

## **Defense Service Command and Staff College - 2023**

---

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Defense Service Command and Staff College for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of comprehensive income, 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 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 accompanying financial statements give a true and fair view of the financial position of the Defense Service Command and Staff College as at 31 December 2023, 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 Defense Service Command and Staff College'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 Defense Service 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 Defense Service Command and Staff College's financial reporting process.

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

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

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 Company'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 Company'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. 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 Company 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 Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;

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

## 1.5 Audit Observations on the preparation of Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
According to paragraph 48 of Sri Lanka Public Sector Accounting Standard No. 01, income and expenditure should not be offset. However, a sum of Rs. 21,318,750 incurred for foreign travel was offset from course fee income of Rs. 151,847,248, and only Rs. 130,528,497 was accounted as income.	The income from foreign course fees is Rs. 130,528,497. The sum of Rs. 21,318,750 pertains to expenses payable for students and officers in relation to foreign travel. This is not income but an amount that must be paid for the foreign travel participation of foreign students and officers. Receipts and payments related to foreign travel have been allocated to other income account. The final result is zero, and there has been no impact on the balance of the other income account. In the future, receipts and payments related to foreign travel will be accounted for in a separate account.	Maintaining accounts in accordance with accounting standards.

### 1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) Due to the failure to allocate Rs. 1,439,784 for accrued maintenance expenses for the year 2023 in the provision accounts, the surplus for the year 2023 was overstated by that amount.	These maintenance expenses were related to repairs for water leakage in the library building, which were to be covered by the refundable Deposited Money. As a result, they were not included in the accrued expenses. In the future, expenses payable from refundable Deposited Money will be deducted from the refundable Deposited reserve and aligned with accrued expenses.	Accrued expenses for the year should be identified and accounted.
(b) The stock of toners and cartridges amounting to Rs. 2,982,560 at the college had been omitted from the final	The final stock of stationery is calculated by an independent committee, and due to a delay error during the process, there has	Stock calculation and accounting must be done accurately.

stock, and stationery stock had been a discrepancy in the final been overstated by Rs. stock of stationery. As an audit 1,377,165. As a result, the observation, the difference in the final stock for the year was stationery stock will be corrected understated by Rs. 1,605,395, in the year 2024 using journal leading to an understatement entries. of the surplus by the same amount.

### 1.5.3 Inappropriate Valuation or Estimation

Audit Observation	Management Comment	Recommendation
During the year under reviewed, the carrying value of assets with cost of Rs. 223,585,636 had become zero, but the assets had been used by the institution. However, action had not been taken to revalue and account for these assets.	Carrying amount zero assets will be taken to identify and revalue in the future.	The accurate value of assets must be disclosed in the financial statements

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 117,304,421 and the corresponding surplus in the preceding year amounted to Rs. 86,736, 631. Therefore an improvement amounting to Rs. 30,567,790 of the financial result was observed. The reasons for the improvement are exceeding the increase in relative operating expenses by Rs.12,808,187 to the previous year, the cash receipts from the treasury increased by Rs.26,368,377, as well as the negative of the foreign exchange account increased by Rs.49,764,778 and the income from foreign students increased by Rs. 57,548,497.

## 3. Operational Review

### 3.1 Utilization of Resources of Other Organizations

Audit Observation	Management Comment	Recommendation
The land of 11 acres belonging to the Heyyanthuduwa Youth Services Council has been in used, but its legal ownership had not been transferred as at 31 <sup>st</sup> December of the reporting year. Furthermore, the net building value of Rs. 1,263,734,910 shown in the financial statements at the end of the reporting year included the value of the buildings located on that land, but this value had not been separately calculated.	The land of 11 acres, 0 roods, and 10 perches from the Heyyanthuduwa land, which belonged to the National Youth Services Council, has been good to be transferred for the use of the Ministry of Defense without a financial payment, as informed to this institution by the Ministry of Defense letter MOD/DEF/DSCSC/ADM/9 dated 13 <sup>th</sup> October 2023. The Land Reforms Commission letter 15/6/DE/GAM/50 dated 12 <sup>th</sup> January 2024, has notified	Legal ownership of the land should be taken over

that land owned by individuals cannot be transferred without financial compensation. It has also been stated that a meeting will be held between representatives of the college and the Land Reforms Commission, and a report of the discussions will be submitted to the Defense Council.