

Defence Services Command and Staff College - 2014

The audit of financial statements of the Defence Services Command and Staff College for the year ended 31 December 2014 comprising the Statement of financial position as at 31 December 2014 and the comprehensive income statement, Statement of change of Title 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 Defence 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 conducted in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report I am unable to determine whether any adjustments have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of comprehensive income, statement of changes in Titles and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) The balance of the cash book as at 31 December 2014 had been understated by Rs.350,713 on crediting cash retentions amounting to Rs.350,713, payable to contractors for the period from 2011 to 31 December 2014, to the cash book instead of crediting it to the Cash Retention Account.
- (b) Stocks worth Rs.932, 952 kept in the stores as at 31 December 2014 had been omitted from the final accounts.
- (c) The value of 249 stock items, Rs.5,985,980 received to the stores in the preceding year had been accounted as final stocks instead of adjusting the remaining stock as at 31 December in the year under review in the accounts.
- (d) Corrections worth Rs.1,667,177 related to the preceding year had been adjusted to the accumulated profit brought forward from the previous year instead of adjusting retrospectively and restoring to the financial condition and result of the previous year.

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

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

Reference to Laws, Rules, Regulations, etc.	Non-compliances
(a) Section 8(1) of the Finance Act, No.38 of 1971	Even though the budget should be approved by the Board of Administrators three months prior to commencement of the financial year, the budget for the year under review had been approved on 25 February 2014.
(b) <u>Public Enterprises Circular</u> Section 5.2.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003	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.3,251,730 as compared with the corresponding deficit of Rs.1,115,201 in the preceding year. Accordingly a deterioration of Rs.2,136,529 in the financial result had been observed in the year under review. Nevertheless, the income in the year had been increased by Rs.16, 564,721, the increase of the expenditure by Rs.18, 701,250 had been the reason for this reduction.

4. Operating Review

4.1 Operating Inefficiencies

It had observed that a tendency of occurring fraud and error was at higher level as a result of the availability of poor controlling methods due to non-introduction of standing orders in making security checks at the main security check point of the college, not carrying out a proper security check in bringing goods in and out of the college by suppliers, not keeping records in the relevant registers and not using gate passes in carrying goods out of the college.

4.2 Deficiencies in Contract Administration

The following observations are made.

- (a) A Procurement Plan had not been prepared in compliance with the Ministry of Finance and Planning Circular No.128 of 24 March 2006.
- (b) Proceedings had not been maintained in opening bids, as mentioned in Paragraph 6.3.6 of the Procurement Guidelines 2006.
- (c) Subject specialists had not been appointed to the Technical Evaluation Committee.
- (d) The Staff College had invited bids on 25 February 2014 to purchase kitchen utensils and kitchen utensils worth Rs.1,897,852 had been purchased from selected three institutions by opening bids on 05 March 2014. The following observations are made in this regard.
 - i. The Technical Evaluation Committee had made recommendations to purchase the equipment “Tilliting Bratt Pan” in its minimum price at Rs.338,500. Notwithstanding the above, College had been incurred a loss worth Rs.673,000 on purchasing two units of the above equipment from the supplier, who had presented the maximum price of Rs.675,000, in contrary to Procurement Guidelines and with the permission of the Chairman of the Procurement Committee.
 - ii. Though a 30 per cent advance could be paid on a letter of credit in purchasing goods in terms of paragraph 5.4.5 of Procurement Guidelines, a sum of Rs.146,402 as 80 per cent advance payment had been made in contrary to the Procurement Guidelines, in purchasing the Rice Steamer.
- (e) Though the minimum period for inviting bids under the Shopping Method described in Paragraph 6.2.2 of the Government Procurement Guidelines is 7 days, bids had been invited on 26 November 2014 for the purchase of 4 Air Conditioners worth Rs.1,272,320 and the closing date had been given as 11 a.m. on the same day.

4.3 Utilization of Vehicles

Though motor vehicles worth Rs.51,586,500 of the Ministry of Defence and Sri Lanka Army had been utilized for the activities of the college for years, the ownership of such vehicles had not been got transferred to the college.

05. Accountability and Good Governance

5.1 Corporate Plan

The corporate plan had not been amended in compliance with the year 2014.

5.2 Action Plan

Expected expenditure for the acquisition of fixed assets and capital expenditure of the college had been included in the Action Plan prepared by the Staff College in the year 2014. It had not been prepared with the information of the way of applying them in the other main objectives inclusive of continuing the academic activities of the student officers.

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 Defence Services Command and Staff College from time to time. Special attention is needed in respect of the following areas of control.

- (a) Procurement
- (b) Survey of goods
- (c) Maintenance of books of Accounts
- (d) Payment of advances
- (e) Budgetary Control