

Defence Services Command and Staff College - 2016

The audit of financial statements of the Defence Services Command and Staff College 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 change of Title 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 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 Sri Lanka Public Sector Accounting Standards

As useful life time had not been reviewed annually in respect of non- current assets in terms of Sri Lanka Public Sector Accounting Standard 07, the fixed assets costing Rs.66,459,348 had been fully depreciated but are being further used. Accordingly, the estimated error arisen had not been rectified as per Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The sum totalling Rs.4.5 million paid in the year under review to an affiliated Institution to the Ministry of Defence by the College in respect of purchasing a software system, had been capitalized considering as purchasing of assets of the year under review without accounting as an advance . However, those activities had not been completed even by the year under review according to the report presented.
- (b) A sum of Rs.10,645,740 received to the Staff College during the year 2015 for the courses conducted for foreign student officers had been brought to account as a differed income of that year. A motor bicycle valued at Rs.381,000 had been purchased in the year under review by utilizing that money and a sum of Rs.5,103,350 had been spent for the repairing of officers' quarters. However, the depreciations of Rs.178,267 relevant to that assets for the year under review had been considered as amortizations and brought to account under the income .
- (c) Two Motor Bicycles costing Rs.117,000 ceased from running in the year under review , a three wheeler costing Rs.160,000 and cost of 60 items of assets such as furniture, computers ,electrical items which had been disposed as unusable goods and the accumulative depreciations relating to that had not been omitted from the accounts.

- (d) Two motor Bicycles costing Rs.77,500 not belonging to the College and returned to the Sri Lanka Army had been shown in the financial statements as assets of the College.
- (e) Even though , a tractor trailer and a water bowser trailer which were granted to the College by the Sri Lanka Army as a donation were existed as assets, the value of that items had not been identified and included in the financial statements.
- (f) Library books amounting to Rs.2,323,809 purchased during the year under review had been brought to account as recurrent expenditure.
- (g) Fuel expenses and grants had been shown and overstated by Rs.102,849 as Rs.11,200,000 accounted instead of Rs.11,097,151 received as fuel expenses grants during the year under review from the Sri Lanka Army.
- (h) Action had not been taken even in the year under review to rectify the depreciations amounted to Rs.2,401,072 accounted wrongfully in preceding year for the furniture and office equipment which the useful life had been lapsed.
- (i) The delay charges of Rs.1,169,373 should have been paid for electricity bills as at 31 December 2016 had not been brought to accounts.

2.2.3 Un explained Differences

The following observations are made.

- (a) A difference of Rs.1,480,000 had been observed in depreciations of motor vehicles for the year under review when comparison of the Register of Fixed Assets furnished with the financial statements with the Ledger Account of Fixed Assets .
- (b) Although the value of the buildings was Rs.909,467,108 according to the financial statements of the year under review, that value had been stated as Rs.909,685,080 in the Register of Fixed Assets. Accordingly, a difference of Rs.217,972 was observed.

2.3 Money Payable

The loan balance of Rs.10,992,853 payable to the Sri Lanka Army by 31 December 2016 for the supply of fuel to the College had been shown in financial statements from a long period and the College had not taken action to settle this loan balance.

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

In terms of Section 5.2.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the budgeted statement of income and expenditure ,budgeted statement of financial position and the budgeted 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 deficit of Rs.5,665,356 as against the surplus of Rs.15,135,982 in the preceding year, thus indicating a deterioration of Rs.20,801,338 in the financial result in the year under review as compared with the preceding year. The non –generation of other income due to any foreign student had not been participated in the current year on fee levying basis courses as compared with the previous year had mainly attributed to the above deterioration.

Analysis of the financial results of the year under review and 04 preceding years revealed that the deficit of the financial results of the college amounting to Rs.6,410,036 in the year 2012 had become a surplus of Rs.15,135,982 in the year 2015 , it had become a deterioration of Rs.5,665,356 again in the year under review. However, when taking into consideration the employees’ remunerations and the depreciation for the non-current assets, although the contribution of the College amounting to Rs.21,827,028 in the year 2012 had increased continuously up to Rs.57,051,011 by the year 2015, it had been decreased as Rs.39,964,731 during the year 2016 as compared with the year 2015.

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.

4.2 Management Activities

Although a land area 11 acres in extent, out of the land at Heiyanthuduwa belonging to the Youth Services Council had been vested in the College in the year 2011, action had not been taken to take over the ownership of that land legally even by 31 December 2016. Further, action had not been taken to take over to the Staff College the bus costing Rs.4,400,000 belonging to the Ministry of Defence and 16 other vehicles costing Rs.28,275,000 received from the Army out of the vehicles which utilized for the activities of the Staff College .

4.3 Idle and Underutilized Assets

According to the Letter No.PCMD/PR/2013 dated 05 June 2013 of the Secretary to the President, action should have been taken to dispose or sale or hand over the old vehicles and machineries which are decaying and not utilized in Government Institutions, to the Steel Corporation at Oruwala for the disposal procedure in terms of the Financial Regulations. It was observed that two motor bicycles owned by the Staff College had been ceased from running from a period of more than three years and were decaying in the college premises.

4.4 Staff Administration

According to Section 22(2) of the Defence Services Command and Staff College (Amendment) Act, No.13 of 2012 ,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 31 March 2017. Further, according to the Act, 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 in the academic staff had not been made even up to the end of the year under review.

4.5 Contract Procedure

A sum of Rs.6,327,877 had been paid in the year under review to a contractor for the fixing of Aluminium and Wooden equipment for the quarters building of the Staff College having not being due execution of the task in terms of the Agreement and without giving attention on the standard and quality of the goods. It was further revealed that, those goods are not with proper qualities and standard according to the Board of Survey Report appointed for the examination of the quality of that goods as well.

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 23 March 2017.

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 2016. 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 Commandant of the College from time to time. Special attention is needed in respect of the following systems and areas of control.

Systems and Areas of Control

Observations

(a) Procurement Procedure

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- i Action had not been taken in accordance with the Procurement Guidelines in respect of purchasing of goods.
 - ii. Differences existed between the suppliers who presented quotations and obtained approval of the Procurement Committee and the parties who had been entered into Lease Agreements .

(b) Internal Audit

A formal internal audit had not been carried out.

(c) Accounting

Action had not been taken to identify the assets accurately and accounting.