Defence Service Command and Staff College - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Defence Service Command and Staff College for the year ended 31 December2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy 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 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 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 the Staff College as at 31 December 2024, 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 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 Staff College or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Staff College financial reporting process.

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

1.4 Audit Scope

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 skepticism 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 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 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 Staff College, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Staff College has complied with applicable written law, or other general or special directions issued by the governing body of the Staff College;

- Whether the Staff College has performed according to its powers, functions and duties;

- Whether the resources of the 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 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
A fixed deposit of USD 125,000 was cashed out for Rs. 37 million on 30th August 2024, which was shown as a cash flow generated from financing activities in the cash flow statement.	It is accepted that this fixed deposit amount should be accounted for as investment activity.	As per paragraph 8 of Sri Lanka Public Sector Accounting Standard No. 2, it should be presented as investing activities in the cash flow statement.

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
a.	Although Rs. 25,067,632 had been deducted from the other income of the college as foreign exchange loss, the actual foreign exchange loss was Rs. 24,703,877 thus the other income and surplus for the year had been understated by Rs. 363,755.	This difference will be corrected in the 2025 financial year.	Income must be identified correctly.

b.	In the statement of changes in equity, the deposit account balance as at 31st December 2024 included a Rs. 37.15 million liability balance of payable to external parties. Furthermore, the exchange loss of Rs. 4.04 million on course fees paid by foreign officers included in the deposit account and the amount of Rs. 2.13 million removed from the deposit account as expenses for the year under review had not been adjusted from the statement of changes in equity.	This accounting deficiency will be corrected in the 2025 accounting year.	Deposits, liabilities and expenses must be accurately identified and accounted.
c.	Although the building cost was stated as Rs. 1,235.11 million according to the information submitted to the audit, in relation to 91 buildings constructed on the college premises, there was a difference with Rs. 38.86 million from the building cost of Rs. 1,273.97 million in the Statement of Financial Position as at 31st December 2024. Also 61 buildings and 5 other constructions out of these 91 buildings were valued at Rs. 682.2 million in the year of 2018, the necessary adjustments had not been made to the financial statements and the remaining buildings had not been valued and recorded in the financial statements.	The audit has shown that the value of the buildings recorded in the financial statements for the year 2024 is correct according to the college's fixed asset register and the steps will be taken to record the relevant revaluation values after a complete building valuation.	The correct valuation amounts of the relevant assets should be accounted and disclosed in the financial statements.
d.	The assets of the college at gymnasium, which were value unrevealed, included two tread mills, two multi station machines, two upright bicycles, one speed bike, one pull-up machine, three bents, and AB King Pro equipment and the Rs. 8.2 million books of the college library also not included under property, plant and equipment in the statement of financial position.	The ledger related to this equipment is maintained in the warehouse and the officer of the gymnasium nominates to confirm physically and correctly equipment mentioned in the document.	Information about relevant assets must be documented and accounted.
e.	Eleven vehicles cost of Rs. 17.5 million belonging to Army and a vehicle of Rs. 2.1 million belonging to the Ministry of Defence were included under the assets in the statement of financial position without being legally acquired by the college.	If these vehicles possible to take over to the college will be taken to the accounts and if it is not possible to do so, will remove them from the college assets.	Only assets legally owned to the institution should be disclosed in the financial statements.

1.5.3 Unreconciled Control Accounts or Records

Subject	As per to the financial statements is Rs.	As per the corresponding reports, the value is Rs.	Difference Rs.	Management's comments	Recommendation
Distress Loan Account	4,036,854	4,350,758	313,904	That change will be identified and the accounted correctly in the 2025 accounting year.	Relevant differences should be identified and accounted.

1.5.4 Inappropriate Valuation or Estimation

Audit Issue	Management Comment	Recommendation
Although the 23 acres 3 roods 34.10 perches of land belonging to the college was valued at Rs. 441 million in the year 2018, that value had not been included in the financial statements as at 31st December of the year under review. Furthermore, the above land had not been revalued after the year 2018. In addition, 6-acre 28.4-perch mud paddy field with a cost of Rs. 5.84 million, vehicles worth Rs. 11.64 million with a carrying value of zero since the beginning of the year, machinery and equipment worth Rs. 58.97 million, furniture and office equipment worth Rs. 48.11 million, computers and accessories valued at Rs. 100.5 million, and library books valued at Rs. 2.32 million, had also not been revalued and brought into the financial statements as at end of the year.	That the relevant revalued amounts will be recorded after the overall valuation.	In accordance with the Comptroller General's Office Circular No. 04/2018 dated 31st December 2018, assets must be valued and the correct values must be disclosed in the financial statements.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
The college course fee outstanding, USD 286,815.45 or Rs. 82.82 million came from since the year 2023 for Course No. 17 as at 31st December 2024 and the outstanding course fee for Course No. 18, which started in the year 2024 and was completed in the same year, was USD 348,876.90 or Rs. 100.74 million.	The relevant departments are taking diplomatic steps to recover outstanding course fees.	Action should be taken to promptly recover the relevant outstanding course fees.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
USD 128,405 had been deposited Saudi Arabian officers in year 2022 to the college's non-resident foreign currency account for the training related trips, but since the relevant trip did not take place, this amount had not been refunded and was held in a general deposit account until the date of the audit. The value of this was Rs. 37.08 million at the end of the year under review.	A request was received to transfer this money to a private account in the name of an officer in New Delhi. To confirm this, the Ministry of Defense has contacted the Saudi Arabian Embassy and informed the Ministry of Foreign Affairs to provide confirmation, but no confirmation has been received to make the payment yet.	Action should be taken to settle the relevant amounts promptly.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 89.2 million and the corresponding surplus in the preceding year amounted to Rs. 117.3 million. Therefore a deterioration amounting to Rs. 28.1 million of the financial result was observed. The reasons for the deterioration are course fee income decreased by Rs. 15.13 million, foreign exchange loss increased by Rs. 7.62 million and salary and wages cost increased by Rs. 7.45 million.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
As per the decision of the Management Committee meeting held on 15th August 2024 of the Ministry of Defence, Rs. 537,230 that is USD 1,740 paid to officers who had gone abroad contrary to Circular No. MF/06/23/50/2023 dated 20th March 2023 had not been recovered.	It has been informed through letters through the Ministry of Defense to organize a discussion in this regard with representatives of the Ministry of Finance, and further action will be taken accordingly.	Relevant decisions must be implemented.

3.2 Procurement Management

Audit Issue	Management Comment	Recommendation
a. Under the shopping procurement method, a minimum of 3 sealed bids	The procurement guidelines of 2024 will be followed in future procurement activities.	Procurement Guidelines 2.14.1 must be followed.

	should be obtained for the procurement value of below Rs. 05 million, but the college had made purchases totaling Rs. 6.5 million on 13 occasions by obtaining only one or two bids.		
b.	In 78 cases, it taken 7 days to 198 days to appoint technical evaluation committees after publishing bids for procurements total value of Rs. 46.97 million.	Steps will be taken to appoint Technical Evaluation Committees in the properly without delay in future procurement activities.	2.6.1 & 5.3.1 (d) Procurement Guidelines must be followed.
c.	When exceeding the procure goods value of Rs. 500,000, should be signed formal written contract agreement. But the college had made procurements totaling Rs. 3,802,831 on 04 occasions without entering into contracts.	That the approval of the Procurement Committee has been obtained to sign contract agreements only for purchases of exceeding Rs. 1,000,000 for this college.	Action should be taken in accordance with Procurement Guidelines 8.9.3.
d.	During the year under review, Toner value of Rs. 2.6 million was purchased from two institutions on 11 occasions without inviting for competitive prices.	Since the college had entered into after sales service agreements with two institutions when purchasing 02 photocopy machines, the recommended toner for the relevant machines was obtained from those institutions in accordance with those agreements.	The action must be taken accordance government procurement guidelines.

3.3 Utilization of Resources of Other Organizations

Audit Issue	Management Comment	Recommendation
A land of 11 acres and 10 perches belonging to the Land Reform Commission, 23 buildings were constructed at a cost of Rs. 557.42 million and a Basketball Court and Laundry with an estimated value of Rs. 6.02 million, an open cinema whose value could not be disclosed,	Although the necessary provisions were requested from the Ministry of Defense in the financial years 2024 and 2025 to acquire the land belonging to the Land Reforms Commission for the college, no provisions have been provided so far, as well as written requests have been made on several occasions to hold discussions with the Ministry of	Urgent steps should be taken to resolve the ownership of the relevant property.

and a volleyball court had also been built, but the college did not have legal ownership of the land.	Defense and the Land Reforms Commission to take over the land to college without paying any money, the Ministry of Defense has not yet provided an opportunity.	

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
As at 31st December 2024, the approved cadre of 108 for 22 positions in the college and the actual staff for 14 positions were 65. Accordingly, 08 positions were completely vacant and the total numbers of vacancies in 14 positions were 42.	The Department of Management Services has instructed to suspend recruitment for vacant posts in the primary service category and steps have been taken to postpone all recruitments in accordance with a Cabinet decision.	The approved staff should be reviewed in a manner appropriate to the actual staff.