

## **Defence Services Command and Staff College - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Defence Services Command and Staff College for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and Comprehensive income statements, statement of changes in equity and 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 reported 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 financial statements give a true and fair view of the financial position of the Defence Services Command and Staff College as at 31 December 2021, and of its financial performance and 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 (As applicable), 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 Services Command and Staff College 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 Services Command and Staff College or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Defence Services Command and Staff College's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Defence Services Command and Staff College 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 Defence Services Command and Staff College.

#### 1.4 **Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)**

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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 the report of the Auditor General 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, and its materiality depends on the influence on economic decisions taken by users 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Defence Services Command and Staff College's 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. However, future events or conditions may cause the Defence Services Command and Staff College to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements including 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 Defence Services Command and Staff College and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Defence Services Command and Staff College has complied with applicable written law, or other general or special directions issued by the governing body of the Defence Services Command and Staff College;
- Whether the Defence Services Command and Staff College has performed according to its powers, functions and duties; and
- Whether the resources of the Defence Services Command and Staff College had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

**1.5 Audit observations regarding the preparation of financial statements**

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**1.5.1 Non Compliance with Sri Lanka Public Sector Accounting Standards**

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<b>Non Compliance with the reference to particular Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>Even though the assets should be revaluated once every three or five years in terms of the paragraph 47 of the Sri Lanka Public sector Accounting Standards no. 7, the lands and buildings worth Rs. 1,352.15 million of the Staff College were not accounted for from the year 2008, which was the founding year, until the end of the reviewed year. Similarly, the effective life span of the vehicles worth Rs. 17,450,000 given to the College by the Army, which are already in use ,but fully depreciated, had not been re-</p>	<p>The lands and buildings will be revaluated in due course, and the vehicles worth Rs. 17,450,000 given to the college by the army will be revaluated as soon as possible.</p>	<p>After the expiry of the prescribed period, the assets should be revaluated and the new values should be determined in accordance with the guidelines and instructions specified in the Sri Lanka Public Sector Accounting Standards.</p>

estimated and adjusted in the accounts in accordance with Sri Lanka Public sector Accounting Standard No. 3.

### 1.5.2 Accounting Deficiencies

#### Audit Observation

#### Comments of the Management

#### Recommendation

Depreciation of Rs.572,435 related to equipment worth Rs.2,862,176 purchased from Non-Resident Foreign Currency Account (NRFC) in the year under review should not be included in deferred income. However, the deferred income was accounted for including that value also. Accordingly, the surplus of the college was represented more than that amount.

Action will be taken to correct it through the journal entries of April 2022.

Deferred income should be correctly identified and accounted for.

### 1.6 Accounts Receivable and Payable

#### 1.6.1 Payables

#### Audit Observation

#### Comments of the Management

#### Recommendation

Even though a gross allocation of Rs.828,000 should be made for the audit fees to be paid for the years 2020 and 2021, no allocation was made for that in the financial statements.

That the invoices related to the audit fees have not been accounted for due to non-submission and that an estimated amount will be allocated in the accounts in due course.

In preparing the financial statements, arrangements should be made to make a maximum allocation for the expenses to be paid.

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

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Employees' Trust Fund Act No. 46 of 1980	After solving the issues in the nature of the appointments of the employees, the Ministry of Defence has informed the Department of Labour to give membership to the Employees' Trust Fund. As soon as the Ministry of Labour recommends, the employees will be registered in the Employees' Trust Fund and the contributions will be paid.	Employees' Trust Fund Act should be implemented effectively.
(b) Financial Regulation 396 (d)	The relevant parties have been informed to extend the dates for submitting the cheques and since there is no response, I am proceeding to cancel the cheques.	The relevant parties have been informed to extend the dates for submitting the cheques and since there is no response, cheques will be canceled.

**2. Financial Review**

**2.1 Financial Result**

The operating result of the year under review amounted to a surplus/of Rs. 28,959,511 and the corresponding surplus in the preceding year amounted to Rs. 27,963,274. Therefore an improvement/ amounting to Rs. 996,237 of the financial result was observed. The main reason for the improvement/was The income received from foreign students increased by Rs.16,882,235 compared to the increase of operating expenses by Rs.15,867,111 in the previous year.

**3. Operational Review**

**3.1 Procurement Management**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Due to the problem of water	In terms of the sub-Clause 11.4	An efficient and orderly work

leakage in the four-storied library and examination hall building built at a cost of Rs. 133 million, the electrical system and the walls of the upper floor have suffered a lot of damage and it was not possible to carry out the renovation work from the year 2019 to the year under review.

(a) of ICTAD/SBD/02 regarding contract services, college was instructed by the ministry to rectify the defects of the building by the college or by a paying party and to recover the cost from the contracting company. Accordingly, actions are being taken to get approval from the board of directors to construct a roof for the building at a cost of Rs.8.1 million.

plan should be put in place to expedite the repair of the building.

### 3.2 Operational Inefficiencies

#### Audit Observation

The computerized accounting system that was purchased for Rs.95,000 in the year 2018 remained idle for about two years without being used.

#### Comments of the Management

This computer software was available for two years without any problem and remained inactive for about six months due to a computer error. Again, the information related to that software was deleted due to a computer technical error. Later, those institutes were contacted by me and the computer software was updated and is being maintained now.

#### Recommendation

Assets should be used sparingly.

### 3.3 Vehicle Fleet Management

#### Audit Observation

In order to get a vehicle on rental basis, 04 vehicles were put into service by calling the prices on four occasions during the period of 10 months from February 2021 to December 2021 through

#### Comments of the Management

When obtaining vehicles on the basis of rental payment, no agreements have been reached regarding the number of kilometers to be driven with the relevant approval and the vehicle

#### Recommendation

Assets should be used sparingly.

the same file. Similarly, during the procurement of vehicles on rental basis, cases where the vehicles were provided contrary to the terms mentioned in the tender documents were observed in the audit. Also, during the inspection of the five vehicles deployed in this way, it was identified that three vehicles had driven a very small amount exceeding of the minimum number of kilometers that should be driven. Accordingly, it was observed that the vehicles were being driven without being frugal.

are rented on the basis of college need. Accordingly, the distance traveled may vary.