

Head 223 - Sri Lanka Navy – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Navy for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance and cash flow statement for the year then ended was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. My comments and observations on the financial statements presented to the Sri Lanka Navy in terms of Section 11(1) of the National Audit Act, No. 19 of 2018 appear in this report. This report will be tabled 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 Navy as at 31 December 2020, and of 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 in this report.

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

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

The Chief Accounting Officer and the Accounting Officer are 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 Chief 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 Department 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 Commission.

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 Department 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:

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

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

1.5 Report on Other Legal Requirements

As required by Section 6 (1) (d) and Section 38 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 following recommendations made by me in relation to the financial statements of the year under review had not been implemented.

Referred Paragraph	Audit Observation	Recommendation
1.6.1	According to Financial Statement Guideline No.06 under Paragraph 10.1 in No.02/2020 dated 28 August 2020, the principal ledger value of those assets had to be compiled when reporting non-financial assets. If there were any balances that were not so, that value should be kept as a balance to be revised in the main ledger until they are identified. However, action had not been taken accordingly.	Action should be taken in compliance with the Circular.
1.6.3	The value of property, plant and equipment totalling to Rs.54,563,044,895 in the Statement of Non-Financial Assets (ACA-6) had been stated as Rs. 51,777,781,170 in the statement of financial position. As a result, the value had been understated by Rs.2,785,263,725.	Accounts should be submitted correctly.
2.6	Even though the prior approval of the General Treasury should be obtained for opening an official bank account in terms of FR 381, the bank account bearing number 74976591 had been opened to collect agricultural income in contrary to the provisions.	Prior approval of the General Treasury should be obtained for opening official bank accounts.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Non-revenue Receipts

The following deficiencies were observed relating to accounting for non-revenue receipts in the financial statements.

Audit Observation	Comment of the Accounting Officer	Recommendation
(i) Even though Treasury imprest value had been stated as Rs. 49,062,520,336 according to the statement of financial performance prepared for the year ended 31 December 2020, the Treasury imprest value computed as per the Treasury printouts	The total imprest receipts as per the Treasury printouts (BTBL 72/SA 70) as at 31 December 2020 amounted to Rs. 52,425,888,028 and accordingly, it tallied with the Treasury print note. In the preparation statements of financial performance according to the Guideline No.06 under Paragraph	Numerical figures in the financial statements should be tallied with the Treasury final accounts.

amounted to Rs. 49,085,085,447. Accordingly, a difference of Rs. 22,565,111 is observed.

10.1 in the Public Finance Circular No.02/2020 dated 28 August 2020 and Paragraph 3.6 of the Format, the Form ACA-3 has been utilized.

- (ii) Although value other receipts stated in the non-revenue receipts in the statement of financial performance was Rs. 3,576,138,919, value other receipts as per the Treasury printouts and the consolidated trial balance as at 31 December 2020 amounted to Rs. 3,578,917,963. Accordingly, a difference of Rs. 2,779,044 is observed.
- Value of other receipts has been correctly presented according to the monthly accounts summary.
- Do-

- (iii) Although imprest balance as at 31 December 2020 had been stated as Rs. (1,622,430,952) in the statement of financial performance, the imprest balance is observed to be Rs. (1,597,086,796) on the impact of (a) and (b) above. Accordingly, the imprest balance as at 31 December 2020 had been overstated by Rs. 25,344,156.
- Details included in the Formats from ACA 1 to ACA 06 were used in the preparation of statement of financial performance and accordingly, there is no difference of Rs.1,622,430,952 in the imprest balance as at 31 December 2020.
- Do-

(b) **Capital Expenditure**

The following deficiencies were observed relating to accounting for capital expenditure in the financial statements.

Audit Observation	Comment of the Accounting Officer	Recommendation
A liability amounting to Rs.27,216 had been incurred for the acquisition of vehicles relating to the Capital Object No. 223-1-1-0-2101 for which budgetary provisions had not been made for the year under review.	Due to a mistake caused in computerizing data for the presentation of Record , 2020, liabilities had been stated under a wrong Object.	Accounting should be made under correct Objects.

(C) **Reconciliation Statement on Advances to Public Officers Account**

Audit Observation	Comment of the Accounting Officer	Recommendation
A sum of Rs. 6,180,487 had been stated as the value of receipts under the Advances to Public Officers "B" Account by the cross entries in the Treasury computer printouts. According to the consolidated trial balance, that value was Rs. 5,059,063.	The value of the receipts of Advance "B" Account has been recorded in the Imprest Adjustment Account according to the Table 67 SA-51/BTBL in the Treasury printouts.	Imprest Adjustments should be made accurately.

Accordingly, although the amount to be adjusted in the Imprest Adjustment Account was Rs. 1,121,424, the amount adjusted was Rs. 2,243,479 and as such, a sum of Rs. 1,122,055 had been adjusted in excess under the Advances to Public Officers "B" Account

(d) **Payment of Deposits and Balances**

The following deficiencies were observed relating to accounting for Payment of Deposits and Balances in the financial statements

Audit Observation	Comment of the Accounting Officer	Recommendation
Although lists of all deposits which have lapsed as indicated in F.R. 570 at the close of each half year must be prepared in order for their disposal in terms of F.R.571 (2) and action should be taken to credit them to the Government Revenue, having made inquiries before their transfer to the Revue, a sum of Rs. 3,031,923 had been retained in the General Deposit Account bearing No.16/35 for more than a period of 02 years without being credited to the Government Revenue.	Having submitted the General Deposit Account No.16/35 and the list of lapsed deposits prepared as at 31 December 2020, necessary inquiries were made before crediting them to the Government Revenue in terms of F.R. 571(2) and action will be taken to settle the payments for deposits submitted on completion of the project and to credit other deposits to the Government Revenue.	Action should be taken in accordance with Financial Regulations.

(e) Property, Plant and Equipment

The following deficiencies were observed relating to accounting for Property, Plant and Equipment

Audit Observation	Comment of the Accounting Officer	Recommendation
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<p>(i) As per the Treasury printouts, the value of the non-financial assets as at 31 December 2019 was Rs. 54,563,044,895 and according to the account books as at that date, that value amounted to Rs. 51,777,781,170. The reason for the difference as per the reply given for the observations of the audit of the financial statements, 2019 had been stated as non-inclusion of total amount of the page including the value of land amounting to Rs. 2,785,263,725 in the Form ACA-06 by mistake. If it is so corrected, the value of the opening balance of the non-financial assets in 2020 should be Rs. 54,563,044,895 in Form ACA-06. Nevertheless, the opening balance had been stated as Rs. 52,169,029,884 in the Form presented.</p>	<p>As the purchasing not inventoried in the preceding year had been stated as the opening balance of this year, a difference between the closing balance of the preceding year and opening balance of the year under review is observed</p>	<p>If any difference between closing balance of the preceding year and opening balance of the year under review is observed, it should be presented as a Note.</p>
<p>(ii) In terms of Section 4.2 in Guideline No.06 relating to the preparation of Financial Statements under Paragraph 10.1 of Public Finance Circular No.02/2020 dated 26 August 2020, all the forms included in the financial statements should be signed by the Chief Financial Officer or the Chief Accountant. Nevertheless, the Form ACA-06, the statement of non-financial assets had not been so signed by the Chief Financial Officer or the Chief Accountant.</p>	<p>Action will be taken to avoid this mistake in the future.</p>	<p>Action should be taken in accordance with the circular provisions.</p>

(f) Imprest Balance

The following deficiencies were observed relating to accounting for Imprest Balance.

Audit Observation	Comment of the Accounting Officer	Recommendation
<p>(i) According to the final imprest summary (SA -70) of the Treasury for the year under review, the value of imprest receipts was Rs. 52,425,888,028. Whereas the value that had been stated as per the Form (ACA-3) was Rs. 52,339,421,818. Accordingly, receipts of imprests had been understated by Rs. 26,466,210.</p>	<p>The imprest balance of Rs. 26,466,210 existed as at 31 December 2019 has been settled in the year 2020. Accordingly, a sum of Rs. 26,466,210 has been stated as the imprest balance as at 01 January 2020 in the Imprest Account indicated in the Form ACA in the financial statements, 2020 and sums aggregating to Rs. 52,425,888,028 comprising the above value and the amount of Rs. 52,399,421,818 stated under the receipt of the Imprest Account represents the total receipt of the Imprest Account as at 31 December 2020.</p>	<p>Numerical figures should be tallied with the balances of the Treasury final accounts.</p>
<p>(ii) Although the value of imprest received from other sources amounted to Rs. 3,340,802,581 in the final trial balance of the Treasury (7002/29/20) for the year under review, the value stated in the Form (ACA-3) was Rs. 3,336,901,482. Accordingly, the imprest receipts from other sources had been understated by Rs. 3,901,099.</p>	<p>Receipts to the Imprest Account as at 31 December 2020 are equal to the Treasury Receipts Notes BT B1 72/SA 70. Account has been prepared as per the Treasury printouts.</p>	<p>-Do-</p>
<p>(iii) According to the adjustment in (7.1) and (7.2) above, the imprest value received from the year under review should be Rs. 49,085,085,447. Nevertheless, the value of imprests received from the Treasury had been stated as Rs. 49,062,520,336 in the Form ACA-3. The value of imprests received from the Treasury was Rs. 49,059,929,127 according to the</p>	<p>-Do</p>	<p>-Do</p>

consolidated trial balance. Accordingly, accounts had not been prepared in conformity with the consolidated trial balance.

(g) Imprest Adjustment Account

Audit Observation	Comment of the Accounting Officer	Recommendation
<p>In terms of Paragraph 07 (vi) of the Format and the Guideline relating to the preparation of Financial Statements under Paragraph 10.1 of Public Finance Circular No.02/2020 dated 28 August 2020, as the amount to be settled to or received from the Treasury by the end of the year according to the statement of financial performance inevitably differs from the amount to be settled to the Treasury according to the cash book, an Imprest Adjustment Account should be prepared to reconcile those balances. Nevertheless, accrued imprest account, which is not included in the circular, had been prepared in addition to the Imprest Adjustment Account.</p>	<p>Action will be taken to prepare an Imprest Adjustment Account in the ensuing years.</p>	<p>Action should be taken in accordance with the circular provisions.</p>

(h) Cash Flow Statement

Audit Observation	Comment of the Accounting Officer	Recommendation
<p>(i) In taking into consideration the cash flow generated from the operating activities for the year ended 31 December 2020, although the value of non-revenue receipts had been stated as Rs. 3,336,901,482 in the account, that value stood at Rs. 3,708,917,963 as per the consolidated trial balance. Accordingly, a sum of Rs. 372,016,481</p>	<p>As the value of Rs. 3,336,901,482 stated under the cash flow generated from the operating activities in the cash flow statement for the year ended 31 December 2020 is only a revenue received in cash, there is no difference in the non-revenue receipts.</p>	<p>In terms of Guidelines and Format No.06 relating to the preparation of Financial Statements under Paragraph 10.1 of Public Finance Circular No.02/2020 dated 28 August 2020, the cash flow statement should be prepared in gross basis.</p>

- had been understated.
- (ii) In the calculation of cash flow generated from the operating activities in the year under review, although an amount of Rs. 49,062,520,336 had been stated as the receipt of imprests, that value was Rs. 49,059,929,127 according to the consolidated trial balance. Even though the value of receipt of imprests calculated according to the Treasury printouts should be Rs. 49,085,085,447, that value had been understated by Rs. 22,565,111.
- (iii) Although a sum of Rs. 52,380,071,862 had been stated as personal emoluments and operating expenditure in the calculation of cash flow spent for operating activities for the year under review, that value was Rs. 49,755,898,509 according to the consolidated trial balance. Accordingly, a sum of Rs. 2,624,173,353 had been overstated.
- (iv) In the calculation of cash flow generated from operating activities included in the cash flow for the year under review, the value of expenditure incurred on subsidies and transfers and the expenditure incurred on other Objects should be taken into consideration.
- The value of total imprest receipts as at 31 December 2020 is Rs. 52,425,888,028 according to the Treasury computer printouts and the value of imprests received from the Treasury is Rs. 49,062,520,336 according to the Imprest Account for the year 2020. In the preparation of cash flow statement as per the Paragraph 3.6 in the Format and the Guideline relating to the preparation of Financial Statements under Paragraph 10.1 of Public Finance Circular No.02/2020 dated 28 August 2020, the Form ACA-3 has been used for that purpose
- In entering personal emoluments and operating expenditure, value of subsidies and transfers amounting to Rs. 2,624,173,353 and the expenditure incurred on other Objects have been included by mistake. All the expenditure has been included under the personal emoluments and operating expenditure in the cash flow statement and it is informed that action will be taken to state and present the expenditure separately in the future
- Numerical values of the financial statements should be tallied with the balances of the Treasury final accounts.
- Money spent for the operating activities should be calculated accurately.
- Do-

Nevertheless, the net cash flow generated from the operating activities had been calculated without taking into account the relevant value of expenditure.

- (v) Although the financial statements for the year should be prepared based on the final financial statements issued for the year 2020 and the figures included in the schedules attached thereto in terms of Paragraph 03 of Format 03 and Guidelines relating to the preparation of financial statements under Paragraph 10.1 of Public Finance Circular No.02/2020 dated 28 August 2020, and recovery of advances, purchase of physical assets and cash flow generated from the payment of advances should be stated under the investment activities and cash flows generated from the value of deposit receipts and deposit payments should be stated under the financial activities, the aforesaid investments and financial activities had not been included in the preparation of cash flow statement for the year under review.
- It is informed that the cash flow statements have been prepared by aggregating all the expenditure in terms of Paragraph 10.1 of Public Finance Circular No.02/2020 dated 28 August 2020 and action will be taken to present investment and financial activities separately in the future.
- In the preparation of cash flow statements, investment activities and financial activities should be presented separately

2. Financial Review

2.1 Expenditure Management

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) In terms of Financial Regulation 94 (1), under no circumstance shall the commitments, and the expenditure incurred for work, service or supply exceed such provision for the financial year and no expenditure or commitment shall be incurred in the expectation that necessary authority or additional financial provisions will be received before actual payment falls due. Nevertheless, liabilities relating to 03 Capital Objects had been incurred exceeding the net provision by Rs. 292,739,546 that exceeding of the provision had been 101 per cent.	In order to maintain operational duties of the Sri Lanka Navy systematically by preventing the spread of Covid-19 epidemic, provisions had to be allocated exceeding the expected level for essential expenses and as such, liabilities had been incurred exceeding the net provision of Objects. Nevertheless, no expenditure had been incurred exceeding the provisions of the Objects.	Action should be taken in accordance with the Financial Regulations.
(b) Provision of Rs. 600,000 made for 02 recurrent Objects in the year under review had not been utilized even by the end of the year under review.	Since all programmes scheduled to be held in the year 2020 had to be cancelled due to Covid pandemic situation, provisions allocated for welfare programmes and implementation of Official Language Policy could not be used.	Necessary arrangements should be made to utilize provisions.
(c) Out of net provision amounting to Rs. 10,796,000 relating to a recurrent Object No. 223-1-1-0-1404 lease rent and payment of tax of local authorities, a sum of Rs. 4,429,630 or 41 per cent had been saved by the end of the year under review.	As delays caused owing to limitation of employees' attendance, closure of institutions and isolation of the institutions due to Covid epidemic situation, documents required for the settlement of Rates and lease rent were not presented. As such, estimated provisions remained unspent.	Provisions obtained should be used in maximum capacity.

2.2 Incurring Commitments and Liabilities

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) It was observed in the examination of the Record of Commitment and Liabilities (Note (iii)) of the year under review that liabilities of Rs. 609,724 had been incurred in respect of 09 Objects which are not applicable to the Sri Lanka Navy.	Due to an error caused in computerizing data, the relevant liabilities had been entered under wrong Objects.	Liabilities should be incurred properly.
(b) Although only commitments and liabilities relevant to the year should be included in the Record of Commitment and Liabilities (Note (iii)) of the year under review, liabilities totaling Rs. 66,636,350 of 308 instances not applicable to the year under review had been included in the relevant record.	Instances which are not applicable to the year 2020 have been included due to a printing error. It is informed that all commitments and liabilities included in the Record of commitments and Liabilities are applicable to the year 2020.	Only the liabilities applicable to the year should be stated.
(d) In terms of Financial Regulation 94 (1), expenditure or commitment shall not be incurred in the expectation that necessary authority or additional financial provisions will be received before actual payment falls due and according to the Financial Regulation 214, records of liabilities should be regularly examined by Authorizing Officers as well as Certifying Officers, to ensure the availability of funds and to see that bills are received regularly and settled promptly. Bill should not be accumulated for settlement in a lump sum later in the financial year. Nevertheless, value of liabilities identified during the year under review amounted to Rs. 1,122,379,832 and that value included 1,520 liability items valued at Rs. 227,525,925 not applicable to the year under review.	Delays from 01 to 02 months occur in settling bills. However, action will be taken to settle bills soon after the receipt of funds from the Treasury in every instance.	Action should be taken in accordance with the Financial Regulations.

2.3 Assurances to be made by the Accounting Officer

Even though the Accounting Officer should have assured on the following matters in terms of Section 38 of the National Audit Act No.19 of 2018, action had not been taken accordingly.

Audit Observation	Comment of the Accounting Officer	Recommendation
The Accounting Officer shall ensure that an effective internal control system for the financial control exists in Sri Lanka Navy 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 and that such review makes in writing and submits a copy thereof to the Auditor General. Nevertheless, statements were not furnished to audit to the effect that such reviews had been carried out.	Not replied.	Action should be taken in accordance with provisions in the National Audit Act.

2.4 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 analysed below.

Reference to Laws, Rules and Regulations	Observations to Non-compliance	Comment of the Accounting Officer	Recommendation
(i) National Audit Act No.19 of 2018.	Section 16 (2). Although draft annual performance report together with the annual financial statements should be furnished to the Auditor General, the draft annual performance report	Since instructions have been given to submit the Annual Performance Report within 150 days from the end of the relevant year, approved annual financial	Action should be taken in accordance with the provisions in the National Audit Act.

pertaining to the year under review had not been submitted. statements for the relevant years should be included in the preparation of performance report and the scanned copy of the Auditor General's summary report issued for the relevant year should be included therein, I agree with the observations.

(ii) Navy Act, No.34 of 09 December 1950. Income received for the Agriculture Fund maintained by the Sri Lanka Army is totally credited to the Funds and any amount thereof had not been paid as the royalty. Except for the Navy Agriculture Fund, the other Funds have been established with the use of member fees of the members. Any amount from the received income should be paid as royalty.

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

Financial Regulation 371

Exceeding the limit of Rs. 100,000 authorized by the Accounting Officer, the North Central Naval Command had obtained sub imprests without declared authority

It has been informed that steps have been taken to strengthen the internal control by taking action to obtain money only to the amount presented for the settlement of petty cash imprests.

Action should be taken in accordance with the Financial Regulations.

Financial Regulation 372

The Imprest and Sub-Imprest must be checked at irregular intervals, but not less than once every month by an officer delegated for the purpose by the Head of Department. Nevertheless, no such checking had been carried out by the North Central Naval Command.

Action has been taken to strengthen internal control by delegating powers to the Senior Sailor of the office to carry out relevant checking.

-Do-

2.5 Operating Bank Accounts

The deficiencies observed during the audit test check carried out on the maintenance of bank accounts are given below.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Bank reconciliation statement as at 31 December 2020 relating to the bank Account No. 7041345 had not been prepared.	The bank reconciliation statement as at 31 December 2020 relating to the bank Account No. 7041345 has been submitted.	Bank reconciliation statements should be submitted within the prescribed timeline.
(b) A number of 60 cheques valued Rs. 2,066,425 stated in the bank reconciliation statements as at 31 December 2020 had elapsed a period of 06 months. No action had been taken in terms of Financial Regulation 396 (d) in that connection.	Out of cheques that had elapsed a period of 06 months as at 31 December 2020, thirty three cheques worth Rs. 911,178 have been credited to the Government Revenue on 08 March 2021 and validity period of 06 cheques worth Rs. 72,642 has been extended. It is informed that action is being taken in terms of Financial Regulation 396 (d) with respect to the remaining cheques.	Action should be taken in accordance with the Financial Regulations.
(c) Value of unidentified deposits and unrealized cheques elapsed for more the one year amounted to Rs. 52,626,293 and Rs. 25,893,066 respectively.	Out of unidentified deposits elapsed for more the one year, a sum of Rs. 3,937,610 has been credited to the Revenue on 01 January 2021 and necessary steps are being taken to credit the other deposits to the Revenue.	Unidentified deposits should be immediately identified and necessary steps should be taken thereon.
(d) Value of unidentified payment elapsed for more than one month amounted to Rs. 4,938,922.	Out of unidentified payment elapsed for more than one month, a sum of Rs. 332,918 has been settled and action is being taken to identify other payments.	Unidentified payments should be immediately identified and necessary steps should be taken thereon.

3. Operating Review

3.1 Procurement

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) In terms of Guidelines 4.2.2 of the Government Procurement Guidelines, the Procurement Time Schedule form the point of commencement of the procurement process until the selection of a bidder is clearly indicated. Nevertheless, the Northern Naval Command had deviated from that procedure in the purchase of 11 Aluminum bars valued at Rs. 3,216,073.	Not replied.	Action should be taken in accordance with the Government Procurement Guidelines.
(b) In terms of Guidelines 5.3.1 of the Government Procurement Guidelines, Standard Bidding Documents should be used and in the purchase of goods under the shopping method, the Standard Bidding Document NPA/SBD/GOODS/01 should be used. Nevertheless, action had been taken deviating from that procedure.	The Sri Lanka Navy has used the Standard Bidding Document No. 3.4 for shopping method relating to the procurements in all the Naval commands.	-Do-
(c) In terms of Guidelines 6.2.2 of the Government Procurement Guidelines, even though minimum of 07 days should be given for calling for bids under the shopping method, Northern Naval Command had taken action deviating from that method in the purchase of Aluminum bars.	Even though 07 days had been given as the minimum period for calling for bids, due to imposition of quarantine curfew by the Government owing to Covid-19 epidemic, suppliers were unable to submit bids during the aforementioned period. Therefore, above step was taken due to uncertainty of the receipt of bids.	-Do-

3.2 Assets Management

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Even though each naval command of Sri Lanka Navy has vessels/ships in unusable condition for more than a period of 13 years, no action had been taken to dispose of those vessels/ships.	The number of vessels /ships in dysfunctional or condemned condition belonging to the Eastern Naval Command is 09 and one of those vessels has been repaired to operational condition at present.	Necessary steps should be expeditiously take for disposals.
(b) Unissued footwear worth Rs. 769,409 had been heaped up in the central uniform warehouse, Welisara since a period of year. Due to making purchases without ascertaining the requirements, footwear so purchased had become unfit for use.	Although total value of items that remained unissued over a long period at the central uniform warehouse was Rs. 3,311,388 according to the report of the internal audit carried out by the Internal Audit of the Sri Lanka Navy in 2020, that value was Rs. 769,409 as at 16 April 2021.	More consideration should be given on the requirement in the purchase of goods.
(c) Sri Lanka Navy was utilizing an extent of 437.2877 hectares of lands, owned by other Ministries and Departments and formal approval had not been obtained to use those lands. The period of utilization of certain lands had exceeded 08, 14 and 22 years.	It is agreed upon the information stated in the Auditor General's summary report and concurrence of the relevant ministries and departments is being sought to take over the relevant plots of lands.	Necessary action should be taken promptly to obtain formal approvals.

3.3 Management Weaknesses

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) A number of 214 items worth Rs. 52,454,510 ordered for requirements by the Northern, Southern and Eastern Naval	The supplier is informed by a letter and due to the reasons such as increase in prices of items, delay in the import,	Future steps should be taken in accordance with the agreement/order.

Commands had not been supplied even by 31 December 2020 and the delayed period during which certain goods/items had not been supplied as per the agreement/order ranged from 03 to 09 months.

discontinuation of production, substitution of similar items due to shortage of items in the market owing to Covid epidemic, steps were taken either to cancel the orders or make purchases in future. As such, completion of orders in the year under review was delayed.

- (b) There were 58 vehicles of which repairs had not been completed during the year under review and a delay of 06 months had exceeded in the Northern, Eastern and North Central Command.
- Out of the 58 vehicles of which repairs had not been completed during the year under review and had exceeded a delay of 06 months, 16 vehicles were owned by the Eastern Command and 05 of which had been repaired to operational condition at present while 04 other vehicles will be repaired to operational condition before the end of this month..
- Necessary repairs should be completed expeditiously.
- (c) There were 65 vehicles of which repairs had not been completed during the year under review and a delay of 06 months had exceeded in the North central and Southern Commands.
- Replies had not be given.
- Do-
- (d) Identified condemned and irreparable machines and equipment worth Rs.2,429,219 had been heaped up in the North-western, Eastern, Southern, North-east and Navy hospital Naval Commands.
- Necessary arrangements have been made to take proper action regarding condemned and irreparable vehicles belonging to the Eastern Naval Command.
- Condemned equipment should be immediately disposed of.
- (e) Even though 80 items of assets worth Rs. 44,161,710 which had been given to the outside institutions by the North central, Southern, North-western, Eastern and South-east Naval Commands for
- Since 72 items belonging to Eastern Naval Command are included therein, 18 files of those items have been completed and 13 have been cancelled and due to recording 04 items and 02 items twice out of the items stated in
- Necessary future steps should be taken in accordance with the agreement/order.

repairs should be handed over on completion of repairs by the end of the year under review, those had not been handed over up to date.

Commodore Superintendent of Logistics, a sum of Rs. 3,709,400 and Rs. 1,376,200 should be respectively deducted from the value shown in the audit paragraph.

- (f) Identified 18 dysfunctional or condemned ships/vessels had been piled up in the Northern, North-western and Eastern Naval Commands. The number of dysfunctional or condemned ships/vessels belonging to the Eastern Naval Command is 09 and one of those vessels has been repaired to operational condition. Condemned vessels should be expeditiously disposed of.
- (g) Forty six vehicles belonging to the Western Naval Command which should be handed over on completion of the repairs by the end of the year under review had not been so handed over by completing relevant repairs. There is no any false or disagreeable matters or the matters deemed unfavorable to the public interest by their publishing in the report prepared by the Command Automobile Engineering Department (Western). Necessary future steps should be taken in accordance with the agreement/order.

4. Human Resource Management

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) Within the civil staff, 428 or 28 per cent vacancies had occurred in primary, secondary and tertiary level posts.	Replies had not be given.	Necessary steps should be taken to fill the vacancies expeditiously.
(b) A number of 9075 posts or 07 per cent in the regular and volunteer staff of the Sri Lanka Navy had been in vacant and 1221 or 20 per cent of regular and volunteer sailors had fallen vacant.	Plans have been drawn for a period of 03 years from 2021 to 2023 according to the space facilities available for training of officers and sailors in the Sri Lanka Navy and thereby, action is being taken to fill 100.1 per cent vacancies of	-Do-

the officers and 95.67 per cent vacancies of the sailors by 31 December 2023.

- (c) There was an excess of 4564 or 230 per cent of sailors recruited under the special system. Even though the number of 4564 sailors recruited under the special system is an excess of that Division, it is maintained under the total of 53000 approved cadre of the Sri Lanka Navy. Excess sailors should be promptly absorbed to the approved cadre.
- (d) It is observed in the audit that higher efficiency can be achieved by granting promotions in time to the officers whose promotions have been delayed by way of expediting the procedure of granting promotions for the officers who have duly satisfied the qualifications for the promotions. Steps have already been taken to expedite the process of granting promotions to the sailors who have satisfied the prescribed qualifications as indicated in the audit report. Procedure of duly granting promotions should be expedite