

Appropriation Head 103 - Report of the Auditor General relating to the Ministry of Defence and the Departments under the Ministry – Year 2010.

This report consists of 2 parts.

Part I – Summary report relating to the Ministry and the Departments under the Ministry.

Part II – Detailed report relating to each Appropriation Head

Part I

Summary report on the Accounts of the Ministry of Defence and the Departments under the Ministry

1. Departments under the Ministry

Head of Expenditure	Name of Department
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222	Sri Lanka Army
223	Sri Lanka Navy
224	Sri Lanka Air Force
225	Department of Police
226	Department of Immigration and Emigration
227	Department of Registration of Persons
291	Department of Coastal Conservation
320	Department of Civil Security
325	Department of Coast Guard of Sri Lanka

3. Accounts

3:1 Appropriation Accounts

(a) Presentation of Accounts

 Three Appropriation Accounts relating to the Ministry and 09 Departments under the Ministry had been presented to audit by 31 March 2011. The following 07 Accounts had not been presented to audit up to that date.

Ministry/ Department	Appropriation Head	Date of Presentation
-----	-----	-----
Ministry of Defence	103	11 April 2011
Sri Lanka Army	222	29 April 2011
Sri Lanka Navy	223	05 May 2011
Sri Lanka Air Force	224	08 April 2011
Department of Police	225	11 April 2011
Department of Civil Security	320	12 April 2011
Department of Coast Guard of Sri Lanka	325	12 April 2011

(b) Total Provision and Expenditure

The total net provision made for the Ministry and 09 Departments under the Ministry amounted to Rs.215,753,467,339 and out of that a sum of Rs.214,388,592,835 had been utilized by the end of the year under review. Therefore, the net savings of the Ministry and the Departments ranged between Rs.448,161,299 and Rs. 2,170,673 or 0.41 per cent and 0.025 per cent of the total net provision. Details appear below.

P.S.No. 2013/241 First- Instalment - Part - XI Ministries and Departments Report of the Auditor General 2010

Appropriation Head	Ministry/ Department	Net Provision		Utilization		Savings	
		Recurrent	Capital	Recurrent	Capital	Recurrent	Capital
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
103	Ministry of Defence	2,088,378,000	2,654,403,954	1,979,238,839	2,635,612,921	109,131,161	18,791,03310
222	Sri Lanka Army	104,594,900,000	4,631,000,000	104,273,494,452	4,504,244,249	321,405,548,	126,755,751
223	Sri Lanka Navy	26,958,000,000	4,123,459,175	26,947,281,519	4,002,405,566	10,718,481	121,053,609
224	Sri Lanka Air Force	18,891,250,000	3,999,778,010	18,887,051,668	3,639,125,430	4,198,332	360,652,580
225	Department of Police	36,548,308,200	1,225,000,000	36,542,760,599	1,044,884,138	5,547,601	180,115,862
226	Department of Immigration and Emigration	502,760,000	169,300,000	476,523,590	166,646,336	26,236,410	2,653,664
227	Department of Registration of Persons	183,025,000	80,500,000	177,493,590	38,642,677	5,531,410	41,857,323
291	Department of Coast Conservation	113,630,000	219,150,000	113,353,081	203,319,960	276,919	15,830,040
320	Department of Civil Security	8,456,450,000	254,000,000	8,454,747,529	253,531,798	1,702,471	468,202
325	Department of Coast Guard of Sri Lanka	19,675,000	40,500,000	19,249,666	28,985,227	425,334	11,514,773
	Total	198,356,376,200	17,397,091,139	197,871,194,533	16,517,398,302	485,181,667	879,692,837
		=====	=====	=====	=====	=====	=====

3.3 Advance Accounts

3.3.1 Advances to Public Officers Account

(a) Presentation of Accounts

Five Advances to Public Officers Accounts that should be prepared for the year under review by the Ministry and 04 Departments under the Ministry had been presented to audit by 31 March 2011 while the following 05 Advance Accounts had not been presented to audit

Ministry / Department	Object Code
-----	-----
Ministry of Defence	10301
Sri Lanka Army	22201
Sri Lanka Navy	22301
Sri Lanka Air Force	22401
Department of Police	22501

(b) Compliance with Limits

The Ministry and 08 Departments under the Ministry had complied with the limits on the Advance to Public Officers Accounts authorized by Parliament. Details appear below.

Ministry / Department	Object Code	Maximum Limit on Expenditure	Actual	Minimum Limit on Receipts	Actual	Maximum Limit on Debit Balance	Actual
-----	-----	-----	-----	-----	-----	-----	-----
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Ministry of Defence	10301	63,800,000	40,072,091	31,300,000	36,441,585	224,000,000	174,425,847

(b) Compliance with Limits

The limits authorized by Parliament for 01 Commercial Advance Account had been complied with. Details appear below.

Department	Object Code	Maximum Limit on Expenditure	Actual	Minimum Limit on Receipts	Actual	Maximum Limit on Debit Balances	Actual	Maximum Limit on Liabilities	Actual
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Sri Lanka Navy	22302	446,000,000	347,829,290	420,000,000	458,822,375	-	-	330,000,000	99,358,637

3.3.3 Advance Accounts under Liquidation

Balances recoverable remaining over 6 years amounting to Rs.1,738,194 and assets not finalized valued at Rs.1,738,194 relating to the Advance Accounts under Liquidation remained.

3.4 Imprest and General Deposit Accounts

3.4.1 Imprest Accounts

The debit balances of the Imprest Accounts of the Ministry and 07 Departments under the Ministry as at 31 December 2010 amounted to Rs. 8,521,403,740 and an age analysis thereon is given below.

Ministry / Department	Age Analysis				Balance as at 31 December 2010 Debit
	Less than 01 year Debit	Over 01 year less than 02 years Debit	Over 02 years less than 05 years Debit	Over 05 years Debit	
	Rs.	Rs.	Rs.	Rs.	Rs.
Ministry of Defence	39,587	-	-	-	39,587
Sri Lanka Army	7,100,446,186	22,298,774	14,902,651	14,343,350	7,151,990,961
Sri Lanka Navy	959,364,038	-	-	-	959,364,038
Sri Lanka Air	260,694,648	29,575,407	-	779,166	291,049,221

1:2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation Account and reconciliation statements in accordance with the provisions of Article 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and the Public Financial and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

1:3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Reports and the Books for the year ended 31 December 2010, it was observed that except for the general observations appearing at (a) to (f) and the other major audit findings appearing in paragraphs 1.4 to 1.9 herein, the Appropriation Account, Revenue Account, Reconciliation Statements and Fund Account of the Ministry of Defence have been prepared satisfactorily.

(a) Presentation of Accounts

- (i) The Ministry had not presented the following accounts to audit by 31 March 2011.

Object Code	Name of Account
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10301	Reconciliation Statement of the Advances to Public Officers Account
	National Defence Fund

- (ii) It was observed during test checks that the Ministry had not maintained the following registers while certain other registers had not been maintained in the proper and updated manner.

non moving outstanding loan balances and the value of those loan balances amounted to 10,941,370. The follow up action on the recovery of those loan amounts was at a weak level.

- (iv) Although the outstanding loan balances amounting to Rs.3,070,021 had elapsed a period of 05 years due to the matters such as deaths, retirement, suspension from the service, vacation of post and other matters, uncertainty had existed in the recovery of those balances.

1.4 Non – compliances

Non – compliances with Laws, Rules, Regulations, etc.

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

Reference to Laws, Rules, Regulations, etc.	Value	Non - compliance
-----	-----	-----
	Rs.	
Financial Regulations		

(a) F.R 104 (1) (3) (4)	839,616	Primary inquiries in respect of 20 vehicle accidents had not been conducted and reports not presented
(b) F.R 110	-	Although a Register of Losses and Damages should be maintained for reporting on damages incurred to the property of the Government, a register had not been maintained accordingly by the Ministry for last 03 years.

2. Appropriation Head 222 - Sri Lanka Army

The Appropriation Account including the financial reports, reconciliation statements, books, registers and other records of the Sri Lanka Army for the year ended 31 December 2010 was audited in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Army Commander on 02 November 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

2.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and the Public Financial and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2.3 Audit Observations on the Accounts and Reconciliation Statements

According to the financial reports and the books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (c) and the other major audit findings appearing in paragraphs 2.4 to 2.7 herein, the Appropriation Account and the Reconciliation Statements of the Sri Lanka Army have been prepared satisfactorily.

(a) Imprest Account

The imprest balances of the Department that remained without being settled by 30 April 2011 totalled Rs. 6,857,440,647. This represented balance amounting to Rs.14,339,723 existing from prior to 2005.

made without such approval.

* Paragraph 5.4.4 (b) of the Procurement Guidelines	443,517	Although 20 per cent of the contract value should be paid as advance in carrying out any activity, 6 instances of paying the total invoice value as advances for carrying out vehicle repairs were observed.
* Paragraph 2.4.1 of the Finance and Planning Circular No.MF/6/1/1/96 dated 20 April 1996	564,000	Although penalty should be recovered in terms of instructions of Section 28.6 of Chapter XIV of the Establishment Code if an officer who had gone abroad for participating in an overseas course, had not submitted an expenditure statement within 30 days after returning to the country, action had not been taken to recover penalty that should be recovered as such.

2.6 Deficiencies in the Operation of Bank Accounts

(a) Balances for Adjustment

Information revealed at an analysis of the adjustments shown in the Bank Reconciliation Statements prepared for the month of December 2010 is given below.

Financial and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

3:3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Reports and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (e) and the other major audit findings appearing in paragraphs 3.4 to 3.10 herein, the Appropriation Account and the Reconciliation Statements of the Sri Lanka Navy have been prepared satisfactorily.

(a) Presentation of Accounts

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- (i) The Sri Lanka Navy had not presented the following accounts for audit up to 31 March 2011.

Head/Revenue Code/ Object Code	Name of the Account
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223	Appropriation Account
22301	Reconciliation Statement on Advances to Public Officers Account
22302	Stores Advance (Explosive Materials) Accounts

- (ii) It was observed at the test check that the following registers had not been maintained by the Sri Lanka Navy while certain registers had not been maintained properly and in an updated manner.

<u>Type of Registers</u>	<u>Relevant Regulations</u>	<u>Observation</u>
Register of Fixed Assets	Treasury Circular No.842 of 1978 and Financial Regulations 502(2).	Although all the assets should be entered in the register, action had not been taken accordingly.

(b) Imprest Account

The balances that remained unsettled by 30 April 2011 totalled Rs.709,545,457.

(c) General Deposits Account

- (i) Action could have been taken in terms of provision of the Financial Regulations 571 but not taken accordingly in respect of balances of deposits amounting to Rs.1,503,000 remaining over 2 years period.
- (ii) The balance of the General Deposits Account had not been reconciled with the books of the Treasury in terms of provision of the Financial Regulations 427 and the balance of the General Deposits Account as at end of the year under review had been understated by Rs.25.457,652 than the balances shown in the Treasury books.

(d) Reconciliation Statement on Advances to Public Officers Account

- (i) The balances that remained outstanding by 31 December 2010 according to the Reconciliation Statement on Advances to Public Officers Account, Item No.22301 totalled Rs.41,182,323 and the follow up action on the recovery of these outstanding balances had been at a weak level.
- (ii) It had not been reconciled with the Treasury books in terms of provision of the Financial regulations 427.
- (iii) Total of the register of individual account balances showing the balances of the loans and advances had not been reconciled with the balances of the control account. The balance of the control account amounted to Rs.688,759,838 while the total of the register of individual balance amounted to Rs.654,098,652.

3.5 Non – compliances

(a) Non – compliance with Laws, Rules, Regulations, etc.

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

Reference to Laws, Rules and Regulations	Value	Non - compliance
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	Rs.	
(i) Financial Regulations		

F.R 94	3,786,338,658	Except where otherwise provided for, no expenditure or commitment should be incurred by any department for work, service or supply, unless financial provision exists therefore in the Annual Estimates, the Sri Lanka Navy had not taken action accordingly.
F.R 137	111,197,371	Although cash should not be paid to outside parties before obtaining any work, service or supplies, contrary to this the Sri Lanka Navy had paid cash to the suppliers.
F.R 371 (2) (b)	3,074,297	The value of sub-imprest could be granted in one instance not to exceed Rs.20,000, contrary to this, sub- imprests had been granted in eight instances during the year 2010.

4. Appropriation Head - 224 - Sri Lanka Air Force

4.1 The Appropriation Account and Revenue Account including the financial reports, reconciliation statements, books, registers and other records of the Sri Lanka Air Force for the year ended 31 December 2010 were audited in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Air Marshal on 20 July 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

4:2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and Reconciliation Statements in accordance with the provisions of Article 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and the Public Financial and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

4:3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Reports and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (e) and the other major audit findings appearing in paragraphs 4.4 to 4.7 herein, the Appropriation Account, Revenue Account and the Reconciliation Statements of the Sri Lanka Air Force have been prepared satisfactorily.

- (ii) A sum of Rs. 12,118,186 made available by other Ministries and Departments for various purposes had been retained in the General Deposit Account without carrying out the respective activities.

(d) Revenue Accounts

- (i) According to 01 Revenue Account presented, revenue amounting to Rs.3,666,388 had been in arrears and the arrears of revenue related to periods ranging from 04 to 07 years. The follow up action on the recovery of such arrears of revenue had been at a weak level.
- (ii) Gross revenue for the year 2008 amounting to Rs.15,471,019 had been shown instead of being shown the net revenue amounting to Rs.14,610,963 while showing the collection of revenue for the last 03 years in the revenue accounts for the year under review. Although this error had been pointed out when preparing revenue accounts for the year 2009, this overstated balance amounting to Rs.860,056 had been brought forward accordingly.
- (iii) It was observed that revenue amounting to Rs.460,535 included in the monthly revenue reports prepared by the Director, Air Operation had not been included in the Books of Accounts. Revenue such as a sum of Rs.22,900 received from sale of Air Ticket on 01 February of the year under review and a sum of Rs.231,845 received by the aero plane hire relating to the services provided on 10 and 11 July in that year had not been included in the accounting records and as such the revenue amounting to Rs.14,768,440 supplied for the month of October had been shown in the books of the Accounting Unit as Rs.14,562,650 understating by Rs.205,790. Therefore, this shortage had occurred.
- (iv) It was revealed that arrears of revenue for the year under review had not been shown correctly in Form DGSA Revenue 2. Although the arrears of revenue by the year prior to the last year amounted to Rs.6,747,232, the balance at the end of that year amounting to Rs.3,666,388 had been shown. Further, the sum of Rs.3,080,845 written off during that year had not been included in that amount.

Grand Total	10,362,376	2,319,834	2,144,153	8,640,459	23,466,822
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4.4 Assets Management

(a) Assets given to Outside Parties

Instances of the release of certain assets irregularly to external parties by the Air Force were observed. Details appear below.

The Air Force had released a Defender Vehicle to the Presidential Security Division in the year 2005 and a Corella Car and a Defender had been released to the Ministry of Defence in the years 2005 and 2006 respectively.

(b) Irregular Use of Assets of Other Institutions

It was observed during audit test checks that the Sri Lanka Air Force had been using certain assets belonging to other institutions without formal approval. Details appear below.

The Sri Lanka Air Force had obtained a cab vehicle and a BMW vehicle from the Ministry of Defence on 02 September 2007 and 11 April 2007 respectively. Similarly, 02 Fuel Bawzers had been obtained from the Petroleum Corporation.

(c) Unsettled Liabilities

The liabilities that remained without being settled as at 31 December 2010 by the Sri Lanka Air Force amounted to Rs. 820,408,568 and this balance had remained a period of less than 01 year.

4.5 Performance

According to the Annual Report for the year 2010, observations on the progress of Air Force are given below.

4.7 Internal Control

(a) Board of Survey and Shortages of List of Equipment

It was revealed that there were shortages of goods of the list of equipment of the Air Force due to improper implementation of list and related laws, rules and internal control. Therefore, it was observed that the Sri Lanka Air Force had faced the following difficult situation in respect of control of assets.

- (i) Although annual Boards of Survey and independence checking should have been carried out relating to goods and the reports should have been presented to the Head Office prior to end of the month of January of the subsequent year in terms of Financial Regulations 756 and Part A 4/2 of Volume II of the Regulations relating to equipment of the Sri Lanka Air Force, action had not been taken accordingly. The audit test check revealed that the Board of Survey had been conducted only at the time of transfer of service station of the officer in charge of the inventory items.
- (ii) Exchanging goods between inventories had not been done by utilizing the relevant Forms by the Officer in charge of inventories in terms of Financial regulations 755 and Regulations in respect of equipment of the Sri Lanka Air Force and as such goods remained shortages in an inventory item had been identified as losses and conducted court of inquiry. The shortages initially identified as losses had been eliminated subsequently due to appearing this in another inventory item.
- (iii) Attention had not been paid for sending goods outside for repairs and obtaining back after repairs.
- (iv) Taking long period of time for collection of evidence to conduct formal inquiries in respect of shortages of goods revealed at the time of transfer of service station of the Officer in charge of inventory goods.
- (v) Considerable losses had incurred to the Air Force due to not carrying out the implementation of recommendations included in the report of the Board of Survey submitted with delay in an up to date manner and transferring the Officer in charge of the inventories for other duties.

balances as at 31 December 2010 amounted to Rs.122,787,036. Loan balances amounting to Rs. 33,563,761 to be recovered from the officers who had retired and deceased, had been included in this loan balance. Even though action should have been taken to recover the loan balances that should be recovered at the time of paying pension of the officers who had retired and at the time of paying benefits from the Widows and Orphans Fund of the officers who had deceased in terms of Sections 4.2.3, 4.2.4 and 4.2.5 of Chapter XXIV of the Establishment Codes, the Department of Police had not taken action accordingly.

- (iii) It was revealed in audit that the value of balances to be recovered from the officers who had been interdicted from the service and officers who had vacated their posts amounted to Rs.76,126,972. Although action should have been taken in terms of Section 4.5 of Chapter XXIV of the Establishment Codes to recover the relevant loan balance from the sureties if securities had been obtained according to the agreement entered into while granting loan to this officer or from other parties according to the agreement, the Department of Police had not taken action accordingly.
- (iv) Other loan balances amounting to Rs.1,734,908 for which action had not been taken for recoveries, had been shown in the reconciliation statement and particulars of the above loan balances had not been submitted for audit. It was not explained in audit that which loans are considered as the above other loan balances. Action should have been taken immediately to recover the above loan balances. However, necessary action had not been taken in this regard up to now by the responsible officers.
- (v) The Department of Police had not taken action in terms of National Budget Circular No.118 dated 11 October 2009 to recover a sum of Rs.11.4 million to be recovered from the officers who had been transferred out of the Department to other Ministries and Departments.
- (vi) Amount of staff loan remaining between 1 -2 years for which action not taken for recoveries represented 15 per cent whereas amount of staff loan remaining 2 – 5 years represented 26 per cent. Amount of staff loan remaining over 05 years for which action not taken for recoveries represented 34 per cent.

Contract	Bill No.	Number of Items exceeding the work done	Value
-----	-----	-----	-----
			Rs.
Police Station, Nawalapitiya	06 th Bill	17	4,882,912
Police Station, Thangalle	06 th Bill	10	2,849,801
	07 th Bill	16	2,059,704

			9,792,417
			=====

5.10 Human Resources Management

(a) Approved Cadre and Vacancies

The position of the cadre as at 31 December 2010 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Number of Excesses
	-----	-----	-----	-----	-----
(i)	Senior Level	711	596	115	-
(ii)	Tertiary Level	3,201	3,738	-	537
(iii)	Secondary Level	80,227	72,235	7,992	-
(iv)	Primary Level	3,395	2,462	933	-
(v)	Others	1,055	536	519	-
	Total	88,589	79,567	9,559	537
		=====	=====	=====	=====

6.7 Internal Control

Internal Audit

Although there was an Internal Unit, an adequate internal audit had not been carried out.

7. Appropriation Head 227 - Department of Registration of Persons

The Appropriation Account and Revenue Account including the financial reports, reconciliation statements, books, registers and other records of the Department of Registration of Persons for the year ended 31 December 2010 was audited in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Commissioner General on 29 July 2011. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

7.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer/ Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation Account in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and the Public Financial and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
	-----	-----	-----	-----
(i)	Senior Level	20	14	06
(ii)	Tertiary Level	02	01	01
(iii)	Secondary Level	444	295	149
(iv)	Primary Level	274	177	97
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	Total	740	487	253
		=====	=====	=====

7.7 Internal Audit

Although there was an Internal Unit, an adequate internal audit had not been carried out.

8. Appropriation Head - 291 - Department of Coast Conservation

The Appropriation Account including the financial reports, reconciliation statements, books, registers and other records of the Sri Lanka Air Force for the year ended 31 December 2010 was audited in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Director General on 24 May 2012. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

8:2 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and Reconciliation Statements in accordance with the provisions of Article 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and the Public Financial and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

8.3 Audit Observations on the Accounts and Reconciliation Statements

According to the Financial Reports and the Books for the year ended 31 December 2010, it was observed that except for the effects of the general observations appearing at (a) to (f) and the other major audit observations appearing in paragraphs 8.4 to 8.8 herein, the Appropriation Account, Revenue Account and the Reconciliation Statements of the Department of Coast Conservation have been prepared satisfactorily.

(a) Non- maintenance of Registers

It was observed at the test check that the Department of Coast Conservation had not maintained the following registers properly and in an updated manner.

<u>Type of Registers</u>	<u>Relevant Regulations</u>	<u>Observations</u>
Votes Ledger	F.R 447	It had not been balanced and properly maintained.
Register of Losses and Damages	F.R 110	Not maintained in an up dated manner
Register of Deposits	F.R 414	Not maintained in an up dated manner

amounting to Rs.193,309 from 03 officers who had gone on transfer of service station.

- (iii) The balance of the outstanding loans to be recovered in terms of Section 4 of Chapter XXIV of the Establishment Codes from the payment of pension or death gratuity of the employee who had gone on retirement and the officer deceased amounted to Rs.332,835. Further, it was unable to confirm in audit that there was a possibility to recover the outstanding loans remaining more than 05 years amounting to Rs.7,230 to be recovered from employee who had deceased.
- (iv) The outstanding loan balances of one officer and 04 employees who had had vacated their posts amounted to Rs.444,169. These balances had remained for a period of 03 years and 13 years and these balances had not been recovered up to 30 June 2011.
- (v) Balances had not been reconciled with the Treasury Books in terms of provision of the Financial Regulations 427. The total of the register of individual loan balances had not been reconciled with the balance of the Control Accounts. The balance of the Control Account amounted to Rs.41,570,653 whereas total of the register of individual balances amounted to Rs.41,577,435. Reason for the difference of Rs.6,782 had not been explained and this difference had existed for more than 05 years period.

8.4 Assets Management

(a) Idle and Underutilized Assets

It was observed at the audit test check that certain assets had remained idle or underutilized as analyzed below.

	Type of Assets	No. of Units	Period of Idle or Underutilization
	-----	-----	-----
(i)	Vehicle	02	More than 04 years
(ii)	Machineriy	02	More than 04 years
(iii)	Condemned Vehicles	06	More than 05 years
(iv)	Condemned Machinery	01	More than 05 years

(b) Human Resources Irregularly released to Other Parties

Category of Employees and Number of Releasements	Institution for which Human Resources Released	Period of Release
-----	-----	-----
Cost Guard Officers - 48	Department of Fisheries and Aquatic Resources	Since year 2006

(c) Lack of adequate staff to carry out the activities of the Coast Guard Balkaya due to releasing officers as such had hindered the achievement of objectives of the Department and a sum of Rs.871,640 had been paid to the officers only in the year under review.

8.8 Internal Control

(a) Internal Audit

An Internal Audit Unit had not been established and the activities of the internal control had not been carried out.

(b) Implementation of Management and Audit Committee

Meetings of the Management and Audit Committee had not been conducted during the year under review.

Rs.790,950 had been paid in 11 instances at the values ranging from Rs.20,000 to Rs.25,000 during the year under review.

- (iii) Even though sub-imprest granted should be settled immediately after completion of the purpose for which it was granted in terms of the provisions of Financial Regulation 371 (2) (c), action had not been taken accordingly. Although a period of more than 14 months had elapsed after granting the sub-imprest amounting to Rs.260,837 by 01 March 2011, action had not been taken to settle it.

9.4 Transaction of Contentious Nature

Certain transactions carried out by the Department were of contentious nature. Particulars of few transactions revealed as such at the test check are given below.

- (a) A sum of Rs.3,309,058 had been spent by the Department from the provision allocated for other activities for purchasing snacks, lunch, milk powder, water bottle, paper serviette, paper plate, soft drinks, cake, biscuits etc. during the year under review and the manner of obtaining authority for these expenditure had not been explained in audit.
- (b) A sum of Rs.1,008,000 had been paid to a private institution through the voucher No.12192 dated 07 December 2010 for purchasing 500 hoes at the size of 9x9 with handle required for 23 provincial offices and training camps belonging to the Department of Civil Security. The following matters revealed at the audit examination carried out in this regard.
- ◆ According to the quotation obtained from an agent distributing crocodile hoe in Sri Lanka, the current sales price as at 25 April 2011 for a hoe at the size of “9x9” was Rs.865. The price paid for a hoe at the size of “9x9” with handle to the supplier institution selected in the month of December 2010 was Rs.1,800. Accordingly, it was observed in audit that a sum of Rs.935 had been paid for the handle of the hoe while the audit revealed that the handle of the hoe was made available in the open market at the prices between Rs. 100 and Rs.150. The Civil Security Camps and the Zonal Offices which requested these hoes are situated close to the jungle areas. Although there was a opportunity to obtain these handles of the hoe without the cost through the Civil Security Guards from these areas, a loss had been incurred to the Consolidated Fund by spending a sum of Rs.467,500 for handles of hoe.

- (b) (i) Although the manufacturer had marked the maximum retail price of 40 ml. bottle of Thinner and 36 grams of polish tin as Rs.75, a bottle of thinner at the rate of Rs.99.50 and a polish tin at the rate of Rs.98 had been purchased from a private institution selling hardware, wires, Kitchenware etc. and a private institution selling hardware, stationeries, engineering items etc. respectively and as such a loss of Rs.1,164,700 had incurred to the Consolidated Fund.
- (ii) Although the maximum retail price marked for 40 ml. bottle of polish thinner was Rs.80 according to the quotation obtained by audit on 20 April 2011 from the manufacturer of Kiwi shoe polish, it was confirmed that such a bottle in any quantity could be obtained for Rs.67 per unit and one unit of 36 gram polish tin could be obtained for Rs.67 although the maximum price marked for it was Rs.80. It was observed in audit that there was a opportunity to obtain 40 ml. bottle of polish thinner and one unit of 36 gram polish tin for Rs.62 and a loss of Rs.657,800 had incurred to the Consolidated Fund due to not taking action accordingly.
- (c) The following matters were observed in audit regarding the construction of new stores building made within the Civil Security Training Camp, Kanthakkuly, Kalpity.
- (i) The contract for construction of building was awarded to a farmer's organization, Dambulla. According to the work done bills submitted by the above farmers organization, a sum of Rs.2,817,766 had been paid on 14 December 2009 fro 3 stages such as first , second and third stages. It was revealed in audit at the audit test check carried out physically relating to the constructed building that a sum of Rs.585,990 had been paid even though the works pointed out in the work done bill had not been done.
- (ii) A sum of Rs.413,132 had been paid for works carried out without any standard.
- (iii) It was observed in audit that according to the above matters the stores building constructed by spending a sum of Rs.2,817,766 had not been constructed according to the specified standard and the construction works mentioned in the work done bills had not been carried out and a loss of Rs.996,122 had incurred to the Consolidated Fund due to the above reasons.
- (iv) The final bills had been paid on 12 December 2009. Although a period of nearly one year had elapsed as at the date of audit on 05 October

(v)	Civil Security Forces	-	36,935	-
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		-	36,935	-
		=====	=====	=====

9.8 Internal Control

The following internal control weaknesses were observed.

Implementation of Management and Audit Committee

Although one meeting of the Management and Audit Committee should be held per quarter in terms of Management Audit Circular No.DMA/09/01 dated 09 June 2009, action had not been taken accordingly.

10.5 Non - compliance

(a) Non – compliance with Laws, Rules, Regulations, etc.

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

Reference to Laws, Rules and Regulations	Value	Non - compliance
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	Rs.	
Financial Regulations		

F.R 94	2,082,736	Except where otherwise provided for, no expenditure or commitment should be incurred by any department for work, service or supply, unless financial provision exists therefore in the Annual Estimates, the Department of Coast Guard of Sri Lanka had committed liabilities amounting to Rs.2,082,736 for the year under review.

(b) Non-compliance with Tax Requirements

Although a stamp fee not less than Rs.25 should be charged for every payment exceeding Rs.25,000 and remitted to the Commissioner General of Inland Revenue in terms of Stamp Fees Act, the Department of Coast Guard of Sri Lanka had not taken action accordingly.

