Industrial Technology Institute – 2017

The audit of financial statements of the Industrial Technology Institute for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the income statement, 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 40 of Part vii of the Science and Technology Development Act, No. 11 of 1994. 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 . A detailed report relating to this was issued to the Chairman of the Institute on 14 May 2018.

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 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 Qualified Opinion

In my opinion, except 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 Industrial Technology Institute 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

Following observations are made**.**

(a) **Sri Lanka Public Sector Accounting Standard 07**

(i) Fixed Assets amounting to Rs. 561,756,774 were completely depreciated, but were still in use due to the effective life time of the non-current assets were not reviewed annually, as per paragraph 65 of the Standard. Accordingly, action had not been taken to revise the estimated error in accordance with the Sri Lanka Public Sector Accounting Standard No. 03

(ii) According to the paragraph 72 of the Standard lands and buildings should be accounted separately which can be identified separately. However, the land valued at Rs. 40,000,000 where the Research and Development building situated in Malabe had been accounted under the buildings and a sum of Rs. 2,000,000 had been depreciated for the year under review.

(b) **Sri Lanka Public Sector Accounting Standard 9**

Even though the closing stock should be valued by using the cost methods of first in first out or weighted average method as per the paragraph 35 of the Standard, without following those methods the institute had valued the closing stock using simple average method.

2.2.2 Accounting Deficiencies

Following observations are made**.**

(a) It was agreed to pay a monthly rental of Rs. 1,368,050 for office of the State Minister of Science, Technology and Research and Technical Assignment Unit established in the building of Industrial Technical Institute at Bauddhaloka Mawatha. Accordingly, even though a sum of Rs. 9,576,350 should be received to the institute as rental for 07 months from 01 June 2017 to 31 December 2017, it was accounted a sum of Rs. 8,200,300 as income receivable. Thus, rent receivable had been understated in the accounts by Rs.1,376,050.

(b) A provision of Rs.12,300,860 had not been made for which the Board of Directors had decided to pay further back to the European Union in 2014 to settle the losses caused by failure to implement a project started under European Union financial assistance, as per the agreement.

2.2.3 Unexplained Differences

Following observations are made.

(a) Even though purchase advance (Local) balance as per the Note 15(a) of the financial statements as at 31 December 2017 was Rs.3,456,439, it was shown as Rs.3,209,274 in the financial position; thus a difference of Rs. 247,165 had been indicated.

(b) Even though the debtors balance as per the financial position as at 31 December 2017 was Rs. 16,534,423, as per the age analysis it was Rs. 16,528,839; thus a difference of Rs. 5,584 had been observed.

(c) According to the Annual Board of Survey report submitted to the audit on 31 March 2018, value of plan and lab equipment, furniture fittings and office equipment and computers and accessories as at 31 December 2017 was Rs.1,058,322,445, Rs. 81,819,207 and Rs.73,299,744 respectively. According to the statement of financial position presented cost of those assets was Rs. 1,127,303,844, Rs.84,900,135 and Rs. 67,049,915 respectively. As a result, a sum of Rs.65,812,498 had been overstated in the statement of financial position more than the values stated in the Annual Board of Survey. Furthermore, the value of cost of other assets stated under non-current assets amounting to Rs. 4,512,574 had not been included in the Annual Board of Survey.

2.3 Receivable and Payable Accounts

Following observations are made**.**

(a) Action had not been taken even by 31 December 2017 to recover a sum of Rs.7,810,032 recoverable for years from 18 officers who had breached the conditions in foreign scholarship agreements.

(b) Even though a provision of Rs. 6,845,135 had been made in the year 2009 as salaries payable for in respect of officers who had left the service and who are in service, action had not been taken to settle even by 31 December 2017.

(b) Action had not been taken to settle even during the year under review accrued expenses totalled Rs.793,919 which was included in the financial statements from the year 2009 to the year 2017.

(d) Action had not been taken to recover 9 debtor balances amounting to Rs.2,858,744 which were continuously carried forward in the financial statements more than 5 years.

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

	Reference to Laws, Rules, Regulations etc.	Non-compliance
(a)	Science and Technology Development Act No.11 of 1994 Section 19(2)	Even though institute's Board of Management should consist with 9 members, only 8 members were in the Board of Management as at 03 October 2017.
(b)	Public Finance Circular No. 380 dated 19 January 2000 Section 7.1	Although after reduce the direct costs from advisory services, the institution has to retain a percentage of 10 per cent to 25 per cent and the balance should be sent to a special fund of the Treasury once in three months, action had not been taken accordingly.
(c)	Public Enterprise Circular No. PED/12 dated 02 June 2003. Section 4.2.5	Even though the report on debtors and creditors analysis, the stock age analysis report and the identified old, slow moving, and expired stocks should be tabled at every monthly meeting of the Board of Management for review the effectiveness of the working capital management system of the institute, it was not done as per in the year under review.
(d)	Finance and Planning Circular No.MOFP/ERD/2011/1 dated 21 April 2011.	A Korean project of Rs. 2,443,833 in the year 2015 and an Indo-Sri Lanka project of Rs. 9,471,966 in 2013 were commenced without the knowledge the Department of External Resources.
(e)	Public Finance Circular No. 1/2016 dated 08 January 2016.	A sum of Rs. 17,882,181 had been paid as salaries to 13 contract basis employees and 64 assignment basis employees during the year under review contrary to the circular provisions.

(f)	Public Finance Circular No. 5/2016 dated 31 March 2016.	A physical stock verification had not been done for the year under review.
(g)	Management Services Department Circular No. 28 of 10 April 2006.	Even though 14 officers had been recruited on contract basis for cover up duties of vacancies, approval of the Management Service Department had not been obtained.

3. Financial Review

3.1. Financial Result

According to the financial statements presented, the financial result of the Authority for the year under review had resulted in a deficit of Rs.4,508,341 as against with the corresponding surplus of Rs.56,290,243 for the preceding year, thus indicating a deterioration of Rs.60,798,584 in the financial result. Increase in personal emoluments and contractual services by Rs.48,297,921 and Rs.15,426,297 respectively had been the main reason for this deterioration.

In analysing financial results of the year under review and of 04 proceeding years, even though the surplus of Rs. 39,177,699 for the year 2013 had been increased with fluctuations for a surplus of Rs.56,290,243 in the year 2016, and it shows a deficit of Rs.4,508,341 in the year 2017. However, in considering personnel emoluments and depreciation on non- current assets, even though the contribution of the year 2013 had been a sum of Rs.365,884,413 and it had continuously increased and had been a sum of Rs.496,769,412 in the year 2017.

3.2 Analytical Financial Review

Several calculated working capital ratios are shown below.

Ratio	Year 2017	Year 2016
Current	2.28:1	6.76:1
Quick	2.24:1	6.67:1

The current ratio had declined in 2017 to 66.27 per cent from 66.41 per cent while comparing to the year 2016.The reasons for this was increase of the current liabilities in the year under review from Rs. 204,227,710 or 159 per cent when comparing to previous year.

4. Operational Review

4.1 Performance

4.1.1 Activities and Review

It was difficult to compare targeted plans and the organization's progress due to not preparing the progress reports as able to identify completed activities in the action plan prepared for the year under review.

4.2 Management Activities

Following observations are made.

(a) It was observed during the audit that samples were not submitted to the customers on the scheduled date for technical tests included in the standard service revenue. According to the sample check regarding this done based on the month of August 2017, reports had been issued with a delay of 02 days to 31 days in 23 instances.

(b) The Institute did not predetermined reporting dates for the tests carried out by the laboratories such as ETL, R&D, FTS, HTS, and MTS established in the institute. According to the sample audit, out of the tests carried out in 14 cases in the month of August 2017, 03 reports failed to produce even by 17 October 2017.

(c) Instances were observed that the institute did not issue reports on the due date when providing consultancy services to various institutions. According to the test check done based on the month of March 2017, 7 instances out of 9 instances, reports were issued with a delay of 20 days to 94 days, and in 2 instances reports had not been issued even up to 10 October 2017.

(d) It was observed that it was impossible to carry out the intended tasks using the equipment due to spending 01 year 02 months 14 days and 01 year 06 day 07 days respectively by the institute for purchase of Incubator with optical shaker with spare parts and Florecent Research Microscope with phase contract objectives amounting to Rs. 6,705,607.

(d) Although the Cry/2A/Elisa Kit was ordered on 29 August 2016 and paid a sum of Rs.83,804, it could not be able to use because the supplier did not keep the equipment at the recommended minimum temperature level. Thus, the Rs. 83,804 spent by the institution for the purchase of the item was a fruitless expense and it was accounted for under the unsettled advances at the end of the year under review.

(f) A Marketing Promotional Consultant had been employed by spending a sum of Rs.1,340,500 for 07 months from 01 June 2016 for the preparation of a scheme to study the existing work of the institution to reach these targets and the intended purpose of self-financing within the institute by the 2020 to maintain the institute and to increase institute's revenue by around 26 per cent or Rs. 62 million in the year 2017. However any activity had not been done to fulfil the intended purpose up to the date of this report and revenue in the year 2017 also held increased only by 7 per cent.

4.3 Staff Administration

The approved cadre of the institution was 392 and the actual cadre was 317 as at 31 December 2017, thus there were 96 vacancies and 7 excesses.
Following observations are made in this connection.

(a) During the year 70 vacancies at staff level posts, 16 non-staff level vacancies and 10 other vacancies were existed. Although a newspaper advertisement published on 20 August 2017 to recruit 6 officers permanently for 05 vacant posts, recruitment had not been done even by 31 December 2017.

(b) Although 14 officers have been recruited on contract basis to cover the vacancies, the approval of the Department of Management Services had not been obtained according to the circular No. 28 dated 10 April 2006.

(c) Two officers for a post of Senior Administrative Officer of the staff level, 1 officer for the post of Technical Assistant of non-staff level and 03 officers for other 02 Staff Assistant posts had been deployed out of the approved carder of the institute. Further, one officer had been appointed exceeding the approved number in the post of Management Assistant.

4.4 Utilisation of Fund

Three bank accounts with aggregating a sum of Rs. 1,101,625 had been maintained as inactive accounts for more than 5 years and action had not been taken to utilize those money for related purposes.

5. Sustainable Development

5.1 Achieving the Objectives of Sustainable Development

Due to the lack of proper coordination with other institutions to get ready for achieving sustainable development goals, it was observed that the planning and preliminary preparation process to reach targeted objectives was very slow and was in a weak level.

6. Accountability and Good Governance

6.1 Procurement

Following observations are made.

(a) Following instances were observed where the steps not followed in the provisions of the Government Procurement Guidelines 2006.

(i) Even though without allocations made in the annual Budget for the year under review a Dialto Meter had been purchased for a sum of Rs. 7,721,841 contrary to the Guideline 4.1.1 (c). A loss of Rs. 2,226,015 had been incurred to the Institute by purchasing the equipment from the supplier who submit maximum price due to non- mentioning specification of the Dialto Meter clearly in the bidding documents for the purchase and without discussing with the Customer who submitted the minimum bid by the Technical Evaluation Committee.

(ii) Although a minimum of 42 days has to be given to submit bids under the International Competitive Bidding according to the Guideline 6.2.2., by allowing to submit the bid only in 26 days to purchase of Stek Air quality monitoring system, the company minimized the competitive bidding pricing. Further, no procurement timetable had been prepared in accordance with Guideline 4.2.2 (a) and 455 days spent for that purchase.

(iii) According to Section 8.9.1 (a) of the Public Procurement Guideline a formal agreement for the contracts exceeding Rs. 500,000 should be signed with the contractor, there was no contract agreements for the security service, sanitary services and rented vehicles. However, the total expenses incurred during the year under review for those services were Rs. 28,947,912.

(e) According to the procurement plan for the year 2016, even though it was planned to purchase non-current assets to the value of Rs. 107,545,000, assets had been purchased in the year only to a value of Rs. 23,070,230. This was only 21 per cent of the total amount. Out of the procurement plan of the year 2016, assets had been purchased only for Rs. 32,946,770 by 30 September 2017. According to the procurement plan of the year 2017 it had been planned to purchase assets to the value of Rs.63,685,835 during the year under review, assets only for Rs. 17,000,000 or 27 per cent had been purchased by 31 December 2017. Accordingly, the procurement plan was not used as an instrument of control.

6.2 Budgetary Control

It was observed that variation from 5 per cent to 63 per cent between the estimated cost and actual expenditure of the year under review and also observed it had not been used as an effective instrument of management control.

6.3 Internal Audit

Action had not been taken to recruit the post of Chief Internal Auditor which was vacant from 01 October 2014.

7. System and Control

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

	Area of System and Control	Observations
(a)	Accounting	Shortcomings in computer programs operating at the institution for accounting.
(b)	Fixed Assets Control	(i) Non-conducting a physical verification. (ii) Existing under- utilized assets.
(c)	Human Resource Management	Observed vacancies and deviation from recruitment scheme.
(d)	Budgetary Control	Considerable variations existing between the budgeted amount and the actual amount.
(e)	Internal Audit	Action had not been taken according to the recommendations of the internal audit reports and action had not been taken to recruit to the posts of the internal audit division.
(f)	Operational Control	Ongoing projects were not completed on due dates and non-achieving expected results.
(g)	Procurement	Acting without considering the provisions of the Procurement Guidelines.