

## **General Sir John Kotalawala Defense University - 2013**

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The audit of financial statements of the General Sir John Kotalawala Defense University for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 Section 13(1) of the Finance Act and No. 38 of 1971 and Section 10(a)(2) of the General Sir John Kotalawala Defense University Act No. 68 of 1981. My comments and observations which I consider should be published with the Annual Report of the University in terms of Section 14(2)(C) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the General Sir John Kotalawala Defense University as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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Action had not been taken to revalue and shown in financial statements of 25 vehicles valued at a cost of Rs.37,876,090 fully depreciated but existed in usable condition .

#### **2.2.2 Non-disclosure of transactions with Related Parties.**

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An amount of Rs.150,000 receivable from Sri Lanka Army had been omitted from accounts.

#### **2.2.3 Accounting Policies**

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Even though the accrual basis had been followed by the University in accounting, the policy of recognition of income had been followed after realization of fixed deposit interests. Therefore, due to following the cash basis for one item only the interest income and deposits receivable had been understated by Rs.5,272,143.

#### **2.2.4 Accounting Deficiencies**

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The following observations are made.

- (a) Even though a sum of Rs.123,091,693 had been received as local and foreign students fees in the year under review under the Self Financial Fund, a sum of Rs.35,585,399 out of that amount had been retained for the payment of employees incentives . Only the net balance of Rs.87,506,294 had been recognized as income. A sum of Rs.12,400,000 from the allocated amount had been used for the payment of employee incentives but the such expenditure or the balance had not been included in the financial statements. The approval of the Department of Management Services had not been obtained for so allocation of money or incurring of expenditure and it was further observed that the Director General of the Department of National Budget had informed all the money recovered should be credited to the Consolidated Fund in terms of Section 149 of the Constitution as provisions were made by the Treasury for the activities of the University .
- (b) Even though fully depreciated 02 vehicles costing Rs.1,535,147 received as donations from the Sri Lanka Army had been returned, it had been still shown under fixed assets.
- (c) Sums of Rs.166,010,417 and Rs.2,923,450 incurred against the income and expenditure of the preceding year respectively had been included in the statement of changes in equity instead of being adjusted in the financial statements retrospectively.

- (d) Loan interest amounting to Rs.231,683,487 payable for the second half year of 2013 obtained for the construction of the hospital had not been accounted.

### 2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following observations are made Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka (i) Financial Regulations 237(b)	Even though a certificate that the articles have been received and the that they have been brought on charge in the appropriate inventory ,stock book, etc should be appended, the full amount of the goods had been paid to the supplier before receiving the goods valued at Rs.4,479,000 in 04 instances.
(ii) Financial Regulation 371(5)	Even though every sub-imprest should be settled before 31 December in the year of account ,action had not been taken to settle the purchase advance of Rs.39,913,676 .
(b) Treasury Circular No.842 of 19 December 1978	A Register of Fixed Assets had not been maintained and updated in order to represent the value of fixed assets amounting to Rs.1,650,473,351 shown in the financial statements .
(d) Procurement Guideline of the Democratic Socialist Republic of Sri Lanka 2006 (i) Chapter 4.3	Even though a cost estimate should be prepared before calling for tenders for a construction contract ,action had not been taken accordingly in relation to a contract valued at Rs.8,886,314 awarded to the sub-contractors for the construction of the three storied building .
(ii) Paragraph 5.4.4	Even though a mobilization advance of 20 per cent from the contract value could have been given by obtaining a security guarantee from the suppliers for contracts , instances of payment of advances amounting to Rs.1,959,970 were observed in the year under review exceeding that amount without a security guarantee .
(iii) Paragraph 8.9.1	Even though a formal written agreement should be entered into with the supplier in connection with

procurement of goods or services exceeding Rs.500,000, a formal written agreement had not been entered in to in respect of 04 procurements of goods and services valued at Rs.9,122,757 during the year under review.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented , the financial result for the year under review amounted to a deficit of Rs.23,275,352 as against the corresponding surplus of Rs.36,566,608 in the financial results for the preceding year, thus indicating a deterioration of Rs.59,841,960 in the financial results as compared with the preceding year. It was 164 percent and observed the increase of operating expenses had been mainly attributed to this deterioration.

#### **3.2 Legal Actions Initiated Against or by the University**

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The following observations are made.

- (a) Four external parties had filed cases in Courts against the University asking compensation for vehicle accidents, claiming ownership to the bond of the tank belonging to the University , requesting ownership of a land and dismissal from the service etc.
- (b) Ten Court Cases had been filed by the University claiming compensation totaling Rs.3,650,000 against 10 Cadet Officers who were vacated from the University due to disciplinary grounds and non-participation of lectures without obtaining leave.

### **4. Operating Review**

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#### **4.1 Transactions of Contentious Nature**

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A methodology of supplying goods from time to time and paying the total amount in the order as advances had been followed , instead of paying money after the supply of goods according the relevant specifications and sending an order to the selected supplier for the supply of granite to the construction works of the Medical Faculty building. Accordingly ,a sum of Rs.245,000 had been paid for 50 cubes of granites of  $\frac{3}{4}$  inches on 31 May 2012 but granite valued at Rs.142,100 had not been supplied by 28 June 2013.

#### **4.2 Deficiencies in Contract Administration**

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Expenditure amounting to Rs.4,705,006,332 had been incurred in the year 2013 for the Teaching Hospital is being built at Werahera, affiliated to the Faculty of Medicine of the Sir John Kotalawala Defense University. The following observations are made in this connection.

- (a) When selecting a contractor for the construction of the hospital ,open tender procedure had not been followed and the Cabinet of Ministers had decided accept the bids presented by a foreign Company at a value of US\$ Rs.201,629,000 ( Rs.26 billions)after being discussed

with the said Company with a recommendation of a tender board appointed by the Cabinet of Ministers . A loan ,similar to the above value had been obtained from the National Savings Bank on a Treasury bond for this contract.

- (b) A local Institute had been selected on a monthly payment basis of Rs.225,000 for the consultancy service of the construction work and the open tender procedure had not been followed in this connection. Similarly , it was not satisfied in audit that action taken to obtain consultancy services on a monthly payment basis for such a large construction works without assigning a specific work.
- (c) Acquisition process of the ownership of the land, 47 acres and 37.9 roods is extent in which the hospital is being constructed had not been completed.
- (d) The approval of the Central Environmental Authority had not been obtained before the commencement of constructions.

#### **4.3 Personal Administration**

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Even though the Paragraph 7.1 of Chapter ii of the Establishments Code , states that a person who has been dismissed from service or who has vacated his post should not be recruited to the public service, an officer who was informed that he had vacated his post by the letter No.CG/1/2/2/143 of the Survey General and dated 01 June 2012 had been recruited to the post of a Senior Lecturer in the Faculty of Engineering of the University. Further, a female lecturer whose service was suspended by the University of Sri Jayewardenapura on 01 November 2011 had also been recruited as a lecturer in the Faculty of Medicine.

#### **5. Accountability and Good Governance**

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##### **5.1 Budgetary Control**

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Variances were observed ranging from 25 per cent to 400 per cent between the budgeted and the actual expenditure shown in the budget prepared for the year 2013 ,thus indicating that the budget had not been made use of as an effective instrument of management control. Further, the revised budget had been approved by the Board of Management on 09 January 2014.

##### **5.2 Unresolved Audit Observations**

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Although deficiencies in relation to the following matters had been indicated in my previous audit reports , it was observed that the rectification action in this connection had not been taken.

- (a) Ascertaining the approval of the Department of the Management Services in respect of payment of incentives.
- (b) Violation of the maximum financial limit in relation to payment of sundry advances.
- (c) Expenditure incurred exceeding the provisions in the Annual Budget.

**6. Systems and Controls**

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Vice Chancellor of the University from time to time. Special attention is needed in respect of the following areas of control.

- (a) Contract Control
- (b) Purchasing
- (c) Human Resources Management
- (d) Vehicles Control