

Sri Lanka Institute of Development Administration - 2010

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 Sri Lanka Institute of Development Administration 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 1:2 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 Sri Lanka Institute of Development Administration as at 31 December 2010 and the financial results of its operations and cash flow for the year then ended.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

The following observations are made.

- (a) The sum of Rs.5,347,485 which should be transferred to the income of the Institute in connection with the conduct of Sinhala and Tamil programmes in the years 2007 and 2008 included in the Accounts Payable on the Consultancy Services amounting to Rs.31,263,459 had been shown as expenditure payable without being transferred to income in terms of Section 6 of Sri Lanka Accounting Standard No.10.
- (b) Non-current assets fully depreciated; but in use at present had not been revalued and adjusted in the accounts as required by Sri Lanka Accounting Standard No.18.

1:2:2 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs.3,315,594 spent on repairs to the toilet system commenced in the last quarter of the year under review had been debited to the Buildings Account instead of being debited to the Capital Works-in-progress Account.
- (b) The security deposit of Rs.889,000 made for obtaining the electricity connection to the new hostel building had been debited to the Work-in-progress Account instead of being debited to the Security Deposits Account.
- (c) The expenditure on foreign travel of the Institute for the year under review had been understated by a sum of Rs.396,732.

1:2:3. Lack of Evidence for Audit

Assets, liabilities, income and expenditure amounting to Rs.265,712,571 shown in the Financial Statements could not be satisfactorily audited due to the non-submission of confirmation of balances, Consultants Reports (Report Writing) Updated Registers of Fixed Assets, Age Analysis and Detailed Schedules.

1:2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliances with the following Laws, Rules, Regulations, etc. were observed.

| Reference to Laws, Rules, Regulations, etc. | Non-compliance |
|--|--|
| ----- | ----- |
| (a) Sri Lanka Institute of Development Administration Act, No.9 of 1982 Section 13(1) | Even though the meetings of the Governing Board should be held at least once in each month, the Governing Board had met only in seven instances during the year under review. |
| (b) Section 153 of the Inland Revenue Act, No.10 of 2006 | With Holding Tax amounting to Rs.332,985 had not been recovered from the Consultancy Fees on the new building Complex amounting to Rs.6,659,708 paid in the years 2006 to 2008 and remitted to the Commissioner General of Inland Revenue in terms of the provisions of the Act. |

- (c) Public Enterprises Circular No.PED/12 of 02 June 2003
- (i) Section 7.4.1 Even though the Audit Committee should meet at least once in each quarter, the Committee had met only one in the year under review.
- (ii) Section 9.2(d) The Organization Chart of the Institute had not been registered with the Department of Public Enterprises.

2. Financial and Operating Review

2:1 Financial Review

2.1.1 Financial Results

According to the accounts presented, the operations of the Institute for the year ended 31 December 2010 had resulted in a surplus of Rs.480,323 as compared with the corresponding surplus of Rs.1,365,892 for the preceding year and as compared with the preceding year the financial results for the preceding year under review indicated a deterioration of Rs.885,569. The deterioration was mainly due to the decrease of the operating income of the Institute by a sum of Rs.26,543,326.

2:2 Operating Review

2.2.1 Performance

The following observations are made in this connection.

The Institute had conducted a total of 10,073 hours of lectures during the year under review and out of that 4,972 hours had been conducted by the Consultants of the Institute serving on permanent and contract basis. The external Consultants had conducted 5,101 hours of lectures. The corresponding lecture hours for the preceding year had been 18,535 and as compared with the preceding year, a decrease of 8,462 lecture hours in the year under review was indicated. The set back in the performance of the Institute in the year under review had also significantly affected the decrease of the operational surplus.

- (i) The courses conducted by the Institute in the year had been 106 as against the total number of 137 courses conducted in the preceding year. Thus the number of courses for the year 2010 compared with the year 2009 had decreased by 31.
- (ii) The performance of the scheduled programmes for the year under review as compared with the year 2009 had been as follows.

| Year | Number of Scheduled Programmes | Number of Programmes Conducted | Number of Programmes Postponed | Number of Participants |
|------|--------------------------------|--------------------------------|--------------------------------|------------------------|
| 2009 | 74 | 58 | 20 | 1,500 |
| 2010 | 87 | 33 | 54 | 887 |

The decrease in the number of scheduled programmes for the year 2010 as compared with year 2009 represented 43 per cent. The 87 scheduled Training Programmes expected to be operated by the Institute in the year under review had been scheduled under 11 Professional Development Centres. Out of these centres, the Centre for Productivity and Quality and the Research, Publication and Policy Studies Centre had not recorded any performance.

As such the performance of the scheduled programmes had been at a low level of 37.9 per cent.

- (iii) The performance of several Centres for the year under review as compared with the preceding year had suffered set backs due to the shortage of staff and the scanty attention paid to the performance as shown below.

| Centres | 2010 | | 2009 | | Percentage of Decrease in Performance as Compared with the year 2009 | |
|------------------------|----------------------|-----------------|----------------------|-----------------|--|-----------------|
| | Number of Programmes | Number of Hours | Number of Programmes | Number of Hours | Number of Programmes | Number of Hours |
| Language Studies | 08 | 1,233 | 15 | 2,661 | 47 | 54 |
| Information Technology | 10 | 713 | 22 | 1,958 | 55 | 64 |

2.2.2. International Labour Organization (ILO) Project

The following observations are made.

The above Sponsoring Organization had agreed in the year 2007 for the conduct of 97 programmes to provide an understanding of the business regulations to the Public Officers aimed at the supply of a better service for the business development and to provide Management Consultancy Services relating thereto and that Organization had

released a sum of Rs.8,620,447 for that purpose. Even though the project was completed in the year 2008 according to accounts a sum of Rs.4,794,300 had been brought forward as the expenditure payable for the work completed. That had not been settled up to date. Nevertheless, none of the information in this connection was made available to audit.

2.2.3 Contract Administration

2.2.3.1 New Building Complex

According to letter No.3/AD/3-1 of 15 July 2008 on the award of the Contract, the first stage of the building complex costing Rs.60,353,410 should have been commenced on 20 August 2008 and completed in 20 months. According to the letter dated 12 November 2008 sent by the State Development and Construction Corporation, the hostel building should have been completed in the year 2009. Despite the elapse of nearly 03 years as at present the contractor had failed to complete the construction and handover the hostel building.

2.2.3.2 Repairs to the Lavatory System of the Hostel

The following observations are made.

- (a) An agreement for a sum of Rs. 19,416,032 had been entered into with a contracting company on 31 December 2007 for carrying out repairs to the 74 lavatories in the hostel of the Institute. The work should have been done in 03 stages and completed and handed over on 30 July 2008. The value of work done amounted to Rs.12,454,513 and a sum of Rs.9,066,557 had been paid in that connection. Nevertheless the contractor had completed in work on 58 lavatories after several extensions of time approved and handed over by the end of the year 2009. The work on the balance 16 lavatories had not been completed even up to 31 May 2011, the date of audit.
- (b) The contractor had stopped the work by breaching the terms of the agreement and as such 13 rooms of the hostel had to be closed down over a period exceeding 02 years.
- (c) No action had been taken against the contractor for the breach of the agreement. Even though quotations for carrying out repairs to the balance 16 lavatories had been obtained recently from contractors, a suitable contractor had not been selected up to the date of this report.

2.2.3.3 Management Inefficiencies

The approval of the Cabinet of Ministers had been granted in the year 2007 for the construction of a building complex at an estimated value of Rs.515 million. Even though the preliminary expenditure had been incurred and work commenced, in accordance with a policy decision arrived at by the Institute, it had been decided to construct only the hostel building which was the first stage of the Building Complex. Despite the fact that the work on the construction of the hostel building only had been awarded to the contractor, the Institute had incurred the following losses due to the commencement of the preliminary work on the Administration Building which was not awarded to the Contractor.

- (i) Due to the changes made to the plan of the hostel building to avoid any damage to the lavatory system constructed in the year 2007 at a cost of Rs.594,329 an area of about 500 square feet of the ground floor had been wasted. Nevertheless, the lavatory system had also been demolished at present as it was damaged during the course of construction.
- (ii) Drivers' hostel and two class rooms had to be demolished.
- (iii) An additional payment of Rs.430,340 had to be paid to the Ceylon Electricity Board to relocate the underground electricity cable away from the proposed building to enable the excavation of foundations for the Administration Building later abandoned.
- (iv) Service charges amounting to Rs.3,714,000 and Rs.292,709 had been paid to the Urban Development Authority and the Colombo Municipal Council respectively on the total floor area of the proposed building. The sum of Rs.2,615,738 paid on the abandoned Administration Building had become a fruitless expenditure.

2.2.5 Idle Assets

The Institute had purchased a modern conference and translation set valued at Rs.2,631,220 capable of providing simultaneous translations to 50 persons. Nevertheless, the translation equipment could not be used for the courses conducted by the Institute as the translators required for the equipment had not been recruited.

2.2.6 Uneconomic Transactions

A sum of Rs.50,491 had been spent on a female officer who participated in the Leadership Training Programme conducted in the year under review at the Monash University in Australia. All other expenditure in this connection had been met by the sponsor institution. That officer recruited on 02 March 2009 had left the service on 04 November 2010. The expenditure incurred on the foreign training of an officer with a very short period of service without entering into a bond had become a fruitless expenditure.

2.2.7 Transactions of Contentious Nature

A sum of Rs.6,763,742 had been paid during the year under review to the Consultants who serve the Institute on permanent and contract basis for the delivery of lectures and other sundry work. Even though it was stated that the above payments were made on the practice for the payment for the supply of external services approved by the Treasury on 21 August 2007 on the recommendation of the Minister, all those services had been supplied during the normal daily duty hours. As these payments had been made for the performance of the work spelt out in Section 3(1) of the enabling Act of the Institute, additional payments made in that connection are of contentious nature.

2.2.8 Identified Losses

A sum of Rs.633,150 recoverable from 05 officers who had been occupying the hostel from 2004 to 2007 and recoverable from an external institution had become irrecoverable due to the weakness of the administration.

2.2.9 Internal Audit

An Internal Audit Unit had not been established in the Institute in terms of financial Regulation 133 and the expected function had not been done even by the Internal Audit Unit of the Ministry. Even though the Department of Management Services has approved the creation of a post of Internal Auditor on 22 April 2008, action had not been taken even up to May 2011 to establish an Internal Audit Unit in the Institute.

2.2.10 Budgetary Control

Abnormal variances were observed between the Institute and the actual income and expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of Management Control.

3. Systems and Controls

Deficiencies in system and controls observed during the course of audit were brought to the notice of the Director General of Institute from time to time. Special attention is needed in respect of the following areas of control.

- (a) Contract Administration
- (b) Conduct of Courses
- (c) Foreign Travel Expenses
- (d) Internal Audit