

Defense Services Command and Staff College - 2013

The audit of financial statements of the Defense Services Command and Staff College 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 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 21(2) of the Defense Services Command and Staff College Act, No.5 of 2008. My comments and observations which I consider should be published with the Annual Report of the Staff College in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for The Financial Statements

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

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 judgment, 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 Staff College'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 Staff College'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.

2. Financial Statements

2.1 Opinion

In my of opinion, 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Accounting Deficiencies

Sums of Rs.34,630,676 and Rs.137,309,239 had been shown under the investment activities in the Cash Flow Statement as the acquisition of fixed assets and the development expenditure respectively. Nevertheless according to the General Ledger of the College, a sum of Rs.45,767,415 had been spent for the acquisition of fixed assets and Rs.126,042,304 had been spent for development expenditure in the year. Accordingly, an understatement of expenditure on the acquisition of fixed assets by a sum of Rs.11,136,739 and an overstatement of development expenditure by a sum of Rs.11,266,935 had been made in the Cash Flow Statement.

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

The following observations are made in connection with non-compliance with laws, rules, regulations and management decisions

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Section 8(1) of the Finance Act, No.38 of 1971	Even though the budget should be prepared and the approval of the Board of Governors for that should be obtained three months before the commencement out of the relevant financial year the approval for the budget for the year 2013 had been amounted only on 23 February 2013.
(b) Public Enterprises Circular No.PED/12 of 02 June 2003 Section 5.2.1	The budgeted balance sheet, the budgeted statement of income and expenditure and the budgeted cash flow statement had not been included in the budget prepared for the year under review.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the financial results generated from the operations for the year under review amounted to a deficit of Rs.1,115,201 as compared with the corresponding deficit of Rs.6,410,036 for the preceding year. Accordingly an

improvement of Rs.5,294,835 in the financial results was indicated. The increment of the Government Grants received in the year under review had been affected for the improvement.

3.2 Analytical Financial Review

The increase of expenditure for the year under review as compared with the preceding year by a sum of Rs.13,955,952 or 13 per cent and the corresponding increase of the income by a sum of Rs.23,954,668 or 17 per cent had also been a reason for the improvement of Rs.5,294,835 in the financial results.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The student participation at the degree courses conducted by the Staff College had been at the rate of 102 students in the year under review and the preceding year and according to the information disclosed in the financial statements, the cost incurred per graduate trained in the current year and the preceding year amounted to Rs.1,626,436 and Rs.1,422,321 respectively.
- (b) Service Personnel receiving salaries from the Three Forces had been attached for the activities of the Staff College while the fuel expenses relating to the activities of the Staff College and the expenses of the foreign tours of the undergraduates had been incurred by the respective Forces. The particulars of such expenses had not been considered by the Staff College. As such the performance for the Staff College could not be accurately evaluated.

05. Accountability and Good Governance

5.1 Corporate Plan and Action Plan

The following matters were observed at a comparison of the Corporate Plan for the years 2013 to 2016, the Action Plan for the year 2013 and the budget for the year under review.

- (a) Even though the budget estimates for the execution of activities extraneous to the Corporate Plan had been approved, the Corporate Plan had not been amended accordingly. Even though the budget had been amended subsequently, the Action Plan had not been amended accordingly.
- (b) The Performance Reports had not been prepared in a manner to facilitate the examination of the achievement of the targets in the Action Plan.

5.2 Deviation from Procurement Guidelines

The following observations are made.

- (a) The bidders had not been given a minimum period of 21 days for submitting bids under the Limited National Competitive Bidding.
- (b) Contrary to Section 7.12.3(b) of the Procurement Guidelines 2006, the same bidding documents had been used in re-inviting bids.
- (c) A long period of 06 months had been taken from the date of accepting bids up to obtaining the approval of the Procurement Committee.
- (d) As agreements had not been entered into with the suppliers liquidated damages could not be recovered from the suppliers who failed to supply goods as specified in the order.

6. Systems and Controls

Deficiencies in Systems and Controls observed during the course of audit were brought to the notice of the Chairman of the Staff College from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Procurements