

Defence Services Command and Staff College – 2017

The audit of financial statements of the Defence Services Command and Staff College for the year ended 31 December 2017 comprising the Statement of financial position as at 31 December 2017 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. A detailed report in terms of Section 13(7)(a) of the Finance Act was furnished to the Commandant of the College on 24 April 2018.

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 2017 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 Standard 07

The following observations are made.

- (a) In terms of Paragraph 49 of the Standard, when an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. Nevertheless, in the revaluation of the assets such as motor vehicles, furniture and computer and accessories, only a few selected assets had been revalued. Further, the revaluation of assets had not been carried out by a recognized Valuer with professional qualifications as required by Paragraph 43 of the Standard.
- (b) The effective date of the revaluation of assets, particulars on the valuer, the methods and significant assumptions applied in estimating the assets' fair value had not been disclosed as required by Paragraph 90 of the Standard.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Instead of debiting the retention money amounting to Rs.1,321,756 released during the year under review to the Retention Money Account, it had been debited to the Building Account and as such, expenditure of the Retention Money Account and the Building Account as at 31 December 2017 had been overstated by that amount and depreciation of buildings had been overstated by Rs.26,435. Further, recovered retention money amounting to Rs.96,000 had not been brought to account.
- (b) The following deficiencies were observed in connection with the accounting the depreciation of fixed assets of the College.
 - (i) As a sum of Rs.4,728,000 had been overstated in the accounts as depreciation and the amortization relating to the fixed assets revalued at Rs.23,640,000 as at 31 December of the year under review, the net value of the assets and the capital grants as at 31 December of the year under review had been understated by that amount.

- (ii) As a sum of Rs.1,758,068 had been further accounted as depreciation relating to the computer and accessories purchased under the capital grants and depreciated as at 31 December 2016, capital grants and net value of the assets had been understated by that amount.
 - (iii) Instead of crediting depreciation of Rs.1,528,912 relating to fuel pumping machine to the Provision for Depreciation on Machinery Account, a sum of Rs.872,150 had been debited in the year 2016. As such, the balance of the Provision for Depreciation on Machinery Account had been understated by Rs.2,401,062.
 - (iv) For the tractor trailer valued at Rs.265,000 purchased in the year 2013, depreciation of Rs.53,000 relating to the current year had not been brought to accounts.
 - (v) Depreciation amounting to Rs.464,762 relating to the library books purchased by the funds of the College in the year 2016 had been accounted as the amortization in the year under review and as such, the deficit and the balance of the capital grants account had been understated by that amount.
- (c) The deficiencies revealed at the audit test check relating to the accounting of assets and the stocks of consumables of the College are given below.
- (i) Instead of writing off 09 items of goods of noncapital nature such as pillow covers, bedsheets, tablecloths etc. valued at Rs.836,421 as expenditure, those had been capitalized under the machinery and equipment.
 - (ii) Although computer chairs and tables worth Rs.192,444 purchased during the year under review should be brought to accounts under the furniture and office equipment, those had been stated under the machinery and equipment and as such, furniture account had been understated by Rs.192,444 and machinery account had been overstated by Rs.192,444 while depreciation had been understated by Rs.14,433.
 - (iii) The value of 22,118 items of stocks relating to 05 categories of stocks valued at Rs.7,594,126 remained at the stores of the Engineering Services Regiment as at 31 December of the current year had not been brought to accounts.

2.3 Transactions not Supported by an Adequate Authority

Simultaneous to the contract approved in the renovation of the internal road system by the Road Development Authority in the year 2013, a part of the road valued at Rs.6,198,670 had been renovated without the approval of the Secretary to the Ministry. Although a sum of Rs.3,374,169 remained payable to the Road Development Authority for this purpose, it had not been disclosed in the financial statements.

2.4 Accounts Receivable and Payable

A balance of debt amounting to Rs.10,992,853 remained payable to the Sri Lanka Army as at 31 December 2017 in respect of the supply of fuel to the College had not been settled despite the lapse of a period for more than 05 years.

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

The following non-compliances with laws, rules, and regulations were observed.

Reference to Laws, Rules, and Regulations etc.	Non-compliances
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

(i) Financial Regulation 756	Action had not been taken to appoint a Board of Survey and conduct a survey of stores.
(ii) Financial Regulation 571	Although action should be taken in terms of provisions in the Financial Regulations in respect of the deposits which had exceeded 2 years from the date of deposit, action had not been taken accordingly in respect of retention money of Rs.294,199 relevant to the period from the year 2011 to 2014.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the College for the year ended 31 December of the year under review amounted to a deficit of Rs.4,667,249 as compared with the corresponding deficit of Rs.5,665,356 in the preceding year, thus indicating an improvement of Rs.998,107 in the financial result in the year under review as compared with the preceding year. Although the expenditure of the year under review had increased by Rs.25,606,868 as compared with the preceding year, increase in the income by Rs.26,604,974 had mainly attributed to the above improvement.

In analyzing the financial results of the year under review and 04 preceding years, deficits of the financial results were observed during the period from the year 2012 to 2017 except for the year 2015 and it had fluctuated annually. However, after readjusting the employees' remunerations and the depreciation for the non-current assets to the financial results, the contribution of the College amounted to Rs.21,327,028 and this amount had gradually increased up to Rs.42,198,472 by the year 2017.

3.2 Analytical Financial Review

The Current Ratio of the College had decreased from 0.27 to 0.1 as compared with the preceding year, thus observing a poor working capital management.

4. Operating Review

4.1 Performance

4.1.1 Planning

In the preparation of the Annual Action Plan in terms of Public Finance Circular No.01/2014 dated 17 February 2014, the matters such as the organization structure including the activities with long term vision targeted to be achieved the objectives of the relevant Act, details on the approved cadre and the actual cadre, imprest requirement plan for the annual activities, Internal Audit Plan should be included therein. Nevertheless, capital expenditure and the expenditure expected to be incurred on the acquisition of fixed assets only had been included in the Action Plan, 2017 prepared by the Defence Services Command and Staff College.

4.1.2 Operating Review

In terms of the Defence Services Command and Staff College Act, No.5 of 2008, the main objectives of the College are to develop the professional knowledge and understanding of officers of the armed forces in order to prepare and equip them for appointment to appropriate appointments and promotions and to prepare and equip officers of the armed forces selected for training at the Staff College to function effectively, both in command and on the staff functions. Hundred and twenty eight students had completed the degree course conducted by the College during the year under review and a cost of Rs.1,129,923 had been incurred on each student.

4.2 Idle and Underutilized Assets

It had been stated in terms of the Public Finance Circular No.2/2015 dated 10 July 2015 that the condemned and unusable vehicles belonging to the Public institutions should be disposed of within 03 months from the date of the above Circular. Nevertheless, two motor bicycles and a bowser trailer withdrawn from use for over a period of two years and a truck withdrawn from use for more than a period of five years had been parked in the premises of College while decaying. But action had not been taken to disposed of the above vehicles as required by the Circular.

4.3 Management Activities

Eleven acres of lands of the Youth Services Council situated in Heyyanthuduwa and vested in the College in the year 2011, the bus, the revalued amount of which was Rs.2,100,000 belonging to the Ministry of Defence and used for the activities of the College and other 12 vehicles worth Rs.19,610,000 granted by the Sri Lanka Army had not been legally taken over by the College even by the date of this report.

4.4 Staff Administration

In terms of 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 for the post of Accountant of the College. Nevertheless, action had not been taken to appoint an officer of the above service to that post of Accountant which had fallen vacant in the year 2015. Further, in order to ensure efficient functioning of the College, the posts of Professor, Teacher and the other posts should have been created in accordance with the Act. However, recruitments for the above posts had not been made even up to the end of the year under review.

5. Sustainable Development

5.1 Achievement of the Sustainable Development Goals

In order to place the member countries of the United Nations Organization which are currently in different positions in economically, socially and environmentally to an equal position by the year 2030, the United Nations Organization had set 17 goals and 169 targets to achieve the above goals. Accordingly, the Sri Lanka Sustainable Development Act, No.19 of 2017 had been adopted on 03 October 2017 and all the Public institutions had been made aware on the above matter by the Circulars. Accordingly, although the Staff College was conversant with that and identified the targets required to reach the goals, indicators had not been identified to measure the above targets.

6. Accountability and Good Governance

6.1 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 2017 had been furnished to audit on 29 March 2018.

6.2 Internal Audit

As a permanent Internal Auditor had not been appointed for the internal audit activities of the College, a formal internal audit had not been carried out.

6.3 Procurement and Contract Process

6.3.1 Procurement

The following observations are made.

- (a) In terms of Guideline 4.2.1 (e) of the Government Procurement Guidelines, the Procurement Plan should be regularly updated within a period not more than six months. Nevertheless, procurement activities valued at Rs.40,156,332 which had not been

included in the Procurement Plan had been carried out during the year under review, whereas the Procurement Plan had not been updated accordingly.

- (b) As it was established that the specifications for the solar power system had been obtained from the private institution to which the contract valued at Rs.4,970,000 for the installation of solar power system for the College had been awarded, the transparency of the procurement process had not been assured. Further, it was observed that, the selected contractor had given bid security by a cheque contrary to the Section 5.3.13 of the Government Procurement Guidelines.
- (c) Without being complied with the provisions of the Procurement Guidelines, the College had spent a sum of Rs.2,088,475 for the purchase of souvenirs during the year under review. The relevant items had been received by the Staff College on 04 August 2017 and the relevant order had been placed on 31 August 2017, that is, after 26 days from the receipt of the above items. It was accordingly observed that the relevant purchasing process had been carried out devoid of transparency.
- (d) According to Section 2.14.1 of the Supplement 28 to the Government Procurement Guideline 2006, the contracts, the value of which exceeds Rs.8 million should be approved by the Procurement Committee of the Ministry. Nevertheless, contrary to that, the Departmental Procurement Committee had taken action to award the contract of the installation of networked telephone system at the estimated value of Rs.46,938,698 to a same contractor by separating the contract into 03 parts without being complied with Guideline 4.4 of the Government Procurement Guidelines.

7. Systems and Controls

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

Areas of Systems and Controls -----	Observations -----
(a) Procurement Process	Failure to take action according to the Government Procurement Guidelines relating to the purchase of goods.
(b) Accounting	Failure in taking action to correctly recognize the assets and bring them to accounts