

Head 103 – Ministry of Defence - 2024

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 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 containing my comments and observations on the financial statements of the Ministry of Defence was issued to the Chief Accounting Officer on 30 May 2025 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 30 June 2025 in terms of Section 11(2) of the Audit Act. 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 for the year then ended 31 December 2024 of the Ministry of Defence give a true and fair view of the financial position, financial performance and cash flows 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 on the matters describe in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities in relation to the Financial Statements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this 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 preparation of financial statements

Attention is drawn to Note 1 to the financial statements, which describes the basis of preparation of these financial statements. The financial statements have been prepared for the needs of the Ministry of Defence, General Treasury and Parliament in accordance with Financial Regulations 150 and 151 and Public Accounts Guideline No.06/2024 dated 16 December 2024 as amended on 21 February 2025. Therefore, these financial statements may not be suitable for other purposes. My report is intended solely for the use of the Ministry of Defence, General Treasury and the Parliament of Sri Lanka. My opinion on this matter is not modified.

1.4 Responsibility 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 Public Financial Regulations 150 and 151 and Public Accounts Guideline No.06/2024 dated 16 December 2024 as amended on 21 February 2025 for such internal control as the Chief Accounting Officer determine 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 annual and periodic financial statements to be prepared of the Ministry.

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 of Tourism and Land and carry out periodic reviews to monitor the effectiveness of such system 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 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 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.

1.6. Comments on the Financial Statements

1.6.1 Accounting Deficiencies

(a) Revenue Receipts

The following deficiency was observed in accounting for revenue receipts related to the Ministry.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Revenue Code 20.03.06.00 – Although the actual income received from UN peacekeeping operations was Rs.3,116.89 million as shown in the financial statements, since the actual revenue was Rs. 3,064.33 million according to the information submitted by the Sri Lanka Army and the Sri Lanka Air Force, which collect that revenue on 31 January 2025 and 08 February 2025 respectively, there was a difference of Rs.52.56 million.	Although the actual income was correctly presented as Rs.3116.89 million after adjusting the amount of Rs.3203.75 million credited to the Treasury by the Sri Lanka Army and the Sri Lanka Air Force, according to the Treasury printout and the refund of Rs.86.86 million deducted from it, a difference of Rs.52.56 million has been observed between the income figures presented by the Army.	The correct revenue for the year should be identified and disclosed in the financial statements.

(b) Deposit

The following deficiency was observed in the accounting of deposits and balances related to the financial statements.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The contract retention money shown in the Defence Headquarters Complex Construction Project Accounts was Rs.918.069 million as at 31 December 2024, out of which, Rs.129.9 million was unclaimed retention amount for	The release of the retention money has been delayed due to factors such as some contracts that are linked to other concurrent contracts have not been completed, handovers and	According to Financial Regulation 571, after two years from the end of the contract, unclaimed deposits should be credited to

more than 05 years. If the contract retention money is not claimed after two years from the completion of the relevant contract, although it should be considered as expired deposits and credited to the state revenue in accordance with Financial Regulation 571, this had not been done accordingly.

acceptances are not carried out properly even after the contract has been completed, and requests for the release of the retention money have not been received.

the state revenue.

(c) Property Plant and Equipment

The following deficiencies were revealed in the accounting of Property, Plant and Equipment.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(i) Although the value of all satate-owned lands should be assessed and reported as per the instructions of Asset Management Circular No.04/2018 dated 31 December 2018, the value of 3 land plots amounting to 3.127 hectares belonging to the National Cadet Corps had not been assessed and accounted.	Action will be taken to account these land plots after the valuation work is completed.	Activities related to the identification, valuation and accounting of land values should be carried out as per the Circular.
(ii) The total amount of Rs.19,004,745,800 spent under the capital expenditure of the Defence Headquarters Construction Project from the year 2022 to the year under review under the Defence Headquarters Construction Project as Rs.722,300,666 of capital asset acquisitions (9152 -61122 - Other mechanical equipment) and Rs.18,282,445,134 of work in progress costs (9160 – 61114) were not included in the SA 82 Non-Financial Assets Report.	As per the instructions of the Public Accounts Department, assets related to the Security Forces Headquarters construction project are being identified and entered into the CIGAS system, and action will be taken to report these assets through account summaries before the end of 2025.	Action should be taken to accurately disclose the value of capital asset acquisitions and work in progress under the capital expenditure of the Defense Headquarters Construction Project through Financial Statements.

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| (iii) | Although 78 water bowzers that were donated to the Disaster Management Division and were idle had been handed over to other institutions, since the cost of Rs.40,170,000 which was the recorded value of those vehicles had not been removed from the accounts, the non-financial assets had been overstated by that amount. | Necessary actions are being taken to remove lorry and bowser vehicles that have been transferred to other government institutions from the CIGAS system. | Action should be taken to adjust the misappropriations made during the year by the account. |
| (iv) | The value of non-financial assets was understated as only Rs.515,000 in customs fees paid for the unit cost of 191 water bowzers received as donations had been identified. | Work is underway to include the correct valuation values of the remaining vehicles in the CIGAS system. | The correct valuation values of assets should be reflected in the accounts. |

(d) Advance Account Balances

The following deficiencies were revealed in the accounting of the year-end balances of the advance accounts.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(i) Although accounts should be maintained in the CIGAS system when making advance payments for work contracts as per Public Finance Circular No.250/2016(i) dated 03 August 2016, the Ministry had Rs.159,720,255 in work advances for 24 construction tasks of the Defence Headquarters Complex Construction Project, which were due for future periods from 31 December 2024 and it had not been disclosed the Rent and Work Advance Account and Rent and Work Advance Reserve Accounts as per the circular instructions.	The relevant forms for preparing rent and work advance reserve accounts were forwarded to the Public Accounts Department and, verbally informed that it was not possible to prepare such accounts for the Security Force Headquarters construction project.	Work advance reserve accounts should be maintained to properly reflect the government's entitlement to payments for the upcoming period.
(ii) In accordance with paragraphs (3) and (4) of the Public Accounts Circular No.250/2016 dated 03 August 2016, although it should be accounted through a Rent and Works Advance Account and a Rent and Works	The relevant forms for preparing rent and work advance reserve accounts were forwarded to the Public Accounts Department and it was verbally informed that, it is not possible to prepare such	Rent and work advance reserve accounts should be maintained to properly reflect the government's rights.

Advance Reserve Account while accounts for the Security Force paying advances for rent and works, Headquarters construction The rent advance of Rs.17,259,000 project. paid for a rented building by the National Defence Academy had not been accounted in accordance with the above circular.

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 recommendations made by me on the financial statements of the preceding year had been implemented.

3. Financial Review

3.1 Revenue Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) According to the initial revenue estimate for the year 2024, the license fee revenue was Rs.59 million and the revised estimate had reduced it to Rs. 55.44 million. However, since the actual revenue in the year 2024 was Rs.80.40 million, the actual revenue was an increase of 145 percent over the revised estimate. Therefore, the revenue estimates had not been prepared realistically.	All District Secretariats have been informed to prepare and send the revenue estimate realistically by taking into consideration the matters mentioned in paragraph 3 of the Fiscal Policy Circular No.01/2015 dated 22 July 2015 in a manner that enables correct policy decisions to be taken.	Realistic revenue estimates should be prepared to enable accurate policy decisions to be made.
(b) Revenue Code No.20.03.06.00 - The original revenue estimate relating to revenue received from United Nations Peacekeeping Operations was Rs.5,300 million and the revised revenue estimate was Rs. 3,127.74 million, showing a decrease of Rs. 2,172.26 million or 41 percent from the original revenue estimate. The Ministry had not maintained records to identify the assessed revenue, the revenue lost due	That actions will be taken to maintain relevant records from 2025 onwards so that the income assessed in accordance with the contractual agreements reached with the relevant institutions and the income lost due to non-fulfillment of those agreements and other deductions can be identified.	Records should be maintained to identify assessed income, lost income, and other deductions.

to the inability to provide equipment, and other deductions as disclosed the reasons for the variations in revenue estimates.

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| (c) | Revenue Head No.20.03.06.00- The original revenue estimate to be collected from the United Nations Peacekeeping Operations submitted to the Department of Public Finance for the year 2024 was Rs.5,300 million and the revised revenue estimate was Rs.3,127.74 million. Accordingly, a difference of Rs.2,172.26 million or 41 percent (minimum) from the original revenue estimate was observed. It was not ensured that records were maintained to enable the reasons for the significant variations in revenue estimates to be identified. | That the actions will be taken to maintain relevant records from 2025 onwards so that the income assessed in accordance with the contractual agreements reached with the relevant institutions and the income lost due to non-fulfillment of those agreements and other deductions can be identified. | Records should be maintained to identify assessed income, lost income, and other deductions. |
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3.2 Expenditure Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Out of the provision of Rs.239.61 million made for 20 recurrent and capital expenditure objects, since the expenditure was not incurred other than Rs.3.15 million transferred to other expenditure objects under Financial Regulation 66, one hundred percent remained as savings.	This has been affected the factors such as the Minister of Defense is not attached to a staff, the renovation costs for the new building was limited, expenditure was limited, procurement activities were not carried out, the gap between the salaries paid when reporting to active duty in the Cadet Corps is reduced, not holding training camps due to adverse weather conditions, non-release of imprest, inability to complete disaster mitigation projects, and delay in awarding contracts due to delay in approving cabinet papers.	It should be ensured that the expenditure is limited to the programs that can be accomplished during the financial year in preparing estimates and utilizing approved funds in accordance with Financial Regulations 3 and 4.

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| (b) | Out of the provision of Rs.10,921.00 million allocated for 45 capital and recurrent expenditure objects, there was an provision of Rs.7,436.17 million remaining, and that saving ranged between 50 percent and 98 percent as a percentage of the net provision. | Factors such as delay in awarding contracts, inability to complete the procurement process, delay in submitting contract bills, lack of staff attached to the Minister of Defense, the capital expenditures of Defense Minister was reduced, control of expenses, and non-release of funds have been contributed to this. | It should be ensured that the expenditure is limited to the programs that can be accomplished during the financial year in preparing estimates and utilizing approved funds in accordance with Financial Regulations 3 and 4. |
| (c) | Out of the provision of Rs.9,419.58 million allocated as for 43 other expenditure objects, Rs.4,446.66 million remained saving and when it considered as a percentage of the net provision, ranged between 20 percent and 49 percent. | This was due to factors such as the failure to hold training camps due to adverse weather conditions, the problematic procurement process, and the inability to complete planned disaster mitigation projects. | It should be ensured that the funds approved are limited to programs that can be accomplished within the financial year. |
| (d) | Although an additional provision of Rs.320 million had been made under Financial Regulation 66 for an expenditure object which provisions of Rs.81.2 million had been made, 86 percent of that additional provision or Rs.277.05 million was remained as savings | No response was submitted. | The additional provisions made available to meet expenses should be utilized with maximum efficiency. |

3.3 Incurring Liabilities and Commitments

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
During a sample audit of payment vouchers for the months of January and February 2025, it was found that a total of Rs.4,626,545 in 50 cases relating to the year 2024 was spent from the provisions of the year 2025 and those expenses were not recognized as liabilities in the financial statements of the year 2024. As a result, liabilities of Rs.4,626,545 were understated in the financial statements.	Instructions were given to establish an internal control mechanism to identify such expenses and include them in the liabilities and commitments register.	Action should be taken to identify liabilities in accordance with the provisions of Financial Regulation 94 (2).

3.4 Non-compliance with Laws, Rules and Regulations

The cases of non-compliance with the provisions of laws, rules and regulations observed during sample audits are analyzed below.

Observation			Non-compliance	Comment of the Chief Accounting Officer	Recommendation
Reference to Laws, Rules and Regulations	Value Rs. Mn				
(i) Paragraph 3.1 of the letter No.PS/CSA/00/1/4/1 entitled Public Expenditure Management and dated 09 September 2022.	-		Although the maximum number of official vehicles allocated for the use and security of State Ministers/Deputy Ministers is specified as 03, it was observed that total of four vehicles and fuel had been provided to the Deputy Minister as 03 vehicles during the period from January to August 2024 by the Ministry and one by the Army.	Although it has been used for security purposes with the approval of the relevant State Minister, it has not been used personally by the Minister.	The regulations imposed for the management of public expenditure should be adhered to.
(ii) Cabinet Decision dated 04 October 2016	211.6		Although it is recommended to the Secretary to the Ministry that, buildings No.06, No. 07 and No.08 of the Defence Headquarters Complex be completed immediately and actions be taken to locate the office premises currently maintained on a rented basis in those buildings, the Office of the Chief of Defence Staff was located in a rented building and the annual rent for the year under review was Rs. 60.47 million. However, although the construction of Building No.08, which consists of	The Ministry of Defense and the offices in a rented building were relocated to Building No.08 in 2021 and there was no space for the office of the Chief of Defense Staff.	Actions should be taken to remove office premises maintained in rented buildings in accordance with Cabinet decisions.

9 floors and covers an area of approximately 19,000 square meters was completed by January 2021. Due to non-compliance with the aforementioned Cabinet decision, approximately Rs.211.6 million had been paid as building rent from May 2021 to November 2024.

(iii)	Financial Regulations 104 (3)		Although the preliminary report should be submitted immediately if it is expected that there will be a delay of more than seven days in submitting a full report, it was observed that there were 6 instances where it took more than 7 days to submit an preliminary report regarding the damages incurred by the National Cadet Corps.	Instructions have been given to submit reports immediately.	In accordance with Financial Regulation 104 (3), the preliminary reports should be submitted without delay.
(iv)	Financial Regulation 104 (4)	-	Although a full report should be submitted within 03 months from the date of the damage, an examination of 17 files submitted for audit by the National Cadet Corps revealed that full reports had not been submitted in 13 of them.	Since the battalions belonging to the Cadet Corps are stationed in various parts of the island, there have been delays, and instructions have been given to expedite the process.	Full reports should be submitted in accordance with Financial Regulation 104 (4).
(v)	The letter of Secretary to the Treasury to the Secretary of Defense on controlling public expenditure dated	-	Although it has been emphasized by the aforementioned letter that methods should be used to limit excessive fuel costs including restricts the use of vehicles only to approved entitlement when assigning official	That these vehicles have been used to perform essential duties, national security, and disaster management, and every effort has been made to limit	In accordance with Treasury instructions on public expenditure control, only one vehicle should be used for officers who own official vehicles.

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vehicles to officers of the Tri-Forces and the Civil Security Department, allocating only one vehicle for officers with official entitlement. It was observed during sample inspections that there were instances where military officers attached to the ministry were used the vehicles and fuel belonging to the Ministry while official vehicles and fuel had been obtained from the regular workplace.

vehicle use and fuel consumption.

(vi) In accordance - with paragraph (05) of Fiscal Policy Circular No.1/2015 dated 20 July 2015 and Financial Regulation 128 (2)(i)

Although, in accordance with the above provisions, the fees charged for various services should be revised in a timely manner whenever necessary taking into account changes in the economic situation, the timely revision of the fees charged under the Firearms (Amendment) Act No. 22 of 1996 continued to be delayed. Considering the prevailing tax rates, the issuing of licenses and renewing of license are made at a very minimal annual fee and it was also observed that a significant amount of state revenue is lost annually due to the fact that the fees have not been revised for nearly 29 years.

The Cabinet Actions should be approved has been taken to prevent granted for the loss of revenue by revision of the revising fees license fees without delay. prescribed by the Firearms (Amendment) Act No.22 of 1996 and referred to the Legal Draftsman's Department on 08.05.2025 for further action.

(vii)	Sections 22 (1) - and 29 (1) of Authority 182 of the Firearms Ordinance		A person should have a license to own, possess, or use a Firearm. As at 31 December 2024, the number of firearms whose licenses had not been renewed was 7,125. Also, in accordance with Section 29 (1) of Authority 182 of the Firearms Ordinance, the gun and the license should be submitted to the Licensing Officer within 10 days of the expiration of the license and although the Firearm should also be stored at a location where prescribed by Licensing Officer. It was not revealed that the above-mentioned actions were taken regarding the 7,125 licenses that were not renewed.	The report received from the Inspector General of Police regarding firearms and their owners that have not been renewed annually was considered and the District Secretaries were informed about it and informed to take further legal action. The need for an information system related to firearms has been identified and its initial stages are being implemented.	Action should be taken in accordance with Section 29 (1) of Authority 182 of the Firearms Ordinance regarding firearms whose licenses have not been renewed.
(viii)	Asset Management Circular No.01/2017 dated 28 June 2017	124.26	Although information regarding assets purchased and disposed should be submitted to the Office of the Comptroller General at the end of the relevant quarter, details of assets worth Rs.124,258,905 purchased in 2024 had not been sent to the Comptroller General by the date of the audit.	The relevant data has been entered into the vehicle information system introduced by the Office of the Comptroller General and Once the systems are established for other assets, actions will be taken to update them as per the instructions of the Comptroller General's Office.	Action should be taken to submit the relevant reports within the prescribed time frame in accordance with the Asset Management Circular.

3.5 Irregular Transactions

The following observations are made.

(i) Unauthorized Payments

The Ministry had made the following payments (transactions) without authorization.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The Sri Lanka Army had informed the audit that 11 vehicles and a motorcycle belonged/rented by the Sri Lanka Army along with fuel have been released to the Ministry of Defense for use, since it was reported that, the vehicles had not been accepted by the Admin Division of the Ministry of Defence and the vehicles were not in the vehicle pool in the Admin division of the Ministry of Defense, and were not assigned to the duties of the Ministry of Defense. It was not observed that the government expenditure management was carried out properly in the use of the vehicles.	There is no possibility to inform all divisions including the transport division, regarding vehicles used for special security duties and intelligence duties and the occasional use of vehicles by institutions such as the Army has been due to complex security and strategic needs.	In order to prevent the unauthorized use of vehicles belonging to other institutions, vehicles used without registration rights are registered in accordance with Asset Management Circular No.2/2017 dated 21 December 2017 and registration should be done in the name of relevant institution with the consent of the registered institution.
(b) According to Asset Management Circular No.2/2017 dated 21 December 2017, although the vehicles should be registered or assigned in the name of their institution with the consent of the registered institution, it was observed that, Army vehicles bearing numbers KG-0349, CAF-1086 and CAF-1094 has been used by the Ministry without such transferring and fuel had also been obtained for it under the Army expenditure objects.	Under the direction of the President, who has been appointed as the Minister of Defense by the Constitution, the Secretary to the Ministry of Defense has been entrusted with a heavy responsibility in the field of national security of the country, which cannot be abandoned or relaxed and the the Secretary to the Ministry of Defense in accordance with the responsibilities assigned by the gazette notification determining the scope of the ministry and Acts mentioned therein, that the resources of the institutions under the Ministry have been used for official purposes as required.	In order to prevent the unauthorized use of vehicles belonging to other institutions, vehicles used without registration rights are registered in accordance with Asset Management Circular No.2/2017 dated 21 December 2017 and registration should be done in the name of relevant institution with the consent of the registered institution.

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| (c) | <p>Although 27 and 13 vehicles were allocated to the security forces, including the Office of the Military Liaison Office and the Defense Secretariat Office respectively, running charts were not maintained indicating the persons who used the vehicles and the purpose for which they were driven. It could not be confirmed whether the vehicles were used by officers who were entitled to be assigned official vehicles or whether they had already obtained that facility from their regular place of service (the tri-forces).</p> | <p>These vehicles have been reserved as the duties of this ministry are not carried out only during office hours same as a normal government office, confidential or intellectual duties cannot be disclosed through the running charts for security reasons.</p> | <p>Monthly running charts should be prepared and submitted in accordance with Financial Regulations 1645 and 1646 and in accordance with Public Administration Circular No.22/99 dated 08 October 1999 and it should be confirmed whether the vehicles used were those of officers who are entitled to be assigned official vehicles or those who have already obtained that facility from the regular service station (the tri-forces).</p> |
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3.6 Issuance and Settlement of Advance

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) A staff officer may be granted an ad hoc interim imprest subject to a maximum of Rs.100,000 for a specific task and although the officer should settle the imprest payment immediately after the completion of the relevant work, it was observed that there was a delay ranging from 12 to 128 days in the settlement of the advance payment of Rs.4,951,582 given for various works in 106 cases.	Internal circular instructions have been issued to formalize the prompt recovery of unsettled advances.	The imprest should be settled immediately after the relevant work is completed in accordance with the provisions of Financial Regulation 371 (2) (b) as amended by Public Finance Circular No.01/2020 dated 28 August 2020.

4. Operational Review

4.1 Non-achievement of the Expected Output Level

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The construction of 5,025 houses had been planned under the resettlement project by the National Relief Services Center out of these, work had begun on 4,898 houses, nevertheless construction of 1,179 houses had been abandoned and construction of 127 houses had not begun.	A series of instructions to District Secretaries regarding the measures to be taken regarding beneficiaries who have started house construction and abandoned it has been provided and that there are no legal provisions to take legal action against the beneficiaries who have abandoned the construction.	Action should be taken to achieve the desired level of performance.
(b) Although Rs. 583.83 million had been spent by the end of the year under review under the resettlement housing project. A situation of non-occupancy in the houses constructed was observed due to lack of infrastructure facilities and residents' refusal to move out of risky areas.	In the years 2024 and 2025, Rs. 79 million and Rs. 50.6 million respectively have been released to the District Secretaries for infrastructure development projects and the guideline which include solutions to practical problems encountered during resettlement have been forwarded to the Department of National Planning for recommendations.	Action should be taken to achieve the desired level of performance.

4.2 Procurements

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although a performance security of not less than 10 percent of the estimated contract amount is required as per 5.4.10 (c) of the Government Procurement Guidelines 2006. In the procurement of food items for the	The steps will be taken to follow an appropriate methodology for the year 2026 as per the instructions of the National Procurement Commission.	Adequate security should be provided to the procurement entity in the event of a failure in performance of the supply as per

	Tri-Forces, agreements had been signed by revising the performance security to 5 percent of the contract value and performance security for each force was specified at different rates. This could have led to confusion among bidders and conflicting bid documents.		the procurement guidelines.
(b)	Although a formal letter of acceptance should be issued to the bidder immediately and formal contract agreements should be written and signed at the same time in accordance with Government Procurement Guidelines 8.9.1, the tri-forces had been entered contracts with a delay of 47 to 86 days after the award of bids for food procurement.	Therefore, actions are being taken to inform the tri-forces to raise awareness to sign agreements before the deadline.	As per the procurement guidelines, a formal agreement should be signed at the same time as the acceptance letter is issued.
(c)	It was observed that the competition in procurement has led to a decrease in promotion and an increase in the prices offered due to the weaknesses in the bid conditions specified in the bidding documents regarding the Bidders' pre-qualification criteria, submission of manufacturer's authority certificates, calling of quotations and submission of samples under the specified brand names, quality certificates for vegetables, fruits, etc according to the conditions of the bid submitted for the procurement of raw and dry food for the tri-forces. Although there were approximately 2,088 supply opportunities for 217 different food categories, due to limited competition, 24 suppliers had secured all the supply opportunities for 147 bases of the tri-forces.	The Bid Evaluation Committee as the procurement entity and the Tri-Forces have been informed to simplify the pre-qualification criteria for bidders.	Bid conditions should be set in a way that maximizes the competitiveness of the procurement and provides fair, equal and maximum opportunities for all qualified interested parties to participate in the procurement.
(d)	Although all procurements made by all government institutions under the Shopping Method must be made in accordance with the Electronic Government Procurement System (e-	Action would be taken to register in the electronic procurement system (www.promise.lk) and also nominate a coordinating officer	Actions should be taken in accordance with the public e-procurement system as per the Public Finance

	GP system) from 1 January 2020 in accordance with Public Finance Circular No. 08/2019 dated 17 December 2019, Register in the electronic procurement system (www.promise.lk) in accordance with the circular, appointing a Liaison Officer, uploading the procurement plan and procurement notices to the system, or informing suppliers had not been carried out by the National Cadet Battalion.	as per the Public Finance Circular.	
(e)	Although formats of standard bidding documents are provided in accordance with 5.3 of the Procurement Guidelines, those standard bidding documents should be used with minimal modifications if necessary standard bidding documents had not been used for the procurements of Rs. 127,147,840 made by the National Cadet Battalion in the year 2024.	Specific answers had not been given.	Standard bidding documents should be used with minimal changes as per procurement guidelines.
(f)	Although a performance guarantee of Rs. 328,500 has been requested for the procurement of Rs. 3,876,300 for the purchase of 300 pairs of brown boots for the 76th Independence Day celebrations, Approval was given to proceed without a performance guarantee, accepting a letter submitted by the supplier.	The Procurement Committee has granted approval to the written request made by the supplier to proceed without a performance guarantee.	According to Government Procurement Guidelines 5.4.10, in order to protect the procuring entity from failure to perform the contract, Liability obligations must be covered by a security of not less than 10 percent of the estimated contract amount.
(g)	During a sample inspection of the list of suppliers registered by the Ministry, it was observed that several establishments owned by the same person were registered to supply goods belonging to the same supply category. Accordingly, in certain procurement, a single supplier was able to submit bids on behalf of several institutions, thus preventing competitive pricing.	Answers had not been submitted.	Steps should be taken to maintain a register of registered suppliers so that false competition does not arise.

4.3 Assets Management

The following observation is made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Although the Defender vehicle number KC-2275, which belongs to the Ministry and has an estimated value of Rs. 12 million, was sent for repair in December 2021 as of December 2024, the vehicle had not been able to be recovered after completing the repairs and there were concerns regarding the survival and safety of the vehicle.	Due to the failure of the repair of this vehicle, efforts are being made to obtain compensation through legal action.	Adequate provisions should be made regarding the security and survival of assets.

4.4 Losses and Waivers

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Despite of Rs. 1,057,700 has been paid to the Trincomalee District Forest Office to purchase of 1,530 cubes of sand by the Defence Headquarters Construction Project, it had been revealed that the Navy was used 1,209 cubes of sand out of that stock of sand. It had been reported in 2022 that this amount would be reimbursed by the Navy, nevertheless it is not confirmed that it had been settled.	Answers had not been submitted.	It should be confirmed regarding that what is the purpose of these stocks of sand were used by Navy and take further action accordingly.
(b) In 2021, a committee report was called regarding a shortage of goods of Rs. 16,769,458 identified in the Ministry's consumables warehouse, nevertheless apart from retaining 25 percent of the storekeeper's monthly salary or Rs. 9,207 in the general deposit account, there has been a delay in taking action in accordance with Financial Regulation 104 for 04 years.	An investigation board has been appointed to conduct a formal disciplinary investigation in accordance with Financial Regulation 104(4), and further action will be taken after receiving the report and steps have been taken to introduce control measures to prevent such incidents	Action should be taken in accordance with Financial Regulation 104 without delay.

4.5 Uneconomic Transactions

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although it has been emphasized that government expenditure should be used only for essential services, such expenses as construction and rental of buildings should not be incurred, and that government expenditure should be carried out in a economical manner, 37 housing units had been acquired on an annual lease agreement of Rs. 34,518,000 to provide accommodation facilities for students of a course held during normal office hours on weekdays for the National Defence Academy. Also, in accordance with Financial Regulation 835 and also 7.4 of National Budget Circular No 01/2024 dated 10 January 2024, the award of bids and contracted had been carried out before obtaining prior approval from the Treasury.	Although lectures are held during office hours on weekdays, courses are required to be held in residential as per internationally accepted regulations and the buildings had to be rented due to continue it according to the current model which are available in regional countries and developed countries including the United States of America and to provide residential facilities according to the conditions of recruitment of military officers.	The regulations and instructions to minimize the expenditure and expenditure mentioned in the National Budget Circulars No. 03/2022, No. 2/2023 and No. 1/2024 issued regarding public expenditure control should be followed.
(b) According to the 7.9 (b) of the Procurement Guidelines, although the evaluation of bids must be carried out in accordance with the method, terms and conditions specified in the bidding documents, situation where no mention of a rent advance as per the bidding documents submitted by the supplier for renting a building, Rs.17,259,000 has been given as a 6-month advance upon the request of the bidder after the bid was awarded.	Since the course had already begun when the bids were called, the contract had to be entered into out of the terms and conditions stated in the bidding documents.	Bid evaluation should be conducted in accordance with the method, terms and conditions specified in the bidding documents and a government valuation report should also be obtained.

4.6 Management Deficiencies

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although, in accordance with the provisions of paragraph (05) of Fiscal Policy Circular No. 1/2015 dated 20 July 2015 and Regulation 128 (2)(i) of the Monetary Regulations, the fees charged for various services should be revised from time to time, taking into account changes in the economic situation, Considering the continued delay in timely revision of the fees charged under the Firearms (Amendment) Act No. 22 of 1996 and the fact that a very minimal annual fee is being charged, that a significant amount of government revenue is lost annually due to the failure to revise fees for nearly 29 years.	The Cabinet approval had been given to amend the license fees prescribed by the Firearms (Amendment) Act No. 22 of 1996, and the draft has been forwarded to the Legal Draftsman's Department for further action on 08.05.2025.	Loss of revenue should be prevented by revising fees without delay.
(b) In terms of Section 27 of Chapter 182 of the Firearms Ordinance Law, the Licensing Officer shall maintain a register of all gun licenses in accordance with Form "n" of Schedule "a" in relation to guns and according to those records, the number of permits issued for agricultural and non-agricultural (for crop protection and property protection) purposes from 1995 to 31 December 2024 is recorded as 25,064, according to the document showing the number of firearms licenses by district secretariat as at 31 December 2024, submitted to the auditors, there was a difference of 12,981 licenses.	Steps were taken to obtain a detailed report on the number of firearms issued for crop protection and property protection as well as agricultural and non-agricultural report regarding firearms and to obtain accurate calculations through the District Secretariats.	Proper reviews should be made for discrepancies between documents and accurate records should be maintained.

5. Human Resource Management

The following observation is made.

Audit Observation	Comments of the Chief Accounting Office	Recommendation
Although 647 officers and other ranks of the tri-services have been attached to the Ministry of Defense, the Disaster Management Division under it, and 06 other institutions, information regarding the approval for the deployment of that staff was not disclosed.	Answers had not been submitted.	Adequate staff with specific approvals should be maintained.