

Institute of Construction Training and Development

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Institute of Construction Training and Development had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 2:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Institute of Construction Training and Development as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1:2 Comments on Financial Statements

1:2:1 Non-compliance with Sri Lanka Accounting Standards (SLASs)

Motor vehicles which have been fully depreciated but still in use had not been revalued and brought into the accounts in terms of SLAS 18.

1:2:2 Accounting Deficiencies

The following observations are made.

- (a) Repair and maintenance cost amounting to Rs.3,375,652 had erroneously been capitalized as improvement to building instead of being charged against revenue.

- (b) An advance of Rs.8,103,055 paid to the Department of Buildings for repair and construction of hostel block at Galkulama and repair of Head Office building had not been capitalized and continued to be shown as an advance despite the works had already been completed.
- (c) Two vehicles that were sold at Rs.170,330 in previous years had continuously been shown under fixed assets.
- (d) The amount of VAT remitted to the Department of Inland Revenue was incorrect due to computation error in the invoice value. The component of NBT should be considered before arriving the VAT amount to be collected. Accordingly, ICTAD is liable to pay an additional amount of Rs.360,934 as VAT liability of which had not been recovered from its customers during the year under review.
- (e) The operating income of the ICTAD had not been matched with the related operating expenditure incurred thereto and as a result it was not possible to identify the operational effectiveness and efficiency by evaluating the gross operating profit or loss. This may be an impediment to the enhancement of the managerial effectiveness and efficiency of the ICTAD.
- (f) A stock of 1817 books donated by Germany and Japan to the Construction Equipment Training Centre (CETRAC) and the stock of books in the Head Office Library had not been valued and brought to account.

1:2:3 Accounts Receivable and Payable

The following observations are made.

- (a) The hire charges receivable amounting to Rs.114,529,393 with regard to the hire of motor vehicles, plant and machinery to the National Equipment and Machinery Organization (NEMO) during the period from 1997 to 2004 had not been recovered even up to 28 April 2011.

- (b) Due to a poor operation of system on follow up debts recovery, ICTAD had failed to collect rent income and reimbursement of expenditure amounting to Rs.345,000 and Rs.1,102,669 respectively from the respective parties.
- (c) Out of the sundry debtors balance amounting to Rs.121,147,372 as at 31 December 2010, a sum of Rs.120,199,039 or 99 per cent had been outstanding for more than 05 years.
- (d) The total amount receivable for the services provided by the ICTAD was Rs.22,559,519 and a sum of Rs.5,292,643 or 24 per cent has been provided for bad debts due to the absence of a proper procedure for recovery of debts.

1:2:4 Lack of Evidence for Audit

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

Item -----	Value -----	Evidence not made available -----
	Rs.	
(a) Trade Debtors and other Receivables	135,931,056	} Confirmations
(b) Trade Creditors and Other Liabilities	5,413,547	
(c) Deposits	1,747,563	} Original Deposit Slips
(d) Value Added Tax Payable	2,557,267	} Detailed Schedules
(e) Foreign Grants Refundable	2,663,659	
(f) Inland Revenue	1,128,270	

1:2:5 Transactions not supported by Adequate Authority

A sum of Rs. 1,510,235 had been paid in the year 2008 as advance for bonus to the employees of the ICTAD without making provisions. The approval of the line Ministry and the Treasury had not been obtained for these payments and action had not been taken up to 10 March 2011 for the settlement of the advances.

1:2.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance observed in audit as given below.

Reference to Laws, Rules, Regulations, and Management Decisions

Non-compliance

- (a) Inland Revenue Act No. 10 of 2006
– Section 106.

Income Tax Returns for the year 2010 had not been furnished to the Department of Inland Revenue at due date and no provision for tax liability had been made in the accounts.

- (b) Economic Service Charges
(Amendment) Act, No. 15 of 2007
Section 2.

Returns for the Economic Service Charges for the year 2010 had not been furnished to the Department of Inland Revenue on due date.

- (c) Finance Act, No. 38 of 1971
Section 13(2)

The determined audit fees for the period from 1997 to 2009 amounting to Rs.3,350,000 had not been paid by the ICTAD up to 28 April 2011.

- (d) Public Enterprises Circular No. PED
116 of 24 January 1997.

The ICTAD had released one motor vehicle and two officers during the year under review to the line Ministry in contrary to the circular instructions. A sum of Rs.281,112 had been paid as salaries to those officers for the year under review.

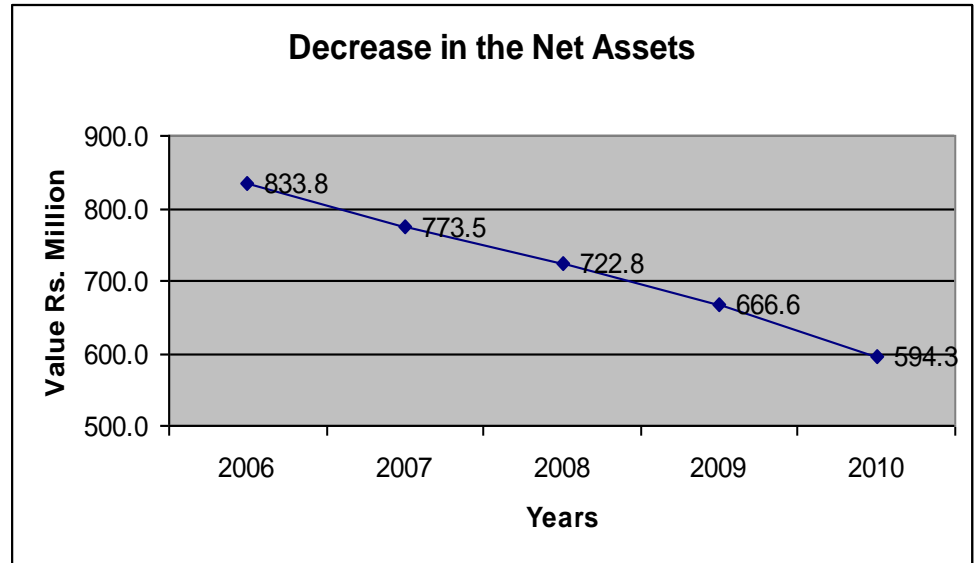
2. Financial and Operating Review

2:1 Financial Review

According to the financial statements presented, operations of the ICTAD for the year under review had resulted in a deficit of Rs.78,445,766 as compared with the corresponding deficit of Rs.68,150,192 for the preceding year thus indicating an increase in deficit by of Rs.10,295,574, after taking into the accounts of the Government recurrent Grant of Rs.49,650,000 received during the year under review as compared with the recurrent grant of Rs.48,000,000 received in the preceding year.

The following observations are made in this regard.

- (a) The operating deficit of Rs.78.4 million of the ICTAD had resulted from the utilization of the staff of 257, the total assets valued at Rs.663 million and the government contribution of Rs.55.6 million (capital and recurrent) received during the year under review.
- (b) The deficit of the ICTAD for the year under review represented 11.7 per cent of the total assets as compared with 9.3 per cent of the total asset for the preceding year indicating an adverse position of 2.4 per cent.
- (c) The accumulated loss of the ICTAD as at 31 December 2010 amounted to Rs.2,115 million and as a result of occurring continuous losses by the ICTAD, its net assets had been subject to heavy erosion. Thus the going concern of the ICTAD had become significantly uncertain without financial assistance from the Government. The following graph indicates the decreasing trend of the net assets of the ICTAD.



- (d) 2000 copies of Directory for Contractors had been printed at a total cost of Rs.4.3 Mn without ascertaining the demand. As the information becoming outdated, selling price of the books had to be reduced thus resulting a loss of Rs.189,953 to the ICTAD up to 31 December 2010. Since the information contained in 1365 books are already outdated, the recoverability of the cost of Rs.2.9Mn is doubtful.

2:2:1 Management Inefficiencies

The following observations are made.

- (a) Deposits amounting to Rs.1,747,563 made with external institutions were outstanding for more than 05 years and the recoverability of those deposits were doubtful due to the unavailability of the original documents with the ICTAD.
- (b) Action had not been taken for the recovery of Rs.1,128,270 (GST, VAT, NSL and Stamp Duty) receivable by the ICTAD from the Department of Inland Revenue.
- (c) A sum of Rs.8,731,909 with regard to advances made to procure goods and services remaining unsettled for periods exceeding 05 years.

- (d) According to the balance sheet, the value of stocks was Rs.194 million which represents 29 per cent of the total assets and 85 per cent of the current assets.
- (e) Two circuit bungalows had been constructed at a cost of Rs.15,678,657 without the ownership of land taken over by the ICTAD. However, cost of construction had been shown as assets in the financial statements.
- (f) Utilization of resources at Operating Training Center Galkulama

- (i) 14 items (Vehicles & Machineries) out of 31 items were verified and noted in audit that due to these assets were under repair, the opportunity loss occurred amounting to Rs.24.5 Mn or Rs.46 Mn based on dry rate or for wet rate respectively. It was observed that the management of ICTAD had not taken effective action to utilize those resources efficiently.
- (ii) It was observed that the ICTAD had not effectively marketed their products and services available at Operating Training Center, as this is the only entity in the government that provides training of heavy machines in the construction field.

2:2:2 Budgetary Control

Significant variances were observed between the budget and the actual thus indicating that the budget had not been made use of as an effective instrument of management control.

3. **Systems and Controls**

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

- (a) Accounting
- (b) Debtors and Creditors
- (c) Budget
- (d) Measurement of Performance against targets
- (e) Settlement of Advances
- (f) Maintenance of Accounting records