Sri Lanka Institute of Development Administration - 2013

The audit of financial statements of the Sri Lanka Institute of Development Administration 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 equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 21 of the Sri Lanka Institute of Development Administration Act, No. 09 of 1982. 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 Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting 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 Auditor's 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 misstatements 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 financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers 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

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 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 Sri Lanka Institute of Development Administration 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.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards (S.L.P.S.A.S.)

Instances of non-compliance with auditing standards are given below.

(a) S.L.P.S.A.S. No.01

(i) Assets, liabilities, revenue and expenses should not be set off with each other and brought to account unless permitted by an Accounting Standard. However, out of the balance of consultancy fees amounting to Rs. 31,890,980 payable as at 31 December 2013, consultancy fees of Rs. 13,735,828 receivable and a debit balance of Rs. 230,241 of the NAPSIPAG Programme had been deducted and shown as Rs. 17,924,911 in the financial statements.

(ii) Even though deposits for electricity, fuel, identity cards and gas cylinders aggregating Rs. 1,213,100 should be shown under the non- current assets, in terms of Sections 76 and 77 of the Sri Lanka Public Sector Accounting Standard No. 01, it had been brought to account as current assets.

(b) S.L.P.S.A.S. No. 02

(i) Instead of indicating the provisions for gratuity amounting to Rs. 2,231,213 relating to the year under review and the gratuity paid in the year amounting to Rs. 87,454 in the cash flow statement separately, only adjusted balance had been shown therein.

(ii) The surplus of Rs. 129,413 received from disposal of fixed assets and a sum of Rs. 241,216 received from disposal of assets had been set off with each other.

2.2.2 Accounting Policies

Since it is implied that the ownership, under the Concept of Substance Overform, is owned by the institute, the value of the land with an extent of 1.186 Hectares should be computed and brought to account. Nevertheless, it had not been done accordingly.

2.2.3 Accounting Deficiencies

The following accounting deficiencies were observed.

(a) The fixed assets costing Rs.65,230,600 which had been fully depreciated and used at present had not been revalued and brought to account.

(b) The value of water bills amounting to Rs. 75,610 had been omitted from accounts for the year under review.

(c) Even though the rental income from the canteen for the year under review had been Rs. 240,000, only a sum of Rs. 160,000 had been shown in the financial statements. As such, the rental income for the year under review and the rent receivable had been understated by Rs. 80,000.

(d) A sum of Rs. 275,000 recoverable from Postgraduate course fees had not been stated as receivable course fees and the course fees amounting to Rs. 24,000 received for the year 2014 had not been stated as income received in advance in the financial statements.

(e) Instead of accounting the amortization of Rs. 16,433,476 relating to the year under review as deferred income, it had been brought to account as recurrent treasury contribution income.

(f) Values of 312 stock units belonging to 06 categories had not been brought to account.

2.2.4 Lack of Evidence for Audit

It could not be examined during the course of audit due to lack of evidence stated against the following items in the financial statements.

	Particulars	Value Rs.	Evidence not made available
(a)	Expenditure on repair of Motor vehicles	116,144	04 relevant payment vouchers
(b)	Purchase of non-current assets	3,027,000	Relevant files

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Out of the debtors' balances, 09 balances of Rs. 443,556 had lapsed for more than 03 years and 11 balances of Rs. 665,256 had lapsed for more than 05 years.

(b) Out of the payable balances, 06 balances of Rs. 633,280 had lapsed for more than 03 years and 05 balances of Rs. 373,280 had lapsed for more than 05 years.

(c) Out of the payable deposit balances, 14 balances of Rs. 2,604,812 had lapsed for more than 03 years.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions.

The following non-compliances were observed.

	Reference to Laws, Rules, Regulations etc.	Non-compliance
(a)	Section 13(1) of the Sri Lanka Development Administration Act, No.09 of 1982	Even though the Board of Control should meet at least once a month, only 07 meetings had been held in the year 2013.
(b)	Paragraph 5(1) of the Payment of Gratuities Act, No. 12 of 1983	Even though the employer should take action to grant the gratuity to an entitled officer during a period of 30 days from a date of termination of his service, it had not been done accordingly.
	Establishments Code of the Democratic Socialist Republic of Sri Lanka	
	(i) Section 23.18 of Chapter XII of the Establishments Code	Even though returns of leave spent out of the island by public officers should be forwarded to the Auditor General monthly, particulars of leave of 14 officers subjected to the sample test had not been presented.
	(ii) Section 10 of Chapter XV of the Establishments Code and Paragraph 2.1.8 of the Finance and Planning Circular No. MF6/1/1/96 0f 20 April 1996	Even though the approval of the Prime Minister should be obtained to go abroad, the approval had not been so obtained by the two officers subjected to the sample test.
	(iii) Section 10.6 of Chapter XXIV of the Establishments Code	No other loan under this category should be obtained during the previous six months as at the date on which salary loans are applied and 03 instances where a further loan had been granted before exceeding 06 months of the previous loan were observed in sample test check.

(iv)	Section 10.4 of Chapter XXIV of the Establishments Code.	In applying distress loans, officers who do not have a period of 10 years' permanent service should present an entitled surety with over 10 years' permanent and pensionable service or two entitled sureties with not less than 05 years' permanent and pensionable service along with the loan application form. Five instances where such sureties had not been presented were observed in the sample test check.

(c)	**Financial Regulations of the Democratic Socialist Republic of Sri Lanka.**	
(i)	Financial Regulation110	A Register of losses had not been maintained.
(ii)	Financial Regulation 188(2)	Twenty six unrealized cheques valued at Rs. 124,724, had existed from the year 2007 and no action in terms of Financial Regulations had been taken for such balances.
(iii)	Financial Regulation 371(2)	Even though advances granted should be settled immediately after the completion of the work, advances amounting to Rs.1,992,000 granted in August 2012 had not been settled even by 31 August 2014.
(iv)	Financial Regulation 396(c)	No action had been taken in terms of relevant provisions in respect of 17 cheques totaling Rs. 84,994 exceeding a period of 06 months which were issued but not presented for payment.
(v)	Financial Regulation 1645(a)	Log books relating to motor vehicles had not been properly maintained.
(vi)	Financial Regulation 1647(b)	Even though a full inquiry in respect of motor vehicles and parts thereon should be carried out, no action had been taken accordingly.
(e)	Treasury Circular No.842 dated 19 December 1978	A properly prepared Register on Fixed Assets had not been maintained.

(f)	Public Administration Circular No. 14/2008 dated 26 June 2008	Even though the officers, who obtain monthly transport allowances, could not use motor vehicles of the pool, contrary to it, 07 officers had used motor vehicles of the pool.
(g)	Public Administration Circular No. 22/99 dated 08 October 1999	Even though group transport facilities can be provided to Government Officers who hold posts at the deputy level, contrary to that circular, transport facilities had been provided for individual persons.
(h)	Agreement on maintaining of the canteen	Even though a performance bond which is equal to the rental of 03 months should be presented as guarantees for the canteen, it had not been so done.

2.5 Transactions not supported by Adequate Authority

Financial and administrative regulations could be prepared in terms of the decision of the Cabinet of Ministers No.1024 F/800/29 CD dated 12 December 1963. Nevertheless, if it is not prepared, Government Financial Regulations and the Establishments Code should be followed instead. Even though the Provisions in Shops and Office Employees Ordinance had been followed in respect of annual leave and overtime allowance of officers, the provisions in that Ordinance had not been applied in respect of duty hours and office hours. As such, it was observed that a considerable number of annual duty hours had been deprived of and an overpayment of overtime allowances had to be paid.

3. **Financial Review**

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year ended 31 December 2013 had resulted in a deficit of Rs.32,251,344 as compared with the corresponding deficit of Rs.14,875,471 for the preceding year thus indicating a deterioration of Rs.17,375,873 in the financial result for the year under review as compared with the preceding year.

3.2 **Analytical Financial Review**

The following observations are made.

(a) Despite the treasury contribution and the amortization had been increased by Rs. 43,345,675 and local course fee by Rs.5,198,393, making provisions for bad and doubtful debts amounting to Rs. 31,836,793 for the year under review and decrease of net consultancy services income by Rs. 18,374,604 had been mainly attributed to the deterioration in the financial result.

(b) The balance of Accumulated Fund Account which was a minus value of Rs. 15,839,878 as at end of the preceding year had converted into a surplus of Rs. 38,271,421 as at the end of the year under review thus indicating an increase of Rs. 54,111,299 or 342 per cent. Further, the balance of the Capital Grants Account of Rs. 317,560,087 as at the end of the preceding year had decreased up to Rs. 257,276,352 by the end of the year under review. It was observed that adjusting the entire amortization of Rs. 130,339,908 relating to the assets purchased under the Capital Grants to the Accumulated Fund in the year under review had been attributed to the said decrease.

4. Operating Review

4.1 Performance

(a) Training Activities

The following observations are made.

(i) Designed certificate courses not conducted in the preceding year and the year under review amounted to 36 and 14 respectively.

(ii) Number of Capacity Building Programmes had decreased from 04 to 02 in the year under review as compared with the preceding year.

(iii) A detailed summary on the number of persons selected for courses and dropped out from courses in the year under review and for the two preceding years is as given below.

Years	Number of persons selected for courses		Number of Dropouts	
	Certificate courses	Diploma courses	Certificate courses	Diploma courses
2011	756	245	123	37
2012	1036	628	399	102
2013	816	511	211	135

A continuous increase of dropouts from the Diploma Courses had been shown annually. An increase of Certificate Courses in the years 2012 and 2013 had been shown as compared with the year 2011 and a decrease in the year 2013 had been shown as compared with the year 2012.

(b) **Conduct of Lectures by Consultants**

The following observations are made.

(i) An internal consultant should deliver 45 lecture hours per month in designed training programs in terms of the Circular No. PD/IC/01/2008 dated 06 February 2008 of the Director and Instruction Manual dated 17 July 2012. However, as not complied with that, 9,241 lecture hours from 21 consultants had been lost to the Institute during the year under review and the lecture hours lost from 14 consultants had been 5,034 in the preceding year.

(ii) Total number of lecture hours allocated for a month had not been conducted by any of the consultants in the year under review as well as in the preceding year and conducting lectures for designed courses by consultants in the year under review ranging from 06 hours to 276 hours relating to the year.

(iii) It was observed in audit that number of lecture hours of internal consultants had decreased due to non-conducting of designed courses and as such more lecture hours in designed courses had to be conducted by external consultants.

(c) **Conduct of Postgraduate Degree Courses**

Total number of applicants registered within 07 years from the year 2004 to 2010 had been 807 and only 238 applicants had earned Postgraduate Diplomas or Diplomas as at the end of the year under review. It represented only 29 per cent of the total registered number.

4.2 **Management Inefficiencies**

The following observations are made.

(a) A sum of Rs. 9,884,650 had been written off from accounts as un-recoverable charges in the year under review due to non-recovery of specified fees from the participants of the postgraduate and Diploma Courses. However, the reasons caused in writing off a sum of Rs. 6,172,150 recoverable from 66 applicants had not been established in audit.

(b) Even though the bills for electricity and water relating to the canteen should be paid by the lessee, no bills whatsoever had been settled from the date on which the canteen was opened, up to now and the Institute had paid money for electricity and water relating to the canteen too.

(c) The construction works of the new canteen had been completed by March 2012. Even though the canteen with all equipment had been leased out to the lessee, the Institute had not taken action to recover a reasonable rent per month. Although the monthly rentals recovered from previous lessees amounted to Rs. 45,000 and 40,000, no action had been taken to recover even such amounts.

4.3 **Transactions of Contentious Nature**

A sum of Rs.4,307,078 in the year under review and a sum of Rs.8,029,833 in the preceding year had been paid to the permanent and contract basis consultants and to several officers for the performance of duties such as conducting lectures and related course coordination, planning, development of software and report writing etc.

Although it was informed that the above payments had been made in accordance with the payment procedure approved by the Minister on 21 August 2007 for providing external services, it was further observed that those services had been carried out during the daily office hours. It was further revealed in audit that these payments had been made for the performance of functions stated in Section 3(1) of the Act by which the Institute had been incorporated.

4.4 Idle and Underutilized Assets

The following observations are made.

(a) A three wheeler, a motor cycle and a van had not been utilized in the year under review and an expense of Rs. 150,094 had been incurred for repairing the said motor vehicles.

(b) A stock of computer cartridge, toner and ribbon valued at Rs. 512,666 had remained idle for many years without being utilized.

4.5 Identified Losses

Surcharges of Rs. 2,307 had to be paid in the year under review due to delay in settling the electricity bills.

4.6 **Unauthorized Payments**

A sum of Rs. 53,530 had been overpaid as combined allowances to an officer of the Institute for participation at a workshop in Beijing, China.

4.7 **Personnel Administration**

The following observations are made.

(a) According to the personnel plan, 54 vacancies in 23 approved posts had been vacant and out of it, even one officer had not been deployed in 16 posts.

(b) Even though one post of Program Analyst had been approved, two persons had been deployed in this post.

4.8 **Deficiencies in Contract Administration**

The Institute had paid Rs.1,094,000 to the contractor for works amounting to Rs. 350,000 certified for the contract of Rs. 2,970,000 in respect of painting the walls of the administrative building and the hostel. Further, the contract had been discontinued and no proper evaluation of work had been carried out as well.

5 Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements should be presented to audit within 60 days after the closure of the financial year in terms of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements for the year under review had been presented on 29 April 2014.

5.2 Corporate Plan

Even though the Corporate Plan should be updated annually and approved by the Board of Control and a copy of it should be presented along with the annual estimate to the relevant Ministry, General Treasury and the Auditor General before 15 days of the beginning of the accounting year in terms of paragraph 5.1.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2013, the Corporate Plan relating to the period from 2013 to 2018 had been approved by the Board of Control only on 30 September 2013.

5.3 Action Plan

Two separate Action Plans had been presented on activities and capital expenditure of the Programme Division. The report had not been prepared on the progress of the finance and physical performance so as to confirm how the proposed activities of the Programme Division had been implemented.

5.4 Procurement Plan

Even though a main Procurement Plan should be prepared including the expected procurement activities at least for a period of three years in terms of the Guideline 4.2.1 (b) of the Government Procurement Guidelines, it had not been so done. However, the Procurement Plan only for the year 2013 had been prepared.

5.5 Budgetary Control

The budget for the year under review observed variances between the budgeted and actual income ranging from 15 per cent to 95 per cent and expenditure ranging from 05 per cent to 90 per cent. Thus, it was observed that the budget had not been made use of as an effective instrument of management control.

5.6 Tabling the Annual Reports

The Annual Report for the year 2012 had not been tabled in Parliament even by 25 November 2014.

6 Systems and Controls

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

(a.) Accounting
(b.) Cash and Bank Functions
(c.) Fixed Assets
(d.) Personnel Administration
(e.) Conducting Courses and Training Activities
(f.) Utilization of Motor Vehicles
(g.) Contracts Administration