

1.1 Qualified Opinion

The audit of the financial statements of Defence University of Sir John Kothalawala for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Finance Act No 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of Defence University as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Defence University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Defence University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Defence University's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Defence University is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the University.

1.4 Scope of the Audit

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to

enable a continuous evaluation of the activities of the University, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the University has complied with applicable written law, or other general or special directions issued by the Governing Body of the University;
- Whether the University has performed according to its powers, functions and duties; and
- Whether the resources of the University had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) Provision for annual depreciation had not made for the assets related to the Building of coconut Perasari Project, Bio gas unit, Road network and Fence cover for previous years and provisions amounted to Rs. 4.48 million relating to those years had been adjusted in the Income statement for the year under review.	Due to immaterial value adjustment had been to this year profit.	It is advisable to make an accounting adjustment as a previous year adjustment.

(b) Total unrecognized deposits value included in the Other Creditors balance as at 31 December 2018 was Rs.45.42 million	These balances will be settled in the future	By Settling this value quickly, will ensure the quality of financial statements for the coming year.
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1.5.3 Unreconciled Control Accounts or Records

Audit Observation	Management Comment	Recommendation
Un-reconciled balance of Rs. 1.89 million was included in the Self-financing Fund as of 31 December 2018 in Other Creditors	These balances will be settled in the future.	Action should be taken to identify and settle this value

1.6 Accounts Receivable and Payable

1.6.1 Accounts Payable

Audit Observation	Management Comment	Recommendation
Out of the payable balances stated in the creditors and payables total amounted to Rs. 3,928.36 as at 31 December 2018, a sum of Rs. 81.50 million was remained unsettled for more than two years	Stated as these balances will be settled in the future.	Financial statements can be made more clear by either settlement of payable balances or taking into the income

1.6.2 Advances

Audit Observation	Management Comment	Recommendation
(a) Although it is necessary to ensure that all goods are received before payment for goods purchased in accordance with Financial Regulation 237 (b) and that such goods are included in the stock	It was stated that such advances were made for the urgent requirements of the University and such advance payments will be made in accordance with the Financial Regulation	Should be complied with the Financial Regulation 237 (b) of the Financial Regulations. Condition for payment such as, payment will be made after goods

records, contrary to that a sum of 51.04 million had been paid as advance before purchase of goods in 125 occasions during the year under review. As such, out of advances paid for purchases from the year 2012 up to the year under review amounted to Rs. 3.08 million had not been settled even up to 31 December 2018.

371 (2) in future.

delivered should be included to the supply agreement to minimize issues.

(b) Receivables for supply of food and lodging by the Defense University for students with foreign citizenship as at 31 December 2018 amounting to Rs. 3.08 million had been carried forwarded since last three years.

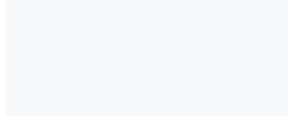
It was stated that the recovery was in progress

By identifying and recovering these receivable balances, the quality of financial statements can be assured.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(e) (i) Sir John Kothalawala State Defense Training Institute Act No 68 of 1981	According to the Establishment of the Sir John Kothalawala Defense Academy and its vision, mission and objectives, the degree programs of the institute should be limited to security activities. Depending on the changes that have occurred at the university, the degree will be awarded since	Action is being taken to amend of the Act.	Urgent actions should be taken to amend the relevant Parliament Act to ensure the legal recognition of the degree certificates awarded by the University
(ii) Amended Act No. 27 of 1988			
(iii) Sir John Kothalawala State Defense Training Institute (Amendment) Act No 50 of 2007			

2011 in other areas as well but the above Parliamentary Acts had not been amended.

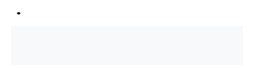


(ආ) Sir John Kothalawala State Defense Training Institute (Amendment) Act No 27 of 1988

According to the above Act, medical faculty was not allowed to enroll or graduate local students on cash basis. However, it was observed that 64 students who were enrolled on foreign citizenship by the Faculty of Medicine were Sri Lankan students with dual citizenship.

Had been stated that the students who are enrolled on foreign qualifications.

After receiving clarifications in this regard, action should be taken to correct the enrolment procedure for the Medical Faculty



2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.2,106.16 million and the corresponding surplus in the preceding year amounted to Rs.555.55 million. This indicating an deterioration of Rs.2,656.71 million in the financial result. The increase of interest on the loan obtain for the construction of the Teaching Hospital of the University in the year under review by Rs. 3,734.72 had mainly attributed to the above deterioration.

2.2 Trend Analysis of major Income and Expenditure items

The Government Recurrent Grant was mainly attributable to the increase in total income for the year ended 31 December 2018 amounting to Rs.3,615.15 million. Out of this, Rs. 2,294.03 million had received for the University Hospital Other factors that impacted to the revenue growth during the year under review were Course fee income of Rs. 1,060.15 million and a sum of Rs. 258.69 million received from the South Asian Medical and Technological Institute affiliated to the Defense University as per the Cabinet decision.

2.3 Ratio Analysis

(a) Return on capital employed

The return on equity in 2017 was 5.06 percent and compared to the year under review this ratio was declined by 21.07 percent.

(ආ) Current Ratio

Current liabilities to current assets ratio in 2018 was 2.08: 1 percent. It was observed that University had to meet the working capital requirements of the university by obtaining government funds for further recurrent expenditure..

(c) Creditors to equity Ratio

The ratio of debt capital to equity capital ratio in 2017 was 1: 2.84 and in the year under review it was 1: 3.51. The Defense University had obtained a loan to construct the Teaching Hospital from the National Savings Bank had obtained US \$ 177.33 million of foreign currency loan and Rs. 3,165.12 million of local fund loan from the National Savings Bank on a Treasury guarantee in 2013. A new agreement was signed on 17 September 2018 to restructure the above loan and accordingly, out of the original loan a sum of USD 82.33 million was converted to Sri Lankan Rupees on 17 September 2018 and agreed to convert the remaining balance of USD 95 million in to 11 instalments in SL Rupees. Further, Rs. 627.09 million in interest payable and Rs. 617.47 million in exchange losses which the bank had to bear in exchange were added to the loan capital. However, the Treasury had agreed to pay interest and loan installments of the above loan from the year 2023 onwards and Local Currency loan balance of Rs 3,165.12 and the interest payable on the loan of Rs. 90.83 million is agreed to pay by the Defense University within nine years from 2023 and due to this the Creditors to equity Ratio was increased.

3. Operational Review

3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a)The construction works of the Defense University	Recruitment procedures had been prepared and submitted to the	It is necessary to conduct awareness

Teaching Hospital had been completed on 21 May 2017 and operational activities had been commenced from December 2017. The Department of Management Services had approved the cadre requirement for the Teaching Hospital on 17 August 2018 but the necessary recruitment procedures had not been prepared and approved by 31 December 2018. As a result, the operations of the Teaching Hospital were not carried out in the maximum capacity.

The following observations are made in this regards.

Ministry of Defense for onward submission to the Department of Management Services.

programs for the stakeholders on the targets and services that the Teaching Hospital hopes to achieve. Accordingly, the cadre should be recruited quickly to utilize the hospital in maximum capacity to receive maximize the benefits to the Government's investment.

-It had been estimated a total cost of Rs. 39,629,000 to furnish and fix the medical equipment required for the Teaching Hospital at each stage but due to the vacancies in the staff, the medical equipment that was supplied at each stage was less than the required requirements

Due to delays in the construction of the hospital and shortage of human resources, most of medical equipment was avoided under the anticipated stages.

Action will be taken to purchase them as per the requirements

Prompt action should be taken to get the hospital in to fully operational level.

-Thirteen units, including the Accident Unit, General Outpatient Services, Specialist Services, Special Medical Services, Surgery Services, Intensive Care Unit, were not functioning efficiently to perform the services required in the Teaching Hospital.

The procurement process of procuring necessary medical equipment had not been completed and the hospital is not fully functioning due to shortcomings in the staff.

Furthermore, as of 31 December 2018, there were 433 patient beds in the Teaching Hospital and 2,012 inpatients were treated between March 2018 and December 2018

Accordingly, the average bed utilization rate was only 4 inmates per bed. The maximum number of patients that could be accommodated by 16 outpatient clinics during the year under review was 95,820, but only 25,735 were treated.

- Although the Teaching Hospital's approved medical staff and administrative staff were 1,380 and 516, respectively as of 31 December 2018, there were 437 and 284 officers on staff medical staff and administrative staff, including contracted and assigned military personnel.

A total of 85 officers who had been recruited on contract basis had resigned in 2018 and 2019.

It was informed that the staff will be recruited as per the requirement after the approval of the approved recruitment procedures for the hospital.

The recruitment of staff should be expeditiously submitted to the Department of Management Services explaining the recruitment requirements of the hospital staff.

(b) The total number of lecture hours scheduled for the year under review was 3,204, but the actual lecture hours were 2,147.50 for the 04 undergraduate courses of the 02 faculties in the Southern Campus of the University of Defense.

The curriculum content was covered by classes, classroom assignments, practical discussions, etc. after academic hours

Action should be taken to deliver lectures as planned

(c) Since no permanent library building had been built for the Southern Mandapaya, the Library was housed in a prefixed pre fixed building of about 1152 square feet with roofing sheets. Though 460 students were studying in the Southern Campus As of 31 December 2018, the library had only

Funds are expected to be allocated by 2020 to construct a main building for the library, and action is being taken to purchase to buy books recommended by the University Grants Commission

Quality of degree programs should be maintained by maintaining a list of recommended book priorities by The University Grants Commission and maintaining adequate

1,800 books.

library building facilities.

(d) The total number of students in the Faculty of Medicine as of 31 December 2018 was 1,393, consisting of 382 cadet officers from the security forces and 819 students from the South Asian Medical and Technical Institute in the year under review. Though 192 foreign qualified students from 06 batches in the Medical Faculty were studying, enrollment of the number of foreign students was gradually declining and only 25 students were enrolled in the year under review.

The drop in the number of Rwanda students and the lack of a proper decision from the Sri Lanka Medical Council (SLMC) to provide internship training have been attributed to the drop in the number of students enrolling with foreign qualifications.

Action should be taken to attract students with foreign citizenship.

3.3 Management Inefficiencies

Audit Observation

Management Comment

Recommendation

(a) The cost incurred for the electricity expenditure of the Teaching Hospital in the year under review was Rs. 200.95 million. A central air conditioning service is in place for the entire hospital system and due to existing of 24 non-operational units resulted in higher electricity costs in the year under review,

Action had been taken to reduce the cost of electricity and the air conditioning service in the non-operational units had been disconnected.

It is necessary to improve the financial position of the organization by conducting internal cost control activities efficiently.

(b) The cost of telephone and internet facilities for the Teaching Hospital during the year under review was in high range and was Rs. 8.14 million. A sum of

Internet facilities had been taken through leased data and discussions had been made to bring the existing data package to a lower capacity.

Rs. 0.66 million had been paid for 259 Terra bytes internet data monthly package, but monthly average data usage for the six months ended 31 December 2018 was the only six terra bytes.

- (c) The students details who were under the supervision of one internal faculty member of the University as at 31 December 2018 as follows.
- | Name of the Faculty | No. of Students under one Lecturer |
|---------------------|------------------------------------|
| Medicine | 24 |
| Para Medicine | 12 |
| Law | 57 |
| Engineering | 24 |
- According to the criteria of the University Grants Commission, there are seven students and Ten para medicine students can be supervised as a maximum per one lecturer in the medical faculty, and only 18 students and 10 students can be supervised as a maximum per one lecturer in the Faculty of Law and Engineering respectively.
- The approval of the Department of Management Services is being obtained with the recommendation of the Ministry of Defence for the staff requirement to suit the teacher student ratio which should be based on current student numbers.
- Action should be taken to maintain the quality of the Degree rogrammes by maintaining the Teacher Student ratio in accordance with the generally accepted criteria of the UGC. .

3.4 Delays in Projects or Capital Work

Audit Observation

Management Comment

Recommendation

Though the construction of the University-affiliated Southern Campus was scheduled to be completed by the end of 2018, was observed that due to lack of adequate funds construction had slowed down.

Funds for construction works were given slowly and occasionally priorities were given

Through the expedite the construction works cost can be minimized and the studies can be done in systematic facilities.

3.5 Procurement Management

Audit Observation

A sum of Rs.53.54 million had been incurred to purchase of rationing requirements of the Cadet Officers' Residence in the year 2018 but quotation had not been called to select the suppliers.

Management Comment

A written request had been made to appoint a Procurement Board and arrangements had been made to settle the rations outstanding now.

Recommendation

Proper quotations should be called for the purchase of Rations and action should be taken to collect the receivables

3.6 Human Resources Management

Audit Observation

(a) It was observed that formal approval had not been obtained for the 1,327 staff attached by the three forces other than the approved staff of the University as at 31 December 2018, as ordered by the Public Enterprises Committee.

Management Comment

It was informed that action is being taken to get approval for the list of new posts prepared for the university.

Recommendation

Action should be taken as recommended by the COPE.

(b) The posts of Deputy Vice Chancellor (Academic), Bursar, Registrar and Librarians of the University of Defence had been vacant for more than two years as at 31 December 2018. Four acting officers had been appointed to the said posts.

Action is being taken for the recruitment.

It is emphasized the need to recruit permanent staff for

(අ) There were 741 vacancies and 39 posts were excess in the South Campus of the Defence University. 07 posts of Professors, 25 posts of Senior Lecturers and 07 posts of Instructors were vacant in the Southern Campus as at 31 December 2018. Action is being taken for the recruitment of these posts without delay.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Management Comment	Recommendation
As per Section 6.5.1 of the Public Enterprises Circular No. PED / 12 dated 02 June 2003, even though the financial statements should be submitted to the Auditor General within 60 days of the end of the financial year, the financial statements for the year ended 31 December 2018 were submitted to the audit on 18 April 2019 and the approval of the Board of Management was received on 07 May 2019.	Financial statement will be submitted in due date.	Financial statements should be submitted on or before due date.

4.2 Annual Action Plan

Audit Observation	Management Comment	Recommendation
According to a feasibility report on the Defense University Teaching Hospital Project, it was planned to generate revenues once the hospital operations commenced, by providing treatment services but the business plan for the hospital had not been prepared even up to the 31 December 2018	The revenue earning plan will be prepared in 2018 and will be implemented from 2019 onwards.	Establish a proper business plan to generate revenue and take action on a sustainable basis.

4.3 Internal Audit

Audit Observation	Management Comment	Recommendation
Only 4 audit staff attached to the Internal Audit Division of the Defence University and observed that this amount will be inadequate to cover the functions in a wider university	Informed that n additional staff had been requested..	Internal control system should be regulated by attaining adequate audit staff.

4.4 Budgetary Control

Audit Observation	Management Comment	Recommendation
Variances between the estimated expenditure and the actual expenditure in 07 expenditure items ranged from 36 percent to 4,264 percent were observed and observed that the budget had not been used as n effective management tool.	Informed that, action will be taken to minimize the variations..	Budget estimate should be prepared realistically.

4.5 Sustainable Development Goals

Audit Observation	Management Comment	Recommendation
It was observed that attention had not been made on the letter No. NP / SP / SDG / 17 dated 14 August 2017 of the Ministry of National Policy and Economic Affairs and the circular No. BD / CBP / 4/1/2 dated 31 July 2017 of Department of National Budget on the 2030 Agenda on the United Nations Sustainable Development Goals. Accordingly, action had not been taken by the Defence University to identify the	Informed that, action will be taken to achieve in future.	Action should be taken to achieve targets and goals.

Sustainable Development Goals, targets and the milestones to be achieved the targets and the indicators for achieving the goals relevant to the scope of the University. It was observed that due to the lack of identifying the Sustainable Development Goals and targets, the required funding, human resources and physical resources could not be addressed.