

Report of the Auditor General on Head 222 –Sri Lanka Army - Year 2016

The audit of the Appropriation Account and the Reconciliation Statements including the financial records books, registers and other records of the Head 222 –Sri Lanka Army for the year ended 31 December 2016 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 Army Commander of Sri Lanka on 20 September 2017. 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.

1.2 Responsibilities 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 and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation 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 Sri Lanka Army amounted to Rs.160,396.36 million and out of that Rs.148,126.44 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision of the Sri Lanka Army amounted to Rs.12,269.92 million or 7.65 per cent. Details appear below.

Expenditure	<u>As at 31 December 2016</u>			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. million	Rs. million	Rs. million	
Recurrent	151,664.64	144,320.61	7,344.99	4.84
Capital	8,731.76	3,805.83	4,925.93	56.41
Total	16,596.36	148,126.44	12,269.92	7.65

(b) Utilization of Funds received from other Ministries and Departments

The allocations amounting to Rs 09 million and Rs. 10 million had been made by the Presidential Secretariat to implement 02 programmes namely “Ve Diyawara” program for rehabilitation of small scale irrigation systems which implemented by the Sri Lanka Army under the “Food Production National Program” and Organic Fertilizer Production Program for 2016/2017 “Maha” Season respectively.

The activities to be carried out using 33,498 litres of fuel valued at Rs 3.18 million had been completed to rehabilitate 06 Tanks under the “Ve Diyawara” program for rehabilitation of small scale irrigation systems. Therefore the rehabilitation works of 02 Tanks had been completed and the physical progress of other 04 Tanks had remained in the range from 03 per cent to 60 per cent. According to the Work Estimate the activities to be carried out using 53,802 litres of fuel valued at Rs 5.11 million had not been completed as at 31 December 2016.

(b) Eventhough a sum of Rs 10 million had been received to implement Organic Fertilizer Production Program for 2016/2017 “Maha” Season, the liabilities aggregating Rs 1.50 million had remained unsettled as at 31 December 2016 whilst spending a sum of Rs 11.05 million.

2.2. Advance Account

Limits Authorised by the Parliament

The limits authorized by Parliament for the Advances to Public Officers Account of the Sri Lanka Army, Item No.22201 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
2,750.00	2,749.50	2,700.00	2,768.88	2,800	1,481.85

2.3 Imprest Account

The balances of the Imprests aggregating Rs 222.74 million had remained outstanding as at 31 December 2016 in the Imprest Account No. 7002/0000/00/0028/0016/000 of the Sri Lanka Army.

2.4 General Deposit Account

The total balances of 05 Deposit Accounts of the Sri Lanka Army as at 31 December 2016 amounted to Rs.192.13 million. Details are given below.

Deposit Account No.	Balance as at 31 December 2016
	Rs million
6000/0000/00/0001/0115/000	0.40
6000/0000/00/0002/0162/000	7.18
6000/0000/00/0013/0115/000	146.62
6000/0000/00/0016/0105/000	18.85
6000/0000/00/0020/0025/000	19.08
Total	192.13

2.5 Audit Observation

The Appropriation Account and the Reconciliation Statements of the Sri Lanka Army for the year ended 31 December 2016 had been satisfactorily prepared, 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 Management Audit Report appear in Paragraph 3 of this Report.

3. Material and Significant Audit Observations

3.1 Appropriation Account

Out of the allocation amounting to Rs.587.52 million made to the Sri Lanka Army to under Pakistan Indian Loan Scheme to procure signal equipment, only a sum of Rs.0.14 million had been spent and the remaining balance amounted to Rs 587.38 million due to delays in implementation of the procurement activities.

3.2 Imprest Account

The total unsettled imprest balances of the Sri Lanka Army as at 31 December 2016 amounted to Rs.222.74 million and the balances aggregating Rs.32.481 million had remained unsettled as at 20 July 2017.

3.3 General Deposits Account

A sum of Rs.17.22 million had retained in the General Deposit Account as at 31 December 2016 which received from the Ministry of Education to implement the Student Leadership Programme. A balance of Rs 0.17 million to be settled as at 20 July 2017.

3.4 Reconciliation Statement of the Advances to Public Officers Account

According to the Reconciliation Statement as at 31 December 2016 relating to the Advances to Public Officers Account, Item No.22201 presented to audit the balances aggregating Rs 117.74 million had remained outstanding as at that date to recover. Those outstanding balances remained outstanding over a period ranging from 01 year to 05 years and out of that, balances aggregating Rs 68.98 million had remained unrecovered as at 20 July 2017.

3.5 Good Governance and Accountability

Assets Management

Unsettled liabilities

Total liabilities aggregating Rs 6,176.31 million had remained unsettled by the Sri Lanka Army as at 31 December 2016.

3.6 Transactions of Contentious Nature

The following observations are made.

- (a) The equipment called “ Single Plane Floor Mounted C- Arms Syaten Dsa” had been procured at a cost of Rs 66.08 million from a private entity for the use of Sri Lanka Army Hospital at Narahenpita. According to the bid specification, the equipment should consist with 05 access points . However, it was subsequently revealed that the respective equipment was not consisted with 05 access points. The equipment had been received by the X-ray Unit of the Hospital on 05 November 2013 and commissioned its operations on 27 May 2014, after lapse of 07 months from the date of supply. However, action had not been taken to inform the deficiency of the equipment to the supplier for replacement of an equipment with 05 access points. Therefore, the Sri Lanka Army Hospital had missed the opportunity to obtain a new machine. It was revealed at a physical verification made on 07 July 2016 that the respective equipment was remained out of order after diagnosing of 67 patients only.
- (b) Goods in 04 types had been received to the stores, for the purpose of tiling works of the wash rooms attached in the upper floor of the Suwasahana Nikethna of the Ambimansala-01. It was revealed at the site inspection made on 20 October 2016 that there was no any wash rooms to be repaired or carried out any repair within the building premises.

3.7 Improper Transactions

The following observations are made.

- (a) According to the audit examination carried out on procurement of equipment called “ND TAG LASER LONG PULSED” valued at Rs 8.02 million for Military Hospital at Narahenpita, only 02 years guarantee period had been obtained from the selected supplier instead 05 year guarantee period to be obtained as required by the specifications. Further, the Equipment had been supplied only on 19 February 2016 eventhough it was agreed to supply it by 20 January 2015. The period of supply had been extended without taking action to terminate the contract and liquidate the performance bond in case of delays in supply more than 30 days, as required by the section 8.2 of the contract agreement.
- (b) The audit examination on procuring of an equipment called “ND YAG LASER LONG PULSED” at a cost of Rs 8.02 million for the use of Army Hospital at Narahenpita had revealed that only 02 years warrantee period had been presented instead 05 years warrantee period required to be presented as per specifications. Further, the respective equipment had been

supplied only on 19 February 2016 eventhough it was required to be supplied by 28 January 2015 as per agreement entered into with the supplier. However the period of supply had been extended by a year instead of being encashed the performance bond as per paragraph 8.2 of the said agreement.

- (c) The bids had been called on 08 December 2016 to procure 37 Muti Media Projectors, 37 Logic 6'X6"Triped Screen and 37 650 VA UPS and 08 Entities had been presented quotations thereon . Out of that the Technical Evaluation Committee had recommended 02 entities to procure such equipment. However, the Procurement Committee had selected other Entity which was not recommended by the Technical Evaluation Committee.
- (d) It was agreed by a private company to supply 300 computer tables at a cost of Rs 15,100 each and reduce price by Rs 250 per table, as the respective tables were not complied with the specifications. According to the agreement, all the tables were required to be supplied by 05 October 2015 however, only 132 tables were supplied as at 05 January 2016, despite the period of supply had been extended at 03 instances. According to the Procurement Plan – 2015 a sum of Rs 3.18 million had been estimated for this procurement . However, a sum of Rs 4.95 million had been spent thereon.
- (e) The following observations are made on the procurement of 80 Rice Steamers on 12 December 2015.
 - (i) The criteria consisted in the specification such as the automated temperature controller and 36 kg minimum capacity of the Rice Steamer had not been complied and revealed that the capacity of the Rice Steamer was remained in the range from 10kg to 15 kg. It was agreed to reduce the price by Rs 4,000 and fix a temperature controller externally , due to demands made to reject the order.
 - (ii) Out of the above mentioned items, a Rice Steamer had been supplied to the 04 th Regiment of Sri Lanka Army Signals Corp in Anuradhapura on 16 January 2016. and revealed at the field inspection made on 17 October 2016 that the respective equipment was remained out of order.

3.8 Losses and Damages

According to the Preliminary Report submitted on investigations carried out under Financial Regulation 104(3) in connection with the losses occurred on 05 June 2016 on blasting of the Armory located at Sri Lanka Army Camp at Salawa, the identified gross estimated loss amounted to Rs.12,735.45 million. The loss had not been accurately determined and disclosed as the investigation were being continuously conducted even as at 30 April 2017 by a Preliminary Court of Investigation appointed by the Ministry of Defense to investigate the incident.

3.9 **Management Inefficiencies**

Action had been taken by the Sri Lanka Army to sell out the scrapped Fara 111 Vessels as wretched iron which acquired at the time of humanitarian operations and retained at Vellamulivaikkal. Therefore, the contract had been awarded to a bidder who submitted the price of Rs 80.30 million. The contractor had paid a sum of Rs 47 million and concluded the works halfway. The following observations are made in this connection.

- (a) Out of the proceeds of Rs 47 million on sale of the ship received on 30 September 2016, a sum of Rs 15 million had been credited to the “Api Wenuwen Upi” Fund whilst crediting a sum of Rs 0.32 million to the “Sri Lanka Army Welfare” Fund. However, the amount credited to the “Sri Lanka Army Welfare” Fund had been transferred to the government revenue, after pointing out by the audit.
- (b) According to the additional provisions of the contract agreement signed on 13 August 2014, the charges are determined as per number of ten wheel vehicles moving out from the site. Therefore, the opportunities were allowed to misuse at the time of disposal of iron removed, due to lack of an accepted unit of measurement. The Director, Asset Management of Sri Lanka Army had informed that there were no facility in the remote area to measure the scrapped iron and as a result, no condition had been included in the agreement to quantify the scrapped iron once.
- (c) It was observed that the high cost technological methods should have been used to dismantle the items under the sea water instead items of the wrecked ship remained over the sea water. Further, the buyer could be able to remove the items which can be easily dismantle and avoid the removing balance part of items. However, it was informed that the decision had been taken to retain the balance part of the ship as same for fish breeding purposes and considering the financial benefits thereon. The reports on environmental effects thereon expected to be obtained from the respective agencies had not been obtained even as at 20 September 2017.

3.10 **Human Resources Management**

Approved Cadre and Actual Staff

The officers and the number of allied officials in service of the Sri Lanka Army as at 31 December 2016 are as follows.

Category of Employees		<u>Approved Cadre</u>	<u>Actual Cadre</u>	<u>Vacancies remained</u>
(i)	Officers- Permanent/ Voluntary	10,646	9,412	1,234
(ii)	Other Ranks - Permanent/ Voluntary	189,719	167,404	22,315
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		200,365	176,816	23,549
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The civil officers in service of the Sri Lanka Army is as follows.

Category of Employees	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess cadre
(i)	Senior Level	13	09	04	-
(ii)	Tertiary Level	06	03	03	-
(iii)	Secondary Level	199	150	49	-
(iv)	Primary Level	6,386	9,343	-	2,957
(v)	Others (Casual/ Temporary/ Contract Basis)	4,537	1,321	3,216	-
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Total		11,141	10,826	3,272	2,957
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