

Defence Services Command and Staff College - 2015

The audit of financial statements of the Defence Services Command and Staff College for the year ended 31 December 2015 comprising the Statement of financial position as at 31 December 2015 and the comprehensive income statement, statement of change of equity and Cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 21(2) of the Defence Services Command and Staff College Act, No.5 of 2008. My comments and observations which I consider should be published with the Annual Report of the Staff College in terms of Section 14(2) (c) of the Finance Act, appear in this report.

1.2 Management's Responsibility for The Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 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 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

According to the Sri Lanka Public Sector Accounting Standard 07, when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. When the fair value experiences significant and volatile changes, an annual revaluation is required and revaluation once in every three or five years is adequate if the changes in fair value are insignificant. Nevertheless, property, plant and equipment of the Staff College had not been revalued after the year 2010 and its fair value had not been identified.

2.2.2 Accounting Policy

Although 02 fuel meters costing Rs.3,057,824 should be depreciated annually at 12.5 per cent under the machinery, it had been depreciated under the buildings at 2 per cent since the year 2012.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Although the General Treasury had directly remitted a sum of Rs.6.08 million to the Sri Lanka Army in respect of the fuel supplied to the Staff College in the year 2014, that amount had been stated as a payable expenditure in the statement of financial position as at 31 December 2015.
- (b) A sum of Rs.73,860 payable to the Sri Lanka Army as at 31 December 2015 had not been brought to account.
- (c) Provisions for depreciation amounting to Rs.10,338,183 had been made even in the year under review in respect of non-current assets costing Rs.51,690,915 which had been fully depreciated by 01 January 2015.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made in connection with non-compliances with laws, rules, regulations and management decisions.

Reference to Laws, Rules, Regulations, etc.

Non-compliances

(a) Defence Services Command and Staff College (Amendment) Act, No.13 of 2012

(i) Section 17 (a)3

A Civil Administrative Officer had not been appointed for carrying out civil administration activities.

(ii) Section 22 (2)

Although an officer of the Sri Lanka Accountants Service should be appointed to the post of Accountant of the Staff College, action had not been taken to appoint an officer of the Sri Lanka Accountants Service to the said post which was fallen vacant in the year 2015 even by January 2016.

(b) Letter No PCMD/PR/2013 dated 05 June 2013 of the Secretary to the President.

Two motor bicycles and a three-wheeler owned by the College had been ceased from running and were decaying in the college premises, whereas action had not been taken to dispose of them.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulations 395

Bank reconciliation statements had not been prepared and furnished.

(ii) Financial Regulations 770

Action in terms of the Financial Regulation had not been taken on the unusable goods.

(d) Section 5.2.1 of the Circular No.PED 12 dated 02 June 2003.

The budgeted income and expenditure statement, statement of financial position and the cash flow statement had not been included in the Budget prepared for the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Defence Services Command and Staff College for the year ended 31 December of the year under review amounted to a surplus of Rs.15,135,983 as against the deficit of Rs.3,251,729 in the preceding year, thus indicating an improvement of Rs.18,387,712 in the financial result in the year under review as compared with the preceding year. The increase in the other income by Rs.22,444,476 had mainly attributed to the above improvement.

Analysis of the financial results of the year under review and 04 preceding year revealed that the deficit of the financial results of the college amounting to Rs.2,017,213 in the year 2011 had increased up to Rs.6,410,036 by the year 2012. It had decreased up to Rs.1,115,201 by the year 2013 and then increased up to Rs.3,251,730 by the year 2014. Accordingly, a deficit of the financial results could be observed from the year 2011 to the year 2014 and it had fluctuated annually. When taking into consideration the employees' remunerations and the depreciation for the non-current assets, although the contribution of the College amounting to Rs.53,113,923 in the year 2011 had decreased up to Rs.51,188,595 by the year 2012, it had been Rs.116,703,502 during the year under review ceaselessly increasing from the year 2013 .

4. Operating Review

4.1 Performance

In terms of the Defence Services Command and Staff College Act, No.5 of 2008, to impart professional knowledge required for the suitable appointments and promotions to the officers in the armed forces and to make the officers trained in the College ready to act effectively on the two occasions of Command and Staff duties are the main objectives of the College.

In order to ensure the efficient functioning of the College, although the posts of Professor, lecturer and other posts are required to be created, those appointments had not been made even up to the end of the year under review.

4.2 Management Activities

The following observations are made.

- (a) Although a land area 11 acres in extent, out of the land at Heiyanthuduwa belonging to the Youth Council had been vested in the College in the year 2011, the relevant deed had not been obtained up to 31 December 2015. Further, Action had not been taken to assess the value of this land from the Department of Valuation and include in the financial statements.
- (b) Thirty three motor vehicles costing Rs.51,586,500 belonged to the Ministry of Defence and the Army had utilized for the affairs of the College over a number of years had not been taken over by the College even by 03 June 2016.
- (c) According to the Decision of the Board of Management dated 10 August 2015, approval had been granted to establish a Fund using Rs.3 million out of the course fees received by the College from the foreign student officers during the year under review and grant distress loans to the civil employees serve in the College. Nevertheless, necessary steps had not been taken therefor even by 3 June 2016.

4.3 Utilization of Vehicles

From the year 2011 to the year under review, 05 motor vehicles had been obtained on hired basis from outside parties for the transport requirements of the Staff College. The College had

not entered in to any written agreement with the relevant party on the utilization of vehicles, recovery of charges, repairs and maintenance activities and a sum of Rs.3,001,600 had been paid as rentals for the year under review.

4.4 Procurement and Contract Process

Construction of 03 buildings for the students and officers hostels of the College had been entrusted to the Sri Lanka Airforce by the Line Ministry in the year 2012. With the approval of the Line Ministry, the Sri Lanka Air Force had assigned a contract for one building out of the above constructions to a private company at a cost of Rs.27,882,332 on 13 December 2012. Nevertheless, due to the failure of the contractor, the contract had been cancelled on 26 June 2013. A sum of Rs.7,172,473 had been paid to the contractor as at the date of cancellation of the contract and action had not been taken to recover the liquidated damages amounting to Rs.1,224,260 receivable from the contractor. The remaining construction activities of this project had been entrusted to an another party on the contract amount of Rs.28,355,117. Accordingly, a sum of Rs.35,527,590 had been spent for this construction and as compared with the original contract, an additional expenditure of Rs.7,645,258 had been incurred and a delay of over a period of two years had occurred.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, although the financial statements should be furnished to the Auditor General within 60 days from the close of the financial year, the financial statements for the year under review had been furnished to audit on 13 May 2016.

5.2 Action Plan

Expected expenditure for the acquisition of fixed assets and capital expenditure of the College had been included in the Action Plan prepared by the Staff College in the year 2015. It had not been prepared with the information of the way of applying them for other main objectives inclusive of maintaining the academic activities of the student officers.

5.3 Internal Audit

In terms of Section 21(2) of the Defence Services Command and Staff College (Amendment) Act, No.13 of 2012, a permanent Internal Auditor had not been appointed to the internal audit division of the College.

6. Systems and Controls

Deficiencies in Systems and Controls 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 to be drawn on the preparation of journal vouchers required for the inclusion of opening balances, corrections and adjustment entries etc. in the preparation of financial statements.