

**1.1 Qualified Opinion**

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The audit of the financial statements of Defence University of Sir John Kothalawala for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 in terms of 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 2019, 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**

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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**

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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**

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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 Page 3 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**

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### **1.5.1 Internal Control over the Preparation of Financial Statements**

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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**

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) Provision for depreciation from 2017 to year under review had been understated by Rs.96.17 million as the furniture valued at Rs. 681.86 million purchased for the teaching hospital in the year 2017 had been accounted under other assets instead of accounting under furniture and fittings.	Action will be taken to rectify.	The category of assets should be accurately identified and accounted for and depreciation should be calculated according to the accounting principles.

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| (b) | Although the Club, Bakery, Jana Awanhala and the canteen carried out within the Defence University had earned an aggregate profit of Rs. 6.47 million, it had not been identified in the financial statements as revenues. | A part of the revenue will be taken into the Self-Finance Fund in the future.  | The revenue earned in the University should be identified as revenue of the University.  |
| (c) | Direct deposits totaling Rs. 66.82 million, had been shown under current liabilities in the statement of financial position without identifying as revenue.  | Action will be taken to identify as revenue.   | various unidentified deposits should be identified and accounted under relevant revenue. |
| (d) | Accrued expenses totaling Rs. 18.37 million related to the year under review had not been accounted,   | Such information had not been received at the time of preparation of the accounts and action will be taken to rectify in the future. | Expenditure related to the period should be identified accurately and accounted.         |

**1.6 Accounts Receivable and Payable**  
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**1.6.1. Accounts Receivable**  
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Audit Issue	Management Comment	Recommendation
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The aggregate of 04 accounts receivable carrying forward unchanged over a period of 2 to 4 years as at 31 December 2019, had been Rs. 1.57 million.	Those have been shown as receivables since the relevant approval has not been obtained to cancel the registration of the students and there are amounts still to be received.	Necessary actions should be taken to recover without a delay.

**1.6.2 Accounts Payable**  
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Audit Issue	Management Comment	Recommendation
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An amount of Rs. 6.86 million under accrued expenses for over 01 to 03 years and Rs. 45.08 million under other creditors for over 01 to 05 years remained unsettled even up to 31 December of the year under review.	Actions are being taken for settlements at present.	Steps should be taken to settle without a delay.

### 1.6.3 Advances

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Although imprest should be settled or surrendered before 31 December in the financial year which the imprest was issued in terms of Financial Regulation 371, advance payment totaling Rs.1.91 million for the period from year 2012 to year 2018 had not been settled.	Unsettled advances consist of purchases, petty cash, festival advances and an age analysis related to the advances had been submitted .	Actions should be taken in terms of the Financial Regulations and circulars

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

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Sir John Kotelawala Defence Academy Act No. 68 of 1981 and Amendment Act No. 27 of 1988 and No. 50 of 2007	Although the University Institute has the power to admit the cadets required to the armed forces and local and foreign students have been admitted on a paid basis since 2011, the Act has not been amended as the power is delegated.	Further, action is being taken through the Ministry of Defence to present the Kotelawala Defence University Bill to the Parliament.	Action should be taken to get the Universities Bill passed without a delay.
(b) Article 07 (a) of the Agreement entered into with the students recruited for the Bachelor of Pharmacy course	Although it has been agreed to serve the University Teaching Hospital for 5 years after graduation or to pay a bond value of Rs. 1.05 million, 20 students who completed the course had left without being served. However, according to the	Arrangements are being made to send notices to the students and their guarantors to pay the relevant bonds as a first step in the legal process.	Actions should be taken to recover informing the relevant persons in accordance with the agreements and to take appropriate legal action against those who do not respond without a delay.

agreement, Rs. 21.50 million had not been recovered until the date of the report.

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| (c) Article 3 (g) of the agreement entered into with the University and the foreign students who study there. | Although payments for meals and accommodation of student should be made at the end of each month, 76 students in groups No. 30 to 36 had not paid Rs. 7.25 million from the year 2014 to year 2019. | Action will be taken to recover the relevant amounts in the future. | Actions should be taken to recover informing the relevant persons in accordance with the agreements and to take appropriate legal action against those who do not respond. |
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## **2. Financial Review**

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### **2.1 Financial Result**

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The financial result for the year ended 31 December 2019 according to the Financial Statements amounted to a deficit of Rs 203.71 million and with compared to the corresponding deficit in the preceding year amounted to Rs.2,079.81 million. A growth of Rs. 1876.10 of the financial result was observed. The increase of the government grants had mainly attributed for this growth.

### **2.2. Ratio Analysis**

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#### **(a) Return On Capital Employed**

The return on equity in 2018 was minus 4.20 percent and it was minus 0.43 for the year under review.

#### **(b) Current Ratio**

The ratio for current liabilities to current assets in the year 2018 was 1.9: 1 percent and it was 2.6:1 for the year under review.

#### **(c) Debt to Equity Ratio**

The ratio of debt capital to equity capital in the year 2018 was 3.5;1 and it was 3.7:1.in the year under review Accordingly, it was observed that there was high debt to equity ratio in relation to the institute.

### 3. Operational Review

#### 3.1 Management Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) 1386 items of medical equipment related to 70 categories purchased from the year 2017 to year 2019 valued at Rs. 13.25 million, 58,120 U.S. Dollars, 9,456 Sterling Pounds and 4,212 Euro had remained in the medical equipment warehouse even up to 03 July 2020 without being issued. Out of this, the warranty period of medical equipment related to 159 units of 16 items valued at Rs. 8.90 million had been expired.	It was in the warehouse due to reasons such as to keep it for issuance to the wards / units to be commenced in the future and to keep it for an emergency of the hospital.	Actions should be taken to commence the planned wards by recruiting staff required for the hospital and units without a delay and to use the equipment purchased for this purpose.
(b) Although a sum of Rs. 1,245.69 million for land development under the Southern Campus and the University Teaching Hospital and Rs. 399.20 million for the construction of hostels in the Southern Campus had been incurred, the legal ownership of the relevant lands had not been taken over.	Necessary actions were being taken to take over.	Action should be taken to take over the ownership of the land expeditiously.

#### 3.2 Operational Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The hospital, which had been built obtaining a loan of U.S. \$ 177.329 million and Rs. 3,165.821 million from the National Savings Bank, had been officially	Operations had not been commenced due to lack of adequate staff and medical equipment and action will be taken to commence operations with the required recruitments.	Actions should be taken to commence operations providing necessary human resources and physical equipment

opened in the month of May 2017 and commenced operations in December 2017. Five units and the medical wards on the fifth floor of the University Teaching Hospital had not been opened until 31 December 2019.

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| (b) It was observed that there was a low tendency for foreign students entering the university as the number of foreign students entered in to the University from the year 2016 to year 2019 ranged from 44 to 29.   | The Board of Management (569: 26) had approved a methodology to check the educational qualifications required for recruitment of students on foreign qualifications. | The reasons for non-admission of foreign students should be investigated and actions should be taken for.                        |
| (c) Although the number of patients who can be treated at the clinic for the year 2019 was 111,800 according to the information provided by 16 clinics operating in the teaching hospital, 65,203 patients had been treated, thus 42 percent of the existing resource capacity had not been utilized. | Lack of doctors as well as junior staff was the reason for this.   | Action should be taken to get the maximum use of existing resources.   |
| (d) Out of 359 beds allocated for inpatient treatment in the year 2019 the use of inpatient beds was as low as 27 percent.  | The reason for the decrease in activity were non-opening of Ward No. 09 in the year 2019, lack of doctors and staff and non-installation of all medical equipment.   | The hospital operations should be carried out by filling vacancies of medical and other staff .                                  |
| (e) The actual number of students were high as 14,10,21,4 and 14 respectively for the Faculty of Medicine, Faculty of Engineering, Faculty of Law, Faculty of Built Environment and Spatial Sciences and Faculty of Computer exceeding the  | Information of number of the staff of lecturer and students available for courses has been provided.   | Actions should be taken to maintain appropriate teacher-student ratio whenever possible as the quality of the courses increases. |



number of students which should be for a lecturer as per the circular provisions of the University Grants Commission No. 04/2019 dated 12th February 2019.

### 3.3 Delays in Projects or Capital Work

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
Although the construction works of the Medical Faculty building and the marriage officer's residence of the University valued at a sum of Rs.250.31 million which had been shown under the work in progress in the statement of financial position as at 31 December of the year under review had been commenced in the years 2014 and 2015 respectively, the construction had been failed to complete even until the end of the year under review.	It had been stated that work will commence in the year 2020 under the Self-Financing Fund.	Management should focus on completing projects on the planned date.

### 3.4 Human Resources Management

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) Although the approved cadre was 903 for 76 designations in the University, there were 149 vacancies as the actual cadre was 754. Further, although the approved cadre for South Asian Institute of Medicine and Technology which is temporarily attached to the University had been 149, the number of vacancies were 116.	The Minimum submission of eligible applications, leaving of temporary recruits, non-receipt of at least expected minimum number of applications were the reasons for vacancies and the necessary recruitments are being carried out.	Staff requirements should be reviewed accurately, and actions should be taken to expedite necessary recruitments.
(b) Although there should be 154 approved cadre for 12 designations of the academic staff of the Southern Campus, the number of vacancies was	Advertisements will be published in the year 2020 in order to fill the vacancies.	The actions should be taken to recruit the required staff by reviewing the staff requirements in a timely manner.

98 as the actual cadre is only 56. No one had been recruited to the staff under the titles of Professor, Instructor Grade I, Computer Programs and Systems Analyst, and Network Administrator. Further, although the approved cadre for 29 titles of non-academic staff designations was 376, there were 276 vacancies as the actual cadre was 100.

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| (c) | Although the approved cadre for 58 designations of medical staff of the hospital was 1,375, the recruited staff on contract basis for 19 designations were only 427 and although the approved cadre for 77 designations of administrative staff was 501, only 32 for 06 designations had been recruited on contract basis. | It was stated that the relevant medical and administrative staff will be recruited after the approval of the scheme of recruitment submitted to the Department of Management Services is obtained.  | The actions should be taken to recruit the required staff by reviewing the staff requirements in a timely manner.   |
| (d) | The schemes of recruitment for only 08 designations of hospital staff had been approved as at 31 December 2019.  | The schemes of recruitment for 38 staff posts have been already prepared and submitted to the Department of Management through the Ministry of Defence and 08 of them have been approved up to date. and schemes of recruitment are being prepared for 10 more posts. | The schemes of recruitment required for the posts should be prepared and action should be taken to obtain approval without a delay by maintaining proper coordination with the relevant institutions. |

**4. Accountability and Good Governance**  
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**4.1 Internal Audit**  
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<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
Although there were 4 audit staff attached to the Internal Audit Division of the University and the work of the University was expanded, the actions had not been taken to increase the staff accordingly.	An additional staff has been requested.	Actions. Should be taken to recruit staff as required.

**4.2 Budgetary Control**  
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<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
The budget had not been utilized as an effective control tool as a variance ranging from 15 percent to 246 percent was observed when comparing the budgeted expenditure and the actual expenditure of 06 units of expenditure related to year under review.	The preparation of the budget for the year 2019 has been done only on the funds received from the treasury and the actual expenditure has also included the expenditure incurred from the Self-Financing Fund.	Budgets should be prepared identifying the relevant sources in a timely manner and forecasting accurately.