

**1.1 Qualified Opinion**

The audit of the financial statements of the Defense Services Command for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes of equity and cash flow statements for the year then ended and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the National Audit Act, No. 19 of 2018 and Finance Act No 38 of 1971. My comments and observations in terms of provisions in National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971 which I consider should be reported to Parliament appear in this report.

In my opinion, except for the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the College as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**1.2 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 1.5 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Statements**

Management is responsible for the preparation of financial statements that Give true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Staff College ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Staff College's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable annual and periodic financial statements to be prepared of the College.

#### **1.4 Scope of Audit(Auditor's Responsibilities for the Audit of Financial Statements)**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards , I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of Audit also extended to examine as far as possible, and as far as necessary, the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the College and whether such systems, procedures, books records and other documents are in effective operation.

- Whether the College has complied with applicable written law or other general or special directions issued by the governing body of the College.
- Whether the College has performed according to its powers, functions and duties; and
- Whether the resources of the College had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit observations on the preparation of financial Statements**

### **1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non-compliance with reference to the related standards</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
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(a) Even though buildings have been constructed within the land and being utilized at Heyyanthuduwa, 11 acres in extent, belongs to the National Youth Services Council, The ownership of the land had not been acquired even by 31 December of the year under review. In terms of paragraph 87(a) of the Public Sector Accounting Standard 7, the existence of restrictions on title deeds to be disclosed in the financial statements but such a restriction had not been disclosed in the financial statements.	Action is being taken to acquire the ownership of the land by now and this has not been disclosed in the financial statements. It was noted that action will be taken in terms of paragraph 87(a) of the Sri Lanka Public Sector Accounting Standard 7.	The management needs to prepare financial statements in accordance with guidelines and instructions specifically stated in the Sri Lanka Public Sector Accounting Standards.
(b) In terms of paragraph 47 of the Sri Lanka Public Sector Accounting Standards 7, assets should be revalued within a period of 3 or 5 years.	Assets of the college had been assessed by the Department of Valuation and the valuation report had been handed over in the year 2019 but lands and buildings therein had	The management needs to prepare financial statements in accordance with guidelines and instructions specifically stated in the Sri Lanka Public Sector Accounting Standards.

Nevertheless, land and buildings of the college valued at Rs. 1352.15 million had not been revalued up to the year under review since the year 2008 which was the beginning year of the college and the fair value of those assets had not been stated in the financial statements. In revaluing assets all assets relating to one class need to be revalued and adjusted in the accounts but irrespective of that, 2060 items of assets, costing Rs. 388,277,669 had revalued on 30 December 2019 but only the revalued value of Rs. 33,477,246 relating to 257 fully depreciated items, costing Rs. 55,164,837 had adjusted in the accounts.

not been assessed. Accordingly, the Department of Valuation had been informed again and action will be taken to identify the assessed value of lands and buildings and bring it into account.

### 1.5.2 Accounting Deficiencies

#### Audit Observation

#### Comment of the Management

#### Recommendation

(a) The land cruiser jeep valued at Rs. 1,375,000 given to the staff college by the Sri Lanka Army had been handed back to Army in October 2020 but, the value of the jeep

Handing over the land cruiser, jeep, bearing No. UHA-4841 to the Army had been adjusted in October 2020 by a journal entry.

The value of Property Plant and Equipment returned back and renounced from use in the year under review needs to be omitted from the financial statements.

and its accumulated depreciation had not been removed from the motor vehicles account and the accumulated depreciation account respectively.

Accordingly, the value of motor vehicles of the college had been overstated in the financial statements.

- (b) Computers and accessories valued at Rs. 1,246,900 received by the college on 16 December 2020 and the related depreciation had not been brought to account and adjusted in the financial statements.
- Entries relating to the purchase of computers and accessories had been settled by a journal entry in April 2021.
- The value of Property Plant and Equipment received during the year under review need to be brought to accounts in the financial statements.
- (c) Expenses amounting to Rs. 2,506,916 relating to December of the year under review had not been brought to account as accrued expenses. Accordingly, the recurrent expenditure of the college relating to the year under review and the surplus of the year had been understated and overstated respectively in the financial statements.
- Accrued expenses had been corrected in April 2021 by a journal entry.
- Accrued expenses existed as at the end of the year review need to be depicted in the financial statements.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Accounts Payable

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
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The loan balance of Rs. 10,992,853 payable to the Sri Lanka Army in respect of the purchase of fuel had not been settled since a period of over 5 years.	Approval for the write off of this amount relating to the purchase of fuel was sought from the Treasury through the Ministry of Defense. Ehen the approval is obtained this amount will be written by the Army. Accordingly, action is being taken to write off this amount from books by now.	Payables need to be settled to the relevant parties or to write off from books soon.

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

<b>Reference to laws, rules and regulation</b>	<b>Non-compliance</b>	<b>Comment of the management</b>	<b>Recommendation</b>
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(a) Letter No. DF/FD/04/198 of 05 January 2016 of the Department of Public Finance.	Circular or a Statute including the regulations relating to granting distress loans to the civil staff of the staff college and the recovery of such loans had not been prepared.	It was noted that having been appointed a committee, issue circulars or prepare a statute.	Guidelines specifically stated in the Public Finance Circular need to be followed for the distress loan scheme.
(b) Employees Trust Fund Act, No.46 of 1980.	Contributions for the civil staff of the Staff College had not been remitted to the Trust Fund since the year 2009.	Civil staff of the college has contributed to the Public Service Pensions Fund since 2009 and action is being taken to contribute to the EPF and ETF now. Letters have already been submitted to the Ministry of Defense and action will be taken to contribute to those funds from civil wages once the approval is obtained.	The staff College needs to take action in terms of ETF Act.

2. **Financial Review**

2.1 **Financial Results**

The operation of the collage for the year under review had resulted in a surplus of Rs. 27,963,274 as compared with the surplus of Rs. 14,159,390 for the preceding year. Accordingly, an improvement of Rs. 13,803,883 in the financial results was observed. Increase of income by Rs. 5,442,823 and decrease of operating expenses by Rs. 9,423,756 had mainly attributed to this improvement.

3. **Operating Review**

3.1 **Weaknesses in the contract administration**

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
<p>-----</p> <p>An agreement had been entered into with a construction company on 06 October 2017 for the construction of four storied examination halls and the library building for academic purposes of the college at Rs. 115,878,415. By 31 December 2018, the final bill relating to the completion of the building had been rendered. However, the payment for the bill had been suspended due to a seepage of water in the upper floor of the building. Even though 2 years had elapsed after being suspended the payment for this bill, the repair work of the seepage of water had not been carried out even by the end of the year under review.</p>	<p>-----</p> <p>Construction work of the library building for the repair of water leaking had been carried out by the Link Engineering Pvt. Ltd. After handing over the building, the final bill valued at Rs. 7.3 million had been retained as retention. However, even within the warranty period water was seeping, down from the fourth floor and the electric circuit was damaged and down floors had become unusable. Even though the relevant Company was informed several times to get this water seepage repaired no action or reply was given. As per the instructions of the Legal Division, required technical specifications have been obtained from the Engineering Services Directorate and in terms of tender procedure calling for bids are awaited. Moreover, this matter has been informed the Link Engineering Company as well.</p>	<p>-----</p> <p>Progress of the construction work needs to be reviewed before being paid for final bill. If any defect, there should be a proper and efficient procedure to get it repaired soon.</p>

### 3.2 Human Resources Management

Audit Observation	Comment of the Management	Recommendation
----- At the beginning of the year under review, 18 vacancies at primary level, 06 vacancies at secondary level and 02 vacancies at tertiary level had existed. No action had been taken to fill them.	----- Recruitments to the primary level staff had been suspended from Management Services Circular No. 02/2020 and 20 October 2020. Furthermore, in order to correct the existing mismatches in the nature of the recruitment procedure approved for the college it had been submitted to the Department of Management Services. After being confirmed the nature of appointments by the Department of Management Services, the vacant staff in the secondary grades will be recruited.	----- Action needs to be taken to fill the vacant positions exist at the end of the year under review.