

Head - 223 - Sri Lanka Navy

1. Financial Statements

1.1 Qualified Opinion

Head 223 - The audit of the financial statements of the Sri Lanka Navy for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance and cash flow statements for the year then ended was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. My comments and observations on the financial statements of the Sri Lanka Navy was issued to the Accounting Officer on 29 May 2023 in terms of Section 11(1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report relating to the Sri Lanka Navy was issued to the Accounting Officer on 31 May 2023 in terms of Section 11(2) of the Audit Act. This report will be tabled in Parliament in pursuance of the provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Navy as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibility of the Chief Accounting Officer and the Accounting Officer on the Financial Statement

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16 (1) of the National Audit Act, No. 19 of 2018, the Sri Lanka Navy is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Sri Lanka Navy.

In terms of Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Sri Lanka Navy and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sri Lanka Navy's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

As required by Section 6 (1) (d) of the National Audit Act, No.19 of 2018, I state the followings:

- (a) The financial statements are consistent with the preceding year,
- (b) The recommendations made by me relating to the financial statements of the preceding year, had been implemented.

1.6 **Comments on Financial Statements**
 1.6.1 **Accounting Deficiencies**

(a) **Recurrent expenses**

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>-----</p> <p>In the fuel supply ledger of the Navy in the year 2022, Rs. 971,051,975 out of the total net allocation of Rs. 5,190,000,000 or 19 percent had been issued to other ministries, departments, government institutions and external institutions, out of that Rs. 22,548,339 were not disclosed in the financial statements.</p>	<p>-----</p> <p>Arrears of bills due were not disclosed in the financial statements as arrears should be shown only in the revenue heads.</p>	<p>-----</p> <p>Necessary actions should be made for disclosure in the financial statements.</p>

(b) **Statement of Comparison on Advance Account for Public Officers**

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>-----</p> <p>Regarding the years 2003, 2004 and 2015, there was a difference of Rs. 31,690,373 in the credit balance according to the balance of the control account and the single balance classification summary. Out of that, the value related to the year 2005 alone was Rs.31,668,645 and the related documents and account summary copies were not submitted to the audit to check this difference.</p> <p>And at the end of the year under review, the value of this difference is Rs. 21,625,626 but no further action was taken by the committee appointed to deal with this change.</p>	<p>-----</p> <p>As it was decided to cut off step by step as per the recommendations of the inspection board, the files for the cuts related to Rs.16,848,699 have been submitted to the Ministry of Defense. After writing off that balance, in the second stage, the control account and single loan balances are to be submitted to the Treasury for writing off. Account summaries for those periods were not available in the Navy to examine how this change occurred.</p>	<p>-----</p> <p>According to the Financial Regulations, the relevant approvals should be obtained and further action should be taken. Also, actions should be made to systematically file the relevant information documents and account summaries.</p>

(c) **Commercial Advance Accounts**

Following Observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
----- In the case of maintaining a commercial advance account in accordance with Financial Regulations 504, at the end of each quarter, prepare statements of trade debtors, trade creditors, raw materials, warehouse goods and supplies and the limits prescribed for advance accounts before the 15th day of the month following that quarter. Although it should have been submitted to the Chief Accounting Officer with a copy to the Auditor General, it had not been acted upon. And those reports had not been submitted with the financial statements either.	----- Actions will be made to present it correctly in the year 2023.	----- Quarterly accounts should be prepared as per the Financial regulations.

2. **Financial Review**

2.1 **Expenditure Management**

Audit Observation	Comments of the Accounting Officer	Recommendation
----- ----- Although it is the accounting officer's responsibility to prepare the expenditure estimates as accurately as possible according to the Finance Regulations 50 of the Democratic Socialist Republic of Sri Lanka, 06 recurrent expenditure subjects has been transferred in the year 2022 in according to FR 66 amounting Rs. 701,200,000.	----- Only this value has been transferred by the 66 Financial Regulations for 06 recurrent expenditure subjects.	----- Estimates should be prepared as accurately as possible.

2.2 Liabilities and Entering into Obligations

Following observations are made

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) In terms of Section 04(6) of the National Budget Circular No. 03/2021 dated 21 December 2021 and Section 94(1) of the Finance Regulations, Although no expenses or liabilities should be incurred in the expectation that the necessary authority or additional funds will be received by the time the money is due, Rs. 15,358,654 for a recurrent expenditure subject in excess of the allocation in the year under review and for a capital expenditure subject of Rs. 82,126,924 had been entered in to liabilities.	The allocations for the year 2022 are divided into quarters and the allocations given to that quarter are tied to liabilities without exceeding the limit. It is not clear whether the amount of provision mentioned in the query is allocations related to a quarter or allocations related to all the four quarters.	Liabilities and obligations should not be created in excess of the allocation money related to a subject of expenditure.
(b) In the statement of obligations and liabilities of the year under review, liabilities of Rs.1,523,936 were reached for 02 expenditure subjects not related to the Navy.	In the statement of obligations and liabilities, the expenditure to go to the 1203 expenditure subject was recorded as Rs. 858,436 under the 1206 expenditure subject and Rs. 665,500 under the 1207 expenditure subject due to a typing error.	It should be noted under the correct expenditure heading.

2.3 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with laws, rules and regulations observed during sample audits are analyzed below.

	Observation	Comments of the Accounting Officer	Recommendation	
With reference to laws, rules and regulations	Non compliance			
(a)	Secretary to the Treasury's National Budget Circular No. 03/2018 dated 16 July 2018 para 07.	Although it has been specified that all heads of government institutions should ensure that an officer entitled to an attached vehicle is entitled to only one attached vehicle and that the officers using attached vehicles are not entitled to use any other reserve vehicle, the Navy attached to 18 officers. Two vehicles were reserved each.	Officers of the Riyad Admiral rank of the Sri Lanka Navy deal with strategic operational level matters and confidential information materials and reports. Therefore, there are cases where a separate personal task force is attached to them and they are also taken as security activities. It is being considered to change this existing system and attach one vehicle to the vehicle pool.	Actions should be done according to circular provisions.
(b)	Public Administration Circular No. 13/2008 dated 29 December 2021 of the Secretary of the Ministry of Public Service Provincial Councils and Local Government.	(i) 135 liters per month has been approved for officers who use petrol/diesel vehicles, holding attached official vehicles, but 365 liters per month for official travel for 03 civil officers employed in the Sri Lanka Navy had been approved and among them 125 liters per month had been approved for personal travel for two civil officers	According to the approval given to civil officers serving in the Sri Lanka Navy to provide the same privileges and facilities as the naval ranks, an official car has been provided in accordance with Navy Order 325, which is the system of providing official vehicle facilities for the staff officers of the army.	Actions should be made to obtain the approval of the Ministry of Public Administration.

- (ii) By Article 47 of Naval Order No. 0325 of the Commander of the Navy and Internal Circular No. "Navy Order 05" dated 13 February 2020, the duty fuel limit for 583 officers holding positions of Commander and above has been increased from 305 to 365 liters and for 101 officers holding the position of Commodore and above, 125 liters of fuel has been approved for personal purposes in addition to the duty fuel, but for that, the approval of the Ministry of Defense and the Secretary of the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government had not been obtained.
- From the year 1978 till now, the deployment of vehicles of the Armed Forces has been given as per the letter of the Secretary, Ministry of Public Administration and Home Affairs dated 23 March 1978. Tri-forces personnel are bound to perform duties 24 hours a day and use official vehicles for long journeys. Therefore, Navy orders have provided a certain number of kilometers for the official vehicles of staff officers. And since the armed forces are not always entitled to all the privileges given to the public administration service, those circulars were not always applicable to the armed forces.
- Actions should be made to obtain the approval of the Ministry of Public Administration for the monthly amount of liters of fuel.
- (c) No.02 of Asset Management Circular No. 07/2017 dated 21 December 2017 of the Deputy Secretary to the Treasury.
- 59 vehicles owned by the Navy had not been taken actions to obtain registered ownership as per the circular.
- As the private entities that acquired 03 vehicles do not exist at present, they have been referred to the Navy Legal Department for further action. Actions are being made to get registered with the motor transport department for the 50 vehicles of the Navy's transport pool.
- Actions should be done according to circular provisions.

- (d) Sections 3.1.4 (i) (ii) (iii) and (iv) of the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka.
- As per the sample audit for the year under review, the value is Rs. 66,345,710 Red Phosphorus and bullets purchasing were made under the international competitive bidding system and Although in order to ensure maximum competition, the procuring entity is required to advertise the procurement notices internationally through various media and send the notices to the embassies and trade representatives of the countries where suppliers and contractors are allowed to participate internationally and post the notices on the websites, Due to the fact that the procurement notice was published only in a national newspaper and on the Navy website, the opportunities for international competitive suppliers to participate in the procurement activities were reduced.
- At present, explosives and firearms are supplied to the Commercial Explosives Firearms and Ammunition Purchase Unit through local agencies registered with the Ministry of Defense as well as local agents of foreign manufacturing companies and For advertisements published by this unit in national newspapers and on the Navy website are responded by local agencies as well as foreign agencies respond and local representatives and in the future, by submitting the relevant notices to the embassies of foreign countries and posting those notices on their websites, international suppliers will be given the opportunity to participate in the procurement activities.
- Procurement guidelines should be followed.

2.4 Fraudulent Transactions

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Regarding the financial discrepancy of Rs.8,314,236 revealed by the Internal Audit Department in the year 2017 in the Stores Advance Account (Explosives), the investigations in terms of Finance Regulation 104 had not been completed by the last day of the year under review.</p>	<p>Investigations related to the financial discrepancy of Rs. 8,314,236 in the Stores advance account (explosives) in the year 2017 which was detected by the internal audit department are being carried out.</p>	<p>Actions should be made to speed up the investigation.</p>

3. Operational Review

3.1 Activities that conflict with the main functions

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Navy personnel had been deployed since December 2019 for the construction of a building of a private institution and had not entered into an agreement with the institution for that purpose.	No comment was given in this regard.	An agreement must be entered before the beginning of work.
(b) The Ministry of Defence Secretary had approved the deployment of 25 sailors for a period of 06 months for the above project. But for a further period of 09 months, 17 sailors had been deployed without obtaining the approval of the Ministry of Defence to deploy sailors for that project.	The Father of the Church in charge of the project could not deliver the necessary raw materials for the project to the work site on time due to during the construction work of the project, the Easter attack in 2019 and the situation in the country after that, the situation of the Covid-19 epidemic and the shutdown of the country since the first half of 2020, the raw materials in the market due to the struggle in the country in the past period, due to the shortage,. As a result, the project could not be completed within the planned period.	The approval of the Ministry of Defense should be obtained for the deployment of sailors for the additional period as well.
(c) During the period of 06 months approved by the Ministry of Defense, 1505 training man-days and 109 supervisory man-days were deployed for the work of this project which was started in December 2019 and the gross salary cost for that was Rs.4,842,000. Also, for the additional period of 28 months for the project, 639 supervisor naval man-days, 9201 trained naval man-days and 61 marine engineering technician man-	No comment was given in this regard.	Since it is a construction work of a private company, the wage cost or an industrial rent should be reimbursed.

days were employed without the approval of the Ministry of Defense and The gross salary expense calculated for that was Rs. 23,486,800. Accordingly, the gross salary expenditure for 11,515 man-days for the construction of private institutions is Rs. 28,328,800 had been incurred, but had not been reimbursed.

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| (d) | The Sri Lanka Navy is engaged in a mission to fulfil its social responsibilities with the theme "For a green land surrounded by blue seas", but it was observed that the deployment of sailors for private institutions building construction works is not related to that mission. | No comment was given in this regard. | Must engage in tasks related to the mission and objectives. |
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3.2 Assets Management

Audit Observation	Comments of the Accounting Officer	Recommendation
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As on the date of the audit, the Navy had a transport fleet of 3415 motor vehicles of various models, of which 3231 vehicles were used for the purposes of the Navy. Three vehicles were taken out of service and 172 vehicles were handed over for repair. The remaining 09 vehicles were used for the Ministry of Defense and the institutions under it.	The 25 decommissioned vehicles from the fleet of Navy vehicles have been qualified and sold under the procurement process and further steps are being taken to qualify and sell the remaining 03 vehicles. Steps are being taken to complete the repairs of the 172 vehicles that were sent for repairs, Considering the limited amount of provision available. Arrangements have also been made to provide 10 vehicles, including motorcycles, to the Ministry of Defense and the agencies under it under the approval of the Ministry of Defense.	Vehicles should be used efficiently and effectively.

3.3 Management Weaknesses

Audit Observation	Comments of the Accounting Officer	Recommendation
----- Although the Ragama Welisara Naval Base has IT-competent officers, but the Firearms and Ammunition Purchase Unit has not yet introduced a system for stock.	----- A system will be introduced in the near future regarding the stocks of the Commercial Explosives, Firearms and Ammunition Purchase Unit.	----- A systematic approach should be taken to strengthen internal control.

4. Human Resource Management

Audit Observation	Comments of the Accounting Officer	Recommendation
----- There were 486 vacancies at the senior level and 6873 at the tertiary level in the Navy Personnel staff. Likewise, 04 senior level, 11 tertiary level, 72 secondary level, and 480 primary level vacancies remained in the Civil Servant Personnel staff. (a) According to Management Services Circular No. 01/2020, the recruitment for all existing vacancies has been suspended until further notice, so it was not possible to fill the vacancies in the civil service. (b) The Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government had been notified to fill the vacancies in secondary and tertiary level posts.	----- As per Management Service Circular No. 01/2020, recruitment for all existing vacancies in the primary service category in all ministries, departments and all institutions under it has been suspended until further notice, therefore it has not been possible to recruit staff for the existing vacancies in the primary level positions of the Navy Civilian Staff. It is announced that the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government has been notified to fill the vacancies in secondary and tertiary level posts.	----- Actions should be done according to circular provisions.