Defence Services Command and Staff College

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Defence Services Command and Staff College as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1:2 Comments on Financial Statements

1:2:1 Accounting Deficiencies

The following observations are made.

(a) Inclusion of Motor Vehicles not belonging to the College in the Financial Statements
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(i) Motor Vehicles costing Rs.51,321,500 used by the College but belonging to the Ministry of Defence and Sri Lanka Army had been brought to account as non-current assets of the Staff College and as such those assets and the Accumulated Fund had been overstated by a sum of Rs.51,321,500.

(ii) As the depreciation on motor vehicles not owned had been adjusted to the accounts, the provision for depreciation had been overstated by a sum of Rs.23,712,900 and the Accumulated Fund had been understated by a sum of Rs.13,448,600 while the loss for the year had been overstated by a sum of Rs.10,264,300.

(iii) The loss of Rs.2,160,000 incurred in the disposal of motor vehicles used by the College but belonging to Sri Lanka Army had been adjusted to the accounts and as such the loss for the year under review had been overstated by that amount.

(b) Deposit Account

The retention money payable to the contractors and the recoveries made from the staff for no-pay leave had been credited to the Deposit Account under non-current liabilities. As a sum of Rs.340,628 recovered in connection with no-pay leave from February 2010 in January 2012 had been credited to the Deposit Account referred to above the non-current liabilities had been overstated by that amount.

1:2:2 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules, regulations and management decisions observed during the course of audit are given below.

Reference to Laws, Rules, Regulations , etc.	Non-compliance
(a) Finance Act, No. 38 of 1971 Section 8(1)	Even though the budget for every financial year should be prepared and approved by the Governing Body not later than three months prior to the beginning of the relevant financial year, the budget for the year 2012 had been approved only on 27 February 2013.
(b) Public Enterprises Circular No. PED/12 of 02 June	The budgeted balance sheet, the budgeted income and expenditure statement and the budgeted funds flow

2003. Section 5.2.1	statement had not been included in the budget prepared for the year under review.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the financial results generated from the operations for the year under review amounted to a deficit of Rs.6,410,036 as compared with the corresponding deficit of Rs.2,017,213 for the preceding year, thus indicating a deterioration of Rs.4,392,823 in the financial results.

2:2 Analytical Financial Review

The increase in certain items of expenditure as compared with the preceding year by a sum of Rs.22,844,365 had been the main reason for the deterioration of Rs.4,392,823 in the financial results.

3. Operating Review

3:1 Performance

The number of students who participated in the degree courses conducted by the Staff College in the year under review had been 102 as compared with the participation of 83 students in the preceding year. According to the comprehensive income statement, the total expenditure for the year under review amounted to Rs.145,076,708 and as such the cost per graduate amounted to Rs.1,422,321.

3:2 Management Inefficiencies

The following observations are made.

(a) Stores Examination

(i) The accuracy of the balance of stocks shown in the balance sheet as at 31 December 2012 could not be established as the stock books had not been maintained externally from the stores.

(ii) Separate Inventory Registers had not been maintained for recording the particulars assets used by each Division of the College.

3:3 Operating Inefficiencies

The following observations are made.

(a) The four storeyed syndicate building of the College had been planned for construction in the year 2011 at an estimated cost determined at Rs.64 million, through an external contractor under the supervision of Sri Lanka Navy. Even though a sum of Rs.46.2 million out of that had been given to Sri Lanka Navy in the year 2011 a sum of Rs.4.2 million only had been spent. A sum of Rs.42 million had been credited to the Treasury again at the end of the year 2011.

(b) A sum of Rs.17.8 million out of the provisions of the College had been given for this construction in the year 2012 as well. Nevertheless, the construction works had not been completed even by the end of the year under review. The estimate had been increased to Rs.86.5 million due to cost escalations and delays. In view of the delay in the construction works, it had not been possible to expand the courses expected for commencement in the year 2013.

3:4 Underutilisation of Funds

Crediting of the capital grants given annually by the Treasury at the end of the years as the provision had not been utilized by the College had been a recurrent feature. Accordingly sums of Rs.27.2 million, Rs.55.7 million and Rs.16.8 million had been credited to the Treasury without being utilized in the years 2010, 2011 and 2012 respectively.

3:5 Motor Vehicles Utilization

The Ministry of Defence and the Sri Lanka Army had made available 17 and 14 motor vehicles respectively to the College and the ownership of the motor vehicles had not been transferred to the College. A three wheeler motor vehicles condemned had been left parked since 17 December 2011. Even though all the motor vehicles used by the College should be controlled by one Division that had been decentralized. The motor vehicles of Sri Lanka Army and the Ministry of Defence are being controlled by the Transport Division and the 04 motor vehicles supplied by Sri Lanka Air force and 02 motor vehicles supplied by Sri Lanka Navy are being controlled by their respective Wings.

34:6 Staff Management

Even though the approved staff of the college had been 100 only a staff of 92 had been
deployed.

4. Accountability and Good Governance

4:1 Annual Action Plan

Provision amounting to Rs.103,000,000 for recurrent expenditure and Rs.200,000,000 for capital expenditure had been received for the College in respect of the year 2012. Out of those a sum of Rs.109,691,297 as recurrent expenditure and Rs.146,473,933 as capital expenditure had been incurred in the year under review. An Action Plan for the identification of the financial targets and the physical targets according to the respective periods had not been prepared. The Performance Reports had not been prepared in a manner to facilitate comparison with the Action Plan.

4:2 Budgetary Control

Significant variances existed between in estimated provision and the actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

4:3 Tabling of Annual Reports

In terms of Section 6.5.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Annual Report on the activities of the Defence Services Command and Staff College and the accounts should be tabled in Parliament within 150 days after the closure of the financial year. Nevertheless the Annual Reports for the years 2010 and 2011 had not been tabled in Parliament even by 09 November 2013.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Chairman of the Defence Services Command and Staff College from time to time. Special attention is needed in respect of the following areas of control.

(a) Utilization of Capital Provision

(b) Staff Control

(c) Construction Works

(d) Stores Control