

Head 222 – Sri Lanka Army - 222

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Head 222 – Sri Lanka Army for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of financial performance and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. The summary report including my comments and observations on the financial statements of the Sri Lanka Army was issued to the Accounting Officer on 31 May 2025 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018. The Detailed Annual Management Audit Report relating to the Sri Lanka Army in terms of Sub-section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 31 May 2025. This report will be presented in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report the financial statements give a true and fair view of the financial position of the Sri Lanka Army as at 31 December 2024, and its financial performance and cash flows and on all the materialities in accordance with the basis of preparation of the financial statements set out in Note 1 to the financial statements.

1.2 Basis for Qualified Opinion

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

1.3 Emphasis of Matter – Basis for preparing Financial Statements

The attention is drawn to the Note 1 related to the Financial Statements which describes the basis of preparing these financial statements. The financial statements have been prepared as per the Financial Regulation 150, 151 and the State Accounts Guideline No.

06/2024 dated 16 December 2024 amended on 21 February 2025 for the requirement of the Sri Lanka Army, General Treasury and the Parliament. Consequently, these financial statements may not be suitable for other objectives. My report is only for the use of the Sri Lanka Army, General Treasury and the Parliament of Sri Lanka. My opinion on this matter is not modified.

1.4 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Preparation of Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the Financial Regulation 150, 151 and the State Accounts Guideline No. 06/2024 dated 16 December 2024 amended on 21 February 2025 and for such internal control as Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Sri Lanka Army is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

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

1.5 Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

a) Non-revenue Receipts

Audit Observation	Comment of the Accounting Officer	Recommendation
Using the resources, such as 1,586 staff members, 115 vehicles, 83,277 liters of fuel, buildings with an area of 249,074 square feet, lands in extent of 113 acres 02 roods and 36 perches, and 1,013 items of other assets, the Army had generated a revenue of Rs. 1,357.6 million through miscellaneous revenue generating projects including 18 farms being maintained at various locations in the island, and 05 welfare hotels in the year under review. However, that revenue had not been disclosed in the financial statements.	Revenue from each revenue generating unit has properly been shown as "revenue collected for other Heads of revenue" in the financial statements.	Not only the revenue being credited to the Consolidated Fund, but the total revenue generated through the said projects should also be disclosed in the financial statements.

b) Recurrent Expenses

The following deficiency was observed in accounting for recurrent expenses relating to the financial statements.

Audit Observation	Comment of the Accounting Officer	Recommendation
The expense incurred on fuel in the year under review amounted to Rs. 6,959.9 million whereas the expense incurred by fuel stations on fuel amounted to Rs. 5,591.3 million thus indicating a difference of Rs. 1,368.6 million.	In presenting information, particulars of certain institutions of the Army had not been furnished. Information had not been furnished	Information should be presented without differences between the value of fuel issued and the material amounts.

Furthermore, an amount of 16,989,832 liters of fuel had been issued by the fuel stations in the year under review, but according to the information furnished to the Audit, that amount was 14,414,043 liters, and an amount of 13,704,653 liters of fuel had been used in the year under review as per log books of the vehicles.

c) Capital Expenses

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

Audit Observation	Comment of the Accounting Officer	Recommendation
i. Rehabilitation, improvement and acquisition of capital assets amounting to Rs. 1,220.53 million had been understated by Rs. 136.77 million in the statement of non-financial assets (ACA-6) of the year under review.	Corrective measures will be taken in the year 2025.	Capital expenses should be correctly brought to accounts.
ii. According to information furnished to the Audit, the balance of work in progress relating to 10 capital items of the year, had been overstated by Rs. 177.90 million in the statement of non-financial assets.	Action will be taken to correctly recognize the works in progress/ works done, and report.	Capital expenses and works in progress should be correctly brought to accounts.
iii. The value of works completed in the year under review including a portion of constructions/modifications continued from preceding years, amounted to Rs. 189.91 million, and this value had not been capitalized by the end of the year under review.	Corrective measures will be taken in due course.	The relevant value should be capitalized.

d) Property, Plant and Equipment

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

Audit Observation	Comment of the Accounting Officer	Recommendation
I. The closing balance of the preceding year relating to 29 items of assets shown in the statement of non-financial assets (ACA-6), had been brought forward as the opening balance of the year under review after being understated by a sum of Rs. 7,880.09 million.	Corrective measures will be taken with the assistance of the Department of State Accounts.	Reason for non-reconciliation of values, should be disclosed in the financial statements.
II. Works in progress valued at Rs. 7,116.06 million had been shown under 24 miscellaneous items of assets as at 31 December 2023, but those values had been capitalized only under 07 items of assets in the year under review.	With the assistance of the Department of State Accounts, those values will be included under correct codes of assets in due course.	Values should be disclosed under the correct codes of assets.
III. A number of 97 plots of land being used by the Army located at miscellaneous areas of the island by the end of the year under review, had not been disclosed in the financial statements.	The lands will be brought to accounts after receiving the valuation reports.	Those lands should be valued and brought to accounts.
IV. Nine non-roadworthy vehicles valued at Rs. 15.95 million received from miscellaneous parties by the Army in the year under review, had been capitalized under non-financial assets.	Action will be taken to dispose those unusable vehicles.	Action should be taken in terms of Section 14 of the Sri Lanka Public Sector Accounting Standard 07.
V. The headquarters building of the Army in extent of 94,000 square meters being in use since	Corrective measures will be taken in due course.	Should be capitalized in terms of Sri Lanka Public Sector Accounting Standard

08 November 2019, the Oracle software purchased at the cost of Rs. 101 million in the year 2021, purchase of capital items worth Rs. 50.20 million in the year 2023 and the year under review for agricultural and livestock farming project, and repairs of capital nature Rs. 60.88 million done for 34 vehicles, had not been capitalized.

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| VI. | Assets worth Rs. 779,397 had been capitalized under other structures instead of being capitalized as work in progress of the year under review. Transport equipment valued at Rs. 2.01 million had been capitalized without being purchased, and 14 vehicles valued at Rs. 71.85 million received as donations from the Government and private sectors during the period 1995-2023 had been capitalized without verifying the ownerships. | The relevant account balances will be corrected in the year 2025, and ownerships of those vehicles will be taken over by the Army thereby accounting for those vehicles. | Only the assets the ownerships of which can be verified, should be capitalized under the correct Codes. |
| VII. | According to information presented to the Audit, the balance of work in progress as at the end of the year under review had been overstated by Rs. 828.36 million in the statement of non-financial assets (ACA-6) furnished with the financial statements. | Corrective measures will be taken expeditiously. | Correct amount should only be accounted. |

VIII.	Fifty one vehicles valued at Rs. 44.32 million had been eliminated from the statement of non-financial assets before being disposed by the Army in the year under review, and those vehicles had been sold at Rs. 14.30 million in January 2025.	This situation was caused by delays in the tender procedure.	Assets should be brought to registers when disposing.
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e) Balance of Advance Accounts

The following deficiency was observed in accounting for the balances of advance accounts as at the end of the year.

Audit Observation	Comment of the Accounting Officer	Recommendation
An advance amounting to Rs. 7.5 million had been paid on 10 December 2024 in terms of the agreement entered into with a private institution on 01 April 2024. The advance amount of Rs. 5 million paid out of the said amount as at 31 December that had not been covered within the year, was not disclosed in the closing financial statements.	Action will be taken to correctly account for that value in due course.	The accurate and updated information should be disclosed in the accounts.

f) Non-maintenance of Books and Registers

The monthly log sheets and fuel consumption reports of vehicles had not been updated by the Army in terms of Financial Regulation 1646.

g) Lack of Evidence for Audit

Audit evidence had not been furnished for the following transaction.

Audit Observation	Comment of the Accounting Officer	Recommendation
The Audit had not been provided with information relating to the verification of Rs. 418.75 million belonging to the adjustment of Rs. 7,116.06 million made on the opening balance of the work in progress as at 01 January 2024.	As an error occurred in the CIGAS system, corrective measures will be taken with the assistance of the Department of State Accounts.	The values should be brought to accounts after being verified.

2 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 following recommendations made by me on the financial statements of the preceding year, had not been implemented.

Reference to the Paragraph of the Report of the Preceding Year	Recommendation not Implemented	Reference to the Paragraph in this Report
1.6.1 (a)	Revenue from the revenue generating projects, had not been disclosed in the financial statements.	1.6.1 (a)
1.6.1 (c) (iv)	Assets purchased for the revenue generating projects, had not been capitalized and brought to accounts.	1.6.1 (d) (v)
2.3 (a)	Liabilities had not been disclosed in the financial statements.	3.3 (a)

3 Financial Review

3.1 Revenue Management

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
a) The Army had not prepared revenue estimates by properly drawing their attention on the respective areas. Hence, the actual revenue earned amounted to Rs. 1,357.64 million although the revenue expected from the revenue generating projects amounted to Rs. 1,080.34 million in the year under review.	Forecasting revenue can be affected by the factors such as, economic policies of the country, impact of the weather, and other issues.	Action should be taken to prepare estimates as accurate as possible.

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| <p>b) Although the peacekeeping operations were estimated to generate a revenue of Rs. 1,212.53 million during the year under review, a revenue of Rs. 548.58 million relating to the second half of 2023 and Rs. 739.26 million relating to the first half of 2024 was recognized as the revenue for the year under review.</p> | <p>The United Nations makes payments after a delay of 02 quarters, and hence, the said issue occurs every year.</p> | <p>Action should be taken to properly request for the relevant allowances based on the agreements.</p> |
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3.2 Management of Expenditure

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
a) Due to inadequacy of provision made for 11 recurrent items of expenditure and a capital item of expenditure, a sum of Rs. 13.37 billion had been transferred from other items of expenditure in terms of Financial Regulation 66. The additional provision, so made, represented an increase by 16-74 per cent of the estimated expenditure under those items of expenditure. It was observed that estimates had been prepared with overstated values for the items of expenditure to which provision had been transferred.	As the total amount of provision requested from the Department of National Budget for the year 2024 had not been received, provision had been transferred due to lack of provision allocated.	The estimates should be prepared as accurate as possible, and the approved limit for estimates should be adhered to.
b) Provision should be allocated through the Item No. 222-01-01-1205 of expenditure (Other) for expenses that can not be specifically identified.	Given the fact that the provision granted by the Department of National Budget should be managed based on requirements of the	Estimates should be prepared as accurate and realistic as possible.

However, in preparing Army, such estimates, provision requirements are amounting to Rs. 4,040 managed by utilizing million had been allocated the provision allocated including a sum of for the Army as Rs. 3,514.90 million on allocating provision on specifically identifiable miscellaneous items of expenditure, and a requirements that arise sum of Rs. 2,114.38 million from in a from time to had been spent therefrom time, is difficult. whilst taking action to transfer provision amounting to Rs. 1,925 million to other items of expenditure. Furthermore, a sum of Rs. 2,281.90 million from the said item of expenditure had been allocated for reserves and explosives, and a sum of Rs. 478.97 million had been spent on explosives. As such, provision had been allocated through this item of expenditure for expenses on other activities.

3.3 Incurring Liabilities and Commitments

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
a) Liabilities valued at Rs. 1,978.39 million relating to the year under review, had not been shown in Note No. (iii) that should be presented with the financial statements.	Considering the essential nature of those expenses, they have been presented through Note No. 07	Correct values should be presented in the financial statements.

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| b) According to the accounts of the Ceylon Petroleum Corporation as at 31 December of the year under review, a sum of Rs. 290.84 million remained payable to the Ceylon Petroleum Corporation by the Army. However, that value amounted to Rs. 40.08 million as per the liability report of the Army thus understating a sum of Rs. 250.76 million. | Action has been taken to settle in the year 2025 the balance of Rs. 250.76 million including the remaining balance that should have been settled in the year 2024. | Action should be taken whenever possible to settle the expenses of the current year within the same year. |
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3.4 Utilization of Provision given by Other Ministries and Departments

Audit Observation	Comment of the Accounting Officer	Recommendation
Although the entire provision of Rs. 10.47 million granted by the Ministry of Education under the Item No. 126-02-03-02-2001-11 of expenditure for renovating a school in the year under review had been expended, the physical progress of the project remained only 55 per cent.	Materials had been supplied within approved limit of provision, and it has been scheduled to complete the service withing the approved duration.	The provision given by other Ministries and Departments should be effectively utilized.

3.5 Certifications to be Made by the Accounting Officer

The following matters should have been ensured by the Accounting Officer in terms of provisions of Section 38 of the National Audit Act, No. 19 of 2018, but it had not been so done.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) The Accounting Officer should ensure that all the audit queries are replied within the specific period as required by the Auditor General. However, the audit queries had not been replied in terms of Paragraph 4.11 of the report.	A letter has been presented in this regard by the Directorate of Pay and Records.	Action should be taken in accordance with provisions of Section 38 of the National Audit Act, No. 19 of 2018.

- (b) The Accounting Officer New systems of Action should be taken should ensure that an internal control have in accordance with effective mechanism exists to been put in place to provisions of Section conduct internal audits. avoid such deficiencies. 38 of the National However, that requirement Audit Act, No. 19 of had not been met as per 2018. observations given in Paragraphs 4.4 and 4.8.

3.6 Non-compliances with Laws, Rules, and Regulations

Instances of non-compliances with provisions of Laws, Rules and Regulations observed in audit test checks are given below.

Reference to Laws, Rules, and Regulations	Value Rs.	Non-compliance	Comment of the Accounting Officer	Recommendation
a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.				
i. Financial Regulation 214.		As the Army had not maintained a register of liabilities being updated daily, liabilities had been incurred in excess of provision.	A computerized database is maintained.	Action should be taken to maintain a register of liabilities in terms of Financial Regulation 214.
ii. Financial Regulation 511 (a), 513 (b)		Provision amounting to Rs. 3.53 million had been transferred as per Financial Regulation 66 to the Item of expenditure, 222-01-01-1701 for which provision had not been made through annual estimates to cover the working losses anticipated under advance accounts.	When presenting estimates for the ensuing years, action will be taken to present justifiable values of estimation.	Provision should be made through annual estimates.
iii. Financial Regulation 1646.		Monthly summaries and daily running charts for 6,540 vehicles relating to May of the year under	Necessary action will be taken to furnish the	Monthly summary reports and

review had not been monthly running presented to the Audit, and summaries charts the said reports with respect and log sheets should be to 2,727 vehicles had been of vehicles in presented furnished after a delay due course as as ranging from 02 months to required. required. 07 months.

b) Public Administration Circulars.

i. Circular No. 30/2016 dated 29 December 2016.

The Army had used 2,324 vehicles without conducting fuel consumption tests properly.

Fuel consumption tests had been conducted on 759 vehicles during the first 04 months of 2025. Fuel consumption tests on tests should be conducted annually.

ii. Circular No. 19/89 dated 23 March 1989, Circular No. 09/2009 dated 16 April 2009, Circular No. 09/2009 (i) dated 17 June 2009 and Circular No. 03/2017 dated 19 April 2017.

Salaries, allowances and overtime had been paid for the entire staff of 8,325 employees under the board of directors of civil administration without using finger scanners to record arrival and departure.

Finger scanners have should be been installed taken in at offices in terms of Orugodawatta Circulars to and Army use finger Hospital scanners. (Colombo) as the initial step, and the rest will be done promptly.

c) Circulars of the National

Procurement
Commission.

	Guideline 9.3.1 (b) of N.P.A. Circular No. 08, and amendments dated 21 April 2021.	Approval of the Secretary to the Line Ministry had not been obtained by the Army for repairing 246 vehicles incurring a sum of Rs. 448.93 million in the year under review.	Approval had not been obtained. Approval of the Secretary to the Ministry should be obtained.
d)	National Budget Circular.		
	National Budget Circular, No. 01/2024 dated 10 January 2024.	A sum of Rs. 334.9 million had been incurred in the year under review for participation of officers in foreign education/training/discussions/forums/tours for which the foreign sponsor had not fully incurred the costs.	No cost had been incurred on foreign courses in the year 2024, and payments had been made only for essential allowances.
			No expenses should be incurred on foreign training programs for which the sponsor does not incur the costs in full.
e)	Circular of the Comptroller General's Office.		
	Assets management Circular Nos. 10/2022 dated 09 September 2022, and 03/2023 dated 30 January 2023.	Action had not been taken to dispose of 24 vehicles, costing Rs. 49.34 million, which had been withdrawn from normal use since 2015 and identified in the Board reports for disposal in March and April 2024	After disposal of 47 vehicles, the proceeds have been credited to the Consolidated Fund, and 24 vehicles could not be sold due to issues relating to clearance.
f)	The Inland Revenue Act No. 10 of 2006 and		

amendments
made thereto
through Gazette
Extraordinary No.
2312/16 dated 28
December 2022.

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| i. | Circulars
Nos.
SEC/2023/
E/01 dated
29 March
2023,
SEC/2023/
E/02 dated
06 April
2023, and
SEC/2023/
02 dated
18 July
2023. | With regard to the
computation of advance
personal income tax, a sum
of Rs. 112.24 million,
deductible from the salaries
of 1,536 officers on account
of financial and non-
financial benefits, had been
under-remitted to the
Department of Inland
Revenue. | Suitable
action will be
taken once the
report of the
Board
appointed by
the Ministry
of Defence, is
received. | The correct
value of tax
should be
remitted. |
| ii. | Circular
No.
SEC/2023/
E/01,
Section 05
of the
Consolidat
ed Inland
Revenue
Act No. 24
of 2017,
and Section
04 of the
Inland
Revenue
Act No.
SEC/2015/
05 dated
06 July
2015. | In computing the advance
personal income tax,
allowances such as uniform
maintenance, ration,
support, and difficulty,
granted to the armed forces
and not included under tax-
exempt income sources, had
been considered as
employment income not
subject to tax. | Further action
will be taken
in accordance
with
instructions
given by the
Ministry of
Defence and
the
Department of
Inland
Revenue. | Value of
taxes
should be
computed
accurately. |

3.7 Irregular Transactions

The following observations are made.

(i) Payments without Authority

The following payment had been made by the Army without authority.

Audit Observation	Comment of the Accounting Officer	Recommendation
The Letter No. MOD/DEF/GS/M/32(53) of the Additional Secretary (Defence) to the Ministry of Defence dated 19 December 2022 required that commemoration medals for “Seva Abhimani” and the 75th Independence Day be procured only in the required quantities for ceremonial occasions, without utilizing Government funds, and as per the Letter of the Ministry of Defence dated 18 September 2023, approval of the Secretary to the Ministry of Defence be obtained before awarding the contract to the bidders for purchasing the said medals. However, orders had been issued before obtaining the relevant approvals, and the sum of Rs. 223.7 million expended from the Commander’s Fund, had been debited to the item of expenditure of the army.	Action had been taken to obtain approval of the Ministry of Defence to incur expenses under Financial Regulation 136 in terms of Procurement Guidelines. Following the approval granted thereon, further action had been taken to purchase those medals.	Action should be taken with regard to decision taken by the committee to debit the sum to Government expenditure without proper approval.

(ii) Uncertified Payments

The following payments had been made without being properly certified.

Audit Observation	Comment of the Accounting Officer	Recommendation
Payments had been made under Item Nos. 1401 (vi) a and 1401 (vi) b of expenditure relating to expenses amounting to Rs. 3,925.61 million that had been certified by officers without formal approval in terms of Financial Regulations 138.1 – 138.9.	Action will be taken to delegate authority under a formal system of internal control.	Certifications should be made by officers under a formal approval.

3.8 Transactions of Contentious Nature

Audit Observation	Comment of the Accounting Officer	Recommendation
a) A total of Rs. 18 million, comprising Rs. 5 million each in June, October 2023 and January 2024, and Rs. 3 million in March 2024, had fraudulently been obtained by an officer serving in the Information Technology Division of the Directorate of Pay and Records by irregularly adding such amounts to his monthly salary.	Measures have been taken by the Directorate of Pay and Records to avoid such financial frauds in due course.	Taking legal action on the fraud and establishment of a strong mechanism for internal control.
b) Although action had been initiated for the dismissal from the service of the Army, a sum of Rs. 17.60 million, including the salaries and allowances paid for the period during which those officers had not reported for duty without obtaining leave, the special allowance for protection of parents of war heroes paid to their parents for the same period, and the loan facilities granted to them, had not been recovered.	Settlement of those sums is in progress, and salary entitlement for absentees has been discontinued through the computer software.	A strong mechanism for internal control should be established and maintained.
c) An allowance amounting to Rs. 31.23 million had been paid without verifying whether the parents of the Army personnel were alive.	All Regimental Centers have been instructed to obtain monthly confirmations regarding the living status.	Confirmation on life status should be obtained before making payments.

3.9 Issue and Settlement of Advances

Audit Observation	Comment of the Accounting Officer	Recommendation
Outstanding balances of distress, festival, and special advance loans amounting to Rs. 86.15 million recoverable from Army and	Action will be taken for the recovery in due course.	Those outstanding loan balances should be recovered without delay.

civilian officers who had deceased, retired, been interdicted, or vacated service, remained unrecovered. of those balances, loan balances amounting to Rs. 0.55 million remained due for more than 20 years, while the remaining balances remained due over 1 to 20 years. However, the recovery of these loans was not satisfactory.

3.10 Deposit Balances

Audit Observation	Comment of the Accounting Officer	Recommendation
Money held in suspense, should be credited to the proper account or to revenue of the Government, as the case may be, or refunded as soon as possible in terms of Financial Regulation 571 (3). Nevertheless, balances totaling Rs. 6.36 million relating to the years 2023 and 2024 had remained by the end of the year under review.	Instructions have been given to the regional Accountants' Offices to follow Financial Regulation 571.	Those deposit balances should either be settled or credited to the Government revenue.

3.11 Operating Bank Accounts

Audit Observation	Comment of the Accounting Officer	Recommendation
According to the letter No. TD/BE2/4/UNINCOME/ARMY dated 28 October 2020 of the Department of Treasury Operations, a sum of US \$ 1,299,480 from the income received in foreign exchange (American Dollars) for deploying Army personnel in peacekeeping duties in foreign countries, should be retained in the account whilst the balance should be remitted to the Central Bank. Nevertheless,	Action will be taken for crediting to the Consolidated Fund after verification by the United Nations Permanent Mission.	Deposit money exceeding the specified limit, should be remitted to the Central Bank.

action had been taken to retain that sum in the account in the range of US \$ 166,877.55 – US \$ 3,061,238.09 during the period from March of the year under review to February 2025.

4. Operating Review

4.1 Failure to Achieve the Expected Output

The following observations are made on the newly constructed Army Hospital in Pallekele.

Audit Observation	Comment of the Accounting Officer	Recommendation
(i) Once constructed at an expenditure of Rs. 1,393.62 million with a view to providing treatments for 32,000 Army personnel deployed in Kandy and suburbs and their family members, operations of the Hospital in Pallekele, Kandy could have been commenced on 09 July 2021, but the Hospital had not been declared open over a period of 03 years and 06 months.	Medical professionals were employed for treatments, and medical instruments of the Hospital have been made use of as required.	Proposals should be prepared and implemented for effective national health activities.
(ii) When comparing the bed occupancy rate of the old hospital with that of the newly constructed one, the latter remained as low as 4 per cent. The maximum effectiveness of the newly constructed hospital could not be achieved, as no proper plans had been prepared for 116 medical staff including doctors, in order to obtain an efficient service.	Treatments were given to personnel who were in service previously. The new Hospital provides services for personnel in service or retired together with their family members. As such, this situation can be avoided.	The prevailing situation should be taken into serious consideration, and suitable plans should be prepared thus operating the Hospital.

4.2 Failure to Achieve the Expected Outcome

Audit Observation	Comment of the Accounting Officer	Recommendation
Due to reasons such as, delay in transporting vehicles/spare parts contrary to the agreement, and equipment and vehicles not being in serviceable condition, an income of US \$ 2.68 million had been lost during the first two quarters of the year 2024 in respect of duties relating to United Nations peacekeeping operations.	Measures will be taken effectively after a thorough study in that connection.	Taking action to avoid the loss of income through adherence to the agreement.

4.3 Abandonment of Projects Halfway

Audit Observation	Comment of the Accounting Officer	Recommendation
Having planned to construct a four-storied auditorium building of 6,213.2 square meters in Pallekele in the year 2014, labor and other expenses amounting to Rs. 197.88 million had been incurred from Government funds and non-statutory funds by the year 2019. Part of the building had later been development as an Army hospital though; the constructions had not been completed and some of the reinforced concrete pillars in the rest of the building had developed cracks.	This building has been converted into an Army hospital, and the said cracks won't pose a threat to the building.	Action should be taken to prepare and implement proposals for an effective national activity of economic significance.

4.4 Delays in Implementing Projects

Audit Observation	Comment of the Accounting Officer	Recommendation
The Army had obtained on lease 22 buildings from miscellaneous areas in the island for accommodation, office and	This situation occurred due to non-receipt of imprests.	The progress expected from those projects should be achieved within the year.

storage requirements at an annual lease rent of Rs. 172.03 million, and those included buildings obtained on rent over 10 years ago. The percentage of completion of office buildings, flats, official quarters, warehouses, buildings for recreational activities, hospitals and 38 other constructions at various locations in the island incurring an estimated cost of Rs. 1,055.29 million, remained 0-95 per cent.

4.5 Annual Performance Report

Audit Observation	Comment of the Accounting Officer	Recommendation
According to information of the financial statements, the net profit of Rs. 47.07 million earned through the administration of farms in the year under review, had been understated in the draft annual performance report prepared by the Army for 2024 whilst the total net income of Rs. 53.9 million earned through 04 welfare hotels and Thalsevena holiday resort had not been shown in that report.	Will be included in this report from 2025.	The annual performance reports should be prepared based on actual information.

4.6 Procurements

Audit Observation	Comment of the Accounting Officer	Recommendation
As for the procurements valued at Rs. 1,014.86 million made in the year under review by following the limited national competitive bidding and national competitive bidding, the procurement procedure could not be done efficiently and productively due to reasons such as, failure to prepare procurement timetables,	Action will be taken in accordance with Procurement Guidelines in due course.	Responsibilities should be assigned properly in accordance with Procurement Guidelines, and the deviations from that requirement should be identified thereby taking disciplinary actions.

problems in selecting the method of procurement, deficiencies in preparing specifications and negligence of deviations from specifications, delay in obtaining samples, appointment of Technical Evaluation Committees after a delay of 30-192 days and reports had been provided after 96-368 days, the period taken for the goods to be received in the warehouse from the date of issuing the order ranged from 42 to 884 days, and non-receipt of quality products. As such, an additional cost of Rs. 176.54 million had been incurred due to above reasons.

4.7 Management of Assets

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
a) Without being taken over formally, the Army is using 73 vehicles such as tractors, trailers, ambulances, Cabs, jeeps, fuel bowzers, busses and motorbikes owned by Government institutions including Ministries and Departments. As 24 of those vehicles were not in running condition during the period from 2014 up to the year under review, such vehicles had been parked at the premises of the Army.	Action has been taken to collect the documents required for taking over those vehicles from the relevant institutions. Upon receipt of those documents, the taking over will be done.	Action should be taken either to take over those vehicles formally or release them to the relevant institutions.
b) Of the 547 vehicles acquired during the war period, insurance coverage had not been obtained for 454 vehicles, while 221 vehicles had not been used for any	Action has been taken to obtain insurance coverage for the other vehicles of the Army.	Action should be taken to obtain insurance coverage. Action should be taken for running vehicles without insurance coverage.

activity during the year 2024 and had been parked within Army premises.

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| c) | Although conducting in-service training is a main function of the Puttalam apprentice training center of the Army, it was observed during the examination of the performance report of the year under review that the said training center had not been utilized for training activities. | Could not be presented due to an error. | Action should be taken to correctly present the performance report. |
| d) | Lands in extent of 4,096.49 acres where 12 farms and 03 welfare hotels are maintained by the Army, belong to various Government and private institutions. The Army had not paid attention to regularizing these lands and acquiring them for the Army for the continuation of the respective projects. | Action is taken to regularize 4,000.89 acres of lands and take over by the Army. | Lands should be regularized expeditiously. |
| e) | Essential goods, armed and unarmed vehicles and equipment worth Rs. 68.34 million equivalent to US \$ 138,181.13 purchased since 2016 to be used by troops assigned to peacekeeping duties, had been stored at various locations in the island without being used. | Instructions have been given to transfer the subjects under the stock relating to peacekeeping duties to the stock of the Army, and release the items as required. | Those vehicles and equipment should be utilized in a manner that provides maximum benefit to the Government. |
| f) | Miscellaneous equipment, fittings, and building infrastructure including electric appliances, medical instruments, kitchen items and furniture purchased for the Hospital in Pallekele at the value of Rs. 841.63 million, had not been inventoried whilst assets worth Rs. 272.01 million | Could not be used due to lack of patients and consultants, and the period of warranty had expired. All the equipment had been serviced weekly by trained technicians. The assets not brought to the stocks are maintained under a | Proposals should be prepared and implemented for a productive economic activity, and the equipment should be properly stocked and duly recorded in the register of fixed assets. |

therefrom had not been brought to the Register of Fixed Assets. Furthermore, the warranty period of 262 items purchased at a value of Rs. 124.4 million included in the said value and the systems of infrastructure systems, had expired 03 years ago, and those assets remained underutilized during that period. As such, economic benefits had not been obtained from the funds so expended.

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| g) | A number of 12,938 units of 107 types of unusable spare parts existed at the SLEME Workshop in Katubedda, had been recommended to be condemned in the report of the Annual Board of Condemnation issued on 26 February 2024. However, action had not been taken accordingly thus failing to generate income. | Unusable spared parts are presented to the Annual Board of Condemnation, thus taking further action. | Non-productive spare parts should be disposed of promptly, and the proceeds should be credited to the Government revenue. |
| h) | Action had not been taken to dispose of 65,564 spent cartridges of various types used by the Army. | Necessary actions regarding the remaining cartridges will be carried out in accordance with the instructions and approval of the Ministry of Defence | Action should be taken for safe disposal. |

4.8 Losses and Damages

The following observation is made.

Audit Observation	Comment of the Accounting Officer	Recommendation
A total of 315 incidents, including 97 incidents over 10 years related to rations and irregular use of fuel, road accidents, terrorist attacks, and non-terrorist causes, resulted in a loss of Rs. 13.263 million.	Fifty one incidents have been settled, and action will be taken to settle the other losses and damages.	The process of recovering the other losses and damages should be expedited.

4.9 Uneconomic Transactions

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
a) Agreements were signed with a supplier on 15 September and 30 December 2022 to purchase 142,000 meters of "Cloth Cotton Dril Olive Green 58/66" valued at Rs. 233 million. The supplier delivered 134,783 meters of the cloth by February and March 2024. However, the intended purpose could not be achieved, but no action was taken to recover the loss of working capital and blacklist the supplier.	A performance surety of Rs. 23.30 million was recovered to recover the loss sustained by the Army.	Action should be taken to recover the loss occurred due to violation of the agreement resulting in the failure to provide the supply.
b) For vehicles that were used for fewer kilometers than the standard monthly lease distance, a significantly higher cost of Rs. 47 to Rs. 63 per kilometer was incurred, compared to the expected lease rate of Rs. 16 per kilometer. For 06 vehicles, 3,751 liters of fuel were consumed for 31,882 kilometers exceeding the distance recorded on the active milometers.	The system of internal control relating to the settlement of vehicles bills will be reviewed in due course.	To put in place a system of internal control to ensure efficiency and productivity of vehicle lease rents and fuel expenses.
c) No technical evaluation committee was appointed when procuring goods worth Rs. 15.92 million for relief teams in response to the emergency situation in Turkey. Before the order was placed, the suppliers had supplied goods valued at Rs. 11.34 million, and items valued at Rs. 9.09 million had been purchased even though the tour had been cancelled.	Due to the cancellation of the relevant tour, action was taken to issue these goods to personnel serving in various areas to meet their annual requirements.	The requirements should be properly identified, and the Procurement Guidelines should be followed.

4.10 Failure to Reply to the Audit Queries

Replies were not submitted within the specified time for the below-mentioned audit queries and information requests issued to the Army.

Description on the Audit Query	Comment of the Accounting Officer	Recommendation
a) The Audit Queries, DEF/A/SLA/2024/18 and DEF/A/SLA/2024/34 issued on 30 December 2024 and 22 May 2025 had not been replied.	A letter had been given by the Directorate of Pay and Records with respect to DEF/A/SLA/2024/18.	Replies to the audit queries should be furnished within the time specified.
b) Although the Army had been requested to provide the addresses, telephone numbers, and email addresses of 14 suppliers in order to confirm their balances amounting to Rs. Rs. 1,798 million pertaining to the year under review, such information had not been submitted by the specified date. As such, it was not possible to confirm the balances of liabilities.	Presented with replies in the draft report.	Information should be made available by the date specified.

4.11 Management Inefficiencies

The following observations are made.

Description on the Audit Query	Comment of the Accounting Officer	Recommendation
a) There existed 6,751 vehicles registered under the Commander of the Army in accordance with information of the Department of Motor Traffic. However, there exist 6,476 vehicles either used or not used by the Army at present, thus indicating a difference of 275 vehicles.	Action has already been taken to rectify this inefficiency within the year.	The difference between the vehicles owned by the Army and the vehicles that had been registered, should be reconciled.

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| b) A land in extent of 68.4 perches owned by the Army in Kundasale, had been encroached since the years prior to 2007. Action had not been taken to settle and acquire those lands to the Army. | Settlement activities are in progress with assistance of the Divisional Secretary. | Action should be taken for the prompt settlement of the land belonging to the Army. |
| c) Action had not been taken either to repair and utilize 387 unusable motor vehicles or to dispose of them and generate income. | Only 47 vehicles have been handed over to the workshop for repairs. | The vehicles should either be repaired and made use of, or disposed of. |
| d) It was not revealed whether examinations were carried out that systems of internal control were in place relating to maintenance of accounts, books, reports and notes for expenses of revenue-generating projects, issuing receipts for revenue and banking the revenue. | The accounts had been presented to the Ministry of Defence after being certified by the Internal Auditor. | Revenue should be recognized specifically, and brought to accounts before being reported to the Treasury. |
| e) The medical stores building located within the Army Hospital, Werahera had not been constructed in accordance with the standards of the Ministry of Health, the National Medicines Regulatory Authority, and international requirements. A plan had been prepared in 2019 to construct a warehouse building of 14,450 square feet for the storage of medicines, the foundation had been laid on 04 July 2021 at a cost of Rs. 10.3 million, and raw materials required for the building had been purchased in 2024 at a cost of Rs. 31.9 million. However, construction of the building had not been done. | The physical progress of the project was 50 per cent by the end of the year under review, and construction works would be expedited and completed upon the receipt of the remaining allocations for the project. | The building should be constructed as planned and the necessary facilities should be provided to safely store medicines. |

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| <p>f) Eighty types of medicines purchased from the Government Medical Supplies Division costing at Rs. 9.59 million, had been withdrawn from use or temporarily suspended, but action had not been taken to recover the cost. Medicines worth Rs. 6.4 million therefrom had been incinerated. The value of the remaining medicines and the ones received as donations could not be verified. As the medicines had become expired due to not being issued for the intended purpose. All those medicines had disorderly been kept with other medicines in the stores.</p> | <p>The Medical Supplies Division takes action for the expeditious disposal of those medicines. Action has been taken to issue the medicines to be expired soon.</p> | <p>Guideline of the Government relating to storage of medicines, should be followed.</p> |
| <p>g) The 20 Heavy Duty Photocopy Machines purchased in the year 2023 at a cost of Rs. 20.10 million remained underutilized, and action had not been taken for effective utilization of those machines.</p> | <p>As a software has been introduced, taking photocopies has become minimal.</p> | <p>Resources should be utilized effectively.</p> |
| <p>h) When purchasing the licensed version of Oracle - 19c software valued at Rs. 101.14 million, national competitive bidding process had not been followed as per the Procurement Guidelines. Instead, quotations had been called from the registered suppliers. As such, an overpayment of Rs. 26.3 million had been made.</p> | <p>As per instructions mentioned in 2024, such procurements should be made by following the national competitive bidding process.</p> | <p>Action should be taken in accordance with the Procurement Guidelines.</p> |

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| i) | According to Chapter 5, Section 2 of the Medicines Management Manual, sufficient stock should be maintained for at least one to two months. However, 1,629 items of medicines and consumables planned by the Army to be procured through 2024 procurements, remained out of stock as at 20 November 2024. | Due to lack of provision, action had been taken to purchase only 50 per cent of the annual estimate. | Medicines and consumables should be procured in accordance with instructions of the Ministry of Health. |
| j) | The sum of Rs. 35.99 million (60 per cent) given by the Army for non-military courses, had not been recovered from the officers who had not completed the course. | A sum of Rs. 24.27 million further remains recoverable. | Should be recovered expeditiously. |
| k) | According to the Cabinet Memorandum issued in 2006, it was stated that officers of the Sri Lanka Police Department or the Tri-Forces could be deployed for the Head, Operations Director, and field duties of the Civil Security Department. However, 15 officers of the Army and other rankers had been deployed for non-field duties, and 21,520 liters of fuel were provided to these officers during the year under review. | Inquiries are made regarding Ministry approval for assigning personnel to duties contrary to instructions issued and for deploying them to other duties. | Following the relevant Cabinet Memorandum. |
| l) | Due to failure of the Army to settle the electricity bills on time relating to the period from July 2023 to June 2024, surcharges of Rs. 9.58 million had been paid. | Payments will be made on time in due course. | Action should be taken to settle the bills on time. |

5. Achievement of Sustainable Development Goals

Audit Observation	Comment of the Accounting Officer	Recommendation
During the year under review, achievement of the objectives—such as, contributing to local electricity generation, maintaining efficient medical services, conducting a series of health promotion programs on communicable and non-communicable diseases for Army personnel, filling sand around the GajasinghaPura protective embankments and ammunition stores, maintaining the internal road network, clearing 278.62 acres of forest area, and conducting awareness programs to minimize daily loss of life and property from road accidents—was below 50 per cent.	Projects relating to some of the goals are in the final stages. Delays exist in implementing certain projects.	Action should be taken for the achievement of sustainable development goals.

6. Human Resource Management

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
a) There existed a total of 62,697 vacancies comprising 59,761 vacancies in the Army staff and 2,936 vacancies in the senior, tertiary, secondary and primary categories in the civil staff.	Action will be taken to fill the vacancies in accordance with approval of the Department of Management Services.	Vacancies should be filled, or the number of cadres should be revised to be in line with the actual cadre.
b) The post, Director of Civil Administration, remained vacant as at 20 May 2021, but action had not been taken to appoint a permanent officer.	Action is taken to fill the vacancies in coordination with the Ministry of Defence.	The said vacancy should be filled without delay.

- c) An independent internal audit unit composed of civil servants had been established in 2017 in accordance with the recommendation of the meeting of the Public Accounts Committee held on 24 June 2016. Expectations of the Public Accounts Committee would have been met through adequate staffing and independence being given thereto, but it had not been so done.
- Action will be taken jointly with the Department of Management Services to appoint adequate staff.
- Action should be taken in a manner that enables the expectations of the Public Accounts Committee to be fulfilled.