

Head 222- Sri Lanka Army

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of Head 222- Sri Lanka Army for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies 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. The summary report including my comments and observations on the financial statements of Sri Lanka Army was issued to the Accounting Officer on 31 May 2024 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018 and the Detailed Annual Management Audit Report relating to the Army in terms of Sub-section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on the same day. This report will be presented in Parliament in pursuance of provisions in Article 154 (6) of the Constitution 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 Army as at 31 December 2023, and its financial performance and cash flow 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 (SLAuS). My responsibilities, under those standards are further described in the Auditor's Responsibilities 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 opinion.

1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

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 provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Sri Lanka Army 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.

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

1.4 Auditor's Responsibilities 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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Sri Lanka Army.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including 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 and Regulatory Requirements

I express the following matters in accordance with Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

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

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Non-revenue Receipts

The following deficiency was observed in the accounting of non-revenue receipts pertaining to financial statements.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|--|---|
| Although a net income of Rs. 170.16 million had been generated by the end of the third quarter of the year under review through 10 Army farms and other income-generating projects in various parts of the country, utilizing Army personnel and resources, including government land and buildings, these earnings were not disclosed in the financial statements. | The regulation of these revenues is carried out by the Treasury. | The aforementioned revenue should be properly disclosed through the financial statements. |

(b) Capital Expenditure

The following deficiencies were observed in the accounting of capital expenditure pertaining to financial statements.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|--|--|--|
| i. The expenditure of Rs. 2,780.41 million for the rehabilitation, improvement, and acquisition of capital assets during the year under review had been understated by Rs. 307.71 million in the Statement of Non-Financial Assets (ACA-6). | Action will be taken to correct this error in the future. | Capital expenditure should be accounted for accurately. |
| ii. In the Statement of Non-Financial Assets (ACA-6), the written-off value of assets in 09 categories had been overstated by Rs. 294.05 million, and the actual written-off value of Rs. 821.34 million had not been disclosed by the statement of write-offs from books. | Action will be taken to correct this matter in the future. | The correct written-off values should be disclosed through financial statements. |

(c) Property, Plant and Equipment

The following deficiencies were observed in the accounting of Property, Plant and Equipment

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|---|--|
| i. In the Statement of Non-Financial Assets (ACA-6), when carrying forward the closing balance of 68 categories of assets from the previous year as the opening balance for the | It has arisen due to an error in the CIGAS system, and steps will be taken to rectify it in | The reason for the mismatch in value should be disclosed through financial |

year under review, it was understated by Rs. 14.83 billion. due course. statements.

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| <p>ii. In the Statement of Non-Financial Assets (ACA-6), the value of buildings amounting to Rs. 1.48 billion, classified under buildings, constructions, and non-residential buildings, had been overstated in the financial statements.</p> | <p>It will be examined and corrected accordingly.</p> | <p>The values of the relevant assets should be accurately identified and disclosed through financial statements.</p> |
| <p>iii. The Army had not disclosed a total of 106 land parcels, covering 4,439 acres, located in various parts of the country, in the financial statements by the end of the year under review.</p> | <p>Steps will be taken to assess and account for these in the future.</p> | <p>The land owned by the Army, which has been in use for a long period, should be assessed and accounted for.</p> |
| <p>iv. The procurement of capital items for the Agricultural, Industrial, and Animal Husbandry Project during the year under review, including repair costs of capital nature amounting to Rs. 54.73 million related to the repair of eight vehicles comprising the creation of a vehicle for transporting horses, as well as capital items and equipment worth Rs. 119.51 million received as donations/assistance to the Army, had not been capitalized and accounted for.</p> | <p>Actions will be taken to correct this in the future.</p> | <p>These items should be capitalized and accounted for in accordance with Sri Lanka Public Sector Accounting Standard 07.</p> |
| <p>v. According to the statement of non-financial assets (ACE-6), although the balance of actual work-in-progress at the end of the year under review had been stated as Rs. 9.05 billion, capital assets worth Rs. 7.59 billion, which were completed over the past several years, were still presented under the value of work-in-progress without being capitalized.</p> | <p>Actions will be taken to correct this in the future.</p> | <p>The capital assets should be identified and capitalized in the year of completion, and accounted for in accordance with Sri Lanka Public Sector Accounting Standard 07.</p> |

(d) Lack of Audit Evidence

Audit evidence related to the transaction detailed below had not been provided.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|---|--|
| <p>Although sums totaling Rs. 42.06 billion of 28 types of assets related to 5 asset categories had been mentioned as additions to the opening balance in the statement of non-financial assets (ACA-6), specific information in relation to this was not revealed.</p> | <p>Steps will be taken to check this matter with the State Accounts Department and provide a reply accordingly.</p> | <p>Precise details concerning the relevant figures should be revealed.</p> |

2. Financial Review

2.1 Imprest Management

The following observations are made.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|---|---|
| Sub-imprest totaling Rs. 155.56 million had been provided to private institutions on 199 occasions. | The situation has emerged as a result of having to make advance payments for some domestic and foreign purchases. | Actions should be taken in accordance with the State Accounts Circular No. 250/2016 (i) dated 03 August 2016. |

2.2 Expenditure Management

The following observations are made.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|--|---|---|
| (a) A total of Rs. 4.17 billion from the estimated provisions for 12 recurrent Objects had not been deducted. | This situation arose due to the increased liabilities from the previous year and the lack of liquid funds during the year under review. | Actions should be taken in accordance with Budget Circular No. 01/2023 dated 27 January 2023. |
| (b) Out of the total net provision of Rs. 38.37 billion for 20 recurrent Objects, a sum of Rs. 5.51 billion had not been utilized. Similarly, out of the total net provision of Rs. 2.02 billion for 5 capital Objects, Rs. 462.97 million had not been utilized. That savings ranged from 7 per cent to 77 per cent of the allocated net provision. | The savings occurred due to the thriftiness of expenditures, lack of adequate imprests, and the conditions prevailing within the country. | Measures should be taken to prepare the estimates as accurately as possible. |
| (c) Since the provisions made for eleven recurrent Objects were inadequate, a sum of Rs. 10.64 billion had been transferred from other Objects under Financial Regulations 66 and supplementary estimate provision of Rs. 16.50 billion had been made for one recurrent Object. | This situation resulted from the rise in overtime allowances, ration allowances, and compensation allowances, leading to the need for extra provisions. | Measures should be taken to prepare the estimates as accurately as possible. |
| (d) As a result of inadequate net provisions for seven Objects, commitments and liabilities totaling Rs. 1.25 billion had to be incurred by the end of the year. | This situation has arisen due to settling the commitments of the preceding year. | Measures should be taken to prepare the estimates as accurately as possible. |

- (e) Out of the provisions transferred under Financial Regulations 66 for Objects 222-01-04-1003 (Other Allowances), 222-01-02-1202 (Fuel), and 222-01-02-1204 (Medical Supplies), Rs. 16.30 million, Rs. 321.22 million, and Rs. 324.93 million, representing 21 per cent, 27 per cent and 30 per cent respectively, had been saved by the end of the year
- These provisions remained unutilized due to impediments that prevented the implementation of planned procurements.
- Measures should be taken to prepare the estimates as accurately as possible.

2.3 Incurring Commitments and Liabilities

The following observations are made.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|--|---|--|
| (a) As revealed by the audit test checks, liabilities of Rs. 1.79 billion under recurrent Objects had not been disclosed in the financial statements. | This amount of liabilities is included in the statement of commitments. | This should be disclosed through the financial statements. |
| (b) As revealed by an audit test check, the total liabilities of Rs. 1.99 billion incurred during the year under review included liabilities totaling Rs. 1.72 billion that continued to exist for more than a month. | This situation resulted from the lack of imprests. | Actions should be taken in accordance with Financial Regulations 94 (1) and 214. |
| (c) Balance confirmations were called from 31 institutions included in the statement of liabilities presented along with the financial statements and liabilities totaling Rs. 135.22 million, payable to 27 institutions, were not confirmed by those institutions. Out of the four institutions that provided confirmations, three reported amounts that were Rs. 8.99 million less than the liabilities disclosed in the financial statements, while the remaining institution reported Rs. 1.56 million in excess. | Measures will be undertaken to examine these discrepancies. | The reasons for discrepancies between the balances should be specifically identified, and corrections should be promptly made. |

2.4 Utilization of Provisions made by other Ministries and Departments

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|---|---|
| <p>Out of the total capital provisions of Rs. 783.41 million made for 16 projects/programmes related to 10 Objects across other ministries and departments, provisions of Rs. 35.18 million remained unutilized by the end of the year under, with the percentage of these remaining provisions ranging from 4 per cent to 100 per cent. Although provision of Rs. 23.13 million had been allocated for the renovation of buildings at Tangalle Girls' School in 2022, the entire provision remained utilized. A sum of Rs. 24.32 million had been allocated for the same renovations during the year under review. Of this, Rs. 17.98 million, or 74 percent, was spent, and only about 15 percent of the renovation work was completed.</p> | <p>This situation resulted from the delays in the implementation of procurement activities.</p> | <p>Provisions made by other ministries and departments should be utilized at the optimal level.</p> |

2.5 Issuance and Settlement of Advances

The following observations are made.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
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| <p>(a) Distress loan, festival advance and special advance loan balances totaling Rs. 33.31 million, owed by 938 military officers and 436 civil officers who left service during a period exceeding one year up to 32 years, had not been recovered in accordance with the provisions of Section 4.3 of Chapter XXIV of the Establishments Code. Out of these loan balances, a sum of Rs. 11.94 million had remained outstanding for over 10 years.</p> | <p>Action will be taken to recover the dues in the future.</p> | <p>These loan balances should be recovered promptly.</p> |

- (b) The total loan balances that remained unrecovered from 50 retired military officers and 84 civil officers over a period exceeding 20 years amounted to Rs. 6.60 million. Although Rs. 5.04 million of these loan balances had remained outstanding for over 5 years, they had not been recovered in accordance with the provisions of Section 4.2 of Chapter XXIV of the Establishments Code. Action will be taken to recover this in the future. These loan balances should be recovered promptly.

2.6 Non-compliance with laws, rules and regulations

The instances of non-compliance with the provisions of laws, rules and regulations observed during audit test checks are as follows.

| | Audit Observation | | Comment of the Accounting Officer | Recommendation |
|-----|--|---|---|--|
| | Reference to laws, rules and regulations | Value Non-compliance | | |
| (a) | Establishments Code and Procedural Rules of the Democratic Socialist Republic of Sri Lanka | | | |
| i. | Sections 7.1 and 37.1 in Chapters V and XLVIII ,and rules 214 and 216. | Vacation of the Post Notices for 56 employees who had served in the Civil Administration Directorate had been delayed by periods ranging from 02 months to 10 years and 6 months. As a result, these officers were deprived of the opportunity to file appeals. | The delay was caused by the excessive expansion of offices. | Actions must be taken in accordance with the provisions of the Establishment s Code. |

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| <p>ii. Sections 7.4 and 37.2 in Chapters V and XLVIII, and rules 215 and 220.</p> | <p>A total of 126 officers who served in the Civil Administrative Directorate and vacated their posts from 1993 to 2022 had been given the opportunity to return to service after a period exceeding three months following their departure. Additionally, employees who had left service on multiple occasions were also reinstated in this manner.</p> | <p>Considering the reasonable requests of those who were not issued Vacation of the Post Notices, they have been granted the opportunity to rejoin the service.</p> | <p>Actions must be taken in accordance with the provisions of the Establishment's Code.</p> |
| <p>iii. Section 10 of Chapter VII</p> | <p>The salary increments due to 835 employees in permanent service at the Civil Administrative Directorate had not been paid for several previous years.</p> | <p>Measures will be taken in the future to rectify these delays,</p> | <p>Actions must be taken in accordance with the provisions of the Establishment's Code.</p> |
| <p>(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.</p> | | | |
| <p>Financial Regulation 104 (3)</p> | <p>No preliminary reports had been submitted regarding the total loss of Rs. 1.50 million from four incidents that occurred between 2000 and 2020. Additionally, there was a delay of seven months in submitting preliminary reports for two loss incidents in 2021 and 2023, involving a total loss of Rs. 2.83 million.</p> | <p>Measures are currently being implemented to accelerate the submission of preliminary reports on the losses</p> | <p>Actions must be taken in accordance with the Financial Regulations.</p> |

(c) Public Administration
Circulars

i. Circulars numbered 19/89 dated 23 March 1989, 03/2017 dated 19 April 2017, 09/2009 dated 16 April 2009, and 09/2009 (i) dated 17 June 2009.

The attendance and departure of the total workforce of 8,325 at the Civil Administrative Directorate were not recorded using fingerprint machines and a total of Rs. 5.47 billion was paid to this staff in the form of salaries, allowances, and overtime during the year under review.

Steps will be taken in the future to implement the use of fingerprint machines. Actions should be taken in accordance with government circular provisions.

ii. Circular No. 14/2005 dated 18 August 2005.

There was a delay of 02 months to 07 years in completing the personal files of 277 employees who had retired in the past 7 years while serving at the Civil Administrative Directorate.

Steps will be taken in the future to minimize delays. Actions should be taken in accordance with government circular provisions.

iii. Section 3.1 of Circular No. 30/2016 dated 29 December 2016.

The armed forces had used 4,243 vehicles without performing proper fuel consumption test.

Steps will be taken to expedite the conduct of relevant test in the year 2024. Actions should be taken in accordance with government circular provisions.

(d) National Procurement
Agency Circulars

i. Guidelines 4.1.1 (c), 8.1.1 (a), (b), 8.11 ©

Due to the non-inclusion in plans, failure to notify the Treasury about imprests, and lack of certification for the availability of financial provisions, the procurement of

This situation has arisen due to the unusually delayed procurement activities resulting from the conditions. Actions should be taken in accordance with government circular provisions.

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| | <p>construction materials prevailing in amounting to Rs. the country. 872.35 million had to be canceled. Of these, five procurements totaling Rs. 357.32 million were canceled due to the expiration of contract periods; however, action had not been taken in accordance with the relevant guidelines regarding this. The unavailability of the required supplies has caused obstacles to construction and renovations within the armed forces.</p> | | |
| ii. Guideline 8.9.1(b) | <p>When repairing vehicles and purchasing spare parts at an amount totaling Rs. 8.15 million on 11 occasions during the year under review, agreements had not been entered into with the suppliers.</p> | <p>Steps will be taken to enter into agreements with the suppliers in the future.</p> | <p>Actions should be taken in accordance with government circular provisions.</p> |
| iii. Guideline 9.3.1(b) and amendedments on 21 April 2021. | <p>In repairing 663 vehicles at a total cost of Rs. 848.65 million during the year under review, the Army had not secured approval from the Secretary of the line ministry.</p> | <p>Approval has not been obtained.</p> | <p>Actions should be taken in accordance with government circular provisions.</p> |
| (e) Treasury Operations Department instructions | | | |
| Letters No. TO/BE2/UNINCOME /ARMY dated 21 March 2019, and No. TO/BE2/4/UNINCOM | <p>During the period between January and August 31 of the review year, the Sri Lanka Army retained a</p> | <p>Steps will be taken to credit the funds to the Consolidated Fund following</p> | <p>Actions should be taken in accordance with the</p> |

E/ARMY dated 28 October 2020.

sum ranging from USD 58,626 to USD 2,332,588, earned in foreign currency (US dollars) for engaging military personnel in overseas peacekeeping duties, without remitting it to the Treasury on the scheduled date. verification by instructions of the Permanent Mission of the United Nations. the Treasury.

2.7 Deposit Balances

The following observations are made.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|---|--|
| A total of 123 deposits amounting to Rs. 8.82 million, which are older than 2 years, had not been credited to government revenue. | Steps will be taken in the future to credit this to government revenue. | This should be credited to the government revenue by taking action in accordance with Financial Regulations 570 and 571. |

3. Operating Review

3.1 Failure to Achieve the Expected Output Level

The following observations are made.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
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| (a) Although a 100 per cent targeted physical progress had been set for 03 Objects according to the Action Plan, the physical performance ranged between 50 per cent and 74 per cent for one Object, and between 75 per cent and 89 per cent for the other two Objects. | The situations have arisen due to the non-receipt of imprests. | Action should be taken to achieve the targeted plans. |
| (b) The completion percentage of 38 constructions, including office buildings, multi-story houses, official residences, warehouses, buildings for public recreation, hospitals, and other structures initiated in various parts of the country under an estimated cost of Rs. 1.71 billion ranged from 0% to 95%. The estimated cost of the incomplete works amounted to Rs. 629.05 million. | The situations have arisen due to the non-receipt of imprests. | The planned progress should be achieved from the relevant projects by the end of the year. |

3.2 Failure to Achieve Expected Outcome

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|--|---|
| Due to delays in transporting vehicles/equipment and spare parts as agreed upon in the Memorandum of Understanding, and the equipment and vehicles being unfit for operation, a revenue of USD 3.33 million, which could have been earned from United Nations peacekeeping operations between 2019 and 2022, had been lost. | These were circumstances arising from uncontrollable conditions, including delays in naval operations. | Action should be taken in accordance with the aforementioned Memorandum of Understanding. |

3.3 Procurements

The following observations are made.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|--|--|
| (a) A master procurement plan had not been prepared in respect of expected procurement activities for a period of three years, and the number of units of goods or services expected to be supplied through the procurement activities had not been stated in the procurement plan prepared for the year under review with an estimated cost of Rs.57.23 billion. | The procurement plans will be properly prepared starting from the year 2024. | Plans should be prepared in accordance with procurement guidelines. |
| (b) As revealed in the audit, the procurement of Rs. 1580.17 million carried out during the review year according to the limited/controlled national competitive bidding method, the national competitive bidding method, and the shopping method faced obstacles in adhering to procurement guidelines due to the failure to appoint Technical Evaluation Committees up to the stage of bid opening. The common findings revealed on the procurements carried out under each of these methods are indicated below. | It has been recorded that steps will be taken to comply with the applicable procurement guidelines from the year 2024. | Actions should be taken in accordance with Procurement Guidelines in Sections 2.6.1(a)(I), (II), (III) and 5.3.1(e). |
| i. Disregarding the criteria outlined in Section 3.3 of the Procurement Guidelines, the limited/controlled national competitive bidding method had been used for procurements amounting to Rs. 1298.81 million and due to the absence of a procurement table as required by Section 4.2.2(a) of the Procurement Guidelines, the | Actions will be taken in accordance with these guidelines in the future. | Actions should be taken in accordance with the procurement guidelines, and to minimize delays, these activities should be properly |

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| <p>procurement process took a significant amount of time. Furthermore, due to non-compliance with the guidelines specified in Sections 7.4 and 7.5 of the Procurement Manual, the time taken from the date of bid opening to the submission of the technical committee report ranged from 96 to 368 days. Additionally, the time from the date of order issuance to the receipt of the relevant goods in the warehouse ranged from 42 to 884 days.</p> | <p>planned.</p> |
| <p>ii. During the procurement process amounting to Rs. 41.20 million under the shopping method, the failure to properly confirm the receipt of bids, as well as requesting quotations from suppliers who did not have stock, obstructed the acquisition of competitive bids.</p> | <p>Measures will be taken to prevent these situations in the future. Actions should be taken to secure competitive bids.</p> |
| <p>(c) For the Nation Building Project and the implementation of the future strategies of the Army, materials such as clothing and textile materials needed for 35,000 privates had been purchased. Accordingly, 15,000 units of Belt Waist Web OG Pattern at a cost of Rs. 24.92 million, 24,500 berets at a cost of Rs. 15.71 million, 87,500 meters of Cloth Polyester Cotton Material at a cost of Rs. 86.19 million, and 45,000 meters of Cloth Polyester Wool Material at a cost of Rs. 187.83 million had been purchased without the required laboratory testing. The purchase of Belt Waist Web OG Pattern had been carried out at an excess cost of Rs. 15.17 million from a bidder who did not comply with four main specifications, without undergoing a quality inspection. Additionally, the delay in issuing Letters of Credit had led to an extra Rs. 6.54 million being incurred due to exchange rate variations. By the end of February 2024, only 6,694 berets, or 27 per cent, of the purchased stock had been issued. Accordingly, a stock worth Rs. 11.37 million remained in warehouse for more than a year. The performance bond of Rs. 4.89 million for the Cloth Polyester Cotton Material supplier had been released</p> | <p>Actions have been taken based on the recommendations of the Technical Evaluation Committees and the approval of the ministry, and this situation arose due to the foreign exchange crisis and rising prices in the country. Procurement should be conducted in accordance with procurement guidelines, securing high-quality goods at reasonable prices in a way that is advantageous to the government.</p> |

about a year prior to the delivery of the stock. Furthermore, in purchasing Cloth Polyester Wool Material, supplies had been obtained at an additional cost of Rs. 3.95 million, surpassing the contracted prices.

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| <p>(d) Although it was planned to purchase pharmaceuticals, dressing materials, laboratory items, dental medicine, and medical items under the National Competitive Procurement Method for the Army's annual requirements in 2022 at a cost of Rs. 299.70 million, the procurement, which was then planned to be made for Rs. 277.07 million, was canceled without informing the bidders due to delays in obtaining the Technical Evaluation Committee Recommendations. Subsequently, new bids were called, resulting in purchases being made at a cost exceeding the previous estimates by Rs. 29.63 million, or under increased prices ranging from 3% to 782%. Additionally, medical supplies valued at Rs. 166.09 million could not be supplied even by 31 October 2023.</p> | <p>This situation arose due to the foreign exchange crisis in the country and the inability to complete certain procurements due to lack of imprests.</p> | <p>Procurement activities should be carried out in accordance with the procurement guidelines, ensuring maximum economic benefits for the government.</p> |
| <p>(e) In purchasing textiles and garment materials at a cost of Rs. 272.08 million, it had not been possible to obtain competitive bids due to a lack of wide publicity as required by Procurement Guideline 7.12.3 (a). The following matters were uncovered concerning several procurements made under this.</p> | <p>This situation arose due to the lack of response from the bidders.</p> | <p>Actions should be taken in accordance with the Procurement Guidelines.</p> |
| <p>i. Although the supplier delayed the delivery of 650 units of Sam Browne belts (brown leather with silver fittings) by 166 days, after spending Rs. 6.94 million, extensions had been granted without recovering the due delay charges of Rs. 779,217. As a result, it was not possible to use them for the primary needs of the promoted and cadet officers in 2022.</p> | <p>Actions have been taken based on the approval of the procurement committee.</p> | <p>Procurements should be properly planned to fully meet the necessary requirements.</p> |

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| <p>ii. In purchasing 700 units of items including uniforms, insignia etc. at a cost of Rs. 15.03 million, the supplier had failed to provide items in accordance with the agreed specifications, resulting in delays in delivery. On three occasions, the delivery period was extended without imposing any delay charges, leading to a failure to recover Rs. 1.80 million in delay charges.</p> | <p>Actions have been taken based on the approval of the procurement committee.</p> | <p>Action should be taken in accordance with the procurement guidelines regarding suppliers who fail to deliver the supplies within the specified time frame.</p> |
| <p>iii. In the purchase of 6,250 meters of Olive Green T-Shirt material for Rs. 7.5 million and 4,410 meters of 72” wide cotton fabric for Rs. 8.27 million to produce 3,920 sleeping bags, it was found that the formal quality inspection report had highlighted variations in color and the width of the fabric for the sleeping bags, but purchasing had been made disregarding these discrepancies.</p> | <p>Actions have been taken based on the approval of the procurement committee.</p> | <p>The quality inspection reports should be considered.</p> |
| <p>iv. In the purchase of 36,000 meters of 60” wide net fabric for Rs. 12.4 million, if the minor specification issues emerged during the first round of quotations had been discussed and rectified with the supplier, the additional cost of Rs. 3.76 million incurred in the purchase following the second round of quotations could have been avoided. Furthermore, in the purchase of 21,333 meters of lining fabric for Rs. 10.40 million, 46” wide polyester cotton blended fabric had been purchased instead of 60” wide 100% polyester fabric, without the approval of the Technical Evaluation Committee.</p> | <p>Considering the significant deviations, steps have been taken to re-calling the quotations</p> | <p>Purchases should be made in a manner that offers more benefits to the government, based on the recommendations of the Technical Evaluation Committee.</p> |
| <p>v. In the purchase of 5,625 square feet of leather for Rs. 8.41 million, the specifications had not been prepared in accordance with the guidelines outlined in Section 5.6.1 (a).</p> | <p>The specifications have been prepared by experienced officers.</p> | <p>Actions should be taken in accordance with the Procurement Guidelines.</p> |
| <p>(f) In the purchase of buildings and construction materials for Rs. 159.36 million, agreements were not secured with performance guarantees. Moreover, suppliers defaulted on the supply of building materials worth Rs. 25.21 million.</p> | <p>Measures will be taken to enter into agreements during future procurements</p> | <p>Actions should be taken in accordance with the Procurement Guidelines.</p> |

- (g) In the purchase of the Oracle - 19c software license for Rs. 101.14 million, bid evaluations had been carried out based on factors not specifically mentioned in the specification document. Additionally, a lower bid of Rs. 26.30 million, submitted by a registered supplier, was excluded, citing that the supplier was unregistered. Furthermore, as the agreement with the supplier did not specify the training required for the purchased software, no formal training was received. As a result, despite more than two years having passed since the purchase, the software remains inactive.
- Although not explicitly specified in the specification document, bid evaluations were conducted based on specifications determined by the Army.
- Procurement activities should be carried out following the procurement guidelines in a manner ensure that the government receives economic benefits.
- (h) In the purchase of spare parts for the repair of armored vehicles and running gear used in peacekeeping operations in Lebanon and Mali, the suppliers had not been given enough time to present their bids. Moreover, due to the absence of clear specifications in the purchase of 722 stock units costing Rs. 36.49 million, bids had been submitted with a substantial price gap, ranging from 53% to 12643%. Additionally, since a period of four months was taken for bid evaluation and procurement committee decisions, exchange rate fluctuations during this time resulted in an additional cost of Rs. 14.06 million. When purchasing spare parts for Suzuki DRZ 400CC attack motorcycles, the bids were rejected without a clear explanation, despite being opened. The purchase was made from the bidder who submitted prices in the second round, which were Rs. 7.27 million higher than the prices submitted by the authorized agent in the first round. Additionally, the bid of Rs. 8.77 million, recommended by the Technical Evaluation Committee in the initial stage for the purchase of vehicle spare parts from a foreign entity, was rejected. Instead, bids were re-invited, and the purchase was made from a bidder who submitted a price of Rs. 13.30 million, resulting in an additional expenditure of
- Delays occurred due to the prevailing conditions in the country, and the purchase was made based on the recommendations of the Technical Evaluation Committees and the end-user, using the registered suppliers' database.
- Actions should be taken to secure competitive bids in line with Procurement Guidelines.

Rs. 4.53 million. When purchasing the Variable Transmission System (WMZ551A.08), the quantity was reduced from the previously decided two units to one unit and as a result, the bid from a qualified bidder was rejected, and re-inviting bids had led to an additional expenditure of Rs. 4.19 million.

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| (i) | Despite a formal quality inspection report indicating non-compliance with 23 specifications and a field inspection report indicating them unsuitable, 1000 pairs of Boot Desert had been purchased at a cost of Rs. 26.95 million. | This was a situation that arose due to the urgency of making the purchase based on necessity. | Materials with due standards should be purchased based on the quality and field inspection reports. |
| (j) | In the purchase of 20 Heavy Duty Digital Photocopy Machines for Rs. 24.10 million, disregarding the estimated quantity of copies and fixed costs had led to an excess cost of Rs. 6.74 million. One of these photocopy machines was set aside for peacekeeping operations, but it remained unused even by the end of the year under review. | The purchase was made with consideration for lower electricity consumption. | During the evaluation process, direct, indirect, and time-related costs should also be considered. |
| (k) | In the purchase of raw materials costing Rs. 15.47 million for the tire retreading project in the Army's industrial sector, the evaluation factors not explicitly specified in the bid documents had been used during the bid assessment. | The minimum bids have been considered under the total stock system. | Procurement activities should be conducted in accordance with Procurement Guidelines. |
| (l) | During the purchase of 26,650 pairs of Socks Polyester Cotton Olive Green for Rs. 12.53 million, the samples were verified as suitable according to a formal quality inspection report during the first round of bidding. However, the purchase had been made at an additional cost of Rs. 5.89 million after re-inviting bids. Furthermore, 26,449 pairs, valued at Rs. 12.43 million, remained in stock and undistributed for five months due to the procurement being made without assessing the actual need. | These conditions arose due to the urgency in purchasing and the stock was purchased to meet annual requirements. | Based on the quality inspection reports, materials meeting the standards should be purchased at minimum prices considering the requirements. |
| (m) | In the purchase of drugs and wound dressing items at a cost of Rs. 202.27 million for the Army's requirements during the year under review, specifications for consumable drugs and | This situation arose due to the urgency of procurement, considering the import timelines, and due to some | The procurement of drugs and wound dressing items must be carried out in accordance with the |

medical equipment were not prepared in accordance with guideline 2.4.11 of the Procurement Guidelines and the regulations of the National Medicines Regulatory Authority (NMRA). Since the guidelines 2.3.1, 2.3.2, and 2.3.3, the instructions of the Ministry of Health, and procurement guidelines 4.1.1(a), 4.2.2, and 4.2.3 were not followed, a significant amount of time was taken for bid evaluation. As a result, 68 types of drugs and 33% to 99% of 95 categories of drugs and wound dressing items could not be procured by March 2024, leading patients to purchase those medications from outside sources. Furthermore, the certification from the National Medicines Regulatory Authority was not secured for the Rs. 43.49 million worth of drugs that were purchased.

pharmaceutical companies expressed their unwillingness to supply drugs to the Army.

Procurement Guidelines, the regulations of the National Medicines Regulatory Authority (NMRA), and the guidelines of the Ministry of Health

- (n) A total of 2,100 pairs of shoes had been purchased at a cost of Rs. 37.89 million deviating from the quality inspection reports. Since the bid opening was delayed by 14 days, and due to a three-year delay in procurement activities, the requirements could not be fulfilled. Furthermore, Rs. 11.31 million in additional costs had to be incurred due to changes in the exchange rate.
- (o) In the purchase of 35,000 jerseys at a cost of Rs.27.32 million for the privates in the Nation Building Project and the implementation of the future strategies of the Army during the 2020-2021 period, only a portion of the agreed quantity was supplied, and the remaining portion was purchased at a price of Rs. 1.91 million higher than the agreed price. As this stock received in 2022 was not released even by April of the year under review, it resulted in discoloration of the stock and incurred various storage-related expenses. Due to this situation, it was decided to distribute a considerable amount of the stock to regular personnel deviating from the intended purpose.
- These conditions resulted from the lack of imprests and the escalation of exchange rates.
- Procurement should be carried out in accordance with procurement guidelines, ensuring the purchase of high-standard materials.
- Due to the prevailing situations in the country, issues arose regarding recruitment, and the relevant stock has now been distributed to other military personnel.
- The requirements should be properly identified, and the purchase should be made under conditions more favorable to the government.

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| (p) | In the purchase of 600 National, Buddhist, and Army flags at a cost of Rs. 8.18 million, discrepancies with the specifications led to the rejection of bids on two occasions. On the third occasion, the procurement had been carried out at a price Rs. 3.10 million higher than the bids submitted by the same bidder on the earlier two occasions, disregarding the previously noted specification discrepancies. | The bids have been invited while maintaining confidentiality, transparency, and fairness. | The conditions arising from the disclosure of sensitive information, including prices, during the bid opening and rejection process should be managed. |
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3.4 Assets Management

The following observations are made.

| | Audit Observation | Comment of the Accounting Officer | Recommendation |
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| (a) | The necessary goods, armed and unarmed vehicles, and equipment for 685 military personnel scheduled to be stationed in Mali for peacekeeping operations had been purchased in 2016 and 2017. However, since only one unit was deployed for these duties, vehicles and equipment worth a total of USD 4.57 million from the purchase were idly stored in various locations in the country. | Measures will be taken to provide the relevant goods, equipment, and armed vehicles to the military units scheduled to be deployed in the near future. | These purchased vehicles and equipment should be utilized in a manner that provides maximum benefit to the government. |
| (b) | A land containing 14-hectare in extent in the Kundasale Divisional Secretariat Division of the Kandy District had been handed over to the Sri Lanka Army by the Kundasale Divisional Secretary in 2007. However, during surveying activities in 2016, the Army discovered that unauthorized settlers had forcibly occupied the land due to its idle state. Despite this discovery, the actions taken to settle the land progressed at a slow pace. | Based on the advice of the Attorney General's Department, the process of settling the land, with the coordination of the Divisional Secretariat and the Land Commissioner's Department, is in its final stage. | Action should be taken to clear and secure the assets belonging to the Army. |
| (c) | With a view to securing accommodation, office, and storage facilities across various regions of the country, the Army has leased 25 buildings, spending Rs. 132.76 million annually. Among these are some buildings that have been rented for over 30 years. No attention was paid to providing government buildings in place of these rented ones, and had the planned housing and buildings, with an estimated | Fifteen out of the 40 buildings that were being used on a rental basis have been released at present. Action should be taken to reduce the Army's rental expenses and to complete the planned construction projects. | Action should be taken to bring down the Army's rental expenses and to complete the planned construction projects. |

cost of Rs. 460 million, been constructed as designed from 2018 to 2023, it would have been possible to minimize this expenditure.

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| (d) | Without formal transfer, the Army is currently utilizing 17 tractors, 10 double-cab vehicles, 14 jeeps, 9 motorcycles, 8 ambulances, 7 trailers, 6 mini-pelters, 5 buses, 5 trucks, 4 single-cab vehicles, 4 water/fuel tankers, and 1 van from other government ministries, departments, and institutions. Twenty four of these vehicles were not in proper operating condition during the period from 2014 to the year under review and have therefore been parked in Army premises. | Steps are underway to hand over the 24 vehicles that are unsuitable for operation to the respective institutions, while arrangements are being made to transfer the remaining vehicles under the name of the Army Commander. | Actions should be taken to properly transfer the relevant assets or release them to the respective institutions. |
| (e) | Due to the failure to recruit the anticipated 11,307 privates for the Nation Building Project and the implementation of the future strategies of the Army in 2020 and 2021, 47 types of textiles and garments purchased at a total cost of Rs. 270.96 million remained undistributed as of the date of audit. Of these textiles and garments 11 types of garments, valued at Rs. 30.96 million, had exceeded their warranty period, with a lapse of between 3 and 14 months by the end of February 2024. Moreover, 81,253 units of textiles and garments related to 30 categories, previously purchased by the Army for this purpose and with undisclosed value, have now exceeded their warranty period. | Steps will be taken to purchase textiles and garments with a warranty period in the future. | Purchases should be made by identifying the existing stock conditions and requirements. |
| (f) | One of the five ambulances at the Panagoda Army Hospital was damaged by fire in 2022, and it has not yet been repaired. Additionally, three other ambulances, which have been in use for an extended period, have repeatedly experienced mechanical failures. | A considerable amount of time has elapsed for legal activities and tender procedures. | Attention should be focused on the maintenance of assets. |
| (g) | From 2019 to 2022, a stock of various textiles, shoes, and clothing materials, along with official insignia, valued at Rs. 88.19 million, consisting of 366,635 units of 29 different items, remained undistributed in the warehouse. Despite this, 16,000 official insignia in the types | Actions will be taken to issue the relevant inventory appropriately. | Purchases should be made by identifying the needs. |

of Bages of Rank Star Gold, Silver, and Black, had been purchased at accost of Rs. 16.90 million during the year under review and these items have also remained undistributed. Additionally, 24,614 jerseys valued at Rs. 16.53 million purchased in 2022 remained in the warehouse by April of the year under review, causing damage to their required standards. A stock of 653,692 units of textiles and garments related to 35 types and valued at Rs. 963.54 million, remained as slow-moving stocks.

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| (h) | Insurance coverage for 1,343 vehicles owned by the Army and 47 vehicles received from other institutions had not been obtained even in the year under review. | Steps will be taken in the future to obtain insurance coverage. | Insurance coverage should be promptly obtained for the vehicles that need to be insured. |
| (i) | The disposal of 65,564 empty cartridges of different types used by the Army had not been carried out. | Arrangements will be made for both disposal and for keeping them as display items in the future. | It is required to ensure secure disposal to increase government revenue. |

3.5 Losses and Damages

The following observations are made

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|---|---|
| (a) Out of the damage and losses caused from incidents involving ration and fuel irregularities, vehicle accidents, terrorist attacks, and non-terrorist activities, there were losses of Rs. 282.48 million from 90 incidents lasting over 10 years, Rs. 12,861.24 million from 109 incidents lasting between 5 and 10 years, and Rs. 336.16 million from 204 incidents lasting less than 5 years. This includes 159 road accidents that occurred between 1990 and 2016. The process for recovering or writing off these losses remained sluggish. | Legal measures have been undertaken for certain loss incidents, and steps will be taken to settle other losses. | The process for appropriately writing off or recovering these losses should be expedited. |
| (b) The previous years' closing balances totaling Rs. 59.18 million related to 94 incidents had not been reported as the opening balance in the statement of write-offs presented with the financial | This situation arose as the relevant matter has been concluded and due to the discrepancies in the values of certain losses and | Actions should be taken to clarify the variations between the closing balance and the opening |

statements of the year under review. Further, an overstatement of Rs. 12.66 million for 10 incidents of losses and damages, and an understatement of Rs. 22.42 million for 35 incidents related to the previous year, had been carried forward in the statement of write-offs in the year under review.

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| (c) | Although a total of Rs. 157.65 million was written off for irregularities in the Ration Division and the <i>Rajaka</i> Service Division, as well as 69 incidents of terrorist and non-terrorist attacks during the year under review, the opening balances of the amount not written off, write-off amounts, and reference numbers of related approvals were not disclosed in the statement of write-offs. | It has not been possible to disclose due to an office-related error. | The relevant information should be disclosed through the financial statements. |
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3.6 Management Weaknesses

The following observations are made.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|--|---|
| (a) The position of Director of Civil Administration has been vacant for over three years, and no action had been taken to appoint a permanent officer for this position even up to the date of audit. | Requests have been made to the Ministry of Defence to fill the vacancy | The relevant vacancy should be filled urgently. |
| (b) The actual number of employees in the Civil Administration Directorate was 8,252 at the end of the year and the absence of an updated data system for employees had led to various administrative weaknesses, including issues with employee retirements, preparation of salary increments, and leave management. | Efforts are underway to establish a suitable data system. | A systematic data system should be established immediately. |
| (c) Based on a decision by the Audit and Management Committee in 2017, 18 conclusions and recommendations were made in 2019 by the University of Moratuwa regarding the areas to be developed in the Army's payroll and allowances system. Additionally, due to the failure on the part of the Army to | Since the development of a new Payroll and Records Information Management System (P&RIMS) has been initiated, paying closer attention to all audit observations while also utilizing online mechanisms | Efforts should be made to minimize the risks related to payroll and allowances by focusing on the recommendations and suggestions outlined in the audit |

rectify 72 errors identified in the system since 2004, both underpayments and overpayments of salaries and allowances, as well as various irregular payments, have occurred. Due to this, there was a substantial risk concerning the annual salary and allowance payments, which amounted to more than Rs. 140 billion. Moreover, no efforts had been made to improve the system to regulate the financial and non-financial benefits currently being provided to Army personnel.

as needed, measures are being taken to address all relevant observations.

observations regarding weaknesses, as well as the proposals made by software consultancy institutions.

- (d) The pharmaceutical storage building located at the Werahera Army Hospital had not been prepared according to the standards of the Ministry of Health, the National Medicines Regulatory Authority, or international standards. Although plans were made in 2019 to construct a 14,450 square foot storage facility for medicine, this requirement has not yet been fulfilled.

Construction has commenced and is expected to be completed based on the availability of provisions.

The building should be constructed as planned, and necessary facilities must be provided to ensure the safe storage of pharmaceuticals.

4. Achieving Sustainable Development Goals

Audit Observation

The accomplishment of goals such as export-oriented crop cultivation, organic fertilizer production, enhancing healthcare services to an optimal level, meeting the ambulance requirement for providing quality medical services, conducting IT training for war heroes family members, constructing security posts at the Agunakolapelessa warehouse complex, building officer quarters at the Gajasinhapura warehouse complex, and organizing lectures on vehicle accident awareness for army personnel, was less than 50% during the review year.

Comment of the Accounting Officer

Some projects are in the final stage to achieve goals, while others are experiencing delays during implementation.

Recommendation

Action should be taken to achieve sustainable development goals.

5. Human Resource Management

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|---|---|
| There were a total of 55,215 vacancies, comprising 52,321 in the Army personnel, 3 in the senior civil staffs, and 2,894 vacancies , including 39 in the tertiary and secondary levels. | As recruitment to the public service has been restricted, the Army has taken actions in accordance therewith. | Action should be taken to fill vacancies or to review the approved cadre to match the actual staff. |