Construction Industry Development Authority – 2017

The audit of financial statements of the Construction Industry Development Authority ("the Authority") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, statement of changes in net assets and statement of cash flows 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 Corporation 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 judgment, 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'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 Authority'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 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 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 Construction Industry Development Authority as at 31 December 2017 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 Sri Lanka Public Sector Accounting Standards (SLPSAS)

Income from consultancy and adjudication services amounting to Rs. 1,242,173 had been taken to the financial statements on cash basis instead of being ascertained the receivable income and taken to accounts them on accrual basis as requested by SLPSAS 01 – Presentation of Financial Statements.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Value Added Tax (VAT) amounting to Rs.1,246,171 incurred for purchase of a prime mover with tailor valued at Rs.11,328,829 had been capitalized as assets without being shown as VAT receivable.

(b) Differed income shown in the financial statements during the year under review had been overstated by Rs.710,937 due to over depreciation of machineries during the previous years.

(c) Deferred income of Rs.2,541,072 with regard to purchase of vibrating roller in the year 2016 and air condition system in the year 2015 had not been brought to the financial statements.

(d) A provision had not been made in the financial statements with regard to the redundant stock of Rs.4,796,230 shown in Note 01 to the financial statements of 2017.

(e) Capital grants received amounting to Rs.828,681 had not been capitalized as government grant as at the end of the year 2017. Therefore, the capital grants shown in the financial statements for the year 2017 had been understated by that amount.

2.2.3 Unidentified Difference

According to the Statement of Changes in Equity the deferred income was Rs.52,679,292. However, it was shown in the detailed schedule as Rs.52,360,082. Hence, a difference of Rs.319,210 was observed between these two balances.

2.2.4 Accounts Receivable and Payable

The following observations are made.

(a) According to the age analysis furnished, the creditors and debtors amounting to Rs.5,566,779 and Rs. 3,052,679 respectively were outstanding for more than three years as at 31 December 2017. Out of that, a sum of Rs.384,110 and Rs. 1,032,617 respectively were remained unrecovered for more than five years.

(b) Although a debtor balance of Rs.6,761,278 had been transferred to the Debtor Clearance Account in the year 2012, only Rs. 1,540,092 had been recovered during the period of 2012 to 2017. Out of this balance, a sum of Rs.5,220,386 had remained in the debtor clearance account without taking any action to recover those balances.

(c) A sum of Rs.1,952,115 had been continuously shown in the financial statements since the year 2013 as income received in advance without being recognized as revenue.

2.2.5 Contingent Liabilities

Four legal cases had been filed against the Authority by the employees due to termination of their services by the Authority. However, prompt disclosures had not been made in the financial statements for the year under review.

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 etc.	Non-compliance
(a) Section 14(1) of the Finance Act, No.38 of 1971	A copy of the Draft Annual Report for the year under review had not been submitted to the Auditor General.
(b) Government Procurement Guidelines	
(i) Guideline 2.11.2	Attendance register for procurement committees had not been maintained by the Authority
(ii) Guideline 3.4.3	The Authority had not updated the register of suppliers since the year 2010.

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 net profit of Rs.10,044,982 as compared with the corresponding net loss of Rs.10,065,799 for the preceding year, thus indicating an improvement of Rs.20,110,781 in the financial results for the year under review. Increase of fund transferred from Silpa Saviya Programme and construction subscription fee by Rs.7 million of Rs.14 million respectively were the main reasons attributed for this improvement in the financial results.

Even though the operations of the Authority during the under review had resulted in a profit of Rs. 10,044,982, the value addition of the Authority during the year under review after taking into accounts the taxes, personal emoluments and depreciations for the year under review was Rs. 304,056,959 and this was Rs. 268,634,038 in the previous year. Hence, the value addition of the Authority had increased by Rs. 35,422,921 or 13.18 per cent as compared with previous year.

3.2 Analytical Financial Review

The following observations are made.

(a) The operating profit of the Authority was Rs.10 million resulting from the utilization of 233 staff, total assets worth Rs.1,388 million and the Government Contribution of Rs.46 million received during the year under review.

(b) The profit of the Authority for the year under review represented 0.72 per cent of the total assets as compared with 0.63 per cent for the preceding year, thus indicating a slight improvement of 0.09 per cent.

(c) The operating losses of the Operator Training College (OTC) and Construction Equipment Training Centre (CETRAC) for the year 2017 were Rs. 12.1 million and Rs. 8.4 million respectively and the net profit ratios were negative 32.7 per cent and 55.5 per cent respectively.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Out of 20 income sources of the Authority, 14 sources were shown a decreasing trend during the year under review. As a result, income of the year under review had been declined by Rs.10,900,630 with compare to the previous year.

(b) The Authority had not performed the following activities within the three years period of time as stated in the Industry Development Act, No. 33 of 2014.

Reference to provisi in the Act	**Target Activity**
19 (1)	Establishment of a Construction Industry Development Fund.
26	Maintain a Register for Qualified Persons by obtaining the recommendation from the Credential Committee.
41	Maintain a Register of Property Developers.
43	Maintain a Directory of Importers, Manufactures, and Suppliers of Construction Materials and Construction Components
45	Conducting of Technical Auditing.
52	Maintain a Register of Adjudicators
53	Establishment of Appeals Board.
55	Maintain a National Data Base for the Construction Industry.

4.2 Management Activities

The following observations are made.

(a) Effective action 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.

(b) Capital Grants aggregating Rs.25,147,139 received from Treasury since the year 2011 had been remained in the Bank accounts without utilizing for intended purposes.

(c) According to the Action Plan of the Authority, the Operator Training Centre (OTC) and Construction Equipment Training Centre (CETRAC) had not achieved their targeted internal earnings during the year 2017. It was further observed that, only 57.1 per cent and 83.1 per cent of income had been received from OTC and CETRAC respectively by conducting training programs and hiring of machineries.

(d) Hydraulic Training Kit Valued at Rs.4,127,769 and Training Materials valued at Rs.2,660,614 purchased under the capital grants received from the General Treasury in the year 2016 and 2017 had not been utilized for intendant purposes even up to the end of June 2018

(e) Working Director and Deputy Director of the Authority had been participated the Mobile Crane Training Program held in Japan instead of being invited the relevant Instructors for this training program. Further, the above two officers were not conducted any training programme within last two years.

4.3 Transactions of Contentious Nature

The following observations are made.

(a) A creditor balance of Rs.8,470,609 shown in the financial statements since the year 2016 had been transferred by using Journal Entries to the working capital account and expenditure accounts without obtaining an approval of the Board of Directors.

(b) A donation of Rs.1,020,000 had been collected from registered contractors based on the written request made by the Authority during the year under review and this funds had been utilized for settling the cash advance of Rs.250,000 paid by the Authority to the Ministry.

4.4 Unresolved Audit Paragraphs

A sum of Rs.114,529,393 receivable from the National Equipment and Machinery Organization (NEMO) relating to hiring of motor vehicles and plant and machinery for the period of 1997 to 2004 had remained unrecovered even as at 31 December 2017. However, a full provision had been made in the financial statements on those outstanding balances.

5. Accountability and Good Governance

5.1 Procurement Management

According to Guideline 8.9.1 of Procurement Guidelines of 2006 any goods or service contract exceeding Rs.500,000, a formal letter of acceptance shall be issued forthwith to the bidder by the Procuring Entity. However, such letter of acceptance with regard to procurements totaling Rs.4,110,062 made in several instances had not been issued by the Authority.

5.2 Budgetary Control

Significant variances were observed between the budgeted and actual income of seminar fees and hiring income of machine 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.

Areas of Systems and Controls	Observations
(a) Training Course Income	Training course income had been decrease due to conducting course not related construction industry and non-revised course content.
(b) Stock Control	Balances in ledger had been brought to the accounts instead of being taken the physically verified balances of stock.