

Industrial Technology Institute  
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1:1 Qualified Opinion  
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In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Industrial Technology Institute as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements  
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1:2:1 Sri Lanka Accounting Standards  
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Non-compliances with the following Sri Lanka Accounting Standards were observed during course of audit.

(a) The following had been done contrary to Sri Lanka Accounting Standard No. 9.

- (i) The fixed deposits valued at Rs.10,200,000 with maturity period exceeding 03 months had been inappropriately shown as cash and cash equivalents.
- (ii) The profit from the sale of fixed assets amounting to Rs.2,032,888 had been erroneously adjusted to the operating profit as Rs.2,278,888.
- (iii) The cost of write off of fixed assets amounting to Rs.16,630,703 and the depreciation on the write off of fixed assets valued at Rs.18,434,417 had been inappropriately shown as cash flows under the investing activities.
- (iv) The following difference had been observed in the variances of working capital adjustments

	2011	2010	Correct Difference	Difference shown in the Cash Flow	Difference
	----- Rs.	----- Rs.	----- Rs.	----- Rs.	----- Rs.
Accrued Expenses	18,799,347	28,196,688	6,397,341	6,397,130	(211)

Trade and Accounts Receivable	52,097,906	53,192,352	1,094,446	1,818,115	723,669
Prepaymentns	1,663,441	2,882,653	1,219,212	1,218,999	(213)

- (b) According to Sri Lanka Accounting Standard 16, and the Notification published in the Gazette No. 1103/18 dated 28 October 1999, the gratuity should be computed and brought to account from the first year of employment of the employee. Nevertheless, the provision for gratuity made by the Institute in the year 2011 had been understated by a sum of Rs.1,874,297 in respect of 73 employees of the Institute who had completed 01 year of service and who had served up to 05 years. In addition the provision for gratuity amounting to Rs.71,394,795 had not been invested.
- (c) (i) The value of the land on which buildings valued at Rs.220,906,930 had been constructed had not been included in the accounting policies in terms of Sri Lanka Accounting Standard 18.
- (ii) According to Sri Lanka Accounting Standard No. 18, depreciation of fixed assets should commence from the date on which they are put to use. Nevertheless, the fixed assets valued at Rs.60,482,365 purchased in the year under review had been depreciated for the entire year. As such depreciation had been overstated by a sum of Rs.4,616,613.

#### 1:2:2 Accounting Deficiencies

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The following deficiencies were observed.

- (a) Even though the stock of consumables had been shown in the year under review under current assets as Rs.10,217,790, according to the physical verification report that amounted to Rs.10,013,436. As such the stock of consumables had been overstated in the accounts by a sum of Rs.204,354.
- (b) Action had not been taken to capitalize the capital works-in-progress older than 05 years valued at Rs.220,665.
- (c) Contributions to the Employees' Trust Fund amounting to Rs.506,084 and contribution to the Employees' Provident Fund amounting to Rs.4,217,373 in respect of cost of living allowances amounting to Rs.16,869,495 paid during the period

January to September of the year under review, had been understated in the accounts.

- (d) The machinery and equipment purchased in the year under review had been understated by a sum of Rs.540,796.
- (e) A sum of Rs.3,744,204 paid to a foreign institution for the renewal of the annual membership fee for the year 2011 for the utilization of library books, had been capitalized as the expenditure on library books incurred in the year. Depreciation thereon amounting to Rs.187,210 had also been brought to account.
- (f) Even though the physical balance of library books as at 31 December 2010 had been shown as Rs.13,528,919, the opening balance of the library books on 01 January 2011 amounted to Rs.71,479,135. This balance included the annual online access fees paid to a foreign institution for the previous years.

1:2:3 Age Analysis of Debts Receivable

Category of Debts	Amount as at Balance Sheet Date Rs.	Age Analysis (Years)				
		Less than 01 Rs.	1-2 Rs.	2-3 Rs.	3-4 Rs.	Over 5 Rs.
Sundry Debtors	9,662,212	2,089,326	835,684	1,245,612	397,766	5,093,824
Staff Advances	21,333,987	11,512,899	826,402	1,351,128	2,710,158	4,933,400
Deposits	3,261,313	175,606	529,609	144,350	110,500	2,301,248

The following observation is made.

Even though there were debtors older than 05 years, no legal action whatsoever had been taken for the recovery of debts.

1:2:4 Lack of Evidence for Audit

The following items could not be satisfactorily vouched in audit due to the unavailability of the evidence indicated against each item.

Particulars	Value	Evidence not made available
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	Rs.	
Current Liabilities (Bid and Security Deposits)	83,339	Confirmation of Balances
Trade and other Deposits Receivable	1,091,813	Receipts, Documents
Debtors	4,459,333	Confirmation of Balances

1:2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of the following non-compliances. were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka	
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(i) Chapter II Section 10.1 to 10.5	An officer receiving a new appointment to a permanent Government Post, should undergo a medical test under a Government Medical Officer and get his physical and mental fitness certified as a primary qualification for the appointment. Contrary to that requirement, a sum of Rs.43,955 had been spent by the Institute to get that suitability tested by a

private hospital.

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| (ii) Chapter II Section 9 and Public Administration Circular No. 24/2011 of 16 November 2011 | Two officers over the age of 60 years had been recruited for a period of 06 months contrary to the instructions of the Establishments Code and the Public Administration Circular and paid a sum of Rs.597,660.  |
| (iii) Chapter XIV and Public Administration Circular No. 6/2006 IV of 24 February 2006       | Contrary to the rates of payment approved for different groups of officers, payment had been made at Rs.600 based on an internal circular, thus resulting in an overpayment of Rs.31,200.  |
| (iv) Financial Regulation 104  | In the event of any loss or damage immediate action should be taken to assess the value and determine those responsible. No such action had been taken in connection with 03 accidents to motor vehicles.  |
| (c) Public Administration Circular No. 15/90 off 09 March 1990.                              | Contrary to the circular instructions, temporary employees for vacancies had been obtained from a private institution.   |
| (d) Section 9.10 of the Circular No. PED/12 of 02 June 2003.                                 | Without obtaining the approval of the Secretary to the Treasury for making an appointment to the post of Instructor not included in the approved cadre of the Institute, the services of an Instructor had been obtained for the period January 2009 to December 2012 at a monthly allowance of Rs.20,000 and had paid a sum of Rs.480,000 up to 31 December 2011. |

1:2:6 Transactions of Contentious Nature

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The following observations are made.

- (a) An incentive allowance of Rs.25,350 had been paid for the year 2010 contrary to the rules of the Procedure for the Payment of Incentive Allowance to a clerk recruited on contract basis to the Industrial Technology Institute through a private institution.

- (b) Employees for the temporary vacancies occurring in the Institute had been obtained through a private employment agency and had paid a sum of Rs.144,224 to that agency without obtaining the approval of the Department of Management Services and the Ministry of Technology and Research.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the working of the Institute for the year ended 31 December 2011, after taking into account the Government grant of Rs.162,000,000 received for recurrent expenditure, had resulted in a surplus of Rs.59,318,986 as compared with the corresponding surplus of Rs. 54,631,403 after taking into account the Government grants of Rs.165,000,000 received for the recurrent expenditure of that year. As such financial results for the year under review, as compared with the preceding year, had indicated an improvement of Rs.4,687,583. The earnings of the Institute had affected that improvement.

2:2 Analytical Financial Review

The total income earned by the Institute during the year under review from the operating activities amounted to Rs.148.4 million and corresponding income of the preceding year amounted to Rs.138 million. Details appear below.

	<u>2011</u>	<u>2010</u>
	Rs.(Millions)	Rs.(Millions)
Standard Services	110.87	102.9
Consultancy Services	8.01	4.5
Technology Transfers	1.7	1.5
Contract Projects	4.5	5.8
Descriptive Services	7.0	7.0
Training	5.9	5.9
Libratory Income	0.4	0.3
Others	10.04	10.00
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	148.4	138.00
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The following observations are also made.

- (a) The operating expenses of the current year and the preceding year amounted to Rs.386.9 million and Rs.331.6 million respectively.
- (b) Out of the operating expenses for the current year and the preceding year, only 39 per cent and 35 per cent respectively could be covered from the operating income.
- (c) A system for separate accounting for the cost of each of the above operating service had not been implemented by the Institute and as such the profitability of each item could not be computed.

### 3. Operating Review

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#### 3:1 Management Inefficiencies

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The following observations are made.

- (a) Action had not been taken on the shortage of assets amounting to Rs.1,092,428 identified at the verification of assets. The Chairman informed that the assets not identified at the verification of assets had been referred to the respective Divisions for re-examination.
- (b) A formal procedure had not been followed for the training of the officers of the Institute.

#### 3:2 Underutilisation of Funds

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An examination of the progress of 34 Projects commenced in the year under review revealed that the estimates amounted to Rs.36.02 million and the actual expenditure incurred amounted to Rs.7.405 million and the under expenditure amounted to Rs.28.615 million. The under expenditure relating to those Projects ranged from 0 to 44 per cent. It was observed that the delay in the receipt of Treasury grants had been the main reason for such situation.

#### 3:3 Idle and Underutilised Assets

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- (a) Out of the sum of Rs.1,672,550 received from the Ministry of Industrial Development for the Centec Project, a sum of Rs.619,840 remained in the Account No. 0000351567 since 15 October 2010 and 37 per cent of the money made available to achieve objectives had not been utilized.

- (b) It was observed that 05 Current Accounts with balances amounting to Rs.1,824,010 had been dormant from January 2011.
- (c) An examination of 15 items of consumable goods valued at Rs.1,404,922 revealed that 06 of those assets had not moved from the year 2009 and that their value amounted to Rs.497,482. The Chairman informed that these essential stocks are retained to prevent any delays in the future.

3:4 Uneconomic Transactions

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- (a) Even though the officer responsible for the conversion of salaries of employees in terms of the Management Services Circular No. 30 had not performed his functions, that officer had been re-employed on contract basis for a period of 04 months after his retirement for the conversion of salaries on the payment of an allowance of Rs.147,660. That officer had failed to complete the salary conversions.
  - (b) Even though institutions recognized by Government and having expertise for providing training to the Government Officers are available, a sum of Rs.720,000 had been paid to an institution without such expertise, for improving the knowledge of officers in English.
  - (c) The participation of the officers at a training provided by the Institute to its officers had been poor and as such a sum of Rs.53,048 out of the payment made for that training was observed as an uneconomic expenditure.

3:5 Identified Losses

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The following deficiencies were observed.

- (a) The assignment on the verification of stocks of the Institute had been awarded to the institution which quoted a higher price instead of selecting the lowest bid, thus causing loss of Rs.92,720.
- (b) A sum of Rs.73,718 had been spent on servicing computers, of which the guarantee period had not expired.



- (c) The Bank of Ceylon had recovered a sum of Rs.599,085 out of the interest on the sum of Rs.110,200,000 invested in that Bank in fixed deposits as the Withholding Tax and remitted to the Commissioner General of Inland Revenue.

4. 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 from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

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- (a) Recruitment
  - (b) Postal Expenses
  - (c) Training
  - (d) Purchases