

General Sir John Kotalawala Defence University - 2014

The audit of financial statements of the General Sir John Kotalawala Defence University 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 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 10(a)(2) of the General Sir John Kotalawala Defence 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. A detailed report in terms of Section 13(7)(a) of the Finance Act will be issued to the Vice Chancellor of the General Sir John Kotalawala Defence University in due course.

1.2 Management's Responsibility for the Financial Statements

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

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 Institution (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

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

2. Financial Statements

2.1 Qualified Opinion

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 Defence University as at 31 December 2014 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

2.2.1 Accounting Deficiencies

A land master, a trailer and a motor bicycle costing Rs.432,800 had been disposed of and action had not been taken to write off that value from books or revalue it.

2.2.2. Accounts Receivable and Payable

The balances of Rs.729,292 existing over a period of 05 years had been included in the creditors balance of Rs.8,028,756 shown in the statement of financial position as at 31 December of the year under review. Steps had not been taken for settlement of those balances.

2.2.3. Non-compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made.

Reference to Laws, Rules and Regulations	Non-compliances
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(a) Procurement Guidelines 2006 Guideline 5.4.4(i)	Even though a maximum of 20 per cent of the total contract sum can be granted as advance in any contract for constructions or works against the submission of an acceptable advance payment guarantee, it was revealed in audit test checks that a sum of Rs.189,420 had been paid as advance without obtaining an advance payment guarantee.

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| (b) Letter No. BD/KDU/General/ (Audit Report) of 03 October 2014 addressed to the Secretary of the Ministry of Defence and Urban Development by the Director General of the Department of National Budget. | As funds are raised under the Expenditure Head 103-02-09 of the Ministry of Defence and Urban Development, all income earned should be credited to the state revenue in terms of Article 149 of the Constitution. Nevertheless, it was observed that a sum of Rs.5,102,501 of the income earned as course fees in the year under review, had been allocated for a welfare fund. |
| (c) Section 3 of the Public Enterprises Circular No. PED/45 of 02 October 2007. | The accounts had not been presented along with the guarantee certificate of preparation and submission of accounts by the Board of Directors or Board of Governors. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year ended 31 December 2014 amounted to a surplus of Rs.250,842,194 as against the deficit of Rs.28,486,681 in the financial results for the preceding year, thus indicating an improvement of Rs.279,328,875 in the financial results in the year under review as compared with the preceding year. It was 981 per cent as compared with the preceding year and observed that the increase of the percentage in the income than the increase of percentage in the expenditure had attributed to this improvement.

3.2 Analytical Financial Review

The equity capital of the Institute as at 31 December 2014 amounting to Rs.4,137,205,640 and the loan capital as at that date amounted to Rs.12,532,412,193. Accordingly, it was revealed that the ratio of the equity capital to the loan capital is 303 per cent and the total assets and the loan capital of the University as at that date amounted to Rs.17,918,290,459 and Rs.12,532,412,193 respectively. As such, it was revealed that the ratio of total assets to the loan capital of the Institute is 70 per cent.

3.3 Legal Actions Initiated by or against the University

The following observations are made.

- (a) Four external parties had filed cases in Courts against the University claiming compensation for vehicle accidents, claiming ownership to the bund 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 totalling Rs.3,650,000 against 10 Cadet Officers who were dismissed from the University on disciplinary grounds and non-participation of lectures without obtaining leave.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) Even though payments should be made only on a certificate that the articles had been received and that they had been brought on charge in the appropriate inventory, stock book etc. in terms of Financial Regulation 237(b) in making payments for supplies, goods and services had been purchased at the value of Rs.126,996,903 from advances granted by the University in the year under review. Instances where advances had been granted for purchases of Rs.41,553,285 from 30 per cent to 100 per cent out of the amount payable in granting those advances, were observed. In granting these advances, even a bond had not been obtained and an agreement should have been entered into in terms of paragraph 8.9.1 (b) of the Procurement Guidelines for purchases exceeding Rs.500,000. Nevertheless, no agreements had been entered into for any of the above purchases. Certain observations relating to this are shown below.
- (i) Quotations had been called for in 05 instances for purchasing of cupboards and wooden shelves to the library of the University. Despite having selected the State Timber Corporation as the supplier among the quotations received in the second instance, quotations had been recalled in 03 instances without giving acceptable reasons. The bid had been awarded for a value of Rs.1,089,850 selecting a private firm as the supplier among the quotations received in the 05th instance. An advance of 30 per cent had been paid to the supplier without entering into a written agreement for this supply. However, the respective goods had not been supplied even by 31 March 2015.
- (ii) According to the conditions in the relevant order in supplying clothes for the cadet officers of Course No. 32, goods should have been supplied on 25 June 2014. Despite having indicated that money shall be paid after the receipt of all the goods, advance of 20 per cent of the total order value amounting to Rs.721,840 on 24 July 2014 had been paid and the goods had been supplied during the period from 01 September 2014 to 30 January 2015. As such, action had not been taken to recover the delay charges.
- (iii) An order had been given to a private institution for a sum of Rs.2,876,160 on 7 November 2013 to purchase an equipment TriaFial Test Apparatus required for the Faculty of Civil Engineering and a sum of Rs.862,848 representing 30 per cent of the ordered amount had been paid as advance on 11 November 2013. Even though the supplier had agreed to complete supplying that equipment within a period of 60 days, action had not been taken to get down the remaining parts of the above equipment even by 22 April 2015. As such, uses that could have been obtained from the relevant equipment in the academic purposes of the University were not obtained.

5. Accountability and Good Governance

5.1 Unresolved Audit Paragraphs

Expenses of Rs.10,269,253,944 had been incurred in the years 2013 and 2014 for the University Hospital constructed in Werahera affiliated to the Faculty of Medicine of the University. Even though deficiencies in that respect were shown by my previous audit report, relevant rectifying action had not been taken.

- (i) The open bidding procedure had not been followed in the selection of a contractor for the construction of the hospital. The Cabinet of Ministers had decided to award the contract for a value of US\$ 201,629,000 (Rs.26 billion) considering the quotation submitted by a foreign company on the recommendation of a Procurement Committee appointed by the Cabinet of Ministers. A loan equivalent to the above value had been approved from the National Savings Bank on a treasury bond for raising necessary funds for this construction.
- (ii) A local firm had been selected on the basis of paying a sum of Rs.225,000 monthly for the consultancy service of the above constructions and the open procurement procedure had not been followed. A sum of Rs.1,350,000 had been paid for the above firm as consultancy fees in the year 2014.
- (iii) Activities of vesting of the land with an extent of 47 acres and 37.9 roods on which the hospital is being constructed, had not been completed.
- (iv) The approval of the Central Environmental Authority had not been obtained before the commencement of constructions.

6. Systems and Controls

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) Compliance with Laws, Rules and Regulations