

Defence Services Command and Staff College – 2019

1.1 Qualified Opinion

The audit of the financial statements of the Defence Services Command and Staff College for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018 and Finance Act, No. 38 of 1971. My comments and observations in terms of provisions in Article 154 (6) of the Constitution which I consider should be reported to Parliament, appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the College as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities 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 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of the Staff College to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Staff College or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Staff College's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the College 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 College.

1.4 Scope of Audit

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 judgment and maintain professional scepticism 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, 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 College's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the College's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the College to cease to continue as a going concern.
- 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.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the College, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the College has complied with applicable written law, or other general or special directions issued by the governing body of the College;
- Whether the College has performed according to its powers, functions and duties; and
- Whether the resources of the College had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
(a) The useful life of non-current assets costing Rs.77,022,102 fully depreciated but still in use, had not been reviewed in terms of Sri Lanka Public Sector Accounting Standard 7. As such, the difference of accounting estimates of those fixed assets had not been brought to account in terms of Public Sector Accounting Standard 3.	The officers of the Valuation Department had carried out a revaluation of assets from September 2018 and as the new values are effective from January 2020, taking action on adjustments to accounts of 2020 are due.	Action should be taken to revalue and account property, plant and equipment properly.
(b) The allocation of Rs.5,996,988 for payment of gratuity to the employees of the Staff College from the year 2009 to the current year had not been carried out in terms of Sri Lanka Public Sector Accounting Standard 19.	Payment of gratuity has not been made to employees who are leaving and it is due to be paid through provisions made for salaries and allowances of the College in future. Action will be taken to settle benefits speedily to 8 employees who had left and are entitled to gratuity.	A policy should be formulated in accordance with the Payment of Gratuity Act and the Accounting Standards for payment of gratuity.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The revalued amount of Rs.6,250,000 and accumulated depreciation of Rs.1,250,000 relating to 6 motor vehicles recommended for auction considering as unfit, had been eliminated from the Property and Plant Account. Accordingly, the Consolidated Fund had been underestimated by Rs.5,000,000. Moreover, the Tata truck bearing No.UHA 7436 valued at Rs.1,050,000 owned by the Army had been handed over to the Army on 03 May 2018. However, the said value had been included in the financial statements.	As it had not been made use of during the year 2019, the effect of depreciation of the year should not be included. As such, the revaluation amount and the accumulated depreciation had been eliminated from the financial statements. The Tata truck bearing No.UHA 7436 had been handed over to the Army and since it is fully depreciated, an effect of depreciation does not exist. It could not be removed from the assets register due to an error.	In accounting assets, action should be taken to ascertain its ownership and physical existence.
(b) The stock of stationery valued at Rs.3,940,105 as at 31 December of the year under review, had not been brought to account.	Action will be taken to adjust the value of the stock of stationery to the final accounts of the year 2020.	Action should be taken to identify and account all stocks of the College.
(c) A sum of Rs.4,819,548 payable from the year 2009 to the year under review to the Employees' Trust Fund on behalf of the employees of the Staff College, had not been brought to account.	Action will be taken in future to obtain membership of the Employees' Trust Fund and to pay relevant contributions.	Action should be taken in terms of the Employees' Trust Fund Act.
(d) Even though 12 motor vehicles valued at Rs.20,900,000 provided by other Government	Action will be taken to rectify same in future.	Action should be taken to transfer the ownership.

institutions for the activities of the College had been shown in the financial statements, the ownership had not been transferred up to now. Accumulated depreciation amounting to Rs.19,640,000 had been allocated therefor as at 31 December 2019.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Payable

The following observation is made.

Audit Observation	Comments if the Management	Recommendation
Action had not been taken to settle the loan balance of Rs.10,992,853 payable to the Sri Lanka Army, outstanding over a period of five years.	Necessary action is being taken to write off from accounts.	Action should be taken to settle long term loan balances.

1.7 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Defence Services Command and Staff College (Amendment) Act, No.13 of 2012 and Section 40 of the National Audit Act, No.19 of 2018	A Civil Administration Officer for civil administration affairs and a permanent Internal Auditor for auditing should be appointed. However, no permanent officers had been appointed for these two posts since many years.	Requests had been made in several instances at the Ministry regarding permanent posts of civil administration and internal control and action will be taken in future to fill the vacancies.	Action should be taken to fill the vacancies in terms of the Act.

(b) Payment of Gratuity Act, No.12 of 1983 had not been made to 08 employees who had left. Action will be taken in future to pay gratuity. Action should be taken in terms of the Act.

(c) Employees' Trust Fund Act, No.46 of 1980 Contributions had not been paid since the year 2009. Action will be taken in future to pay the contributions. Action should be taken in terms of the Act.

2. Financial Review

2.1 Financial Results

The operations of the year under review resulted in a surplus of Rs.14,159,391 as against the deficit of Rs.6,492,910 for the preceding year, thus observing an improvement of Rs.20,652,301 in the financial result. The increase in the income by Rs.20,612,866 as compared with the preceding year had mainly attributed to this improvement.

2.2 Trend Analysis of Major Income and Expenditure Items

The increase in Treasury receipts in the year under review by Rs.23,699,172 representing 18 per cent had mainly attributed to the improvement of the total income of the year under review by Rs.20,612,866 as compared with the preceding year. Moreover, expenditure on operations of the College had increased by Rs.5,414,319 representing 3.5 per cent as compared with the preceding year.

3. Operating Review

One hundred and sixty officers participated in a course conducted by the College in the year under review and 157 of those officers had completed the course. Accordingly, an annual cost of Rs.1,421,495 had been incurred for each officer. Moreover, out of 140 officers, 136 had completed the course in the preceding year and a cost of Rs.1,641,280 had been incurred for each officer. As such, 21 more officers had been made to participate as compared with the preceding year and the College had succeeded in cutting down the cost of Rs.219,785 incurred for one officer.

3.1 Procurement Management

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) A sum of Rs.3,947,772 for fixing aluminum mosquito nets, purchase of capital assets such	Expenditure from the account of the Chairman of the College had been	Institutional procurement activities should be carried out

as barrack goods and exercise equipment and a sum of Rs.15,881,354 for recurrent expenditure such as lecture fees, repair of motor vehicles and machinery had been incurred during the year 2019 by the account of the Chairman of the College and reimbursed subsequently.

incurred for purchase of goods of high quality. Moreover, goods had been purchased on the basis of reimbursement from the College for welfare activities of all posts of the College for purchase of goods at low prices from the trade promotion programme as goods are not provided on credit basis.

properly in accordance with the Procurement Guidelines.

(b)Twenty two master rolls and 22 cartridges valued at Rs.229,000 purchased for a machine which had been disposed, had become unuseable.

As repairing is uneconomical, it had been decided to condemn the said machine. Moreover, the master rolls and cartridges purchased for the said machine could not be used for another machine. As such, action will be taken to refer to a Board of Condemnation.

According to the Procurement Guidelines, after sales service should be taken into consideration. Moreover, goods should be purchased by precisely identifying the requirement.

3.2 Utilization of Resources of other Organizations

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
<p>Eleven acres of land located in the Heiyanthuduwa area belonging to the National Youth Services Council vested in the College in the year 2011 and the bus belonging to the Ministry of Defence and 11 other vehicles provided by the Sri Lanka Army had been utilized as at 31 December 2019.</p>	<p>The activities of vesting the Heiyanthuduwa estate belonging to the National Youth Services Council and the bus are in progress and most of the vehicles of the Army are older than 20 years. As such, action had been taken to condemn them from time to time and to hand them over to the Army while most vehicles had become unusable. Therefore, vesting was unbeneficial.</p>	<p>Action should be taken to confirm the ownership of the land belonging to the College and to assess the value thereof and to vest the vehicles belonging to the Ministry of Defence and the Army, in the College.</p>

3.3 Human Resource Management

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
----- The posts of Professor, Doctor and other posts required for the efficient function of the Staff College should be created, in terms of the Act. However, appointments for the said high posts of the academic staff had not been made even by the end of the year under review.	----- Comments had not been made.	----- The objective of the College is to develop the human resource. As such, it is necessary to recruit the academic staff for assuring the quality of the course.