

General Sir John Kotalawala Defense University – 2016

The audit of financial statements of the General Sir John Kotalawala Defense University for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 10(a)(2) of the General Sir John Kotalawala Defense University Act No. 68 of 1981. My comments and observations which I consider should be published with the Annual Report of the University 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 judgements, 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 University’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 University’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 Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the 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 General Sir John Kotalawala Defense University as at 31 December 2016 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 Accounting Deficiencies

The following observations are made.

- (a) Depreciation for building shown under the Self Finance Fund had been understated by Rs. 22,676,208 as at 31 December 2016, due to calculation errors.
- (b) Eventhough printing income of Rs. 1,187,588 had been shown under the other income of the Self Finance Fund in the financial statements, as per the information of the printing section, it was Rs. 6,010,213. As a result, printing income had been understated by Rs. 4,822,625 in the financial statements.
- (c) Air Condition and ventilation System which completed and utilized in 2015 valued at Rs. 87,414,822 had been shown under work in progress instead of capitalized as at 31 December 2016.
- (d) Eventhough expenditure amounting Rs. 29,241,957 incurred for construction of road network and fence guard had been shown as intangible assets of the University since year 2014, depreciation had not been adjusted thereon.
- (e) Eventhough Bio Gas unit valued at Rs. 1,163,536 which constructed and utilized in 2011 had been shown under the tangible assets in the financial statements, provisions for annual depreciation had not been made since 2011.
- (f) Receivable amounting Rs.7,000,223 to the University due to breach of agreements and bonds by the Cadet Officers had been credited to the Self Finance Fund Account instead of being credited to the Revenue of the University and reasons thereon had not been explained.

2.2.2 Lack of Evidence for Audit

The following observations are made.

- (a) Evidences had not been furnished to audit for the unsettled advances of Rs. 1,454,321 included in the balance of Rs. 2,606,394 shown as unsettled procurement advances in the Self Finance Fund since year 2014 continuously.

- (b) Eventhough other assets of Rs. 1,491,625 and land development cost of Rs. 43,803,874 included in the value of the fixed assets of the University had been shown in the financial statements since year 2008 continuously, such assets had not been furnished for physical verification.
- (c) Eventhough a value of Rs. 13,847,542 had been brought since year 2011 continuously as building and other assets under the work-in-progress of the financial statements, such assets had not been furnished for physical verification.

2.3 Accounts Payables

A sum of Rs. 1,511,181,993 had been shown as creditors balance in the financial statements as at 31 December 2016 and out of that unsettled creditors balances of Rs. 14,403,186 which over 02 years and accrued expenses of Rs. 27,703,433 which over 02 years had been included in that value.

2.4 Non-Compliances with Law, Rules, Regulations and Management Decisions

The following non-compliances are observed.

Reference to the Law, Rules, Regulations	Non-Compliances
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(a) Financial Regulation 237(b) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Eventhough it is required to be certified that all the relevant goods are received and included in the relevant Stock Registers before payments are made for the procured goods, contrary to that a sum of Rs. 122,803,287 had been paid as advances before procurement of goods in 670 instances during the year 2016. Advances of Rs. 92,112,669 paid during 05 preceding years as above had not been settled even as at 31 December 2016.
(b) Paragraph 8.9.1 (b) of the Government Procurement Guidelines 2006	Eventhough it is required to be enter in to a written agreement for the procurement of goods value over Rs.500,000, 04 contracts valued at Rs. 19,712,855 had not been enter in to proper written agreements.
(c) Employees Provident Fund Act No. 15 of 1958 and Employees Trust Fund Act No. 46 of 1980	Contribution of Rs. 8,210,785 payable to the Employees Provident Fund and Employees Trust Fund for the period from 01 January 2006 to 11 May 2011 had not been remitted by the University even up to 31 December 2016.

2.5 Transactions not Supported by Adequate Authority

Provisions of the General Treasury amounting to Rs.4,554,308,836 had been released for the payment of interest since year 2014 to year 2016 instead of loan obtained from the National Saving Bank for the construction of the Teaching Hospital of the University and out of that a sum of Rs. 4,486,387,102 had only been utilized as at 31 December 2016. A sum of Rs. 67,921,734 received as additional provisions during preceding 02 years period had been spend for other activities of the University without approval of the General Treasury.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result for the year ended 31 December 2016 was a deficiency of Rs. 955,434,499 and the corresponding deficiency of the preceding year amounted to Rs. 676,191,883, thus indicating deterioration in the financial results by Rs. 279,242,616 during the year under review. Increase in exchange loss of the cost of construction of Teaching Hospital of the University by Rs. 1,310,332,348 and operational cost of the University by Rs. 207,950,617 mainly attributed for the above deterioration of the financial result.

Although surplus amounting to Rs. 36,566,608 and Rs. 250,842,194 had been generated in year 2012 and 2014 respectively in analysis of the financial results for the year under review with 04 preceding years, deterioration of the financial result had been arisen in year 2013,2015 and 2016. However, after adjusting remunerations and depreciations for non-current assets to the financial result, the contribution of the University had been gradually improved since the year 2012 to 2014 and it had been deteriorated by Rs.168,521,705 during the year under review as compared with the preceding year.

3.2 Analytical Financial Review

Certain significant short-term and long-term solvency ratios relating to the financial position remained as at 31 December 2016 and 2015 of the University are as follows.

	<u>2016</u>	<u>2015</u>
	%	%
Long-term Loan to Stated Capital	389	367
	<u>2016</u>	<u>2015</u>
	Rs.	Rs.
Revenue per Student	604,536	747,759

Long-term Loan Capital to Stated Capital and Total Capital had been increased over preceding year due to Loan obtained for the construction of the Teaching Hospital of the University. Further, revenue per student had been decreased by Rs. 143,223 or 19.15 per cent during the year under review as compared with preceding year.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) This institution had been established under the General Sir John Kotalawala Defence University Act No. 68 of 1981 and it was limited to conduct degree programme relating to the activities of defence for the officers who employed security services up to 2011. Although the above institution had been converted in to a University as per the amended Act No. 27 of 1988 and amended Act No. 50 of 2007, it had not been included paragraphs to the above Acts which delegate the authority to award the degrees to graduates who had not been employed security services. However, degree certificates had been awarded to external students of 2,845 including 199 foreign students who entered based on the payment of money from year 2011 to 31 December 2016.
- (b) Local students of 3,073 had been enrolled for academic activities of the University as at 31 December 2016 and out of that 1,728 students was on the basis of payment of fees and balance of 1,345 students was cadet officers who employed in Tri Forces recruited on the basis of free of charges. Local students of 829 had been enrolled to the 22 courses held by the University during the year under review and it was 2.47 per cent deceased as compared with the student of 850 who entered preceding year. Foreign students had only been recruited to the Medical Faculty of the University on the basis of payment of fees and 23 medical students had only been recruited during the year under review as compared with the students of 54 who recruited preceding year.
- (c) It was revealed in audit that the University required to be taken accelerated actions for the achievement of challenges on future financial requirements and market competition, for improvement of revenue adequately. Thus, recruitment of foreign and local students based on the payment of money required to be in formal manner and it was observed that the requirement of competitive programme for attraction of foreign students had been remained further. Action had been taken to enter into Memorandum of Understanding Agreements only with the Government of Butan and Ruwanda as at 31 December 2016 as complied with the above.
- (d) Eventhough students of 346 had been carried out the academic activities in the Southern Campus as at 31 December 2016, it was observed in audit that capacity of the Lecture Halls were not remained adequate level for the academic activities which consisted with 08 Lecture Halls of the campus. Although students of 166 had been enrolled for the courses conducted by the Computer Faculty of the Southern Campus at the end of the year under review, adequate computer facilities had not been provided for them. As a result, students of the Computer Faculty had been carried out the academic activities in the Computer Laboratory which situated in the Built Environment and Special Science Faculty of the University. It was observed that library for the undergraduate was held in the prefabricated building which completed with ceiling roof consisted with 1,152 square feet in extent, due to a building for permanent Library had not been constructed in the Southern Campus.

4.2 Management Activities

The following observations are made.

- (a) Eventhough 13 Light Systems valued at Rs. 26,928,000 for the Theater of the Teaching Hospital constructed at Verahara area for the Medical Faculty of the University from 02 private institutions had been supplied to the hospital premises as at 13 August 2015, equipment had been returned to the supplied institutions, due to lack of adequate storage facilities.

Further, Rs. 19,272,584 equivalent to 80 per cent of the value had been paid as an advance for procurement of 06 Electronic Light Systems of the Theater with camera valued at Rs. 24,090,730 for the Hospital. Eventhough respective goods had been supplied on 10 November 2015, the goods had been returned to the firm due to lack of adequate storage facilities. The respective assets had been remained idled in the premises of external party over 18 months procured before requirements, evethough activities of the Teaching Hospital had been commenced in May 2017.

- (b) A Loan of US\$ 177 million from foreign currency and a Local Loan of Rs. 3,165,123,000 had been obtained from the National Saving Bank on 28 March 2013 on a bond of the General Treasury for the construction of the building of Teaching Hospital of the University. As per the loan agreement, loan obtained from the local currency required to be repay completely as of year 2032 by the University. It was observed that a risk had been remained in payment of loan installments as agreed by the University due to continuous deficiencies generated from the operating activities of the University and an adequate programme had not been implemented for the improvement of students based on the payment of money and attention of the management had not been pay thereon.
- (c) It was observed in physical verification carried out on 18 April 2017 that millo meter of good condition 08 motor vehicles had been remained idle over one year. Accuracy of the running charts submitted on the vehicles was problematic in audit and attention of the management had not been draw to restore the millo meters.

4.3 Transactions in Contentious Nature

A building constructed in the Southern Campus at a cost of Rs. 10,948,998 for Coconut Process Plant and Research Activities under the Combinatorial Advance Research and Education Project had been utilized as Physical Fitness Centre of the university students. It was observed in audit that the Coconut process and Research Activities which required to be fulfilled by the Southern Campus had not been implemented as at 31 December 2016 due to that reason.

4.4 Procurement and Contract Process

The following observations are made.

- (a) Eventhough the procurement plan had been prepared by the University, capital expenditure expected to be financed by the provisions of the General Treasury had only been included and it had not been included the capital expenditure made during the year under review from the Self- Financed Fund of the University.
- (b) The activities of the contract valued at Rs. 2,871,570 awarded on 09 March 2015 to a private party for an establishment of water supply system and procurement of water tanks of the Southern Campus had not been completed even as at 31 December 2016. A written agreement had not been entered thereon and a performance bond had not been obtained for released mobilization advances.
- (c) Out of 143 acres land of the Southern Campus, 18 acres of land owned to the Divisional Secretariat Division of Suriyawewa in Hambantota District and other 125 acres of land owned to the Divisional Secretariat Division of Sewanagala in Monaragala District. Land situated in the Divisional Secretariat Division of Suriyawawe owned to the Board of Investment of Sri Lanka and activities on acquisition of land to the University had not been completed as at 31 December 2016. Eventhough construction works of buildings commenced in year 2011 of the Southern Campus required to be completed in year 2018, it was revealed in physical verification that the activities in second and third stages carried out in slowly due to inadequate funds. Although Environmental Assessment Report had been requested from the Central Environmental Authority for the construction activities of the Southern Campus, it had been noticed that recommendations cannot be given due to part of the proposed construction had been completed at the time of filed inspection carried out on 23 April 2015 by the Central Environmental Authority.

4.5 Administration of Staff

The following observations are made.

- (a) Description of the officers of Tri Forces who attached to the activities of the University is given below.

Relevant Institution	Number of staff officers attached	Number of non-staff officers attached	Total
Sri Lanka Army	72	456	528
Sri Lanka Navy	30	351	381
Sri Lanka Air force	15	122	137
Total	<u>117</u>	<u>929</u>	<u>1,046</u>

Eventhough direction had been given by the Committee on Public Enterprises held on 05 March 2013 to obtain a formal approval from the Department of Management Services in relation to Army Officers who attached to the University in addition to the approved cadre, action had not been taken even as at 31 December 2016.

- (b) Eventhough 76 teachers panel was approved for 05 courses conducted in the 03 faculties of the Southern Campus, panel consisted with 33 panel of teachers had only been employed. Further, in analysis of the teachers of the panel, although 12 posts of professors had been approved, any lecturers had not been recruited as at 31 December 2016. Eventhough 42 posts of senior lecturers had been approved in the panel, 12 senior lecturers had only been recruited as at 31 December 2016.

5. Accountability and Good governance

5.1 Presentation of Financial Statements

According to the paragraph 6.5 of the Public Enterprises Circular No PED/12 of 02 June 2003, annual financial statements are required to be furnished to the audit within 60 days after end of the accounting year. However, draft financial statements of the University had been submitted to the audit only on 28 February 2017 and amended financial statements after adjusting accounting deficiencies revealed in audit had been submitted on 29 June 2017.

5.2 Budgetary Control

Budget had not been used as an effective management control due to budgeted and actual expenditure on transport expenditures, agreement service expenditures, other expenditures and capital expenditures had been deviated from 10 per cent to 201 per cent during the year under review.

5.3 Unsettled Audit Paragraph

Eventhough Teaching Hospital of the University had been constructed in a land 47 acres and 37.9 roods in extent which owned to the Sri Lanka Transport Board, ownership had not been vested even as at 31 December 2016.

5.4 Composition of the Board of Management

Officers of Additional Secretary of the Ministry of Defence, Vice Chancellor of the University, Secretary of the Board of Management who were not mentioned in the General Sir John Kotalawala Defence University Act No. 68 of 1981 had been worked as members of the Board of Management during the year under review.

6. System and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Vice Chancellor of the University from time to time. Special attention is needed in respect of the following areas of systems and controls.

System and Controls

Observations

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|-----------------------------|---|
| (a) Contract Administration | Contracts are awarded without entering in to written agreements. |
| (b) Procurement Management | (i) Procurement of goods contrary to the Government Financial Regulations and Procurement Guidelines

(ii) Advances are made before goods are received. |