ii) Even though this building rental revenue is credited to the Service Institute Fund, the said money is utilized for the welfare of camp service personnel.	That in terms of Financial Regulations, the Revenue Accounting Officer should take adequate steps to ensure that rates and charges or taxes, fees, etc., are reviewed and that due action is taken to revise them from time to time, where necessary, having regard to changes in economic and other circumstances and the said revenue should be credited to the Government revenue.
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2.4 Issuance and Settlement of Advances

The following observation is made in this regard.

Audit Observation	Comments of the Accounting Officer	Recommendation
As mentioned in Section 4 of Chapter XXIV of the Establishments Code, in instances where advance loan balances cannot be recovered from officers who retired, died or whose services terminate before the payment of loans relevant to Advances to Public Officers B Account,	Action is being taken to obtain information for settlement of loan balances outstanding further. The settlement of old outstanding loan balances is continuously carried out through information so obtained. Moreover, necessary action is taken to write off loan balances of which information cannot be found,	Proper measures should be taken as mentioned in Section 4 of Chapter XXIV of the Establishments Code for recovery of outstanding loans relating to advance loans.

action should be taken to recover from sureties or heirs. However, contrary to those provisions, the loan balance outstanding over 5 years of 207 officers amounted to Rs.8,267,831.

through the Ministry of Finance.

3. Operating Review

3.1 Procurements

The following observation is made.

Audit Observation	Comments of the Accounting Officer	Recommendation
A harvesting machine valued at Rs.5,290,000 had been purchased in the year 2022 from Government funds for an agriculture project which is a non-statutory fund not operated for Government revenue of the Morawewa Sri Lanka Air Force Station.	Procurement activities relating to purchase of this harvesting machine have been carried out under 2.14.1 of Supplement 35 to the Procurement Manual. Moreover, the Sri Lanka Air Force Headquarters has selected regional procurement as the most suitable procurement process to purchase the said harvesting machine. As the agricultural project is implemented with the intention of providing welfare without earning profit and even though no cash is credited to the Government Fund, benefits are provided to the national economy.	In spending Government funds, they should be spent for objectives of the Government and the benefits of the relevant expenditure should be received to the Government.

3.2 Management of Assets

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) According to Financial Regulation 128(2) (e), it is the responsibility of the Accounting Officer to ensure that adequate and proper arrangements are made for the safe custody and preservation of assets belonging to the Government. However, contrary to that, as per Format ACA-6, of 110 aircrafts	Sixty six aircrafts belonging to 27 types had been inoperative for a long period.	That adequate and proper arrangements are made for the safe custody and preservation of assets belonging to the Government.

valued at a total of Rs.53,846,539,763, sixty six aircrafts had been out of operations from a long period from 1 year to 23 years.

(b) Eight Land Rover Defenders valued at Rs.5,016,000 had remained over a period of 03 years in the Vehicle Division of the Katunayake Air Force Base without completing repairs.

(c) Stocks valued at a total of Rs.29,209,872 relating to 31 types of goods comprising uniforms, building materials, electrical appliances of various stores divisions in the Katunayake, Hingurakgoda and Ratmalana Bases of the Sri Lanka Air Force had remained idle without being used for a period between 01 year and 09 years.

Repairs of 06 vehicles are being carried out while the repairs of two vehicles have not been commenced.

Suspension of project constructions, requirement of utilizing goods in an emergency without a shortage, non-submission of requests from camps to obtain goods, stocks purchased on further requirements, remaining in stores, issuance of total remaining stocks for unit requirements of camps, retention on weight in sending stocks to the Peace Keeping Force.

The relevant Defender should be utilized after expeditious completion of repairs

That purchases should be made by identifying the due requirement and that stocks of goods should not be kept idle.

3.3 Losses and Damages

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The statement of losses and waivers which should be submitted according to Annexure 6 (1) of State Accounts Guideline No.2022 dated 13 December 2022/5 of the Director General of the Department of State Accounts should be disclosed in the annual financial statement. Nevertheless, a sum totalling Rs.577,625,395 relating to 190 incidents of losses had not been disclosed in the financial statement.	In the preparation of the account, it has been revealed in several instances that there was an issue of relevant information not being communicated properly. It is informed that necessary steps will be taken to avoid this situation in carrying out activities.	In terms of relevant Guidelines, losses and damages should be disclosed in the financial statements.
(b) Even though approval had been received to write off losses and damages to a total value of Rs.38,625,367 in 5 instances relating to the year 2022 as losses under	The reason for non-inclusion of writing off values relating to six (6) losses and damages under F.R.109 for which approval	Losses and damages for which approval had been granted for writing off losses under F.R.109 in the year under review, should be disclosed in the financial statements.

F.R.109, it had not been included in the statement of losses and waivers under Annexure (ii) of F.R.109.

had been granted under F.R.109 during the year 2022, is that the activities of relevant files were not completed.

3.4 Uneconomic Transactions

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) A Land Rover Defender jeep had been purchased on payment of Rs.41.9 million on 01 April 2022 to be sent to the UN Mission. However, the said jeep had not been sent to the UN Mission even by 19 May 2023.</p>	<p>i. The necessary arrangements for purchase of this vehicle have been commenced in the year 2020 and it is for the requirement of providing transport facilities for the special persons visiting on observation of the UN Mission.</p>	<p>That assets obtained to the Government by incurring a high expenditure should be utilized for relevant objectives without keeping them idle.</p>
<p>(b) One of the 06 primary training aircrafts purchased from China by paying Rs.946.32 million on 17 October 2018 for empowering the training aircraft wing belonging to the Sri Lanka Air Force had been completely destroyed after being subjected to an accident on 15 December 2018. The 05 remaining aircrafts purchased, had not been used for training purposes over a period of 2 years due to the delay in engine overhaul. Accordingly, the total expenditure incurred, had been uneconomic.</p>	<p>ii. Even though there were two operations when the vehicle was requested, only one operation remains at present. This vehicle is kept under the Air Force Executive Vehicle Fleet at present with the expectation of attaching according to the aforesaid situation or to the requirement of newly commenced UN Mission.</p> <p>The flying hours engines of PT-6 aircrafts are 600 hours. However, all engines are out of utilization by now. This situation has arisen due to the delay in the overhaul of these engines.</p>	<p>In spending Government money, necessary action should be taken for utilization for objectives relating thereto. When the number of flying hours of the aircraft engines are over, engines used therefor, should be kept ready.</p>

3.5 Management Weaknesses

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) A sum of Rs.36,572,648 had been credited from the Ministry of Defence to the Central Welfare and Rehabilitation Fund of the Air Force which is outside the Government account, for payment of benefits to the “Meth Sevana” and “Api Wenuwen Api” housing projects and subsequently made payments to the relevant beneficiaries.	The Central Welfare and Rehabilitation Fund which is managed by the Director-Welfare under the Commander of the Sri Lanka Air Force as an intermediate account in remitting all money provided by the Ministry of Defence for the “Api Wenuwen Api” project of construction of half-built houses and the “Meth Sevana” housing project and this account is used for welfare activities of the Air Force personnel.	Public money should not be used for making payments through non-Government accounts outside Government accounts as that expenditure is outside Government accounts, it is not subjected to audit and moreover, spending of public money should be carried out in terms of Financial Regulations.
(b) A compensation of US\$ 2,875,136.55 should have been reimbursed for the contribution made by the Sri Lanka Air Force for suppressing the threat of the “X Press Pearl” ship from 21 May to 19 August 2021. Moreover, further evidence required for obtaining the risk allowance of US\$ 1,149,500 included therein, had not been given by the Air Force. As the parties paying compensation had refused to make the payment, the said total sum had been lost to the Government.	(i)The Attorney General’s Department has been briefed in several instances on the contribution made by the Sri Lanka Air Force to extinguish fire relating to the accident occurred in the “X Press Pearl” ship and for clearing the beaches which were polluted as a result. Accordingly, a sum of US\$ 3,449,867 was requested on behalf of the Sri Lanka Air Force. (ii) However, the relevant shipping insurance company has expressed their reluctance to pay the risk allowance requested by the Air Force.	A large amount of money is lost to the Government due to failure in giving proper evidence for claiming the risk allowance relating to granting of compensation. As such, the Sri Lanka Air Force should give proper evidence.

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| <p>(c) Fifty aircraft spare parts valued at a total of Rs.179,633 sent for repairs to foreign countries by the Sri Lanka Air Force during the period 2004-2013 and 53 spare parts sent for repairs to foreign countries during the period from the year 2016 to the year 2020 had not been returned to the Air Force despite a lapse of 2 to 18 years.</p> | <p>The Director - Legal of the Sri Lanka Air Force has briefed the Chief Procurement Officer that adequate matters are unavailable for taking legal action. Subsequently, matters are being processed for taking legal steps.</p> | <p>Action should be taken to get back the aircraft spare parts sent abroad for repairs without delay and completion of legal measures regarding long term delays should be expedited.</p> |
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4. Human Resource Management

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation						
<p>(i) The approved cadre of authorized officers of the Air Force as at the end of the year under review was 2,557 while 464 of them remained vacant. The approved cadre of unauthorized officers (other posts) was 34,381 while 5,324 of them remained vacant.</p>	<p>(a) Data on Airmen and Airwomen of the Sri Lanka Air Force (permanent/volunteer) appear below.</p> <table border="0" style="margin-left: 40px;"> <tr> <td>Approved cadre (other posts)</td> <td style="text-align: right;">34381</td> </tr> <tr> <td>Vacancies as at 31.12.2022.</td> <td style="text-align: right;">5324</td> </tr> <tr> <td>Vacancies as at 01.05.2023</td> <td style="text-align: right;">6780</td> </tr> </table>	Approved cadre (other posts)	34381	Vacancies as at 31.12.2022.	5324	Vacancies as at 01.05.2023	6780	<p>Action should be taken to fill vacancies or to review the approved cadre to adjust to the actual cadre.</p>
Approved cadre (other posts)	34381							
Vacancies as at 31.12.2022.	5324							
Vacancies as at 01.05.2023	6780							
<p>(ii) Out of the approved cadre of 3,057 of the civil staff (senior/tertiary/secondary/primary), 769 vacancies remained by 31 December 2022.</p>	<p>Necessary measures will be taken to fill these vacancies once approval of the General Treasury is obtained.</p>	<p>Action should be taken to fill vacancies or to review the approved cadre to adjust to the actual cadre.</p>						