

Head 224 - Report of the Auditor General on Sri Lanka Air force – Year 2017

The Appropriation Account, 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 Air force. The financial and physical performance reflected from the account and the reconciliation statement were audited in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibility on the Financial Management and Accountability of the Chief Accounting Officer, Revenue Accounting officer and the Accounting Officer

The Minister of Finance is in 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. The Minister of Finance appoints the Chief Accounting Officers to discharge above responsibility in terms of Financial Regulation 124(2). The Head of the Department will be the Accounting Officer in respect of all 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 Article 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

The audit of the Sri Lanka Air force – Head 224 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, applying of internal control systems, compliance with laws, rules and regulations and maintenance of updated books, registers, records and reconciliation statements, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. 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

The material and significant audit observations revealed from the audit of the Sri Lanka Air force for the year ended 31 December 2017 appear Management report in detail as discussed in paragraph 1.3 above. Among those findings Material and important observations mention in paragraph 2.1 to 2.15 in this report. The audit observations revealed in the execution of accountability as the Accounting Officer in accordance with provisions of the Financial Regulation 128 of the Democratic Socialist Republic of Sri Lanka, to ensure the adequacy of the financial administration are summarized and shown in the undermentioned table.

Accountability of the Accounting Officer in terms of Financial Regulation 128 (1)	Non-compliance with that Provision by the Accounting Officer	Reference to the Paragraph included Observation
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Financial Regulation		

128(1)(a)	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 authorized and that an endeavour is made, to complete the programme of work laid down for the year under review and/ or to attain the targets specified.	1. Non-maintenance of Registers and Books. 2.12 2. Activities which are contradictory to Main Activity. 2.1 (C) 3. Deficiencies in Implementation of the Procurement Process 2.3.1
128(1)(b)	The work of his Department is planned and carry out for financial control and accounting it 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	1. Activities which are contradictory to Main Activity. 2.1 (C) 2. Deficiencies in Implementation of the Procurement Process. 2.3.1

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;

128 (1)(c)	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.	1 Non-maintenance of Registers and Books. 2 Non-compliances.	2.12 2.13
128 (1)(d)	An adequate system of internal check for receipts, payments and issues is maintained and tested from time to time	1. Deficiencies in Revenue accounts. 2. Deficiencies in Advances to Public Officers Account.	2.10 (a) and (b) 2.11
128(1)(e)	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	2.4 (a), (b)
128(1)(f)	Such information, statements and returns as are called for by the Chief Accounting Officer or the Treasury, are rendered correctly and promptly;	1. Budget Estimates are not realistic. 2. Delay in submitting Annual performance reports.	2.9 (a) (i) 2.2

128 (1)(g)	Returns showing the progress of collection of dues to Government are rendered regularly to the Chief Accounting Officer;	Deficiencies related Revenue accounts.	2.10 (b) (ii)
128(1)(h)	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 money.	1.Deficiencies in Revenue accounts. 2.Recover outstanding loan balances under Advances to Public Officers Account.	2.10 (a) (i) 2.10 (b) (i) 2.11
128(1) (i)	The activities of his department are undertaken with due regard to economy, efficiency, propriety and integrity expected in the transaction of public business;	1 Activities contrary to the Main Functions.	2.1 (C)
128(1) (o)	The procedure laid down in Financial Regulations 103 to 108 is adhered to in case of losses to Government by the delays, negligence's, faults or frauds on the part of officers/employees and surcharges are imposed on officers/employees responsible for such losses in terms of Financial Regulation 156(1).	2.Irregularly Transactions 3.Defecencies in appropriation account	2.6
		1.Uneconomical and inefficient Disposal of Assets.	2.4 (a)
		2. Not received receivable income from government from assets.	
		3.Losses and damages	2.6
		4.Responsibility about losses	2.7
			2.8

Accountability of the Revenue Accounting officer

128(2)(e)	Half-yearly returns are prepared and forwarded to the Auditor General showing the state of arrears of Revenue as at 30th June and 31st December of each financial year, under the various Heads, Sub Heads, Items and Sub-Items of Revenue for which he is responsible.	Half-yearly returns showing the state of arrears of Revenue are not prepared and forwarded to the Audit on due dates.	2.10 (b)
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2. Material and Significant Audit Observations

2.1 Performance

Non-Performing Activities

In accordance with Public finance circular number 01/2014 issued on 14 February 2017, Action plan for 2017 was prepared by Sri Lanka Air Force. However, some instances observed in relation to not performing actions in the action plan as follows.

(a) Not fulfilling functions of the action plan

According to the action plan of the Sri Lanka Air force for 2017, six construction projects in Hingurakgoda base camp identified as new constructions, only two projects from that completed year under review. It was observed that the rest of the construction work scheduled to be completed by the second quarter of the year had not been commenced as at 31 December, 2017. The commandant of the Air Force explained that only Rs5.55 Million allocated to constructions of the Hingurakgoda base camp and due to that operations had not been commenced year under review.

(b) Even though in addition to above by Hingurakgoda base camp Rs.809.67 Million has been requested allocation to 13 expected programmes for renovation and development of buildings for 2017 only Rs.10 Million. Allocated from action plan. However, six programmes estimated cost amounting to Rs.16.56 million started year under review.

Not receiving expected return

Activities contrary to the Main Functions

Even though the Helitours Company which is maintained as a private institution belonging to the Airforce by utilizing the physical and human resources as well as the Funds belonging to the Sri Lanka Air Force, had been incurred a profit of Rs.54.5 million during the period of 9 years from the year 2010 to the year 2018 ,return on investment had not been credited to the Government revenue as a benefit of the investment made by the Sri Lanka Air Force.

2.2 Annual Performance Report

The Annual Performance Report for the year under review required to be tabled in the Parliament within 150 days after the financial year, as required by the Public Finance Circular No.402 of 12 September 2002, had not been tabled in the Parliament by Srilanka Airforce even as at 31 July 2018

2.3 Supplies and Services made through Procurement Procedure

According to the government procurement guideline Sri Lanka Air Force has been provided with Rs.6,073.9 million allocation to obtain Supplies and Services for the year under review and out of that only Rs.4,927.9 Million has been utilised. Therefore Rs. 1,146 Million or 18.86 percent of allocation has been remained un utilised.

2.3.1 Implementation of the Procurement Procedure

The following observations are made.

- (a) Sri Lanka Air force has been called bid as at 17 April 2017 under National Competitive bidding system to transport five MI -17 helicopter engines from Katunayake Airport to Koltsovo Airport in Russia and procurement granted to a public company under the approval of procurement committee on 18 May 2017. Even though Sri Lanka Airforce has been placed five orders amounting to Rs.1,658,000 for obtaining the relevant service from the institution, later supplier had informed to pay additional Rs.1, 145,830 to supply the service. Even in bidding documents it clearly mentions that additional prices increase is not entertained payment made to the supplier on 28 June 2017 including additional cost.
- (b) Sri Lanka Air force purchased material 61,948 meters amounting to Rs. 22,418, 055 year under review while Sri Lanka Air force Katunayake base camp and repair division material stores had balance material stock 23,382 meters from Material drill khaki in the beginning of the year under review. However only 26,548 meters of Material issued year under review. Accordingly, material meters 58,782 amounting to Rs.21,468,234 remain unutilized in the stores as at the end of the year. It was revealed that left over of Hugh excess materials in the stores, due to the purchase of material during the year while having remaining balance of materials in the stores.
- (c) Sri Lanka Airforce has been paid Rs.7,518,132 in excess to the contract amount due to the contract price of a un husks coconut Kilogram has been increased from Rs 39.20-Rs.41.00 range to Rs.65 by the Secretary to the ministry of defence in 25 Sri Lanka Airforce camps, on 16th

June 2017. Only Rs.26,881,824 has been allocated to purchase fresh coconuts in addition to that Rs 48,570,821 has been expensed for purchase coconut powder in 2017. Further contract to supply fresh coconut for 7 campus has been awarded to same private company for last few years.

2.4 Assets Management

Following defences were made available from audit test carried out in connection to assets of the Sri Lanka Airforce.

(a) Utilisation of Vehicles

It was observed that loss amounting to Rs.3,794,200 occurred due to 44 motor vehicles disposed less than its valued amount by Sri Lanka Airforce in year 2016 and 2017. Further files relating to disposal of vehicles not received for perusal of the audit.

(b) Defused and underutilised assets

During the sample audits, it was observed that some of the assets were either not utilised or underutilised as mentioned below.

- (i) It was observed that 2446 bulk cargo belonging to 9 categories in the premises of the civil engineering division of the Hingurakgoda Air Force base camp was in defused category. Aluminium plates (Diamond Washer -531002200) stocks of 338 kgs used to cover the premises purchased in 2010 were found to be slow moving category.
 - (ii) it was observed that the 547 kilograms of Iron Kapnail (1 1/2) valued at Rs.218,800 at the Wiravila camp of the Sri Lanka Air Force was inactive for more than one year.
 - (iii) According to the information available for the audit, 2130 vehicles belong to the Sri Lanka Air Force and 257 motor vehicles from that were observed to be defective in vehicle yards without any kind of run in the year under review. It was also observed that 352 other motor vehicles had run less than 1,000 kilometres in the year under review.
 - (iv) It was observed from the physical observation 53,407 meters of material costing to Rs.18,158,380 required for the White T-shirt was in the fabric preservation warehouse at Hingurakgoda Base Camp by 18 August 2017 for more than one and half year by underutilisation. Further it was also observed that the textile was not in good condition due to discolor. In addition, it was observed during the Physical verification that the material held at the warehouse belongs 3 categories of need for uniforms of the officers was defused from 02 to 05 years to the value of Rs. 16,150,810.
 - (v) According to information available, the Sri Lanka Air Force had 119 fighter planes and passenger aircraft, 62 out of that were in defective on as at 31 December 2017.
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2.5 Obligations and Liabilities

In addition to allocation amounting Rs.2,118.1 Mn allocated for five expenditures votes Rs 58.65 Million has been expensed and Rs 64.6 Million obligations has been obliged, which non-compliance to the paragraph 02 (a) of public finance circular no 255/2017 dated 27th April 2017

2.6 Informal transactions

Some of the transactions that has been entered by Sri Lanka Air Force were observed to be in informal nature. Following instances were observed in relation to that.

(a) Internal funds in some divisions and units of the Air Force Head Quarters and camps has been established in terms of Flight Order No.852 dated 30 November 2011 of commandant of the Air Force. The operational and human resources of the Sri Lanka Air Force have been utilized for the operations of these funds and the profitable operations carried out by the funds. It was observed that due to the non-establishment of these internal funds in terms of section 154 of the Financial regulation, the functions of the those are not come under the direction of the Treasury and the Sri Lanka Parliament. Further in accordance with circular No. 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka and the Extraordinary Gazette No. 1933 / 15-2015 dated 21 September, 2015 and public finance circular No.7/2016 dated 29 July 2016, the funds have been circulated in the form it is sent to Director General of Public Finance within 14 days from the date of issue. However, the Sri Lanka Air Force is carrying out of the total number of statutory and non-statutory funds, only 7 fiscal information was provided on 2 September 2016. The progress of the other fund information to the Director General of Fiscal Affairs was not reported to the audit. In addition, the Air Force Commander explained that the Annual Audit conducted by the Executive audit division of the Sri Lanka Air Force. However, copies of internal audit reports have not been submitted to the Auditor General.

(b) Public Accounts Meeting held for reviewing the performance of the Sri Lanka Air Force on the 24 June, 2016, stressed that a report about how common projects managed by three forces should accordance with a common policy and compliance with the audit should be prepared , and a reasonable percentage of government inputs being stressed. Details of the steps taken on this were not received for the audit.

2.7 Losses and Damages

According to the statement of losses and omissions prepared under public accounts circular no 259/2017, 219 incidents amounting to Rs.958,875,319 less than 5 years ,35 incident amounting to Rs. 48,956, 492 range from 5 to 10 years, 25 Incidents more than 10 years amounting to Rs.11,891,529 number of total incidents 279 amounting Rs. 1,019,723,340 monies reported as monies to be collected, losses to be write off or ignored.

2.8 Responsibility about Damages

Even though Radar receiver (LRU 02) in aircraft supplementary division of Katunayake air force base and antenna scanner (LRU 01) has been sent to china for repairs on 25 April 2014 due to misplace those Rs. 74,457,100 loss has been occurred. It was revealed to audit that preliminary report regarding

this loss has been issued on 31 August 2015 and no action has been taken to identify responsible parties and claim losses from them as at the date of this report.

2.9 Non -utilization of Allocations made by Parliament to implement the Activities

The information relating to the allocation made to the Sri Lanka Airforce, utilisation of funds and savings thereon made during the 05 years period ended as at 31 December 2017 and audit observation in relation are given below.

Year	Category of Expenditure	Net Allocation Rs.Millions	Utilization Rs.Millions	Savings Rs.Millions	Savings as a Percentage of Net Allocation
2013	Recurrent	27,864.665	27,641.065	223.600	0.80
	Capital	17,032.925	6,577.690	10,455.235	61.38
	Total	44,897.590	34,218.755	10,678.835	23.78
2014	Recurrent	30,936.593	30,253.381	683.212	2.20
	Capital	12,878.670	12,357.124	521.546	4.04
	Total	43,815.263	42,610.505	1,204.758	2.75
2015	Recurrent	33,876.500	32,281.396	1,595.104	4.70
	Capital	19,298.000	17,244.174	2,053.826	10.64
	Total	53,174.500	49,525.570	3,648.930	6.86
2016	Recurrent	33,994.752	31,059.023	2,935.729	8.63
	Capital	19,659.000	4,401.146	15,257.854	77.61
	Total	53,653.752	35,460.169	18,193.583	33.90
2017	Recurrent	33,182.623	32,278.744	903.879	2.72
	Capital	8,642.885	5,533.730	3,109.155	35.97
	Total	41,825.508	37,812.474	4,013.034	9.59

(a) Appropriation Account

Following observation made.

(i) Over allocation of fund

Sum of Rs.4,716 Million utilised from fund allocated to expenditure heads due to over allocation of Rs.2,748 Million fund for 33 expenditure heads. It ranged from 10 percent to 97 percent from net allocation. According to the provided answers delay in bills, not receiving enough imprest, during the year purchases not occurred, Aircraft repairs undergo under foreign country technical advises not completed year under review cause for those.

(ii) Utilisation of Allocations given by other Ministries, Departments and District Secretate office

Four other Ministries and 02 departments transferred funds to Sri Lanka Airforce amounting to Rs.1,117.74 Million for activities that suppose to completed by Sri Lanka Airforce. Sum of Rs. 932.46 from that utilised year under review. Accordingly, Rs. 185.28 Million which represent 16.58 percent from savings shows from allocations.

2.10 Estimated and Actual Revenue

It was estimated by the Sri Lanka Airforce to collect a aggregated revenue of Rs 2,847 million under two Revenue Codes for 2017 and revenue aggregating Rs 3,150.2 million representing 110.6 per cent of the revenue estimated had been collected during the year under review.

The following deficiencies were made in this connection.

(a) Revenue Code 20-03-02-16 – Aircraft Rent Income

- (i) According to the Revenue Account furnished to audit, the total amount of revenue of Rs.14.22 million remained in arrears for the period ranging from 01 year to 11 years. Follow-up action taken to recover the arrears balances had remained at weak condition.
- (ii) When considering the net revenue collection of past 3 years and year under review, A sum of Rs.248.7 million had collected from aircraft rent income collected in 2014 and declined step by step and a sum of Rs.147.2 million collected year under review and it shows income reduction by 40.8 per cent.

(b) Revenue Code 20-03-06-00 - United nations peace operational duties

- (i) According to the Revenue Account furnished to audit, a sum of US \$2.71 Million revenue remained in arrears for the period ranging from 01 year to 5 years. Follow-up action taken to recover the arrears balances had remained at weak condition.
- (ii) Even though the institution need to submit semiannual report regarding arrears revenue to the auditor general on or before one month time period after the period as per financial Regulation 128(2) (c), For the period ended 31 December 2017, Sri Lanka Air force submitted semiannual report regarding arrears revenue on 13 March 2018.

2.11 Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account of the Sri Lanka Airforce, under Item No.22401 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	458.347	418	421.489	1000	306.599

Non-recovery of Outstanding Loan Balances

According to the Reconciliation Statement presented for audit, the aggregate balance remained outstanding as at that date amounted to Rs.16,094,133 excluding the loan balances to be recovered from the officers transferred out balances to be recovered had remained time period for over 01 year to over 05 years the follow-up action taken to recover the outstanding balances had remained at weak condition.

2.12 Non-maintenance of Registers and Books

It was observed in audit test checks that the Department of Government Printing had not maintained the following Registers.

Type of register	Relevant Regulation	Observation
(a) Fixed Asset Register	Treasury circular no.842 dated 19 December 1978/According to F.R. 502 (2) Financial Regulation 11	Not updated the fixed assets register.
(b) Fixed Assets Register of Computer, Accessories and software	Treasury circular no. IAI/2002/02 dated 28th November 2002	Not updated the fixed assets register of Computer, Accessories and software according to the treasury circular.

2.13 Non-compliances

2.13.1 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 analysed and shown below.

Reference to Laws, Rules and Regulations -----	Value (Rs.) -----	Non-compliance -----
Financial regulation in socialistic republic of Sri Lanka -----		
(i) Financial regulation (F.R.)104 (4)	3,742,077	Air fare fee receivables from 07 ministries has been recommended to write off.
(ii) F.R.104 (3)	135,021,939	Report regarding losses within 7 days related to 69 incidents or report according to the common format 283 has not been done.

2.14 Sustainable Development

Achieving the Sustainable Development Goals

As the Sri Lankan Air Force was not aware about the actions to be taken for goals under their scope, to achieve the Sustainable Development Goals and Objectives set out under the “Agenda for Sustainable Development 2030”. of the United Nations Organization which should be worked by all government institutions.

- (a) Accordingly, due to the unawareness about “Agenda for Sustainable Development 2030” actions had not been taken by the Sri Lanka Airforce to identify the Sustainable Development Goals and Objectives, Indexes, key milestones to be achieved and Indexes to measure such achievements.
- (b) Even though there is a necessity of an accurate data base to measure the performance of an activity, it was observed that institution fail to develop an accurate data base to measure achievement of sustainable goals and objectives.
- (C) Actions had not been taken to identify the Sustainable Development Goals and, Objectives related to the activities of the Sri Lanka Airforce in yearly action plan, further allocation required for complete those activities has not include in annual budget estimates.

2.15 Human Resources Management

2.15.1 Approved Cadre, Actual Cadre and Expenditure for Personal Emoluments

The particulars on approved and actual cadre, vacancies and the excess cadre remained as at 31 December 2017 of Sri Lanka Air force are given below. Sri Lanka Air Force had spent a sum of Rs.26,469.5 million under the category of Personal Emoluments Expenditure during the year under review. Accordingly, the per capita expenditure amounted to Rs.673,011.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	of
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(i)	Senior Level	08	07	01	
(ii)	Tertiary Level	03	03	-	
(iii)	Secondary Level	184	92		92
(iv)	Primary Level	3,019	2458		561
(v)	Casual/ Contract Basis	740	301		439
(vi)	Service Officers		2,156 1,945		211
(vii)	Other Posts	35,844	34,524	1,320	
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	Total	<u>41,954</u>	<u>39,330</u>	<u>2,624</u>	