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**General Sir John Kotalawala Defence University- 2012**

**1. Financial Statements**

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**1:1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the General Sir John Kotalawala Defence University as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1:2 Comments on Financial Statements**

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**1:2:1 Sri Lanka Accounting Standards**

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The following observations are made.

- (a) Property, plant and equipment purchased at a cost of Rs.26,393,112 and fully depreciated as at 01 January 2012 had been effectively used for the purposes of the University even during the year 2012. Action in terms of Sri Lanka Accounting Standard 16 had not been taken to revalue and account for those assets.
- (b) Even though the provision made for the employees' gratuity should be invested in terms of Sri Lanka Accounting Standard 19, action had not been taken for the investment of the provision for gratuity as at 31 December 2012 amounting to Rs.45,375,255.

**1:2:2 Accounting Deficiencies**

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The following observations are made.

**(a) Understatements and Overstatements**

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The salaries of Cadet Officers amounting to Rs.150,547,914 remaining reimbursable to Sri Lanka Army since the year 2010 had not been shown as accrued expenses in the statement of financial position and as such the expenditure and the liabilities of the year had been understated by that amount. The Vice Chancellor informed the audit that Sri Lanka Army had agreed for the write off of this amount.

**(b) Inappropriate Disclosures**

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Even though the amount payable in the year 2013 out of the Bank loan balance of Rs.47,802,500 should have been shown under the current liabilities and the balance remaining should have been shown under the non-current liabilities in the statement of financial position, the University had shown the full balance of the above Loan Account as current liabilities in the financial statements.

**1:2:3 Lack of Evidence for Audit**

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The value of the following constructions shown under the “work-in-progress’ from the year 2011 remained unchanged even by 31 December 2012.

Account Balance	Balance as at 31 December 2011 and as at 31 December 2012
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	Rs.
Buildings	6,388,934
Official Quarters of Married Officers	230,870
Construction of Quarters of Married Officers	5,033,574

The evidence required for the identification of these amounts had not been furnished to audit.

#### **1:2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following non-compliances were observed during the course of audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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Procurement Guidelines 2006	
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(i) Guidelines 2.14.1, 3.4.1 and 4.3	Even though the limit of authority of the Departmental Procurement Committee amounted to Rs. 3 million, procurements exceeding that limit had been made. Even though payments had been made to the contractors selected by that Procurement Committee, cost estimates for that had not been prepared.

- \* The supply and installation of a fire protection system valued at Rs. 9.1 million for the building of the Faculty of Medicine and spending a sum of Rs.4,596,547 for that purpose.
- \* The supply and installation of an electric lift valued at Rs.7.1 million for the building of the Faculty of Medicine and spending a sum of Rs.3,584,000 for that purpose.
- \* Laying a carpets valued at Rs.4.7 million for the building of the Faculty of Medicine and spending a sum of Rs.742,834 for that purpose.
- \* Purchase of dry rations valued at Rs.12.4 million for the incentives of the employees.

(ii) Guideline 5.4.4(i)

Even though an acceptable advance payment guarantee should be obtained for the payment of purchase advances, sums amounting to Rs.20,437,428 had been paid as advances in 08 instances to the suppliers without obtaining such guarantees. It was observed that those advances had ranged between 50 per cent to 100 per cent of the value of each purchase.

(iii) Guideline 8.9.1(b)

The written agreements entered into with the parties concerned in connection with procurements exceeding Rs.500,000, relating to 06 institutions for the procurement of goods and services valued at Rs.28,813,494 had not been furnished to audit.

**2. Financial Review**  
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**2:1 Financial Results**  
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According to the financial statements presented by the General Sir John Kotalawala Defence University, the financial result for the year ended 31 December 2012 amounted to a surplus of Rs.36,566,608 as compared with the corresponding surplus of Rs.20,889,023 in the financial results for the preceding year, thus indicating an improvement of Rs.15,677,585 in the financial results as compared with the preceding year. The improvement of the financial results for the year under review as compared with the preceding year was observed as due to the increase of income in the year under review.

**2:2 Legal Actions initiated against or by the Institution**  
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The following observations are made.

- (a) Three external parties had filed three cases in Courts against the University by claiming ownership to the properties of the University.
  
- (b) The University had filed eight cases in Courts against eight persons claiming compensation amounting to Rs.3,050,000 for the recovery of the security bonds obtained at the admission of Cadet Officers whose studentship had been annulled by the University.

**3. Operating Review**  
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**3:1 Performance**  
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Action had not been taken in the year under review for the execution of the following activities included under the infrastructure development in the Corporate Plan for execution in the year 2012.

- (a) Construction of a separate building complex for the Postgraduate Academic Division.
- (b) Construction of a six storeyed laboratory for the Faculty of Engineering.

### **3:2 Operating Inefficiencies**

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Advances for purchases amounting to 100 per cent had been granted surpassing the circular provisions in the procurement of goods and services to ensure obtaining goods and services quickly and efficiently. Instances of non-supply of goods for the advances granted in the year 2011 even by September 2013 were observed. Action had not been taken for the recovery of such money while further advances had been granted to those suppliers. Out of such advances paid in the years 2011 and 2012 sums of Rs.37,300 and Rs.5,045,201 respectively remained without being settled.

### **3:3 Transactions of Contentious Nature**

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Advances amounting to Rs.8,347,144 and Rs.40,918,417 granted to suppliers for purchases in the years 2011 and 2012 respectively, had not been settled even by 31 December 2012.

### **3:4 Deficiencies in Contract Administration**

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The following observations are made.

- (a) The following items installed in the Building No. 3 of the Faculty of Medicine had been rusted before the expiry of one year since the use of the building.
  - (i) Fire Doors 20
  - (ii) Sanitary Equipment 04

- (b) The handrail of the stairway and the exterior security fences of the above building had been constructed with iron and galvanize painted. Nevertheless those had rusted by the time of inspection.

#### **4. 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) Accounting
- (b) Budgetary Control
- (c) Advances Control
- (d) Assets Control
- (e) Construction Control