

Report of the Auditor General on Head 103 – Ministry of Defence – Year 2016

The audit of the Appropriation Account, Revenue Account and the Reconciliation Statements including the financial records, books, registers and other records of the Head 103 – Ministry of Defence 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 Secretary to the Ministry of Defence on 26 September 2017. 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 for the Accounts and Reconciliation Statements

The Chief Accounting Officer is 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 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

Total Provision and Expenditure

The total net provision made for the Ministry amounted to Rs.17,487.14 million and out of that, Rs.13,152.33 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision of the Ministry amounted to Rs.4,334.81 million or 24.79 per cent. Details appear below.

Expenditure	As at 31 December 2016			Savings as a Percentage of the Net Provisions
	Net Provision	Utilization	Savings	
	Rs.Millions	Rs.Millions	Rs.Millions	
Recurrent	5,936.45	5,694.38	242.07	4.08
Capital	11,550.69	7,457.95	4,092.74	35.43
Total	17,487.14	13,152.33	4,334.81	24.79

2.2 Revenue Account

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

The Ministry had prepared Revenue Estimates totalling Rs.12.75 million in respect of Revenue Code 10.03.07.05 for the year 2016 and Revenue totalling Rs.13.73 million had been collected in the year under review. It had been an excess of 7.69 per cent of the estimated revenue. Details appear below.

Revenue Code	Estimated Revenue	Actual Revenue	Excess	Excess as a Percentage of Estimate
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	Rs. Millions	Rs. Millions	Rs. Millions	
10.03.07.05	12.75	13.73	0.98	7.7

2.3 Advances to Public Officers Account

----- Limits Authorized by Parliament -----

Limits authorized by Parliament for the Advances to Public Officers Account, Item No.10301 of the Ministry and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
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Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
60.00	56.23	40.00	47.36	275.00	139.04

2.4 General Deposit Accounts

The balances of 04 General Deposit Accounts of the Ministry as at 31 December 2016 totalled Rs.229.57 million. Details appear below.

Deposit Account Number	Balance as at 31 December 2016
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	Rs. Millions
6000/0000/00/0002/0115/000	1.60
6000/0000/00/0013/0072/000	44.58
6000/0000/00/0016/0063/000	157.36
6000/0000/00/0019/0015/000	26.03

Total	229.57
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2.5 Audit Observation

The Appropriation Account, the Revenue Account and the Reconciliation Statements for the year ended 31 December 2016 of the Ministry of Defence 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 that the Ministry had not maintained one of the following registers while two other registers had not been maintained in the updated manner.

Type of Register	Relevant Regulation	Observations
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(i) Register of Losses	Financial Regulation 110	Not maintained
(ii) Register of Fixed Assets	Treasury Circular No.842 of 19 December 1978	Not updated
(iii) Departmental Appropriation (Votes) Ledger	Financial Regulation 447	--Do--

3.2 Replies to Audit Queries

Replies to 8 Audit queries issued in the year under review to the Ministry, had not been furnished even by 03 July 2017. The value of quantifiable transactions relating to those audit queries amounted to Rs.1,644 million.

3.3 Appropriation Account

Budgetary Variance

The following observations are made.

- (a) The entire net provision amounting to Rs.46.7 million made for 12 Objects had been saved.
- (b) Excess provision had been made for 42 Objects of the year under review and as such the savings, after the utilization of provision, ranged between 25 per cent and 99 per cent of the net provision relating to the respective Objects.
- (c) Even though provisions amounting to Rs.110.14 million had been transferred to other Objects by 23 applications in terms of Financial Regulations 66 and 69 in the year under review, out of those transferred provisions, only Rs.38.82 million had been saved without being utilized by the end of the year under review.
- (d) A compulsory saving of 15 per cent of Object Code 1202-Fuel and 10 per cent of Object Code 1401-Transport have to be made without being utilized in terms of paragraph 2 of the National Budget Circular No.07/2015 dated 31 December 2015. However, savings of relevant provisions out of those Objects had not been made by the end of the year under review.
- (e) A sum of Rs.5.54 million had been paid for officers as transport allowance in the year under review. Even though that expenditure should be brought to account under Object Code 1401- Transport, it had been brought to account under Object Code 1003- other allowances.
- (f) A difference of Rs.94.49 million was observed in the comparison of Vote Ledger of 03 Objects with the Treasury computer print outs. However, evidence that those differences had been rectified even by the end of the year under review, were not made available to Audit.

3.4 General Deposit Account

The following observations are made.

- (a) A difference of Rs.2.54 million was observed between the balances of 2 General Deposit Accounts according to the Books of the Ministry and the balances according to the Treasury print outs. The Ministry had not taken action even by the end of the year under review to rectify those differences.
- (b) Action in terms of Financial Regulation 571 had not been taken on deposits older than 2 years totalling Rs.12.40 million included in the balances of 4 General Deposit Accounts maintained by the Ministry.

3.5 Revenue Account

The duties relating to the preparation of Revenue Estimates, collection of Revenue, Accounting and the presentation of Accounts relating to Revenue Code 10.03.07.05 had been assigned to the Secretary to the Ministry as the Revenue Accounting Officer. The following deficiencies were observed during the course of the test audit carried out in respect of that Revenue Code.

- (a) The arrears of revenue as at 31 December 2016 totalled Rs.2.58 million comprising the arrears of revenue from licenses amounting to Rs.1.26 million due to failure in revising firearms licenses. Even though a sum of Rs.0.55 million of those arrears of revenue had been in arrears over a period of 3 years, the Ministry had failed to recover those arrears of revenue even by the end of the year under review.
- (b) A methodology for preparation of internal Procedural Rule or internal circulars which should be passed or approved, in respect of 22 activities which are implemented by the Ministry at present and for making the Officers In Charge of the Subject aware regarding them, had not been implemented in terms of Rules cited in Arms and Explosives Acts.
- (c) In terms of paragraph 02(i) of the Public Finance Circular No.PFD/04/08/01/59/Gen of 11 December 2015, fees charged for different services should be revised on timely basis considering changes of economy. However, gun license fees charged under the Firearms (Amendment) Act No.22 of 1996, had not been revised after the year 2000.

3.6 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. 10301, the Ministry had failed even by the end of the year under review to recover loan balances of Rs.5.23 million that remained outstanding over a period of 5 years.

3.7 Good Governance and Accountability

Annual Action Plan

In terms of the Public Finance Circular No.01/2014 of 17 February 2014, the Annual Action Plan of the Ministry had been prepared and furnished to the Treasury Operations Department, Department of National Budget and to the Auditor General on 21 September 2016 with a delay. The Action Plan of the Ministry for the year 2016 had been prepared without estimates on expenditure, presenting estimates in a realistic manner, planning ... according to the objectives and without mentioning targeted performance indices.

3.8 Assets Management

The following deficiencies were revealed at the audit test check carried out in respect of assets of the Ministry.

- (a) Even though it had been planned to carry out the Annual Board of Survey of all Units under 14 categories considering the Ministry as a single Unit, the reports on Boards of Survey of 02 categories had not been presented to Audit.
- (b) A Government quarter owned by another Ministry was being used as the Official Residence of the Secretary of Defence without being vested properly.

3.9 Incurring Commitments

The following observations are made.

- (a) Contrary to the Financial Regulation 94(1), commitments totalling Rs.11.88 million had been incurred in the year under review exceeding the net provisions made for 07 Objects.
- (b) The loan balance of Rs.7,808.28 million out of the consolidated loan received from two private banks and two state banks in the year 2012 for the construction of the building for Secretariat of Personal Identification, had not been indicated under liabilities of the Appropriation Account as at 31 December 2016.

3.10 Non-compliances

Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

References to Laws, Rules and Regulations	Value	Non-compliance
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	Rs.Millions	
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		

(i) Financial Regulation 104(4)	12.31	After inquiry on loss or damage, a full report should be submitted within 3 months from the date of loss. However, inquiries in terms of Financial Regulations had not been conducted in respect of the sudden fire that broke out in the Defence Head Quarters Building on 15 February 2014 and a full report thereon had not been presented to Audit even by the end of the year under review.

(ii) Financial Regulation 756, 757 and 1647 (b)	-	An Annual Board of Survey had not been conducted in respect of motor vehicles owned by the Ministry in the year 2015 and preceding years.
(iii) Financial Regulation 1645 (b), (c) and 1646	-	Running charts and monthly performance summaries in respect of 155 pool vehicles owned by the Ministry had not been presented to Audit even by the end of the year under review.
(iv) Financial Regulation 702(3)	-	Copies of agreements entered into by the Ministry in respect of development activities, supplies and services except for the Akuregoda Project, had not been presented to Audit.
(b) Public Administration Circulars ----- Circular No.41/90 of 10 October 1990	-	Inquiries in respect of consumption of fuel of motor vehicles owned by the Ministry, had not been conducted in terms of provisions of circulars even by the end of the year under review.
(c) Government Procurement Guidelines -----		
(i) Guideline 5.4.11	-	The amount of Value Added Tax (VAT) on Goods and Services amounting to Rs.2.19 million had been paid to 03 companies without obtaining tax invoices.
(ii) Guideline 5.4.12	-	The copies of reports on Value Added Tax included in monthly payments made for the Ranaviru Semi Housing Project, which were sent to the Commissioner General of Inland Revenue, had not been submitted to the Auditor General on or before 15 th day of the following month.
(iii) Guideline 8.9.1	96.73	Written agreements had not been entered into for purchases valued at Rs.96.73 million made from 08 suppliers relating to constructions of the Ranaviru Semi Housing Project.

- (iv) Guidelines 4.2.2 and 4.2.3 1,128.12 The Procurement Time Schedule had not been prepared for procurement activities of the Ministry.

3.11 Implementation of Projects under Domestic Financing

3.11.1 Delays in the Execution of Projects

The following observations are made.

(a) Project on Construction of Defence Headquarters at Akuregoda

The following deficiencies were observed at the audit test check carried out on the Project of construction of Defence Headquarters at Akuregoda.

- (i) The estimated value of this Project which was commenced according to the original estimate valued at Rs.25 billion in the year 2012, had increased to Rs.53.29 billion due to revising the scope and estimates of this Project. Moreover, the approval of the Cabinet of Ministers had been received on 04 October 2016 to revise these cost estimates. Out of net provisions of Rs.5,546.27 million made for the Project for the year under review, only a sum of Rs.2,893.65 million or 52 per cent had been utilized. An additional liability of Rs.222.88 million had been entered into for 09 claims of extension of time submitted by 05 contractors by 31 December 2016.
- (ii) Delays ranging from 244 days to 1081 days existed in respect of 21 procurement activities commenced by the Project and it was observed that there was a delay in constructions of the whole Project due to difficulties in finding out construction materials and due to delays in granting approval of the Ministry.

(b) Project on Building for Secretariat of Personal Identification

The following observations are made in this connection.

- (i) A loan of Rs.7,550 million had been obtained from 03 commercial banks for the said Project. Settlement of the said loan had been begun on 01 August 2015 and in addition to that, another loan of Rs.337.71 million had been obtained. Accordingly, the loan installment of Rs.267.61 million payable half yearly had increased up to Rs.278.87 million by Rs.11.26 million and the monthly interest rate had increased from 8.00 per cent to 13.12 per cent.
- (ii) A sum of Rs.863.06 million had been paid as interests relating to domestic loans and it had not been brought to account under Object 1601. Moreover, a sum of Rs.557.73 million paid as loan installments as well had not been brought to account under Object 3001. Those loan installments and the interest thereon, had been brought to account under Object 2502.

- (iii) The total cost of Rs.29,118 million comprising the cost of design, cost of constructions, loan interest payable within a period up to 30 years, cost of capital and cost of modernization, cost of maintenance of the agreement and the maintenance of staff and cost of tools and equipment and the cost of land had been identified by the Committee on vesting the ownership of the building with other institutions and the recovery of rentals therefor, appointed by the Cabinet of Ministers. After considering charges per square feet by categorizing under 04 criteria, the cost per square foot had been computed as Rs.37.65 based on expenditure on maintenance amounting to Rs.11,597.31 million without cost of the staff and the approval of the Cabinet of Ministers had been granted therefor. Agreements had not been entered into with any institution out of 05 institutions established in the building even by 24 November 2016, the date of audit. Further, it was observed that any institution, by which the said building had been obtained on rental basis, had not paid rentals even by the end of the year under review.
- (iv) Action had not been taken to inform the contractor or the consultancy company in respect of 26 shortages in constructions, 17 defects on electricity systems and 05 problems on signal equipment, identified by the Maintenance Unit of the Army on 25 August 2016 and to complete them properly or to recover from the relevant retention money.

(c) Strategic Security Communication Network Project

The following observations are made in this connection.

- (i) Even though the total cost estimate of the Project had been Rs.1,192 million, thereafter, it had been revised up to Rs.1,297.25 million. However, the approval from relevant parties had not been obtained therefor.
- (ii) Even though net provisions of Rs.590.00 million had been made for the year under review, out of that, only a sum of Rs.20.32 million representing 3.44 per cent had been utilized in the year under review.
- (iii) Even though it had been indicated that a zero-based budgeting system should be implemented since the year 2016 and funds allocated for capital projects should be utilized during the year itself for achieving objectives in terms of the Cabinet Decision dated 25 May 2016, the financial performance and the physical performance was at a weak level.
- (iv) The Time Schedule had not been prepared in terms of Guidelines 4.2.2 and 4.2.3 of the Government Procurement Guidelines in respect of procurement activities valued at Rs.1,128.12 million of the Procurement Plan of the Project.
- (v) Even though it had been expected to complete the activity of the Project, which was planned to be carried out within a Medium-term Expenditure Framework from the year 2014 to the year 2016, the procurement activities

for the construction of communication towers had been delayed due to delay in obtaining the approval of the Urban Development Authority and delay in land inspection activities. As a result, activities on purchase of microwave radio communication systems had been delayed.

- (vi) The Project should be implemented according to activities prepared in a regular order and on priority basis by preparing a specific time frame for each activity of the Project. However, attention had not been paid thereon. Twelve out of 22 generators valued at Rs.34.22 million excluding Value Added Tax, had not been installed in proper places even by the end of the year under review.

3.11.2 Provisions for new Project Proposals

Provisions of Rs.450.00 million had been made through transfers in terms of Financial Regulations 66 and 69 for the execution of a new project under Object 103-01-02-09-2502 for the development of infrastructure facilities of institutions which come under the purview of the Ministry. Only a sum of Rs.244 million had been utilized therefor in the year under review.

3.11.3 Commencement of New Projects by cancelling approved Project Provisions

Provisions of Rs.8.50 million had been made in the year under review for the execution of the maritime Project as a reimbursable foreign aid. However, these provisions had been transferred without the approval in the year under review to another Project called Maritime Security Capacity Building Project.

3.12 Deficiencies in the Operation of Bank Accounts

The following observations are made.

- (a) Action in terms of the Financial Regulation 396 (d) had not been taken on 09 cheques valued at Rs.136,723 issued in terms of the Bank Reconciliation Statement prepared as at 31 December 2016, but not presented for payment over a period of 06 months.
- (b) It was observed at the test check of 02 bank accounts maintained by the Ministry that action had not been taken even by 28 February 2017 to settle a sum of Rs.246.71 million in 23 instances of unidentified payments and a sum of Rs.0.41 million in 19 instances of unidentified receipts as at 31 December 2016 in the bank reconciliation statement prepared as at 28 February 2017.

3.13 Transactions without Authority

A net provision of Rs.194.80 million had been made for the execution of the Ranaviru Semi Housing Project in the year under review. According to the records of the Vote Ledger, a sum of Rs.201.09 million had been spent for that Project by the end of the year under review. As a result, the provision made had exceeded by Rs.6.29 million and become an over expenditure. Accordingly, the expenditure of Rs.6.39 million recorded under that Object had

been transferred to another Object to prevent that over expenditure. Further, it was observed that a proper authority had not been obtained for that transfer Note.

3.14 Management Weaknesses

The following weaknesses were observed at the audit test check.

- (a) According to the List of motor vehicles made available to Audit as at 31 December 2015 and 31 December 2016, prepared according to the Register maintained on motor vehicles owned by the Ministry, 09 motor vehicles that should be recorded under the National Cadet Corps, had not been included in that Register.
- (b) Sundry income earned by supplying different services to external parties using state properties had been credited to non-Government Welfare Funds by Tri Forces and the Civil Security Department. According to the information made available to Audit in this connection in the year under review, a sum of Rs.2,549.74 million had been credited to the Fund for 16 projects. However, all information on such Funds so maintained, had not been made available to Audit. Even though it had been informed at the discussions held with Commanders in Tri Forces and the Heads of other institutions by the Secretary to the Ministry of Defence and the Audit and Management Committee Meetings that proper methodologies on utilization of funds in all institutions and on crediting collected income to the Consolidated Fund should be formulated and presented, those activities had not been fulfilled even by the end of the year under review.

3.15 Human Resources Management

(a) Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2016 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
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(i)	Senior Level	51	43	08
(ii)	Tertiary Level	10	06	04
(iii)	Secondary Level	230	148	82
(iv)	Primary Level	136	115	21
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	Total	427	312	115
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(b) Human Resources obtained from other Parties

The following observations are made.

- (i) According to the information presented to Audit, 53 officers of Armed Forces and 266 other official members had been attached to duties of the Ministry.
- (ii) Eight employees of an Authority had been deployed in duties of the Ministry of Defence as a Supervisor of Defence and 07 Defence Guards in the year under review.