

**Report of the Auditor General on Head 103 – Ministry of Defense and Urban Development and Departments under that Ministry – Year 2014**

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Paragraphs 1 to 2 of this report contain the general information on the Accounts of the Ministry and the Departments under that Ministry and audit observations on each Expenditure Head appear in paragraph 3 onward.

1. Departments under the Ministry

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<b>Head</b>	<b>Department</b>
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222	Sri Lanka Army
223	Sri Lanka Navy
224	Sri Lanka Air Force
226	Department of Immigration and Emigration
227	Department of Registration of Persons
291	Department of Coastal Conservation
320	Department of Civil Security
325	Department of Coastal Protection

**1.1 Scope of Audit**

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The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records, Reconciliation Statements, Revenue Accounts Stores Advance Accounts and Reconciliation statements of the Ministry of Defense and Urban Development and Departments under that referred to in paragraph 1 above for the year ended 31 December 2014 were carried out in pursuance of provisions in Article 154 (1) of the Democratic Socialist Republic of Sri Lanka. The Management Audit Reports for the year under review were issued to the Chief Accounting Officer and the Accounting Officers of the Ministry and the Departments on the following dates. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit

coverage as possible within the limitations of staff, other resources and time available to me.

<b>Head</b>	<b>Ministry/ Department</b>	<b>Date of Issue of the Management Audit Report</b>
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103	Ministry of Defense and Urban Development	27 July 2015
222	Sri Lanka Army	15 July 2015
223	Sri Lanka Navy	27 July 2015
224	Sri Lanka Air Force	14 July 2015
226	Department of Immigration and Emigration	16 June 2015
227	Department of Registration of Persons	17 June 2015
291	Department of Coastal Conservation	26 June 2015
320	Department of Civil Security	21 July 2015
325	Department of Coastal Protection	27 July 2015

## **1.2 Responsibility of the Chief Accounting Officer and the Accounting Officers for the Accounts and Reconciliation Statements**

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The Chief Accounting Officer and the Accounting Officers are responsible for the maintenance, preparation and fair presentation of the Appropriation Accounts, Revenue Accounts, Stores Advance accounts and the Reconciliation Statements in accordance with the provisions in Articles 148,149,150 and 152 of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Financial and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliations Statements that are free from material misstatements whether due to fraud or error.

## 2. Accounts

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### 2.1 Appropriation accounts

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#### (a) Total Provision and Expenditure

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While the total net provision made available for the Ministry and the 08 Departments under that was Rs.285,670.43 million, a sum of Rs.274,723.02 million had been utilized as at the end of the year under review. Accordingly savings of the Ministry and each Department out of the net provision were in a range from Rs. 0.9 million to Rs.6,111.33 million or 0.01 per cent to 40.25 per cent .Details are shown below.

Head -----	<u>As at 31 December 2014</u>			Savings as a Percentage of Net Provision -----
	Net Provision ----- Rs.Millions	Utilization ----- Rs. Millions	Savings ----- Rs. Millions	
103	25,626.50	19,515.17	6,111.33	23.85
222	144,875.98	142,786.25	2,089.73	1.44
223	54,319.24	54,170.13	149.11	0.27
224	43,815.26	42,610.51	1,204.75	2.75
226	2,432.55	1,453.45	979.10	40.25
227	555.47	549.96	5.51	0.99
291	1,829.77	1,427.92	401.85	21.96
320	12,151.00	12,150.10	0.90	0.01
325	64.66	59.53	5.13	7.93
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Total	285,670.43	274,723.02	10,947.41	3.83
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- (b) Utilization of Provisions made Available by other Departments.

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While provisions totalling Rs.2,260.97 million had been provided by other Ministries and Departments for various activities, a sum of Rs. 2,047.85 million out of those had been utilized. Accordingly, provisions amounting to Rs.215.29 had been saved. Although provisions amounting to Rs. 349.07 million had been given to the Sri Lanka Air Force by the Pension Department, a sum of Rs. 351.24 million had been utilized exceeding Rs.2.17 million of that provision.

## 2.2 Revenue Accounts

### ----- Estimated and Actual Revenue -----

While revenue totalling Rs.7,447.50 relevant to 04 Revenue Codes had been estimated by the Ministry and 3 Departments under the Ministry, revenue totalling Rs. 8,514.88 million had been collected during the year under review. Accordingly, revenue in a range from 103.04 per cent to 146.29 per cent of the estimated revenue had been collected. Details are shown below.

Revenue Code	As at 31 December 2014			Percentage of Revenue Collected Exceeding the Estimate
	Estimated Revenue	Actual Revenue	Revenue collected Exceeding the Estimate	
-----	-----	-----	-----	-----
	Rs.Millions	Rs.Millions	Rs.Millions	
10.03.07.05	12.50	12.88	0.38	3.04
20.03.02.16	170.00	248.68	78.69	46.29
20.03.02.07	7,173.25	8,150.85	977.60	13.63
20.03.02.03	92.00	102.46	10.46	11.37
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Total	7,447.75	8,514.88	1,067.13	14.33
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## 2.3 Advance Accounts

### 2.3.1 Advances to Public Officers Accounts

#### Limits Authorised by the Parliament

Limits Authorised by the Parliament for the Ministry and 07 Departments under the Ministry relevant to Advances to Public Officers Accounts and actual values are shown below.

Item Number	Expenditure		Receipts		Debit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
10301	44.00	37.58	30.00	40.33	250.00	159.40
22201	2,200.00	1,410.30	1,500	1,690.16	4,250.00	2,108.23
22301	455.00	358.49	320.00	404.24	900.00	435.44
22401	500.00	237.14	390.00	352.30	1,575.00	471.41
22601	30.00	22.49	22.70	27.00	154.00	124.68
22701	18.00	17.61	11.00	13.02	65.00	42.65
22101	11.25	6.49	7.00	7.44	51.03	31.79
32001	175.00	153.90	155.00	153.11	275.00	8.39

### 2.3.2 Stores Advance Account

Information relating to Stores Advance Account of a Department under the Ministry is given below.

(a) Limits Authorised by the Parliament

Limits authorised by the Parliament for a Department under the Ministry and actual values relating to the Stores Advance Account are shown below.

Item Number	Expenditure		Receipts		Debit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
23302	495.00	408.72	500.00	562.31	450.00	34.07

(b) Financial results

Financial Results of the Stores Advance account was as follows.

Item No.	Advance Account Activity	Financial Results			
		2014		2013	
		Profit without Hypothetical Charges	Profit without Hypothetical Charges	Profit without Hypothetical Charges	Profit without Hypothetical Charges
23302	Sale of Explosive Material, Firearms and Cartridges	120.10	100.31	97.32	115.31

2.4 Imprest Accounts

The total of Imprest balances of the Ministry and 06 Departments under the Ministry as at 31 December 2014 was Rs.13,894.18 million. Details are shown below.

<b>Ministry/ Department</b>	<b>Imprest Account Number</b>	<b>Balance as at 31 December 2014</b>
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		Rs.Millions
Ministry of Defense and Urban Development	7002/0000/00/0027/0014/000	13,058.09
Sri Lanka Army	7002/0000/00/0028/0014/000	129.63
Sri Lanka Navy	7002/0000/00/0029/0014/000	700.11
Sri Lanka Air Force	7002/0000/00/0030/0014/000	5.89
Department of Immigration and Emigration	7002/0000/00/0032/0014/000	0.21
Department of Coastal Conservation	7002/0000/00/0091/0014/000	0.23
Department of Coastal Protection	7002/0000/00/0409/0014/000	0.02
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		13,894.18
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## 2.5 General Deposits Accounts

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The total of Deposits balances of the Ministry and 06 Departments under the Ministry as at 31 December 2014 was Rs.1,411.03 million. Details are shown below.

<b>Ministry/ Department</b>	<b>Imprest Account Number</b>	<b>Balance as at 31 December 2014</b>
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		Rs.Millions
Ministry of Defense and Urban Development	6000/0000/00/0015/0017/000	744.04
Sri Lanka Army	6000/0000/00/0015/0103/000	87.00
Sri Lanka Navy	6000/0000/00/0015/0104/000	491.49
Sri Lanka Air Force	6000/0000/00/0015/0105/000	29.68
Department of Immigration and Emigration	6000/0000/00/0015/0107/000	2.54
Department of Registration	6000/0000/00/0015/0108/000	7.27
Department of Coastal Conservation	6000/0000/00/0015/0146/000	34.51
Department of Coastal Protection	6000/0000/00/0001/0024/000	14.50
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		1,411.03
		=====

## **2.6 Audit Observation**

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According to the Financial Records and Books for the year ended 31 December 2014, it was observed that subject to the audit observations appearing in the Management Audit Reports referred in Paragraph 1.1 the Appropriation Accounts, Revenue Accounts, Stores Advance Accounts and the Reconciliation Statements of the Ministry of Defense and Urban Development and Departments under that had been prepared satisfactorily. The material and important observations out of the observations included in those Management Audit Reports appear in paragraph 3 to 11 herein.

## **3. Head – 103 the Ministry of Defense and Urban Development**

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### **3.1 Non-maintenance of Registers and Books**

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It was observed in audit sample checks that following registers had not been maintained by the Ministry.

<b>Type of Register</b>	<b>Relevant Regulation</b>
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Register of Fixed Assets	Treasury Circular No.842 dated 19 December 1978.
Register of Fixed Assets relating to Computers, Accessories and Software	Treasury Circular No.IAI/2002/02 dated 28 November 2002.
Electrical Equipment Inventory	Financial Regulation 454 (2)
Attendance Register of the Procurement Committee and Technical Evaluation Committees	Guideline 2.11.2 of the Government Procurement Guidelines



### **3.2 Appropriation Account**

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**Budgetary Variance**  
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Due to excessive provisions made for 11 Objects, savings after utilization of net provision were in a range from 56 to 95 per cent.

### **3.3 Imprest Account**

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Following observation is made.

Although the adhoc imprest obtained should be settled immediately after completion of the work for which such imprest was obtained in terms of Financial Regulation 371, such Sub-imprest obtained in 14 instances totalling Rs. 265,000 had been settled after delays ranging from 01 to 10 months.

### **3.4 General Deposits Account**

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Following observations are made.

- (a) Action in terms of Financial Regulation 571 had not been taken with regard to 04 deposits amounting to Rs.3,606,132 which had exceeded a period of 2 years.
- (b) A sum of Rs.75,032 provided by a Department for a specific work had been kept in the Deposits Account without performing the relevant work.
- (c) A sum of Rs.11,527,303 provided as gifts for specific works by individuals, private establishments and 08 offices had been kept in the Deposits Account without action being taken in terms of Financial Regulation 170.

### **3.5 Revenue Account**

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Preparation of Revenue Estimates, Revenue Collection, Accounting and Presentation of Accounts had been entrusted to the Secretary to the Ministry as Revenue Accounting Officer relating to a Revenue Code. Following lapses were observed in the audit sample checks carried out relevant to that Revenue Code.

#### **Revenue Code 10.03.07.05 – Fire Arms, Explosive Material License Fees**

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Following observations are made.

- (a) While according to the Revenue Account presented to audit, the revenue in arrears totalling Rs.1,710,800 was relevant to a period ranging from 01 to 05 years, follow up action for recovery that revenue in arrears was at a weak level.
  
- (b) Although the charges to be recovered for various services should be amended periodically taking into account the changes in economic conditions in terms of paragraph 05 of the Government Fiscal Policies and Economic Activities Circular No. 01/2002 dated 17 July 2002, Fire Arms License Fees and Explosive Material License Fees had not been revised since the year 1996 and the year 2000 respectively.

### **3.6 Reconciliation Statement relating to Advances to Public Officers account**

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According to the Reconciliation Statement relating to Item No. 10301- Advances to Public Officers Account as at 31 December 2014, the total of balances in arrears as at that date was Rs. 6,058,093. Although those balances were outstanding since a period ranging from 01 to 27 years, necessary course of action had not been taken for the recovery balances in arrears by the Ministry.

### 3.7 Assets Management

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Following lapses were observed in audit sample checks carried out with regard to the assets of the Ministry.

- (a) The machines purchased on 04 November 2008 including the Re-figuring Machine having spent a sum of Rs. 2,070,000 had not been used for any work and remained idle throughout during a period of nearly 06 years.
- (b) Liabilities not settled by the Ministry amounting to Rs. 48,034,774 remained outstanding for over a period of less than one year. Expenditure incurred amounting to Rs. 3,831,112 during the year 2015 in respect of the year 2014 had not been shown as liabilities in the Appropriation Account.

### 3.8 Non-compliances

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#### (a) Non-compliance with Laws, Rules and Regulations.

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Instances of non-compliance with laws, rules and regulations observed in audit sample checks are analyzed below.

Reference to Laws, Rules and Regulations	Value	Non-compliance
	Rs.	
<b>(a) Statuary Provisions</b>		
Article 149 of the Constitution of the Democratic Socialist Republic of Sri Lanka	19,817,306,000	The amount received by Sale of the land where Sri Lanka Army Head Quarters were situated to a foreign company for development of Hotel Industry had not been credited to the Consolidated Fund.

925,925,814

Sale proceeds of the land mentioned above belongs to the Republic had been invested in a State Bank without approval of the Parliament. While interest amounting to Rs.92,593 million had been received through that, that amount had not been credited to the Consolidated Fund.

Although a provision of Rs.3,000 million had been made available by the Parliament for construction of the Akuregoda Defense Head Quarters, a sum of Rs.5,211.16 million had been spent causing excess expenditure amounting to Rs.2,211.16.

**(b) Financial Registrations of the Democratic Socialist Republic of Sri Lanka.**

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Financial Regulation 104(4)

10,875,314

Action in terms Financial Regulations had not been taken with regard to sudden fire caused on 15 February 2014 in construction of Head Quarters for the Ministry of Defense and Urban Development and the 03 Armed Forces.

**(c) National Budget Circulars**

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Circular No. 01/2014 dated 01 January 2014.

557,727

Expenditure incurred for local training and skill development of public officers had been accounted under Foreign Travel Object.

### **3.9 Foreign Aid Projects**

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While the estimated cost of the Project implemented under foreign financial loans during the year under review by the Ministry was Rs. 42,031,740,000, a sum of Rs. 4,287,660,000 had been utilized during the year under review. Following observations are made in that connection.

- (a) A Project Plan had not been prepared in order to finalize the project works during the project period.
- (b) Although half of the project period had been over as at the end of the year under review, only 17.31 per cent of the funds existed had been utilized. A plan to spend the balance funds within the balance 50 per cent period had not been prepared.
- (c) Although the possibilities to commence all components were there at the commencement of the Project, any expenditure had not been incurred on 04 sub-components out of 10, even at the time of exceeding 50 per cent of the project period.

### **3.10 Un-economic Transactions**

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Particulars relating to un-economic transactions revealed in audit sample checks are shown below.

- (a) Fifty five toners valued at Rs. 577,170 purchased during the years 2011, 2012 and 2013 had been sold for Rs. 1,200 at the auction held on 17 March 2015. In spite of the fact that there were considerable balance of toners in stores purchases, and purchases had been made repeatedly and due to that, validity period had been outdated. Government money amounting to Rs. 575,970 spent had become fruitless due to failure in correct assessment of the requirements.

- (b) In spite of the fact that a separate Fund called “Api Venuven Api” had been established, a sum of Rs. 6,292,456 to be spent by that Fund had been charged to the provisions of the Ministry.

### **3.11 Transactions of Contentious Nature**

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A sum of Rs. totalling Rs.13,225,990 had been spent under Object, Other Supplies and Other Services, as Rs.7,549,070 for souvenirs to local and foreign visitors and as Rs.5,676,920 for entertainment for them, for which provisions had not been made in the annual budget estimates. Those expenses had been approved by an officer who had not been delegated with financial authority under Financial Regulation 135.

### **3.12 Management Weaknesses**

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Following weaknesses were observed in sample audit checks.

- (a) A server system had been purchased for a sum of Rs. 893,985 on 14 May 2014 in order to computerize information relating to human resources of the Ministry. Although the memorandum of understanding prepared by the Agency of Information and Communications Technology to perform that work had been accepted by the Ministry, the agreement had not been signed by the two parties. Although a period of 07 months had elapsed after the purchase of the server system, it had been stopped halfway, due to problems arisen in computerization of information.
- (b) A sum of Rs.152,777 had been spent by the Ministry to insure 02 vehicles released to the Presidential Secretariat on 25 May 2005 and to the Coastal Protection Department. On 15 June 2010.

- (c) The cab vehicle belongs to the Ministry with a comprehensive insurance cover had met with an accident on 27 December 2013. While that vehicle had been parked in the Agency premises, nearly for period of two years without action being taken to repair it, action too had not been taken to obtain the insurance claim. Action in terms of Financial Regulations had not been taken with regard to this vehicle by the Ministry.
- (d) According to delegation of authority of the Ministry, the Director of the State Intelligence had been given the authority to approve payments up to Rs.75,000. However, same type of goods valued at Rs. 249,250 had been purchased through a number of bills within short number of days to evade the limit of Rs. 75,000.
- (e) Non-moving goods costing Rs. 118,846 not used for the requirements of the Ministry remained idle in the stores.
- (f) Revenue earned through various services provided to outside parties by the three forces and the Civil Defense Department had not been credited to the Consolidated Fund in terms of Article 149 of the Constitution of the Democratic Socialist Republic of Sri Lanka and the Cabinet decision dated 03 February 2009. The Ministry had not taken action to correct this position.
- (g) A sum of Rs.1,364,006 had been paid as fines during the year under review in settlement of electricity bills in arrears due to non-settlement of bills during the relevant years it self.

### 3.13 Human Resources Management

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#### Approved and Actual Cadre

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Cadre position as at 31 December 2014 was as follows.

	<b>Category of Employees</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Number of Vacancies</b>
	-----	-----	-----	-----
(i)	Senior Level	61	51	10
(ii)	Tertiary Level	11	05	06
(iii)	Secondary Level	270	170	100
(iv)	Preliminary Level	151	134	17
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	Total	493	360	133
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Action had not been taken by the Ministry to fill 133 vacant posts as at the end of the year under review.

### 4. Head 222 – Sri Lanka Army

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#### 4.1 Appropriation Account

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##### Budgetary Variance

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Following observations are made.

- (a) Imprest money requested by the Sri Lanka Army had not been made available as expected by the Treasury. Provisions amounting to Rs. 935,882,009 only had been utilized out of provisions made totalling Rs.1,786,921,000 provided for 05 Objects. Accordingly, a sum of Rs.851,038,991 or 48 per cent had been left unspent.



- (b) The entire total provision of Rs.1,225,000,000 made available for 03 Objects had been saved.

#### **4.2 Reconciliation Statement relating to Advances to Public Officers account**

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Following lapses were observed in the audit sample checks carried out with regard to Reconciliation Statement relating to Item No. 22201- Advances to Public Officer Account as at 31 December 2014,

- (a) Although the total of balances in arrears as at that date amounting to Rs. 422,372,763 were outstanding since a period ranging from 01 to 05 years, the follow up action for recovery of those balances was at a weak level.
- (b) Action in terms of Section 4.4 in Chapter XXIV of the Establishments Code had not been taken to recover a sum of Rs. 5,685,203 outstanding from deceased officers. Out of those, loan balances totalling Rs. 1,026,584 had been outstanding for a period of more than 05 years. Similarly, loan balances totalling Rs.49,078,991 due from retired officers had not been recovered in terms of Section 4.2.5 in Chapter XXIV of the Establishments Code.

#### **4.3 Assets Management**

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Following lapses were observed in audit sample checks carried out with regard to assets of the Sri Lanka Army.

##### **(a) Construction of Buildings in Lands not Vested**

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A sum of Rs.362,706,785 had been spent for the construction of the military equipment stores in a land of 10 acres in extent belongs to the Sri Lanka Railway Department situated in Ragama, by the Sri Lanka Army during the year 2014. It was observed that vesting of that land is in a disputed position.

**(b) Un-settled Liabilities**

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The un-settled liabilities amounting to Rs.11,584,040,131 of the Sri Lanka Army as at 31 December 2014 had been 8 per cent of the total provision. The Sri Lanka Army had committed liabilities amounting to Rs. 91,586,470 in excess of the balance left after utilization of provision made available for 06 Objects.

**4.4 Improper Transactions**

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Certain transactions entered into by the Sri Lanka Army had not been proper. Few such instances observed are shown below.

- (a) A sum of Rs.3,465,000 and another sum of Rs.1,001,000 had been spent respectively for the purchase of 5,750 packets of A-4 Type Photo Copying Papers and 250 computer ribbons of Printronix Type, by the Sri Lanka Army. Cheques had been realized in favour of different individuals other than the payees mentioned in the payment vouchers. Although the Value Added Tax payments had been made in favour of that payee, Department of Inland Revenue had not registered an institution paying Value Added Tax under that name.
- (b) The Purchase Order had been entrusted to the supplier selected after calling for quotations for supplying 30,000 white bed sheets during the year 2012. Only 15,772 bed sheets valued at Rs.9,068,000 had been supplied as at 31 December 2013. It was observed in audit that, this supplier had been supplying various goods to the Sri Lanka Army under various names.

**4.5 Losses and Damages**

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Observations relating to the losses and damages revealed in audit sample checks are shown below.

- (a) Action had not been taken to conduct formal enquiries in order to identify the responsible persons relating to 233 non-terrorist incidents of losses and damages amounting to Rs.233,124,624 in terms of Financial Regulation 104(1) and due to that, those incidents remained in the statement of unsettled losses, damages and waivers.
- (b) Action had not been taken to identify and recover losses and damages caused to vehicles accidents from the responsible persons or from third parties if they are responsible. Due to that, losses totalling Rs.10,757,774 occurred through 74 accidents had been written-off from the books during the year 2014.

#### 4.6 Human Resources Management

- (a) Approved and Actual Cadre

Cadre position of the Uniformed Staff as at 31 December 2014 was as follows.

	<b>Category of Employees</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Number of Vacancies</b>
(i)	Officers – Regular Voluntary	10,631	9,658	973
(ii)	Other Officially – Regular Voluntary	187,019	177,235	9,784
	<b>Total</b>	<b>197,650</b>	<b>186,893</b>	<b>10,757</b>

(b) Cadre position of the Civil Staff as at 31 December 2014 was as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Surplus
-----	-----	-----	-----	-----
(i) Senior Level	11	08	03	-
(ii) Tertiary Level	06	02	04	-
(iii) Secondary Level	198	144	54	-
(iv) Preliminary Level	6,386	6,758	-	372
(v) Others (Casual/ Temporary/ Contract Basis)	4,537	4,127	410	-
Total	----- 11,138	----- 11,039	----- 471	----- 372
	=====	=====	=====	=====

Following observations are made.

- (i) The Sri Lanka Army had not taken action to fill 11,228 vacant posts as at the end of the year under review.
- (ii) The Sri Lanka Army had not taken action to obtain proper approval with regard to 372 surplus employees.

## **5. Head – 223 Sri Lanka Navy**

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### **5.1 Non- maintenance of Registers and Books**

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It was observed in audit sample checks that following registers had not been maintained by the Sri Lanka Navy.

<b>Type of Registers</b>	<b>Relevant Regulations</b>
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Register of Fixed Assets	Treasury Circular No.842 dated 19 December 1978.
Register of Liabilities	Financial Regulation 214
Register of Listing Vehicles	Financial Regulation 1647 (e)
Register of Calling for Bids	Guideline 5.11.2 of the Government Procurement Guidelines

## **5.2 Replies to Audit Queries**

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While a reply had not been furnished even up to 31 July 2015 to an audit query issued during the year under review by the Sri Lanka Navy, value of transactions relevant to that audit query amounted to Rs. 1,085 million.

## **5.3 Appropriation Account**

### **Budgetary Variance**

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Following observation is made.

- (a) Although excessive provisions amounting to Rs.267,050,000 had been obtained for 11 Objects, a sum of Rs.179,183,297 only had been utilized. Accordingly, a sum of Rs.87,866,703 or 33 per cent of provisions had been saved.
- (b) Although a sum of Rs.6,250,000 had been obtained for Object 223-1-2-2502(17) through Financial Regulation 66 transfer papers, the entire provision so obtained had not been utilized.

## **5.4 Imprest Account**

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Following lapses were observed with regard to Ad - hoc Imprest provided for various works by the Sri Lanka Navy.

- (a) Although the Adhoc Imprest obtained should be settled immediately after completion of the relevant work for which such Imprest was obtained, such ad - hoc advances obtained in 07 instances totalling Rs.267,000 had been settled after delays ranging from 03 to 10 months.
- (b) Sub-imprest provided at the rate of Rs. 20,000 in 07 instances had been kept in hand and the full amount had been returned after a time range from 03 to 07 months.
- (c) It was observed in 08 instances that the amount required had been overestimated in issuing the Sub-Imprest and part of it had been spent, having kept the balances in hand in a range from Rs.13,000 to Rs.650,000 over period from 3 ½ months to 05 months, giving room to misuse the Funds of the Government.

## **5.5 General Deposits Account**

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Action in terms of Financial Regulation 571 had not been taken with regard to 193 deposits amounting to Rs.1,221,449 which had exceeded a period of 2 years and 15 Retention Deposits amounting to Rs.3,831,208 deposited during the year 2000. .

## **5.6 Reconciliation Statement relating to Advances to Public Officers account**

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According to Reconciliation Statement relating to Item No. 22301- Advances to Public Officer Account as at 31 December 2014, balances in arrears as at that date amounting to Rs.122,251,982 were outstanding since a period ranging from 01 to 05 years,. Although a time range from 01 to years had elapsed, the follow up action for recovery of those balances was at a weak level.

## 5.7 Stores Advance Account

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Following lapses were observed in audit sample checks carried out with regard to Stores Advance Account maintained by the Sri Lanka Navy during the year under review.

- (a) An audit opinion had not been expressed with regard to accounts for the year 2014 and preceding years.
- (b) A sum of Rs.22,539,274 had been credited to the profit brought forward during the year under review due to an error caused in computation of the Closing Stock of the preceding year. While an account for Opening Stock had not been prepared in the in the Ledger, a sum of Rs. 33,255,246 had been overstated in the Opening Stock of the year under review. Accordingly, a difference of Rs. 10,715,972 had been revealed, while reasons for that had not been explained to audit.
- (c) The expenditure amounting to Rs.239,536 had not been accounted and due to that, profit for the year under review had been overstated to that extent.
- (d) Bank Charges amounting to Rs. 342,130 recovered for a letter of credit opened in a state bank for the Stores Advance Account during the year under review had not been accounted as expenditure.
- (e) Although the closing stock should be valued at cost or net realizable value whichever is less according to accounting practices, when accounting for this advance activity, closing stock had been valued at cost amounting to Rs. 121,477,079 without taking into account the net realizable value.
- (f) Written evidence were not submitted to confirm the value of assets amounting to Rs.35,689,764 and Liabilities amounting to Rs.126,785,534 shown in the Balance Sheet submitted to audit as at 31 December 2014.

## **5.8 Good Governance and Accountability.**

### **Audit and Management Committee**

Although an Audit and Management Committee should be appointed and meetings should be held quarterly in terms of Management Audit Circular No. DMA//09/01 dated 09 June 2009, only two terms of meetings of the Audit and Management Committee had been held during the year 2014.

## **5.9 Lapses in Operation of Bank Accounts**

### **Long Delays in Preparation of Bank Reconciliation Statements**

Bank Reconciliation Statements relating to a bank account had not been prepared since September 2014 as at 31 December 2014.

## **5.10 Improper Transactions**

Improper instances of certain transaction of the Sri Lanka Navy were revealed in sample audit checks. Few such instances are shown below.

### **(a) Deviation from Procurement Procedure**

Although the purchasing should be done after calling for bids from a number of bidders in terms of Guideline 3.4.1 (b) of the Government Procurement Guidelines, when purchasing goods valued at Rs.2,656,859 by the Sri Lanka Navy, action had not been taken accordingly.



(b) Un-authorized Transactions

-----  
Following observations are made.

- (i) Although instruction had been given at the Public Accounts Committee Meeting held on 11 June 2011, to rectify the system of writing cheques and handing over those to suppliers in advance is entirely a wrong system of transactions and to rectify that incorrect system, purchases had been made in 6,720 instances having spent a sum of Rs. 2,091,960,398 by the Sri Lanka Navy during the period from July 2011 to April 2014.
- (ii) The sum of Rs.1,048,089,448 earned during the year under review by way of providing services to outside parties by the Sri Lanka Navy had not been credited to the Consolidated Fund in terms of Cabinet Decision dated 03 February 2009, letter dated 09 December 2013 of the Director General of Establishments, letter dated 28 June 2008 of the Director General of Public Finance and Article 149 of the Constitution of the Democratic Socialist Republic of Sri Lanka.
- (iii) Although the lease money recovered in leasing out civil canteens maintained in Government Properties belong to the Sri Lanka Navy should be credited to the Consolidated Fund in terms of Article 149 of the Constitution of the Democratic Socialist Republic of Sri Lanka, those amounts had been credited to the funds of the civil welfare societies, contrary to the provisions. Payments of water and electricity bills of those and purchase of equipment had been made out of the Consolidated Fund.

## **5.11 Losses and Damages**

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Observations relating to losses and damages revealed in audit sample checks are shown below.

- (a) When purchasing 7,000 pairs of shoes for the Sri Lanka Navy, price recommended at the time calling for quotations for the first time had been refused and purchases had been made at a higher price having called for quotations for the second time. Due to that, a sum of Rs. 5,980,744 had been overpaid.
  
- (b) Action had not been taken to make the purchase before expiry of the validity period of quotations when purchasing 20 Rechargeable Lead Acid Batteries. Due to that, purchases had to be made at a higher price quoted for the fourth time than the recommended price which was refused at the time of receiving quotations for the first time. Due to that, a sum of Rs. 115,001 had to be overpaid by the Sri Lanka Navy.
  
- (c) A period of 06 months had been taken from the time of calling for quotation to the time of placing the orders when purchasing 04 categories of goods by the Sri Lanka Navy. Due to that, purchases had to be made at a higher price than the price quoted for the first time of calling for quotations. Due to that purchases had to be made at a higher price causing a loss of Rs.698,510

## **5.12 Un-economic Transactions**

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A fine of Rs.4,832,667 had been paid to the Ceylon Electricity Board due to failure in making payment for electricity bills on the due dates.

### 5.13 Management Weaknesses

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Following weaknesses were observed in the audit sample checks.

- (a) While a sum of Rs.15,905,971 relevant to 5 orders had been paid at the time of placing Orders contrary to Financial Regulation without obtaining security deposits during the year 2011, by the Sri Lanka Navy and the value of goods so supplied elapse of 03 years had been Rs. 10,757,269. The balance sum of Rs. 5,148,702 had to be recovered in 12 installments without interest since June 2014 on the basis of court action. Accordingly, it amounts to an interest free loan of Rs. 5,148,707 granted to a private institution.
- (b) When purchasing Pair an Operating Loup with Integrated Light for the Sri Lanka Navy, only one supplier had responded and due to that his quotation of Rs. 479,500 had been rejected. The quotation Rs. 795,000 offered by another supplier at the second time had been accepted. Due to that a sum of Rs. 315,000 had to be overpaid.

### 5.14 Human Resources Management

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#### **Improper Release of Human Resources to Other Parties**

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Although 66 Officers and 1,044 Sailors had been released on full time basis to the Sri Lanka Coastal Protection Department by the Sri Lanka Navy, their emoluments had been paid by the Navy.

## 6. Head – 224 Sri Lanka Air Force

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### 6.1 Non- maintenance of Registers and Books

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It was observed in audit sample checks that, while certain registers had not been maintained and certain other registers had not been updated by the Air Force as shown below.

<b>Type of Register</b>	<b>Relevant Regulation</b>	<b>Observations</b>
-----	-----	-----
(a) Register of Fixed Assets	Treasury Circular No.842 dated 19 December 1978.	Not maintained.
(b) Register of Fixed Assets Relating to Computers, Accessories and Software	Treasury Circular No.IAI/2002/02 dated 28 November 2002.	Not maintained.
(c) Personnel Emoluments Register	Financial Regulation 453	Not updated and maintained.
(d) Departmental Appropriation Votes Ledger	Financial Regulation 447	Not updated and maintained.
(e) Register of Liabilities	Financial Regulation 214	Not maintained

### 6.2 Lack of Evidence for Audit

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Any supporting documents relevant to 26 payment vouchers amounting to Rs. 4,615,139 for reimbursement of payments met through the Air Force Welfare Fund in Head Office were not submitted to audit.

### **6.3 Appropriation Account**

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**Budget Variance**  
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Savings due to non-occurrence of incidents for incurring expenditure, non-occurrence of necessity to incur expenditure as expected and non-occurrence of improvements as expected totalling Rs.1,079,781,164 relating to 35 Objects were in a range between 6 to 94 per cent of the net provision.

### **6.4 Imprest Account**

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Out of the non-settled Imprest of Rs. 5,893,112 as at 31 December 2014 by the Air Force, balances totalling Rs.574,452 had been brought forward since the year 2001.

### **6.5 General Deposits Account**

-----  
Following observations are made.

- (a) A sum of Rs.2,267,879 being value of 70 cheques issued, but not presented for payment to the bank as at 31 December 2014 had been kept in the Deposits Account without taking action in terms of Financial Regulation 396(d).
- (b) Charges amounting to Rs.1,391,722 recovered from the applicants for tenders for quality tests of the samples , had not been utilized for that work and had been kept idle in the Deposits Account and credited those charges to Government Revenue after elapse of 2 years.

## 6.6 Revenue Account

-----  
Following observations are made.

- (a) Although the hire charges revenue of the aero planes of the Air Force should be collected by the Commander of the Air Force or by an officer authorized by him in terms of Government Fiscal Policy and Economic Affairs Circular No. 01/2002(x) dated 17 July 2002, collection of revenue had been done by a private firm established by certain officers of the Air Force. . While the physical and human resources belong to the Air Force had been used for operational works of this firm, the approval obtained to involve in activities of the firm were not made available to audit.
  
- (b) Although the Form General 172 should be used in collection of money according to the paragraph 2(c) of the Set of Instructions issued to the Air Force by the Ministry of Defense and Foreign Affairs, dated 27 April 1973, receipts indicating the name of that firm had been used by the above mentioned private firm for collection of revenue. A methodology adopted to ensure that all revenue due to the Government are credited and whether that firm has a control over it had not been furnished to audit, as there had been a long delay in remitting the revenue. Therefore it was not possible to satisfy in audit with regard to the accuracy of revenue collected during the year 2014 and the revenue receivable as at 31 December 2014.
  
- (c) Although entire money received should be remitted and a receipt should be obtained for that in terms of Financial Regulation 177(3), according to documents submitted to audit, a sum of Rs. 23,039,444 out of the total Aero Planes Hire Revenue had been credited to an internal fund of the Air Force named as Executive Welfare Fund which is not an account of the Government, without crediting that money to Revenue Code 20.03.0216.

## **6.7 Reconciliation Statement relating to Advances to Public Officers account**

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Following observations are made.

- (a) While approved Minimum Limit of Receipts according to third schedule of the Appropriation Act No. 36 of 2014 was Rs. 390,000,000, actual receipts had been Rs.352,302,705. Minimum Limit had not been reached in a sum of 37,697,295.
  
- (b) Although balance of the Advance Account mentioned above as at 31 December of the preceding year had been Rs. 576,211,703, opening balance of the year 2014 had been shown as Rs. 592,396,210 and therefore a difference of Rs. 16,184,507 was revealed. Reasons for that difference or adjustment entries had not been disclosed in the Reconciliation Statement. While the balance at the end of the year had not been shown in the Reconciliation Account, according to computations by audit, balance according to the Reconciliation Statement had been Rs. 477,229,686. Classification of individual balances prepared on the basis of control accounts, Individual accounts and officers structure, classification summaries of individual balances prepared according to categories of advance had been mentioned as Rs.471,407,746, Rs.433,633,765, Rs.456,290,525 and Rs.456,908,335 respectively. Accordingly, accuracy of opening balance included in the account, receipts during the year, recoveries made and final balance could not be satisfied in audit. Further action had not been taken to take over balances brought forward since the year 1981.

## **6.8 Assets management**

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Following lapses were observed in the sample audit checks carried out with regard to assets of the Air Force.

- (a) While the non-current assets purchased during the year 2014 should be included in the report relating to movement of non-current assets of the Appropriation account, it should tally with the values shown in the Form DGSA-4. However, following differences were observed.

Particulars	Value According to to from DGSA – 4	Value according to report relating to movement of Non-current Assets	Difference
-----	-----	-----	-----
	Rs.	Rs.	Rs.
Vehicles	26,920,545	357,575,553	330,655,008
House hold goods and Office Equipment	107,323,743	26,440,848	80,882,895
Machinery and Equipment	736,201,713	246,284,593	489,917,120
Buildings and Constructions	288,147,507	-	288,147,507

While it was observed that purchases had not been made having taken to account the provisions accordingly and reasons for these variations too had not been explained.

- (b) Unsettled Liabilities

-----

An age analyses had not been prepared relevant to unsettled liabilities amounting to Rs.3,949,117,296 of the Air Force as at 31 December 2014. Accordingly it was not possible get a confirmation with regard to the manner in which the liabilities amounting to Rs. 4,278,066,949 as at 01 January was settled, how the liabilities were built up during the year under review, and the age analysis of the liabilities of Rs. 3,949,117,296 existed as at 31 December 2014. Particulars relating to liabilities existed at the beginning and the end of the year under review had not been recorded too, in Appropriations (sanctioned expediter) Votes Ledgers



relevant to those years. Commitments of Rs. 570,140,498 and Rs. 47,694,850 had been made by the Air Force, non-complying with requirements in Financial Regulation 94 (1) and 94 (2) respectively, during the year under review.

## **6.9 Non-compliance with Tax Requirements**

-----

Following observations are made.

- (a) When a sample audit check was carried out with regard to recovery of Pay as You Earn Tax made from 50 officers relevant to July 2014, it was observed that certain allowances had not been taken into account for computation of the tax recoverable. A sum of Rs.39,667 had been paid to the Department of Inland Revenue during July 2014 as, Pay as You Earn Tax. When tax was calculated after taking into account all relevant allowances, a sum of Rs. 55,686 should have been paid to the Department of Inland Revenue. Accordingly, a sum of Rs. 16,019 had not been deducted as Pay as You Earn Tax from the officers relevant to that month.
- (b) Although the amount paid as reimbursement of medical expenses which is considered as a lump sum payment should be taken to account in calculating employee's average gross salary ratio for the purpose of calculating tax payable by each officer, according to the instructions in Pay as You Earn 2014/2015 Circular No. 02, action had not been taken accordingly in calculating the Pay as You Earn Tax of the officers of the Air Force.

## **6.10 Transaction of Contentious Nature**

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Details relating to certain transactions of contentious nature made by the Air Force are shown below.

- (a) A sum of Rs.20,905,290 had been spent out of the provisions of the Air Force to send short messages in order to bring forward the contestants of the Air Force participated in the final stage of the “Ranaviru Real Star Programme” organized by the Ministry of Defense and Urban development.
- (b) Civil Employees had been recruited to the Sri Lanka Air Force in terms of Financial Regulation 95 and those employees had been engaged in works outside the functions of the Sri Lanka Air Force. A sum of Rs.15,885,588 during the year 2013 and a sum of Rs. 15,647,619 during January to August 2014 had been paid as salaries and allowances to those employees from the provisions of the Air Force.
- (c) Although the revenue earned by providing services to outside parties should be credited to the Consolidated Fund as per instruction given in the letter No. BD/NF/103/03/09/30 dated 19 November 2014 of the Deputy Secretary to the Treasury, revenue earned from 96 Funds carried on utilizing the human and physical resources of the Air Force had been credited Air Force Funds without being credited those earnings to the Consolidated Fund.

## **6.11 Deviation from Government Procurement Procedure**

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In preparing the Annual Procurement Plan relevant to the year 2014, in terms of Circular No. 128 dated 24 March 2006 of the National Budget, Capital Expenditure of Rs.1,245,614,412 estimated and Recurrent Expenditure of Rs. 8,131,968,000 estimated had not been included to that plan. Maintenance of records or introducing control systems to ensure that procurement works are performed according to the planned

methodology with regard to Capital Expenditure included in that plan too had not been done.

The officers had been made to understand the primary conditions and directions with regard to course of action to be taken when obtaining hired vehicles for the Air force vide letter No. SLAF/1540/7/DGE/MT dated 11 August 2014 by the Director (General Engineer). Accordingly, bids had been called for on 17 September 2014 from the suppliers registered in the Ministry, suppliers mentioned in the Telephone Directory and also notifying In the official web Site of the Air Force to obtain 15 petrol hiring vehicles for officers of the Air Force. Following observation is made in this connection.

Fifteen Air Force Officers and their relatives had submitted the lowest quotations and due to that this procurement had been awarded to above 15 Air Force Officers and their relatives. It had been mentioned in the procurement conditions of the contract agreements that advances will not be paid. The service providers had entered into agreements for one year having agreed to that condition. However, before obtaining the relevant services, advances amounting to Rs. 9,000,000 had been paid to those 15 individuals at the rate of Rs. 600,000 per head as hire charges for one year.

**7. Head – 226 Department of Immigration and Emigration**

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**7.1 Non- maintenance of Registers and Books**

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Following registers had not been maintained by the Department.

<b>Type of Register</b> -----	<b>Relevant Regulation</b> -----
(i) Register of Fixed Assets	Treasury Circular No.842 dated 19 December 1978.
(ii) Register of Fixed Assets Relating to Computers, Accessories and Software	Treasury Circular No.IAI/2002/02 dated 19 December 1978.

## **7.2 Appropriation Account** -----

### **7.2.1 Budgetary Variance** -----

Following observations are made.

- (a) The entire provision of Rs. 600,000,000 made available had been saved due to non-commencement of issue of Biotic Passports.
- (b) Savings after utilization of provisions had taken a percentage ranging from 58 to 99 Per cent of the net provision, due to excessive provision made available totalling Rs.52,699,228 relating to 05 Objects.

## **7.3 Revenue Account** -----

Function of preparation of revenue estimates, collection of revenue, accounting and submission of accounts under Revenue Code 20.03.02 07 had been assigned to the Controller General as the Revenue Accounting Officer. Following lapses were observed in audit sample checks carried out with regard to that Revenue Code.

- (a) Although it had been estimated to collect a revenue of Rs. 7,173 million under the above Revenue Code according to Annual Revenue Estimates, revenue of Rs. 8,151 million had been recovered exceeding Rs.978 million or 13 to 63 per cent over the estimated revenue as at the end of the year under review.

- (b) Visa Revenue relevant to March, June October, November and December of the year 2014 had been Rs.181,855,041 according to the cash-book. There was a difference of Rs.2,286,174 as Visa Revenue had been Rs.184,141,215 according to the computer system of the Department.

#### **7.4 Reconciliation Statement relating to Advances to Public Officers Account**

-----

Although the loan balances in arrears amounting to Rs. 2,132,277 had been outstanding over a period ranging from 06 months to 05 years according to the Reconciliation Statement relating to Item No. 22601 - Advances to Public Officers Account, the Department had failed to recover those balances.

#### **7.5 Performance**

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##### **Key Functions not Executed Adequately**

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Although the issue of Dual Citizenship Certificates had been suspended with effect from 28 January 2011, 2,053 Dual Citizenship Certificates including 259 Certificates issued on approval of the Secretary to the Ministry of Defense had been issued as at the end of the year 2014. A total revenue of Rs.230,850,000 including the revenue of Rs. 33,950,000 received during the year 2014 had been earned for that from 28 January 2011 to the end of the year 2014.

#### **7.6 Management Weaknesses**

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Following weaknesses were observed in audit sample checks.

- (a) According to the provisions in the agreement for Establishment of System of Electronic Approval for Tourism, permission had not been given to the designer to advertise own publicity. Contrary to that, a private telephone company operating in Sri Lanka had displayed its own emblem on that web page. According to the letter dated 09 December 2013, addressed to the Secretary to the Ministry of Defense, Sri Lanka Agency for Information and Communication Technology, publication of

any advertisement should be made after calling for bids. The Secretary to the Ministry of Defense had informed the Controller General of the Department to prepare and submit draft procurement document on 25 March 2014. However, publicity works on that page had not been stopped even as at 31 December 2014.

- (b) It was observed, in audit checks that any data is not shown in certain reports in the computer system of the Department.
- (c) Following observations are made with regard to persons staying in Sri Lanka without visa.
  - (i) According to the computer reports bearing number 7.6.7 B of the Department, out of the 12,816 foreigners stayed in the country without visa during the period from 01 January 2012 to 31 December 2014 and there were 3,801 foreigners who had come without visa during the year 2014.
  - (ii) While it was observed that a revenue receivable to the country is lost due to staying without visa for more than a period of three years, adequate information with regard to the investigations carried out to roundup them and taking into custody were not submitted to audit.
  - (iii) Evidence was not submitted to audit to ensure that proper reports were submitted to the Controller General of Immigration and Emigration and collection of information and recording statements were made according to the Operational Handbook issued to the Ports and Investigations Divisions of the Department during the year 2013.

## 7.7 Human Resources Management

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### Approved and Actual Cadre

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Cadre position as at 31 December 2014 was as follows.

	<b>Category of Employees</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Number of Vacancies</b>
	-----	-----	-----	-----
(i)	Senior Level	60	50	10
(ii)	Tertiary Level	399	366	33
(iii)	Secondary Level	429	362	67
(iv)	Preliminary Level	131	122	09
(v)	Others (Casual/ Temporary/ Contract Basis)	02	02	-
		-----	-----	-----
	Total	1,021	902	119
		=====	=====	=====

The Department had failed to fill 119 vacant posts as at the end of the year under review.

## 8. Head – 226 Department of Registration of Persons

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### 8.1 Non- maintenance of Registers and Books

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Register of Fixed Assets Relating to Computers, Accessories and Software had not been updated by the Department in terms of Treasury Circular No. IAI/2002/02 dated 28 November 2002.

## **8.2 Appropriation Account**

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### **8.2.1 Budgetary Variance**

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Savings after utilization of provisions had taken a percentage ranging from 59 to 86 per cent of the net provision, due to excessive provision made available totalling Rs. 1,611,162 relating to 02 Objects.

## **8.3 Revenue Account.**

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Function of preparation of revenue estimates, collection of revenue, accounting and submission of accounts under Revenue Code 20.03.02 03 had been assigned to the Commissioner General. Out of the estimated revenue of Rs.92 million under the above Revenue Code according to Annual Revenue Estimates, revenue of Rs. 102.46 million or 111.32 per cent had been earned as at the end of the year under review.

## **8.4 Reconciliation Statement relating to Advances to Public Officers Account**

-----

Although the loan balances in arrears amounting to Rs. 1,356,935 had been outstanding over a period ranging from 06 months to 05 years according to the Reconciliation Statement relating to Item No. 22701 - Advances to Public Officers Account, the Department had failed to recover those balances.

## **8.5 Performance**

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### **Main Activities not Adequately Performed**

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Following lapses were observed regarding non-completion of work even as at 31 May 2015 in issuing Electronic Identity Cards Project commenced during the year 2007.



- (a) After spending a sum of Rs.314,199,087 in respect of the Project for Issue of Electronic Identity Cards commenced during the year 2007, the Project had been cancelled as per Cabinet Decision taken on 09 September 2009.
- (b) The Project had been commenced again on the basis of an estimate for Rs.14.5 billion during the year 2012. While a Pilot project had been commenced in the Southern Province in this connection, data had been collected in 27 Divisional Secretariats. However, those data had been kept in the Project Office without action being taken computerized.
- (c) A sum of Rs.708,141,519 had been spent as at 31 December 2014 after commencing the activities of the Project for the second time. Due to the delay in obtaining approval of the Cabinet of Ministers for amendments relating to collection of data and other amendments to the Registration of Persons Act, the work of Project was in a slow phase as at 31 December 2014.

## 8.6 Human Resources Management

### Approved and Actual Cadre

Cadre position as at 31 December 2014 was as follows.

	<b>Category of Employees</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Number of Vacancies</b>
(i)	Senior Level	25	17	08
(ii)	Tertiary Level	04	01	03
(iii)	Secondary Level	1,195	999	196
(iv)	Preliminary Level	139	97	42
	<b>Total</b>	<b>1,363</b>	<b>1,114</b>	<b>249</b>

Although 223 vacancies out of the 249 vacant posts as at the end of the year under review had been vacant over period of more than one year, the Department had failed to fill those vacancies.

## 9. Head – 291 Department of Coastal Conservation

### 9.1 Non- maintenance of Registers and Books

It was observed in audit sample checks that, while certain registers had not been maintained, certain other registers had not been updated by the Department as shown below.

Type of Register	Relevant Regulation	Observations
(i) Register of Fixed Assets	Treasury Circular No.842	Not maintained dated 19 December 1978.
(ii) Register of Fixed Assets Relating to Computers, Accessories and Software	Treasury Circular No.IAI/2002/02 dated 28 November 2002.	Not maintained
(iii) Audit Queries Register	Financial Regulation 452 (1)	Not maintained
(iv) Departmental Appropriation Votes Ledger	Financial Regulation 447	Not updated and maintained.
(v) Register of Cheques and Money Orders etc., received	Financial Regulation 451	Not maintained
(vi) Register of Securities	Financial Regulation 891 (1)	Not maintained
(vii) Register of Electrical Equipment	Financial Regulation 454 (2)	Not maintained
(viii) Register of Losses	Financial Regulation 110	Not updated and maintained.
(ix) Register of Liabilities	Financial Regulation 214	Not maintained.
(x) Register of Counterfoil Books	Financial Regulation 341	Not maintained.

(xi)	Register of Contracts	Financial Regulation 781	Not maintained.
(xii)	Fuel and Lubricants Stock Book	Financial Regulation 1647 (d)	Not updated and maintained.
(xiv)	Vehicles Listing Register	Financial Regulation 1647 (e)	Not maintained.
(xv)	Attendance Register of the Procurement Committee and Technical Evaluation Committees.	Guideline 2.11.2 of the Government Procurement Guidelines	Not maintained.

## 9.2 Lack of Evidence for Audit

-----

The following observations are made.

- (a) Information relating to the work for which 500 stone blocks valued at Rs. 2,352,000 oversupplied for construction of Maravila – Thalavila Break Waters had not been submitted to audit.
- (b) It had been stated in the letter Vesana/ga//01/50 dated 31 March 2015 of the Galle Regional Engineer that, 09 cubic meters of mixed stones valued at Rs. 209,120, left in the construction of the stage for Unavatuna Sand Feeding Project and 190 stone blocks in size of 1.5 tons used by the contractor firm and kept at the premises of the Galle Divisional Office were not in re-usable condition. Evidence relating to proper handing over and taking over of the relevant items were not furnished to audit.

## 9.3 Replies to Audit Queries

-----

While replies had not been furnished to 5 audit queries issued during the year under review and 2 queries issued in preceding years to the Department even up to 31 March 2015, quantifiable value of transactions relevant to those queries was Rs.282,284,953.

## **9.4 Appropriation Accounts**

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### **9.4.1 Budgetary Variance**

-----

Following observations are made.

- (a) Out of total net provision of Rs. 1,644,063,900 made available for 07 Objects, a sum of Rs.401,356,024 had been saved.
  
- (b) Due to excessive provision made available for 07 Objects savings after utilization of provisions were in a range from 11 to 72 per cent of the provisions relevant to those Objects.

## **9.5 Imprest Accounts**

-----

Following observations are made.

- (a) Ad-hoc Imprest totalling Rs.573,113 had been issued to 17 Non-staff Grade Officers in 50 instances, contrary to Financial Regulation 371.
  
- (b) Although the maximum amount of Imprest that could be issued to one Staff Officer at a time is Rs. 20,000 in terms of Financial Regulation 371, Ad-hoc Imprest totalling Rs. 2,276,313 had been issued to 13 officers in 50 instances, contrary to that Regulation.
  
- (c) Petty Cash Imprest amounting to Rs.408,400 had been issued exceeding the limit of Rs.5,000 without an approval.

## **9.6 General Deposits Account**

-----  
Following observations are made.

- (a) Action in terms of Financial Regulation 571 had not been taken with regard to 76 deposits totalling Rs.14,192,819 that had exceeded 2 years.
- (b) While the General Deposits Ledger had not been closed as at 31 December 2014, General Deposits Account Balance had not been reconciled with the individual balances.
- (c) Although a Monthly Deposits Summary should be prepared in the Form General 71 for each month and send that to the Auditor General before end of the following month in terms of Financial Regulation 565(5), action had not been taken accordingly.

## **9.7 Reconciliation Statement relating to Advances to Public Officers Account**

-----  
According to audit sample checks carried out with regard to the Reconciliation Statement relating to Item No. 29101 - Advances to Public Officers Account as at 31 December 2014 it was observed that the total of loan balances in arrears amounting to Rs. 1,595,416 had been outstanding for a period ranging from 03 months to 17 years, and follow up actions for recovery of those balances in arrears was at a weak level.

## **9.8 Good Governance and Accountability**

### **9.8.1 Annual Action Plan**

-----  
Although an Annual Action Plan should be prepared by the Department in terms of Circular No. 01/2014 dated 17 February 2014, a proper and complete Action Plan for the year under review had not been prepared even as at 31 December 2014.

**9.8.2 Annual Procurement Plan**  
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A proper and complete Procurement Plan in terms of National Budget Circular No. 128 dated 24 March 2006 had not been prepared even as at 31 December 2014.

**9.8.3 Internal Audit**  
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While an Internal Audit Unit had not been established in terms of Financial Regulation 133, internal audit work had not been carried out.

**9.9 Unsettled Liabilities**  
-----

There were Unsettled Liabilities amounting to Rs. 9,636,463 by the Department for a period of less than one year as at 31 December 2014. Out of those liabilities, a sum of Rs. 5,067,933 had not been settled even as at 21 May 2015.

**9.10 Non-compliance**  
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**Non-compliance with Laws, Rules, Regulations etc.**  
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Instances of Non-compliance with provisions of Laws, Rules, Regulations etc., observed in audit sample checks are analyzed below.

Reference to Laws, Rules and Regulations	Value	Non-compliance
-----	-----	-----
	Rs.	
<b>(a) Statuary Provisions</b> -----		
(i) Section 31(1), (2) and (4) of the Coastal Conservation Amendments Act No. 49 of	--	Although it has been stipulated in the Act that, there should not be any unauthorized constructions and that it should be notified to remove

2011.

unauthorized constructions and that expenditure incurred in removal of unauthorized constructions should be recovered from the owner, there were 146 instances of not taken action accordingly, while only 08 unauthorized constructions had been demolished and removed.

(ii) Section 31 of the Coastal Conservation Amendments Act No. 49 of 2011.

-- Although all fines recovered should be credited to a fund called "Coastal Conservation Rewards Fund" and annual accounts of that should be submitted to the Auditor General for audit, accounts had not been submitted accordingly.

(b) Financial Registrations of the Democratic Socialist Republic of Sri Lanka.

-----  
(i) Financial Regulation 103(1)(b)

-- Two vehicle accidents occurred during the year under review had not been reported to the Police.

(ii) Financial Regulation 104(1)

-- Although inquiries should be commenced immediately after occurrence of a damage or loss in order to decide the parties responsible for that, any inquiry had not been held with regard to 07 vehicle accidents took place during the year 2014. While insurance compensation had been obtained from the insurance company

due to failure in taking such action and amount not reimbursed had been spent by the Department.

(iii) Financial Regulation 215(3)(c)	41,691,685	Although amounts payable for procurements on the basis of letters of credit during the financial year to foreign companies should be transferred to a Deposit Account with the approval of the Treasury, action had not been taken accordingly with regard to the amount payable to an international firm during the year 2013.
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(c) Public Administration Circular No. 16/2014 dated 16 June 2014.	--	Although the official vehicle should be assigned to the designations of the officers, 17 vehicles had been assigned in the names of each Division of the Department and Regional Offices.
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### 9.11 Implementation of Projects under Domestic Financing

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Delays in performance of following Projects by the Department were observed.

Project	Estimated cost	Date of commencement	Date of Date to be completed	Date of Date completion	Expenditure as at 31.12.2014	Reasons for the delay
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Construction of Break – water Maravila, Thalavila	40,271,074	24.02.2012	22.10.2013	22.10.2014	40,271,074	Machinery capacity problems had caused delays



Dismantling and removing a part of Unavatuna Break - water	36,900,000	23.02.2015	07.05.2015	Not completed	16,586,395	Contractor's inefficiency had affected.
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## 9.12 Transactions of Contentious Nature

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Certain transactions of the Department were of contentious nature. Details relating to some of such transactions revealed in audit sample checks are shown below.

- (a) Although the estimated expenditure of the Maravila-Thalavila Coastal Sand Feeding Project was Rs. 350 million, quotations submitted had been more than 50 per cent of the estimated cost. Therefore, the accuracy of the estimate was questionable.
  
- (b) After issue of the Demolish and Remove Order No. DO/2013/2278 dated 23 December 2013, for an unauthorized building in the coastal line, a permit had been given to construct a safety barrage on 25 February 2014. Although the full building should be removed according to the Demolish and Remove Order reissued on 24 September 2014, only 02 floors of this building consist of 04 floors had been removed. In spite of the Demolish and Remove Orders and the observations made by the Coastal Security Guard, Planning Assistant and Regional Engineer, granting permits again for demolishing and removal of only two floors was questionable in audit.

## 9.13 Improper transactions

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Certain transactions entered into by the Ministry were improper. Such instances observed are shown blow.

(a) Deviations from Government Procurement Guidelines

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Following observations are made.

- (i) Although a preliminary environmental study report should be obtained by the procurement body before appointing a Procurement Committee in terms of Guideline 2.3.1 (a) of the Government Procurement Guidelines, those evaluation reports had been obtained at the final stage of the procurement process by the department in connection with construction of sand feeding and break-water works.
- (ii) When obtaining machinery on hire charges basis amounting to Rs.12,725,000 for Construction of Maravila – Thalavila break water works, instead of selecting one supplier in terms of Guideline 3.12.2 of the Government Procurement Guidelines, a number of persons had been selected, while a feasibility study in supplying machinery of the contractors had not been made.
- (iii) Performance Bonds had not been obtained from the contractors in terms of Guideline 5.4.8 of the Code of Government Procurement Guidelines.
- (iv) The minimum period of 42 days to be allowed under the procurement methodology in calling for international competitive bids in terms of Guideline 6.2.2 of the Government Procurement Guidelines had not been taken into consideration for submission of bids for Unavatuna Coastal Sand Feeding Project and Maravila - Thalavila Coastal Sand Feeding Project and the period given to submit bids had been limited to 18 days and 28 days.
- (v) The contracts for the construction of Maravila - Thalavila Break-Water Work valued at Rs.107,530,000 and Unavatuna Coastal Sand Feeding Project valued at Rs.600,000,000 had not been performed satisfactorily in terms of Guidelines 8.11.3 and 8.11.4 (iii) and (iv) of the Government

Procurement Guidelines. Although the contracts had been cancelled by the Department, action had not been taken to back list the relevant establishment.

- (vi) Although the approval of the Secretary to the Line Ministry should be obtained for repair works exceeding Rs.200,000 in terms of guideline 9.3.1 of the Government Procurement Guidelines, a total sum of Rs. 765,590 had been spent during the year under review for repairing vehicles in two instances without obtaining the relevant approval.

#### **9.14 Losses and Damages**

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Observations relating to losses and damages revealed in audit sample checks are shown below.

(a) Maravila-Thalavila Break-Water Work

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Following observations are made.

- (i) While a sum of Rs. 4,000,000 had been paid to the contract firm in addition to the mobilization advance, only the sum of Rs. 9,757,845 to be recovered from the mobilization advance due to cancellation of the contract agreement had been recovered. The sum of Rs.4,000,000 paid in addition to that had not been recovered even as at 09 June 2015.
- (ii) Although 2,764 Stone Bocks had been supplied for Break-Water Constructions, payments had been made for 2,264 stone blocks. The Regional Engineer failed to clarify with regard to the nature of work for which the balance 500 stone blocks was used.

(b) Maravila – Thalavila Coastal Sand Feeding Project

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Following observations are made.

- (i) It had been recommended that discussions should be made with the firm which submitted the second lower quotations, not considering the firm which got highest marks according to the Technical Evaluation Committee. The firm which submitted lowest quotations had not been evaluated on the grounds of lapses in submitting quotations and the balance two firms had been evaluated. If discussions were made with the firm which submitted lowest quotation of Rs. 527,563,424 with regard to the requirements of the Project, time spent for calling for quotations and expenditure incurred could have been saved to the Department. Due to awarding the contract for a price higher than this, that is Rs. 617,394,960, the loss occurred to the Department had been Rs. 89,821,536.
  
- (ii) Procurement had been canceled on the grounds of inadequacy of provisions and quotations had been called for again for the second time and the estimated price had been altered up to Rs.500 million in making procurement again on the quotations submitted had exceeded that amount too. discussions had been made with the firm which submitted lowest quotation and three alternative quotations had been obtained. Although it had been informed that, the validity period of the first alternative of the lowest quotation who had submitted it on 05 September 2012 was only up to 15 October 2012, the Department had not taken action to award the contract within the relevant period. Due to that, the loss occurred to the Department had been Rs.116,933,544.

(c) Brake-Water Constructions and Sand Feeding Projects

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Although Demurrage Charges should be recovered from the agreed value in instances where work had not been completed within the agreed period with

regard to the contracts entered into for construction of Brake-Water Constructions and Sand Feeding Projects, Demurrage Charges of Rs.11,488,276 due from four suppliers had not been recovered by the Department.

### 9.15 Un-economic Transactions

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Details relating to un-economic transactions revealed in audit sample checks are shown below.

Nearly a section in extent of 100 meter of the Break –Water barrier had been demolished and removed from the Unavatuna Break-Water constructed at a cost of Rs.66,929,783 during the year 2013 without recommendations of either the Department of Wildlife Conservation or the Central Environment Authority and any evaluation being made with regard to the environmental effects before commencement of work. A sum of Rs.50,102,387 had been spent for construction, demolition, removal and other expenses in respect of this section of work.

### 9.16 Audit Paragraphs not Resolved

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Reference to audit paragraphs included in the report of the Auditor General relevant to the Department and deficiencies pointed out, and not rectified are shown below.

Year	Reference to Paragraph Number of the Report	Subject
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2011	1.3 (d)	} Non-preparation of Procurement Plan.
2012	1.4.2	
2012	1.4.3	Failure in setting up an Internal Audit Unit
2013	1.6 (a) (i)	Although 326 demolish and remove orders had been issued incurring an expenditure amounting to Rs.5,991,496, any demolition

- and removal had not been carried out.
- 1.6 (a)(ii) Making a payment of Rs.825,000 to the District Secretary before entering into an agreement for reservation of a section of a building in the District Secretariat.
- 1.6 (a)(iii) Non-maintenance of a Register of Fixed Assets.
- 1.7 (b) Failure to black list the contractor whose contract was cancelled due to delay in performance of projects.
- 1.7 (c) Non-recovery of demurrage charges amounting to Rs.10,753,000 for non-completion of work on the specified date.
- 1.10 (b) Failure to take suitable action with regard to the loss of Rs.4,092,264 caused due to failure in following a suitable methodology in vesting assets to the Department.
- 1.10 (d) A sum of Rs.500,000 of the estimate had been paid before obtaining the service having obtained an estimate for Rs.1,324,656. It had not been recovered back, although the relevant service had not been obtained.
- 1.13 (a) Suitable action had not been taken with regard to the loss of Rs.25,781,265 caused to the Department due to demolish and remove a section of the work as it had been constructed in a manner not fulfilling the objective of the Kapungoda Break Water Work.

## 9.17 Human Resources Management

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### Approved and Actual Cadre

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Cadre position as at 31 December 2014 was as follows.

	<b>Category of Employees</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Number of Vacancies</b>
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(i)	Senior Level	37	26	11
(ii)	Tertiary Level	04	01	03
(iii)	Secondary Level	331	240	91
(iv)	Preliminary Level	174	113	61
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	Total	546	380	166
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## 10. Head – 320 Department of Civil Security

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### 10.1 Non- maintenance of Registers and Books

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Following registers had not been maintained, by the Department of Civil Security.

<b>Type of Register</b>	<b>Relevant Regulation</b>
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Register of Official Telephone Calls	Financial Regulation 845 (1)
Register of Securities	Financial Regulation 89 (1)
Register of Losses	Financial Regulation 110
Register of Counterfoil Books	Financial Regulation 341
Register of Liabilities	Financial Regulation 214
Register of Fixed Assets	Treasury Circular No.842 dated 19 December 1978.
Register of Computers	Treasury Circular No.IAI/2002/02 dated 28 November 2002.

## **10.2 Non-conformity with Limits**

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While the Minimum Limit of Credits imposed by the Parliament relevant to Item No.32001 – Advances to Public Officers Account was Rs.155,000,000, actual receipts as at 31 December 2014 had been Rs.153,108,942 and therefore Minimum Limit had not been reached in a sum of Rs.1,891,058.

## **10.3 Imprest Account**

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Following observations are made.

- (a) While Imprest Balance of the Department of Civil Security as a 31 December 2014 had been Rs.62,910,362, out of that the balance of Rs. 19,748,314 had not been settled even as at 30 April 2015.
- (b) Although the Ad-hoc Imprest obtained should be settled immediately after completion of the relevant work for which the Imprest was obtained in terms Financial Regulation 371, Ad-hoc Imprest obtained in 22 instances totaling Rs.18,090,887 had been settled after a period ranging from 03 to 09 months from the date of completion of the relevant work.
- (c) Although the Ad-hoc Imprest obtained in 18 instances totalling Rs. 2,850,000 should have been settled on or before 31 December 2014 in terms of Financial Regulation 371, those advances had not been settled accordingly and had been settled after a delay ranging from 08 to 12 months.

## **10.4 General Deposits Account**

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A sum of Rs.39,569,563 provided by other Ministries and Departments for various works had been kept in the Deposits Account without fulfilling relevant works.



## **10.5 Good Governance and Accountability**

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### **Audit and Management Committee**

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Audit and Management Committee Meetings had not been conducted during the year 2014.

## **10.6 Assets Management**

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Following lapses were observed in sample audit checks carried out with regard to the assets of the Department of Civil Security.

(a) **Improper Use of Assts belong to other Institutions**

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While 16 vehicles had been provided to the Department of Civil Security during the year 2006, by the Presidential Secretariat without proper approval, those vehicles had not been transferred to the Department even as at 08 June 2015.

(b) **Un-settled Liabilities**

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There were liabilities amounting to Rs. 163,552,721 not settled by the Department for a period less than one year as at 31 December 2014.

## **10.7 Transactions of Contentious Nature**

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Certain transactions carried out by the Department were of contentious nature. Details relating to some of such transactions are shown below.

(a) Two Air Conditioned Machines valued at Rs. 773,254 purchased for the Ranaviru Real Star Programme held in Sri Lank Air Force Compartments Complex remained idle for period of 18 months after using for that.

- (b) Action had not been taken to deduct from the rent, the sum of Rs. 2,726,286 spent for modification of Garden Hall Ceiling of the Departmental Head Quarters located in a rented building.

#### **10.8 Losses and Damages**

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Loss occurred due to an accident to a vehicle amounted to Rs. 179,820.

#### **10.9 Un-economic Transactions**

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Details relating to an un-economic transaction revealed in audit sample checks are shown below.

A sum of Rs.13,184,149 obtained from the Projects indicating that the collections are for the purpose of granting pensionable permanent appointments to Civil Security Forces. However, according to the letters of appointment awarded at the function held on 22 November 2014, they had not been placed in permanent posts.

#### **10.10 Management Weaknesses**

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Following observations are made.

- (a) A sum of Rs.32,869 to be recovered as demurrage charges, in terms of Section 8 in the agreement relating to 4,250 lanyards not supplied within the specified period relevant to the contract awarded by the Department for a sum of Rs.8,736,000 for the purchase of 40,000 lanyards on 19 February 2013 had not been recovered.
- (b) Revenue earned from various industries implemented by the Department had not been credited to the Consolidated Fund in terms of Article 149 of the Constitution of the Democratic Socialist Republic of Sri Lanka. Similarly, a video camera and

components had been purchased having spent a sum of Rs.9,457,520 out of that revenue, contrary to Article 150 of the Constitution.

## 10.11 Human Resources Management

### Approved and Actual Cadre

Cadre position as at 31 December 2014 was as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Surplus
(i)	Senior Level	16	09	07	-
(ii)	Tertiary Level	15	10	05	-
(iii)	Secondary Level	21	13	08	-
(iv)	Preliminary Level	30	25	05	-
(v)	Others (Casual/ temporary/ contract basis)	30	33	-	03
(vi)	Civil Security Force	40,000	39,711	289	-
	Total	40,112	39,801	314	03

Following observation is made.

The Department had not taken action to fill 314 vacant posts at the end of the year and to obtain proper approval for the three surplus employees.

## **11. Head 325 – Department of Coastal Protection -Sri Lanka**

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### **11.1 Appropriation Account**

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#### **Budgetary Variance**

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Following observations are made.

- (a) Out of provisions amounting to Rs. 9,645,000 made available for 04 Objects only a sum of Rs.5,311,270 had been utilized due to non-issue of Imprest as expected to the Department by the Treasury during the year under review. Accordingly, it had not been possible utilize provisions amounting to Rs. 4,333,730.
  
- (b) The entire net provision of Rs. 300,000 made available for an Object had been saved.

### **11.2 Assets Management**

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Following lapse was observed in audit sample checks carried out with regard to the assets of the Department.

#### **Un-settled Liabilities**

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There were liabilities amounting to Rs.6,882,502 not settled by the Department for a period less than one year as at 31 December 2014.

### **11.3 Lapses in Operation of Bank Accounts**

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#### **Balances to be adjusted**

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According to analysis of adjustments shown in the bank reconciliation statements prepared by the Department for the month of December 2014, action in terms of Financial Regulation 396 (d) had not been taken with regard to 05 time lapsed cheques totalling Rs. 28,200 issued, but not presented for payment to the bank.

### **11.4 Transactions of Contentious Nature**

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Certain transactions carried out by the Department were of contentious nature. Details relating to some of such transactions are shown below.

- (a) When purchasing PVC equipment, timber, iron, plywood sheets asbestos sheets and electrical equipment purchases of same materials had been made from number of establishments and same establishment at varying prices. Changes in prices of those items had been spread over very large range and that purchases had been made at very high prices exceeding the prevailing rates in the market and exceeding the prices approved by the Navy. Accordingly, it was observed that, there had been irregularities to a large extent in the purchasing process.
  
- (b) It was revealed in audit that there was no provision for the purchase of gifts valued at Rs.187,700 to be given to the foreign visitors to the Department and that all purchases were of a personal nature.

### **11.5 Human Resources Management**

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Although 66 officers of the Sri Lanka Navy and 1044 sailors are in service of the Department as staff, action had not been taken to obtain approval for the required cadre for the Department from the Treasury even as at 27 June 2015.