

Ceylon German Technical Training Institute – 2016

The audit of financial statements of the Ceylon German Technical Training Institute for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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. My comments and observations on the above financial statements 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 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

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

In terms of Cabinet Paper No. 05/0994/029/013 dated 18 August 2005, it had been decided that permission should be granted to further operate the Ceylon German Technical Training Institute under the identity of Central Transport Board until it is formally incorporated. Even though 12 years had elapsed from the delivery of that decision, action had not been taken to incorporate the Institute.

1.5 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 Ceylon German Technical Training Institute as at 31 December 2016 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 accounting deficiencies were observed.

- (a) The value of Hybrid technical equipment and a Hybrid motor car amounting to Rs.4,768,000, received as donations in January 2016 to the Ceylon German Technical Training Institute, had not been brought to account and included in the Register of Assets as well. Further, customs and warehouse charges of Rs.353,835 paid thereon had been brought to account as a recurrent expenditure.
- (b) A total sum of Rs.20,536,172 paid for two contract activities which were not completed by 31 December 2016 had been capitalized under buildings instead of accounting as work-in-progress.

2.2.2 Lack of Evidence for Audit

The evidence shown against the following items of accounts had not been made available to Audit.

Item of Account	Value	Evidence not made Available
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	Rs.	
(a) Debtors	3,958,817	Debtors schedules, confirmation of balances
(b) Spare parts, stationery and ink	7,255,216	Physical verification reports

2.3 Accounts Receivable and Payable

The debtors balance as at 31 December 2016 amounted to Rs.3,958,817 and out of that, a sum of Rs.3,037,021 representing 77 per cent had remained for a period between 3 and 11 years.

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

The following non-compliances with laws, rules and regulations were observed.

Reference to Laws, Rules and Non-compliance Regulations

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| (a) Sections 10 and 11 of the Finance Act, No.38 of 1971, Section 8.2.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003 and the Public Finance Circular No.PF/PE/9 of 27 June 2000. | Sums of Rs.23,929,269 and Rs.8,850,137 had been invested as fixed deposits and Treasury deposits respectively by the Institute without the prior approval of the Treasury. |
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(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

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| (i) Financial Regulation 756 | Even though the Boards of Survey should be carried out on or about 15 December each year, the Institute had not even appointed the Boards of Survey even by 28 February 2017 for the Boards of Survey relating to the year 2016. |
| (ii) Financial Regulation 772 | Action in terms of financial regulations had not been taken even by 10 June 2017, the date of audit, in respect of 111 articles identified as condemned articles at the Boards of Survey carried out in the year 2015. |

3. Financial Review

3.1 Financial Results

The financial result of the operations of the Institute for the year under review had been a surplus of Rs.5,833,292 as against the deficit of Rs.48,910,721 for the preceding year, thus indicating an improvement of Rs.54,744,013 in the financial results of the year under review as compared with the preceding year. The increase in the Treasury Recurrent Grants by Rs.42,000,000 had been the main reason for the above improvement.

An analysis of the financial results of the year under review and 04 preceding years revealed that the deficit had continuously increased from the year 2012 to the year 2015 and become a surplus in the year 2016. However, in readjusting the employees' remuneration, depreciation for the non-current assets and tax paid to the Government to the financial result, the contribution of the Institute of Rs.139,798,634 in the year 2012 had continuously increased to Rs.333,314,727 in the year 2016.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Twelve courses were being conducted by 31 December 2016 with the participation of 1,896 students at the Katubedda Training Centre and the Borella Branch belonging to the Institute. Even though there was a continuous demand increasing annually for these courses from which a vocational training can be obtained so as to appropriate to employment opportunities in the Automotive Sector which has a high recognition locally and internationally, the Institute had not expanded the training capacity so as to appropriate to that demand. As such, out of 10,318 students who had applied for courses during 5 preceding years, 7,752 students representing 75 per cent had not received training opportunity. However, the Institute had conducted 38 fee levying short term courses which were not accredited and the participation of students for these courses which were conducted with the participation of 2,802 students in the year 2012, had increased up to 3,943 by the year 2016.
- (b) Out of 12 courses conducted by the Institute in the year under review, 04 courses conducted with the participation of 258 students had not been accredited.
- (c) According to the Annual Action Plan, provisions totalling Rs.48.6 million had been made for the construction of a laboratory for the **Tools Machinery Division**, renovation of buildings and purchase of machines, equipment and plant and the relevant activities had been commenced by spending a sum of Rs.29.67 million out of the said amount. However, those activities had not been completed as planned and the provisions amounting to Rs.18.93 million had been saved.

4.2 Management Activities

The following observations are made.

- (a) Action had not been taken to vest the ownership of the lands valued at Rs.1,149,350,000 enjoyed by the Institute on long term basis, including the land on which the Head Office of the Institute is located.

- (b) Even though the books valued at Rs.1,663,270 had been received by the Institute for the new courses commenced under the Sectoral Skills Development Programme of the year 2015, no amount whatsoever had been spent by the Institute for the purchase of books required for other courses and for the development of the Library during 04 preceding years. As such, the students who follow the full time and short term courses, had been deprived of the opportunity of obtaining the updated knowledge.
- (c) Transactions totalling Rs.3,312,825,751 had been posted in 250 journal entries in the year under review by the Institute and it was not confirmed that those entries had not been posted accurately on a proper approval due to deficiencies such as failure in preparing journal vouchers including the information relating to those journal vouchers, filing information based therefor and posting journal entries without a proper recommendation and approval.
- (d) An advance of Rs.658,897 had been paid in the year 2015 to a contractor for constructing the roof of the Machinery Division and the Engine Division and that contract had been terminated by the Institute without an acceptable reason. The amount paid had been further shown in accounts as advances for fixed assets without determining the amount of work completed and recording accounts notes and without taking action to complete the contract.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) The Apprentice Insurance Scheme had been established in the year 1999 for the payment of indemnity for apprentices who meet with accidents during their training period of the Institute by recovering a premium of Rs.275 from an apprentice and the balance thereof by the year 2016 amounted to Rs.8,898,814. However, those funds had been invested in fixed deposits instead of formulating a proper procedure for granting benefits for students who contribute to that Fund and the value of thereof as at the end of the year under review amounted to Rs.7,068,807.
- (b) The interest of Rs.3,374,233 received for the Employees' Provident Fund from the employees who arrived from Sri Lanka Transport Board and the loan installments totalling Rs.892,215 recovered from the salary up to the year 2016 for housing loans obtained on the security of the Employees' Provident Fund by 04 employees, had been included in the value of Rs.6,425,019 shown as Provident Funds payable. The said loans and interests thereon had been deducted since the year 2014 and only the remaining amount had been paid to the Employees Provident Fund of the Central bank and the said loan installments and the income from interest thereon had been invested on fixed deposits without making payments for employees again and taking any appropriate action thereon.

- (c) Even though the Institute had taken action to pay salaries with increments since December 2015 under the new absorption of employees, the approval of the Department of Management Services and the National Salaries and Cadre Commission had not been received therefor in terms of paragraph 19 of the Circular No.02/2016 of 25 April 2016 of the Department of Management Services. As such, in the computation of gratuity of 05 officers who had left the service in the year 2016, salary increments prescribed in the absorption, had to be ignored.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) Even though equipment valued at Rs.240,496,777 had been provided under the Sectoral Skill Development Programme in December 2016 for the commencement of Production Technology Course, that course had not been commenced even by 07 June 2017, the date of audit and as such that equipment had remained idle.
- (b) A stock of partially completed chairs made by spending Rs.328,324 for the use of the canteen of the Institute had been stacked in the premises of the Institute since the year 2015 without taking action to complete and make use of them.
- (c) Out of the stock of spare parts valued at Rs.7,009,874 shown in the financial statements as at 31 December 2016, 308 units of 9 items valued at Rs.69,309, over a period 20 years, 5,413 units of 69 items valued at Rs.137,640 over a period between 10 years and 20 years and 5,873 units of 57 items valued at Rs.225,303 over a period between 02 years and 10 years had not been utilized.

4.5 Contract Procedure

The following observations are made.

- (a) Three contracts on constructions valued at Rs.5,487,905 had been awarded to a private contractor on 20 January 2016 and the relevant audit observations are given below.
 - (i) Out of the said three contracts, 2 contracts that should be completed as at 17 February 2016 and for which a sum of Rs.4,109,411 had been paid, had been cancelled on 23 August 2016 due to incompleteness of those contracts on due date. According to the recommendations of the Technical Evaluation Committee, a sum of Rs.1,774,647 had been paid for other completed contract for the purpose of repairing roof and conduits of the main corridor. However, a report obtained from a member of the Technical Evaluation Committee and the Deputy Chief Engineer (works) in charge of the maintenance of the Institute, confirmed that the said function had not been completed according to the due Standard.

- (ii) Contrary to Guideline 8.9.1 of the Procurement Guidelines, issue of Letters of Acceptance and entering into agreements relating to these contracts had been carried out after a delay of 16 days and 18 days respectively from the date of awarding the contract.
 - (iii) Even though liquidated damages totalling Rs.292,658 should be charged at a rate of 1/4000 per day out of the agreed amount for 187 delayed days from 17 February 2016 on which the two contracts which were cancelled on 23 August 2016, should be completed and handed over in terms of agreements, it had not been so done.
 - (iv) Even though the performance securities relating to contracts had been valid up to 11 January 2017, action had not been taken to recover the loss sustained by the Institute due to incompleteness of work according to the due Standard within the agreed period.
 - (v) Even though 10 per cent out of contract payments should be retained in terms of Section 4 of contract agreements, it had not been so done.
 - (vi) Even though a total sum of Rs.1,310,915 had been paid for the cancelled purpose of repairing class rooms and roofs of the Welding Division, the value of works certified and the remaining materials of the work site by 01 February 2017 amounted to only Rs.1,069,817. As such, a Deputy Chief Engineer of the Institute had reported in writing that a sum of Rs.241,098 had been over paid, 12 activities valued at Rs.1,875,500 out of 20 activities set out in the Bill of Quantities had not been completed and that the works completed had not been performed according to a due Standard.
- (b) Provisions of Rs.160 million had been made from the Annual Budget -2016 for the construction of a hostel so as to accommodate 1000 students as a solution for the accommodating problem of students whose number is increasing annually. Nevertheless, that activity had not been completed by using those provisions. Further, the approval of the Cabinet of Ministers had been received to perform this activity by using provisions received by the line Ministry in the year 2017. However, this activity had not been commenced up to 10 June 2017, the date of audit.
- (c) A contract of constructing a water tank stand had been awarded to a private institution on 15 November 2013 at an estimated cost of Rs.583,000 and it had been completed by 25 September 2014 and thus, a sum of Rs.688,300 had been paid therefor. Even though this water tank stand had been constructed to retain 02 tanks of 5000 litres in capacity according to the original plan, only two water tanks of 2000 litres in capacity had been retained due to problems arisen on the strength thereof. As such, the water capacity expected by the Institute could not be stored by 60 per cent. Moreover, a water tank stand had to be again constructed to increase the strength thereof and thus, a loss of Rs.133,632 had been sustained by the Institute.

- (d) The contract for the construction of class rooms and a laboratory of the Machinery Division had been awarded on 03 August 2016 to a private contractor at an estimated cost of Rs.7,015,575 on the agreement of completing it on 05 December 2016. The performance security given by the contractor had **terminated** on 03 April 2017 and though this construction had not been completed up to 10 June 2017, the date of audit, action had not been taken to extend the period thereof. Contrary to Guideline 8.9.1 of the Procurement Guidelines, the agreement relating to this contract had been signed after a delay of 63 days of awarding the contract.

4.6 Staff Administration

The approved cadre of the Institute had been 268 and 15 vacancies existed by the end of the year under review. Among these vacancies, the post of Registrar, that may be directly affect the achievement of objectives and the goals of the Institute, had been vacant from 03 years and 12 posts at the medium management level as well had been vacant.

5. Accountability and Good Governance

5.1 Internal Audit

According to the Internal Audit Plan of the year 2016, three thousand eight hundred and sixty five man hours had been planned to be spent for auditing in respect of 07 projects implemented in the Institute. However, 05 programmes out of them had not been implemented during the year and 05 audit queries relating to 02 implemented programmes had been issued. Nevertheless, replies therefor had not been made up to 10 June 2017, the date of audit.

5.2 Procurement Plan

It was observed according to the following matters that the Procurement Plan for the year under review had not been properly prepared by the Institute deciding the procurement requirement specifically.

- (a) Purchase of machines and equipment in 12 instances, valued at Rs.6,304,401,273 not included in the Annual Procurement Plan.
- (b) In purchasing materials necessary for trainings, requirements of each Division should be forecasted, categorized and purchased as groups in a manner of gaining maximum benefits to the Institute. However, instead of that, training equipment valued at Rs.6,017,377 had been purchased in 248 instances during the year 2016.

5.3 Budgetary Control

The Institute had prepared a revised budget estimate after closure of budgeted period, that is, 20 February 2017 and obtained the approval of the Board of Consultancy therefor due to variances observed between the budgeted provisions and the actual expenditure for the year 2016, thus indicating that the budget prepared by the Institute had been fruitless and had not been made use of as an effective instrument of financial control as well.

5.4 Unresolved Audit Paragraphs

The following shortcomings shown by the previous audit reports had not been rectified even by the end of the year under review.

Reference to Paragraph	Observation
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4.5(a) - 2015	A sum of Rs.512,839 had been paid during the period from 30 June 2014 to 30 August 2016 to the officer who served in the capacity of Deputy Principal of the Institute on acting basis without a proper appointment and approval.
4.5(b) - 2015	An officer who had resigned from the Institute and served in a private institution, had been given full salary and allowances of Rs.105,402 and relevant salary steps for the period not engaged in the service while considering as an officer continued in the service without approval of the Director General of Establishments.
5.1 -2015	Despite the elapse of the planned period, the Institute had failed to rectify the shortcomings such as lack of adequate library facilities, lack of database and quality control system and failure to establish 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 2012 - 2016.
4.2 (a) -2014	Even though a sum of Rs.591,100 had been spent for the installation of a computerized accounting software system valued at Rs.1,103,200, that system could not be utilized due to defects and errors thereof and action had not been taken to provide even a computer software system for accounting purposes.

6. Systems and Controls

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

Areas of Systems and Controls

Observations

(a) Human Resources Management

Failure in paying attention by the Management to fill vacancies of the posts of top management level and failure to settle the problems arisen on service minutes and approved salary structures.

(b) Accounting

Failure to maintain a proper computerized accounting system so as to record the financial data correctly.

(c) Control over Debtors and income recoverable

Failure to maintain records properly and to recover income recoverable within the due period.

(d) Operating Control

Failure in paying attention by the Management on the maintenance of training programmes in high quality and material development so as to suit future employment opportunities in the planning and implementation of training programmes implemented by the Institute and failure in taking action to increase the number of students, enrollment for courses.

(e) Contract control

Failure in taking action by the Institute to complete the contracts within the due period with a proper Standard in terms of the Procurement Guidelines for contracts of civil works.