

Head - 223 - Sri Lanka Navy

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Navy for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statements for the year then ended was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. My comments and observations on the financial statements of the Sri Lanka Navy was issued to the Accounting Officer on 21 May 2022 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 27 May 2022 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 2021, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

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

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

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

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

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

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional 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 Sri Lanka Navy's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

1.5 Report on Other Legal Requirements

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

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

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Performance

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

Audit Observation	Comments of the Accounting Officer	Recommendation
-----	-----	-----
(a) Even though according to the Treasury printout-SA-70, the value of imprest receipts amounted to Rs.55,119,766,551, it had been Rs.50,521,170,364 as per the	This difference has resulted in due to the change in code numbers.	The value of the Treasury printout should be tallied with the value of the consolidated trial

consolidated trial balance, thus observing a difference of Rs. 4,598,596,187. balance.

- (b) Even though according to the Treasury printout-SA-70, the value of settlement of imprests amounted to Rs.55,116,691,101, it had been Rs.55,129,866,509 as per the consolidated trial balance, thus observing a difference of Rs. 13,175,408. Necessary action is being taken to avoid such mistakes since the year 2022. -do-
- (c) Even though according to the Treasury printout-SA-71, the value of imprests received from the Treasury amounted to Rs. 52,544,883,159, it had been Rs.47,946,286,972 as per the consolidated trial balance, thus observing a difference of Rs. 4,598,596,187. Necessary action has been taken to rectify the said error occurred in accounting. -do-

1.6.2 Commercial Advance Accounts

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
-----	-----	-----
(a) According to information indicated in the Stores Advance Account on making payments of VAT to the Commissioner of Inland Revenue, the total value of sales (Excluding VAT) relating to the year 2021 amounted to Rs. 635,253,052. However, the value of sales (Excluding VAT) had been indicated as Rs.644,397,173 in the financial statements of the year under review, thus overstating the sales value in the financial statements by Rs. 9,144,120.	Monthly sales as well as advances received for sales have been adjusted after selling and the sales value has been brought to account.	Sales value should be accounted accurately.

- | | | |
|--|--|--|
| <p>(b) The sales value relating to the month of December 2021 in the Stores Advance Account amounted to Rs. 55,063,010 and after making relevant adjustments, the value of VAT paid for sales in the month of January 2022 was Rs.1,282,885. However, action had not been taken to disclose the said tax liability in the financial statements of the year under review.</p> | <p>The value of VAT amounting to Rs. 1,282,885 paid in the month of January has been included in the value of payable VAT of Rs. 3,155,443.29.</p> | <p>The tax value relating to the due period should be indicated in the financial statements.</p> |
| <p>(c) The value of advances granted by buyers to the stores, with a view to purchasing was Rs.53,283,813 as at 31 December 2021. The said value included the value of advances of Rs.1,467,799 granted exceeding 05 years. In addition to that, the value after 03 months of receiving advances was Rs.39,075,014. In selling the said receipt of advances, action had not been taken to adjust or settle properly to buyers.</p> | <p>Legal issues of the process of purchase and the delay in the process of importation exceeding 03 months had been reasons therefor.</p> | <p>Action should be taken to settle properly.</p> |
| <p>(d) Even though the value of quality test charges as at 31 December 2021 of the Stores Advance Account amounted to Rs. 86,000, according to the Ledger, the value thereof was Rs. 2,066,475 as at that date. Accordingly, a difference of Rs. 1,980,475 is observed in the values mentioned in the Financial Statement and the Ledger.</p> | <p>Even though the brokerage has been recorded in the Ledger as quality tests charges by mistake, it has been recorded accurately in accounting.</p> | <p>Values indicated in the financial statements and the Ledger should be tallied.</p> |

1.6.3 Property, Plant and Equipment

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>----- According to the statement of non-financial assets – Treasury printout SA 82, acquisition of capital assets</p>	<p>----- Action will be taken to account the assets accurately, which were acquired during</p>	<p>----- The value between the Treasury printout and the</p>

<p>during the year 2021 was Rs.1,462,396,608. Nevertheless, according to the statement of financial performance, acquisition of capital assets had been indicated as Rs.1,466,477,733, thus observing a difference of Rs. 4,081,125.</p>	<p>the year under review but not recorded accurately.</p>	<p>statement of financial performance should be tallied with each other.</p>
--	---	--

1.6.4 Balances in Advance Accounts

Audit Observation	Comments of the Accounting Officer	Recommendation
-----	-----	-----
<p>In comparing the total of summaries of individual balances classification with the balance of the Control Account, a difference of Rs.21,625,626 was observed and it was proposed to write off on the recommendations of the board of inquiry. Nevertheless, further action necessary therefor had not been carried out.</p>	<p>A committee of inquiry has been appointed by the Ministry of Defence to look into the manner of resulting the said difference and to obtain necessary recommendations and inquiries are conducted at present.</p>	<p>Measures for writing off should be expedited.</p>

1.6.5 Imprest Balance

Audit Observation	Comments of the Accounting Officer	Recommendation
-----	-----	-----
<p>The manner of settling (Through expenditure /in cash) unsettled sub-imprest and imprest valued at Rs.13,175,408 and Rs.32,640,758 remained as at 01 January 2021 respectively, to the Treasury had not been indicated in the Format ACA 3.</p>	<p>The relevant officers have been instructed to avoid such mistakes further.</p>	<p>It should be reported by recording as per relevant Formats.</p>

2. Financial Review

2.1 Utilization of Provision

The following deficiencies were observed in accounting recurrent expenditure relating to financial statements.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) In terms of Financial Regulation 50, it is the responsibility of the Accounting Officer to prepare estimates of expenditure as accurately as possible. However, provision of Rs. 1,335,024,500 had been made through the Financial Regulation 66 for 09 Objects including a Recurrent Object for which an estimated provision had not been made in the year 2021.</p>	<p>Action has been taken to transfer provision under F.R.66 for settling unexpected expenditure.</p>	<p>Estimates should be prepared as accurately as possible.</p>
<p>(b) The entire provision of Rs.69,300,000 made for 02 Recurrent Objects and 01 Capital Object had been saved even by the end of the year. Accordingly, intended objectives of allocating relevant funds had not been achieved.</p>	<p>Entire provision made for these Objects had been saved due to measures taken by the Government.</p>	<p>Action should be taken to utilize provision made.</p>
<p>(c) The entire provision made for the Expenditure Head 223 – Sri Lanka Navy by the Supplementary Support Services and Contingent Liabilities Project under the Expenditure Head 240 – Development Programme of the Department of National Budget in the first schedule in terms of Sub-section 6(1) of the Appropriation Act, No. 07 of 2020, had been saved and returned to the Department of National Budget. The provision of Rs.3,685 million allocated from the Supplementary Estimate bearing Authority No. 175</p>	<p>Action will be taken to return the remaining provision to the Department of National Budget to use as a contribution for other development activity of the country.</p>	<p>Necessary measures should be taken to utilize the provision made, to the maximum.</p>

for the Object 2101 - Acquisition of Vehicles, had not been totally utilized and the entire provision had been returned. The Authority No. 175 had been cancelled on 30 December 2021 and provision required for the acquisition of plant and machinery for commitments incurred so far had been made under Authority No. 1063.

- | | | | |
|-----|---|---|------|
| (d) | Provision of Rs.3,842.26 million had been made from the Supplementary Estimate bearing Authority No.175 for acquisition of plant and machinery under the Object 2103 and out of that, only a sum of Rs.43.03 million had been utilized while provision of Rs.3,799.23 million had been saved. Such savings of provision had been settled to the Department of National Budget and the Authority No.175 had been cancelled and provision of Rs.1,427.26 million had been made under the Authority No.1063 for commitments incurred so far. However, the amount spent out of the said provision had been Rs.43.03 million, thus indicating savings of Rs.1,384.23 million whilst 97 per cent of the provision made had not been utilized. | Provision made had been returned to the Department of National Budget to use for other development activity of the country. | -do- |
| (e) | Provision made by the Supplementary Estimate for 02 Recurrent Objects was Rs. 100,000,000. The said amount had not been fully utilized and returned to the Department of National Budget. | Provision made by the Supplementary Estimate had not been fully utilized. | -do- |

2.2 Incurring of Liabilities and Commitments

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Even though all commitments and liabilities entered into in the year under review should be indicated under Note (iii), it was observed at the test checks on Capital Objects of the year 2022 that 19 vouchers valued at Rs. 22,592,030 had not been indicated as liabilities in the financial statements of the year under review.	Relevant Divisions have been briefed to avoid such mistakes hereinafter.	Liabilities should be indicated accurately in the financial statements.
(b) Commitments and liabilities valued at Rs. 4,092,757 relating to the year under review which were not indicated in the statement of commitments and liabilities, had been paid by provision of the year 2022.	Action will be taken to brief the responsible divisions thereon and to submit an accurate statement of commitments and liabilities.	Action should be taken to settle the commitments and liabilities of the relevant year during the same year itself.

2.3 Utilization of Provision granted by other Ministries and Departments

Audit Observation	Comments of the Accounting Officer	Recommendation
The total provision granted to the Sri Lanka Navy as a representative of other Ministries/Departments amounted to Rs.637,879,410 and the actual expenditure had been Rs. 402,986,455. Accordingly, the provision utilized was 59 per cent.	Failure in settling vouchers duly due to non-receipt of adequate imprests had been the reason for the said difference.	Action should be taken to utilize provision to the maximum.

2.4 Non-compliance with Laws, Rules and Regulations

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

Reference to Laws, Rules and Regulations	Observation Non-compliance	Comments of the Accounting Officer	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 371 (2)	Advances had been issued to the designation or to the division instead of issuing to the name of the officer.	It has been informed that they should be issued only to the Staff Officers.	Action should be taken in accordance with laws, rules and regulations.
(ii) Financial Regulation 371 (2) (b)	Even though advances obtained should be settled immediately after completing the relevant purpose, contrary to that, a delay from 09 days to 100 days had occurred for settling those advances.	Action will be taken to give instructions to responsible officers who obtained advances.	-do-
(iii) Financial Regulation 371 (4)	No Sub-Imprest should be used for purposes for which it would have been improper for the Accounting Officer himself to have used it. However, the entire amount or most of Ad hoc Sub-Imprest obtained in 23 instances had been resettled in cash. Moreover, the period in which the relevant moneys had remain dormant was from 06 days to 09 months.	Relevant Authorities have been briefed to implement the process of issuance and settlement of Ad hoc Sub-Imprest according to a proper methodology in a manner of not arising irregularities.	-do-

- | | | | | |
|------|---|---|---|------|
| (iv) | Financial
Regulation 504 | When a Trading Advance Account is maintained, monthly test reports on trade debtors, stocks and stores and the provisional Profit and Loss account and the monthly account summary should be prepared as at the end of each quarter and forward them to the Chief Accounting Officer with a copy to the Auditor-General. However, action had not been taken accordingly. | Quarterly account statements have been already prepared and action will be taken to submit them to Audit. | -do- |
| (v) | Financial
Regulation 507 | A physical verification of stocks-in-hand on 31 st of December each year should be made for the purpose of bringing the value thereof into the annual accounts. Even though the Board of Survey reports on the said stock verifications should be forwarded to Audit along with the statements of accounts, the Board of Survey reports on the verification of stock of Rs.137,844,869 as at 31 December 2021 in the Stores Advance Account had not been submitted to Audit. | Action will be taken to submit stock verification reports along with final statements of account. | -do- |
| (b) | State Accounts
Guidelines
No.2021/03 of 26
November 2021 | Even though a note on revisions made in the format for preparation of financial statements and readjustment of relative values of the preceding year, should be submitted on the basis of reporting of financial statements, action had not been taken accordingly. | Action will be taken to rectify the said errors. | -do- |

2.5 Deposit Balances

Audit Observation	Comments of the Accounting Officer	Recommendation
----- The lapsed balance of the General Deposit Account not credited to the Government Revenue under Account No.7041349 belonging to the North Central Naval Command was Rs.218,518 and the period lapsed ranged between 24 months and 58 months.	----- The General Deposit balance not credited to the Government Revenue has been settled in March 2022.	----- Action should be taken to credit lapsed revenue to the Government Revenue.

2.6 Imprest Account

Audit Observation	Comments of the Accounting Officer	Recommendation
----- In terms of paragraph 2.4 of Guideline 06 of the Public Finance Circular No.02/2020 of 28 August 2020 and Financial Regulation 371, as revised by Financial Regulation 371(5), it had been indicated that whatever the ad hoc sub-imprest, any part thereof should not be withheld as at 31 December of the financial year in which it is issued in settlement of the said imprest. However, an unsettled sub-imprest balance of Rs.3,075,450 remained by the end of the year under review.	----- The Department of Treasury Operations has been informed that the ad hoc sub-imprest of Rs.3,075,450 granted by the Department of Treasury Operations has to be carried forward to the financial year 2022 without settling in the year 2021.	----- Action should be taken in terms of circular provisions.

2.7 Advances to Public Officers B Account

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Other recoverable loan balances exceeding 05 years, loan balances of officers who have left the service and loan balances of retired officers had been Rs.18,180,159, Rs.673,693 and Rs.481,754 respectively.	<p>Inquiries are being carried out relating to recovery of other loan balances through a new committee appointed by the Ministry of Defence and relevant reminders have been issued relating to recovery of loan balances of officers who have left the service.</p> <p>Moreover, as reports of Board of Inquiries against the 05 retired officers are incomplete, the relevant balances have to be further shown as balances due in the Account.</p>	Necessary measures should be taken to expedite recovery of loan balances due to the Government.
(b) The balance recoverable from officers who have transferred out to Government Departments/Ministries was Rs.105,959 and the period unrecovered had exceeded 04 years.	Loan balances of the two officers who were transferred out to Local Authorities are being recovered as installments from the salary.	-do-

3. Operating Review

3.1 Non-performance of Functions

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Sixteen foreign purchase items to the agreement/order value of Rs.528,005,056 could not be purchased due to non-receipt of provision for the year under review and lack of foreign currency for opening letters of credit.	Purchases have been suspended due to lack of foreign currency for opening letters of credit and inadequate provision.	Action should be taken by paying attention towards required provision.
(b) Uniforms to the order value of Rs.237,472,647 had not been supplied on the due date as a result of failure by the supplier to supply stocks and unsettlement of the final bill.	Uniforms could not be supplied on the due date as a result of failure by the supplier to supply stocks, extension of the period of supply of stocks and unsettlement of the final bill.	Necessary measures should be taken to comply with the agreement.

3.2 Projects abandoned without completing

Audit Observation	Comments of the Accounting Officer	Recommendation
The Breakwater Project of the Oorani Fishery Harbour for which the North Naval Command has incurred an expenditure of Rs.8,184,704, had been abandoned halfway.	The Breakwater Construction Project of the Oorani Fishery Harbour has been temporarily discontinued and steps have been taken to brief the District Secretary and to repay the remaining amount.	Action should be taken to utilize public monies economically and effectively.

3.3 Assets Management

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
-----	-----	-----
(a) The number of ships/vessels of which repairs were not completed even by 31 December 2021 had been 09 and the period relating thereto had exceeded from 05 to 17 months.	Spare parts necessary for repairs have been ordered and relevant repairs are being carried out.	Necessary steps should be expeditiously taken to complete repairs and utilize them.
(b) Taking over activities of buildings of 16,609.5 square feet in extent remaining idle, had not been completed even up to now and the period relating thereto had exceeded 05 years as well.	Activities of taking over are still in progress.	Necessary steps should be expeditiously taken for proper take over.
(c) Thirteen motor vehicles belonging to the Navy had been given to external parties.	Have been given on temporary basis.	Action should be taken to recover resources given to external parties.
(d) Taking over activities of buildings of 25,502 square feet in extent belonging to the Ceylon Electricity Board had not been completed from a period of 05 years.	Taking over activities are still being carried out.	Taking over activities should be properly carried out.
(e) It had been recommended to take appropriate action relating to repairs of 07 vehicles belonging to the Wayamba Naval Command identified as economically unproductive. However, further action thereon had not been taken.	The Navy Headquarters has been informed to take appropriate action on these 07 vehicles.	Action should be taken to expedite necessary further measures for assets of which repairs are economically unproductive.

- (f) The lands belonging to other Ministries and Departments utilized by the Sri Lanka Navy were 435.4223 hectares in extent and formal approval had not been obtained for utilization of those lands. Moreover, the period of utilization of certain lands had exceeded 08, 14 and 22 years.
- Further action necessary for obtaining formal approval is being taken.
- Formal approval should be obtained relating to utilization of lands.

3.4 Management Weaknesses

 The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
-----	-----	-----
(a) Investigations commenced relating to the financial misappropriation of Rs.8,314,236 occurred in the ammunition store before 05 years, had not been concluded even up to now.	The case is due to be heard again on 24 June 2022.	Necessary measures should be taken to expedite and conclude investigations.
(b) No attention had been paid towards the follow up action on the handing over of 41.012 of water gel and 542 units of plain detonator to the Sri Lanka Police, seized in a raid by the Sri Lanka Navy during the year under review in the investigation on possessing illegal explosives.	Instructions have been given to coordinate with the relevant Police station or the Fishery Inspector's Office to obtain follow up reports.	Follow up action should be taken on measures relating to illegal explosives seized and handed over to the Police.

- | | | | |
|-----|--|--|---|
| (c) | Surcharge of Rs.685,792 had to be paid as electricity bills received within the due period were not paid. | Not relevant. | Action should be taken to make due payments within the due period so as to avoid paying surcharge. |
| (d) | Despite having obtained approval from the Department Procurement Committee for purchase of required drugs for the Navy through the Medical Supplies Division, the said drugs have been purchased from local suppliers at high prices and as such, an overpayment of Rs.33,400,776 had to be made therefor. | A Board of Inquiry and an Academic Board have been appointed to take necessary measures and future action will be taken according to recommendations made by those Boards. | Action should be taken to obtain necessary facilities from the Medical supplies Division at every possible opportunity. |

4. Achievement of Sustainable Development Goals

Audit Observation

Even though 11 targets had been identified for achievement of sustainable development goals, an evaluation according to percentage on the manner of gaining victories and taking up challenges, had become practically difficult.

Comments of the Accounting Officer

Action will be taken to brief relevant divisions relating to targets to be reached.

Recommendation

Necessary measures should be taken for achievement of goals.

5. Human Resource Development

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) There were 487 vacancies representing 25 per cent in the posts of Primary, Secondary and Tertiary Levels in the civil staff.	As recruitments have been suspended until further notice, staff could not be recruited for the vacancies in the civil staff of the Navy.	Vacancies should be filled considering the requirement.
(b) There were 256 and 6,102 vacancies in the posts of Navy Officers and Naval posts representing 7 per cent and 12 per cent respectively.	Action will be taken to fill these vacancies in the ensuing years.	-do-