

Head 224 - Sri Lanka Air Force

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Air Force 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 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. The Summary Report containing my comments and observations on the financial statements of the Sri Lanka Air Force was issued to the Accounting Officer on 08 June 2022 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Department was issued to the Accounting Officer on 06 July 2022 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared give a true and fair view of financial position of the Sri Lanka Air Force as at 31 December 2021 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

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

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

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that 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 Air Force is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

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 Air Force and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

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

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

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

1.5 Report on Other Legal Requirements

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

- (a) The financial statements are in consistent with those of the preceding year.
- (b) Recommendation made by me on the financial statements related to the preceding year had been implemented.

1.6 Comments of the Financial Statements

1.6.1 Accounting Deficiencies

(a) Receipt of Income

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(i) Six receipts indicated by a collection of aircraft rental income totaling Rs. 3,301,895 pertaining to the year under review had not been stated as the income of that year.	The aircraft rental income of Rs. 3,301,895 was received for the commercial air operations carried out in December 2021 and that money has been brought to account in January 2022.	Income pertaining to the current year should be correctly identified and brought to account.
(ii) Although the total of aircraft rental income related to the Revenue Head 20.03.02.16 was Rs. 13,402,123 during the year under review according to the reports of the Helitours Ltd., it had been brought to account as Rs. 10,574,308 in the annual financial statements (Form ACA-F). Accordingly, the income of the year under review totaling Rs. 2,827,815 had been understated in the accounts.	Helitours Ltd. had credited aircraft rental income of Rs. 10,100,225 to the Government Account during the year 2021 of which aircraft rental income of Rs. 3,301,896 was related to the December 2021 and that money has been brought to account in January 2022.	- Do -

(b) Capital Expenditure

The following observations are made in this connection.

Audit Observation	Comment of the Accounting Officer	Recommendation
(i) According to the statement of financial performance of the year under review, although capital assets acquisition cost included in the capital expenditure was Rs. 1,265,628,114, that value had been stated as non-financial assets acquisition expenditure of Rs. 935,582,119 in the Form ACA 6. Accordingly, non-financial assets acquisition and purchasing amounting to Rs. 330,045,995 had not been included in the statement of non-financial assets.	According to the statement of financial performance, a sum of Rs. 285,642,470 contained in the value of Rs. 1,265,628,114 stated as the acquisition of assets was the expenditure related to purchasing made on work-in-progress under the Object No.2014.	Financial statements should be prepared in accordance with the instructions and guidance specifically stated in the State Accounts Circulars.
(ii) In terms of Form ACA 6, the balance of Rs. 929,278,775 that existed as work-in-progress as at 31 December 2020 had been adjusted as the opening balance of the year under review.	It has been reported according to ACA 06 in the State Accounts Guidelines No. 2021/03 issued by the State Accounts Department on 26.11.2021.	- Do -

(c) Property, Plant and Equipment

The following deficiencies were observed in regard to accounting for property, plant and equipment.

Audit Observation	Comment of the Accounting Officer	Recommendation
(i) Although initial cost relating to new assessment of lands should be eliminated through the transfers, elimination of sums totaling Rs. 329,000,000 had been included as disposal in the Form ACA 6. Accordingly, an erroneous revelation had been made by the Format as an elimination of lands.	The State Accounts Department had not done necessary updates and provided facilities for making additions or including relevant values as a transfer in the necessary software for entering assets online and it has attributed to this situation. Action will be taken to apprise the State Accounts Department regarding that defect.	Financial statements should be prepared in accordance with the instructions and guidance specifically stated in the State Accounts Circulars.

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| <p>(ii) Although the initial cost of Rs. 20,594,200 of 08 buildings that had been demolished without obtaining authority as at the end of the year under review should be eliminated from the building balances in Form ACA 6, it had been included in the closing balance of buildings as at 31 December 2021. Accordingly, assets which were not physically available had been disclosed by Form ACA 6.</p> | <p>Eight buildings with initial cost of Rs. 20,594,200 have been demolished by the end of the year under review, this matter has been referred to the Ministry of Defense in order to obtain relevant approval for this demolition.</p> | <p>- Do -</p> |
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1.6.2 Lack of Audit Evidence

Audit Observation

A loan register inclusive of loan balances of the officers who were transferred, those arrived on transfers, died, retired and those who vacated the service had not been maintained. Accordingly, outstanding loan balances of Rs. 9,707,517 that continued to exist for more than a period of 05 years could not be confirm in the audit.

Comment of the Accounting Officer

A register had not been prepared for this purpose in the Department and a register has been prepared at present.

Recommendation

A register correctly depicting the lapsed and outstanding loan balances of the public officers should be maintained in an updated manner and action should be taken to recover the dues.

2. Financial Review

2.1 Revenue Management

The following observations are made in this connection.

Audit Observation	Comment of the Accounting Officer	Recommendation
a) In terms of Financial Regulations 85 (1), although the Accounting Officer should take steps to prepare revenue estimates as realistic and accurate as possible in their preparation, the aircraft rental income estimate of the Revenue Head 20.03.02.16 had been revised by abating it from 33 per cent to 91 per cent during the year under review as well as in the 05 preceding years. It was observed that the abatement made in the year under review was 91 per cent as compared with the 05 preceding years.	Action will be taken to prepare more realistic estimates in the future and the fact that limitation of the number of aircrafts, establishment of private airlines with low costs and the Covid 19 epidemic has contributed to this situation.	Action should be taken to prepare more realistic and accurate estimates in the preparation of revenue estimates and timely and efficient programme should be implemented to recover that revenue.
b) According to the Revenue Head 20.03.02.16 of aircraft rental income earnings, there observed an unfavourable gradual decrease in the annual net income earnings of the Sri Lanka Air Force from the year 2016 up to the year under review. Compared to the year 2016, the earnings had varied from 24 per cent to 94 per cent with an unfavourable abatement.	The limitation of the number of aircrafts, establishment of private airlines with low costs and the Covid 19 epidemic has been the main reason for gradually decrease the aircraft rental income from the year 2016 to 2021.	The institute should put in place a specific methodology to collect the revenue due and accordingly, action should be taken to properly recover the revenue.

2.2 Expenditure Management

The following observations are made in this connection.

Audit Observation	Comment of the Accounting Officer	Recommendation
a) In terms of Financial Regulation 50 (ii), although the Accounting Officer shall ensure that the estimates have been prepared as completely and accurately as possible, action had not been taken accordingly. Therefore, provisions had to be additionally made by supplementary estimates and also, provision had to be transferred under F.R.66 and 69. Accordingly, the limit in the original estimates of 02 recurrent Objects and 04 capital Objects had been increased from Rs.7 ,000,000 to Rs.3,196,256,600 or from 3.9 per cent to 140 per cent by supplementary estimates.	Failure to complete works relating to the additional provisions of two recurrent Objects as planned due to Covid situation, and writing off of provisions totaling Rs.2771 million received by four capital Objects according to the Cabinet papers has attributed to this situation.	The Accounting officer should take steps to prepare correct estimates relating to the expenditure of the Objectives in terms of Financial Regulation 50 (ii)
b) According to the Financial Regulation 74, the Head of the Department shall recognize the nature and extent of the service, the total cost thereof, and the amount of additional financial provision required when making requests for supplementary provisions. According to the Financial Regulation 78 (3) (e) (ii), provision should be made for the amount necessary for further expenditure on the same service during the rest of the Financial Year in which the Supplementary Estimate is presented. However, as action had been taken contrary to the above terms, supplementary estimates had been requested without being specifically recognized the requirements and therefore, having cancelled 02	Due to the reasons such as not making second payment as planned in the year 2021 due to delay in the issuance of letters of credit to repair Kafir aircrafts, failure to carry out procurement activities due to Corona epidemic, a sum of Rs.2010 million out of the supplementary provisions was returned to the General Treasury and it resulted in this situation.	Action should be taken to make necessary provisions in order to obtain necessary funds to incur expenditure in terms of Financial Regulations by correctly identifying the additional provision requirements of the institute.

supplementary provisions totaling Rs. 3,820,256,600 by the end of the year under review, supplementary provisions of Rs. 1,810,256,600 had been obtained instead. Accordingly, supplementary provisions of Rs. 2,010,000,000 had been unfavourably abated by the end of the year under review.

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| <p>c) An action plan and a Procurement Plan should be prepared in accordance with the annual estimate and having requested imprests accordingly, plans should be implemented. Further, the provisions received should be used for the intended purposes. However, due to not taking measures accordingly, provisions of Rs. 9,940,088,786 or 49 per cent of the total provisions of Rs. 20,488,316,600 received for 17 Objects including 10 capital Objects and 07 recurrent Objects had not been utilized.</p> | <p>Due to the reasons such as Covid epidemic situation, writing off of the planned expenses as per the Cabinet paper, temporary suspension of Colombo Port development projects due to non-completion, the provisions were underutilized.</p> | <p>Action should be taken to use the estimated provisions so as to achieve the expected objectives as far as possible.</p> |
| <p>d) The total provision of 06 Capital Provisions had not been used in Objects amounting to full due to the reasons such as Rs. 3,705,500,000 had been entirely Covid epidemic situation, saved without being used. Out of that sum, provisions of 04 Objects amounting to Rs. 1,231,500,000 had been obtained by the annual estimate and provisions of 02 Objects amounting to Rs. 2,474,000,000 had been obtained by supplementary estimates.</p> | <p>Due to the reasons such as Covid epidemic situation, writing off of the planned expenses under the Cabinet paper, non-receipt of guidance with regard to the Pakiathan loan scheme and cancellation of the 03 aircrafts renovation project.</p> | <p>- Do -</p> |

2.3 Commitment and Liabilities

The following observations are made in this connection.

Audit Observation	Comment of the Accounting Officer	Recommendation
a) According to the Financial Regulation 94 (2), although the maximum limit of the commitments permitted to be incurred for the Object No. 224-1-3-1205 is Rs. 135,240,833, as per the statement of liabilities presented by the Note (iv) of the Financial Statement, the value of commitments and liabilities is Rs. 393,875,916. Accordingly, commitments and liabilities had been incurred in excess of the maximum commitment limit by Rs. 258,635,033.	The reason for incurring commitments exceeding the limit is to failure to complete the procurement process in 2021 by incurring commitments due to the problems of having to take a long time for procurement activities while importing materials such as ammunition, chemicals, EJECTION SEAT CARTRIDGES from abroad, as well as due to matters beyond the control of the Sri Lanka Air Force.	Financial statements should be prepared in accordance with the instructions and guidance specifically stated in the State Accounts Circulars and the Financial Regulations.
b) According to the agreement entered into between the Secretary to the Ministry of Defence and the foreign company named Israel Aerospace Industries Ltd on 02 May 2021, out of the contracted value of US\$ 49,570,057 for the repair of 05 Kafir aircrafts, US\$ 7,435,508 (Rs.1,509,408,124) had been paid during the year under review. The remaining commitment liability of US\$ 42,134,549 (Rs.8,511,178,898) as at 31 December 2021 had not been included in the statement of commitments and liabilities.	Only the amount to be paid in the year 2021 has been made as a commitment of the Object. The balance has been made as the commitment for the year 2022. As the funds for the payment of repair charges of 05 Kafir aircrafts are received in installments year by year, it is not necessary to record as liabilities.	In the preparation of financial statements, all liabilities and commitments pertaining to the year under review should be included in the statement of liabilities and commitment.

2.4 Issuance and Settlement of Advances

The following observations are made in this connection.

Audit Observation	Comment of the Accounting Officer	Recommendation
a) There was an outstanding loan balance of Rs. 15,738,441 relating to the Advances to Public Officers "B" Account as at 31 December 2021 and 96 per cent or Rs. 15,048,421 of this total outstanding loan balance contained the outstanding loan balances of the civil officers.	Activities such as dispatching necessary letters for the recovery of outstanding loan balances, calling for records of assets through the Divisional Secretary, and sending letters by ascertaining addresses from the Election Office were carried out. Due to absence of any response, activities such as seeking Attorney General's advice, taking legal actions regarding the outstanding property loans, considering the possibility for writing off the outstanding loan balances at the end of all activities, and accounting for the unaccounted payments by obtaining information of the deceased and retired officers from the Department of Pensions have been carried out.	An efficient and effective system should be developed and loan details should be maintain in an updated manner in order to recover the balances due from the officers expeditiously.
b) As stipulated in the Section 4 of Chapter xxiv of the Establishments Code, in case it is not possible to recover the advance balances due from the officers who vacated the service, legal proceedings should be followed to recover the dues from the sureties or the heirs. Nevertheless, without being taken action accordingly, loan balances of Rs. 15,738,441 due from the deceased/ retired/ service vacated civil officers had been stated as outstanding loan balances and it included loan balances of Rs. 9,707,517 that remained outstanding for more than 05 years.	Activities such as dispatching necessary letters for the recovery of outstanding loan balances, calling for records of assets through the Divisional Secretary, and sending letters by ascertaining addresses from the Election Office were carried out. Due to absence of any response, activities such as seeking Attorney General's advice, taking legal actions regarding the outstanding property loans, considering the possibility for writing off the outstanding loan balances at the end of all activities, and accounting for the unaccounted payments by obtaining information of the deceased and retired officers from the Department of Pensions have been carried out.	An efficient and effective system should be developed and loan details should be maintain in an updated manner in order to recover the balances due from the officers expeditiously.

2.5 Operating Bank Accounts

Observation	Comment of the Accounting Officer	Recommendation
It was observed in the examination of bank statements as at 31st December 2021 that there were 5 unidentified deposit balances worth totalling Rs.281,561,099 (USD 1,393,866.83) in a bank current account of which deposits worth Rs.53,418,900 (USD 264,450) had not been identified even as of 25 March 2022.	A report regarding the foreign currency (US Dollars) credited to the Sri Lanka Air Force's foreign currency bank account has not been yet received from the United Nations Organization and the United Nations has been informed through the Ministry of Defense regarding the relevant credits.	Unidentified credits in bank statements should be promptly identified and included in the accounts.

2.6 Non-compliance with Laws, Rules, Regulations

Reference to laws, rules etc.	Observation	Comment of the Accounting Officer	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) 128 1 (b)	The Accounting Officer should take action to determine the exact fees due to the government. However, the validity period for the value assessed by the Valuation Department had been exceeded in charging the economic rent of 316 officer residential houses at Katunayake Air Force Base Camp. Rent had been charged on the old assessment for more than 05 years.	A new assessment report was obtained on 15 December 2021 and forwarded to the Salary and Records Division on 31.12.2021 for proper action.	That the Accounting Officers should take action to determine the charges due to the government as per the Financial Regulations.

- (ii) 128 (2) e Although the Revenue Accounting Officers should make special arrangements for collection of arrears of revenue due to the Government, a total of Rs. 12,674,073 aircraft rental income from 10 government institutions and 02 private institutions remained in arrears to the Sri Lanka Air Force with a time delay between 3 and 18 years as at the end of the year under review.
- Approval has been sought from the Ministry of Defense to eliminate it from the books. In reply, the Secretary to the Ministry of Finance has been informed to call the secretaries of the relevant ministries and to do further investigations. The reminder letter has been referred to the Defense Ministries to eliminate the revenue in arrears from the books.
- That the Revenue Accounting Officer should put in place an efficient programme to collect the arrears of revenue due to the government without delay.
- (iii) 231 (1) Although all the details should be included in the payment voucher so that mistakes can be found without looking at any other document as far as possible, deviating from those terms, the total amount of Rs. 4,566,882 paid in 21 instances in the year under review for refreshment expenses, had been paid to the Officers' Mess through the Expenditure Head 224-1-2-1203.
- This situation existed due to reasons such as security and confidentiality in the providing refreshments for the Sri Lanka Air Force. Arrangements have been made to correct this situation from August 2021.
- All the details to be included in the payment voucher as per the Financial Regulations should be included.
- (b) Section 5.2 of Chapter xix of the Establishments Code.
- Although married officers who are not entitled to the scheduled housing should be charged 12 ½ per cent of their salary, the relevant rent of the officers' housing related to Colombo Air Force Base and Katunayake Air Force Base had not been charged accordingly. Accordingly,
- According to Ministry of Defense letter D/520/ET/11/3 dated 14 December 2006, ten percent of basic pay was charged from the service personnel living in matrimonial homes as house rent.
- According to the provisions of the Establishments Code, the fees to be charged to the government should be identified and included in the Government revenue.

due to the charging of 10 per cent of the economic rent to officers who were not entitled to the scheduled housing, the government lost housing rent income of Rs. 3,626,103 for 221 officers' houses in Air Force Base Colombo in the year 2021 and the government had lost Rs. 12,635,218 in house rent for 302 houses in Katunayake Air Force Base Camp in the year 2021.

3. Operating Review

3.1 Procurements

The following observations are made.

Observation	Comment of the Accounting Officer	Recommendation
<p>(a) A sum of Rs.5,256,425 had been paid from the SLAF Command Welfare Fund for providing hotel accommodation to the relevant local/foreign officials who participated in the 70th anniversary of the Sri Lanka Air Force and then reimbursed from the expenditure head of the Air Force. However, this supply service had been done without following the tender procedure. Accordingly, it was not possible to confirm during the audit that the services have been procured at minimum cost as per Guideline 1.2.1 (a) of the Government Procurement Guidelines.</p>	<p>Due to the reasons such as the confirmation of the arrival of foreign representatives to the 70th anniversary of the Sri Lanka Air Force a few days ago, failure to comply with the procurement process due to the Covid epidemic, unable to get hotels with credit facilities, taking care of the interests of the visitors in providing accommodation facilities, the procurement procedure could not be followed.</p>	<p>Procurement activities should be done in accordance with the procedures specified in the Procurement Guidelines.</p>

(b) In terms of Guideline 4.3.3 of the Government Procurement Guidelines, the revision of the total cost estimate should be approved by the Sri Lanka Air Force, whereas due to preparing the original cost estimate of Rs.900,000 realistically when purchasing Diathermy machine worth Rs.1,125,000 to Gwanpura Hospital on 07 July 2020, it had been revised to Rs.1,125,000 without obtaining the approval of the members of the procurement committee and only with the approval of the chairman of the procurement committee.

Procurement activities should be done in accordance with the procedures specified in the Procurement Guidelines.

(c) Sums totaling US \$ 758,347.08 (Rs. 153,183,110.16) comprising US \$ 536,000, US \$ 130,525.28 and US \$ 91,821.80 had been paid as new purchases for foreign repairs, repair value, scrap value respectively on 37 occasions during the period from 2004 to 2014. Similarly, 64 aircraft spare parts and 07 aircraft spare parts of which value was not mentioned had not been received to the Air Force since 7 to 17 years.

Aircraft spare parts have been sent with the procurement approval. Investigations have been referred to a court for recommendations. Appropriate action is to be taken once the recommendations are approved.

Proper supervision of the assets sent abroad should be maintained and an efficient system should be implemented to repair and recover those assets.

3.2 Asset Management

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) The fuel dispensing pump purchased at the cost of Rs. 500,000 on 22 September 2016 to the fuel storage section of the Katunayake Air Force Base Camp remained idle for nearly 05 years without any use. The warranty period of that machine had expired on 22 September 2018.	This has been kept in the Katunayake main stores in order to use to ensure uninterrupted fuel issuance in case of any fuel dispensing pump becomes dysfunctional and for use at any time to replace such dysfunctional fuel pump as it takes a long time to meet the requirement by ordering it from abroad.	Assets purchased by the institute should be used efficiently and effectively.
(b) In terms of the provisions of paragraph 12 of the State Finance Circular No. 02/205 dated 10 July 2015, the vehicles that have been identified as to be disposed of should be disposed of year by year. Nevertheless, contrary to those provisions, 61 vehicles in Sri Lanka Air Force Base Camp Katunayake vehicle Repair and Disposal Section had not been disposed of since 06 years.	Initial activities relating to the disposal of 61 vehicles have been carried out. It is informed that the final report is being prepared at present and necessary arrangements will be made to hand it over to the Ministry of Defense immediately.	Assets to be disposed of should be correctly identified and disposed of in due time as per the circular provisions.
(c) Thirty seven officers' quarters in relation to Katunayake Air Force base camp remained in a dilapidated and unusable condition for a period from 02 months to 11 years. Accordingly, due to the 37 officers' quarters were dilapidated and not repairing and providing them for residence while there were 102 officers on the waiting list for the officers' quarters, the amount of Rs. 5,718,900 that could have been recovered by the government as the building rental income was lost.	Although this camp has submitted proposals for A&I programmes in the year 2020 and 2021 in order to get necessary provisions for the renovation of the officers' quarters, those proposals have not been approved due to financial constraints. Any officer's quarters that have been handed over to the work service division for renovation have not been properly repaired and handed over.	Arrangements should be made to repair the assets that need to be repaired and renovated through an efficient method of the institute.

(d) In terms of Finance Regulation 128 (1) (b), the Accounting Officer shall take measures to properly determine and recover the fees due to the Government in full. Contrary to those terms, the Government Chief Valuer had assessed the monthly rent in giving 15 government buildings in Katunayake Air Force Base Camp and Colombo Air Force Camp to external parties. Nevertheless, according to the instructions of the Director of Administration of the Sri Lanka Air Force, part of the agreed value was credited as Government Revenue and the remaining money was credited to non-public funds. Therefore, the Government had lost revenue totaling Rs. 11,596,650 from January to November 2021.

The revenue received by the Sri Lanka Air Force by providing assets on lease basis to external parties has been credited to the Government Fund. The parties concerned have been informed to act in accordance with the assessment report issued by the valuation department.

The Accounting Officers should take action to accurately determine and recover the fees due to the government in full as per the Financial Regulations.

(e) In terms of Paragraph 5 of Air Force Order No. 852 dated 30 November 2011, internal funds had been established at the Sri Lanka Air Force Headquarters, various camps and units. The physical and human resources of the Sri Lanka Air Force had been used for the operational activities of these funds and for the profit-making projects operated by the funds. It was further observed that as these internal funds had not been established as statutory funds in terms of Financial Regulation 154, the affairs of those funds were not subject to the control of the Treasury and the Parliament of Sri Lanka.

Not commented.

According to the provisions of the Constitution of the Democratic Socialist Republic of Sri Lanka and as per the directives of the meeting of the Committee on Public Accounts held on 24 June 2016, it is necessary to set up a mechanism to streamline parliamentary supervision of the operations of profit generating projects.

3.3 Losses and Damages

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) The statement of losses and waivers to be submitted in accordance with note (1) of 06 of the State Accounts Guides No. 2021/3 of the Director General of the Department of State Accounts dated 26 November 2021 (losses under F.R. 106/113) shall disclose the losses to be further recovered or written off in the annual financial statement. Contrary to that term, the total amount of Rs.386,194,141 related to 154 cases of losses further to be recovered or written off and arising from the operational activities of the Sri Lanka Air Force as at 31 December of the year under review had not been disclosed in the annual financial statements.	No damages or losses falling under Financial Regulations 102,106,113 have been reported during the year 2021.	Financial statements should be prepared in accordance with the guidelines specifically set out in the state accounts circulars and the Financial Regulations.
(b) The value of the loss that had been approved to be written off from the book under Financial Regulation 109 on 21 October 2021 by the Secretary to the Treasury in relation to accident caused during landing of MI-17(SMH-4415) helicopter is Rs. 105,255,389 and it had not been shown in the Statement of Writing Offs from Book under note (ii) of Financial Regulation 109.	No damages or losses falling under Financial Regulations 102,106,113 have been reported during the year 2021.	Financial statements should be prepared in accordance with the guidelines specifically set out in the state accounts circulars and the Financial Regulations.

3.4 Uneconomic Transactions

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
At present, the Air Force lack the vehicles that use the 198 units of teyres purchased from	This has been referred to the Board of Director for the disposal and that Board of	In the purchase of goods to the item, the management should take

1999 to 2014, accordingly it was revealed that tyres and tubes were remaining in the warehouses for a period of 7 to 22 years due to making purchase exceeding the required limit without conducting an study.

Survey report has been forwarded for approval.

steps to purchase them in keeping with the requirements.

3.5 Management Weaknesses

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) When comparing the physical balance of 04 fuel stock items of the fuel section of the Katunayaka Air Force Base Camp as at 06 December 2021 with the balance in the computer software system (EPASS) as at that date it was observed that the fuel stocks issued on credit had not been included in the computer software system and as such, the stock balance in the computer system had been infavourably overstated by 222,944 liters of fuel totaling Rs. 29,451,200 or from 48 per cent to 1137 per cent.	As the fuel for aircrafts and the motor vehicles is not daily issued through this computer software system, this difference exists.	In dealing with a computer system, all data should be included and updated in the computer system.
(b) It has been stated in the assessment report No. CM/CMC/RP/666,668,669 dated 10 June 2016 of the Chief Valuer of the Government Valuation Department relating to the renting of building of the Sri Lanka Air Force Colombo Camp to the external parties that the validity of the said assessment report will expire in	References of 06 letters sent to the Department of Valuation have been stated. By the above 06 letters, the Department of Valuation has been informed to carry out assessments of the lands and buildings of the Sri Lanka Air Force Colombo Camp.	In providing buildings to the external parties on rent basis, the management should take steps to recover the rent based on their current assessment.

3 years. Accordingly, the same building rent had been levied after 10 June 2016 without being carried out an assessment of building rent with a delay of 6 years.

(c) Although the monthly market rent relating to the renting of cafeteria building of the Sri Lanka Air Force Head Quarters had been assessed as Rs.115,000 according to the government valuation, in entering into agreement, the amount had been credited in a manner infavourable to the Government by understating Rs.100,000 as Rs.7,500 to the Government Fund and Rs.7,500 to the No Public Fund per month. As a result, the government had lost revenue of Rs. 1,200,000 in the year 2021.

The cafeteria of the Sri Lanka Air Force was maintained with the objective of providing quality foods under the welfare prices and in calling for tenders for this purpose only one supplier forwarded his tender and the cafeteria was maintained with the only supplier who presented himself to maintain it on the requirement of providing continuous service. As the tenders did not present themselves at the assessment of Rs.115.000, the cafeteria was awarded to this rate to meet the necessity of continuous maintenance.

In renting buildings, the management should take steps to call for open tenders and award the tender according to the current assessment.

4. Human Resource Management

Audit Observation

The number of approved commissioned officer as at the end of the year under review was Rs.2557 of which 316 remained vacant. The number of non-commissioned (Other Ranks) officers was 34,381 and its vacancies stood at 3829. The highest number of vacancies of the other ranks of 2602 was relating to the Leading Aircraftman and the Aircraftman.

Comment of the Accounting Officer

The number of vacancies of the officers and the other ranks is correct. Necessary arrangements will be made to fill these vacancies once the Treasury approval is received for that purpose.

Recommendation

A proper methodology should be established and maintained to make recruitments to the vacancies in order to maintain an optimum staff assisting to achieve the expected objectives.