

Institute for Construction Training and Development (ICTAD) - 2013

The audit of financial statements of the Institute for Construction Training and Development (ICTAD) for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in net assets and 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 29(2) of the State Industrial Corporation Act, No. 49 of 1957. My comments and observations which I consider should be published with the annual report of the Institute in terms of Section 14(2)(c) of the Finance Act, appear in this report.

1:2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounts 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 Auditors Responsibility

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 Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and 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 judgment, 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 Institute’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 the Institute’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 the financial statements. Subsections (3) and (4) of the 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 qualified opinion.

1.4 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

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 Institute for Construction Training and Development (ICTAD) as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards (SLPSAS).

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

Contractors' renew their registration with ICTAD once in three years. However, the Institute had recognized all these registration fees as income of the year in which they received in contrary to the Sri Lanka Public Sector Accounting standard No. 1. Further, the policy for recognition of these registration fees as income in the financial statements had not been disclosed.

2.2.2 Accounting Deficiencies

The following observations are made

- (a) Acquisition of property, plant and equipment under the generated funds and capital grants received from General Treasury had not been clearly identified and disclosed in the financial statements separately. Therefore, the accuracy of accounting of the Government grant could not be ascertained in audit.
- (b) Provision for depreciation amounting to Rs.15,707,803 had been invested in treasury bills and shown in the financial statements as investment. However, a fund account in line with that investment had not been shown in the financial statements.

2.2.3 Accounts Receivables and Payables

The following observations are made.

- (a) According to the age analysis provided by the Institute, the sundry creditors amounting to Rs.3,853,725 was outstanding for more than two years as at 31 December 2013. Out of that, Rs.2, 266,032 was remained unsettled for more than five years.
- (b) The recoverability of credit facilities amounting to Rs. 2,839,923 provided to the trainees whom had trained during the period 2011 to 2013 was doubtful.

- (c) Certain training courses relating to the field of construction had been conducted by the Centre for Habitat Planning and Development which is a centre for training of the Institute. The course fee of Rs. 105,048 had remained outstanding as at 31 December 2013 without being recovered even by 30 November 2014.
- (d) No action had been taken on the receivable balance of Rs. 114,529,393 from the National Equipment and Machinery Organization (NEMO) relating to the hire of motor vehicles and plant and machinery during the period from 1997 to 2004 even up to September 2014.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances observed in audit are given below.

Reference to Laws, Rules, Regulations and Management Decisions

Non-compliance

Finance Act, No.38 of 1971

(a) Section 11

A sum of Rs.15,707,803 had been invested in Treasury Bills as at end of the year under review without being obtained the required approval from the Ministry of Finance and Planning.

(b) Section 13(2)

The audit fees for the period from 1998 to 2011 amounting to Rs.2,145,358 had not been paid by the ICTAD even up to September 2014. *In this regard the Chairman of the Institute had stated that this balance will be settled in due course.*

(c) Section 14(1)

A copy of the Draft Annual Report for the year under review had not been submitted to the Auditor General as required.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operations of the Institute for the year under review had resulted in a deficit of Rs. 19,724,647 as compared with the corresponding deficit of Rs. 78,758,145 for the preceding year, thus indicating an improvement of Rs.59,033,498 in the financial result for the year under review. The increase of income and Treasury grant by Rs. 55,455,327 and Rs. 27,440,000 respectively were the main reasons for this improvement.

3.2 Analytical Financial Review

The following observations are made.

- (a) The operating deficit of the Institute was Rs.25 million resulting from utilization of 262 staff, total assets worth of Rs. 861 million and the government contribution of Rs.115 million received during the year under review.
- (b) The deficit of the Institute for the year under review represented 3 per cent of the total assets and as compared with 11 per cent for the preceding year, thus indicating a favorable position by 8 per cent.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) Effective action not been taken even in the year 2013 to settle the refundable foreign aid amounting to Rs.2,663,659 shown under non-current liabilities which were brought forward since the year 1996 .
- (b) Two thousand copies of Contractors' Directory had been printed at a total cost of Rs.4, 351,000 without being assessed the actual requirement as such 1050 copies of that had been remained idle in the stores as at 30 November 2014 even though the contained therein had already been outdated.
- (c) The High Court had delivered a verdict on 30 November 2010 to reinstate a Technical Officer together with paying the salaries due to him. The Institute had made an appeal to the Supreme Court against this verdict after delaying two and half years on 04 April 2013. The Supreme Court had rejected the appeal due to delay in submission.

4.2 Human Resources Management

The following observations are made.

- (a) Seventeen posts in executive level of the Institute such as Internal Auditor, Director Finance and Deputy Director of Development etc. were in acting basis as at 31 December 2013 since serve several years without being taken proper action to fill these vacancies by suitable persons.

- (b) The approved and actual carder of the Institute as at 31 December 2013 was 318 and 234 respectively. 27 posts out of 84 vacancies therein were in senior level. Taking adequate actions to fill these vacant posts were not observed in audit.

5. Accountability and Good Governance

5.1 Corporate Plan

The following observations are made.

- (i) Even though a Corporate Plan for the period 2011-2015 had been prepared, an adequate attention had not been paid for timely review the progress in achieving the targets. Further, it had not been updated as a rolling plan since 2011.
- (ii) The available resources such as land, buildings, operating facilities, human resources and management skills needed and presently available with the Institute had not been shown in the Corporate Plan.
- (iii) Strengths and weaknesses of the Institute and the external threats and opportunities (SWOT) had not been analyzed and considered to formulate the strategies.
- (iv) Key Performance indicators had not been decided and included therein.
- (v) The Consultancy services had not been carried out by the Institute during the year 2013 even though it was the key activities of the Consultancy Division of the Institute as per the Corporate Plan.

5.2 Budgetary Control

Significant variances were observed between the budgeted and 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.

6. 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
- (e) Maintenance of Accounting Records
- (f) Issue of Invoices
- (g) Property, Plant and Equipment