

## Report of the Auditor General on Head 224 - Sri Lanka Air Force -- Year 2015

The audit of the Appropriation Account, Revenue Account and the Reconciliation Statements including the financial records, books, registers and other records of the Head 224 – Sri Lanka Air Force for the year ended 31 December 2015 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Commander of the Air Force on 30 June 2016. The audit observations, comments and findings on the accounts and 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.

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

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, Revenue Account, 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

### 2.1 Appropriation Account

#### (a) Total Provision and Expenditure

The total net provision made for the Air Force amounted to Rs.53,174.50 million and out of that Rs.49,525.57 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision of the Air Force amounted to Rs.3,648.93 million or 6.86 per cent. Details appear below.

Expenditure	As at 31 December 2015			Savings as a Percentage of the Net Provisions
	Net Provision	Utilization	Savings	
	Rs.Millions	Rs.Millions	Rs.Millions	
Recurrent	33,876.50	32,281.40	1,595.10	4.71
Capital	19,298.00	17,244.17	2,053.83	10.64
<b>Total</b>	<b>53,174.50</b>	<b>49,525.57</b>	<b>3,648.93</b>	<b>6.86</b>

**(b) Utilization of Provisions made available by other Ministries and Departments**

Provision totalling Rs.661.7 million had been made available by 04 other Ministries and 02 Forces for various activities. Out of that, provision amounting to Rs.578.2 million had been utilized by the end of the year under review. Accordingly, the savings out of the provision made, amounted to Rs.83.5 million and represented 12.62 per cent.

**2.2 Revenue Account**

**Estimated and Actual Revenue**

The Air Force had prepared Revenue Estimates totalling Rs. 170 million in respect of a Revenue Code for the year 2015 and Revenue totalling Rs.246.3 million had been collected in the year under review. It had been an excess of 44.88 per cent of the revised estimate of revenue. Details appear below

Revenue Code	As at 31 December 2015				Excess as a Percentage of Estimate
	Estimated Revenue	Revised Estimated Revenue	Actual Revenue	Excess	
	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	
20.03.02.16	250.00	170.00	246.31	76.3	44.88

**2.3 Advance Account**

**2.3.1 Advances to Public Officers Account**

**Limits Authorized by Parliament**

Limits authorized by Parliament for the Advances to Public Officers Account, Item No.22401 of the Air Force and the actual amounts are given below.

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
550.00	412.28	475.00	519.25	1,000.00	347.99

## 2.4 Imprest Account

The balance of the Imprest Account No. 7002/0000/00/0030/0015/000 of the Air Force as at 31 December 2015 amounted to Rs.224.59 million.

## 2.5 General Deposit Accounts

The balances of 03 General Deposit Accounts of the Air Force as at 31 December 2015 totalled Rs.99.85 million. Details appear below.

<b>Deposit Account Number</b>	<b>Balance as at 31 December 2015</b>
	<b>Rs. Millions</b>
6000/0000/00/0013/0097/000	91.12
6000/0000/00/0002/0065/000	0.56
6000/0000/00/0018/0021/000	8.17
<b>Total</b>	<b>99.85</b>

## 2.6 Audit Observation

The Appropriation Account, the Revenue Account and the Reconciliation Statements for the year ended 31 December 2015 of the Sri Lanka Air Force have been prepared satisfactorily subject to the Audit Observations appearing in the Management Audit Report referred to in paragraph 1.1 above. The material and significant Audit Observations out of the Audit Observations included in the said Management Audit Report appear in paragraph 3.

## 3. Material and Significant Audit Observations

### 3.1 Non-maintenance of Registers and Books

It was observed during audit test checks that the Air Force had not maintained the following registers in the updated manner.

<b>Type of Register</b>	<b>Relevant Regulation</b>
(a) Register of Fixed Assets	Treasury Circular No.842 of 19 December 1978
(b) Register of Fixed Assets on Computers, Accessories and Software	Treasury Circular No. IAI/2002/02 of 28 November 2002
(c) Register of Liabilities	Financial Regulation 214

## **3.2 Appropriation Account**

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### **3.2.1 Budgetary Variance**

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Excess provision had been made for 45 Objects of the year under review and as such the savings, after the utilization of provision, ranged between 6 per cent and 80 per cent of the net provision relating to the respective Objects.

## **3.3 Imprest Account**

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The balance of the Imprest Account not settled by the Air Force by 30 July 2016 amounted to Rs. 286,036 and that balance had been remaining from 06 July 2001.

## **3.4 General Deposit Account**

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Stamp Duty amounting to Rs.12,841,000 collected in the year under review by the Air Force had not been remitted to the Commissioner General of Inland Revenue within 15 days after close of the quarter in terms of Section 7(1) of the Stamp Duty (Special Provisions) Act, No.12 of 2006.

## **3.5 Revenue Accounts**

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The duties relating to the preparation of Revenue Estimates, collection of Revenue, Accounting and the presentation of Accounts relating to Revenue Code 20.03.02.16 – Aircraft Rentals had been assigned to the Commander of the Air Force as the Revenue Accounting Officer. The following observations were made during the course of the test audit of that Revenue Code.

- (a) The revenue which should have been collected according to the Annual Budget Estimates relating to the Revenue Code amounted to Rs.250.00 million. Subsequently, that estimate had been revised to Rs.170.00 million and revenue of Rs.246.31 million had been collected by the end of the year under review. As such, revenue exceeding the revised estimate by Rs.76.31 million or 44.85 per cent had been collected.
- (b) According to the Revenue Account furnished to Audit, the arrears of revenue totalled Rs.13.19 million and those arrears of revenue had been remaining over periods ranging from 01 year to 16 years. The follow up action on the recovery of arrears of revenue had been at a weak level.
- (c) Half-yearly Returns of Arrears of Revenue relating to the Revenue Code 20.03.02.16 had not been prepared in terms of Financial Regulation 128(2).
- (d) The Accountant of the Air Force should handover the Receipt Books used by the Air Force to the Helitours Institute which is a subsidiary of the Air Force for collecting the revenue on Aircraft Rentals made on behalf of the Air Force. Nevertheless, that Company had collected revenue by using the Receipt Books of the Company. A long period had

been taken in remitting the revenue so collected to the Accounts Division of the Air Force. Further, out of the revenue collected in the year under review, a sum of Rs.5,512,160 had been credited to the Executive Welfare Fund which is not an Account of the Government.

### **3.6 Advances to Public Officers Account**

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The following deficiencies were observed during the course of test checks of the Reconciliation Statement as at 31 December 2015 relating to the Advances to Public Officers Account Item No. 22401.

- (a) According to the Reconciliation Statement as at 31 December 2015 presented to audit, the balances that remained outstanding as at that date totalled Rs.347,780,123 and those outstanding balances remained over periods ranging from 1 year to 10 years. The follow-up action on the recovery of the outstanding balances had been at a weak level.
- (b) The Air Force had failed to recover the outstanding loan balances amounting to Rs.23,703,310 recoverable from the officers who had retired, deceased and left the service by 31 December 2015.

### **3.7 Assets Management**

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The following deficiencies were observed during the course of audit test checks of the assets of the Sri Lanka Air Force.

#### **(a) Control of Assets**

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The following observations are made.

- (i) According to paragraphs 03 and 04 of the Public Finance Circular No.402(1) of 20 February 2004 and the Public Accounts Circular No.174 of 18 October 2004, information such as the cost, date of purchase, description and technical specifications of the movable assets purchased after 01 January 2004 should have been furnished to the Department of Public Accounts with a copy to the Department of Public Finance once in 06 months. The Sri Lanka Air Force had not taken action in terms of those Circulars even by 31 December 2015. Even though the Air Force was made aware of this in several previous instances of audit and it had been informed that action will be taken to furnish that information in future. However, the Air Force had failed to take action accordingly even by 31 August 2016 due to incomplete accounting of assets.
- (ii) The Computer Programme had not been properly updated for the comparison of the list of fixed assets of the Computer Programme with the category of assets in the main Ledger stated in the Report on Movement of Non- Current Assets.

**(b) Unsettled Liabilities**  
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The unsettled liabilities of the Air Force as at 31 December 2015 amounted to Rs.2,078,124,158 and the observations thereon are given below.

- (i) A sum of Rs.480,582 for the year under review had not been recorded in the Register of Liabilities.
- (ii) Even though a sum of Rs.25,222.33 million should have been paid by the Air Force for aeroplanes and spare parts purchased by the Ministry of Defence for the Sri Lanka Air Force, that amount had not been brought to account as liabilities.
- (iii) Commitments had been incurred exceeding the savings by Rs.444.58 million, after utilization of provisions made for 11 Objects.

**3.8 Deficiencies in the Operation of Bank Accounts**  
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Thirty six cheques valued at Rs.1,363,176 issued under 6 Bank Accounts had not been presented to the Bank and action in terms of Financial Regulation 396(d) had not been taken in respect of those expired cheques.

**3.9 Transactions of Contentious Nature**  
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Certain transactions entered into by the Air Force had been of contentious nature. Particulars of several such instances observed during the course of audit test checks appear below.

- (a) Fifty six spare parts of a Jeep of the Air Force had been removed for handing over for servicing and that Jeep had been handed over on 06 June 2015 to a private company for repairing again without fixing those spare parts. However, repairs had not been completed even by 31 March 2016 due to unavailability of these spare parts. It was revealed in audit that the market value of 36 out of 56 removed spare parts as at 11 February 2016 amounted to Rs.330,690. However, the Air Force had not conducted further inquiries on these spare parts and assessed its loss.
- (b) The Sri Lanka Air Force had spent a sum of Rs.8,799,701 from the Executive Welfare Fund and bills and other recorded details obtained from suppliers had not been furnished in the reimbursement of that expenditure. Only vouchers issued by the Welfare Fund had been furnished. As such, the relevance and the accuracy of the above expenditure could not be confirmed.
- (c) Even though the engaging in air operations not relating to the war is one of the key functions of the Air Force, those operations had been carried out by the Helitours Institute which is a subsidiary of the Air Force. As such, adequate audit in respect of the relevant activities could not be carried out due to matters such as not taking action by that Company in accordance with provisions of the Circulars issued by the Government in respect of the preparation of reports thereon and collection of revenue and non-presentation of Bank Accounts and documents of the Company to Audit.

(d) Ninety six Internal Funds had been commenced in the Air Force Head Quarters, various Camps and Units. Physical and human resources of the Air Force had been utilized for operations of these Funds and the relevant information requested for audit had not been made available. The Chief Accounting Officer had been directed at the Meeting of the Committee on Public Accounts held on 24 June 2016 that a report prepared on the manner in which the above Funds are maintained further in compliance with audit, be furnished to the relevant Committee within one month. The Air Force had not taken action according to that Directive even by 31 August 2016.

### **3.10 Irregular Transactions**

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Certain transactions entered into by the Air Force had been devoid of regularity. Several such instances observed are given below.

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

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When hiring motor vehicles by the Sri Lanka Air Force, a sum of Rs.61,150,000 had been paid as advances in the year 2015 for 102 motor vehicles at the rate of Rs.50,000 per month for each motor vehicle, contrary to the Guidelines 5.4.4, 5.4.8 and 6.2.2 of the Procurement Guidelines.

#### **(b) Transactions Without Authority**

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The Air Force had invited bids from six institutions for repairing 4 Helicopters and an institution as well from which bids had not been invited therefor had submitted quotations. The total value had exceeded by Rs.450 million and as such, that procurement should have been approved by a Cabinet Appointed Procurement Committee. However, instead of that, it had been divided and forwarded to the Ministry Procurement Committee and the bid had been awarded to a Company in Vietnam from which quotations had been submitted for Rs.80.38 million more than the minimum bid by removing two Modernization Units valued at Rs.30.21 million. In terms of agreements, this repairing should be completed and handed over within a period between 90 and 120 days. Even though it had not been handed over before that date, action had not been taken to recover penalty for delays amounting to Rs.11.11 million thereon.

### **3.11 Losses and Damage**

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The Sri Lanka Air Force had not taken action even by 31 December 2015 to recover, write off or waived the losses and damage totalling Rs.27.64 million in respect of 72 incidents remaining over a period exceeding 5 years.

### **3.12 Uneconomic Transactions**

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The Sri Lanka Air Force had entered into agreements in May 2009 for purchase of 187 solar powered street lamps valued at Rs.19.96 million subjected to a guarantee period of 15 years from two private companies in the year 2009. Accordingly, it was observed in audit that 148 street lamps and 33 batteries valued at Rs.16.02 million out of street lamps and batteries installed in the year 2009 had been non-functional by 20 April 2015.

### 3.13 Human Resources Management

#### Approved and Actual Cadre

Cadre position as at 31 December 2015 had been as follows.

	<b>Category of Employees</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Number of Vacancies</b>
	<b>Civil Division</b>			
(i)	Senior Level	07	04	03
(ii)	Tertiary Level	05	03	02
(iii)	Secondary Level	193	95	98
(iv)	Preliminary Level	2,868	2,562	306
(v)	Other (Casual/ Temporary/ Contract Basis)	440	173	267
	<b>Service Unit</b>			
(vi)	Officers	2,156	1,819	337
(vii)	Other Ranks	35,844	34,555	1,289
	<b>Total</b>	<b>41,513</b>	<b>39,211</b>	<b>2,302</b>

Even though the approved number of Posts of Accountants of the Sri Lanka Air Force stood at 6, only 04 persons had been deployed. Vacancies of 8 officers in the Management Service of the Office of the Director of Finance existed and 9 employees of the Labour Grade had been deployed in that service to cover their duties.