

## **Head 222- Report of the Auditor General on the Sri Lanka Army – Year 2017**

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The Appropriation Account and the Reconciliation Statement under Head and Item Number stated in the First Schedule and Third Schedule of the Appropriation Act, No. 24 of 2016 as amended by the Appropriation (Amendment) Act, No.32 of 2017 were presented to Audit by the Sri Lanka Army. The financial and physical performance reflected by those accounts and reconciliation statements were audited in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

### **1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Management and Accountability**

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The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of Government in terms of Financial Regulation 124 of the Democratic Socialist Republic of Sri Lanka. The Chief Accounting Officers have been appointed by the Minister of Finance to discharge the above responsibility in terms of Financial Regulation 124(2). The Head of the Department will be the Accounting Officer in respect of all the financial transactions of his Department in terms of Financial Regulation 125(1)(a) and the Revenue Accounting Officer has been appointed by the Treasury. This responsibility includes designing, implementing and maintaining internal controls relevant to the maintenance, preparation and fair presentation of Accounts and Reconciliation Statements presented within the limitations imposed by Parliament 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, Government Financial Regulations and Administrative Regulations.

### **1.3 Scope of Audit**

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The audit of the Sri Lanka Army – Head 222 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources, apply of internal control systems, compliance with laws, rules and regulations and maintenance of books, registers, records and reconciliation statements in an updated manner, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review was issued to the Sri Lanka Army on 29 October 2018. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, accounts, reconciliation statements and performance reports 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.

**1.4 Audit Observation**

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The audit observations of the Sri Lanka Army for the year ended 31 December 2017 revealed in audit, appear in the Management Audit Report in detail, mentioned in paragraph 1.3 above. The material and significant audit observations out of the said observations, appear from paragraphs 2.1 to 2.14 of this report. It was observed that the accountability as the Accounting Officer had been satisfactorily executed, to ensure the adequacy of the financial administration subjected to the following summarized audit observations revealed in the execution of the provisions of the Financial Regulation 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

<b>Accountability of the Accounting Officer in terms of Financial Regulation 128(1)</b>	<b>Non-compliance with that Provision by the Accounting Officer</b>	<b>Reference to the Paragraph of the report which included the Observation</b>
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Financial Regulations		
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128(1)(a) That the work of his department is planned and carried out with due despatch, having regard to the policy laid down by the Government and the intentions of Parliament in granting him financial provision for the activities authorised, and that an endeavour is made to complete the programme of work laid down for the year and/or to attain the targets specified;	Non-preparation of Budget Estimates in a realistic manner.	2.10
128(1)(b) That the organization for financial control and accounting in his department is effective, and provides adequately for the correct ascertainment, where necessary, of dues to Government, the systematic, complete and prompt collection of dues, and bringing to account of monies received, the authorization of commitments on behalf of the Government, the supervision and examination of services and supplies rendered, and the prompt and correct payment therefore from public funds;	Deficiencies in implementation of the Procurement Process	2.3.1(a), (b)

128(1)(c)	That the Financial Regulations and other supplementary instructions of the Government are adhered to in his department, and that they are supplemented by departmental instructions, where necessary;	Management Weaknesses	2.9
128(1)(d)	That an adequate system of internal check for receipts, payments and issues is maintained and tested from time to time;	Deficiencies mentioned in the Advances to Public Officers Account	2.11
128(1)(e)	That adequate and proper arrangements are made for the safe custody and preservation of money, stores, equipment and other assets belonging to the Government, or is in its custody, and that these are verified from time to time; and, where they are disposed of, such disposal is according to prescribed Regulations and instructions;	Deficiencies in Assets Management	2.5
128(1)(f)	That such information, statements and returns as are called for by the Chief Accounting Officer or the Treasury, are rendered correctly and promptly;	1.Delay in presentation of the Annual Performance Report 2. Deficiencies in Imprest Account 3.Non-preparation of Budget Estimates in a realistic manner	2.1.1 2.12 2.10
128(1)(h)	That special arrangements are made to recover outstanding dues and that the officers assigned that task report to him at least once a quarter or as otherwise directed regarding arrears and action pursued to expedite their recovery;	Recovery of outstanding loan balances of the Advances to Public Officers Account	2.11(a)

128(1)(i)	That the activities of his department are undertaken with due regard to economy, efficiency, propriety and integrity expected in the transaction of public business; (In this context, economy means not merely keeping within the Estimate; but also ensuring that the Government receives best value for money expended.)	Uneconomic Transactions	2.8
128(1)(o)	That the procedure laid down in Financial Regulations 103 to 108 is adhered to in case of losses to Government by the delays, negligence, faults or frauds on the part of officers/employees and surcharges are imposed on officers/employees responsible for such losses in terms of F.R.156(I).	Losses and Damage	2.7(a), (b)

## **2. Material and Significant Audit Observations**

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### **2.1 Performance**

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#### **2.1.1 Annual Performance Report**

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Even though the Performance Report for the year under review should be tabled in Parliament within 150 days after closure of the financial year by the Sri Lanka Army in terms of Public Finance Circular No.402 of 12 September 2002, that report had not been tabled in Parliament even by 31 July 2018.

### **2.2 Sustainable Development**

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#### **Achievement of Sustainable Development Goals**

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Every Government Institution should act in terms of the 2030 “Agenda” of the United Nations for Sustainable Development and the Sri Lanka Army had been aware of the manner in implementing the functions that come under its scope, relating to the year under review. Physical resources required for officers who have been appointed for the purpose of collection of data under the Goal “Healthiness and Good Governance” identified by the Sri Lanka Army.

## **2.3 Obtaining Supplies and Services through Procurement Process**

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The Sri Lanka Army had made provisions amounting to Rs.22,509.59 million for supplies and services in accordance with the Government Procurement Guidelines and out of that, provisions of Rs.21,038.66 million had been utilized. Details appear below.

### **2.3.1 Implementation of the Procurement Process**

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The following observations are made.

- (a) The Sri Lanka Army had paid a sum of Rs.30.53 million for the purchase of 70 containers for transporting goods by the sea for peacekeeping activities of the United Nations the State of Mali in March 2016. Even though the supplier had agreed to supply goods on 02 September 2016 in terms of agreements, the relevant containers had been provided on 06 January 2017. Even though a sum of Rs.3.19 million should be charged as demurrage charges, the Procurement Committee had decided to recover only a sum of Rs.1.53 million or 50 per cent of that amount on the request of the supplier.
  
- (b) The contract of supply of fresh coconut to all camps of the Sri Lanka Army had been awarded continuously to the same private company over a period of many preceding years. The agreed price for 01 kg of coconut without husks ranged from Rs.39.20 to Rs.41 and that agreed price had been increased by the Secretary to the Ministry of Defence on 16 June 2017 up to Rs.65. Accordingly, a sum of Rs.395.1 million had been spent for the purchase of 6,078,355 kg at a rate of Rs.65 per 01 kg of fresh coconut by the Army during the period from 22 June 2017 to 31 December 2017. It was further observed that provisions had not been made for changing the price agreed in terms of the agreement.

## **2.4 Local and Foreign Projects executed**

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Provisions totalling Rs.1,599.36 million and Rs.1,510 million had been made for 04 and 02 projects executed by domestic funds and foreign funds respectively by the Sri Lanka Army in the year under review and out of them, a sum of Rs.2,832.77 million comprising Rs.1,590.66 million and Rs.1,242.11 million respectively had been utilized. Accordingly, savings out of the net provision made, amounted to Rs.276.59 million representing 8.89 per cent.

## **2.5 Assets Management**

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### **2.5.1 Expenditure on Maintenance of Offices**

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Lands and buildings located in the Army Headquarters had to be released for Colombo city development activities and as such, the Sri Lanka Army had taken action to obtain buildings on rental basis since the year 2011 for maintenance of branches and Board of Directors of the Army Headquarters. A sum of Rs.1,074.1 million had been paid as rentals since the year 2011 and that expenditure included the rental of Rs.470.3 million as well for the year 2017.

## **2.5.2 Idle and Underutilized Assets**

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A number of pairs of 1,479 white canvas shoes valued at Rs.6.6 million purchased before 3 preceding years had remained idle in the Textiles Stores belonging to the Sri Lanka Army, located at Veyangoda.

## **2.5.3 Weaknesses in Stores and Administration of Stores**

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It was observed in audit that an armoury is maintained by the Sri Lanka Army in a congested area in Gampaha District since the year 2011. The buildings used for this stores were the buildings constructed for a textile factory of the Government and evidence that an investigation had been carried out on the suitability of those buildings for this purpose, had not been made available. This Store is located close to public places such as the railway line, economic centre and the Madya Maha Vidyalaya and as such, the risk on safety cannot be ruled out in audit. A number of 17,866,171 units of ammunition belonging to 02 institutions **who supply weapons**, had been stored in the said armoury from the year 2011 to 31 December 2017.

## **2.6 Commitments and Liabilities**

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### **Entering Commitments exceeding the Limit of the Annual Budget**

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Contrary to paragraph 02(a) of the State Accounts Circular No.255/2017 of 27 April 2017, commitments of Rs.1,668.08 million had been entered into exceeding the provisions of Rs.5,742.02 million made for 14 Objects by Rs.1,100.21 million.

## **2.7 Losses and Damage**

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The following observations are made.

- (a) Losses and damage subjected to recovery or write off further, valued at Rs.13,133.19 million relating to 121 incidents of the Sri Lanka Army had been identified as at 25 September 2018. Out of that, losses and damage valued at Rs.497.70 million older than 10 years, relating to 47 incidents as well, were included therein.
- (b) Preliminary inquiries and legal proceedings conducted in respect of losses occurred on 05 June 2016 on the explosion of the Armoury located at Sri Lanka Army Camp at Salawa and fixing of responsibility had been completed by 31 December 2017 and accordingly, it had been determined that the loss occurred due to destroying of weapons, motor vehicles, goods and equipment purchased by utilizing public funds, amounted to Rs.12,817.76 million. Moreover, it was revealed that necessary action is being taken to write off the losses and damage from books after obtaining relevant approval in terms of Financial Regulations 104(4) and 109.

## 2.8 Uneconomic Transactions

Instances of purchase of goods exceeding the actual requirements made by the Sri Lanka Army, were observed. Accordingly, a number of 18,348, 33,184 and 28,121 pairs of shoes had been purchased by the Sri Lanka Army in the years 2015, 2016 and 2017 respectively.

## 2.9 Management Weaknesses

The Sri Lanka Army had taken action to purchase 25,800 pairs of Stump Socks and out of them, 10,100 pairs had been received to the Textile Stores at Veyangoda. Even though those socks had not been in compliance with the approved sample according to the Quality Test Report thereof, it had been recommended to take them to the stock by considering the requirement. As the remaining 15,700 pairs of stump socks had been in accordance with the approved sample by 70 per cent, it had been recommended to take those socks as well to the stock.

## 2.10 Utilization of Provisions made available by Parliament for the Performance of Functions

Information on provisions made for the Sri Lanka Army during the period of 05 years ended 31 December 2017, utilization and savings thereof and audit observations thereon are given below.

Year	Type of Expenditure	Net Provision Rs. Millions	Utilization Rs. Millions	Savings Rs. Millions	Savings as a Percentage of the Net Provision
2013	Recurrent	115,202.96	115,164.75	38.21	0.033
	Capital	7,427.37	7,365.15	62.22	0.838
	<b>Total</b>	<b>122,630.33</b>	<b>122,529.90</b>	<b>100.43</b>	<b>0.081</b>
2014	Recurrent	135,287.68	135,282.25	5.44	0.004
	Capital	9,588.29	7,504.00	2,084.29	21.737
	<b>Total</b>	<b>144,857.97</b>	<b>142,786.25</b>	<b>2,089.72</b>	<b>1.443</b>
2015	Recurrent	151,629.47	151,624.68	4.78	0.003
	Capital	8,185.43	6,726.65	1,458.77	17.821
	<b>Total</b>	<b>159,814.90</b>	<b>158,351.33</b>	<b>1,463.55</b>	<b>0.915</b>
2016	Recurrent	151,664.60	144,320.60	7,343.99	4.842
	Capital	8,731.75	3,805.83	4,925.92	56.414
	<b>Total</b>	<b>160,396.35</b>	<b>148,126.43</b>	<b>12,269.91</b>	<b>7.649</b>
2017	Recurrent	146,393.93	142,925.89	3,468.04	2.368
	Capital	11,772.05	9,529.58	2,242.46	19.049
	<b>Total</b>	<b>158,165.98</b>	<b>152,455.47</b>	<b>5,710.50</b>	<b>3.610</b>

**(a) Appropriation Account**

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The following observations are made.

**(i) Non-utilization of Provisions made**

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The entire net provisions amounting to Rs.24 million made for an Object had not been fully utilized.

**(ii) Utilization of Provisions made available by other Ministries, Departments and District Secretariats**

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Provisions totalling Rs.1,267.73 million comprising sums of Rs.566.77 million and Rs.700.96 million had been made available by 03 other Ministries and 02 District Secretariats respectively for various activities. Out of that, only a sum totalling Rs.1,030.75 million had been utilized by the end of the year under review. Accordingly, savings out of the provisions made, amounted to Rs.236.98 million or 18.69 per cent.

**2.11 Advances to Public Officers Account**

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**Limits authorized by Parliament**

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Limits authorized by Parliament for the Advances to Public Officers Account, Item No.22201 of the Sri Lanka Army and the actual amounts are given below.

<b>Expenditure</b>		<b>Receipts</b>		<b>Debit Balance</b>	
<b>Maximum Limit</b>	<b>Actual</b>	<b>Minimum Limit</b>	<b>Actual</b>	<b>Maximum Limit</b>	<b>Actual</b>
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Rs.Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
3,300.00	3,299.87	2,540.00	2,540.86	4,542.00	2,240.85

**Non-recovery of Outstanding Loan Balances**

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According to the Reconciliation Statement presented to Audit, except for the loan balances of officers who had gone on transfer, the balances that remained outstanding as at 31 August 2018, totalled Rs.78,220,340. Even though those outstanding balances remained over periods ranging from 01 year to 05 years, the Sri Lanka Army had failed to recover the outstanding loan balances.

**2.12 Imprest Account**

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The balance of the Imprest Account of the Sri Lanka Army as at 31 August 2018 amounted to Rs.40.29 million. Sums of Rs.2.81 million and Rs.2.64 million remaining from the years 2008 and 2011 respectively in the said balance, had not been settled up to now.



### 2.13 General Deposit Account

The balances of 6 General Deposit Accounts of the Sri Lanka Army as at 31 December 2018 totalled Rs.75.72 million. In terms of Financial Regulation 571(2), lapsed deposits should be credited to Revenue. Nevertheless, the value of lapsed deposits to be settled as at 31 August 2018 had been Rs.441,000.

### 2.14 Human Resources Management

The position on the approved cadre, actual cadre, vacancies and excess cadre as at 31 December 2017, appear below. The Sri Lanka Army had spent a sum of Rs.116,824.87 million for the category of personal emoluments for the year under review. Accordingly, the annual per capita expenditure had been Rs.640,789.

The position on the number of Officers and allied officials in the service of the Sri Lanka Army, is as follows.

Category of Employees	Approved Cadre	Actual Cadre	Vacancies
Officers- Regular/ Volunteer	10,656	9,290	1,366
Allied Officials - Regular/ Volunteer	189,853	162,589	27,264
	200,509	171,879	28,630

#### The civil staff in the service of the Sri Lanka Army

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess cadre
(i) Tertiary Level	19	13	6	-
(ii) Secondary Level	199	148	51	-
(iii) Primary Level	6,391	8,974	-	2,583
(iv) Casual/ Contract	4,537	1,300	3,237	-
Total	11,146	10,435	3,294	2,583

It had been indicated that approval had been granted through the Letter No.DMS/A08/21 dated 30 November 2009 of the Department of Management Services of the Ministry of Finance and the Public Administration Circular No.25/2014 for granting permanency for excess cadre of 2,583 in the primary level extraneous to the approved cadre and on supernumerary basis.