

Metropolitan Campus (Guaranteed) Limited - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Metropolitan Campus (Guaranteed) Limited Company for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and Comprehensive income statements, statement of changes in equity and cash flow statement 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 Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2021, and its financial performance and its cash flows for the year then ended in accordance with the Sri Lanka Financial Reporting Standards for Small and Medium-sized Entities (SLFRS FOR SMEs).

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Sri Lanka Financial Reporting Standards for Small and Medium-sized Entities (SLFRS FOR SMEs), and for such internal control as management determine 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 company 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 intend to liquidate the company or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the company 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 company.

1.4 Audit Scope (Auditor's Responsibilities for the Audit of the 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 the report of the Auditor General 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, and its materiality depends on the influence on economic decisions taken by users 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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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's use of the going concern basis of accounting based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company'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. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the 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 company and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;

- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit observations regarding the preparation of financial statements

1.5.1 Internal Control over the preparation of financial statements.

Audit Observation	Comments of the Management	Recommendation
Even though the transactions of a business are recorded in the general ledger and even though correcting entries, entries on borrowing and selling of fixed assets, initial entries, transferring entries, settlement entries and adjustment entries can be entered in the General Ledger on the basis that Primary Entry Books are used by a business, Measures had been taken by the company to adjust the financial and non-financial transactions in the accounts through journal entries during the year ended 31 December 2021, and there was no remark that clarifies the transaction.	Details of the journal entries will be shown comprehensively in due course.	The remark related to the journal entries should be clearly noted.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
(a) In terms of the paragraph 2.52 of the Sri Lanka Financial Reporting Standard for Small and Medium Entities (SLFRS for SMEs), despite the fact that An entity shall not offset assets and liabilities, or income and expenses, unless required or permitted by this Standard, credit balances of Rs.574,833 and Rs.21,430 in Lecture fees, repair and maintenance accounts respectively were offset and disclosed in the financial statements against the debit balance of Rs.52,757,498 in the Administrative Expenses Account as at the same date.	Measures will be taken to carry out activities in due course.	Those standards should be followed.
(b) In terms of the paragraph 3.14 of the Sri Lanka Financial Reporting Standard for Small and Medium Entities (SLFRS for SMEs), an entity shall disclose the information of the previous	-do-	-do-

comparable period in respect of the financial position, performance, and change in financial position should be shown in the financial Statements. However, net cash flow from operating activities was understated by Rs.100,129 due to the fact that gratuity expense of Rs. 720,987 as at 31 December 2020 had been adjusted as Rs. 620,858 under net cash received from operating activities in the cash flow statement prepared for the year ended by the same date.

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| (c) | <p>Even though an entity shall include the components such as revenue, finance costs, tax expense in the statement of comprehensive income as a minimum in terms of the paragraph 5.5 of the Sri Lanka Financial Reporting Standard for Small and Medium Entities (SLFRS for SMEs), expenses to be adjusted under finance costs and other expenses in respect of the year under review had been adjusted under administrative expenses.</p> | -do- | -do- |
| (d) | <p>In terms of the paragraph 6.3 (c) (i),(ii) and (iii) of the Sri Lanka Financial Reporting Standard for Small and Medium Entities (SLFRS for SMEs), the statement of changes in equity should include for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from profit or loss, other comprehensive income and the amounts of investments by ,and dividends and other distributions to, owners in their capacity as owners, showing separately issues of shares, treasury share transactions, dividends and other distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control. However, the actuarial profit and foreign exchange profit include within other comprehensive income of the statement of changes in equity had not been disclosed separately and the total comprehensive income (loss) was adjusted to the statement of changes in equity.</p> | -do- | -do- |

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| (e) | In terms of the paragraph 7.8 (a) and (b) of the Sri Lanka Financial Reporting Standard for Small and Medium Entities (SLFRS for SMEs), under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of changes during the period in inventories and operating receivables and payables , non-cash items such as depreciation, provisions, differed tax, accrued income (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, undistributed profits of associates and non-controlling interests. Net cash flow from operating activities was understated by Rs.461,960 due to the gratuity expense of Rs. 598,833 under net cash flow from operating activities in the statement of cash flows had been adjusted as Rs. 136,873. | -do- | -do- |
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1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) Bad and substandard loans, vehicle repair and maintenance and vehicle insurance expenses of Rs.430,493, Rs.1,067,753 and Rs.89,866 respectively were stated as other expenses and contributions and system maintenance expenses.	Measures will be taken to show correctly separately according to the relevant components in due course.	Line items should be submitted separately.
(b) Rs. 220,968 of audit fees, which should be shown directly in the financial statements, was stated under other expenses not specifically identified apart from the financial statements.	-do-	The line items that should be directly disclosed should be shown in the financial statements.
(c) The Metropolitan Campus (Guarantee) Limited Company is maintained further in the (Times) building belonging to the Ministry of Finance and Planning, and the details of transferring the ownership of the building was not submitted to the audit. The value of the building was not included in the financial statement. Further, the said building was used for earning income during the year under review and no depreciation adjustment was made for the same.	Measures are being taken by the by the Ministry of Defence to taking over the ownership of the building.	That the activities related to the takeover should be expedited.

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

Reference Laws, Rules Regulations etc.	to	Non-compliance	Management Comment	Recommendation
(a)	Section 40 (1) of the National Audit Act No. 19 of 2018	No internal auditor was appointed for the company during the year under review.	The Audit and Management Committee has been informed about the appointment of an internal auditor.	Appointment of an internal auditor should be expedited.
(b)	Circular on Good Governance of Public Enterprises No. PED 12 dated 02 June 2003			
(i)	Paragraph 6.5.1	Even though the company shall submit the financial statements and draft annual report to the Auditor General and copies to the relevant Ministry and Public Enterprises Department within 60 days of the end of the accounting year, the draft annual report for the year under review was not submitted to the audit along with the financial statements.	The financial statements and draft annual report for the year under review have been forwarded to the Auditor General.	According to the management's comments, even though it has been informed that the draft annual report was also forwarded along with the financial statements, since only the financial statements were submitted, the circular provisions should be followed accordingly.
(ii)	Paragraph 6.5.3	The annual reports related to the years 2018, 2019 and 2020 were not tabled in the Parliament.	Measures will be taken to rectify it in due course.	Circular provisions should be followed.
(iii)	Paragraph 9.2	An organizational chart corresponding to the company's staff was not prepared with the approval of the Department of Public Enterprises.	The organization chart of the company has been forwarded to the Department of Management Services through the Ministry of Defence for approval.	-do-

- (iv) Paragraph 9.3 Even though the consent of the Department of Public Enterprises should be obtained with a recruitment and promotion procedure on behalf of the company, with the approval of the Board of Directors and the concerned Ministry, it was not obtained. The company's -do- recruitment and promotion procedure has been referred to the Department of Management Services through the Ministry of Defence for approval.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 15,100,413 and the corresponding profit in the preceding year amounted to Rs. 1,467,351. Therefore a deterioration amounting to Rs.16 ,567, 764of the financial result was observed. The main reasons for the deterioration were the decrease of programmes and other revenues by 13.47 percent and 29 percent respectively, and the increase in administrative expenses by 10.1 percent.

2.2 Trend Analysis of major Income and Expenditure items

The building repairs expenditure in the previous year and the year under review was Rs. 4,644,554 and Rs. 7,064,269 respectively, and the expenditure had increased by 52.09 percent in the year under review compared to the previous year.

2.3 Ratio Analysis

The net profit ratio of the year under review had decreased by 54.35 percent compared to the previous year, and the current ratio was 1.31. Management should focus on making the operations of the company efficient.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The primary objective of establishing Academy of Financial Studies (Guarantee) Limited (Miloda Company) in the year 2010 was the system of training officers who serve in the departments under the purview of the Ministry of Finance ,and it had been withdrawn with the change in the establishment and management of the company. The opportunities to publish books, magazines, reports and other publications related to the research that was the aimed by the company so far	All the courses that have been conducting since year 2013 will be continued and the necessary arrangements will be made to fulfil the new objectives revised with the change in establishment and management.	That attention should also be drawn on the opportunities to impart knowledge to the trainees in the public sector.

and the opportunities to impart knowledge to the trainees were also lost ,and the objectives of the company were changed to train public and private sector employees and interested parties.

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| <p>(b) Even though a method of preparing a proposed course calendar for the coming year has been implemented in the company every year, the details of obtaining approval of the board of directors for the proposed courses in the year under review were not submitted to the audit. Furthermore, out of 168 expected courses in the year 2021, only 68 courses were implemented, and the practical situations were not taken into consideration while designing the courses.</p> | <p>Necessary facilities were provided to expand the company's services considering the practical situations prevailing in the public, semi-public and private sectors.</p> | <p>That the proposed courses should be implemented by focusing on practical situations.</p> |
| <p>(c) According to the Government's Extra Ordinary Gazette Notification No. 2202/25 dated 20 November 2020, Academy of Financial Studies (Guaranteed) Limited Company changed its incorporation as Metropolitan Campus. A programme to implement the functions of the Kotelawala Defence University in the annual action plan pertaining to the year under review was not implemented with the change in the organizational chart. Further, even though the approval was given to organize 21 long-term courses and 48 short-term courses in the year 2022 as per decision of the Board of Directors dated 06 January 2022, it was not proposed to implement a programme for the activities of the Kotelawala Defence University Faculty.</p> | <p>Approved courses will be conducted under the full sponsorship of Defence University in due course.</p> | <p>After being established as a faculty, a specific programme should be implemented for that purpose</p> |

3.2 Operational Inefficiencies

Audit Observation

Even though provisions were made to run the company as a faculty of the Defence University, Kotelawala by the Government's Extra Ordinary Gazette Notification No. 2187/27 dated 09 August 2020 and No. 2202/25 dated 20 November 2020, the objectives of the company failed to present how the above objectives would be fulfilled in the new incorporation of the company.

Comments of the Management

Full-time absorption is already underway.

Recommendation

The method of achieving the objectives should be clearly stated.

3.3 Procurement Management

Audit Observation	Comments of the Management	Recommendation
Even though an estimated cost of Rs.99.79 million had been allocated for 21 procurement incidences, no any procurement work was initiated in the year under review.	The planned procurement activities could not be carried out as planned due to the Covid epidemic situation prevailed.	Action plan should be followed.

3.4 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
(a) The detail regarding whether that the institution possess information on the cadre required under each post for serving in office to carry out the functions of the company and on the lecture staff for the proposed long-term and short-term courses to be implemented was not submitted to the audit.	Lecture staff will be outsourced with the approval of the Head of Institution and the Board of Directors.	An accurate assessment should be made of the lecture staff for the courses.
(b) Even though the chief executive officer is assigned to carry out the main tasks of directing, controlling, managing and monitoring the organization, the position of chief executive was removed and the designation of Rector was created and the above responsibilities were assigned with the change in the management of the company. Approvals for removal and creation of post titles were not submitted for audit.	Measures have been taken to remove the designation of Chief Executive Officer apply the designation of Mandadhipati with the revision of the articles of association.	Information related to the change of designation and related evidence should be submitted to the audit.
(c) Even though the Academy of Financial Studies (Guaranteed) Limited Company was changed as the Metropolitan Campus during the year under review, information about the approved specific cadre related to maintaining the activities of the institution in relation to that was not submitted to the audit. Furthermore, although only the staff details of 17 officers under 11 posts were submitted for audit, approvals for new cadre were not submitted for audit.	Measures are being taken to absorb the company as a faculty of the Kotelawala defence University on full time basis, and new recruitments have not been made during the year under review.	-do-

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Observation

In terms of the Public Enterprise Circular No. PED 12 dated 02 June 2003 and the paragraph 5.1.2 of the Public Enterprise Guidelines for Good Governance, the vision, mission statements, company's assets and organizational chart, analysis of strengths, weaknesses and challenges, operational results of 03 years and performance of activities to be accomplished during the period, quantitative as well as measurable performance criteria (Key Performance Indicators) were not provided in the corporate plan prepared by the company.

Comments of the Management

Since the establishment of the Kotelawala Defence University as a faculty is in progress, no measures were taken to develop the company specific corporate plan.

Recommendation

Provisions in the circular should be followed.