

## **Head - 223 - Sri Lanka Navy**

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### **1. Financial Statement**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Head 223- Sri Lanka Navy 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 statements 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. My comments and observations on the financial statements of the Sri Lanka Navy was issued to the Accounting Officer on 31 May 2024 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 06 August 2024 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 2023, 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 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 judgement and maintain professional skepticism 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.
- 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 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 Comment on the Financial Statements

### 1.6.1 Accounting Deficiencies

#### (a) Recurrent Expenditure

##### Audit Observation

##### Comment of the Accounting Officer

##### Recommendation

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| (i)  | <p>As emphasized in the preamble of the detailed budget estimates for the year 2023 according to Section 02 of the Budget Circular No. 09/2022 dated 27 December 2022, it is the responsibility of the Chief Accounting Officers, Accounting Officers, and the Officers in Charge of the Subject to manage expenditures within the allocation limits provided by the annual budget estimates for the year. Despite the net provision of Rs. 31,975,880,000 for 21 Objects during the year under review, a total of Rs. 9,671,616,659 in liabilities had been incurred, exceeding their total expenditure during the year under review.</p> | <p>The estimate has been prepared and presented as accurately as possible. Due to the economic crisis prevailing in the country, the full amount of provisions requested by the Navy through the estimate was not received by the Navy. Due to the essential nature of the responsibilities assigned to the Navy, maintaining uninterrupted and systematic operations and administrative tasks is crucial for national security. Therefore, it has become necessary to incur commitments exceeding the approved provision limits in certain areas due to incurring expenses beyond the expected level. In such instances, actions have been taken in accordance with the provisions set forth in Financial Regulations 94 (2) and 94 (3).</p> | <p>In the process of incurring liabilities, actions must be taken in a manner that does not exceed the allocated provision limits.</p> |
| (ii) | <p>Due to the transfer of Rs. 5,294,900,000 in provisions from 05 recurrent Objects and 13 capital Objects of the Navy to the Sri Lanka Army, the liabilities related to those Objects had increased by Rs. 9,264,105,756 for the year under review.</p>   | <p>In accordance with the Cabinet decision made on 28 November 2023, an unexpected transfer of Rs. 5.29 billion from the Navy's provisions to the Army had to be carried out. By that time, since the Navy had already placed orders and entered into contracts with local and foreign suppliers, those items had been supplied to the Navy in that year. As a result, the provision limits for those expenditure items were insufficient to settle the related bills and it resulted in the increase in liabilities and making it difficult to manage expenses</p>   | <p>In the process of incurring liabilities, actions must be taken in a manner that does not exceed the allocated provision limits.</p> |

**(b) Capital Expenditure**

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
Due to the transfer of Rs. 152,890,000 allocated for the acquisition of machinery and equipment under the capital Objects, along with Rs. 190,027,000 designated for infrastructure development from the Sri Lanka Navy to the Sri Lanka Army, it has been observed that the development of capital assets in the Navy may be hindered and potentially weaken the efficiency and effectiveness of future operational activities.	Although it is agreed that the transfer of provisions allocated under the capital Objects of the Sri Lanka Navy to cover the Army's food, beverages, and uniform expenses may hinder the development of capital assets in the Navy, according to the Cabinet decision made on 28 November 2023, the anticipated savings through the existing expenditure units under the Ministry of Defence were restricted. Under this, arrangements were made to restrict provision amounting to Rs. 5.29 billion allocated to the Navy.	In the future, greater attention should be focused towards the development of capital assets.

**(c) Reconciliation Statement on the Advances to Public Officers Account**

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
(i) According to the individual balance classification summary of the Advance B Account as at the year ending 31 December 2023, a total of Rs. 15,671,072, which should have been recovered from 266 naval personnel since the year 2001, remained uncollected even by the end of the under review. In order to write off Rs. 13,754,080, for which there is confirmation on having sufficient documents regarding the collection from 230 naval personnel with balances exceeding Rs. 25,000, the matter was submitted to the Public Finance Department. Information regarding the collections related to Rs. 1,916,992 due from the remaining 36 naval personnel had not been able to be confirmed by the relevant Divisional Secretariats and the Department of Pensions.	In order to write off Rs. 13,754,080 due from 230 naval personnel with balances exceeding Rs. 25,000, out of the loan balance of Rs. 15,671,072, that remained recoverable since the year 2001 in the Advance B Account of the Sri Lanka Navy, the matter has been submitted to the Public Finance Department. It is kindly informed you that efforts are underway to further locate and confirm the necessary files for the collection of the remaining balance of Rs. 1,916,992.00.	Sufficient measures should be taken to recover the outstanding advance balances.

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| (ii)  | <p>The balance in the Departmental Control Account of Advances to Public Officers' B Account stood at Rs. 523,138,367, but the balance according to the summary of individual balance classification was Rs. 501,512,741, resulting in a difference of Rs.21,625,626 between these balances as of the end of the year under review. According to the report of the committee appointed by the Ministry of Defense regarding this discrepancy, which has existed since the year 2001, it was recommended that, due to the lack of books and account summaries available with the Navy to examine this discrepancy, appropriate actions should be taken in coordination with the Public Finance Department of the Treasury and with the involvement of the Navy's legal division. However, the difference in the Loan and Advance Control Account remained unchanged as at the end of the year under review.</p> | <p>As per the recommendations of the investigation committee appointed to address the discrepancy of Rs. 21,625,626 between the balances as at the end of the year under review, and the balance of Rs. 18,251,726.34 classified as other long-standing unrecoverable loans, it was decided to write off these discrepancies. Accordingly, the necessary actions have been initiated to write off Rs. 16,848,699.61 from the unrecoverable balance of Rs. 18,251,726.34, of which Rs. 2,509,087.87 in loan balances have already been written off with the approval of the Ministry of Defense.</p> | <p>Actions must be taken to recognize and rectify the discrepancy.</p>             |
| (iii) | <p>According to the summary of individual balance classification, a total of Rs. 5,783,857 remained unrecovered from 48 employees as of the end of the year under review. This includes Rs. 4,121,081 from 36 employees who had left service between one and ten years, Rs. 896,373 from 7 retired employees, Rs. 234,994 from one interdicted employee, and Rs. 531,409 from four deceased employees.</p>   | <p>The actions that have already been taken and are expected to be taken in the future with regard to the outstanding loan balances that have been due for over a year as per the summary of individual balance classification include recovering the amounts from the guarantor, referring the matter to the legal division, and negotiating to recover the amounts in installments.</p>   | <p>Immediate actions should be taken to recover the outstanding loan balances.</p> |

**(d) Property, Plant and Equipment**

The following deficiencies were revealed during the accounting of property plant and equipment

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
The value of Rs. 2,537,000 for 28 dogs owned by the Navy had not been accounted for under non-financial assets.	The expenditure for the purchase of dogs, initially incurred under item of expenditure 2103, has now been transferred to the correct item of expenditure through the SIGAS system. Additionally, it has been observed that provisions for the purchase of animals by the police have been allocated under item of expenditure 2509-13. Henceforth, the Navy will also ensure that the necessary provisions for the purchase of dogs are allocated to the correct item of expenditure during the preparation of annual budget estimates.	Actions should be taken to account for it under the correct item of expenditure.

**2. Financial Review**

**2.1 Non-compliance with laws, rules, and regulations**

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

<b>Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>	
<b>Reference to laws, rules, and regulations</b> (a) National Audit Act No. 19 of 2018	Non-compliance		
(i) Sections 3 and 6	Although all income, expenses, and accounts of the Consolidated Fund should be audited, accounts and documents related to the income and expenses of the Navy's Malima Hospitality Services, Malima Enterprises, fuel station, agricultural projects, whale monitoring projects, holiday	Welfare projects, established with initial capital from non-governmental financing, are intended to provide initial support and are maintained with the objective of improving the well-being of serving naval personnel, retired naval personnel, wounded and missing naval personnel from the war, and their close relatives, with the aim not being to generate	All income, expenses, and account reports related to fund projects should be presented for audit.

resorts, and other funds were not presented for audit. profit but to serve welfare purposes.

Discussions have been initiated with the Tri-Forces, Ministry of Defense, and the Treasury on this matter. However, since the final conclusions have not yet been reached, actions will be taken in accordance with the instructions provided by the Ministry of Defense in the future.

- (ii) Section 6(3) Although the appointment of a qualified auditor for the examination of accounts related to the entities should be made with the consent of the Minister assigned the subject of finance and in consultation with the Auditor General, the auditor appointed for the Navy's fund audit was not appointed according to these provisions. In response to the directives of the Committee on Public Accounts of 2016, the Navy is currently providing accounts to a recognized audit firm for the audit of its non-governmental assets. Furthermore, it is kindly informed that in appointing auditors for the upcoming financial year, the Navy is ensuring compliance with Section 6(3) of the National Audit Act No. 19 of 2018 by informing the Auditor General accordingly. Actions should be taken in accordance with the provisions of the Act

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

- (i) F.R. 101 According to the investigation board report regarding a loss of Rs. 7,721,406 that occurred during the period from 21 July 2010 to 21 August 2011 at the Sri Lanka Naval 'Parakumba' institution's food store, both during the supply of food by suppliers and the distribution of food from the food store to the mess, eleven individuals were identified as responsible for the loss in 2015. Of these, the loss pertaining to four individuals was recovered from the Two naval personnel involved in this loss remain in active service, while another individual has been interdicted. Additionally, the other three naval personnel involved in this incident had left the Navy before completing 22 years of service, and one individual retired after completing 22 years of service. Furthermore, it appears that no recovery actions have been taken through their service gratuity. No steps have been taken to suspend the pension of the individual entitled to a retirement pension. Adequate measures must be taken to recover this loss. The legal division of the Navy is

Sailor's Welfare Prize Fund, but actions have not been taken to recover the remaining loss pertaining to the other seven naval personnel taking steps to file lawsuits in the civil courts for the recovery of losses from these individuals. Additionally, the Criminal Investigation Department has initiated a case in the Mootur Court and is working on this matter as well.

- (ii) F.R. 104      Although an investigation should have been conducted immediately upon the occurrence of a loss or damage, an amount of Rs. 2,329,345 was paid to suppliers as value-added tax (VAT) on goods that were exempt from VAT under the foreign procurement section. Nevertheless, no necessary actions had been taken by concluding the investigation into this matter.      A Naval Investigation Board was appointed on 23 November 2023. However, the recommendations in the report presented by the board regarding the loss did not specify the responsible individuals. Considering the points raised by the Inland Revenue Department, it appears that the investigation report needs to be revised. Therefore, the report has been sent back to the investigation board for revision.      Immediate action should be taken to conclude the investigation
- (iii) F.R. 177(1)      Although government funds collected should be remitted to the Treasury, an income of Rs. 19,880,407 generated by the Sri Lanka Navy from 04 luxury buses and 02 vans used for welfare activities for naval officers and personnel during the years 2022 and 2023 was credited to the Navy Welfare Fund. During the same period, the Navy incurred a total expenditure of Rs. 21,599,676 for these vehicles, which included Rs. 17,113,256 for fuel and Rs. 4,486,420 for vehicle repairs.      As a welfare initiative for serving, retired, deceased, and disabled naval personnel and their immediate relatives, buses and vans will be provided at concessional rates, subject to approval by the Naval Commander's message and in accordance with proper procedures. The funds collected from these vehicles will be used for repairs during their operation. Discussions have already been initiated with the tri-forces, the Ministry of Defense, and the Treasury, but no final conclusions have been reached yet. Hence, further actions will be taken according to instructions from the Ministry of Defense.      Immediate action must be taken to collect the revenue receivable to the Consolidated Fund



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| (c) | Guideline 7.9.6 (a) of the Government Procurement Guidelines   | Although a preference margin of 20% should be granted based on domestic priority when the labor, raw materials, and components provided in Sri Lanka constitute 30% of the ex-works price, and at least when bids are submitted for such production / assembly from the submission of bids, a violation of this requirement resulted in an overpayment of Rs. 2,236,500 during the purchase of 3,000 pairs of safety boots. Furthermore, it was observed that these boots were heavier and of unsatisfactory quality compared to the other evaluated boots | A request to appoint a member of the Ministry of Defense to establish an inquiry board regarding the relevant incident was submitted to the Accountant (Revenue and Asset Management) through a letter from the Naval Commander on 01 May 2024. Accordingly, it is further noted that future actions will be carried out based on the recommendations of the relevant inquiry board.   | Actions should be taken in accordance with the Procurement Guidelines, and a formal investigation should be conducted regarding any deviations. |
| (d) | Section 02 of the Asset Management Circular No. 07/2017 dated 21 November 2017 of the Deputy Secretary to the Treasury | Although the Ministry of Defense had been informed about 53 vehicles and motorcycles, including 03 motorcycles and 50 seized vehicles that were not registered, actions related to this matter had not been finalized. It was also observed that most of these vehicles were in a condition unfit for use.   | It has been approximately 14 years since these vehicles were acquired to the Navy, and most of them now require repairs. Since such repairs would not be economically viable, it has been proposed that the remaining 50 vehicles, acquired during the war, should be disposed of as scrap material, similar to the previous practice. The Ministry of Defense has been informed to submit appropriate recommendations for further action. | Action should be taken in accordance with the circular guidelines regarding vehicles that have no ownership and are unfit for use.              |

**3. Operating Review**  
**3.1 Assets Management**

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
Out of the 271 vessels, boats, and crafts owned by the Sri Lanka Navy, 63 vessels and crafts, including 06 offshore patrol vessels, 03 fast attack crafts, 31 coastal defense fast attack crafts, 11 fast attack	Some of these vessels are currently being repaired, and spare parts have been ordered for others, but the parts have not been received yet.	The funds should be used with optimal efficiency to accomplish the intended purposes.

patrol crafts, 08 coastal patrol vessels, and 04 passenger and cargo transport crafts, were inactive by the end of the review year. Although Rs. 38,146,514,747 had been estimated for vessels, boats, and crafts repairs between 2019 and 2023, only Rs. 17,850,651,000 was received, and Rs. 12,736,971,040 of the received funds was utilized, which had mainly contributed to this situation.

### 3.2 Management Weaknesses

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Despite having 57,014 meters of fabric, including Material Digital Camouflage, Material Olive Green, Black Drill, and Material Cloth Trouser Inner, in Navy warehouse as of the end of 2019, a total of 164,520 meters of fabric was purchased in 2020 and 2021 without assessing the annual requirement. During the four-year period from 2020 to 31 December 2023, only 96,175 meters of these types of fabric were issued. Accordingly, by the end of the year under review, a stock of approximately 125,359 meters of fabric, including the stock from 2019, remained in the warehouse. It was also observed that the quality of the fabric had deteriorated.	Although the Director of Naval Personnel has submitted a plan to recruit approximately 4,169 naval personnel for the year 2024, only about 383 have been recruited. If the remaining number is not recruited within this year, the ordered quantity of official uniforms may remain undistributed	Government funds should thriftily be used solely for the purchase of essential items.
(b) A total of 18,145 meters of material, including Material Woollen Polyester dark blue 6 (A), Material Woollen Polyester Reefer Suit, and Material Woollen Mess Jacket, valued at Rs. 24,949,100, had been purchased in 2012 and only 12,378 meters had been issued from 2012 to 2023, leaving a remaining stock of 5,767 meters in the warehouse by the	Currently, the fabric warehouse contains a stock of 2,997.30 meters of Material Woollen Polyester Dark Blue 6(A), 1,750.85 meters of Material Woollen Polyester Reefer Suit, and 1,019.00 meters of Material Woollen Mess Jacket. This fabric was purchased in	Government funds must be used exclusively for acquiring essential items, and the available fabric stock should be utilized for productive activities.

end of the year under review. After purchasing a large stock of fabric, a decision was made in 2014 to cease the production of official uniforms from that material. As a result, the fabric stock had accumulated in the warehouse for over 11 years, and its quality had deteriorated.

2012, and as recommended by the study report numbered WAS/01/2014 dated 10 December 2014, the production of these three types of official uniforms has been discontinued. Steps have also been taken to appoint an internal study board in the Navy to obtain recommendations for appropriate actions regarding this matter.

- (c) According to the report of the verification of inventory conducted on 31 October 2023, after the assignment of a new staff to the Central Uniform Warehouse, there was an excess of 9,401 units for 269 stock items and a deficit of 8,635 units for 227 stock items. However, necessary measures had not been taken by completing the investigations regarding this issue.
- A formal inspection regarding the excess and deficiencies of stock items in the Central Uniform Warehouse is currently underway.
- Appropriate measures should be taken by completing investigations promptly.
- (d) From the income generated from services supplied to external parties, it had been agreed to credit Rs. 337.5 million to the Consolidated Fund. Nonetheless, by the end of the year under review, 40 per cent of this amount, amounting to Rs. 135 million, remained uncredited to the Consolidated Fund.
- During the year 2016, an amount of Rs. 147.4 million had been provided on the reimbursement basis under the approval of the Commander of the Navy to meet the needs of naval personnel participating in foreign training courses under the Naval Director General's Training Unit. As of now, these funds have not been reimbursed, and it is informed you that actions will be taken to credit this amount to the Consolidated Fund after reimbursement.
- Actions should be taken in accordance with the directives of the Committee on Public Accounts.

- (e) As of the end of the year under review, no action had been taken to secure the approval of the Ministry of Finance concerning whether the Navy's Naviru Saviya Health Care Fund complies with institutional regulations.
- In compliance with effective internal control systems in the Sri Lanka Navy (as per Sri Lanka Navy Directive 0826 and the Naviru Saviya Statute), a welfare fund titled "Naviru Saviya Naval Health Care Fund" has been initiated with the purpose of improving the welfare of active naval personnel, legally retired naval personnel from the Navy, and their family members. This fund aims to provide health-related financial support in addition to the medical facilities currently provided to naval personnel.
- Actions should be taken in accordance with the directives of the Committee on Public Accounts.
- (f) The Sri Lanka Navy had not submitted a report to the Committee on Public Accounts by the end of the year under review regarding the approval obtained from the Treasury to act in accordance with the prevailing financial regulations related to all income-generating business activities conducted by the Navy, after discussions with the Treasury.
- It is noted that actions will be taken in the future in accordance with the instructions provided by the Ministry of Defense, following the decisions made during the meeting held at the Ministry of Finance on 14 May 2024, regarding income-generating business activities such as Malima Hospitality Services, Malima Enterprises, fuel station, agricultural projects, whales monitoring projects, holiday resorts.
- Actions should be taken in accordance with the directives of the Committee on Public Accounts.

- (g) The Navy had not taken steps to submit a report to the Committee on Public Accounts regarding the initial capital investment, income, expenses, and profits or losses related to the businesses operated by the Navy. Welfare projects, established with initial capital from non-governmental financing, are intended to provide initial support and are maintained with the objective of improving the well-being of serving naval personnel, retired naval personnel, wounded and missing naval personnel from the war, and their close relatives, with the aim not being to generate profit but to serve welfare purposes. Actions should be taken in accordance with the directives of the Committee on Public Accounts.
- (h) During the year 2023, pharmaceuticals and surgical equipment worth Rs. 4,073,197 had been purchased on 123 occasions through petty cash imprest, without a proper study of the drug stock utilization pattern. Furthermore, the process of incorporating these items into the Integrated Logistics Management System (ILMS) had not been finalized. It is noted that after obtaining the necessary approval from the Director of the Integrated Logistics Management System to acquire the required fundamental facilities for upcoming activities related to incorporating pharmaceuticals procured through petty cash into the Integrated Logistics Management System, actions will be taken to execute this through the Integrated Logistics Management System. In pharmaceutical procurement activities, requirements should be accurately identified and purchases made through petty cash should be incorporated into the ILMS system.
- (i) Due to instructions provided by the medical supplies division to cease further use on various reasons, 49 types of medicines purchased for Rs. 1,860,619 from the Government medical supplies division remained in the central medical stores even by the end of the year under review. Some of the medicines for which instructions were given have already expired. Although the medical supplies division was periodically informed through letters to obtain new medicines in place of these items or to provide other medicines of equal value, a definitive response has not yet been received. It is informed that further actions A suitable arrangement should be made to recover the costs or to obtain alternative medicines for these medicines.

will be taken based on the responses provided by the medical supplies division.

- (j) Weaknesses such as showing a negative value in the remaining medicine items, the lack of facilities to exchange slow moving medicines among government hospitals, and the occasional breakdown of the connection with the Sever system in the Welisara hospital system existed in the Integrated Logistics Management System.
- There has been no request made thus far to update the Integrated Logistics Management System to provide facilities for the exchange of medicine items between government hospitals or other external parties, and no notifications regarding the breakdowns in the Server have been communicated from the Naval Hospital in Welisara up to now. It has been observed that the long-term release and inventory processes of the relevant items have not been carried out correctly within the system, which has resulted in showing a negative value in the system. It is notified that actions can be taken to update the current physical stock status and the stock condition within the system.
- The relevant department should take appropriate measures to address these issues.

#### 4. Human Resource Management

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) During the five-year period from 2019 to 2023, a total of 537 officers and 9,011 sailors were recruited, while the number of those who retired and left the service was 580 officers and 17,734 sailors, respectively. As a result, the recruitment rate in relation to those leaving the Navy was at a low level of 52 per cent.	A large number of individuals retiring within a short period, expressing their unwillingness to return to service for future employment, and legally resigning or leaving the service to engage in other jobs or move abroad prior to the approved service period, coupled with the decline in new recruitments due to the COVID-19 pandemic from 2019 to 2022, and the	Appropriate measures should be taken to minimize employee resignations, and efforts must be made to expedite recruitments.

government's decision to suspend new recruitments to public institutions in 2022, had a significant impact on this issue.

It has been informed that programmes to raise awareness through the Navy's website and social media, as well as through divisional secretariats and schools, have been implemented to promote recruitment and highlight the importance of the Navy service.

- (b) Since 2012 to January 2024, there have been long-standing vacancies for 68 engineering officers, including 3,896 naval personnel related to construction and industrial sectors, along with 90 skilled officers and 4,103 naval personnel in the fields of physical training, law, information technology, instrumentalist, engineering, civil engineering, regular navy, and special recruitment schemes.
- Due to the government's approval to recruit only a limited number of naval personnel annually for other defense and administrative tasks within the Navy, as well as the lack of sufficient facilities and the considerable time required to conduct training when recruiting a large number of individuals at once, efforts are made to avoid this situation by recruiting the approved number of recruitments as percentages among each department.
- Staffing needs should be identified accurately and in a timely manner to fill vacancies, or if not required, the approved number of staff should be revised accordingly.
- (c) Since the number of inpatients and outpatients treated annually at the Welisara Navy Hospital increased while the hospital staff decreased from 365 to 286 during the period from 2020 to June 2023, it caused significant difficulties for the staff in fulfilling their duties.
- Due to the current economic difficulties, a large number of retired or disabled naval personnel and their relatives have been seeking medical treatment at the Welisara Navy Hospital. Additionally, many naval personnel were recruited under different intakes during the wartime situation, and their approved initial service period or 22 years of service has now ended, contributing to this situation. To mitigate it, new
- Steps should be taken to obtain the necessary staff to maintain the efficient functioning of the hospital.

recruitments for the medical support staff will be made in the near future.

- (d) When considering the proposal to reduce the number of Navy personnel in the future, the strategic studies regarding the required number of personnel necessary for the efficient and effective fulfillment of the Navy's duties have not yet been completed.
- Although the approved cadre of the Sri Lanka Navy is 55,000, the Ministry of Defense has directed since 23 August 2019 that it be maintained at a maximum of 53,000. Despite this, according to the Navy's strategic plan for 2030 and beyond, it has been proposed to reduce the total workforce to 40,000 and restructure the naval force. Accordingly, the Navy Commander has appointed a study board to further review this matter and submit a report, and the relevant activities are in progress at present.
- The required number of personnel should be accurately and promptly identified to maintain the efficient operation of the Navy.