

Sri Lanka Institute of Development Administration - 2014

The audit of financial statements of the Sri Lanka Institute of Development Administration for the year ended 31 December 2014, comprising the statement of financial position as at 31 December 2014 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 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 21 of 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 the Financial Statements

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 Auditing 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 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 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

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 Sri Lanka Institute of Development Administration 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 Accounting Deficiencies

The following observations are made.

- (a) According to the examination of the Registers of Income pertaining to the year under review, although the income of the postgraduate courses amounted to Rs.17,841,675, a sum of Rs.14,394,809 only had been taken into the financial statements and according to the Registers of Expenditure, the expenses relating to the post graduate courses for the year under review amounted to Rs.14,694,951, whereas only a sum of Rs.10,743,085 had been taken into the financial statements.
- (b) Fully depreciated fixed assets being used at present costing Rs.73,712,879 had not been revalued and brought to account to show their fair value.
- (c) The surplus of Rs.3,018,939 received from the disposal of fixed assets and a sum of Rs.3,024,439 received from the disposal of other assets had not been separately shown in the cash flow statement.
- (d) A stock of unused toners, ribbons and cartridges totalling Rs.623,475 and the value of 103 stock units belonging to 05 categories had not been computed and brought to account.
- (e) Capital Aid of Rs.42,805,432 received during the year under review and the preceding year had not been utilized even by the end of the year under review. Instead of being shown as unspent Capital Grants, that amount had been brought to account as Capital Grants.
- (f) As the value of a motor vehicle amounting to Rs.9,390,000 received as an aid on 28 January in the year under review had not been taken into the financial statements, capital aid and assets had been understated by that amount in the financial statements.

- (g) Adequate provisions had not been made for bad and doubtful debts in respect of debtors amounting to Rs.16,551,911 the recovery of which was either impossible or doubtful.
- (h) Course fees receivable for the post graduate courses as at 31 December in the year under review had been overstated by Rs.1,260,000 while course fees received in the ensuing period had been understated by Rs.170,000 in the financial statements.
- (i) A sum of Rs.406,853 received during the year under review as the hostel rental income for the ensuing year had been brought to account as a rental income of the year under review instead of being accounted as a rental income received in advance.
- (j) Accrued expenditure of Rs.602,040 for internet expenditure had not been brought to account and as such the said expenditure relating to the year under review had been understated by that amount.

2.2.2 Lack of Evidence for Audit

Evidence indicated against the following items in the financial statements had not been made available to audit.

Particular	Amount	Evidence not made available
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	Rs.	
(i) Computers, Accessories and Softwares	81,409,662	Detailed Schedules
(ii) Expenditure for the repairs of the circuit bungalow	723,005	Relevant two payment vouchers

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the debtors balances totalling Rs.84,469,651, twenty one balances totalling Rs.13,264,328 had been older than 3 years out of which 10 balances amounting to Rs.879,706 had exceeded a period of 5 years.
- (b) Out of the payable balances totalling Rs.112,525,180, eighteen balances amounting to Rs.3,034,228 had been older than 3 years out of which 9 balances amounting to Rs.815,038 had exceeded a period of 5 years.
- (c) Out of the total payable balances of Rs.18,813,314, 14 balances totalling Rs.2,604,812 had been older than 5 years.

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

Instances of following non- compliances were observed.

Reference to Laws, Rules, Regulations,etc.	Non compliance
(a) Section 13(1) of Sri Lanka Institute of Development Administration Act, No.09 of 1982.	Although meetings of the Governing Council should be held at least once in every month, only 07 meetings had been held for the year under review.
(b) (i) Establishments Code of the Democratic Socialist Republic of Sri Lanka. Section 23.18 of Chapter XII	Although particulars of leave spent out of the island by public officers should be forwarded to the Auditor General monthly, out of the sample subjected to the examination, leave particulars of 25 officers had not been forwarded.
(ii) Section 10 of Chapter XV and Paragraph 2.1.8 of the Circular No.MF/6/1/1/96 of 20 April 1996 of Finance and Planning	Although prior approval of the Prime Minister should be obtained for leaving the island for foreign tours, 14 officers out of the sample examined had not obtained such approval.
(iii) Section 10.4 of Chapter XXIV	Where distress loans are applied by the officers who have not completed 10 years permanent service period, a surety with over 10 years permanent and pensionable service or two sureties with not less than 05 years permanent and pensionable service should be produced along with the loan application. Nevertheless, 10 instances were observed in audit where distress loans had been granted in respect of the applications for which sureties had not been produced.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 110	A register of losses had not been maintained.
(ii) Financial Regulation 155	Replies in accordance with the regulation had not been given for 09 audit queries forwarded to the Institution even by 12 August 2015.
(iii) Financial Regulation 188 (2)	Twenty eight cheques unrealized amounting to Rs.164,725 had continued to exist since the year 2007, whereas action in accordance with the regulations had not been taken on those balances.

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| (iv) Financial Regulation 210 (1) | Discounts of Rs.27,819 had been deprived of as the non-settlement of water bills on due dates in order to get the discount benefit. |
| (v) Financial Regulation 396 (d) | Action in accordance with the relevant provisions had not been taken on 04 cheques totalling Rs.48,345 issued but not presented for payment for exceeding a period of 06 months. |
| (vi) Financial Regulation 757 (2) | In case of excesses or shortages are observed according to the Board of Survey Reports, the Chief Accounting Officer should take action in that connection, but action had not been taken accordingly. |
| (vii) Financial Regulation 1645 (a) | Log books relating to 16 vehicles had not been properly maintained. |
| (d) Treasury Circular No.842 dated 19 December 1978 | A duly prepared Register of Fixed Assets had not been maintained. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institution for the year ended 31 December 2014 had resulted in a deficit of Rs.34,195,260 as compared with the corresponding deficit of Rs.32,251,344 for the preceding year, thus indicating a deterioration of Rs.1,943,916 in the financial results for the year under review as compared with the preceding year.

3.2 Analytical Financial Review

The following observations are made.

- (a) Even though the Treasury contributions and amortization had increased by Rs.35,089,019 and sundry income had increased by Rs.6,245,308, increase in the staff salary and allowances by Rs.17,266,873 and increase of foreign trainings and educational tours expenses of Rs.26,306,553 had been the main reason for the deterioration of financial results.
- (b) While the current assets as at the end of the preceding year amounting to Rs.103,013,054 had increased up to Rs.156,497,018 as at the end of the year under review, current liabilities had increased from Rs.55,142,941 up to Rs.170,287,844 respectively and as such net current assets of the year under review had decreased by Rs.61,660,939 or 129 per cent.

- (c) The balance of the Accumulated Funds Account as at the end of the previous year amounting to Rs.38,271,421 had converted to a negative value of Rs.210,947 as at the end of the year under review and as such a deterioration by Rs.38,482,368 or 101 per cent was observed.

4. Operating Review

4.1 Performance

(a) Training Activities

The following observations are made

- (i) Despite being planned, the number of certificate courses which had not been conducted in the preceding year and the year under review had been 14 and 33 respectively.
- (ii) Summarized particulars of the number of individuals selected for courses and dropouts of the course during the preceding two years and the year under review are given below.

<u>Year</u>	<u>Certificate Courses</u>					
	<u>Management</u>		<u>Non-Management</u>		<u>Diploma</u>	
	<u>Number of selected</u>	<u>Number of dropouts</u>	<u>Number of selected</u>	<u>Number of dropouts</u>	<u>Number of selected</u>	<u>Number of dropouts</u>
2014	1,057	303	11,027	4,006	590	144
2013	816	211	3,200	847	511	135
2012	1,036	399	-	-	628	102

A continuous increase in the number of leavers from the Diploma Course could be observed annually. As compared with the year 2013 increase in the number of leavers from the Certificate Course-Management could be observed in the year 2014 and a similar increase could be observed with regard to the Non-management certificate courses .

(b) Conduct of Lectures by Consultants

The following observations are made

- (i) In terms of the Circular No.PD/IC/01/2008 dated 06 February 2008 and the instructions dated 17 July 2012 of the Director General of the Institute, an internal consultant should conduct lectures for 45 hours per month of the designed training courses. Nevertheless, an action had not been taken accordingly, the Institution had deprived of 7,494 lecture hours of 21 consultants and 9,241 lecture hours of 21 consultants in the year under review and the preceding year respectively.
- (ii) As in the preceding year, any consultant had not conducted lectures for the total lecture hours prescribed for a month during the year under review. Further, 540 lecture hours should be conducted by a consultant per year, whereas conduct of

lectures by the consultants had ranged from 12 hours to 405 hours during the year under review.

(c) Conduct of Post Graduate Courses.

The following observations are made.

- (i) The total number of candidates registered within 08 years from 2004 to 2011 was 807, out of which only 344 candidates had obtained post graduate or diploma certificate by the end of the year under review. It was only 43 per cent of the total registration. It was observed that transfer to other courses after continuously attending but not completing the courses had resulted in such a lower percentage.
- (ii) According to Section 6 of the Guideline belonging to the Post Graduate Studies Division, the course should be completed within a maximum period of 48 months, whereas action had not been taken accordingly.
- (iii) In accordance with Section 19 of the above Guideline, degree dissertations should be submitted within 36 months, whereas submission of dissertations had continuously delayed.

4.2 Management Inefficiencies

The following observations are made.

- (a) Although 154 books issued to the members of the Institution, consultants of the academic divisions and the persons who followed the courses during the period from the year 2000 to 2014 had not been returned to the Library despite the lapse of due periods, action had not been taken to get back those books.
- (b) Since a book obtained by a person following a post graduate course had not been returned on the due date, a fine of Rs.1,975 had to be paid. Nevertheless, that amount had not been recovered up to 08 July 2015.
- (c) It was failed to recover electricity bills amounting to Rs.55,776 remained recoverable relating to the years 2013 and 2014 from two officers resided in the quarters even by 30 June 2015, the date of audit.
- (d) In the purchase of 32 Laptops valued at Rs.4,799,680 and 162 Desktops valued at Rs.16,640,640, specifications had not been prepared in accordance with the requirement of the Institution, and as such the quotations called for from the institutions had been rejected and purchasing had been made from another institution.
- (e) Even though in the settlement of bills for the cleaning services, a sum of Rs.1,590,873 for not deploying employees as specified and a sum of Rs.693,247 for the works not done had been deducted, cleaning service contract for further one year period had been awarded to the same service institution.

4.3 Transactions of Contentious Nature

The following observations are made

- (a) Sums of Rs. 5,266,523 and Rs.4,370,078 had been paid to the permanent and contract basis consultants and several officers of the Institution during the year under review and the preceding year respectively in respect of carrying out duties such as conduct of lectures, coordination of related consultancy courses, planning, development of software and report writing etc.
- (b) Without being duly vested the circuit bungalow owned by the Nuwara-Eliya District Secretariat, a sum of Rs.3,575,248 had been spent for the repairs of that circuit bungalow during the year under review and having capitalized that expenditure, it had been depreciated at 2.5 per cent per year.
- (c) The institution had conducted 3 Capacity Building Programmes and a sum of Rs.22,302,669 had been spent from the funds of the Institution for two of the above programmes, whereas approval of the Governing Council had not been obtained for that purpose.

4.4 Idle and Underutilized Assets.

The following observations are made

- (a) It was observed that an unused stationary stock such as computer cartridges, toners, ribbons etc. and building materials totalling Rs.897,465 had remained idle for over a number of years.
- (b) A considerable cash balances exceeding the amount required for the monthly expenses had been retained in two main bank accounts (Current) of the Institute during the year under review and the monthly average of this cash balance amounted to Rs.52,496,622.
- (c) Twenty five Desktops valued at Rs.2,568,000 and 2 Laptops valued at Rs.299,980 and 67 UPSs worth of Rs.315,168 purchased during the year under review had remained idle in the stores even by 06 June 2015.

4.5 Transactions not Supported by Adequate Authority.

The following observations are made.

- (a) In terms of the decision No.1024 F/800/29 CD dated 12 December 1963 of the Cabinet of Ministers, the Institute can formulate financial and administration regulations and in case those are not so formulated, Government Financial Regulations and the provisions in the Establishments Code should be complied with. However, provisions in the Shops and Office Ordinance had been applied in connection with the annual leave and overtime, but provisions in the above Act had not been followed with regard to the duty hours and the office hours. Therefore,

considerable number of duty hours had been deprived of annually and overpayments had also been made for the overtime allowances.

- (b) Hostel facilities for 109 persons participated in the Capacity Building Courses had been provided, free of charge in 5 instances during the year under review and a proper approval had not been obtained thereon.
- (c) For the Capacity Building Workshops conducted as Stage II and Stage III in Malaysia from November 9 to 22 and December 07 to 19 respectively during the year under review, the Institute had paid a sum of Rs.16,151,811 in respect of 63 officers for foods, accommodations, course fees etc. to the training institute. Nevertheless, contrary to the Circular No. 06/01/01/2010 dated 11 October 2010 of the Ministry of Finance and Planning, a sum of Rs.4,181,750 at USD 500 each had been paid as Combined Allowances.
- (d) Although an advance amounting to Rs.1,992,000 granted for a field training of 249 officers recruited to the Sri Lanka Administrative Service –Class III in the year 2012 should have been obtained from the Ministry of Public Administration, without doing so, it had been written off during the year under review without a proper approval.

4.6 Personnel Administration

The approved cadre and the actual cadre as at 31 December 2014 stood at 162 and 125 respectively. The observations in this connection are as follows.

- (a) According to the cadre plan, there were 40 vacancies in 23 approved posts, out of which at least one officer had not been employed in 15 posts.
- (b) Two officers in Suppra Class in the Management Service which had not been approved had been employed and one officer exceeding the approved cadre had been employed in the post of Programme Analyst.

4.7 Uneconomic Transactions

It was planned for the construction of a training centre on a land in Nuwara-Eliya owned by the Department of Forest Conservation without being properly vested the land and a sum of Rs.3,593,184 had been spent during the year under review for various purposes in this connection. As this project had to be abandoned by 30 June 2015, the date of audit, the above sum spent in that connection had been uneconomical.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the financial statements should be furnished to the Auditor General within 60 days from the close of the financial year. Nevertheless, the financial statements for the year under review had been furnished on 02 April 2015.

5.2 Procurement Plan

Even though according to the Guideline 4.2.1 (b) of the Government Procurement Guidelines, a Master Procurement Plan inclusive of the expected procurement activities at least for a period of three years should be prepared, it had not been so done. However, the Procurement Plan had been prepared only for the year under review.

5.3 Budgetary Control

Variances ranging from 38 per cent to 86 per cent of the budgeted and actual income and 5 per cent to 177 per cent of budgeted and actual expenditure were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.4 Tabling the Annual Reports

The Annual Report for the year 2012 had not been tabled in Parliament even by 30 June 2015.

6. Systems and Controls

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

- (a) Financial Control
- (b) Fixed Assets Management
- (c) Personnel Administration
- (d) Conduct of Courses and Training Activities
- (e) Motor Vehicle Utilization
- (f) Debtors and Creditors
- (g) Stores Control