

## **Defense Services Command and Staff College - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Defense Services Command and Staff College for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of changes in equity and 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 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 accompanying financial statements give a true and fair view of the financial position of the Defense Services Command and Staff College as at 31 December 2022, 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 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 Financial Statements**

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 College'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 College or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the University College's financial reporting process.

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

#### **1.4 Scope of Audit**

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 great 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 College and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the University College has complied with applicable written law, or other general or special directions issued by the Board of Governors of the University College;
- Whether the University College has performed according to its powers, functions and duties; and
- Whether the resources of the University 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 Internal Control over the preparation of financial statements**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Accuracy on 13 journal entries of total value of Rs.16,696,210 had not been certified by the accountant and journal vouchers also had not been prepared.	All accounting adjustments which should be kept notes through general journal has been kept journal entries separately under each headings by keeping signature of the accountant and entered in the account check list. All documents and files relating to the same journal entries are being maintained by the accounts division of the College.	Journal vouchers should be prepared for a journal entry.

### 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Depreciation of Rs.1,920,362 relevant to property ,plant and equipment which has been purchased under government grants ,had been overstated. Accordingly, contrary to the Sri Lanka Accounting Standard No.20, the depreciation expense and differed income of the year under review had been overstated by the same value.	Action will be taken to correct the same errors in May 2023 through the cumulative fund by journal entries.	Depreciation of assets should be calculated correctly and brought to accounts.
(b) A sum of Rs.307,828 which was paid for farewell party of the <b>commandant</b> had been brought to accounts as the entertainment expenses of the College.	Action will be taken to minimize such deficiencies in the future.	Government moneys should be disbursed in very provident manner for the objectives of the College.
(c) In correcting of gratuity allowances amounting to Rs.249,750 which was accounted in deficit in the previous year , the gratuity expense had been over stated by the same value as a result of it was debited to the gratuity account of the year under review.	Action will be taken to minimize such deficiencies in the future.	Correcting of errors in the previous year should be done by the cumulative fund.
(d) Lecture fees, entertainment expenses and expenses on purchasing of maps total amounted to Rs.2,293,012 had not been identified as accrued expenses.	As the vouchers presented by each institution for the payment after the date 31.12.2022, it could not be brought to accounts in the preparation of financial statements on accrued basis.	The accrued expense relevant to the year should be identified and brought to accounts.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Employee Provident Fund Act, No. 46 of 1980.	Contributions to the Employee Provident Fund had not been paid for the civil staff of the College from the year 2009 to 31 August 2022. The contribution payable for 64 employees in the service at present amounted to Rs. 7,583,786.	Crediting of contributions to the Employee Provident Fund had not been carried out from the year 2009 to 31.08.2022. It is informed that future actions will be taken on the instructions received by the Labour Department.	Action should be taken in accordance with the rules of the Employee Provident Fund Act.
(b) Financial Regulations 94(1)	Except where otherwise provided for, no expenditure or commitment shall be incurred by any department for work, service or supply, unless financial provision exists: therefore in the Annual Estimates, and at no time shall the commitments. However, expenditure amounting to Rs. 1,200,400 had been incurred exceed such provision in commitment.	Commitments has been incurred exceeding the limit of provisions due to increasing of prices of all goods and services as a result of higher inflation situation prevailed in the year 2022.	Action should be taken in accordance with Financial Regulations and money allocations.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 86,736,631 and the corresponding surplus in the preceding year amounted to Rs. 28,959,510. Therefore an improvement amounting to Rs. 57,777,121 of the financial result was observed. The major reasons for the improvement was increasing of the income of Rs. 41,212,423 received from foreign students by exceeding the improvement of operating expenditure by Rs. 19,059,686 as compared with the preceding year and increasing of the exchange gain received on it amounting to Rs. 31,560,311.

**3. Operational Review**  
**3.1 Un economic Transactions**

Audit Observation	Comments of the Management	Recommendation
<p>Entertainment expenses of Rs.1,144,658 had been incurred for five days for the arrival of defence secretary, defence staff officer, commanders of Tri Forces for examine the activities of the College ,contrary to the circular issued by the General Treasury relating to limit the expenses with the critical condition prevailed in the country.</p>	<p>Commanders of Tri Forces and the Defense secretary are come in every year to examine the activities of this college which is a main training school in South Asia for training of staff officers. I kindly inform that it had to be incurred the same expenditure in the year 2022 as well as in previous years under the expenditure head of entertainment expenditure , as no any fund for the incurring of expenditure for that purpose in this college. However, I kindly inform that action already has been taken to enforce the matters recommended by the audit committee henceforth and to control the expenditure which has been pointed out by the National Budget Circular No.03/2022 dated 06.04.2022.</p>	<p>Action should be taken in accordance with relevant circular provisions.</p>

**3.2 Management Inefficiencies**

Audit Observation	Comments of the Management	Recommendation
<p>Even though building has been constructed by the College in the land of 11 acres in extent which is belonging to the Youth Services Council of Heyyanthuduwa and they are being used, the legal ownership of the same land had not been transferred even as at 31 December in the current year.</p>	<p>The land of 11 acres and 10 perches in extent has been transferred to the Land Reform Commission and forwarded for approval to the Head office of the valuation office for carrying out valuations by the valuation office Gampaha for the transferring actions of the land to the College.It has been informed that after furnishing of the said approval to the Land Reform Commission, transferring actions of the land will be taken .</p>	<p>Legal ownership of the lands should be transferred.</p>

### 3.3 Transactions in Contentious Nature

Audit Observation	Comments of the Management	Recommendation
<p>A Camera has been purchased for the requirements of the College on 11 October 2022 funded by the President Regiment Imprest of the College and after that it had been reimbursed to the fund. The file had been prepared after carrying out procurement activities by calling quotations on 08 November 2022 after purchasing of goods at a value of Rs.1,186,480 from President Regiment Imprest. Accordingly, after purchasing of the said camera by the College contrary to the Procurement Guidelines, fraud and forge documents have been prepared and supported for that activities or acted carelessly or inadvertently or willfully in a manner to damage the government rights or allow to do so and action in terms of Part II of the Establishments Code had not be taken.</p>	<p>After calling quotations for the purchasing of the camera according to the procurement guidelines, when examination of quotations comparatively presented by the supplying institution with the market prices existed at that time by the technical evaluation committee , further actions has been done for the purchasing by President Regiment Impreston the same requirement as if goods are purchased in cash, a considerable amount of state money could be saved . When carrying out of procurement procedure, Procurement Guideline was not followed in a proper manner. The relevant parties has been aware to follow the prescribed procurement procedure in due course.</p>	<p>Purchasing of goods should be done according to the procurement guidelines. Action should be taken in accordance with Establishments Code II on the preparation of forge documents.</p>

### 3.4 Idle or Under -utilized property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
<p>Out of the capital equipment of Rs.9,180,960 purchased in the year under review by non considering of hostel requirements properly , electrical items relevant to 9 items of goods including 3 washing machines and 3 refrigerators valued at Rs.1,446,118 had been stored by without utilizing and remained idle.</p>	<p>Washing machines and refrigerators have been purchased according to the number of foreign student officers expected to be participated and those are stored in stock in the stores due to the expected number were not participated. As an adequate time has been spent for the repairing of 03 washing machines and 03 refrigerators ,action will be taken to issue then to the foreign student officers.</p>	<p>Purchasing should be done by identifying the requirement properly.</p>

### 3.5 Procurement management

Audit Observation	Comments of the Management	Recommendation
<p>(a) Without evaluating the specifications included in the quotations presented by the suppliers for the specifications presented by the College for the purchasing of furniture for hostel requirements , orders valued at Rs.1,822,006 had been offered to the SwarnaKelum company by giving opportunity to supply goods for suppliers. 30 dining table chairs purchased at a value of Rs.350,250 were remained idle without utilized at the stores as those chairs were black in colour and those are not suitable for hostels. As such, within this order, 5 beds and 5 mattresses total value of Rs.565,300 had been returned on 28 December due to non compliance with the specifications and the performance security valued at Rs.158,440 presented by the supplier had been expired on 31 December. As the performance security could not be obtained as per valid until 28 days after the completion of work in accordance with the procurement guidelines, it could not be transferred to cash to the College.</p>	<p>It is pointed out that failure to check the prepared procurement applications before presenting to the procurement committee for purchasing of current requirements on the recommendation of the technical evaluation committee ,was a mistake done by the subject clerk and advices has been given strongly for avoiding of such mistakes in the future. After supplying of 05 beds and 05 mattresses , it was presented without a proper standard . Therefore , it was rejected by the quality examining officer and made aware the relevant supply company at several instances to supply those goods in a correct specifications and effectively. However, no any response shown up to date. The cancelling date of relevant performance security bond has been mentioned as 31.12.2022 and therefore the relevant time period has been expired by this time. Instructions has been given for the relevant officer to obtain security bonds by making proper checking henceforth.</p>	<p>furniture should be taken over accordance with agreed specification. Performance bond should be taken over according to procurement procedure.</p>
<p>(b) Even though bids had been called for the first time on 26 January 2022 for the purchase of Heavy Duty photocopy machine for the requirements of the Staff College , the relevant photocopy machine had been purchased at a value of Rs.2,200,000 by calling bids on</p>	<p>Even though it was mentioned in the specification received in the application of goods as apply 70 photo copies per minute (70 cpm), , the specification has been prepared when applying of quotations from the suppliers as 45 photo copies per minute (45 cpm),due to the mistake done by the subject clerk. The efficiency of the relevant</p>	<p>Purchasing should be done in accordance with the procurement guidelines.</p>



28 June in the year under review for the third time due to specifications has been prepared in an un suitable manner of the requirement of the College. A loss amounted to Rs.600,00 had been occurred to the Staff College as purchased photocopy machine at a value of Rs.2,200,000 in the calling of bids in third time which was at a value of Rs.1,600,000 at the calling of bids in the first time due to delaying in the time period spent for procurement procedure. photocopy machine is 60 papers per minute and it is able to obtain more photocopies in less time period , and the technical evaluation committee has pointed out that the Heavy Duty Digital photocopy machine Black & White used by the Defense Services Command and Staff College by now has completed 07 years period. The procurement committee has recommended to purchase the Konica Minolta machine which is advanced in quality and efficiency, having effective experience in usage.

### 3.6 Deficiencies in Contract Administration

Audit Observation	Comments of the Management	Recommendation
Due to the water leakage problem in the four storied library and the examination hall building which is built by spending Rs.133 millions , a huge damage caused to the electricity system and walls in the up stare . How ever, failure to carry out renovations from the year 2019 to the year under review.	Action has been taken by now for testing of water cease activities of the building by calling an agent of Army engineering service director board and preparing relevant estimates therein and to submit to the Engineering Service Regiment. After receiving approval by the Engineering Service Regimentfor the relevant estimate , action will be taken to purchase the required goods for water cease activities and to fulfill the service by the Engineering Service Regiment by utilizing the retention money payable to the institution which the same building constructed.	Constructions should be done properly. Defects should be prepared in a manner to avoid damages to the building .

### 3.7 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
There were 32 Vacancies in Primary level, 9 vacancies in secondary level and 2 vacancies in tertiary level existed as at 31 December in the year under review.	It has been informed by Cabinet decisions /circulars/letters to suspend the recruitment of employees for the posts vacant.	Action should be taken to fill the vacancies or to review the approved cadre in a manner to adjust to the actual cadre.