

## **Sri Lanka Institute of Development Administration – 2017**

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The audit of financial statements of the Sri Lanka Institute of Development Administration 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 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 21 of the Sri Lanka Institute of Development Administration Act, No. 09 of 1982. 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 in terms of Section 13 (7) (a) of the Finance Act was sent to the Director General of the Institute on 31 July 2018.

### **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 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 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 Institute’s preparation and fair presentation of 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. 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**

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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 matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of the Sri Lanka Institute of Development Administration 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**

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

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The following observations are made.

##### **(a) Sri Lanka Public Sector Accounting Standard 01**

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- (i) Even though the income and expenditure should not be set off with each while preparation of financial statements in terms of Paragraph 48 of the Standard, the balance payable amounting to Rs. 113,645 had been set off from the balance of other receivables.
- (ii) Even though the financial statements should be presented in compliance with the prudent concept and the matching concept, in contrary to that the value of the building received as a donation from the UNDP Project amounting Rs. 3,871,700 had been shown in the statement of financial performance as an income without considering the capital nature that.

##### **(b) Sri Lanka Public Sector Accounting Standard 07**

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As a result of not reviewing the useful life time period for the non-current assets annually in terms of Paragraph 65 of the Standard, though the non-current assets cost at Rs. 150,288,622 were entirely depreciated are further being used. Accordingly, actions had not been taken to revise the estimated error occurred in terms of Sri Lanka Public Sector Accounting Standard 03.

## **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) A sum of Rs. 174,789 had been understated when calculating of amortization value of the capital grant.
- (b) The recurrent grant amounting Rs. 3,000,000 had been taken in to accounts as capital grant in the preceding year and as a result of debit to the retained earnings account and credit to the capital grant by Rs. 3,000,000 again for the correction of that error in the year under review, the capital grant had been overstated by Rs. 6,000,000 and the retained earnings account had been understated by the same amount.
- (c) As a result of an overstatement amounted to Rs. 2,254,492 relating to 03 types of assets and an understatement of Rs. 534,364 relating to 04 types of assets whilst the calculation of the depreciation relating to the above fixed assets, the value of the depreciation of the year had been overstated by Rs. 1,720,128 .

## **2.2.3 Unexplained Differences**

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A difference of Rs. 7,647,922 was observed in the balances of assets due to understating the value of 04 items amounted to Rs. 3,627,594 and overstating of the 03 items amounted to Rs. 11,275,516 whilst the cost of fixed assets comparing with the ledger balances and the balances in the schedules.

## **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Out of the balance of the other receivables for the programmes in 03 Sections , the balance receivable from the period of 03 years to 05 years was Rs. 9,128,734 and the balance for more than 05 years was Rs. 388,141.
- (b) The balance which should be refunded from the charges received for conducting consultation and Tamil Language programmes during the period between 03 years and 05 years was Rs. 4,078,317 and the balance for more than 05 years was Rs. 3,121,970.

## **2.4 Non- compliances with Laws , Rules and Management Decisions**

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

## Reference to laws, rules and regulations

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## Non - compliance

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- (a) Section 144 of Inland Revenue Act No. 10 of 2006

Although the PAYE tax should be remitted to the Commissioner General of Inland Revenue before the 15 of the following month after the relevant month, the PAYE tax amounting to Rs. 598,734 had been remitted during the first 02 months of the year 2018 which had been recovered relating to 08 months of the year 2017 .

- (b) **Financial Regulations of Democratic Socialist Republic of Sri Lanka**
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Financial Regulation 571

Actions had not been taken in terms of the Regulation in respect of the balances of Retention Deposit amounted to Rs. 2,283,525 for more than two years. .

- (c) Public Finance Circular 05/ 2016 of 31 March 2016

Even though the Board of Survey Report for the year 2017 should be furnished to the Auditor General and the Director General Public Finance during due time period, it had not been furnished even by the 04 September 2018 the date of audit .

- (d) Treasury Circular No. 842 of 19 December 1978

A Register of Fixed Assets had not been maintained in respect of the Fixed Assets amounted to Rs. 45,771,495 .

- (e) Section 6(a)(2) of Finance Ministry Circular No. 1/ 2015/ 01 of 15 May 2015

Although only the normal travel document fee could be able to reimburse whilst obtaining the Passport through one day service, the total fee for the one day service amounted to Rs. 10,000 had been reimbursed without conformation to this term.

- (f) Guideline of Selection and Employment of Consultants 2007

Guideline 4.4

Although a Division of Engineering and the Engineers are available in the Ministry whilst the selection of the Engineering Consultants, without obtaining their service a sum of Rs. 110,098 had been paid as Engineer Consultation fee by obtaining the services from another Public Institution for the preparation of estimates for the new canteen building .

- (g) Procurement Guideline 2006  
(i) Guideline 3.4 (g)

Even though the quotations should be obtained only from the Registered Contractors of Construction Industry Development Authority (CIDA) while applying the Market Price Method for the Works, out of 05 Organizations of which quotations called for construction of new canteen building valued at Rs. 7,413,773 only one organization had obtained the registration. Further, due to only 04 bids out of 05 bids were being sealed, it was observed that deviating with the Guidelines .

- (ii) Guideline 2.14.1

A colour photo copy machine and a laser printer had been purchased for a Rs. 529,000 and a Rs. 50,000 respectively from State Trading (General) Corporation without calling sealed quotations. Further, building materials valued at Rs. 891,018 had been directly purchased for the repairs of the hostel.

- (iii) Guideline 5.3.3

Even though the information which should be included for the bid invitations in respect of the bids opening procedure under general instructions, due to non- inclusion of those information in the bid invitation of construction of new canteen building , any bidder had not participated for the bid opening event .

## 2.5 Transactions not Supported by Adequate Authority

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The following observations are made.

- (a) From the money received for the conducting consultancy services from the year 2013 and remained, a sum of Rs. 290,700 out of that amount which should be refunded had been identified as income of the year under review without having confirmation specifically as it would not be requested again .
- (b) The approval had been received for the “ increasing of the secondment allowance up to 50 per cent from the basic salary as it was limited to the academic staff who had appointed on secondment basis” by the Cabinet Decision No. ୧୦୧/ 13 /0237 /523 /011 19 April 2013 for the Cabinet Memorandum furnished dated 14 February 2013 in the title of “ Upgrading of institutional capacity of the Institute” . But as a result of paying of 50 per cent instead of the allowance of 25 per cent which should be paid to all the

non- academic officers employed on secondment basis, saying “ all the staff officers who are employed in the Institute on secondment basis are being done the academic duties” by the Director General of the Institute by the approval received to the request made from the Secretary to the Ministry and only the approval of the Governing Council without obtaining the approval of the Cabinet , a sum of Rs. 2,688,162 had been overpaid from the year 2014 to the year 2017.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, it was observed that the financial result of the Institute for the year then ended 31 December 2017 had been a surplus of Rs. 16,040,654 as compared with the corresponding surplus of Rs. 74,075,222 for the preceding year thus indicating a deterioration of Rs. 58,034,568 in the financial result for the year under review as compared with the preceding year. The increase of the expenditure for the foreign training programme by Rs. 46,413,155 and the writing off of the balances receivable amounted to Rs. 11,736,078 in the year under review as compared to the preceding year had mainly attributed to the deterioration on the financial results.

In analyzing the financial results of 04 preceding years and the year under review, the deficit amounted to Rs. 32,251,344 in the year 2013 had improved up to Rs. 34,195,260 in the year 2014. However, even though the financial result of the year 2016 had become a surplus amounted to Rs. 74,075, 222 that surplus had decreased to a sum of Rs. 16,040,654 again in the year 2017. Even though after re-adjustment of the employees’ remuneration and the depreciation for the non-current assets to the financial result the contribution amounting Rs. 58,984,596 in the year 2013 had continuously increased up to Rs. 205,265,825 by the year 2016 , it had shown a drop to a sum of Rs. 154,297,600 in the year under review.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Planning**

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The following observations are made.

- (a) The Action Plan of the Institute for the year 2017 had been revised in two occasions and the approval of the Governing Council for the alterations made in the Primary Action Plan had not been obtained .
- (b) Even though the Action Plan of the Institute for the year under review had been prepared for the achievement of the objectives of the Institute, expected values in figures had not been shown. Further, the progress in respect of the 04 sections included in the Action Plan had not been reported.

- (c) Even though only the financial progress of capital expenses had been furnished in the Progress Report furnished to the Ministry in the year under review the Progress Reports had not been prepared reflecting physical progress of the objectives of the Institute .

#### **4.2 Transactions of Contentious Nature**

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In terms of Public Finance Circular No. 431 of 24 April 2008 “ All the Public Officers travelling abroad are required to obtain air travel services only from Sri Lankan Air Lines. Only for the destinations whereas the Air Line services are not provided by the Company could be able to obtain the facility from another Air Line Companies under the approval of the Secretary to the Ministry” But, because of purchasing air line tickets from foreign air travel companies despite quotations of Sri Lankan Air Lines had been furnished by 03 Air Line Ticket Agencies for the training programme held in China for 29 officers for a sum of Rs. 2,030,000 and a sum of Rs. 2,079,350 for 13 officers for the training programme held in United Kingdom , it was observed that a sum of Rs. 4,109,350 which should be received to Sri Lankan Air Lines Company had been paid to other foreign air travel companies.

#### **4.3 Apparent Irregularities**

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The following observations are made.

- (a) Out of the money which had collected in the year under review for the reservation of circuit bungalows, the value which had not been credited to the bank account of the Institute observed in audit was Rs. 262,100 .
- (b) The coordination officers who participated from the Institute should always stay with the trainee group at the occasions of being abroad for the trainings of the officers of the island-wide services and the officers of the postgraduate study programmes as students of the Institute and it was not observed in audit that obtaining the accommodation and other facilities out of the stayed place. However, due to the actions not taken considering them as the officers in the trainee group and to cover that expenditure as the expenses of the trainee group, contrary to the terms in the Paragraph 04 (a) of the Finance Ministry Circular No. 01/ 2015/ 01 of 15 May 2015 approximately a sum of Rs. 7,006,850 had been paid more than the other officers as subsistence allowance for 18 officers of the Institute .

#### **4.4 Staff Administration**

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The following observations are made.

- (a) Even though the approved cadre was 165 out of that, 56 posts had been in vacant. Because of the cadre was established for the achievement of specific activities related to achieve the objectives of the Institute, vacancies existed in more than a number of 50 per cent out of approved cadre as vacancies in 25 posts out of 46 approved staff officers, 13 posts out of 24 non- staff officers, it had adversely affected to achieve the objectives of the Institute was observed.

- (b) The number of staff officers recruited on secondment basis were 11 and the non- staff grade and the other staff were 08 in the actual cadre.

## **5. Sustainable Development**

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### **5.1 Achieving Sustainable Development Goals**

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Every public institution should act in compliance with the United Nations Sustainable “Agenda” for the year 2030 for the Sustainable Development and the Sri Lanka Institute of Development Administration had aware of the activities under purview of their scope relating to the year under review.

The following observations are made according to the information furnished to audit in that connection.

- (a) Even though it had aware of the “Agenda” for the year 2030 actions had not been taken to identify the Sustainable Development Goals in relation to the activities , targets and interlinks where can be achieved the targets and also the indicators as to how to take measures relating to achieving the targets .
- (b) Four objectives which should be achieved by the Institute as per the own scope had been identified in respect of the awareness of the Agenda for the year 2030. However, besides reducing the electricity bill by 30 per cent as the progress measuring indicator for certification of sustainable and modern energy supply which could be able to bear for everyone, it had not been taken action to identify targets, indicators and interlinks for the other objectives.
- (c) Although existing of an accurate Data Base for the measurement of accurate performance of a certain activity was essential, the Institute had not functioned to create an accurate data base for the measurement of achieving of sustainable Development Goals.
- (d) The identified activities for the achievement of sustainable goals by the Institute had not been consisted in the Annual Action Plan of the Institute for year under review and the financial provisions required to achieve those activities had not been included in the Annual Budget.
- (e) As a result of not performing a proper coordination with the other institutions while being prepared to achieve Sustainable Development Goals , besides the certification of reliable sustainable and supplying of modern energy which could be able to bear for everyone, it was observed that preparation of plans to achieve the targeted objectives and process of pre- preparation was existed at a very slow condition .



## **6. Accountability and Good Governance**

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### **6.1 Procurement and Contract Process**

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The following observations are made at the examination of the progress of the Procurement Plan.

- (a) Even though the physical progress of the second stage of the canteen, repair of quarters building and repair of vehicles were 25 per cent, 35 per cent and 85 per cent respectively , according to the Procurement Plan of the year under review the financial progress of them had been 45 per cent, 51 per cent and 65 per cent respectively.
- (b) A Register of Tender Minute had not been maintained by the Institute.

### **6.2 Deficiencies in Contract Administration**

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The following observations are made.

The following observations are made in respect of the selection of a supplier in the year 2016 for maintaining a canteen of the Institute for the year 2016 /2017.

- (i) Even though according to the Technical Evaluation Committee recommendations, it had been mentioned as a bid with conditions had furnished by an organization which had purchased bids it was observed that, that organization had provided the details properly.
- (ii) The Institutional cadre consisted of 109 officers and out of that only 20 - 30 number of officers are buying food from the canteen and majority of consumers are the trainees and course followers of the Institute. Even though the evaluations should be made in respect of the food prices furnished to the both categories such as officers of the Institute and external officers while evaluating the procurement, though considering the lowest price had produced for the short eats mentioned as performing the welfare was the main objective of performing of the canteen, the procurement had been offered to the organization which had furnished a high price for the breakfast and lunch.
- (iii) The attention of the Technical Evaluation Committee had not been drawn in respect of not mentioning what were the type of foods included in the supplying short eat item in the bid documents provided by the selected supplier organization.
- (iv) Supplying of required equipment ( besides furniture) by the Institute for performing the canteen had not been communicated to the bidders by procurement documents.

- (v) The Director (Administration) who was an officer but not a technical and procurement committee member had participated without delegation of power for the discussions to reduce the prices of the bidder in this procurement.

### **6.3 Budgetary Control**

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The following observations are made.

- (a) Even the Draft Budget Estimate should be furnished 03 months before commencing the financial year to the Governing Council though in terms of the Section 5.2.4 of Public Enterprises Circular No. PED/ 12 of 02 June 2003 the Budget Estimate for the year under review had been furnished to the Governing Council on 30 November 2016.
- (b) Actions had not been taken by the Governing Council to make required revisions periodically reviewing the Annual Budget in terms of the Section 4.2.2 of Public Enterprises Circular No. PED/ 12 of 02 June 2003.
- (c) Even though the foreign travel expenses of the year 2017 was Rs. 8.5 million , only a sum of Rs. 5.5 million had been approved by the Governing Council.
- (d) A saving from 08 per cent to 100 per cent in 07 expenditure items and an exceed of another expenditure item by 108 per cent were observed while comparing the budgeted expenses and actual expenses of the year under review . As a variance from 40 per cent to 70 per cent in 03 items was observed while comparing budgeted income with the actual income , thus indicating that the budget had not been made use of as an effective instrument of management control.

### **6.4 Unresolved Audit Paragraphs**

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It was observed that approximately a balance of Rs. 5,000,000 is being maintained daily throughout the year while analyzing the balances in two bank accounts maintained by the Institute was observed and actions had not been taken considering prudently regarding the opportunity of being able to earn an income by investing the cash on call deposits other than retained a large portion of money in current accounts.

### **7. Systems and Controls**

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

**Area of Systems and  
Controls**

**Observations**

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<b>(a)</b> Maintenance of Gate Passes	Notes not making in the Gate Pass Record Book with regard to the vehicles moving through the main gate.
<b>(b)</b> Reservation of circuit bungalow	Actions not taken to follow up the bungalow reservation activities.
<b>(c)</b> Debtors and Creditors	Actions not taken to get the balance confirmations and to settle those balances
<b>(d)</b> Maintenance of procurement files	<p style="margin-left: 40px;"><b>(i)</b> Non- inclusion of the letters which should be included in the procurement document file. Eg. Letters of handing over and taking back the work site had not been included.</p> <p style="margin-left: 40px;"><b>(ii)</b> Not mentioning what was the procurement method followed in the canteen building contract.</p>