

Head- 103- Ministry of Defence

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Head 103-Ministry of Defence for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 2024 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Ministry was issued to the Chief Accounting Officer on 20 June 2024 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report will be tabled in Parliament in pursuance of provisions in 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 2023, 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 been implemented

1.6 Comments of the financial Statements

1.6.1 Accounting Deficiencies

- (a) Accounting of Rents and Work Advances

Even though the accounting procedure to be followed in the acquisition of government office buildings on rental basis and in the payment of advances for work contracts and the manner of maintaining accounts in the CIGAS system was introduced by Public Finance Circular No. 250/2016 (i) dated 03 August 2016, the Ministry had not followed those procedures. The observations are mentioned below.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(i) Work advances, amounting to Rs. 580,498,346 paid in relation to the forward periods from 31 December 2023 in relation to 40 construction works of the construction project of Defence headquarters complex, have been accounted as expenses and it had not been accounted through the rent and work advance account and rent and work advance reserve accounts as per the above circular instructions.	The advance amounts paid as per the contract agreement has been debited to the expenditure head as an expense and it was informed that further work will be carried out as per the instructions mentioned in the Public Finance Circular.	Action should be taken as per the Public Finance Circular No. 250/2016 (i) dated 03 August 2016 in acquiring buildings for government offices on rent basis and making advance payments for work contracts.
(ii) Although a total of Rs. 18,800,000 had been paid as office building rent advances in three occasions, this advance payment had not been reflected in the Rent and Work Advance Account and Rent and Work Advance Reserve Account and it had not been disclosed in the financial statements.	Action will be taken in the future pertaining to the advances that will be paid as per the instructions mentioned in Public Accounts Circular No. 250/2016 (i).	Accounting should be done in accordance with State Accounts Circular No. 250/2016 (i) dated 13 August 2016.

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| (iii) | Although work advances amounting to Rs. 7,414,510 that had been provided to an external institution by the Disaster Management Division had been accounted as an expense, accounting had not been done by Rent and Work Advance Account and Rent and Work Advance Reserve Account. | Necessary arrangements are being made to prepare the rent and work advance account and the rent and work advance reserve account through the Department of Public Accounts. | Accounting should be done in accordance with State Accounts Circular No. 250/2016 (i) dated 13 August 2016. |
| (iv) | It was observed that the entitlement of the government to republic account is not properly represented due to accounting of work contract advances and building rent advances as expenses in the year of making payments and due to not accounting as a work advance in the CIGAS system. | Necessary arrangements are being made to prepare the rent and work advance account and the rent and work advance reserve account through the Department of Public Accounts. | Accounts should be maintained in such a way that the entitlement of the Government to the Republic Account is properly represented as at a certain date. |

(b) Property, plant and equipment

Although non-financial assets should be assessed and reported as per the Assets Management Circular No. 04/2018 dated 31 December 2018 and its guidelines, only the value of the land, where the National Defence College is located, had been accounted among the lands used by the Ministry of Defence and the other institutions financed under it, and since it was observed by the following matters that the lands used by the Ministry of Defence and the other institutions financed by it have not been identified, valued or accounted, the correct land value had not been represented by the financial statements.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation	
(i)	Since the assessment work of the plot of land in extent of 21.0437 ha, where the Defence Headquarters complex is located and handed over to the Ministry of Defence on 15 February 2012 had been delayed even during the year under review, it had not been accounted.	The Department of Valuation has been carrying out valuation activities of the land in extent of 21.0437 ha, which had been handed over on 15 February 2012 to the Ministry of Defence and where the Defence headquarters complex is located, and issues related to plans will be solved and the assessment work will be carried out, and it has been informed that there is the possibility for accounting in the year 2024.	Action should be taken to function in terms of the Circular and to properly identify, assess and account the value of lands.

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| (ii) | According to the information presented by the National Cadet Corps, there are 35 plots of land used by the Corps, and the National Cadet Corps had the ownership of 04 plots, out of those land plots, and the ownership of the remaining 31 plots of land had not been confirmed. Although one plot of land had been valued at Rs.55,590,000 on 31.12.2021, the land value had not been accounted. | It has been informed that the value of Rs.55,590,000, which had not been accounted, will be correctly identified and accounted within 03 months. | Action should be taken to correctly identify the land, assess and account the value of land in accordance with the Circular. |
| (iii) | Even though the value of the office buildings belonging to the Ministry had been indicated as Rs. 128,180,762 according to the format of SA 82, the statement of non-financial assets, the amount of Rs. 5,669,621, which was the value of the building disposed of, and where the Ministry had been operated up to June 2021, had been included in that value. Accordingly, the building value indicated in the financial statements had been overstated by Rs.5,669,621. | Noted down to eliminate the value of the old ministry building from the CIGAS programme. | The values of disposed buildings should be accurately accounted and updated in the CIGAS system. |
| (iv) | Although the cost of fixed assets built by the capital expenditure incurred under the Defence Headquarters Construction Project up to the year 2021 and work-in-progress had been represented in the financial statements and the SA 82 - Non-Financial Assets report, acquisition of capital assets (9152-61122-Other Mechanical Equipment) incurred under the capital expenditure of the Defence Headquarters Construction Project in the previous year and the year under review amounting to Rs. 356,911,375 and cost of work in progress (9160-61114) amounting to Rs. 13,466,415,615, had not | It has been informed that the expenses have been reported under the Object 103-1-2-7-2509 given by the State Budget Department for the year 2022 under the arrangement for capitalization after proper identification and assessment of the project assets. | Action should be taken to accurately disclose the acquisition of capital assets under the capital expenditure of the Defence headquarters construction project and the value of work in progress in the financial statements. |

been included in the SA 82, report of the non-financial assets in the financial statements.

- (v) It was observed that there had been a difference of Rs. 1,528,485,726 between the value of the 06 buildings indicated in the SA 82 report of the assets in relation to the Defence Headquarters construction project and the value of the same 06 buildings indicated in the report submitted to the Comptroller General's Office.
- Only the asset values identified up to 31.12.2021 were indicated in the SA 82 report. However, the values computed based on the details submitted to the Comptroller General's Office by the Central Engineering Consultancy Bureau (CECB) had been submitted. It was informed that action will be taken to appoint a committee to calculate the cost and further action will be taken accordingly.
- Building costs should be accurately identified and accounted and reports submitted for assets management requirements should be based on that.
- (vi) Although the aggregate value of non-financial assets such as (9151) buildings, (9160) - work in progress and structures, (9152) - machinery had been Rs. 2,038,539,555 as at 31 December 2023 as per financial statements and Treasury Form SA 82, the aggregate value had been Rs.10,618,850,752 according to the books of the Ministry. Therefore, there was a difference of Rs.8,580,311,197. Accordingly, it was observed that the treasury books and ministry books had not been reconciled each other.
- It has been informed that the corrections for the ledger balances related to these balances in assets were carried out through the Department of State Accounts in the year 2024.
- The Financial statements should be prepared in such a way that treasury books and ministry books are reconciled with each other.
- (vii) Although 06 vehicles, costed at Rs.10,800,000 and that had been identified to be disposed of by a special board of survey conducted on 15 September 2022, had been transferred to the Army and Navy during the year under review, the cost had not been eliminated from accounts. Therefore, the value of the vehicles had been overstated by that amount in the financial statements.
- It has been informed that adjustments had been made through the summary of accounts of May 2024 for 06 vehicles costed at Rs.10,800,000 transferred to the Army and Navy.
- Action should be taken to properly identify and account the disposals of vehicles and vehicle transfers.

- (viii) Even though two leased vehicles included in the SA 82, non-financial assets report of the Ministry had been transferred to other institutions in the year 2023, they had not been eliminated from the CIGAS asset report. As a result, non-financial assets had been overstated by Rs.35,900,000.
- Adjustments had been made by the summary of accounts to the 02 vehicles transferred to the Army and Navy costed at Rs.35,900,000.
- Action should be taken to correct the value of vehicles transferred to the other institutions in the CIGAS system.
- (ix) Six (06) vehicles valued at Rs.44,866,011 transferred by the Disaster Management Division to other Ministries and Institutions had been indicated in the fixed assets of the CIGAS programme of the Disaster Management Division.
- Arrangements will be made to adjust those vehicles that have been transferred to other institutions by the CIGAS program in the 2024 and to report in that regard to the audit.
- Movements occur in relation to assets during the year should be adjusted in the accounts without delay.
- (x) Although it should be reported as acquisition of computer software systems intangible assets under code 61133 under expenditure code No. 2106 - the acquisition of computer software assets according to the instructions of State Accounts Guidelines 05/2023 dated 30 November 2023, expenses amounting to Rs.119,773,179 incurred for the provision and installment of a data management system and the establishment of a data analysis system for the State Intelligence Service had been accounted as machinery acquisition expenses.
- It has been informed that the expenditure related to establishing the data management system of the State Intelligence Service has been capitalized as 6112202 - purchase of computer equipment under 61122 - other machines and equipment by mistake, and action has been taken to correct the part that can be identified as an intangible asset by the future summaries of accounts.
- Intangible assets should be identified according to the correct code of the fixed assets.

(c) Lack of Audit evidence

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Even though housing construction programmes have been implemented in 18 districts on the provision of Rs. 7,245,980,034 to evacuate the families who had lost their homes due to landslides and living in high risk areas of landslides and to resettle them in safer places, information about the implementation of that programme in 13 districts, for which provision of Rs.3,112,989,366 had been allocated, out of that provision, had not been submitted to the audit.	The Disaster Management Division has informed that the information related to the 13 districts, which have not yet been submitted, will be submitted before 30.06.2024.	Action should be taken in terms of Section 42 of the National Audit Act, No. 19 of 2018.

2. Financial Review

2.1 Revenue Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although it had been indicated that the income to be collected in the year through the United Nations peacekeeping operations according to the action plan of the Ministry for the year 2023 had been Rs.5,748 million, an income amounting to Rs. 10,124 million was collected in the year and accordingly, due to the existence of 176 percent of variation, the income estimates had not been realistically prepared.	The income of the year 2023 had been increased by an amount of Rs.2,926 million due to crediting an income amounting to Rs. 2,926 million related to the year 2022 to the treasury account in the year 2023. However, this income has not been indicated under the action plan of the year 2023. It has been noted to prepare the action plan realistically in the future.	Income estimates should be prepared as realistically as possible.
(b) Even though it has been stated that income should be accurately estimated annually to prepare the government budget estimate in terms of the Public Finance Policy Circular No. 1/2015, there were variations of	Revenue has been increased due to the reasons such as revision of levied fees, increase in the fees for explosives license and permits, issuance of new licenses, increase in	Income estimates should be prepared as realistically as possible.

130 percent to 147 percent between the basic income estimates and the actual income. There had been variations in the range of 36 percent to 91 percent between the revised income estimate in the year 2023 and the actual income.

revenue related to firearms, collection of fines, transfer of authority, pacification revenue in 2022 had been accounted in 2023.

(c) A sum of US\$ 575,121, out of the outstanding income for the United Nations peacekeeping duties related to the year 2022 had been identified as an income not receiving realistically due to the non-provision of equipment, and although it should be indicated in the financial statements as writing off of arrears income in terms of Financial Regulation 113, it had been deducted and indicated when the income was brought forward as at 01 January 2023. Treasury approval had not been obtained in terms of Financial Regulation 113 to waive this amount from income.

Disagree with this observation as there was no need to follow the write-off procedure considering it as an outstanding income owing to the inability to earn the expected income on account of inability to supply equipment. It has been noted down to seek further instructions regarding this from the Department of Fiscal Policy and to record answers later.

Since it had been accounted as outstanding revenue related to the year 2022, it should be indicated as writing off of outstanding income in the outstanding income statement and the Treasury approval should be obtained in accordance with Financial Regulation 113.

(d) Even though adequate arrangements should be made to obtain the necessary information from the departments that collect the Government Revenue according to Financial Regulation 128(2)(g), the source documents related to the collection of outstanding revenue of Rs.1,431,899,941 indicated in the ACA-1(i) format had not been submitted. Accordingly, since the declaration of collection of arrears of income, statement of approved income waivers, etc. had not been submitted, the amount collected corresponding to the arrears of income related to each year, the arrears of income waived in accordance with Financial Regulation 113, etc. could not be precisely identified.

Declarations on the collection of arrears income and approved income waiver declarations have not been received from the revenue collection institutions, and action will be taken to get the declarations on the collection of arrears of revenue and approved income waiver declarations from the revenue collection institutions from this year.

In terms of Financial Regulation 128(2)(g), adequate arrangements should be made to obtain the necessary information from the departments collecting Government Revenue.

2.2 Management of Expenditure

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although provision amounting to Rs. 19,230,000 had been made for 14 Objects, the entire provision had not been utilized.	Since the President functioned as the Minister of Defence, the expenses have been incurred by the Presidential Secretariat and limitation of expenditure by National Budget Circulars 201/2023 and 02/2023 had been the reasons for the saving.	Provision should be utilized with maximum efficiency.
(b) Even though the annual provision allocated in relation to 12 Objects by annual estimates had been Rs. 61,695,000, the additional provision that had been obtained under Financial Regulation 66 for those 12 Objects had been Rs. 86,747,600, when considering the value of the additional provision obtained for Objects as a percentage of the basic provision, it was in the range from 108 percent to 1503 percent.	The amount of provision requested for the year 2023 had not been received, and the provision allocated by the approved budget had been limited. Due to the inadequacy of the allocated provision for the year 2023, the allocations had to be obtained under the transfers in terms of F.R. 66.	Allocation made for each Object should be utilized with maximum efficiency.
(c) Although the additional provision obtained in terms of the Financial Regulation 66 for two Objects had been Rs. 2,064,600, there had been savings amounting to Rs. 2,151,865 that had exceeded the provision.	According to the Financial Regulation, provision should be allocated first to incur any commitment. Accordingly, although the allocations were transferred under F.R. 66 for the allocation of provision in relation to the procurements to be completed pertaining to the 02 related Objects, the amount of the provision had been saved due to the inability to complete the procurement process and submit the vouchers.	Transferred resources should be utilized with maximum efficiency.

2.3 Incurring Liabilities and Commitments

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
In terms of the provisions of F.R. 94 (2) when financial provision appears in the Estimates of the current financial year for annually recurrent services or supplies and similar expenditure is envisaged even in the ensuing financial year, a department may, incur a commitment which will fall due to be discharged in the ensuing financial year. Even though expenses totalling to Rs. 3,106,817 in 39 cases related to the year 2023 had been incurred from the provisions of the year 2024 in an audit test check in relation to the payment vouchers in January and February 2024, those expenses had not been recognized as liabilities in the financial statements of the year 2023. As a result, the value of liabilities indicated in the financial statements had been understated by Rs. 3,106,817.	Due to the difficulty in identifying the liabilities correctly, those payments have not been included in the register of liabilities. Accordingly, it was informed that it has been noted down to implement an internal control system in the future to identify commitments and liabilities as much as possible in terms of the Financial Regulation and to include them in the registers.	As per the provisions of the Financial Regulation 94 (2), liabilities should be identified and entered in the register of Commitments and Liabilities.

2.4 Non-compliance with laws, rules and regulations

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

Audit Observation			Comments of the Chief Accounting Officer	Recommendation
Reference to Laws, Rules and Regulations	Value Rs.	Non Compliance		
(a) The Financial Regulations of the Democratic Socialist Republic of Sri Lanka				
(i) Financial Regulation 135	-	Even though financial authority should be delegated in relation	In terms of the Finance Regulation 135, financial	Action should be taken in terms of the Financial

			to the income in terms of the Financial Regulation, the financial authority had not been delegated in relation to the income earned from United Nations peacekeeping activities and income from license fee.	authority has not yet been delegated in relation to income, and it has been noted down to delegate authority for income in the delegation of financial authority in the year 2025.	Regulation 135.
(ii)	Financial Regulation 453(h)	-	Control records had not been maintained in relation to the approved / actual staff or its monthly changes in respect of 2,292 officers belonging to the State Intelligence Service and National Cadet Corps, to whom salaries are paid by the Ministry, apart from 442 staff members of the Ministry and Defence Services.	necessary measures will be taken in the future to monthly get the information of the State Intelligence Service and to maintain control reports formally.	Action should be taken in terms of the Financial Regulation 453(h) and records on the control of the total cadre should be maintained accurately.
(b)	Public Finance Circular No. PED/RED/2015/8/General (1) dated 09 October 2015 and Guideline No. 01 of Public Finance Circular No. 01/2020 dated 28 August 2020.	5,004,395	The loan balance to be recovered from officers served in the Ministry and transferred from the Ministry as at 31 December 2023 and, the officers, retired, deceased, interdicted and vacated post had been Rs. 5,004,395 and the total of balances outstanding for a period from 05 years to more than 20 years had been Rs. 1,297,832.	Action will be taken to recover the outstanding loans by adopting measures such as directing 03 debt balances amounting to Rs.590,703 which had not been recovered for more than 20 years to be written off from the books, taking legal action, recovering in instalments, giving final notices to settle the debt, recovering	The outstanding loan balances should be recovered by taking action in terms of the relevant Public Finance Circulars and Guidelines.

the outstanding debt from the retirement gratuity.

(c)	Paragraph 8.2 of State Accounts Guideline No. 05/2023 dated 30 November 2023	3,911,702,668	If there are assets that should be reported further, they should be properly identified and accounted at cost. Even though the cost amounting to Rs.3,911,702,668 related to the building No. 08, where the Ministry has been established at present and, which had been completed as at 17 May 2021, had been reported to the Comptroller General's Office, the cost of the building number 08 had not been included in the value of the building indicated in the financial statements.	That expenses have been recorded under work in progress costs.	If there are assets to be further reported according to the Public Accounts Guidelines, they should be properly identified and accounted at cost.
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2.5 Informal Transactions

The following observations are made.

(a) Uncertified Payments

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Although the authorized officer must certify the vouchers and make payments before incurring any expenditure in terms of the Financial Regulations 138 and 139, Rs. 2,055,345 had been spent through welfare funds without certifying the vouchers by the authorized officer and without obtaining the approval of the officer	It is informed that the method of payment for vouchers presented for reimbursement in contrary to the matters stated in F.R. 138 and 139 will not be implemented hereinafter and creating the required awareness to make direct	In terms of the Financial Regulations 138 and 139, the officer certifying the vouchers must be responsible for verifying that the payees named on the face of the voucher are entitled to receive the proposed payments and that the amount does not exceed the amount provided and verify that the

authorized to pay. It was observed in the audit test checks carried out related to the Office of the Chief of Defence Staff and Cadet Corp that the expenditure had been later reimbursed to the welfare funds. payments to the relevant institutions that make purchases by covering all the Financial Regulation, and the necessary measures required for that will be taken. vouchers have been correctly certified by an officer authorized to make payments, and to verify the identity of the payee etc.

2.6 Issuance and Settlement of Advances

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Although the officer who received the imprest should make arrangements to settle adhoc sub imprest provided for a specific purpose immediately after the completion of the relevant purpose in terms of the Financial Regulation 371 (2) (b), an advance of Rs. 3,648,332 provided for various purposes in 64 instances had been settled with a delay of 25 days to 200 days.	It is kindly informed that arrangements are being made to re-inform the relevant divisions and institutions in this regard and to follow the necessary internal control procedures.	In terms of the financial regulation referred, arrangements should be made to settle the adhoc sub imprest immediately after the completion of the purpose for which it is granted.

2.7 Deposit Balances

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The Ministry of Defence had maintained 06 general deposit accounts and according to those accounts, the deposit balance as at 31 December 2023 had been Rs. 894,999,209 and the total of balances for the period of deposit from 2 years to 7 years had been Rs.717,513,704. Even though a list of all deposits which have been lapsed as indicated in F.R. 570 should be prepared at the close of each half year in order to regularize all the lapsed deposits as per F.R.571, such lists had not been prepared in respect of the deposit accounts related to each sector.	Noted down to take action to prepare from this year (2024) a list of all deposits which have been lapsed as indicated in F.R. 570 at the close of each half year in order to regularize all the lapsed deposits as per F.R.571.	A list necessary to regularize all the lapsed deposits should be prepared at the close of each half year in terms of Financial Regulation 571 in relevant cases.

3. Operational Review

3.1 Delays in the Performance of Projects

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The contract period had to be extended due to the inability to complete the contract within the expected time due to the delay in the construction of the Defence Headquarters construction project, the delay in opening the letters of credit, etc., 02 such supply contractors had requested 19 claims for extension of time (Claims for EOT) amounting to Rs. 837,497,744 and US\$ 3,675,029 by the end of the year under review.	The construction of the project was slowed down due to various reasons including the uncertainty in the year 2015 regarding the future existence of the project and the contractors have requested for extension of time claims due to these delays. I would like to point out that it was a situation that could not be controlled by the project.	Avoiding uneconomical expenses and controlling unnecessary delays should be prioritized.

3.2 Projects that have not progressed even though funds have been released

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The beneficiaries who received financial assistance amounting to Rs.344,400,000 due to lack of water sources for 205 houses located in 3 districts, where houses were built with the financial assistance of the government under the programme of evacuating families, who lost their homes due to landslides and living in high-risk areas of landslides, from those areas and resettling them in safe places under the National Disaster Relief Service operations, and due to lack of electricity facilities for 82 houses in 3 districts, had not settled in the houses. Furthermore, 17 beneficiaries, who received benefits totaling to Rs.15,900,000 had abandoned the ownership of those houses and lands.	It is mentioned that water and electricity for the houses built under the resettlement programme should be provided by the relevant beneficiaries, and it is not possible to provide water and electricity for all the resettled beneficiaries in view of the economic situation in the country. In cases where water sources are not available, the relevant Divisional Secretaries and local government bodies should carry out the necessary activities to provide water.	When settling persons in safe places, they should be settled in the places where infrastructure facilities are available in order to enable them to obtain the basic needs like water and electricity.

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| (b) | Under the above programme of resettling in safe places in 05 districts, 258 beneficiaries who received benefits amounting to Rs. 200,600,000 had abandoned the construction work without completing the tasks related to the phase of receiving benefits and 90 beneficiaries who received benefits amounting to 82,700,000 had completed only the tasks related to the phase in which the benefits were received and abandoned the construction works. | This is due to not carrying out the construction related to the instalment, abandoning the construction of the house by carrying out only the construction related to the instalment, not getting the fourth instalment due to the need of demolishing the high risk house, not carrying out the construction work due to the increase in the price of raw materials etc. | Action should be taken to achieve the basic objectives of the project with formal supervision. |
| (c) | Six (06) persons who received benefits totalling to Rs. 9,600,000 to buy a land with a house through the programme of resettling in safe places had not used the amounts and bought lands. | Beneficiary has been gone abroad, not buying the house related to the agreement, alienation of the land, not buying due to land issues, building the house on the father's land without buying a land, etc. are the reasons for this. | A system of accountability should be implemented with confirmation that the amounts of benefits should be utilized for the relevant work. |

3.3 Procurements

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) For supply year of 2023, the Ministry has awarded bids based on a cost estimate of Rs. 96 billion for the supply of raw and dry food for 151,429 living in members of the Armed Forces for the year of supply 2023, and the three armed forces had not followed a uniform and specific method for preparing these food estimates and food estimates were prepared on different bases. Even though the daily requirement of rice for a person in Sri Lanka Army was maintained as a standard of 190 grams, it was calculated as 633 grams during the preparation of estimates and an	Even though the annual rice requirement of one person is 181.480 kg according to the estimates, the army troops can be continuously supplied with food by preparing an additional rice requirement of 37.820 kg and action has been taken to prepare estimates by considering the deployment of troops to perform duties for internal security in the Colombo area, VIP security duties and events, agitations and other official situations and the live in of the troops.	Estimates should be prepared realistically taking into account the actual consumption of the previous years.

unrealistic and over estimate of 27 kg and 590 g had been prepared for the daily food requirement of 140 types of food including rice, grains, vegetables, meat, fish and dried fruits for one member of the Navy.

- (b) During the evaluation of bids related to the supply of food to the members of armed forces in camps, a fair price for the food item had been determined and the maximum price to supply food any camp in the island is determined based on the maximum of 10 percent of that price. It had been indicated that data collected by Hector Kobbekaduwa Agrarian Research and Training Institute and Department of Census and Statistics and price surveys conducted by the three armed forces were taken as the bases for that purpose. Bids had been awarded to supply rice to 05 camps in Colombo and suburbs at a price of 22 percent to 103 percent more than the identified fair market price, and bids had been awarded to supply lentils, dried fish and milk powder to those 5 camps at a price of 42 percent to 102 percent more than the identified fair market price.
- Approval is not granted to award contracts merely on the submission of the minimum bid price, and it is required to consider whether prices are reasonable by comparing the prices with the prevailing market prices. If it is not so, every effort is being made to bring down the prices of the bidder to a reasonable value through price negotiations. However, the suppliers do not agree to supply at a price assigned by the Ministry and there is no provision in the procurement guidelines to make such a price assignment.
- Accordingly, even though the Committee has set a fair market value, it is not possible to award the contract at the price, that has been set by the Technical Evaluation Committee.
- Action should be taken in a manner that the government has to bear the least cost and gets the maximum benefits.
- (c) The work of supplying and installing granite tiles on the floor and on the pantry surface of 03 buildings of the Defence Headquarters construction project, of which the estimated cost is Rs. 876.84 million, bids were invited by dividing into 03 procurement tasks and the three contracts were awarded to one contractor. Although the pre qualifications of the financial, technical, production, performance and standards of the bidder should be evaluated according to 3.12 of the procurement
- Separate contracts have been awarded for buildings due to the factors such as facilitating the acceptance and maintenance of final accountability by the respective forces and the Ministry of Defence by carrying out separate tasks, minimizing the difficulties and complexities in contract management, giving opportunities to medium-scale contractors, creating more
- According to 3.12 of the Procurement Guidelines, the pre qualifications of the bidder's financial, technical, production, performance and standards should be evaluated.

guidelines, a formal evaluation of technical, financial and human resources, equipment capacities and abilities of the bidder for the simultaneous execution of three contract works worth Rs.927.66 million and although 04 times of time extensions more than three times of the approved contract period had been provided, the work had not been completed even by 31 December 2023.

competition, being able to evaluate the progress of the project separately, receiving less allocation than the allocation requested, and changing placement priorities, etc. I would like to inform that checking whether the same contractor can carry out several contracts simultaneously is done on the instructions of the Ministry of Defence.

- (d) Although invitations had been called for the work of designing, supplying and installing a low voltage electronic system for buildings No.03 and 04 of the Defence Headquarters construction project as two contract works, the dual contracts were awarded to one contractor. Furthermore, although the technical, financial and human resource capacity of the bidder should be assessed to carry out several contracts simultaneously as per procurement guidelines 3.12, The pre qualifications had not been evaluated to check whether the selected bidder has the necessary resource capacity (financial, technical, production, performance, standards) to simultaneously perform the supply services, of which the agreed total contract value had been Rs. 642 million.
- action will be taken in the future to examine whether the same contractor can carry out several contracts simultaneously before awarding the contract when several contracts have to be carried out under one subject.
- A formal evaluation should be carried out on the existing technical and resource capacity of the contractor in order to perform the contract works of Rs.927.66 million simultaneously and to complete them within the expected time frame.

4. Human Resource Management

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) There were 118 posts remained vacant in the Ministry, and 28 posts, out of that, were senior level posts. This situation had become a hindrance in enhancing the performance of the Ministry.	A number of requests have been made from the Secretary of the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government regarding the filling of vacancies in the senior	Sufficient staff should be maintained to achieve the desired performance.

level posts in the combined services and island wide services, which remained vacant in the Ministry.

- (b) Even though actual staffing information should be submitted to the Department of Management Services at the end of every quarter according to the Management Services Circular No. 4/2017, the Ministry had not taken action according to the said Circular.
- It is further informed that the updated staffing information pertaining to the fourth quarter of the year 2023 has been submitted to the Department of Management Services, and that information will be forwarded in the future without any delay.
- Action should be taken according to the Management Services Circular No. 4/2017.