

Construction Industry Development Authority (CIDA) - 2015

The audit of financial statements of the Construction Industry Development Authority (CIDA) 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 net assets 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 29(2) of the State Industrial Corporations Act, No. 49 of 1957. 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

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 Auditors' 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority 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 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 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.

2. Financial Statements

2.1 Audit Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Construction Industry Development Authority (CIDA) 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

2.2.1 Compliance with Sri Lanka Public Sector Accounting Standards (SLPSAS)

SLPSAS 01 – Presentation of Financial Statements: Income from consultancy and adjudication services had been taken to the financial statements on cash basis instead of being taken on accrual basis. As such, the receivable income from these services had not been ascertained and brought to the financial statements for the year under review.

2.2.2 Accounting Deficiencies

The following observations are made

- (a) The ledger balances of the inventory items amounting to Rs. 133,111,692 as at 31 December 2015 had been brought to the financial statements instead of being valued and brought the physically verified inventory balances as at that date. Therefore, impact to the financial statements could not be ascertained.
- (b) According to the annual stock verification reports of the year under review, 1,057 inventory items had been identified as redundant. However, a provision thereon had not been made in the financial statements.
- (c) Property, Plant and Equipment to the total value of Rs.2,179,600 had been acquired under capital grant received from the General Treasury during the year under review. However, the Authority had capitalized only a sum of Rs. 2,000,000 at the end of the year under review. Hence, the net assets as at the end of the year under review had been understated by Rs. 179,600.
- (d) A sum of Rs.863,698 had been identified as payables with regard to four legal cases filed against the Authority by the employees due to termination of their services by the Authority. However, a provision in this regard had not been made in the financial statements for the year under review.

2.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) According to the age analysis furnished to audit, the sundry creditors amounting to Rs.2,550,614 and Rs.1,719,187 had been outstanding for more than three years and

five years respectively, without being taken the actions to settle those balances even up to the end of the year under review.

- (b) A sum of Rs.114,529,393 receivable from National Equipment and Machinery Organization (NEMO) relating to hiring of motor vehicles and plant and machinery during the period from 1997 to 2004 had remained unrecovered even up to 31 December 2015. However, a full provision for those outstanding balances had been made in the financial statements for the year under review.

2.2.4 Unidentified Differences

A difference of Rs.300,000 was observed between the balances of trade and other receivable shown in the financial statements and the relevant schedule.

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

Instances of non-compliance observed in audit are given below.

Reference to Laws, Rules, Regulations, and Management Decisions	Non-compliance
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(a) Finance Act, No.38 of 1971	
(i) Section 11	A sum of Rs.15,707,803 had been invested in Treasury Bills during the year under review without being obtained the required approval from the Ministry of Finance .
(ii) Section 14(1)	A copy of the Draft Annual Report for the year under review had not been submitted to the Auditor General.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year under review had resulted in a deficit of Rs.6,677,674 as compared with the corresponding deficit of Rs.20,384,756 for the preceding year, thus indicating an improvement of Rs.13,707,082 in the financial results for the year under review. Increase of income from skill development training program by Rs.6,646,250 and decrease of expenses on revenue generation activities by Rs. 6,310,868 were the main reasons attributed for this improvement.

3.2 Analytical Financial Review

The following observations are made.

- (a) The operating deficit of the Authority was Rs.6.6 million resulting from utilization of 258 staff, total assets worth of Rs.1,316 million and the Government contribution of Rs.223 million received during the year under review.
- (b) The deficit of the Authority for the year under review represented 0.5 per cent of the total assets as compared with 1.6 per cent for the preceding year, thus indicating a favourable position of 1.1 per cent.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) According to the Action Plan of the Authority, the Operator Training Centre (OTC) and Construction Equipment Training Centre (CETRAC) of the Authority had failed to achieve their targeted internal earnings during the year under review. Details are shown below.

Description	Targeted Income	Achievement	Achievement as a percentage of Targeted Income
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	Rs. Millions	Rs. Millions	
Operator Training Centre			
- Income from other equipment and machinery operator training program	17.27	13.47	77.9
- Income of Machine and equipment hiring	18.00	1.62	9.0
Construction Equipment Training Centre			
- Construction equipment training income	16.55	8.31	50.2
- Workshops, repair jobs and consultancy service income	18.50	11.43	61.8

The attention of the top level management of the Authority had not been paid in this connection.

- (c) According to the Annual Implementation Plan of the Construction Equipment Training Centre (CETRAC), the key activities of the Centre were providing construction related training program and management services for the construction industry. However, the major part of the income was earned by the CETRAC during the year 2015 for hiring of auditorium and seminar room.

- (a) The Authority had appointed a Consultant on 27 April 2015 on assignment basis for the preparation of Human Resources Development Plan of the Authority within three month period for Rs.150,000 lump sum payment which will be paid in three installments based on his performance. Further, the Consultant had submitted the details of works completed (Draft copy of the document proposed) to the Director (HR) on 05 July 2015 and a sum of Rs.50,000 had been paid to him on 10 August 2015. However, the final copy of the Human Resource Development Plan had not been submitted to the Authority even up to the end of May 2016.

4.2 Management Weakness

The following observations are made.

- (b) Effective actions had not been taken to refund the foreign aid balance of Rs. 2,663,659 to the General Treasury since the year 1996 which brought forwarded year by year in the financial statements.
- (c) National Environment Construction Technical Theme Park had been evolved in introducing and displaying the model construction types, utilizing modern and traditional buildings materials and techniques in present day context and to shone and distribute knowledge on construction with the society. The above Project had been commenced in December 2011 and scheduled to be completed in December 2014. The following observations are made in this regard.
- (i) The Project had planned to build five model houses during the Project period. However, only four model houses had been commenced to build and two of them had only been completed within the stipulated project period. The remaining model houses had not been constructed even up to 31 May 2016.
- (ii) Activities such as construction of houses with rain water harvesting system, displaying in the effective use of solar power as energy efficiencies, establish model wind power generation plant, construction of earth roads for dry zone areas which were included in the Project proposal had not been performed even at the end of May 2016.
- (iii) Ownership of the land which had constructed the Theme Park was not clearly identified.

4.3 Buildup a Fund for Retirement Benefit

Even though a provision of Rs. 61,791,489 had been made in the financial statements of the Authority as at 31 December 2015 for the payment of gratuity, the Authority had failed to invest the provision to meet the future obligations.

4.4 Internal Audit Unit

Only two officers such as an Assistant Internal Auditor and a Management Assistant were appointed to the Internal Audit Division on acting basis by the Authority since June 2011.

4.5 Transactions of Contentious Nature

According to the financial statements presented for audit, the financial results of the Authority for the year under review was a deficit of Rs.6,677,674. However, the Authority had prepared a separate income statement for the same period by showing a net profit of Rs.31,529,349 for the purpose of paying annual bonus to its staff. Accordingly, a sum of Rs.2,317,245 had been paid as annual bonus to its staff during the year under review in contrary to the Management Service Circular No 02/2015 of 09 December 2015.

4.6 Human Resources Management

The approved and actual cadre of the Authority as at 31 December 2015 was 360 and 258 respectively. It was observed in audit that 27 vacancies out of 102 vacancies including in eighteen posts in executive level such as Internal Auditor, Director Finance, Deputy Director of Operation (Training Center) etc. were in acting basis as at 31 December 2015 since several years without being taken adequate action to fill those vacant posts.

5. Accountability and Good Governance

5.1 Budgetary Control

Significant variances were observed between the budgeted and actual income and expenditure of the Institute for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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

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| (a) Accounts Payable and Receivable | - Balances of Payable and Receivable had not been confirmed by the respective parties. |
| (b) Revenue Management | - Invoices were issued by the Authority without sequence order. |