

Ceylon German Technical Training Institute – 2017

The audit of financial statements of the Ceylon German Technical Training Institute 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 25 of the Ceylon German Technical Training Institute Act, No. 15 of 2017. My comments and observations on the above financial statements appear below.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Ceylon German Technical Training Institute as at 31 December 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

The following observations are made.

a) Sri Lanka Public Sector Accounting Standard 01

(i) Sums of Rs. 844,877,725 and Rs. 4,407,578 had been shown as Cumulative Fund under net assets/equity, and capital reserves respectively in the statement of financial position. The objectives and nature of those reserves had not been disclosed in the financial statements in terms of Paragraph 95 of the Standard.

(ii) Income and expenditure should not be set off against each other unless permitted otherwise in terms of Paragraph 48 of the Standard. However, income of the short-term courses, income of the Modern Technology Training Center, net production income relating to the year under review had been set off against the expenditure, thereby showing a sum of Rs. 18,936,049 in the statement of financial performance as net income.

b) Sri Lanka Public Sector Accounting Standard 02

(i) Interest income amounting to Rs. 3,850,716 brought to accounts relating to the year under review, had not been shown as cash inflow under investment activities after being adjusted to the pre-tax profit. The re-invested interest income amounting to Rs. 3,203,994, and withdrawal of fixed deposits amounting to Rs. 3,385,250, had been set off against each other instead of being shown separately, thus indicating a sum of Rs. 181,256 as cash outflow under investment activities.

(ii) The cash outflow in the year under review relating to the purchase of fixed assets amounted to Rs. 109,236,201, but that amount was shown as Rs. 109,590,036 in the cash flow statement. Accordingly, the cash flow was overstated by Rs. 353,835 under the investment activities. The said value was improperly shown in the cash flow statement as prior year adjustments under the cash flow generated from the operating activities.

c) Sri Lanka Public Sector Accounting Standard 07

As the useful lifetime of non-current assets had not been revised annually in terms of Paragraph 65 of the Standard, Property, Plant and Equipment costing Rs. 2,126,866,913 had still been in use by the Institute despite being fully depreciated by the end of the year under review. No action had been taken to revise the estimated error relating thereto in accordance with Sri Lanka Public Sector Accounting Standard 03.

d) Sri Lanka Public Sector Accounting Standard 09

In terms of Paragraph 47 of the Standard, the accounting policy followed in measuring stocks should have been disclosed in the financial statements including the cost formula. However, the Institute had not disclosed the policy followed in measuring stocks, in the financial statements.

2.2.2 Accounting Policies

The following observations are made.

- (a) It was stated in Accounting Policy, No. 02 in the financial statements that the assets becoming into cash within a period of one year from the date of balance sheet or the normal operating cycle, whichever was less, were classified as current assets. However, the audit test check conducted revealed that 308 units of 09 items totalling Rs. 69,309 included in the stock of spare parts had existed over a period of 20 years, 5,413 units of 69 items totalling Rs. 137,640 had existed for a period of 10 – 20 years, and 5,873 units of 57 items totalling Rs. 225,303 had existed for a period of 03 – 10 years.
- (b) Government grants should be amortized based on the useful life of non-current assets purchased from the capital grants of the Government, but in a manner not compliant thereto, it had been stated in the financial statements that Government grants would be amortized at 10 per cent annually and identified as differed income.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) The balance of Government grants and donations received by the Institute annually, totalling Rs. 879,217,896 as at 31 December 2017, had improperly been shown as deferred income under non-current assets.
- (b) The stock balance of spare parts had been overstated by a sum of Rs. 585,317 as at 31 December 2017.

- (c) The debtor balance totalling Rs. 3,958,723 as at 31 December 2017 shown in the statement of financial position, comprised the debtor balance of Rs. 1,066,109 that was older than 10 years. No allocations on bad and doubtful debts were made in that connection.

2.2.4 Unexplained Differences

Although letters of verification of balances had been presented to 15 debtors selected in the year under review, only 04 debtors had submitted verifications, and non-reconciliations of Rs. 248,477 had been observed between the total of loan balances, and the balances shown in the financial statements pertaining to 03 of them. One debtor had informed that no loan balance had existed under the name of the Institute.

2.2.5 Lack of Evidence for Audit

The evidence shown against the following Items of Account, had not been made available to Audit.

Item of Account	Value as per Financial Statements	Evidence not Made Available
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	Rs.	
i. Lands	1,149,350,000	Deeds of lands and other documentary evidence verifying ownership.
ii. Debtors	3,514,869	} Verification of balances
iii. Creditors	6,503,683	
iv. Stock of Spare Parts	7,009,874	Physical verification reports

2.3 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 and Regulations	Non-compliance
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(a) Public Finance Circular, No. PF/PE/9, dated 27 June 2000	The excess funds of the Government institutions should not be invested in fixed deposits, time deposits, or Treasury bills without obtaining prior approval of the Treasury. However, without obtaining Treasury approval in such a manner, the Institute had invested a total of Rs. 45,918,546 inclusive of sums amounting to Rs. 22,495,742, Rs. 13,660,221 and Rs. 9,762,583 invested in fixed deposits, time deposits, and Treasury bills respectively.

b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

(i) Financial Regulation 756

Even though a Board of Survey should be appointed on or about 15 December of each year thereby conducting a survey on goods as at 31 December, the Institute had not conducted the survey for the years 2016 and 2017 even up to 30 June 2018.

(ii) Financial Regulation 772

The condemned articles should be disposed of by auctioning through public advertisements or calling for tenders, but no action whatsoever had been taken even up to 30 June 2018 for the disposal of 111 items identified to be condemned in the report of Board of Survey for the year 2015.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the operations of Ceylon German Technical Training Institute for the year under review had been a deficit of Rs. 58,891,707 as against the corresponding surplus of Rs. 5,833,292 for the preceding year, thus indicating a deterioration of Rs. 64,724,999 equivalent to 1110 per cent in the financial result of the year under review as compared with that of the preceding year. The increase in the allocation for depreciation on Property, Plant and Equipment by a sum of Rs. 50,965,278 as compared with the preceding year due to acquisition of capital assets in the year under review valued at Rs. 365 million, had directly attributed to the said deterioration.

The analysis on the financial results for the year under review and 04 preceding years indicated a deficit in the financial result for the other years except for 2016. However, when the employee remuneration, taxes paid to the Government, and depreciation on non-current assets had been adjusted to the financial result, the contribution of the Institute for the year 2013 amounting to Rs. 158,008,643 had continuously improved up to Rs. 331,208,871 a positive value by the end of the year under review, but the improvement thereof had been as small as 0.06 as compared with the year 2016.

4. Operating Review

4.1 Performance

4.1.1 Performance and Review

The following observations are made.

a) As the training capacity of full time courses being conducted by the Ceylon German Technical Training Institute had not been enhanced annually in line with the increased demand, it was verified with information on the registration of students

relating to the year under review and 04 preceding years that more than 70 per cent of the students applying for full-time courses had been deprived of the opportunity to follow the courses. In the year under review alone, 2,299 applicants had been deprived of the opportunity to follow the courses.

- b) A sum of Rs. 1,000,000 had been allocated for training the instructors under Activity 1.2.3 of the annual Action Plan of the Sectorial Skills Development Programme implemented under financial assistance of the Asian Development Bank and International Development Association. However, only 02 officers had been provided with training by utilizing 29 per cent therefrom.

4.2 Management Activities

The following observations are made.

- a) Forty weekend and evening courses had been conducted in the year under review with the participation of 4,194 students, but those students had not been allowed to use the library.
- b) The Institute had not taken measures to modernize and improve the library through new technology such as Internet facilities.
- c) According to the information made available by the library, there existed 194 books to be disposed of as at 30 June 2018. Action had not been taken even up to 25 September 2018 to dispose of those books by identifying whether the said books should be disposed of by conducting a survey.
- d) The management had not brought their attention even up to 25 September 2018 on the observations disclosed through 06 internal audit queries issued by the Internal Audit Unit of the Institute for the financial year 2017.
- e) The principal's quarters belonging to the Institute had been provided for the then Additional Secretary (Sectorial Skills Development) to the Ministry of Skills Development since 25 June 2015. It was observed that the period of agreement had expired and the said officer had served an other Ministry. Despite being informed in writing on several occasions that the official residence be handed over, no action had been taken in that connection up to 30 June 2018.

4.3 Operating Activities

The following observations are made.

- a) According to Letter, No. 6/39/1/1 of the Secretary to the Ministry of Skills Development and Vocational Training, dated 23 March 2017, a new methodology had been introduced for the payment of performance allowance to the staff of technical and vocational training institutions. Accordingly, allowances totalling Rs. 11,670,000 had been paid to the officers after being evaluated in accordance with the new methodology since the month of May of the year under review. However, instances wherein payments had been made without accurately evaluating and defining the criteria, had been observed.

- b) An trainee insurance scheme had been commenced in the year 1999 by annually recovering a sum of Rs. 275 from each trainee in view of paying compensation for the trainees attending the courses of the Institute. The balance of the said Fund amounted to Rs. 9,982,752 by the end of the year 2017. Nevertheless, a proper methodology had not been formulated to grant benefits to the students contributing to that Fund.

4.4 Idle or Underutilized Assets

The following observations are made.

- a) After the courses conducted by the Institute at the branch in Borella had been shifted to the Head Office in Ratmalana from December 2016, it was observed in audit that the buildings and training equipment had remained idle over a period of 1 ½ years.
- b) The cafeteria built by the Institute incurring a sum of Rs. 14,433,830 had not been made use of despite 07 months had elapsed as at 30 June 2018 since the date of completion.

4.5 Staff Administration

The following observations are made.

- a) The approved cadre of the Institute had been 268 whereas the actual cadre had been 249 as at 31 December 2017. Vacancies had existed for 22 officers whilst the number of officers in excess had been 03. Of the 08 posts of senior management level that could affect the fulfillment of objectives and mission of the Institute, 05 posts had remained vacant. Furthermore, 03 officers had been recruited for 02 non-approved posts.
- b) An expenditure of Rs. 111,676 had been incurred in the year under review for publishing advertisements in 03 newspapers to fill the vacancy of Registrar that had remained vacant for 04 years. An expenditure of Rs. 265,218 had been incurred in 02 instances for publishing advertisements in 05 newspapers to fill the vacancy of the post of Director / Principal. An expenditure of Rs. 181,125 had been incurred for publishing advertisements in 02 newspapers in view of filling vacancies in the posts of Deputy Director / Deputy Principal, Planning Officer, Director / Principal (Secretary), and Maintenance Assistant. The Institute had failed to make any recruitment whatsoever in that connection even up to 30 June 2018.

5. Sustainable Development

Achievement of Sustainable Development Goals

Every public institution should act in compliance with the Letter, No. NP/SP/SDG/17 issued by the Secretary to the Ministry of National Policies and Economic Affairs, and the “2030 Agenda” of the United Nations on sustainable development. As the Authority had not been aware as to how to act with respect to the activities under their scope relating to the year under review, indicators had not been identified to measure the sustainable development goals, targets, and how to achieve those targets.

6. Accountability and Good Governance

6.1 Internal Audit

According to the annual Internal Audit Plan relating to the year under review, 500 man-days had been allocated to conduct audits on the Sectorial Skills Development Programme, but no audit whatsoever had been conducted thereon.

6.2 Procurement and Contract Process

6.2.1 Procurements

The following observations are made.

- a) According to the Guideline 8.9.1 of the Government Procurement Guidelines- 2006, once the bid submitted by a bidder is accepted, a formal contract agreement should be formulated and signed. Nevertheless, agreement had been signed after 42 days after awarding the contract valued at Rs. 3,237,975 to heighten the wall around the Institute and erect a barbed wire fence thereon.
- b) A sum of Rs. 5.5 million had been allocated for the procurement of 02 equipment required for the Engine Division, and the Refrigerator and Air-conditioning Division. However, due to inadequacy of provision, the said equipment could not be procured during the year under review.

6.2.2 Deficiencies in Contract Administration

The contractor, selected for Item 04 of the engineering estimate for the construction of roof under stage (III) of the “C” building constructed for primary section at a contact value of Rs. 4,095,545 in which a value of Rs. 2,075,000 had been shown for a length of 4,150 feet at Rs. 500 per foot, had shown in his BOQ that the price per foot of that item would be Rs. 52.41. Accordingly, a difference of Rs. 447.59 was observed between the unit values shown in the estimate and the bill. Furthermore, variances ranging from 2 per cent to 95 per cent were observed between the 10 items shown in the engineering estimate and that of the final bill; thus, accuracy in the preparation of estimates remained questionable in audit.

6.3 Budgetary Control

The budget for the year under review had been prepared at the beginning of the year 2017 and revised on 20 November 2017. However, savings in annual provision ranging from 20 per cent to 100 per cent with respect to 10 Objects, and exceeding provision by 21 per cent to 233 per cent with respect to 08 Objects, had been observed. Hence, it was observed that the budget had not productively been made use of as an instrument of management control by the Institute.

6.4 **Tabling of Annual Reports**

In terms of Section 6.5.3 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the Annual Report should be tabled in Parliament within a period of 150 days from the date of closure of the financial year. However, the Annual Reports of the Institute for the years 2015 and 2016 could not be tabled in Parliament even up to 30 August 2018.

6.5 **Unresolved Audit Paragraphs**

The following observations are made.

- (a) The Institute had taken measures to pay salaries together with increments from December, 2015 under new absorption of employees, but approval of the Department of Management Services and National Salaries and Cadre Commission had not been obtained in that connection in terms of Section 19 of the Department of Management Services Circular, No. 02/2016, dated 25 April 2016. As such, when computing the employee gratuity relating to 05 officers who had left the service in the year 2016, the salary increments granted in the absorption, had to be omitted.
- (b) An officer who had served a private institution after having resigned from the Institute, was reinstated sans approval of the Director General of the Institute. Considering him to have been employed continuously, a sum totalling Rs. 105,402 had been paid as salaries and allowances including salary steps with respect to the period during which he had not been employed.
- (c) A sum of Rs. 591,100 had been incurred on the installation of a computerized accounting software valued at Rs. 1,103,200. However, due to bugs and glitches thereof, the software could not be made use of optimally.

7. **Systems and Controls**

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

Area of Systems and Controls	Observation
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(a) Human Resource Management	Failure to fill vacancies in the posts of top level management over an extensive period, and failure to resolve the issues relating to the Service Minutes and approved salary structures.
(b) Accounting	<ul style="list-style-type: none">i. Failure to properly maintain a computerized accounting system in a manner that financial information was reported accurately. Preparation of financial statements with errors.ii. Failure to prepare journal vouchers.

- (c) Control of Debtors Failure to recover loan balances in arrears through proper maintenance of reports.
- (d) Contract Administration Failure in the administration of contracts as per Procurement Guidelines, and completion of work without complying to the standards