

## **National Apprentice and Industrial Training Authority - 2013**

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The audit of financial statements of the National Apprentice and Industrial Training Authority for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity 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 56 (2) of the Tertiary and Vocational Education Commission 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 Standard 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 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 misstatements 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 the 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 power to the Auditor General to determine the scope and the 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard.

**2.2 Comments on Financial Statements.**

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**2.2.1 Accounting Deficiencies.**

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The following accounting deficiencies were observed.

- (a) The advance amounting to Rs. 200,000 paid to a contractor had been brought to accounts as building repairs and maintenance expenditure.
- (b) Instead of accounting the buildings at a cost of Rs. 43,717,272 which had been utilized after completion of the entire construction work as assets, it had been accounted as work in progress and a sum of Rs.3,988,721 incurred on the construction being in progress had been brought to accounts as assets. As a result, depreciation for the year had been understated by Rs.1,986,428.
- (c) As a result of miscalculation, the provision for gratuity for 04 persons had been understated by Rs.772,191.
- (d) Action had not been taken to identify and bring to accounts the direct deposits amounting to Rs. 1,821,660 received by the Bank.
- (e) Provisions amounting to Rs.790,000 payable in respect of Employees' Provident Fund and Employee Trust Fund had not been made in the accounts.
- (f) Interest income of the fixed deposits had been understated by Rs.443,451.

**2.2.2 Lack of evidence for audit.**

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

Description -----	Value -----	Evidence not made available -----
	Rs.	
(a) Stock	7,896,932	Reports of the Board of survey and schedules
(b) Advances (Outstanding since 1995)	1,254,385	Confirmation of balances

(c) Sundry debtors	4,484,286	- Do-
(d) Sundry Creditors	5,124,502	- Do-
(e) Purchase of Deyatakirula T-shirts and caps	238,700	Goods Received Notes and the details of distribution.
(f) Printing of 1,000 manual for the Commonwealth Heads of Government Meeting	200,000	Details of distribution
(g) Staff development	498,175	Details of programmes and the documents in support of payments.

### 2.2.3 Unreconciled Accounts

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A difference of Rs. 149,816 between the balances of the bank accounts shown in the financial statements and the balances of the cash books was observed.

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Even though a period of 05 years, 3 to 05 years and 1 to 3 years had elapsed in respect of debtor balances amounting to Rs. 2,144,244, Rs.1,538,095 and Rs.1,593,591 respectively recoverable from 24 debtors, such balances had not been recovered up to date.
- (b) The value of the internal debtor balances as at the end of the year under review was Rs. 24,107,436 out of which a sum of Rs.2,496,645 had not been settled even by December 2014.
- (c) Action had not been taken to recover the loan balance of Rs. 209,185 recoverable from the employees who had vacated their posts, even by the end of the year under review.
- (d) Action had not been taken to settle 58 advance balances of Rs. 1,601,772 granted to the external parties by the Authority during the year from 1995 to 2012, even by the end of the year under review.
- (e) Creditors balances amounting to Rs.466,058 older than a period of 03 years had not been settled. Further, since the debtor of the cancelled cheque amounting to Rs.27,704 had not been accurately determined, it had been shown under the sundry debtors.

## 2.4 Non-compliance with Laws, Rules, Regulations and Management decisions

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The following non-compliances were observed

Reference to laws, rules and regulations etc.	Non compliance
(a) Section 11 of the Finance Act. No.38 of 1971	In case of investments of funds, the Authority should obtain the approval of the Ministry of Finance and Planning. Nevertheless, the Authority had not obtained the required approval in connection with the investment amounting to Rs.76,179,993.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka	
(i) Section 6.1 of chapter VIII	Even though the overtime allowance due to be paid for an hour should be computed as 1/8 <sup>th</sup> of a day's pay and a day's pay should be computed as 1/30 <sup>th</sup> of the monthly salary, the Authority had paid overtime allowance by computing a day's pay at a rate of 1/20 <sup>th</sup> of the monthly salary.
(ii) Section 2.2 of chapter IX	Even though 10 per cent of the allowances received for the duties performed outside the official hours should be credited to the Consolidated Fund, it had not been so done in respect of lecturer fees of part time courses and other allowances.
(iii) Section 4.4.3 of chapter XIV	Contrary to the provisions in the Establishments Code, employees who were engaged in the service in the North and East had been paid Rs. 190,136 at the rate of Rs.3000 per day.
(c) Financial Regulations of The Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 104	A sum of Rs.1,285,534 had been incurred for the repair of 12 vehicles met with accidents during the year under review, but no preliminary inquiry had been conducted on any of the aforesaid accidents. The reports of losses and damages on vehicle accidents caused during the year under review and the previous years had not been furnished to the Auditor General.

- (ii) Financial Regulation 210  
(1) Eventhough payments should be made so as to receive the discount benefits, action had not been taken accordingly in making payments for all water bills and assessment tax of the Authority.
- (iii) Financial Regulation 395  
(a), (c) The bank reconciliations statements should be prepared and furnished to the Auditor General before 15<sup>th</sup> of the following month. Nevertheless, bank reconciliation statements had been furnished to audit in September 2014.
- (iv) Financial Regulation  
702 (3) Copies of all agreements signed during the year under review had not been furnished to the Auditor General.
- (v) Financial Regulation 802  
(1) Eventhough Heads of Departments should take steps to ensure that the vehicles do not remain idle, 13 vehicles of the Authority had remained idle for more than a period of two years.
- (vi) Financial Regulation  
1646 Eventhough daily running charts and monthly summaries relating to vehicles should be furnished to the Auditor General before 15<sup>th</sup> of the following month, daily running charts and monthly summaries relating to 12 vehicles for the year under review and the running charts of 17 vehicles relating to 74 months had not been submitted.
- (d) Public Finance Circular No  
446 dated 01 September 2010 Hundred and eighty three persons, who held the posts not covered by the provisions in the circular pertaining to the supply of telephone facilities for the public institutions and the officers and the settlement of bills, had been provided with mobile phone connections since the year 2012 up to the end of the year under review and a sum of Rs.2,745,000 had been paid by prescribing the approved limit as Rs.1000 for them.
- (e) Public administration  
Circular No.41/90 dated 10  
October 1990 Fuel consumption should be tested once in a 06 months, whereas it had not been so done.
- (f) Sections 1.1.6 (v) and 1.3.1  
(iii) of the Public  
Administration Circular No  
22/99 dated 08 October 1999. Instances were observed that vehicles had been individually assigned to officers who were entitled to transport facilities in groups.

- (g) Section 1.1.1 of the Ministry Circular No. TVET/1/CIR/2004/1 dated 28 January 2004. Courses had been conducted with a lesser number of apprentices than the minimum number of apprentices required to be participated in a course and prior approval of the Ministry had not been obtained therefor.
- (h) Section 5 (1) of the Payment of Gratuity Act No.12 of 1983 An employee who retired from the service should be paid his gratuity within 30 days from the date of termination of his service. Nevertheless, it was observed that payments had been made with delays in 12 instances.

### **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 in 31 December 2013 had been a deficit of Rs. 68,317,478, as compared with the corresponding deficit of Rs. 29,244,981 for the previous year thus indicating a deterioration of Rs. 39,072,497 in the financial result for the year under review as compared with the preceding year. The increase in employee cost and decrease in Government grants had mainly given rise to this deterioration.

#### **3.2 Legal Cases Instituted in the Institute.**

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Three cases instituted by the Labour Department against the Authority for its failure to make contributions to the Employees' Provident Fund in respect of three employees, the case filed by the Authority with regard to the ownership of the land in which the Wellawatta training centre is situated and the case filed against the Authority in connection with the termination of the service of the Director (Training) for his failure to report for service without prior notice while on no-pay leave, had not been disclosed in the accounts.

### **4. Operations Review**

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#### **4.1 Performance.**

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The following observations are made.

- (a) Out of the 32,610 apprentices enrolled in the year under review 8,553 or 26 per cent had dropped out the courses.
- (b) Though it was targeted to enroll 445 apprentices for 18 courses, these courses had not been commenced. Further, without 70 per cent of the targeted apprentices of 72 courses, the relevant courses had been commenced.
- (c) Details on the accomplishment of the activities specified in the Action plan are as follows.

Description	According to the Action Plan			Actual number		
	No.of Programmes	No. of students	of	No.of Programmes	No. of students	of
Conduct of Vocational Tests	-	19,500	-	-	8,752	-
Personality Development Programmes	522	16,195	09	09	273	
Awareness programmes for school children	125	10,000	68	68	5,209	
Entrepreneurship Development Programmes	50	5,000	04	04	143	
Technical Training Lessons	-	150	-	-	-	-
National Vocational Tests Certificates.	-	35,000	-	-	21,643	-
	-	4,200	-	-	3,003	-

- (i) Though it was targeted to conduct vocational tests for 19,500 individuals during the year under review, vocational tests had been conducted only for 8,752 individuals.
- (ii) Although the distribution of 35,000 modules among apprentices was the target, the actual number of modules distributed amounted only to 21,643 which was a drop of 38 per cent of the expected target.
- (iii) Though it was expected to direct 150 employees of the Authority to technical training, it had not been so done.
- (iv) It had been targeted to issue 4,200 certificates under the National Vocational Tests, whereas only 3,003 certificates had been issued.
- (v) Although it was expected to conduct 697 personality development programmes, awareness programmes for the school children and entrepreneurship development programmes, only 81 programmes had been conducted.

#### 4.2 Management Inefficiencies

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The following matters were observed.

##### (a) Work in Progress

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The following observations are made.

- (i) The constructions of hostels of National Institute of Engineering Technology and National Apprenticeship Training Institute had not been completed within the specified period and action had not been taken to recover the liquidated damages of Rs. 4,873,074.
- (ii) Eventhough the contract for the construction of Printing unit (Head office) valued at Rs. 6,808,477 was scheduled to be completed on 21 November 2013, it had not been completed even by 04 November 2014. Lapses such as failure to obtain extension for the period of contract, award of a

contract amounting to Rs.1,255,750 for the construction of another floor despite the works had not been completed, failure to recover the liquidated damages despite action had not been taken in terms of the agreements were observed.

- (iii) Eventhough the contract for the construction of the wall of the National Engineering Technical Institute was scheduled to be completed on 21 October 2013, works had not been completed even by December 2014. The period of contract had not been extended and liquidated damages had not been recovered in accordance with the agreement.
- (iv) An agreement had not been entered into with regard to the contact valued at Rs.1,548,100 for the construction of the Vice- Chairman's room (Head office) .
- (v) There was no contact awarding letter or a signed agreement in respect of the contract amounting to Rs. 5,455,000 for the construction of the auditorium.
- (vi) There was no contact awarding letter or a signed agreement with regard to the contract for the construction of main lobby valued at Rs.1,999,500 (exclusive of VAT). Even though Rs.200,000 had been paid on 28 February 2013, no payments whatsoever had been made up to 25 December 2014. Infomation about the completion of the work was not available.
- (vii) There was no agreement relating to the contract valued at Rs.1,327,000 for the development of the Head office premises. A sum of Rs. 700,000 had been paid to the contractor, whereas information was not available to ensure whether the work had been completed even by December 2014.

**(b) Exhibitions, Seminars and Advertising Expenditure**

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The following observations are made.

- (i) Since the minimum prices presented for the creation of leaflets prepared for the distribution at the Deyatakirula National Development Programme was disregarded, an overpayment of Rs.12,000 had to be made.
- (ii) Without calling of quotations a sum of Rs. 108,000 had been paid as accommodation charges of the officers participated in the Dayatakirula National Programme and a special allowance of Rs. 224,000 had been paid to those officers.

**(c) Postal and Communication Charges**

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The following observations are made.

- (i) Official telephone charges of Rs.19,605 exceeding the approved limit had not been recovered from the salaries of the respective officers.
- (ii) A telephone of the head office had been handed over to the stores on 13 September 2013 without being utilized and a sum of Rs. 17,449 had been paid as tax and other fixed charges despite it had not been utilized by any one.



- (iii) The Mobile telephone connection package for 04 instructors recruited on contract basis and a management assistant had been provided and a sum of Rs. 75,000 had been paid at the rate of Rs.1000 per month.

#### **4.3 Transactions Contrary to the Objectives.**

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Although the prime objective of the Authority is to plan and organize vocational trainings of the industrial sector and performing other activities pertaining thereto, a sum of Rs. 2,722,940 had been incurred out of the fund in respect of the Vesak festival which was extraneous to the objective.

#### **4.4 Personnel Administration**

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The following observations are made.

- (a) The approved cadre of the year under review was 992 while the actual cadre was 709. Accordingly, there were to 283 vacancies and action had not been taken to fill such vacant posts.
- (b) In addition to the approved cadre, 24 employees had been recruited on casual, temporary and contract basis without obtaining the approval of the Ministry or the Department of Management Services.
- (c) Employees attached to the training centres had been continuously working in the same centres without taking action to transfer them.
- (d) An officer recruited on secondment basis for a period of one year had been appointed to the permanent post of the Director Administration and Human Resources before the completion of the above period. It was revealed in audit that applications had not been called for the recruitment to this post and the recruitment had been made contrary to the provisions in the Establishments Code and he had been placed on the maximum salary scale on that post. Although this matter had been pointed out in the previous year, necessary action had not been taken.

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

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#### **5.1 Budgetary Control**

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

### **6. Systems and Controls**

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

- (a) Stores Control
- (b) Fixed Assets
- (c) Accounting
- (d) Vehicle Utilization
- (e) Apprentices and Training Activities
- (f) Personnel Management
- (g) Budgetary Control.

