

Head 223 - Sri Lanka Navy – 2024

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Head 223- Sri Lanka Navy 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 statements for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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. My comments and observations on the financial statements of the Sri Lanka Navy was issued to the Accounting Officer on 27 May 2025 in terms of Section 11(1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report relating to the Sri Lanka Navy was issued to the Accounting Officer on 19 June 2025 in terms of Section 11(2) of the Audit Act. This report will be tabled in Parliament in pursuance of the 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 prepared give a fair view in all the material aspects of the financial position of Sri Lanka Navy as at 31 December 2024 and its financial performance and cash flow 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 appear in Paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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.

1.3.1 Emphasis of Matter - Basis for preparation of financial statements

I draw attention to Note 1 of the financial statements, which describes the basis of preparation of these financial statements. The financial statements had been prepared for the requirement of Sri Lanka Navy, the Treasury and the Parliament in accordance with Financial Regulations 150 and 151 of the Government and State 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 only for the use of Sri Lanka Navy, the Treasury and the Parliament of Sri Lanka. My opinion in this regard is not modified.

1.4 Responsibility of the Chief Accounting Officer and the Accounting Officer on the Financial Statement

The Accounting Officer is responsible to prepare financial statements that give a true and fair view in all material aspects and to determine such internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due

to fraud or error in accordance with Government Finance Regulations 150 and 151 and State Accounts Guideline No. 06/2024 dated 16 December 2024 as amended on 21 February 2025 .

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Sri Lanka Navy 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.

The Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Sri Lanka Navy in terms of Sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.5 Auditor's Responsibility on 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 exercised professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate that the underlying transactions and events are appropriately and fairly included in the financial statements for the structure and content of the financial statements that include disclosures.
- Evaluate the overall presentation, 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.

The Accounting Officer is made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.6 Comment on the Financial Statements

1.6.1 Accounting Deficiencies

The following deficiencies were observed in the accounting of recurring expenses related to the financial statements.

(a) Recurring expenses

Audit Observation	Comments of Accounting Officer	Recommendation
i. In the year under review, the expenditure on fuel supply under the 1202 Expenditure Subject of the Sri Lanka Navy was Rs. 9,703,308,156, of which Rs. 373,986,555 was the fuel expenditure provided to the Sri Lanka Coast Guard Department without reimbursement, and as in previous years, in the year under review, expenditure under another expenditure head had been accounted for under the 223 Expenditure Head of the Sri Lanka Navy.	Fuel was released to the Sri Lanka Coast Guard Department without compensation as per the instructions of the Ministry of Defence letter No. MOD/FIN/02/05/03/2024 dated 10th December 2024. The National Budget Department has allocated a provision of Rs. 300,000,000 to the Coast Guard Department for the year 2025. It is hereby kindly informed that from now on, the fuel values obtained monthly from ships, vessels and institutions belonging to the Coast Guard Department will be transferred between expenditure heads and appropriations every quarter.	Only fuel expenses related to the Sri Lanka Navy should be accounted for under expenditure item 1202.
ii. Although all commitments and liabilities incurred in the year under review should be disclosed under Note (iii) of the financial statements. During the sample audit of payment vouchers for the year 2025, payments were made for 157 vouchers worth a total of Rs. 711,192,718 relating to the year 2024 were not disclosed as liabilities in the financial statements for the year under review.	It is observed that the amount of the relevant 157 vouchers has not been disclosed in the financial statements of the year under review due to the inability to identify the exact location of the bills relating to the 157 vouchers mentioned in the above observation when preparing the overall statement of cumulative commitment/ liability report.	All liabilities relating to the year under review should be disclosed in the financial statements.
iii. As per the letter No. NHQ/BF/DF/41/2024 dated 10 February 2025 of the Director (Finance) of the Navy, the outstanding balance payable by the Sri Lanka Navy to the Ceylon Petroleum Corporation as at 31 December	Fuel collection and distribution is carried out by 33 Navy fuel stations registered under 33 account numbers of the Sri Lanka Petroleum Corporation, and those fuel stations should be referred to the Navy Headquarters for	All liabilities related to fuel expenses for the year under review should be disclosed in the financial statements.

2024 was Rs. 659,650,414. However, the relevant amount was not included in the statement of liabilities as at 31 December 2024.

settlement of the relevant bills. As at 31 December 2024, all bills received had been expensed, so there were no bills to include in the statement of liabilities and accounts receivable. It is announced that in future years, the outstanding amount received from the Petroleum Corporation as at 31 December will be included in the statement of liabilities as a whole, not on a basis of each bill.

- iv. Although expenditure should be managed within the limits of the allocations allocated in the annual budget estimates in accordance with Section 02 of Budget Circular No. 5/2023 dated 29 December 2023. According to the sample examination of payments made in 2025 in relation to the year 2024, it was observed that the Sri Lanka Navy had incurred liabilities exceeding the net appropriation limits by Rs. 2,639,162,863 for recurrent expenditure items and Rs. 387,477,247 for capital expenditure items.

The Navy works against maritime security threats that constantly occur in the maritime region, including illicit drug trafficking, arms and illicit goods trafficking, human trafficking, piracy, marine pollution, and unregulated fishing. Although a budget estimate including the necessary provisions was requested for the year 2024, only a limited amount of provisions was provided. It is stated that when it is necessary to make commitments beyond the remaining provisions of an expenditure item only for the continuous and orderly maintenance of the operational and administrative duties of the Navy, action has been taken in accordance with the provisions provided for in Financial Regulations 94 (2) and 94 (3).

When incurring liabilities, liabilities should be incurred in a manner that does not exceed the provision limits.

- v. Although the value of the imprest receipts from other sources as per the Treasury printout bearing SA-21 was Rs.4,118,432,741, the value of the imprest receipts from the Treasury in the ACA 03 form was Rs.4,421,682,741. Accordingly, a difference of Rs.303,250,000 was observed.

As pointed out by the audit, this error has arisen due to me including in the ACA-3 form the sum of the notes made by the Treasury to correct accounting errors in the Treasury SA-70 form, which amounted to a difference of Rs. 303,250,000. In the future, I will compare SA-70 with the Treasury Balance Sheet when

Treasury receipts should be accurately included in the financial statements.

preparing accounts to avoid such omissions.

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| <p>vi. Although the imprest settlement value through expenditure as per the Treasury printout bearing SA-21 was Rs. 76,065,969,500, the imprest settlement value through expenditure in the ACA 03 form was stated as Rs. 76,369,219,500. Accordingly, a difference of Rs. 303,250,000 was observed.</p> | <p>As pointed out by the audit, the difference of Rs. 303,250,000 has arisen due to the fact that I have included in the ACA-3 form the sum of the notes made by the Treasury to correct accounting errors in the Treasury SA-70 form. In the future, I will compare the SA-70 with the Treasury Trial Balance and take steps to avoid such omissions.</p> | <p>Treasury settlements should be correctly included in the financial statements.</p> |
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(b) Reconciliation statement on the advance account for government officials

Audit Observation	Comments of Accounting Officer	Recommendation
Although the credit balance of the Departmental Control Account of Government Officers' Advance B Account was Rs. 601,398,953, as per the single balance classification summary, the credit balance was Rs. 579,773,327, resulting in a difference of Rs. 21,625,626 between those balances as at the end of the year under review. According to the report of the committee appointed by the Ministry to investigate this difference, the difference in the Loans and Advances Control Account remained the same as at the end of the year under review, although it was recommended to take appropriate action in consultation with the Public Finance Department of the Treasury, as the Navy does not have the books and account summaries to verify this difference.	I agree with the observation. I kindly inform you that necessary steps are being taken in coordination with the Ministry of Defense and the Department of State Finance to write off the balance of Rs. 21,625,625.80.	Appropriate action should be taken in conjunction with the Ministry of Defense and the Department of Public Finance to eliminate the discrepancy between the Departmental Control Account and the Single Balance Classification Summary as soon as possible.

(c) Stores Advance Accounts

Audit Observation	Comments of Accounting Officer	Recommendation
i. When preparing the commemorative income statement related to subject number 223-02, due to the fact that the state income of Rs. 650,000,000 included in the income head of the Navy from this unit was not shown. The net income for the year was shown as Rs. 650,000,000 more than the commemorative income statement and instead of the net income that should have been a negative value of Rs. 74,166,769, but a positive value of Rs. 575,833,231 was shown as the net income.	The year-end accounts should be prepared and finalized to calculate the amount of profit to be transferred to the government revenue head at the end of the year, and since the transferable profit is calculated after the accounts have been prepared and the accounts had already been prepared, the profit transferred due to an oversight had not been adjusted in the balance sheet or the income statement.	Steps should be taken to accurately present the state revenue in the memorandum income statement related to warehouse advance account activities.
ii. Due to the mismatch in the cross entry relating to the amount of Rs. 650,000,000 included as State Revenue, the balance of the Profit and Loss Account brought forward and the Advance Account included in the liabilities in the Balance Sheet prepared as at 31 December 2024 was shown as Rs. 667,939,015 instead of Rs. 17,939,015, and the balance of the Advance Account which should have been included in the liabilities which was Rs. 457,629,435, was included as an asset balance of Rs. 192,370,565. As a result, the total assets and liabilities of the Stores Advance Accounts in the Balance Sheet as at 31 December 2024 were overstated by Rs. 192,370,565.	The year-end accounts should be prepared and finalized to calculate the amount of profit to be transferred to the government revenue head at the end of the year, and since the transferable profit is calculated after the accounts are prepared and the accounts had already been prepared, the transferred profit had not been adjusted in the balance sheet and the income statement due to an oversight. I kindly inform you that steps will be taken to correct these errors when preparing the accounts in the future.	Double-entry accounting should be maintained for store. Advance transactions and steps should be taken to maintain the accuracy of the values contained in the accounts.

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| <p>iii. An amount of Rs. 650,000,000 has been transferred through cross-entry as revenue of the Navy for the year 2024 under the expenditure number 223-02, but due to the fact that the value of the debits made during the year in the ACA – 05 form contained in the financial statements submitted by the Navy was not included under cross-entry, the debit value made in cash was overstated by Rs. 650,000,000.</p> | <p>Please be advised that we will take steps to correct these errors when preparing accounts in the future.</p> | <p>Action should be taken to correct the situation as agreed.</p> |
| <p>iv. During the sample audit of VAT on sales, according to the sales invoice dated 08 April 2024, the VAT value applicable on that date should have been Rs. 852,086, but in calculating the value payable to the Inland Revenue Department, the VAT value applicable on sales on this date was Rs. 803,961, which was less than Rs. 48,125.</p> | <p>According to the table submitted on 08 April 2024, when examining the relevant invoice, the VAT value of invoice number 733 was correctly recorded as Rs. 72,326, but when entering it into the table, it was mistakenly entered as Rs. 24,201 instead of the correct VAT value. I kindly inform you that steps will be taken to settle this amount in the future.</p> | <p>Steps should be taken to properly report and settle VAT payments to the Inland Revenue Department.</p> |
| <p>v. Although the annual maximum debit balance limit for the year 2024 in the Treasury data submissions in the financial statements should have been Rs. 457,629,434 in the Stores Advance (Explosives) Account, it was entered as Rs. 737,575,826.</p> | <p>I would like to kindly inform you that in indicating the approved limits for the year 2024, the balance shown as the year-end balance is the difference between the total debits and credits for the relevant year and henceforth, it has been noted that the balance in the monthly account summary will be included as the year-end balance.</p> | <p>The limits of the Stores Advance (explosives) Account should be recorded correctly.</p> |

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| vi | <p>The value of VAT on sales included in the total amount of Rs. 2,886,505 collected from 17 sales agents had not been reconciled with the value added tax account from the sales account, resulting in an overstatement of sales for the year 2024 by Rs. 440,200 and an understatement of the value added tax payable to the Inland Revenue Department by that amount.</p> | <p>It has also been stated that letters should be sent to the relevant buyers for the sold ammonium nitrate stocks and steps should be taken to recover the relevant outstanding amounts, and accordingly, the amount recovered by the buyers was Rs. 2,886,505. The value added tax included in this value was about Rs. 440,200.</p> | <p>Transactions must be accurately recorded and steps must be taken to properly settle value-added tax payments to the Inland Revenue Department.</p> |
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(d) Property, Plant and Equipment

The following deficiencies were revealed in the accounting of property, plant and equipment.

Audit Observation	Comments of Accounting Officer	Recommendation
According to the Schedule of Non-Financial Assets (ACA - 06) relating to the Sri Lanka Navy for the year under review, the value of ships, vessels and boats owned by the Navy as at 31 December 2024 was Rs. 29,555,782,322, but according to the schedule provided for audit, the value was Rs. 32,958,956,068. Therefore, the non-financial assets and property, plant and equipment reserve as at 31 December 2024 was stated in the Statement of Financial Position with a decrease of Rs. 3,403,173,746.	Details of ships and vessels owned by the Sri Lanka Navy and the Coast Guard Department were submitted for audit purposes because the Navy also carries out the operations and maintenance of the ships and vessels owned by the Coast Guard Department, as well as the provision of fuel. It is kindly informed that in future, when submitting audit reports and other annual reports, only information on ships and vessels belonging to the Sri Lanka Navy will be presented.	The value of ships and vessels belonging to the Sri Lanka Navy that have not been accounted for should be accounted for promptly and the value of property, plant and equipment should be accurately included in the financial statements under non-financial assets.

2. Report on other legal requirements

I hereby declare the following in accordance with Section 6(1)(d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements were consistent with those of the previous year.
- (b) The recommendations I had made on the financial statements for the previous year had been implemented.

3. Financial Review

3.1 Expense Management

Audit Observation	Comments of Accounting Officer	Recommendation
a. During the year under review, Rs. 8,838,541 had been transferred under Financial Regulation 66 for the subject of expenditure No. 1701 - Losses and Write-offs, for which no provision had been made in the budget allocation for the year 2024.	Although a provision of Rs. 200,000 was requested in the expenditure estimate for the year 2024 to remove long-standing uncollected balances from the accounts and books under the Government Officials' Advance 'B' Account, the provision had not been allocated. As the value of the approved waivers by the end of the year was Rs. 8,838,541, arrangements were made to transfer the provisions as per the verbal instructions of the National Budget Department as per F.R. 66.	Steps should be taken to prepare accurate estimates and make provisions.
b. Although a provision of Rs. 50,000,000 was allocated to update the internal telephone exchange units and switch network under the expenditure subject 2103/18, the physical progress of the same was 53 percent, while Rs. 22,772,217 or 45.5 percent of the provisions had been transferred to other expenditure subjects.	An allocation of Rs. 50,000,000 was allocated under Expenditure Subject No. 2103-18 for the upgrading of the Navy's internal telephone exchange units and switch network in the year 2024. Out of this, it was observed that an allocation of Rs. 23,806,139 remained unutilized during the year, and taking into account the benefit that the Navy could achieve from that allocation, an amount of Rs. 20,772,216, was taken to the expenditure subject 2103-014 with the approval of the National Budget Department in accordance with the F.R. 66.	Efforts should be made to prepare estimates more accurately and make provisions, and the expected goals for project implementation should be achieved during the year.

- c. Although Rs. 1,657,000,000 was estimated for the construction of the Naval Jetty at the Trincomalee Naval Dockyard in the year under review, Rs. 764,865,000 or 46 percent of the allocation was transferred to other expenditure items on 06 occasions. The said project had been initiated in March 2015 and although almost 10 years had passed, the funds allocated for the project had been transferred to other expenditure items before the project was completed.
- Rs. 486.13 million has been utilized as of July 31, 2024. In addition, the Central Engineering Consultancy Bureau (CECB) had informed that about Rs. 740 million will be spent in the coming period. It was observed that Rs. 430.87 million would be saved. There was a requirement of Rs. 305 million to cover the cost of the ship, which was mainly provided by the United States of America, and a requirement of Rs. 76 million for the cost of installing a floating dock with a capacity of 4000 tons, which was to be received as a grant from the Government of India. For this purpose, Rs. 381 million was transferred to expenditure items 2101-023 and 2506-024 in accordance with F.R. 66. In order to manage the necessary expenditure, steps have also been taken to transfer to expenditure items 2002, 2003, 2102 and 2401, which had a deficit.
- Estimates should be prepared more accurately and the funds allocated for a particular expenditure head should be utilized with proper management during the relevant year.

3.2 Non-compliance with laws, rules and regulations

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

Reference to the laws Rules and Regulations	Value Rs.	Non-Compliance	Comments of the Accounting Officer	Recommendation
(a) The Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka				
(i) Section 71 of the Financial Regulations	-	The prior authorization of the Deputy Secretary to the Treasury is required for matters such as creation of posts, grading of posts, increase in the approved number of employees, change of title of posts, establishment of new salary scales, allowances and other wages and salaries and remunerations, and although he has to obtain the consent of the Secretary to the Ministry in charge of the subject of Public Administration, the relevant documents for approving a civilian staff of 2,224 for the activities of the Navy were not submitted for audit.	Although the Secretary of the Ministry in charge of Public Administration has been granted approval to approve a civilian staff for the Navy, it has not been possible to submit the documents as they are currently missing.	Checks should be made regarding the missing documents and steps should be taken to submit the documents with the relevant approvals for audit.

(ii) Section 507 of the Financial Regulations	-	A statement of the existence and condition of the fixed assets held by the business relating to the Stores Advance Account and the subject matter of such assets shall be prepared and submitted to the Auditor General along with the annual accounts. However, such a statement had not been submitted to the Auditor General.	Please be advised that steps have been taken to inform the relevant subject officers to deal with fixed assets in accordance with F.R. 507 in the future.	Financial regulations must be followed.
(b) Public Finance Circular No. 01/2020 dated 08 August 2020 and Public Finance Circular No. 04/2024 dated 06 November 2024	-	The Navy maintains 04 funds namely the Navy Malima Hospitality Service, Navy Fuel Station, Whale Watching Project and Naval Agriculture Project and 41 bank accounts are maintained in relation to these 04 funds. All these projects are maintained as non-statutory funds, but as per the circular, steps had not been taken to abolish those funds and credit their balance to the Consolidated Fund or to legalize those funds through an Act of Parliament if there are reasonable grounds to maintain the fund.	A discussion was held at the Department of State Finance on January 31, 2025, to examine possible actions to be taken regarding the funds. A draft proposal is being prepared for submission to the Ministry of Finance to obtain the approval of Parliament to convert non-statutory funds into statutory funds through an expert panel appointed to act in accordance with the instructions given in the letter of the State Finance Department dated February 10, 2025.	Steps should be taken to create statutory funds in accordance with Public Finance Circular 04/2024 issued in accordance with the provisions of the Public Finance Management Act No. 44 of 2024.

(C) In accordance with paragraph 04 and guideline number 13 of Public Finance Circular No. 02/2020 dated 28 August 2020 and sections 4.2.2. (a) and (b) of the Government Procurement Guidelines	-	Although a document should have been prepared that systematically describes the steps of each procurement process from the time of commencement to completion, this had not been done.	The steps in the procurement process were outlined as a time frame, and the purchasing actions were not shown separately. The steps in this procurement process have been presented systematically in the 2025 Procurement Plan.	A document should be prepared that describes the steps of the procurement process in a chronological manner according to the circular.
(d) In terms of Section 100 of the Extraordinary Gazette No. 2310/29 dated 14 December 2022 regarding the Rules of Procedure	-	Although the Head of the Divisions or Branches should promptly provide the duty list to a government officer after he reports for duty, it was observed that the duty lists had not been provided to the personnel of the Primary Service Unit belonging to the civilian staff of the Navy.	Since employees belonging to the Primary Service category are attached to various sections of the Navy, the relevant section heads assign duties to employees belonging to the Primary Service category.	Duty lists should be provided for employees belonging to the primary service category in accordance with the work procedure rules.

4. Operational Review

4.1 Planning

Audit Observation	Comments of Accounting Officer	Recommendation
In accordance with paragraph 03 of the Public Finance Circular No. 02/2020 dated 28 August 2020 and Guideline No. 12, the annual action plan should include activities prepared according to the priorities based on the approved budget of the year under review, the implementation timeframe, the expected output and	The 2025 Annual Action Plan has been submitted to the Ministry of Defense, including the activities, implementation timeframe, expected allocations and responsible parties for the results, prepared in accordance with the priorities based on the approved budget of the year under review, in order to correct the discrepancies in the Annual Action Plan submitted	An annual plan should be prepared, including prioritized activities, implementation timeframe, expected outputs and outcomes, and the responsible party, as per the circular.

results, and the party responsible for them, but the action plan submitted for audit had not specifically identified all the areas of responsibility assigned to each division and the activities under it.

4.2 Failure to achieve the expected output level

Audit Observation	Comments of Accounting Officer	Recommendation
The construction of the two buildings, the Sri Lanka Naval Dockyard and the Special Craft Squadron Headquarters, operating under the Eastern Naval Command of the Sri Lanka Navy, had been halted as at 31 December 2024. By the end of the year under review, a cost of Rs. 388,608,541 and Rs. 14,590,616 had been incurred for the construction of these two buildings respectively.	While construction work is currently underway up to the seventh floor of the ten-storey Officers' Building at the Sri Lanka Navy Dockyard under Phase I, this construction has been temporarily halted due to the allocation of the funds allocated to the Navy for the year 2025 for other constructions on priority.	Construction should be completed as planned.

4.3 Asset Management

The following observations are made.

Audit Observation	Comments of Accounting Officer	Recommendation
a. A request has been made to hand over to the Navy the land of about 0.7051 hectares of land owned by the Sri Lanka Railways Department, which is the location of the Old Puttalam Naval Observation Post and the official residence number 196 belonging to the Railways Department near the Old Puttalam Naval Annex, which is controlled by the Sri Lanka Navy, to the Navy, but although	The Secretary to the Ministry of Defense has informed the Navy Headquarters through a letter dated November 8, 2022, that it has been informed by the General Manager of Railways, in a letter dated October 5, 2022, that it is not possible to agree to hand over the land where the Old Puttalam Naval Observation Post is located and the official residence number 196 near the	If maintaining this naval observation post is essential for national security, the Navy should coordinate with the relevant authorities and take steps to acquire that land.

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| <p>it was informed on 05 October 2022 that it could not be agreed to, the Naval Observation Post was being functioned at that location.</p> | <p>Old Puttalam Naval Annex to the Navy.</p> | |
| <p>b. Although approval had been granted to maintain a Coast Guard centre subject to the relevant conditions on the land located at Walaipadu South 02, under the Sri Lanka Navy Buwaneka Institute, measuring approximately 0.1011 hectares belonging to the Department of Coastal Conservation and Coastal Resources Management, vide letter No. PA/12/MS/19/252 dated 14 August 2020, belonging to the Department of Coastal Conservation and Coastal Resources Management.</p> | <p>The request made by the Department of the Commissioner General of Lands, via a letter dated 16 April 2024, to expedite the transfer of the land plot has not been responded to so far, as the reports required for approval for the transfer of the land plot have been submitted to the Commissioner General of Lands by the Poonakari Divisional Secretary along with the recommendations of the Provincial Land Commissioner.</p> | <p>The land acquisition process for which transfer has been recommended should be completed expeditiously.</p> |
| <p>c. As of 31 December 2024, the Navy was in the process of obtaining provisional consents for the possession of other departments and lands totaling 404.2386 hectares. Out of this, the land located in Myladi measuring 0.1517 hectares, the land located in Hambantota measuring 0.1517 hectares, and the land located in Oluvil Harbour measuring 0.8093 hectares had not yet received provisional consents for the possession by the end of the year under review.</p> | <p>Regarding the current progress in handing over the land plot in Myladi to the Navy, the letter dated 17th January 2025 states that work is being done with the relevant institutions and Divisional Secretariats regarding the transfer of these 03 plots of land to the Navy and follow-up activities are being carried out.</p> | <p>Action should be taken to obtain consent for the use and take over the land as soon as possible.</p> |
| <p>d. Although requests were made to the Land Commissioner in July and December 2024 to expedite the transfer of 05 lands totaling 6.574 hectares to the Navy, no response has been received to</p> | <p>Work is underway with the Commissioner General of Lands and the Divisional Secretariats regarding these 05 plots of land and follow-up activities are also being carried</p> | <p>Relevant follow-up activities should be continued and steps should be taken to acquire these lands expeditiously.</p> |

date and no follow-up has been out.
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| e. | Although a request was made to the Sri Lanka Ports Authority on 27 September 2023 to grant the Navy consent to occupy 10 lands belonging to the Ports Authority, totaling approximately 7.1094 hectares, used by the Navy, the consent had not been received by the date of the audit. | Since it has been informed that the transfer request cannot be fulfilled due to port-related development projects, a request has been made to the Ministry of Ports, Shipping and Aviation Services to provide an opportunity for discussion via a letter dated 19th March 2024. | Arrangements should be made to obtain consent for the use of these 10 plots. |
| f. | Although the purchase cost of items such as materials, equipment, furniture, machinery, computer accessories, steel cupboards and cupboards belonging to the Navy was Rs. 7,688,721, they were in a dilapidated condition beyond repair as at 31 December 2024, no appropriate action had been taken to settle those items. | Measures have been taken to make eligible (General 47) subjects who are in a state of pregnancy beyond repair in accordance with the Navy's procedures. | Appropriate measures should be taken as suggested and urgent action should be taken to clear these frozen assets. |
| g. | Although it had been decided to scrap 03 ships/vessels belonging to the Sri Lanka Navy by 31 December 2024 due to their being in a state of disrepair, the work had not been completed. | Approval has been given to decommission the CG 403, which is in a state of disrepair. A study panel has recommended that the 02 vessels P 156 and P 173 be gradually withdrawn from operational activities due to their long-term use in the Northwestern Naval Command and the decline in the performance of the vessels. | Further steps related to the disposal of vessel CG 403 should be taken urgently and appropriate approvals should be taken for vessels P 156 and P 173. |

4.4 Management Weaknesses

The following observations are made.

Audit Observation	Comments of Accounting Officer	Recommendation
a. The 1350 square feet guardhouses A2, A3, A5, B2, B3, B5, C2, C3, C4 belonging to the Sri Lanka Navy Gotabhaya Camp located near the Nandikadal Lagoon in Mullaitivu, operating under the Eastern Naval Command, had not been utilized for guard duties at the camp for almost two years due to the lack of sufficient sailors for duty.	The area of this camp is 671 acres. There are 17 guard posts located around the camp, and due to the shortage of naval personnel, only 6 guard posts are currently operational during the day and one guard post during the night.	Necessary measures should be taken to utilize a sufficient number of guard posts for security and naval surveillance purposes in the camp.
b. The 900 square feet pre-service building located at Naval Subdistrict Kallarawa, which was used as the junior naval residence of the Sri Lanka Naval Base (SLNS) Walagamba under the Eastern Naval Command, remained underutilized.	Due to the shortage of manpower, this Pre-service building is in a minimal state of use and it is proposed to install it at the Sri Lanka Naval Institute, Walagamba at an initial cost of Rs. 842,338.	Steps should be taken to utilize the relevant building promptly and effectively, based on proper approvals.
c. The two-storey building at SLNS Ruhuna Tangalle, which was used as offices and storage rooms for the SLNS Ruhuna, which is part of the Southern Naval Command, was in a dilapidated condition, resulting in the upper floor of approximately 3,605 square feet being underutilized and there were also reports that the	The two-storey building has an underutilized area of 3,605 square feet (upper floor). However, the lower floor of 2,987 square feet is being developed to accommodate offices and storage rooms. It is reported that the upper floor of the two-storey building will not be used for any purpose.	The building should be repaired and put to effective use.

building was in a dangerous condition during use.

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| <p>d. A total of 135 buildings, 15, 13, 83, 06, 06, 06 and 08 belonging to the Eastern, Western, Northern, North Central, Southern, Northeastern and Southeastern Naval Commands respectively, were not included under non-financial assets in the financial statements due to delay in valuing them. Of these, a request had been made to the Valuation Department in 2015 to obtain the assessed value for 107 buildings and in 2021 to obtain the assessed value for one building, but no follow-up had been made so far regarding the lack of response. A request had not been made to the Valuation Department to obtain the assessed value for 27 buildings.</p> | <p>No answer was submitted.</p> | <p>The relevant buildings should be properly valued and the value should be included in the financial statements.</p> |
| <p>e. During a sample audit conducted at SPDC II E, SPDC II L, SPDC III, SPDC IV, DOVARA CES, Lubrion stores, during the distribution of spare parts belonging to the Supply and Services Department of the Eastern Naval Command, it was found that the stock totaling Rs. 109,307,836 had remained in the</p> | <p>As patrolling was limited due to the economic crisis, repairs to ships and vessels were reduced, and therefore the distribution of spare parts ordered from the SPDC II L, SPDC III, DOVARA, CES depots was also limited. All naval commands have been instructed to place orders by accurately identifying the annual stock requirements. Therefore, it is expected that items will remain in the depots for a long time without being released.</p> | <p>Existing stocks and requirements should be identified and orders placed appropriately, and the existing internal control systems in this regard should be reviewed and appropriate action taken.</p> |

warehouse for a long time without being taken by the end customer. The period of non-issue of stocks in the warehouse was 100 items that were more than 03 years old and 35 items that were between 02 and 03 years old and 250 items that were between 01 and 02 years old. Accordingly, it was observed that the annual stock requirement was not correctly identified and purchases were not made, as well as weaknesses in warehouse management.

- f. 258 iron sheets with a total value of Rs. 8,513,956 procured and received on 19 November 2023 were still stored in the metal warehouse as at 04 March 2025 of the date of the audit. These stocks had been ordered for the Disaster Response Simulator project to be constructed at the Disaster Management Training School belonging to the Faculty of Naval and Oceanographic Sciences. Accordingly, it is observed that public funds have been underutilized by ordering goods without properly managing the requirement.
- The Departmental Procurement Committee has approved the use of the items related to the file No. ENA/APOE/RCFO/ENG/2023/2143 for the needs of the Eastern Naval Command.
- the need must be identified and ordered properly, and these stocks must be utilized effectively.

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| <p>g. The warranty period of the 03 Dialysis machines in the Dialysis unit established at the Naval General Hospital has expired since 01 July 2023, and separate repair forms have been submitted on 20 December 2023 for the conclusion of service contracts from 01 March 2024 to 31 March 2025, and the relevant service contracts had not been concluded by February 2025.</p> | <p>This file has been shared 22 times to obtain approval for the renewal of the service agreement from 21 December 2023 to 05 February 2025. As per the audit recommendation, the internal control system will be strengthened to prevent delays in the signing of service agreements in the future.</p> | <p>Steps should be taken to establish a suitable mechanism to efficiently carry out the necessary work for the prompt renewal of the service agreement.</p> |
| <p>h. An amount of Rs. 6,326,857 had been spent on the renovation work of the Medagoda bungalow, but the renovation work has now been abandoned and the materials purchased for this renovation work worth Rs. 1,769,913 had been stored in the Sri Lanka Navy Crafts Institute. Also, although a tube well was installed by the National Water Supply Board at a cost of Rs. 1,274,890 out of the Rs. 6,326,857 incurred for this modernization, it was unable to meet the water requirement.</p> | <p>It has also been proposed to use the stocks of the Sri Lanka Naval Art Institute for approved projects such as maintenance and repair work on other projects, as work has been temporarily suspended after being purchased for renovation work.</p> | <p>Efforts should be made to spend the money allocated for projects effectively.</p> |
| <p>i. As per the single balance classification summary of Advance B Account for the year ended 31 December 2024, a total of Rs. 6,832,530 was outstanding for more</p> | <p>Agree with the observation. Necessary steps are being taken to recover the loan balance of Rs. 6,832,530 which is more than 05 years old.</p> | <p>Action should be taken to recover outstanding loan balances promptly.</p> |

than 5 years based on the age analysis of the debts of 47 seafarers.

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| j. | According to the summary of single balance classification, an amount of Rs. 5,613,358 from 41 employees who left the service for a period of between 01 and 05 years and an amount of Rs. 399,255 from 05 employees for a period of more than 05 years, amounting to Rs. 6,012,613, had not been recovered from 46 employees by the end of the year under review. | The balance due from 05 employees for more than 05 years is agreed with Rs. 399,255. | Necessary steps should be taken promptly to recover outstanding balances as per loan agreements. |
| k. | It was observed that out of the fuel provided on a reimbursement basis to other ministries, departments and institutions, Rs. 1,186,954 had not been reimbursed for fuel provided to a private institution as of May 2025. | Rs. 1,186,954.61 is yet to be recovered for fuel purchased as of December 31, 2024, and the relevant institution has been informed of this. | Action should be taken to recover outstanding amounts promptly. |
| l. | According to the information received regarding the deployment of naval officers and sailors of the Sri Lanka Navy for projects of other ministries and departments, the Navy had incurred a cost of about Rs. 369,951,372 as salaries for the said naval officers and sailors without obtaining | Since labor contributions are made with the approval of the Ministry of Defense for this, the Ministry of Defense has not informed the public to receive salaries for providing labor contributions. | Steps should be taken to recover the relevant money. |

reimbursement for the year under review.

5. Human Resource Management

The following observations are made.

Audit Observation	Comments of Accounting Officer	Recommendation
a. Although 55,000 Navy personnel were approved at the senior and tertiary levels for the Sri Lanka Navy, the actual number of personnel as at 31 December 2024 was 42,454, resulting in 12,546 vacancies at the senior and tertiary levels. It was about 22 percent of the total approved cadre of this. The number of vacant senior naval officers was 655, which was about 17 percent of the approved number. The number of vacant tertiary naval personnel was 11,891, which was about 23 percent of the approved number. No action had been taken to fill the vacancies or revise the approved cadre.	Although the approved number is 55,000, the number of employees has been maintained at 53,000, as per the letter No. MOD/DEF/HRM/SLN/PEN/05 dated 23rd August 2019. As a short-term solution, 169 officers and 4,000 sailors were requested to be recruited for the year 2024, but the Ministry of Defense approved the recruitment of only 169 officers and 2,000 sailors. Accordingly, proposals to recruit 200 officers and 4,000 sailors for the year 2025 have been prepared and forwarded to the Ministry of Defense for approval.	Steps should be taken to fill vacancies or properly identify employee needs and obtain proper approvals to revise the approved number.
b. Although the approved number of Navy civilian employees at senior, tertiary, secondary and primary levels was 1,936, as at 31 December 2024, the total actual number of employees was 1,200, leaving 736 or 38 percent vacant. The vacancy rates for civil servants at the senior, tertiary, secondary and primary levels were 30, 92, 50 and 37 percent respectively, and this	The Ministry of Public Administration has been informed to take steps to fill the vacancies in secondary and tertiary level posts. As per Management Services Circular No. 01/2020, recruitment for all existing vacancies in the primary service category in all institutions has been suspended until further notice, it has not been possible to recruit staff for the primary level vacancies in the Navy Civil Staff.	The requirements should be properly justified and approval should be obtained and steps should be taken to fill the relevant vacancies or amend the approved civil staff.

situation had become an obstacle to the Navy achieving high performance.

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| <p>c. As of December 31, 2024, the number of non-permanent civil servants was 10 and their recruitment had been done in the years 2018 and 2019. As at 31 December 2024, these employees had been discontinued the service more than 05 years. Although there were 736 vacancies in the civil service, it was problematic to employ these employees by dividing their service into 5 years.</p> | <p>We have been informed by the Secretary to the Ministry of Defence, vide letter No. MOD/ADM/11/01/(I) dated 03 March 2025, that the Cabinet Memorandum prepared to regularize the service of the civil staff recruited under the F.R.95.</p> | <p>Steps should be taken to recruit civil servants in a formal manner.</p> |
| <p>d. According to the clause 02(VII) of the management service circular No.02/2020 dated 26 October 2020 when the carder to be modified, it is needed to get it approved by submitting a formal submission with a fare justification about the carder position to the Department of Management Service, but even by the end of 2024 such new carder with necessary modification has not been approved.</p> | <p>The necessary steps are currently underway to identify a minimum number of posts and submit them to the Department of Management Services with a formal justification for approval.</p> | <p>Action should be taken to revise the approved number of employees according to the service requirements as per the circular.</p> |