

## **National Apprentice and Industrial Training Authority – 2015**

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The audit of financial statements of the National Apprentice and Industrial Training Authority for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity, and the consolidated 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 56(2) of the National Apprenticeship and Industrial Training Authority Act, No. 20 of 1990. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1.2 Management’s Responsibility for the Financial Statements**

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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**

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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 Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments; the auditor considers internal control relevant to the Authority’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 Authority’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 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**

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

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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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 National Apprentice and Industrial Training Authority as at 31 December 2015 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**

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##### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The cash flow statement had not been prepared in terms of Sri Lanka Public Sector Accounting Standard 02.

##### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Rents payable for the year under review amounting to Rs.180,000 had been omitted in the accounts.
- (b) Annual lease rental amounting to Rs.99,000 and initial deposit on in obtaining the lease of a land amounting to Rs.297,000 had been capitalized under lands.

##### **2.2.3 Unreconciled Control Accounts**

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The cash book balance relating to the cash balances of 03 Bank Accounts maintained by 3 Regional Offices stated in the financial statements had exceeded by Rs.334,712 and the balance of another account had less than the cash book balance by a sum of Rs.346,586.

#### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) The debtors balance of Rs.56,146,515 shown in the financial statements of the year under review included 35 debtors balances amounting to Rs.3,088,709 older than 05 years, 03 debtors balances amounting to Rs.1,088,351 old between 03 to 05 years, 34 debtors balances amounting to Rs.51,969,455 old between 01 year to 03 years.
- (i) Advances amounting to Rs.571,196 granted by the Authority for purchases during the years 1995 to 2014 and Advances amounting to Rs.763,476 granted in the year 2012 to a National Centre of the Authority had not been settled even by the last date of the year under review.
- (ii) Action had not been taken even by the end of the year under review to settle the loan balances amounting to Rs.104,328 recoverable from the Employees who had vacated from their posts and existing over a long period in the employee loan balances over a long time.
- (b) Nine creditors balances amounting to Rs.252,895 older than 05 years, 02 creditors balances amounting to Rs.117,525 old between 03 years to 05 years and 45 creditors balances amounting to Rs.12,766,539 old between 01 year to 03 years had not been settled as at the end of the year under review.
- (i) Out of the sundry debtors balances as at the end of the year under review, a sum of Rs.14,270,952 had been balances arising from internal transactions between the Head Office and 03 National Centres and the District Centres. The creditors balance as at that date amounted to Rs.13,136,958 and out of that a sum of Rs.8,256,064 had been balances on transactions referred to above. These debtors and creditors balances arising from internal transactions, included 14 balances amounting to Rs.815,596 older than 5 years which had not been settled.
- (ii) The refundable deposit balance as at the end of the year under review amounted to Rs.43,942,849 and a sum of Rs.27,448,816 out of that consisted of the refundable deposits of Rs.5,000 recovered per apprentice of the three National Training Centres. A sum of Rs.10,000,000 approximately out of that related to the deposits not obtained by the apprentices who had completed their training and had left the Institution and remaining without being settled.

## 2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions

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The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non- compliance</b>
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| (a) Establishments Code of the Democratic Socialist Republic of Sri Lanka<br>Section 2.2 of Chapter IX | Even though 10 per cent out of the allowances |
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obtained for the lectures conducted outside the office time by the Public Officers should be credited to the Consolidated Fund as royalty, the royalty amounting to Rs.265,807 on the lecture fees of the part- time courses had not been recovered.

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulation 396(d) Action had not been taken in terms of the provisions in the Financial Regulations relating to 9 cheques totalling Rs.510,100 issued but not presented to a Banks and lapsed over 06 months. Necessary action had not been taken on a sum of Rs.26,211 and 17 money orders, deposited over five years ago and remaining without being realized.
- (ii) Financial Regulation 702(3) The copies of the contract agreements signed in the year under review and in the preceding years had not been furnished to the Auditor General.
- (c) Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003 The draft of the Annual Report had not been furnished with the Accounts to the Auditor General.
- (d) Guideline No.1.2.1(c) of the Government Procurement Guidelines 2006 Contrary to the provision in the Guideline a sum of Rs.1,972,500 had been paid for the printing of 11000 modules and without the prior approval of the Board of Directors.
- (e) Section 53 of the Tertiary and Vocational Education Act, No.20 of 1990 A Fund called “National Apprentice and Industrial Training Fund” should be established and all income including the Treasury grants should be debited and all approved expenditure should be credited thereto and the surplus money should be deposited in the Treasury. Even though a fund called Central Fund had been established, its operations are not done as specified in the Act. The balance thereon as at 31 December 2015 amounting to Rs.51,779,776 had not been deposited in the Treasury.
- (f) Public Finance Circular No.PF/423 of 22 December 2006 Six Funds had been established by the Authority without the approval of the Treasury and the total of the balances of those Funds amounted to Rs.25,479,552 as at 31 December 2015.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial results of the Authority for the year ended 31 December 2015 had been in a deficit of Rs.84,748,374 as compared with the corresponding deficit of Rs.19,566,476 for the preceding year, thus indicating a deterioration of Rs.65,181,898 in the financial result in the year under review as compared with the preceding year. Even though the Treasury provisions had increased by a sum of Rs.35,000,000 and the training expenditure had decreased by a sum of Rs.77,760,934, the increase in the personal emoluments by a sum of Rs.151,042,770 had been the main reason for this deterioration.

An analysis of the financial results of the year under review and of 04 preceding years, revealed deficits from the year 2011 to the year 2015 and the deficit of Rs.19,566,476 in the year 2014 had increased to Rs.84,748,374 in the year under review. However, after making adjustments for employees remuneration and for depreciation on non- current assets, the contribution of the Authority amounting to Rs.278,586,424 in the year 2011 had continuously improved to a sum of Rs.603,161,305 in the year under review.

#### **3.2 Legal Action instituted against or by the Authority**

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The following observations are made.

- (a) Two cases had been filed against the Authority by the Department of Labour for defaulting the payment of Employee's Provident Funds for three employees and the dismissal from service and 03 cases had been filed against the Authority by four officers in connection with dismissal from service, non- payment of Gratuity and for the recovery of the Employee Provident Surcharges.
- (b) The Authority had filed a case against an external party in connection with the ownership of the land of the Wellawatte Training Centre, belonging to the Authority.

### **4. Operating Review**

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#### **4.1 Performance**

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The following observations are made.

- (a) Even though the objectives of the Authority in terms of Section 37(1) of the Tertiary and Vocational Education Act, No.20 of 1990 and planning and providing of vocational training, specifying standards of training, conducting examinations, conducting research and development in vocational training, developing the training

capacities, taking action for equation of the degrees of the institutions abroad having similar objects and validation should be achieved, necessary action had not been taken by the Authority to conduct research and development relating to vocational training in the year under review.

- (b) The activities not executed and not sufficiently executed according to the Action Plan in the year under review are as follows.
- (i) Forty training programmes for 425 Apprentice had not been conducted according to the Action Plan and 21 unplanned training programmes had been conducted. Six hundred and ninety nine had participated.
  - (ii) The number of courses which had been identified in the Action Plan and without planed for conducting and abandoned in the year had been 66.
  - (iii) Even though it had been targeted to enroll 27,000 Apprentices for training in the year under review, only 22,616 Apprentices had been enrolled. Necessary action had not been taken to ascertain the reasons for decrease in enrollment of Apprentices and take in necessary action.
  - (iv) Even though it had been targeted to attach 35,000 recipients of training of other vocational training institutions for on the job training, a low number of 10,040 or 29 per cent had been attached for on the job training. Even though it had been targeted to coordinate the institutions which are capable of attaching the recipients of training for functional training, none of the activities had been executed thereunder.
  - (v) Even though it had been targeted to train 150 officers for career guidance functions in the year under review, no action whatsoever relating thereto had been taken by the Authority.
  - (vi) Even though it was targeted to recruit 50 Instructors and 25 other staff for the activities of the Authority, none of those recruitments had been made.
  - (vii) Five subsidiary activities for the introduction of Industrial Supporting Services had not been executed in the year.
  - (viii) Even though it had been targeted to conduct 30 awareness programmes relating to Recognition of Prior Learning (RPL) Method by spending a sum of Rs.1.25 million, 20 programmes had not been conducted.
  - (ix) Even though it was expected to train 1,000 Apprentices under Special Training Programmes, only 262 Apprentices had been trained.
- (c) The Performance according to the Action Plan of the year under review under the aid from Skills Sectoral Development Project is given below.

- (i) Even though it was planned to award 5000 certificates through the Recognition of Prior Learning (RPL) Method for the year 2015, only 532 certificates had been awarded.
- (ii) Even though it was planned to establish and maintain the Quality Management System (ISO Standard) in 3 National Centres and in 25 District Centres in the year under review, only 2 centres had commenced those activities.

#### **4.2 Management Activities**

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The elevator installed in the Head Office by spending a sum of Rs.4,974,144 on 04 June 2014 had been inoperative in September 2015. The Authority had to pay a sum of Rs.92,877 for its servicing due to not entering into a service agreement for servicings of the elevator on the due date. However, an annual servicing agreement had been entered into on 29 September 2015 including the prior period by spending a sum of Rs.376,623.

#### **4.3 Operating Activities**

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The following observations are made.

- (a) A shortage of 498 work books valued at Rs.19,920 which had been provided for selling to the Apprentices of the Ratnapura District Office in the year under review was observed in a sample audit test check.
- (b) A Skills Enthronement Programme had been held in Matara in the year 2014 at a cost of Rs.35,125,261 and a similar programme had been held in Galle at a cost of Rs.4,574,794 in the year under review when there were unresolved problems relating to fruitless expenditure incurred in the programme held in Matara and the following deficiencies were observed in that programme.
  - (i) Even though the issuance of certificates of the level of the National Vocational Qualifications is done by practically evaluating the skill of the Apprentice by the Recognition of Prior Learning (RPL) Method, 350 sets of equipment valued at Rs.1,255,950 had been purchased without a proper approval for the distribution for the Craftsmen who participated in this programme, held in Galle.
  - (ii) Even though the supply of festival goods, food and beverages, organization of festivals and the supply of raw materials necessary for the masons not being functions connected with each other, action had been taken by the Authority to award a single contract for these functions. This contract had been awarded to a construction and building materials selling institution at a price of Rs.2,587,110 which exceeded the lowest bid by a sum of Rs.335,163.
  - (iii) Even though goods valued at Rs.923,660 had been purchased expecting to evaluate 250 masons in this programme, a deficit of Rs.182,180 was observed in

the value of goods that should be saved for 72 absentee masons and compared with the rate of the total value of goods.

- (iv) Subsequent to the completion of the programme, on a request made by the contractor, for the additional supplies made and services rendered, a sum of Rs.496,250 had been paid on the approval of the Deputy Chairman without the approval of the Procurement Committee. It was observed in audit that such additional expenditure for the supply of additional tents, crushed stone chips and milk packets had been exorbitant prices as compared with the agreed similar expenditure and the market prices.

#### **4.4 Transactions of Contentious Nature**

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The contract for the construction of the showroom of the Industrial Engineering Training Institute in Katubedda had been awarded to a bidder selected from Rainbow pages without inviting public bidding for Rs.19,774,540 on 15 October 2014. According to the agreement, the construction of the showroom should have been completed and handed over to the Authority in May 2015. Nevertheless, the constructions had not been completed and handed over to the Authority even by the end of the year under review.

#### **4.5 Idle and Underutilized Assets**

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The following observations are made.

- (a) The goods valued at Rs.2,398,571 provided to 10 Training Centres in the years 2011 and 2012 for the commencement of the Nursing Assistant Course remained idle in the relevant Centres due to non-commencement of the course.
- (b) The land, one acre in extent provided to the Kalmunai District Office by a Divisional Secretary in the year 2012 remained idle without being utilized even by 30 September 2016.
- (c) Despite the availability of the training equipment valued at Rs. 1,464,848 purchased for the Skills Enthronement Programme held at Kurunegala in the year 2014, a stock of equipment had been purchased for a similar programme held in Matara instead of using the equipment available. Those remained idle at Orugodawatta store.

#### **4.6 Uneconomic Transactions**

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The following observations are made.

- (a) An agreement for the purchase of 8,655 plastic file covers of different colours for the ISO quality control purpose had been entered into by selecting a supplier who presented a quotation exceeding the lowest quotation by Rs.771,131 stating that the supplier who



presented the lowest quotation did not comply with the required specifications though the specifications of the goods had not been decided by the Technical Evaluation Committee.

Out of these file covers 5,781 valued at Rs.2,955,644 had not been used as not being suitable with the requirements and for other reasons by the end of October 2016 and those file covers had not been securely stored.

#### **4.7 Resources of the Authority given to other Government Institutions**

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Two and 07 of employees of the Authority had been released to the Line Ministry and the Ministerial staff respectively for a period of 03 months, and one person had been released from 09 December 2015 up to 25 October 2016, the date of audit.

#### **4.8 Staff Administration**

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The following observations are made.

- (a) The approved cadre and the actual cadre of the year ended review had been 1,358 and 869 respectively and as such , the number of vacant posts had been 489 and action had not been taken to recruit officers for those posts. It was observed that 353 posts or 45 per cent out of 784 approved academic posts of Lecturer, Training Officer, Consultant and Examiner remaining vacant, makes an adverse effect towards the training and examination activities of the Institution.
- (b) Even though two officers recruited on duty assignment basis had been deployed in service in the Construction and Maintenance Division and for vehicle maintenance activities of the Authority from the year 2011 and from the year 2009 respectively up to 25 October 2016, the date of audit, action had not been taken to recruit a permanent officer who is directly responsible to the Authority for those functions.
- (c) The report on the preliminary inquiry conducted relating to an Accountant who was interdicted on the charge of allowing the misuse the State resources by providing the Official Residence No.5/B1/01 belonging to the Apprenticeship Training Institute in Katubedda to an external party on rent basis had been misplaced and that officer had been reinstated from 19 January 2015. A sum of Rs.122,500 had been given by the Authority to that officer to study a postgraduate course conducted by the University of Colombo when there was an ongoing new preliminary inquiry conducted in this connection.
- (d) The days of the no-pay leave of a District Officer for the years 2013, 2014 and 2015 had been 369.5 comprising 173,191.5 and 05 days respectively due to the failure obtain approval for the Advance Programme and leave as specified and the salaries paid in that connection had not been computed and recovered even by October 2016.

#### **4.9 Motor Vehicle Utilisation**

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The Authority did not have a proper methodology for the maintenance and control of motor vehicles. The following observations are made in that connection.

- (a) The engine of a motor vehicle received in the year 2013 from the German International Aid Organization (GIZ) and in running condition had been fixed to another motor vehicle and a sum of Rs.185,000 had been spent thereon. The motor vehicle had been taken off from running after 35 days as a part thereof (clutch) was not in working order. The motor vehicle was disposed of in the year 2016 and the expenditure of Rs. 185,000 incurred had become fruitless.
- (b) A motor vehicle not used for running from the year 2007 had been repaired including painting at a cost of Rs.194,950 in September 2012. Subsequently, that had been repaired from time to time at a cost of Rs.145,976. According to the Daily Running Charts the motor vehicle had been run only for 102 kilometres and had been disposed of.
- (c) A motor vehicle sent for engine repairs from in year 2007 to the year 2014 had been repaired in the year 2014 at a cost of Rs. 1,683,500. The estimate for repair in the year 2011 amounted to Rs.918,428 and an extra sum of Rs.765,072 had to be paid for repair in the year 2014.

These deficiencies had occurred despite the possibility of obtaining the assistance for repair of motor vehicles from the Automobile Engineering Training Institute of the Authority situated at Orugodawaththa as well as the deployment of an officer for motor vehicle maintenance on assignment basis from the year 2009.

#### **5. Accountability and Good Governance**

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##### **5.1 Action Plan**

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The Performance Report had not been prepared in accordance with the Action Plan prepared by the Authority. The Action Plan prepared did not include the financial progress.

##### **5.2 Internal Audit**

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Even though an Internal Audit Unit had been established in terms of the Management Audit Circular No.DMA/2009(1) and the Financial Regulation 133 and attached 08 officers, the attention of the management had not been paid to the conduct of internal audits according to the Internal Audit Programme, follow – up action and the rectification of the matters pointed out. As such the objectives expected from the maintenance of that Unit had not been achieved.

### 5.3 Budgetary Control

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Comparison of the estimated income and expenditure for the year under review with the actual income and expenditure revealed variances ranging from 10 per cent to 369 per cent, thus indicating that the budget had not been made use of as an effective instrument of management control.

### 5.4 Unresolved Audit Paragraphs

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The following observations are made.

- (a) The sum of Rs. 2,000,000 spent by the Authority on behalf of the Ministry in connection with the World Youth Conference 2014 had not been shown as a balance receivable.
- (b) Even though an officer dismissed from service or an officer whose service had been terminated subsequent to a disciplinary inquiry is not eligible for an appointment in the public service an officer of another institutors charged for a financial fraud and interdicted on 08 May 2013 had been recruited as the Director (Finance) of the Authority.

## 6. Systems and Controls

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following area of control.

Areas of Systems and Controls -----	Observations -----
(a) Stores Control	(i) Failure to record all purchase of stores materials in books  (ii) Failure to obtain confirmation of the purchases of stores materials for the Skills Enthronement Programmes through the Storekeeper.
(b) Motor Vehicle Utilization	(i) Failure to repair motor vehicles when necessary, thus resulting in the decay of motor vehicles.  (ii) Motor Vehicles are sent for repairs without being examined by qualified officers and their estimates, thus resulting in unnecessary expenditure.

- (c) Staff Administration
  - (i) Training activities are hindered due to the failure to recruit adequate academic staff.
  - (ii) Failure to maintain personal files ensuring confidentiality and safety, and conduct of disciplinary inquires and implementing of decisions.
- (d) Financial Management
  - Idling of money due to allowing the maintenance of Funds without obtaining the formal approval.
- (e) Maintenance of Books and Registers
  - Failure to record 800 units of goods of the Electricity Technology Division of the Apprentice Training Institute, Katubedda in the Inventory Registers.