

## **Ceylon German Technical Training Institute – 2015**

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The audit of financial statements of the Ceylon– German Technical Training Institute for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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. My comments and observations on the above financial statements appear in this report. A detailed report for the year under review was furnished to the Director/Principal of the Institute on 14 December 2016.

### **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 the 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**

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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 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **1.4 Incorporation of the Institute**

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In terms of the Cabinet Paper No. 05/0994/029/013 dated 18 August 2005, it had been decided that permission should be granted to further operated the Ceylon German Tech Training Institute under the identity of Central Transport Board until it is formally incorporated. Even though 11 years had elapsed from the delivery of that decision, action had not been taken to incorporate the Institute.

#### **1.5 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 Ceylon German Tech Training Institute as at 31 December 2015 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**

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##### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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###### **Sri Lanka Public Sector Accounting Standard 07**

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As the useful life of the non-current assets had not been reviewed annually, fixed assets revalued at Rs.92,376,914 were further being used despite being fully depreciated. Accordingly, action had not been taken to revise the estimated error in terms of the Sri Lanka Public Sector Accounting Standard 03.

##### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) When making payments for the equipment purchased during the year under review, retention money amounting to Rs.288,741 had not been brought to account.
- (b) Out of the money given by the Ministry of Skill Development and Vocational Training for the Consultancy Allowances in the preceding year, a sum of Rs.134,955 unspent should be returned. Nevertheless, it had been brought to account as income. Even though that amount had been returned again to the Ministry during the year under review, it had been stated as a receivable amount from the Ministry in the statement of financial position since it had been erroneously brought to account.
- (c) Even though a sum of Rs.125,346 had been stated as advances for local purchases as at 31 December 2015 in the financial statements, according to the information furnished to audit, the actual amount receivable was Rs.32,500. Accordingly, that balance had been overstated by Rs.92,846.

### **2.2.3 Unexplained Differences**

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The following observations are made.

- (a) A difference of Rs.177,900 was observed between the balance according to the Festival and Special Loan Advance register and the balance of the Ledger Account as at 31 December 2015.
- (b) The value of the stock of immovable motor vehicle spare parts amounting to Rs.6,383,077 stated in the financial statements, was a sum of Rs.6,644,588 according to the stock schedule and as such a difference of Rs.261,511 was observed.

### **2.2.4 Lack of Evidence for Audit**

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Inventories and the Stock Verification Reports relating to stationery and paints valued at Rs.350,000 stated in the financial statements for the year under review had not been furnished to audit.

## **2.3 Accounts Receivable**

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The following observations are made.

- (a) Out of the debtor balance of Rs.4,746,794 remained receivable as at 31 December 2015, a sum of Rs.4,164,543 had continued to exist for more than a period of one year.

- (b) A sum of Rs.182,749 remained receivable from a Junior Consultant who had resigned from service had not been recovered even by 15 September 2016.

**2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions**  
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The following non-compliances were observed.

| <b>Reference to Laws, Rules,<br/>Regulations, etc.</b><br>-----  | <b>Non-compliance</b><br>-----  |
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| <p>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.<br/>-----</p> <p>(i) Financial Regulations 756 and 772</p> | <p>Report of the Board of Survey had not been furnished even by 28 February 2017 by conducting the Board of Survey for the year 2015 and there were plant and equipment valued at Rs.433,781,879 among them. Action in terms of the financial regulations had not been taken in connection with the goods unusable according to the recommendations of the previous year Board of Survey.</p> |
| <p>(b) Paragraphs 9.3.1-(VI) (VII) of the Public Enterprises Circular No.PED/12 dated 02 June 2003</p>                                     | <p>An acting appointment should not be granted for indefinite period and if such appointment had been given on a special ground, that period should not be more than 3 months. Nevertheless, the officer appointed in the capacity of Deputy Principal of the Institute had been appointed to act in the post for a period of 01 year and 09 months from 18 September 2012.</p>               |

**3. Financial Review**  
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**3.1 Financial Results**  
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According to the financial statements presented, the financial result of the Institute for the year ended 31 December 2015 was a deficit of Rs.48,910,721 as compared with the corresponding

deficit of Rs.41,711,984 for the preceding year, thus indicating a deterioration of Rs.7,198,737 in the financial results of the year under review as compared with the preceding year. Although the Government Recurrent Grants and differed income had increased by Rs.37,512,000 and Rs.37,992,296 respectively in the year under review as compared with the preceding year, the above deterioration was mainly attributed to the increase in the expenditure by Rs.81,742,334.

Analysis of the financial results of the year under review and four preceding years revealed that, there was an increasing deficit of the financial results of the Institute and it was Rs.12,819,997 in the year 2011 and it had increased up to Rs.48,910,721 by the year under review. Nevertheless, when taking into consideration the employees remuneration, tax paid to the Government and the depreciation for the non-current assets, the contribution of the Institute of Rs.128,112,639 in the year 2011 had continuously increased and it had been Rs.246,014,148 by the end of the year under review.

#### **4. Operating Review**

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##### **4.1 Performance**

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The following observations are made on the performance of the Ceylon-German Technical Training Institute established in Sri Lanka with the objective of training of skilled technicians in the field of Automobile Engineering and allied trades.

- (a) The Ceylon-German Technical Training Institute had conducted 11 courses with the participation of 1736 students by 31 December 2015 out of which 04 courses attended by 272 students had not been accredited. Thirty five short term courses with the participation of 3500 students had been conducted on fees recovery basis and these courses had not been registered with the Tertiary and Vocational Education Commission or accredited.
- (b) As the Institute had not expanded its training capacity in commensurate with the existing annual demand , although 7699 students had applied for the courses during the period of 04 years from the year 2012 to 2015, training opportunities had been received by 1966 students or 26 per cent only.
- (c) The University College commenced in affiliation with the Ceylon-German Technical Training Institute under the assistance of the Sectoral Skills Development Programme had planned to commence 04 Diploma courses and enroll 160 students by 31 December 2015. Nevertheless, only 03 courses had been commenced and 47 students had been enrolled. According to the existing methodology, the National Vocational Qualifications Level 4 (NVQ4) full time course of 5 years inclusive of the practical training of the Ceylon-German Technical Training Institute should be completed to apply for these courses. As the above Diploma courses are also 02 years fulltime courses, a student is required to spend

a period of 7 years to complete the Diploma courses. Therefore, this situation had directly attributed to the decrease of the demand for the courses.

- (d) For the achievement of objectives and targets of the Ceylon-German Technical Training Institute, although human resources development and training policy had been established with the objective of developing skills, knowledge, competency and attitude of the entire cliental, as the training opportunities had been received only by 25 per cent of the entire staff of the Institute, it was observed that those programmes had not been planned and implemented in a manner enabling to achieve those objectives.
- (e) The shortcomings such as lack of adequate library facilities, lack of database and quality control system and not stablishing as an independent body which had been identified as the obstructive factors for the achievement of the objectives and goals of the Institute in terms of the Corporate Plan prepared by the Institute for the period from 2012 to 2016 could not be rectified despite the expiry of the planned period.

## 4.2 Management Activities

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The following observations are made.

- (a) Although the Principal had been informed by the Letter No.PF/FD/04/1998 Vol-1 dated 28 May 2013 of the Director General of Public Finance that provisions should be included for the maintenance of an insurance scheme for the participants of the courses in the preparation of new Act of the Institute, those provisions had not been included in the draft bill. However, a sum of Rs.275 per trainee participated in the courses had been charged for the insurance scheme since the year 1999 without a proper approval.
- (b) As the courses of the University College had not been accredited, the approval of the Tertiary and Vocational Education Commission had not been granted for the conduct of the relevant examinations despite the lapse of the first academic period of the students following the Diploma courses. Therefore, students had been directed to field training without presenting for the relevant examinations.
- (c) The officer who had acted in the post of Deputy Principal of the Institute during the period from 30 June 2014 to 30 August 2016 without proper appointment or approval had been paid a sum of Rs. 512,839.
- (d) The officer served in the capacity of the Personnel Manager of the Institute had resigned on 04 February 2014 and served in a private institution. He had been given full salary and allowances of Rs.105,402 and salary steps for the period not engaged in the service contrary to Section 8.1 of Chapter vii of the Establishments Code while considering he as an officer continued in the service without approval of the Director General of Establishments in terms of Sections 3.1 and 3.2 of Chapter V of the Establishments Code.

### **4.3 Operating Activities**

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The following observations are made.

- (a) The training equipment valued at Rs.367,957,867 received by the University College under the Sectoral Skills Development Programme had not been properly handed over to the relevant Consultants in charge of the training laboratories and included in the inventories.
- (b) The attention of the management had not been focused on the implementation of a proper programme for the improvement of the library facilities in order to update the knowledge of the students and the Instructors in a manner enabling them to adapt to the constant technical changes.

### **4.4 Transactions of Contentious Nature**

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A portion of the contribution of the Employees Provident Fund that was not included in the Employees Provident Fund of the Central Bank but recovered from the salaries of the employees who had been given appointment under the Central Transport Board and subsequently attached to the Ceylon-German Tech Training Institute, had been deposited in a fixed deposit by the Institute. A proper arrangement had not been made for the utilization of a sum totalling Rs. 3,420,066 including the interest earned from the above investments and the loan installments recovered from the salaries in respect of the housing loans.

### **4.5 Idle and Underutilized Assets**

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In order to commence Production Technology Course, equipment valued at Rs.240,496,777 had been provided under the Sectoral Skill Development Programme in December 2014. Nevertheless, that course had not been commenced even by 07 September 2016, the date of audit and as such that equipment had remained idle.

### **4.6 Staff Administration**

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The following observations are made.

- (a) The approved cadre of the Institute was 268 and there were 22 vacancies of the Institute by the end of the year under review. Among these vacancies, that may be directly affect the achievement of objectives and the goals of the Institute, the post of Director/ Principal had remained vacant for 03 years and the post of Registrar for 02 years and 08 months.

Further, 21 posts of middle management level had fallen vacant and the posts of Accountant, Assistant Registrar, Administrative officer and Assistant Manager were among them.

- (c) Although a new salary structure had been approved for the Institute by the Letter No. DMS/C1/PS/34 dated 29 September 2008 of the Director General of Management Services, various issues cropped up in the absorption of the employees according to those salary structures. Details appear below.
- (i) According to the approved scheme of recruitment, in making internal recruitment for the post of Internal Auditor II, at least a service period of 05 years of a post of Junior Management Grade One (JM-1-1) service category should be completed therefor. Nevertheless, a female officer who had only 05 months service experience of the post of Management Assistant MA-1-2 service category had been appointed to that post.
  - (ii) According to the approved scheme of recruitment, in making internal recruitment for the post of Chief Engineer (Production and Maintenance), a service period of 05 years of the post of Deputy Chief Engineer of the Management Service Grade One MM-1-1 service category should be completed therefor. Contrary to that, an officer who had completed a service period of 3 years of a post of Junior Management Level JM-1-1 had been appointed to that post.
  - (iii) Even though 04 officers appointed to the post of Senior Training Engineer had retired, as new salary step had been computed irrespective of the promotions, gratuity and provident fund had been paid based on the salary without being eliminated anomalies.
  - (iv) In the revision of the salary structure by the Institute, new salary steps had been prepared for the officers employed in the Engineering Posts irrespective of the promotions.

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

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### **5.1 Internal Audit**

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The Internal Audit Unit had not carried out audit relating to the fields such as the progress of the conduct of training courses, acquisition of capital assets, internal control of the systems and maintenance of registers. Out of the total 3923 man hours of the Internal Auditors that could be allocated for the annual auditing, 975 hours had been spent in respect of the board of survey of the Institute.



## 5.2 Unresolved Audit Paragraphs

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Even though a sum of Rs.591,100 had been spent for the installation of a computerized accounting software system the total value of which amounted to Rs.1,103,200 in the year 2010 and 2011, that system could not be utilized even by the end of the year under review due to its defects and errors.

## 06. Systems and Controls

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

### Areas of System and Control

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### Observations

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| (a) Human Resources Management | Failure to fill the vacancies of the posts of top management level, not paying proper attention on the settlement of the issues relating to the service minutes and approved salary structures.                                   |
| (b) Accounting                 | Failure to maintain a proper accounting system so as to record the assets correctly.  |
| (c) Operating Control          | (i) Failure to maintain records properly and not recovering the income within the prescribed period.<br><br>(ii) Management had not focused attention on the qualitative and quantitative development of the training programmes. |