Industrial Technology Institute - 2014

The audit of financial statements of the Industrial Technology Institute for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the income statement, 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 40 of Part vii of the Science and Technology Development Act, No. 11 of 1974. 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

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 judgement, 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. 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 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 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 Industrial Technology Institute as at 31 December 2014 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 Non- compliance with the Sri Lanka Public Sector Accounting Standards

Even though only the fixed deposits existing for three months or less from the date of acquisition should be shown as cash and cash equivalents in terms of Sri Lanka Public Sector Accounting Standard 02, fixed deposits totaling Rs.110 million relating to a period of 6 months and one year had been shown under cash and cash equivalents.

2.2.2 Accounting Policies

According to Sri Lanka Public Sector Accounting Standard No. 07, the policy followed for the measurement of property, plant and equipment had not been disclosed.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) The Board of Directors had decided to repay a sum of Rs.13,279,398 to the European Union in the year under review to settle the loss sustained due to non- implementation of a project according to the agreement, commenced under financial aid of the European Union. However, provisions for the relevant expenditure had not been made in the accounts.

(b) Even though the newly constructed administrative building at Malabe, belonging to the Institute had been completed by 22 June 2010 and handed over to the Institute, a sum of Rs.51,259,984 spent for that purpose had been brought to account as work-in-progress. As such, assets of the Institute had been understated by the same amount and depreciation had been understated by Rs.12,814,996.

(c) Under-provisions of Rs. 2,113,792 for doubtful debts for the year under review had been made.

(d) Government grants (up to the year 2002) and the Accumulated Fund had been indicated within the same note in the financial statements of the year under review.

2.2.4 Unexplained Differences

The following observations are made.

(a) The cost of five items of property, plant and equipment according to the financial statements had been overstated by Rs.110.220,828 as compared with the cost shown in the physical verification reports and four items had been understated by Rs. 120,849,885.

(b) The consumable goods stock shown under current assets in the statement of financial position for the year under review amounted to Rs.11,816,643 and according to the Physical Stock Verification Report, its value was Rs.11,505,499 thus indicating a difference of Rs.311,144.

(c) Even though the payable Value Added Tax amounted to Rs.2,475,723, according to the Department of Inland Revenue, it was Rs.10,762,428. However, action had not been taken to identify this difference and settle it.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Action had not been taken even during the year under review for the settlement of the dishonoured cheques and other debtor balances totalling Rs.2,771,234 included in the accounts over a number of years.

(b) Provisions of Rs.7,030,873 had been made from the year 2009 as the salaries payable to the officers who had left the service and the officers remaining in service in terms of the Management Services Circular No. 30 of 22 September 2006 and a sum of Rs.6,980,352 out of that had not been paid even by 31 December 2014.

2.4 Transactions not Supported by Adequate Authority

Acting allowances of Rs.150,000 for posts for 10 officers and Divisional Head allowance Rs.396,000 for 09 officers had been paid in the year under review without obtaining the Treasury approval and contrary to provisions of the Establishments Code.

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

The following instances of non-compliance were observed during the course of audit.

	Reference to Laws, Rules, Regulations etc.	Non-compliance
(a)	Section 11 of the Finance Act, No. 38 of 1971	A sum of Rs.270,226,000 had been invested without the approval of the Minister in charge of the subject.
(b)	Section 114 of the Inland Revenue Act, No.10 of 2006	A salary less than the prescribed salary had been made use of to recover Pay As You Earn Tax from officers.

(c)	Financial Regulation No. 571 of the Democratic Socialist Republic of Sri Lanka	Action in terms of Financial Regulations had not been taken in respect of a total of Rs.244,085 comprising bid deposits of Rs.83,339 and refundable deposits of Rs.160,746 which had lapsed for over two years.
(d)	Ministry of Finance and Planning Circular No. MOFP/ERD/2011/1 of 21 April 2011.	A Canadian Project valued at Rs.38,469,075 and an Indo-Sri Lanka Project valued at Rs.49,999,319 had been commenced in April 2012 and September 2013 respectively without informing the Department of External Resources.
(e)	Section 7.4.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003.	Even though a Board of Survey of 07 officers had been appointed for the survey of fixed assets in the year under review, computer accessories and software valued at Rs.13,581,898 and other assets valued at Rs.4,512,594 had not been verified.
(f)	Public Finance Circular No. 380 of 19 January 2000 --	
	(i) Section 01	Prior approval had not been obtained for consultancy services.
	(ii) Section 7.1	Even though 10 per cent to 25 per cent of the consultancy services income after deducting the direct costs, should be retained by the Institute and remitted once in 03 months to a Special Fund of the Treasury, it had not been so done.
(g)	Letter No. DMS/ERST/21-4/ Vol II dated 11 February 2004 of the Director General of Management Services	Approval had been granted for the payment of salary of 02 months or Rs.20,000 per officer whichever is less as the incentive allowance. Even though the maximum incentive allowance that can be paid to 358 officers for the year under review amounted to Rs.7,160,000, overprovisions of Rs.1,060,000 had been made more than the approved amount.
(h)	National Procurement Agency Circular No.08 of 25 January 2006 5-6.1 (c)	Even though it was stated that when the goods or works are procured the trade name, catalogue number or the country of manufacture of goods or works should not be mentioned in the specifications contrary to it, instances of purchase mentioning the trade institution were observed.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year ended 31 December 2014 had resulted in a surplus of Rs.55,698,487 as compared with the corresponding surplus of Rs.39,177,699 for the preceding year thus indicating an improvement of Rs.16,520,788 in the financial result of the year under review. The increase in the income by 11 per cent in the year under review as compared with the preceding year had attributed to this increase.

4. Operating Review

4.1 Performance

The following observations are made in connection with the progress of projects operated by the Institute.

(a) Even though the completed percentage of Project No.TG – 11/58 was 60 per cent, it had been shown as a project completed during the year.

(b) The physical progress of two projects which should have been completed in the year under review had been 75 per cent and 63 per cent as at that date.

4.2 Management Inefficiencies

The following observations are made.

(a) Even though it had been indicated that additional research should be carried out so as not to disturb the permanent duty for obtaining research allowances to be paid in terms of Section 06 (iii) of the Management Services Circular No.02/2014, research allowances amounting to Rs. 9,420,957 had been paid relating to the functions performed in respect of the researches of the Institute.

(b) Six projects with a total budgeted value of Rs.28,714,000 based on the aid provided by the National Research Council had been implemented in the Institute during the year under review. Agreements had been entered into between the Chief Research Officer of each project and the National Research Council. Receipts of funds and operating of projects had been carried out by the respective Chief Research Officers without the intervention of the top management or accounting the transactions. The materials, labour and working capital of the Institute had been utilized for those projects and no financial or physical benefit whatsoever had been received to the Institute in that connection.

(c) As the computer program system introduced to the Institute is a very complicated one, it was very difficult for accounting and auditing .

(d) In providing credit card facilities for the payments of the client, a sum of Rs.62,248 had been lost as a result of making payments by the Institute without recovering the commission charged by the bank from the client.

(e) In obtaining royalty, the Institute had been deprived of receivable income due to obtaining royalty based on uncertified accounts and failure in taking action to obtain royalty from an Institute from which royalty should be obtained.

(f) In making payments for the constructions of the Administrative building at Malabe, a sum of Rs. 4,547,590 and a sum of Rs. 8,384,036 had been overpaid deviating from the quantities and quality shown in the Bill of Quantities and in making the final payment respectively.

4.3 Personnel Administration

The following observations are made.

(a) Seventeen officers exceeding the approved cadre had been given permanent appointments and 44 persons had been recruited on contract basis. Six officers had been recruited on contract basis without recruiting permanent officers for the vacant posts. It was observed that one female officer who had been so recruited, had not fulfilled even the minimum qualifications.

(b) The post of Director General of the Institute had been vacant from 18 August 2014 to 30 April 2015, the date of audit and action had not been taken even in the year under review to fill 17 vacancies existed in the essential posts at Senior Level.

4.4 Idle and Underutilized Assets

The following observations are made.

(a) Four Bank Current Account balances totalling Rs.1,820,645 had been in operation as dormant accounts over periods exceeding 05 years and action had not been taken even during the year under review for utilizing those funds for any other fruitful activity.

(b) Even though nearly 05 years had lapsed after the completion of constructions of the Administrative building at Malabe by incurring an expenditure of Rs.51,259,984, it had been closed without utilizing for any administrative purpose whatsoever.

4.5 Uneconomic Transactions

The following observations are made.

(a) Even though a sum of Rs.350,000 had been paid to a private institution for the introduction of a permanent costing method for fixing prices on technical and research services supplied by the Institute, pricing had been made as before without following the new method thus observing it as an uneconomic transaction.

(b) As the laboratories of the Institute should be accredited to obtain international recognition through an institution which is internationally recognized, a sum of Rs. 4,426,671 had been overspent due to get that purpose carried out by two institutions.

5. Accountability and Good Governance

5.1 Action Plan

An Action Plan had been prepared for the year under review by the Institute. However, it had not been prepared including the implementing period and the expected output or results of those activities in terms of paragraph 04(c) of the Public Finance Circular No. PED/RED/01/04/2014/01 of 17 February 2014.

5.2 Budgetary Control

Variances between the budgeted and the actual income and expenditure ranging from 10 per cent to 263 per cent were observed, thus indicating that the Budget had not been made use of as an effective instrument of management control.

5.3 Unresolved Audit Paragraphs

A sum of Rs.7,810,032 recoverable from 18 officers who breached the conditions of the foreign scholarships agreements had not been recovered even by 30 April 2015, the date of audit in terms of Directive No.16 of the Committee on Public Enterprises held on 30 May 2011.

6. Systems and Controls

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

(a)	Budgetary Control	Variances between the budgeted and actual income and expenditure
(b)	Fixed Assets Control	Non reconciliation of the value according to the physical verification report
(c)	Accounting	Weaknesses in maintenance of control accounts, non-reconciliation of ledger accounts with the financial statements and omission of certain expenses from accounts relating to the year.
(d)	Procurement	Not taking action according to the Guidelines.
(e)	Human Resources Management	Existence of vacancies and overpayment of allowances.