

## **General Sir John Kotelwale Defence University - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the General Sir John Kotelawala Defence University for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in net assets 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report 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 accompanying financial statements give a true and fair view of the financial position of the University as at 31 December 2021, 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**

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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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, 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 University's 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 University or to cease operations, or has no realistic alternative but to do so.

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

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

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

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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 scepticism 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 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.
- 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 Company'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's 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 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. 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content 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 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 University and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the University has complied with applicable written law, or other general or special directions issued by the governing body of the University;
- Whether the University has performed according to its powers, functions and duties; and
- Whether the resources of the University 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 Internal Control over the preparation of financial statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### 1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) When the fair value of a property can be reliably measured according to Sri Lanka Public Sector Accounting Standard No. 07, it shall be carried out at a revalued amount, though the 48 acres of land transferred to the University in 1980, were stated in the financial statements as Rs. 73,653,874 at the value of the transferred date. Therefore, the fair value of the asset had not been indicated in the financial statements.	According to Sri Lanka Public Sector Accounting Standard No. 07, the Cost Model is used by the University to recognize and account of property, plant and equipment.	In accordance with Sri Lanka Public Sector Accounting Standard No. 07, the fair value of the property plant and equipment should be indicated in the financial statements.

### 1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Due to double counting of chemical Stocks, reagents, surgical instruments, radiographic copies and medical gases which was held as at 31 December 2021 in the University Teaching Hospital as per the board	An equal amount to the under assessed value of medical supplies as at 31 December 2021, had been credited to the profit and loss account as grant write-offs, hence there is no impact on net surplus or net assets.	Correct accounting information should be indicated in the financial statements.

of survey reports, the medical supplies stock as at 31 December 2021, had been overstated by Rs. 44,228,143. Accordingly, the other income and hospital expenses shown in the income statement had understated by each of Rs. 44,228,143 and current assets and government grants had overstated by the same amount in the financial statements.

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| (b) Stocks amounting to Rs. 4,976,791 held at the Southern Campus as at 31 December 2021 had been omitted from the financial statements and the net surplus shown in the income statement was understated by the same amount.  | -do-  | Correct Accounting Information should be presented in the Financial Statements. |
| (c) 20 computers purchased at a cost of Rs. 4,358,000 for the Faculty of Computer Science during the year under review, had accounted as a computer repair expense, due to this the fixed assets shown in the financial statements had been understates by the same amount, and when the annual depreciation expense of those computers was taken into account, the net surplus of the year had been understated by Rs. 3,813,250. | The omission by a mistake will be corrected in the future.  | Correct accounting information should be indicated in the financial statements. |
| (d) The plot of land 56.6 hectares bearing Lot No 1830, on which the Southern Campus of the University is established was valued at Rs. 112,000,000 by the Government Valuation Department, though it had not been accounted, the non-current assets had understated by the same amount.   | Although the valuation of the plot bearing No. 1830 on which the Southern Campus is established was sent to Sevanagala Divisional Secretariat on 20.12.2021 by the Government Valuation Department, it was received to the Southern Campus in the year 2022. Therefore, the value has been accounted for the year 2022. | Correct accounting information should be presented in the financial statements. |

#### 1.5.4 Absence of written evidence for audit

Subject	Amount (Rs.)	Audit Evidence Not Provided	Management Comments	Recommendation
Procurement	144,758,724	Files relating to procurement activities totaling of Rs. 144,758,724 which had done relating to the 03 sectors by the self-financed fund of the University had not been furnished for the audit purposes. Therefore, these procurement activities could not be observed satisfactorily during the audit.	All the procurement files requested by the letter dated 28 March 2022 have been submitted for audit purposes and kindly request to provide more details regarding the files required in order to provide more information requested.	Information required to audit purposes should be provided.

#### 1.6 Accounts Receivable

##### 1.6.1 Cash Receivable

	Audit Issue	Management Comment	Recommendation
(a)	Due to non-charge of course fees on timely manner, the outstanding course fee income as at 31 December 2021 was Rs. 330,112,437 Out of which Rs. 140,003,399 were remained outstanding from 02 to 04 years and Rs. 45,965,400 remained outstanding for more than 04 years.	Course fees of the academic year are payable on 30th November every year. So the accrued income is recognized on that date. However, due to the epidemic situation and economic difficulties, grace periods have been requested, so the outstanding course fees will be recovered in the forthcoming year.	Mechanisms should be established to collect the arrears of course fees on timely manner.
(b)	As per the agreements, although the fees charged for the provision of food and hostel facilities for students recruited on the basis of foreign qualifications must be paid at the end of the respective month, as at 31 December 2021, Rs.	Actions are being taken to write off US\$ 7636 of the Outstanding. Further 65% of the arrears have been recovered on 06.22.2022. The remaining amount will be recovered without delay. Actions have been taken to avoid the delay of	Actions should be made to recover the due amounts without delay as foreign exchange.

10,815,115 for providing payments. food and US\$ 118,107 for providing hostel facilities were remained outstanding in between 1 to 04 years.

- (c) As at 31 December 2021, a sum of Rs 75,027,980 was due from 76 university students, lecturers and other staff members who violate surety bond conditions. Furthermore, 58 occasions of bond violations which occurred in the years 2018, 2019 and 2020, which included in this amount, had not been identified on timely manner. Although legal actions had been taken regarding these bond violations, the prompt recovery of the due amounts, as agreed had not been done satisfactorily.
- The University has made maximum efforts to recover this loan. After filing the case, the institution cannot proceed with debt recovery until the court order given.
- Detection of violation of bond conditions on timely manner, introduction of control measures in this regard and prompt legal action should be followed for payment defaults.

**1.6.2. Accounts Payable**

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
As at 31December 2021, there were contract retention money of Rs. 14,660,162 relating to 48 contracts and it had remained unsettled over a period of 04 years.	The contract retention money will be released on certificate of the Project Officer and written request of service provider. Unclaimed and retention money which are older than two years after the completion of the project will be recognized as income in the future.	Should be Maintained up-to-date information on retention money of each contract.

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

	<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Article 154(1) sub-section 1 of the Constitution of the Democratic Socialist Republic of Sri Lanka.	Companies which are registered or deemed to be registered under the Companies Act No. 07 of 2007 and whose shares are fifty percent or more held by the Government or a State Corporation or a local government body shall be audited by the Auditor General. But the audit of the accounts of a subsidiary company which is wholly owned by the University for the year ended 31 March 2021 had been assigned to a private audit company.	All the information requested during the annual audits has been provided and it is pointed out that there is no limitation to submit observations regarding the affairs of the company.	Should be followed the provisions of the constitution.
(b)	Section 11 of the Finance Act No. 38 of 1971	Although the concurrence of the Minister of Finance and the approval of the concerned Minister should be obtained for the investment of money, such approval had not been obtained for US \$ 22,026,833 invested in 06 fixed deposits during the year under review.	Short-term investments have been made with the approval of the Board of Management in accordance with the provisions of the Section 4(e) of the Sir John Kotalawala Defence Academy Act No. 68 of 1981.	Should be followed the provisions of Section 11 of the finance Act No. 38 of 1971.
(c)	Financial Regulations 371(5)	Although the settlement of the given advance money should not be delayed beyond December 31 of the relevant financial year, the advance money of Rs. 13,690,732 given for various works in the years 2013, 2015 and 2021 had not been settled by 31December 2021.	Actions are taken to settle.	Should be followed the provisions of Financial Regulations 371(5) relevant to settlement of advances.
(d)	Financial Regulations 570	According to the regulation, if the project fund deposits were not claimed within 2 years from the date of completion of	This amount has been hold for the incomplete construction and existing deficiencies of the	As per Financial Regulation if not claimed within 2 years, those are considered as expired

- the project, those are considered as expired, but the retention money that was kept in relation to the construction of the University Teaching Hospital was Rs. 42,169,291. Even though the retention had remained more than 04 years from the completion of the project, it had not been identified as part of the revenue according to the regulations.
- hospital project. When Uncompleted construction and defects are cleared, this will be settled.
- (e) Financial Regulations 71
- According to the Financial Regulation, the approval of the Management Service Department should be obtained for the creation of new positions, but as per a decision taken at the Board of Management, a new position was created as Rector of the Metropolitan Campus Guarantee Limited and the salary was paid from 01.10.2021 to 21.02.2022.
- Applications for creating new position as per Financial Regulation 71 have been sent to the Ministry of Defence on 26.05.2022 to forward Management Service Department. Approval of the Board of Management, had given at the meeting held on 12.07.2021. The board paper which was presented to 640<sup>th</sup> Board meeting on 21.02.2022 regarding the remuneration of the post of Rector was not approved.
- Approvals to create new Position should be taken from Management Service Department and the recruitment and salary payment can be done on the approval of the Board of Management.
- (f) General Sir John Kotalawala Defense academy Act No. 68 of 1981 as amended by Acts No. 27 of 1988 and No. 50 of 2007.
- In Accordance to the objectives of the presiding Act, though it has power to conduct courses and advising for cadet officers, officers and public officers on academic fields relevant to national security and military management, since year 2011, awarding of degrees on paid basis had been initiated for local and foreign students who are not cadets or government officials. For the academic year 2021, 27 degree courses were being implemented for
- As a government university, cadet officers are first recruited for various degree courses based on the relevant year vacancies of the armed forces and police, and after that only if there are vacancies within the maximum capacity of each degree course, the university publishes a separate newspaper advertisement and gap is filled as a government university by recruiting
- According to the decision of the Committee of Public Enterprise held on 21 March 2018, amendments to the Act should be expedited.



826 such students.

qualified students on cash basis in addition to the cadet officers. There was some confusion and ambiguity in the provisions of the existing act to admit students on the basis of payment, so a new draft act has been prepared to clarify the existing act.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.95,630,017 and the corresponding deficit in the preceding year amounted to Rs.538,182,868. Therefore an improvement amounting to Rs.633,812,885 of the financial result was observed. The improvement was mainly attributed to the growth of hospital income interest income and growth of other incomes.

### 2.2 Trend Analysis of major Income and Expenditure items

(a) The total revenue showed a growth of 21 percent during the year under review as compared with the year 2020 and the trends in the major revenue subjects were as follows.

(b)

Income	Year 2021	Year 2020	Increase	Percentage
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	Rs.	Rs.	Rs.	%
Total income	10,746,884,747	8,915,954,450	1,830,930,297	21
Hospital income	472,359,607	130,852,639	341,506,968	261
Interest income	726,274,095	286,414,511	439,859,584	154
Sundry incomes.	1,063,448,746	164,847,004	898,601,742	545

(a) The total expenditure for the year under review was Rs. 6,155.87 million, and it had increased by Rs. 1,628 million or 36 percent as compared with the preceding year. This growth was mainly due to increases in the categories of personal emoluments and hospital expenses. The trends in the major expenditure categories were as follows.

expenditure category	Year 2021	Year 2020	Increase	Percentage
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	Rs.	Rs.	Rs.	%
Total expenditure	10,651,254,730	9,454,137,318	1,197,117,412	13
Financial expenses	4,495,383,107	4,926,281,163	- 430,898,056	- 9
Personnel emoluments	2,438,589,805	1,956,933,614	481,656,191	25

Other recurrent expenses	368,251,488	287,610,438	80,641,050	28
Hospital expenses	941,862,265	72,288,867	869,573,398	1203
Maintains	201,716,909	176,207,972	25,508,937	14
Depreciation expenses	1,442,180,785	1,288,130,870	154,049,915	12

(b) Further, 39.6 percent of the total expenditure of the University for the year under review or Rs.2,438.5 million was spent on Personnel emoluments, which was 22.6 percent of the total income of the University.

(c) 42 percent of the total expenditure of the university or Rs.4,495 million had incurred for the cost of the loans, which was 43 percent of the total income of the University. This cost of loan had incurred due to the US\$ 201.629 million loan obtained from the National Savings Bank on the treasury guarantees for the construction of the University Teaching Hospital and purchase of equipment.

### 2.3 Ratio Analysis

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- (a) The ratio of return on equity increased from negative 5.86 in 2020 to positive 1.09 during the year under review.
- (b) .The Current Assets Ratio, which was 1.5:1 in the year 2020, increased to 3.2:1 in the year under review.
- (c) In the year 2020, the Debt to Equity Ratio was 4.47:1 and in the year under review, the high gearing condition was remained unchanged.

### 3. Operational Review

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#### 3.1 Management Inefficiencies

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Audit Issue	Management Comment	Recommendation
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(a) Although 07 years have been passed since establishment of the Southern campus at the end of the year under review, the value of plot of land 5.1363 hectares of Lot No. 1832 assigned to the campus had not been assessed and accounted. Land acquisition works of 7.6883 hectares were also not completed.	After handing over the plot No. 1832 to the Southern Campus of Kotalawala Defense University, the Badulla Valuation Division has taken further steps to carry out the valuation. The final acquisition of the 7.6883 hectare land is being done.	Legal ownership of the assets should be confirmed.
(b) Even at the end of the year under review, the legal ownership of 21.5815 hectares of land on which the University Teaching Hospital is established was not vested in the University. The value of the buildings belonging to the teaching hospital built	Ministry of Defense is in the process of acquisition of the land belonging to the Sri Lanka Transport Board located at Werahera in Kesbewa Divisional Secretariat, where the Universal Teaching Hospital has been established.	Legal ownership of assets should be confirmed.

on that land was Rs.31,101 million and a cost of Rs.1,216 million was incurred for the development of the land. At the end of the year under review, more than 5 years have passed since the completion of the construction, but the further works of acquiring the relevant land had not been completed. Therefore, the value of this land had not shown in the financial statements.

### 3.2 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
<p>(a) Due to vacant of 31 positions including medical officer and radiographer positions in the approved staff of the radiology department of the teaching hospital, the Breast Health Center and Nuclear Medicine Departments were not started for treatment services. Therefore, the premises allocated for it, the furniture and medical equipment that had been purchased could not be used effectively.</p>	<p>A place has been set aside in the Radiology Department to install the Mammogram machine required to establish the Breast Cancer Detection Unit, but due to the lack of specialist doctors, this unit has not been started yet. At present, only one radiologist is working in the hospital and all the other radiological needs of the hospital are being completed with great difficulty. Therefore, it has not been possible to start the new unit which should be operated under a radiologist.</p>	<p>Assets should be utilized effectively.</p>
<p>(b) According to the information submitted to the audit, it was observed that the operational activities of several departments including 03 main wards and the health education unit and family clinic units are still not functioning as at 31December 2021.</p>	<p>By the end of 2017, the necessary positions were being arranged with the National Salaries and cadre Commission to get approval to positions. After that, the Department of Management Services related to each position approved the recruitment under the contract basis and then the outpatient department was opened on 15.12.2017.</p>	<p>Optimal operation of the hospital should be expedited.</p>

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| <p>(c) Though The Magnetic Resonance Imaging Scanner (MRI Scanner) was installed on 28 December 2017, the usage had started on 16 October 2019 after a delay of 21 months. From that date to October 2021, the average monthly usage of the machine was observed to be as low as 21 and 52 tests. Also, though the CT Scanner machine (SLICE Computed Tomography) was installed on 31 January 2018 the usage had started on 13 June 2018. It was observed that the average monthly usage of the machine was low between 22 and 192 tests. Existence of staff vacancies had adversely affected the utilization of these machines.</p> | <p>It is difficult to recruit staff for the posts of Radiographer (Diagnostic) - Special Grade, Radiographer (Therapeutic) Special Grade, and Radiographer (Therapeutic) in the Department of Radiology. However, at present the University Hospital is operating at about 50% of its total capacity and 21 contracted radiologists and one externally recruited person are working in the Faculty of Allied Health Sciences of the University, so the Department of Radiology is working to provide a comprehensive service to the public.</p> | <p>Actions should be taken to optimal usage of the Equipment</p> |
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### 3.3. Procurement Management

Audit Issue	Management Comment	Recommendation
<p>(a) According to 5.4.8 of the procurement guidelines and as stated in the bid documents, though a performance security of 10 percent of the estimated contract value should be submitted, it was observed that the value of bid securities submitted by the suppliers was less than 2 percent of the agreed contract value.</p>	<p>Due to the quantity of purchases was based on the willingness of the students; the quantity of purchases could not be decided specifically. Therefore, the value of performance bond was determined by stating the approximate requirement.</p>	<p>Actions should be taken to obtain Adequate performance bond.</p>
<p>(b) Due to the change of specifications after the selection of the supplier, the potential bidders who could have submitted the bids for the i3 computers had lost the opportunity to participate in the procurement and as a result, in terms of 1.2.1(c) of the procurement guidelines, fair, equal and maximum opportunity to the eligible interested parties to participate in the procurement had not been provided. It was observed that the objective had not been achieved.</p>	<p>Technical evaluation committee recommendation and procurement committee approval was obtained for i3 specifications submitted by the supplier. The technical evaluation committee has recommended that even though i5 and i3 are revised, there is no change in other essential specifications and the prices are reasonable according to the existing market conditions.</p>	<p>As per the terms of 1.2.1(c) of the Procurement Guidelines, It should be responsible to provide fair, equal and maximum opportunities to eligible interested parties to participate in the procurement.</p>

- (c) As per Supplement 35 to 2.14.1 of the Procurement Guidelines, when the Shopping Method is followed, although bids should be invited so that at least three bidders can be used for evaluation, bids submitted by only two bidders were considered for the procurement of a car on rental basis for the Rector of the Metropolitan Campus Guarantee Limited. Also it had recorded that the bids were invited through e-mail from 61 registered suppliers of the Ministry, it had not confirmed whether the bid documents had received by those suppliers. It was also observed that the selected supplier was not a registered supplier of the Ministry.
- To increase the competitiveness of this procurement work, invitation of bids was also published on the University's website. Only two suppliers submitted bids and the lowest bid was selected.
- Actions should be taken as per 2.14.1 of the Supplement 35 of the Procurement Guidelines