National Apprentice and Industrial Training Authority – 2017

The audit of financial statements of the National Apprentice and Industrial Training 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 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 56(2) of the Tertiary and Vocational Education Commission Act, No. 20 of 1990. 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 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 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 Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the National Apprentice and Industrial Training Authority as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 1

(i) Five non-moving balances of accounts totalling Rs.784,037,781 existed since many years in the statement of changes in equity and in terms of paragraph 95 (c) of the Standard, the nature and the objective of those accounts had not been disclosed through the financial statements.

(ii) In terms of paragraph 119 of the Standard, grants should be classified and included separately in the statement of changes in equity as Government grants and other grants. However, action had not been taken accordingly and capital grants of Rs.78,800,000 received in the year under review had been credited to the Accumulated Fund Account. Moreover, the statement of changes in equity had not been presented in a manner to suit the value of equity and composition shown in the statement of financial position as at 31 December 2017.

(iii) Other income of Rs.60,476,914 and accrued expenses of Rs.48,310,950 had been analyzed and shown in the financial statements according to the divisions of relevant income earned or expenditure incurred instead of accounting so as to reflect each Item of Revenue or Expenditure.

(b) Sri Lanka Public Sector Accounting Standard 2

(i) A sum of Rs.18,840,339 should be shown as cash outflows under Work-In-Progress in the cash flow statement. However, it had been shown as Rs.11,710,672.

(ii) Out of the income earned by the Authority, fixed assets valued at Rs.1,486,375 purchased during the year under review for part time courses had not been shown as outflows of cash under investment activities in the cash flow statement.

(c) Sri Lanka Public Sector Accounting Standard 7

(i) In terms of paragraph 65 of the Standard, the useful life of non-current assets had not been reviewed annually and as such, 40 motor vehicles costing Rs.91,309,747 had been fully depreciated. However, they had still been in use. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 3.

(ii) In terms of paragraph 47 of the Standard, action had not been taken to revalue and account the fair value of fixed assets including lands, buildings, office equipment and training equipment costing Rs.3,259,307,574 belonging to the Authority.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Even though the accounting package named "Tally" was in operation since the year 2011 in the preparation of financial statements of the Authority, transactions had not been accurately entered in ledger accounts. As such, the Authority had failed even by the year 2017 to prepare the financial statements by using the package. However, the financial statements had been prepared manually based on the trial balance obtained from the package. Moreover, the following observations are made relating to the balances of accounts included in the trial balance.

(i) Debit balances totalling Rs.158,925,745 and credit balances of Rs.249,578,131 including a suspense account amounting to Rs.1,417,252 included in the trial balance as at 31 December 2017 had not been used in the preparation of financial statements.

(ii) Two balances of suspense accounts amounting to Rs.518,136 and Rs.3,072,105 not shown in the trial balance had been adjusted to the Accumulated Fund and the cash flow statement respectively.

(iii) The deficit of Rs.143,056,895 relating to the year under review and the balance of the Accumulated Fund amounting to Rs.869,815,126 comprising the above mentioned deficit as at 31 December 2017 had been included in the trial balance as well. As such, that trial balance could not be considered as a proper trial balance which could be accepted in Audit.

The method of accounting maintained by the Authority was not reliable due to the aforesaid deficits. As such, the accuracy of transactions and balances in the financial statements could not be satisfied in Audit.

(b) A sum totalling Rs.3,116,971 paid during the year under review to the Employees' Provident Fund and to the Employees' Trust Fund relating to the preceding years had been brought to account as an expenditure of the year instead of adjusting to the profit of the preceding year as prior year adjustments. As such, the deficit of the year had been understated by that amount.

(c) According to the computations of the Authority, the contributions of the Employees' Provident Fund and the Employees' Trust Fund from the year 2006 to the year 2017 payable on the Cost of Living Allowance of the employees amounted approximately to Rs.172,549,951. However, neither provisions therefor nor disclosures by notes had been made in the financial statements.

(d) Gratuity and surcharges of Rs.503,125 paid in the year under review for an officer for whom provision had not been made for gratuity, had been terminated from the Provision for Gratuity Account while provisions of Rs.7,325,755 had been made for gratuity as at the end of the year under review for 15 employees who had properly left the service and for 06 employees who had resigned from the service, deceased and vacated the post without completing a 05 year service period. As such, the Provision for Gratuity Account had been over computed by Rs.6,822,630 as at 31 December 2017.

(e) Expenses of Rs.6,022,082 incurred in the year under review relating to the preceding year had been brought to account as expenses of the year under review. As such, the deficit of the year under review and the balance of the Accumulated Fund had been over computed and under computed by that value respectively.

(f) The expenditure amounting to Rs.814,448 incurred in the year 2017 for partition of rooms of the buildings of the Authority, had not been capitalized. As a result, the balance of property, plant and equipment shown in the financial statements and the deficit of the year had been under computed and over computed by that value respectively.

(g) The Value Added Tax amounting to Rs.379,920 payable as at 31 December 2017 relating to the constructions of the Training Centre in the Badulla District had not been shown as accrued expenses.

(h) Payments of mobilization advances of Rs.16,960,867 had been brought to account as Work-in-Progress instead of accounting under current assets.

(i) The value of 23 Laptop computers provided directly to the Training Centre in the Tangalle District by a project, had not been assessed and brought to account.

(j) A sum of Rs.21,421,137 spent for acquisition of capital assets out of funds granted by the Skills Sector Development Programme for the year under review had been brought to account as receipts of revenue instead of accounting as capital receipts.

2.2.3 Unexplained Differences

The following observations are made.

(a) The cash balance according to the financial statements relating to 04 bank accounts operated by the Regional Offices amounted to Rs.3,214,484. However, according to the Cash Book, those balances totalled Rs.2,656,555, thus observing a difference totalling Rs.557,929.

(b) The debit balance of Rs.280,660 existed in 02 bank accounts belonging to the District Offices of Ampara and Vavuniya according to the Cash Book, had been shown as an overdraft of Rs.51,277 according to the financial statements.

2.2.4 Lack of Evidence for Audit

Detailed information in respect of 11 Journal entries valued at Rs.59,030,134 brought to account relating to the year under review had not been made available to Audit. As such, the requirement, accuracy and relevance of those Journal entries could not be satisfied in Audit.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Out of the debtors balance amounting to Rs.54,344,471 shown in the financial statements of the year under review, 24 debtors balances of Rs.1,401,630 older than 05 years, 03 debtors balances of Rs.306,481 between 03 and 05 years and 07 debtors balances of Rs.31,300,333 between 01 year and 03 years existed and proper action had not been taken to recover the said loan balances.

(b) Action had not been taken even by 31 December 2017 to settle 53 balances of advance valued at a total of Rs.6,361,996 granted by the Authority for various purposes during the period from the year 1995 to the year 2016.

(c) Out of the creditors balance amounting to Rs.80,863,242 shown in the financial statements of the year under review, 09 creditors balances amounting to Rs.310,419 older than 05 years, 04 balances amounting to Rs.2,018,953 between 03 and 05 years and 12 balances amounting to Rs.1,330,865 between 01 year and 02 years had not been settled even by 31 December 2017.

(d) The balance on unsettled internal transactions included in the sundry debtors balance as at 31 December 2017 amounted to Rs.13,436,498 while the balance on internal transactions included in the creditors balance amounted to Rs.8,154,296. There were 17 unsettled balances amounting to Rs.896,620 older than 5 years between the debtors and creditors balances on these internal transactions. Failure in coming into terms on the reconciliation of balances receivable and payable by each office annually had attributed to these differences.

However, the Chairman had informed that the said receivable loan balance had decreased up to Rs.37,417,492, payable balance up to Rs.16,149,511 and debtors balance on internal transactions up to Rs.1,441,000 as at 31 August 2018.

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

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

	Reference to Laws, Rules Regulations etc.	Non-compliances
(a)	Section 11 of the Finance Act, No. 38 of 1971	The approval of the Minister of Finance and Planning had not been obtained for the investments of Rs.2,317,660 made during the year under review.
(b)	Section 4.5 of Chapter XIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	A sum of Rs.3,000 per day for officers who are engaged in special projects and of duties relating to training in North Eastern Provinces and a sum of Rs.4,000 per day for for officers who are engaged in duties in the North Eastern, Central and Uva Provinces for training supervision programmes had been paid food and accommodation without the approval of the General Treasury and with the approval of the Board of Governors of the Authority.
(c)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
	(i) Financial Regulation 104	Action had not been taken in terms of Financial Regulations relating to 02 motor vehicle accidents occurred in the year under review and motor vehicle accidents occurred in prior years.

	(ii)	Section 3 of Financial Regulation 272	All vouchers should be forwarded to Audit monthly, not later than six weeks from the end of the month to which they relate. However, according to audit test checks, 287 paid vouchers and 37 journal vouchers relating to the year under review had not been made available to Audit even by July 2018.
(d)		Public Finance Circular No.PF/423 of 22 December 2006	(i) A Central Fund had been established without the approval of the General Treasury and the balance of that Fund as at 31 December 2017 amounted to Rs.28,087,451. (ii) Three reserve funds, namely Motor Cycle Revolving Fund, a Capital Reserve for Part Time Courses and Obligatory Reserve on Part Time Courses had been established within the Authority without the approval of the Treasury. In addition to the Central Fund, the cash balances existed in these Funds totalled Rs.24,466,123 as at 31 December 2017.
(e)		Public Enterprises Circular No. PED/12 of 02 June 2003	Two motor vehicles owned by the Authority had been released to the line Ministry contrary to the provisions of the Circular.
(f)		Paragraphs 2 and 4.4.1 of State Accounts Circular No.30/94 of 20 April 1994	The approval of the General Treasury had not been obtained for the aid amounting to Rs.14,548,292 granted to the National Apprentice and Industrial Training Authority for vocational training requirements in the Districts of Vavuniya, Mannar, Batticaloa and Ampara by the International Labour Organization and in terms of the Circular, aid had been obtained directly without obtaining through the line Ministry.

2.5 Transactions not supported by Adequate Authority

According to the Lease Agreement of 99 Years entered into between the Authority and the Urban Development Authority on 02 May 1991, space facilities had been provided to 02 private communication institutions for erection of 02 communication towers on lease basis without prior approval of the Urban Development Authority contrary to Clause 9(d)2 in the lease agreement of the said land on which the Head Office of the Authority is operated.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year ended 31 December 2017 had been a deficit of Rs.143,056,895 as against the surplus of Rs.21,878,483 of the preceding year as compared with the year under review, thus observing a decline of Rs.164,935,378 in the financial result of the year under review as compared with the preceding year. Even though Treasury grants had increased by Rs.136,645,000 as compared with the preceding year, the increase in operating expenses by Rs.302,380,550 had been the main reason for the above decline.

In analyzing the financial results of the year under review and 04 preceding years, there had been a surplus in the financial result of the year 2016. Nevertheless, there had been a financial deficit in other years. However, after readjusting the employees' remuneration and depreciation for non-current assets to the financial result, the contribution of the Authority in the year 2013 amounting to Rs.411,171,829 had continuously improved up to Rs.688,391,764 by the year under review.

3.2 Legal Action instituted by/against the Authority

Five cases filed in the Labour Tribunals against the Authority by five officers who had been interdicted, were on trial and the Wellawatte Police had filed a case against an external party relating to illegal entrance to the Wellawatte Training Centre belonging to the Authority and damaging it. However, no disclosures whatsoever had been made thereon in the financial statements.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

(a) Even though a Corporate Plan had been prepared by the Authority so as to cover the years 2014 – 2018, it had not been updated annually in terms of Section 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

(b) Even though a Procurement Plan had been prepared for the year under review, action had not been taken to revise the Procurement Plan by considering the changes occurred during the year. Moreover, the basic requirements that should be given priority had not been identified in preparing the Procurement Plan and in carrying out procurements, instances in which budgeted provisions had not been made adequately and instances in which action had not been taken to obtain approval from the Governing Council in performing them, were observed.

4.1.2 Function and Review

The following observations are made.

(a) The following functions included in the Action Plan had not been fulfilled.

(i) A sum of Rs.05 million had been allocated for providing technical training to 200 Non-technical Inspectors and training had been provided only to 72 officers by spending a sum of Rs.3.78 million during the year 2017.

(ii) Even though it had been planned to provide training in air conditioning to 30 Inspectors, to train 20 persons in Beauty Culture and Facilitator Training, the relevant training courses had not been conducted for those officers.

(iii) A sum of Rs.48.5 million had been allocated for the renovation of 06 Centres and for purchase of training equipment by the funds of Skilled Sector Development Projects in the year under review and only a sum of Rs.20.23 million had been spent thereof during the year. Accordingly, the aforesaid purposes had not been achieved as planned.

(iv) The renovations of Galgamuwa and Havelock Town Centres expected to be carried out under the funds of Skills Sector Development Programme had been discontinued on the instructions of the Top Management and practical reasons for discontinuation had not been made available to Audit.

(b) Enrolment to Courses and Abandoning of Courses

(i) According to the Action plan prepared for the year 2017, the enrolment on Centre based Part Time Courses and Language Skills and Soft Skills had been 58 per cent and 16 per cent of the targeted number respectively. A number of 7,486 apprentices had been enrolled for special projects implemented in the year 2017 and it represented 15 per cent of the entire enrolments. According to the reply of the Chairman, the allowances of the Instructors were inadequate. As such, the difficulties that existed in the recruitment of Instructors, had been a hindrance in achieving of targets.

(ii) The abandoning of Training Courses during the year in Centre based, Industry based and National Institutions stood at 14, 28 and 18 per cent respectively. Out of these, the number of the abandonment of courses in Industry based training was at a very high level and the Authority had not provided the services of Instructors as required for minimizing the said abandonments.

(iii) In the consideration of abandonment of training at District level except for National Institutions in the year 2017, 24 per cent which was the highest abandonment was noted from the Kalutara District and in consideration of the entire 25 Districts, the abandonments of 17 Districts had been more than 10 per cent.

(iv) The highest number of abandonments of courses had been observed in the courses of Electrician and Plumber in the Institute of Industrial Engineering Training. According to the reply of the Chairman, the financial difficulties of apprentices and direction to higher education had resulted for these abandonments.

(v) The demand for Centre based apprentice training for the year under review stood at 8,066 except for National Institutions. However, the capacity of the Authority in meeting the demands stood at only 5,537 or 69 per cent and the actual number of enrolments had been 5,416. Accordingly, the capacity in meeting the demands for courses was not available with the Authority. However, the Centre based training capacity in the Kandy District was 340 apprentices while the enrolments during the year stood at 69 per cent or 233.

(vi) Even though the demand for courses of the 04 National Institutions in the year 2017 stood at 5,776, it was observed that the capacity of supply available with the Authority was 1,631 and it represented a percentage of 28 per cent. Accordingly, it was observed that building of capacity is necessary for improving the contribution to the economy by National Institutions.

(vii) Forty five courses had been conducted under Centre based training in the year 2017 and the enrolment therefor had been 49 per cent.

(c) Failure in conducting Courses

Apprentices had not been enrolled for 46 courses under industry based apprentice training included in the Action Plan.

(d) Conducting Examinations and Issuance of Certificates

The number of examinations conducted for apprentices during the year 2017 stood at 36,116 and the number that passed the final examination stood at 28,358. Accordingly, the percentage that did not sit for the final vocational testdue to reasons such as the delay in conducting final vocational tests and that failed the examination was 21 per cent. Moreover, 22,059 certificates had been issued in the year 2017.

(e) Distribution of Course Material

Course material had not been distributed for the Districts of Jaffna, Mannar, Mullaitivu and Kilinochchi. The Chairman had informed by his replies that the existing dearth of Tamil Translators with technical knowledge had resulted in the delay in translating course material.

4.2 Management Activities

The following observations are made.

(a) The service of an officer recruited on assignment basis from 01 November 2009 to the Institute of Engineering Technology, Katunayake as a Lecturer for the subject of Marine Engineering had been suddenly suspended on 23 March 2017. According to a complaint lodged against this decision by that officer at the District Labour Office of Negombo, action had not been taken in terms of relevant Acts and Statutory provisions. As such, a sum of Rs.3,347,302 comprising Rs.2,256,125 of employer's and employee's contributions to the Employees' Provident Fund and surcharges on Employees' Trust Fund, employees' gratuity and surcharges of Rs.1,091,177 to be paid on behalf of the officer had to be paid during the year. The Management had not been considerate of the conditions of recruitment and the prevailing laws and rules and as such, it was observed that these surcharge monies had to be paid due to that and a loss in that same amount had been sustained by the Authority.

(b) In the payment of contributions to the Employees' Provident Fund, the term, "total earnings" had not been interpreted correctly in accordance with Circulars. As such, in accordance with relevant Statutory provisions, the Employees' Trust Fund and Employees' Provident Fund had not been paid based on the Cost of Living allowance paid to the employees of the Authority relating to the period from the year 2006 to the year 2017. According to the rough computations of the Authority, the outstanding contribution was Rs.135,129,295 and no money whatsoever had been paid up to 15 September 2018. Moreover, payments had not been made duly and as a result, it was observed that the Authority is at a possible risk in making payments in addition to 8 per cent contribution of the employee for the Employees' Provident Fund and monies on surcharge enacted due to delay in payments.

(c) An agreement had been entered into between the Authority and a private Service Supply Institution for supply of cleaning services on the basis of paying a sum of Rs.892,500 monthly from 07 April 2017. According to the agreement, the employees who should be deployed in daily service had not been duly deployed and the contract period had been extended in 04 instances up to 31 May 2018 without paying attention to the deficiencies existing despite the failure in carrying out the cleaning properly.

4.3 Operating Activities

The following observations are made.

(a) A shortage of 547 equipment and inventoried items in the Head Office of the Authority and District Centres existed and 262 inventoried items which existed physically, had not been included in the Stock Book.

(b) The duties of the Finance Division such as examination and approval of journal vouchers in a manner of being subjected to internal examinations, entering transactions into the computerized accounting system, signing of cheques and preparation of annual financial statements had been carried out by the same officer without delegation of duties.

(c) A sum of Rs.29,484,608 relating to 08 Construction and Modernization Projects had remained in the Work-in-Progress Account from a period between 01 and 10 years and action had not been taken to evaluate the progress of those Projects and to make necessary adjustments.

4.4 Transactions of Contentious Nature

According to the reports of the Authority, the value of aid granted by the International Labour Organization (ILO) during the years 2015, 2016 and 2017 amounted to Rs.14,548,293 while the expenditure incurred according to the relevant Expenditure Account had been Rs.10,517,319. However, according to the financial statements as at the end of the year under review, there was no balance available in the Aid Account of the International Labour Organization and as such, whether the receipts of Rs.4,030,974 had been spent or saved, had not been confirmed.

4.5 Idle and Underutilized Assets

The following observations are made.

(a) It was observed that 154 badges valued at Rs.23,100 purchased in the year 2014 to be worn by the officers of the Authority had remained idle in the main stores even by 16 August 2018, over a period of 03 years.

(b) Fifty metal pens (silver) valued at Rs.12,500 purchased in the year 2017 without duly identifying the requirement, had remained idle in the main stores for over a period of one year.

(c) It was observed in Audit that 2,458 items of training equipment valued at Rs.1,395,744 belonging to 08 types received to the main stores on 13 August 2014 remain idle for over a period of 04 years. Necessary action had not been taken by the Training Division to identify the training equipment remaining idle in this manner and to utilize them effectively.

(d) Fifty eight cartridges of toner valued at Rs.355,500 and 11 printing ribbons purchased for printing machines had remained idle due to disposal of printing machines.

(e) Twelve cartridges of toner valued at Rs.176,151 received to the stores in the year 2015 had remained in the stores over a period of 02 years without being issued.

4.6 Resources of the Authority given to other Government Institutions

Contrary to the matters mentioned in Sections 8.3.9 and 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003, seven employees and two employees had been released to the line Ministry and the Ministerial Staff respectively from 28 May 2008 and the period of release ranged between 05 months and 09 years. Even though the salaries of eight officers should have been reimbursed by 31 December 2017 from the institutions to which they had been attached, action had not been taken to reimburse salaries amounting to Rs.2,769,020.

4.7 Staff Administration

The following observations are made.

(a) The approved cadre in the year under review stood at 1,358 and the actual cadre including 55 persons employed on contract basis, stood at 1,128. Accordingly, the permanent number of vacancies was 230 and action had not been taken to recruit officers for those posts. One hundred and twenty eight posts of Lecturer, Instructor and Inspector of the Academic Staff remained vacant and it was observed that it has an adverse effect on the training and inspections of that institution.

(b) An officer had been deployed in service on assignment basis of the Construction and Maintenance Division of the Authority since the year 2011 without taking action to recruit permanent officers to the Authority.

(c) A post of Coordinator had been created extraneous to the approved cadre and a person had been recruited for the said post on 02 May 2016. Moreover, a sum totalling Rs.585,569 had been paid by project funds during the year 2016 as salaries, motor vehicles and fuel allowance.

Moreover, the coordination and organization of discussions held relating to Skills Councils had been the duty of this officer and as revealed during the course of audit test checks, this officer had worked for only 36 days as 10 days in December 2016, twenty six days from January to April 2017 and allowances totalling Rs.420,200 as salaries and allowances had been paid up to April 2017. As such, it was observed that a salary of approximately Rs.11,672 had been paid per a day of work.

05. Sustainable Development

Every Government institution should act in terms of State Policy and Letter No. SP/SG/SDG/17 dated 14 August 2017 of the Secretary of Defence and Year 2030 "Agenda" of the United Nations on sustainable development and the National Apprentice Institute of Training Authority had not been aware of the manner in performing the functions that come under its scope relating to the year under review. As such, action had not been taken to identify sustainable development goals, targets and the focal points in achieving those targets and the indicators in evaluating the performance in achieving those targets.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

The following observations are made.

(a) In terms of Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the closure of the financial year, the financial statements for the year under review had been presented to Audit on 21 May 2018 with a delay of 81 days.

(b) The financial statements of the Authority for the year ended 31 December 2017, should be presented to Audit in accordance with the Public Enterprises Circular No. PED/45 of 02 October 2007 on the approval of the Board of Governors with the signatures of two of its members. Nevertheless, only one member of the Board of Management had signed the financial statements which had been presented to Audit. Moreover, the Director General of the Authority who is not a member of the Board of Governors had signed the same on behalf of the Board of Governors.

6.2 Internal Audit

Even though 08 officers had been attached to the Internal Audit Unit of the Authority, internal audits had not been carried out in accordance with the Audit Plan.

6.3 Procurement and Contract Process

6.3.1 Procurements

The following observations are made.

(a) The following general deficiencies were observed in respect of procurement activities carried out by the Authority.

(i) In terms of Guideline 4.3.2 of the Procurement Guidelines of 2006, the total cost estimates relating to the contracts of renovation of the Badulla Training Centre and construction of the Jaffna District Office and Training Centres had not been approved by the Head of the Institution.

(ii) In terms of Guideline 4.2.3 of the Procurement Guidelines, in calling for national competitive bids, 03 weeks or 21 days should be allowed for submitting of bids. However, contrary to those provisions, only 18 days had been allowed for submitting of bids relating to 01 contract.

(iii) In terms of Guideline 8.13 of the Procurement Guidelines, the approval of the relevant Procurement Committees should be obtained for contract variation orders exceeding 10 per cent of the estimated contract value. However, the approval relevant for extra work valued at Rs.6,257,001 relating to 02 contracts had not been obtained.

6.3.2 Deficiencies in Contract Administration

The following observations are made.

(a) In terms of the contract agreement of the Badulla District Training Centre, constructions should be completed on 18 September 2016. However, constructions had not been completed even by 31 December 2017 and constructions had been delayed by 496 days. As such, in terms of the agreement, maximum liquidated damages of 10 per cent should be charged. Nevertheless, the Authority had not taken action to recover liquidated damages. Moreover, necessary action had not been taken even by 16 May 2018 to issue certificates of completion of work and to take over the building to the Authority.

(b) (i)According to the Letter No. NAITA/18/GA/11-II (Construction) of the District Manager (Covering Duties) of Kurunegala dated 09 April 2018, payments had been recommended as all constructions and reconstructions of the Kurunegala District Office had been completed with 90 per cent quality. Deciding the quality of constructions in such a manner by the District Manager without obtaining a certificate from a Technical Officer, was questionable in Audit.

(ii) According to contract agreements, the completion of works had delayed by 107 days by 09 April 2018 and the period of contract had not been extended properly in terms of Guideline 8.14 of the Procurement Guidelines.

(iii) In terms of conditions of the contract agreement, 1/4000 of the original contract value should be recovered per day as liquidated damages. However, approval for payment of the final bill had been granted by the Chairman of the Authority without recovering the liquidated damages of Rs.158,438 for the delay in constructions.

(c) (i) A contract agreement had been entered into for a sum of Rs.2,134,127 for the modernization of the Discussion Room of the Colombo District Office under the Skills Development Project. Even though works should have been completed as at 05 September 2017 in terms of the contract, the Colombo District Manager had informed that the relevant modernization activities had been completed and the Room had been handed over on 31 December 2017. However, a certificate of completion of works had not been issued by the Engineer/Consultant in terms of Guideline 8.12.2 of the Procurement Guidelines.

(ii) Three months and 06 days had been delayed in completing the modernization of the Discussion Room. Even though 1/4000 of the original contract value should be recovered per day as liquidated damages as per the bid documents, the final bill had been paid without recovering liquidated damages of Rs.51,219.

(d) (i) The cost estimate valued at Rs.18,847,582 prepared for the construction of the Jaffna District Office Training Centre had been revised as Rs.19,735,082 and the approval of the Chairman had not been obtained therefor. Moreover, an officer recruited on assignment basis to the Authority had acted as the Head of the Construction and Maintenance Division and all activities of the Constructions Division including revision of the estimate, placing signature on contract letters had been carried out by that officer.

(ii) In terms of Guideline 2.8.4 (d) of the Procurement Guidelines, an officer with knowledge of the subject, outside the line Ministry or the procurement entity had not been involved in the Technical Evaluation Committee.

(iii) The approval of the Pradeshiya Sabha had not been obtained for the construction plan of the building. As such, a prohibition order had been issued by the Planning Officer of the Jaffna Pradeshiya Sabha for on 02 March 2015 and an advance of Rs.3,399,069 had been paid to the contractor by then.

(iv) In terms of the letter of awarding the contract, constructions should have been completed after 06 months from the commencement of the contract, that is 22 June 2015. However, constructions had not been completed even by 30 August 2018. From among the reasons given for the extension of period by the contractor, except for the unfavourable weather condition, other reasons were not observed as feasible in Audit. Moreover, the period of the contract should be extended by the Chairman of the Authority and contrary to that it was observed that the Director (Administration and Human Resources) had extended the period exceeding the powers of the Authority.

The soil of the land of construction was not up to the standard of construction and as such, the contractor had informed that the soil of a thickness of 4 ½ inches on the surface had to be removed. Moreover, it was observed that failure in taking action by the Authority in carrying out an inspection of the land during planning had resulted in such a problematic situation.

(v) The attention of the responsible officers of the Authority had not been paid on the environment protection in the construction activities. As such, the Public Health Inspector of the Jaffna District had issued a red notice declaring as a Dengue Risk Area due to the unclean environment of the construction premises and the Authority had been imposed of a fine of Rs.25,000 as well.

(vi) Even though the contractor had been informed by letter of the Chairman of the Authority dated 30 January 2017 that the defects of the completed building had not been corrected and to correct the said defects before handing over the building, the defects of the building had not been corrected and handed over even by 30 August 2018.

6.4 Budgetary Control

The following observations are made.

(a) According to the revised budget dated 23 November 2017, variances from 10 per cent to 211 per cent and from 15 per cent to 460 per cent had been observed in the estimated recurrent expenditure and estimated capital expenditure respectively, thus observing that the budget had not been made use of as an effective instrument of management control.

(b) The entire provisions amounting to Rs.2,000,000 and Rs.5,580,000 respectively made for 04 Recurrent Objects and 08 Capital Objects by the budget had not been utilized.

6.5 Unresolved Audit Paragraphs

The following observations are made.

(a) The sum of Rs.2,000,000 spent by the Authority for the World Youth Summit in the year 2014 recoverable from the Ministry of Skills Development and Vocational Training, had not been accounted as balances receivable.

(b) A formal inquiry had not been held in respect of the loss of a length of about 25 feet of copper band of the lightening conductor installed in the students’ hostel of the Industrial Engineering Training Institute at Katubedda in the year 2015.

(c) The Authority had entered into an agreement valued at Rs.3,231,500 in May 2014 with a private company for making timely revisions in the syllabuses of Engineering courses of the Institute of Engineering Technology, Katunayake. The agreed purpose should have been completed on 24 September 2014 and an advance of Rs.1,809,640 had been paid in the year 2014 therefor. However, the relevant purpose had been abandoned without carrying it out despite a lapse of about 04 years by 15 August 2018. The bank guarantee of Rs.723,856 granted for payment of advances had expired by 31 July 2014 and the Authority had sustained a loss in the same amount due to failure in the recovery of the advance paid. It is informed according to the reply of the Chairman that it has again been decided to call the officers of the relevant company on 18 September 2018 and to hold discussions on proceeding further.

(d) The motor vehicle of the make Toyota Corona which had been confiscated by the Sri Lanka Customs, had been purchased in the year 2010 by the Authority for a value of Rs.1,134,000. However, that motor vehicle had not been registered or run by the Authority and its engine had been given on 29 November 2016 to the German Training Institute in Kilinochchi for training purposes.

According to the Report on the Preliminary Investigation held relating to the running condition of the said vehicle, it had been recommended to take disciplinary action against the officers who were responsible for parking the said vehicle in idle condition in the Automobile Engineering Training Institute at Orugodawatte without being made use of and the officers who failed to take prompt action after purchase. However, disciplinary action had not been taken against the relevant officers.

(e) According to the newspaper advertisement published for the recruitment of Deputy Director (Administration), the basic salary relevant to the said post had been mentioned as Rs.38,530. Nevertheless, contrary to the letter of instructions given by the Department of Management Services on 10 November 2009, the initial salary step of the officer recruited to that post had ben indicated as Rs.25,640 in the Letter of Appointment. Even though this officer had requested the institution to pay the salary mentioned in the newspaper advertisement, that request had been forwarded to the Commissioner General of Labour on non-revision of the salary. Instructions had been given to revise the salary scale agreed by both parties and outstanding salaries, from the date of assuming duties and as a result, the Authority had to pay outstanding salaries totalling Rs.436,805 to the relevant officer. A formal inquiry had not been held in respect of the responsible officers who were involved in making these appointments.

(f) It had been revealed by the note of the Assistant Director (Human Resources) dated 23 September 2015 that at the instance of submitting the personal file of an officer of Middle Management Level to the Chairman by the Vice Chairman of the Authority on 17 September 2015 for obtaining approval for confirmation in his appointment, the relevant performance report had been replaced with another performance report with the knowledge of the officer. Nevertheless, no formal inquiry had been held in respect of the officers responsible therefor and taken necessary action.

(g) A motor vehicle owned by the Authority had been removed from running and parked in the Orugodawatte premises from the year 2007 to the year 2014 for an engine repair and the estimated value of its repairs had been Rs.918,428 in the year 2011. However, it had increased up to Rs.1,683,500 by the year 2014. Nevertheless, this motor vehicle had been repaired in the year 2014 and it had caught fire on 15 March 2016. Even though it had been parked even by 23 November 2017 in a private garage without repairing again and carrying out repairs relevant only to a sum of Rs.110,040 provided by the insurance company, it had been informed by the Chairman's reply that the motor vehicle could not be restored to running condition.

7. 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 systems and controls.

Areas of Systems and Controls	Observations
(a) Control over Stores	Non-inclusion of certain items of stores purchased in the books
(b) Staff Management	Recruitment of staff contrary to the approved scheme of recruitment
(c) Funds Management	Moneys remaining idle due to permission of maintaining reserved funds without proper approval
(d) Accounting	(i) Failure in granting authority to officers authorizing specific limits in recording journal entries (ii) Unsystematic and incomplete filing of vouchers of the Authority and presenting same to Audit without inspection of a responsible officer (iii) Non-control of recording of journal entries and changes in the balances of accounts by the computer system. Inclusion of journal entries into the accounting system without proper control

	(iv) In the preparation of annual financial statements, they are prepared manually and failure in making adjustments by identifying reasons for difference after comparing with figures included in the accounting system (v) Failure in preparing closing accounts so as to comprehend easily
(e) Contract Administration	Non-presentation of files relating to contracts on constructions, to Audit