

**1.1 Adverse Opinion**

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The audit of the financial statements of the National Apprentice and Industrial Training Authority for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements do not give a true and fair view of the financial position of the Authority as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**1.2 Basis for Adverse opinion**

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My opinion is adverse on the matters described in paragraph 1.5 of this report and the accompanying financial statements do not give a true and fair view on the financial statements of the Authority in accordance with Sri Lanka Public Sector Accounting Standards.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

**1.3 Responsibilities of Management and those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Authority’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority’s financial Reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Authority.

## 1.4 Responsibility of the Auditor on Audit financial statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Authority has complied with applicable written law, or general or special directions issued by the governing body of the Authority.
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws,

## 1.5 Financial Statements

### 1.5.1 Internal control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### 1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

	<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Even though property, plant and equipment should be revalued in every 03 or 05 years in accordance with paragraph 47 of the Sri Lanka Public Sector Accounting Standards 07, property, plant and equipment costed for Rs. 3,406,430,802 shown in the financial statements had not been revalued since the beginning of the Authority.	Vehicles were revalued in the year 2020. Other assets will be revalued at the 2020 Annual Board of Survey and land and building is expected to be carried out by the Valuation Department in the future.	Should be complied with the Sri Lankan Public Sector Accounting Standards.
(b)	Even though the motor vehicles costed Rs. 118,901,800 had been fully depreciated, the useful lifetime of non-current assets had not been reviewed annually in terms of paragraph 65 of the Sri Lanka Public Sector Accounting Standard 7, and they were being further	All vehicles currently owned by the Authority have been revalued already and will be included in the 2020 final accounts.	Financial statement should be prepared in terms of the Sri Lankan Public Sector Accounting Standards.

used. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 3.

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| (c) | In terms of paragraph 34 of the Sri Lanka Public Sector Accounting Standard 08, no disclosure had been made regarding the compensation of Rs. 3,875,000 which had to be paid in connection with the termination of a lecturer who had been recruited on contract basis.                   | The judgment was received on 02 May 2019 and was unable to make provisions in the financial statements for the year 2018. | Financial statement should be prepared in terms of the Sri Lankan Public Sector Accounting Standards. |
| (d) | Even though in terms of Sri Lanka Public Sector Accounting Standards 12 leased property should be stated separately from freehold property in financial statements, leased lands purchased on long term lease basis valued for Rs.72,600,542 by the Authority had been shown under lands. | Noted to make corrections in the preparation of year 2019 accounts.   | Financial statement should be prepared in terms of the Sri Lankan Public Sector Accounting Standards. |

### 1.5.3 Accounting deficiencies

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The following observations are made.

<b>Audit Observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
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(a) Even though amortisation of Rs. 452,458 had been accounted for the leased lands during the year under review, the accounting policy for the amortization of those lands was not disclosed in the financial statements.	Will be corrected in the preparation of 2019 accounts.	Accounting policy should be disclosed correctly in the financial statements.
(b) The purchase of property, plant and equipment using the Authority funds during the year under review valued for Rs. 26,172,364 was amortized as erroneously considering as government grants, as such, the deferred income of the year was overstated by Rs. 6,164,341.	This will be checked and necessary corrections will be made.	Should be complied with the Sri Lanka Public Sector Accounting Standards.

- (c) The rental expenditure of Rs. 1,529,672 paid in the year under review for 7 training centers relevant to the year from 2015 to year 2017 had been charged as the expenditure of the year under review instead of adjusting to the prior years. Also, the rent of Rs. 200,000 paid for the year 2019 was accounted for as the expenses for the year under review instead of being accounted as pre-paid expenses.
- The amount of Rs. 1,259,672 had not been identified as payable and action will be taken to avoid such mistakes in future. Rs. 200,000 paid for 2019 had been adjusted to the previous year's profit by a journal entry.
- All expenses related to the year should be identified and accounted properly.
- (d) Sundry expenses amounted to Rs. 949,587 and season ticket fees amounted to Rs. 872,506 paid in 2018 relevant to the year 2017 had been accounted as expenses for the year under review instead of adjusting to the last year's profit.
- Action will be taken to avoid such shortcomings in future.
- All expenses related to the year should be identified and accounted properly
- (e) Even though the land plot of 1.5951 hectares maintained by the Orugodawatta Industrial Engineering Training Institute valued for as Rs. 181,000,000 and the part of buildings book value of Rs. 305,486,464 had been acquired for the construction of new Kelani Bridge Project in the year 2015, action had not been taken to identify value of those lands and buildings and remove from the accounts until the end of the year under review. Also, the book value of the land given to the Authority in 2015 in lieu of the land transferred, valued for Rs. 202,278,159 had not been assessed and accounted for.
- Information had been called from the Urban Development Authority regarding the lands and buildings acquired by the Kelani Bridge Project in 2015 and the final accounts for 2019 will be corrected in the preparation.
- Assets disposals and additions should be correctly identified and accounted for.

Further, the value of the buildings constructed by the above project at a cost of Rs. 1,539,821,351 for the disposed buildings which were handed over to the Authority in the year 2017 and are currently in use had not been taken into account till the end of the year under review.

- (f) A part of the land valued for Rs. 231,000,000 acquired on lease basis during the construction of the Orugodawatta Automotive Engineering Training Institute had been transferred to the Atomic Energy Authority in 2016 and, instead, a land valued at Rs. 119,000,000 had received from Halbarawa area. Even though it has been utilized since 02 February 2017, action had not been taken to account the value of the land and to adjust the value of the land disposed in the accounts. Will be corrected in the preparation of final accounts in 2019. Additions and disposal of assets should be properly identified and accounted for.
- (g) Even though the buildings of the Orugodawatta and Katubedda Engineering Training Institutes, total valued for Rs. 630,642,234, which were constructed many years ago with the assistance of Japanese and West Germans have been depreciated annually, had been shown under Reserves without being identified as deferred income on a systematic basis. Will be corrected in the preparation of final accounts in 2019. Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.

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| (h) | Due to the destruction of the equipment installed on the ground during the restoration of the Orugodawatta Engineering Training Institute, equipment valued for Rs.44,628,721 had been granted from the Kelani Bridge Project in 2017. But action had not been taken to account for and to identify the value of the damaged equipment and remove it from the accounts. | Accounted in the year 2019.                                     | Additions and disposal of assets should be properly identified and accounted for.                                  |
| (i) | A sum of Rs. 8,812,500 had been received from a government institute for training of apprentices in the year 2016 and had been spent on the relevant activities, but relevant fund was still accounted as deposit.  | No reply was made.  | The money received should be identified as income for the year of spent.   |
| (j) | Due to the erroneous calculations in the calculation of gratuity allocations relevant to the year under review, the gratuity allocations and cumulative allocations for the year under review had under stated by Rs. 30,014,189 in the financial statements.   | Action had been taken to correct the accounts in 2019.          | Gratuity allocations for the period should be calculated accurately.   |
| (k) | A sum of Rs. 2,206,047 payable as gratuity for 04 officers who had retired from the service of the Authority during the year under review, Capital equipment valued for Rs. 428,500 obtained on credit basis, and payable for work in progress amounted to Rs. 1,912,854 during the year had not been accounted for.  | Agreed. Action had been taken to avoid such mistakes in future. | All assets, liabilities, income and expenses related to the period should be identified and properly accounted for |

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| (l) | The closing stock of consumable items and daily record books as on 31st December 2018 had been under stated by Rs. 12,370,230 and Rs. 2,268,602 respectively in the financial statements. | No reply was made.   | The calculated closing stock should be accurately accounted for.   |
| (m) | Due to the non-adjustment of the over provision of accrued expenditure of Rs. 9,583,231 for the year 2017, the current liabilities had over stated.                                       | Agreed. Action had been taken to avoid such mistakes in future | All income and expenses related to the period should be identified and properly accounted in the preparation of financial statement. |

### 1.6 Non-compliance to Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to laws, rules, regulations	Non compliance	Management comment	Recommendation
<b>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b>			
(i) Para 371, 371 (2) of the Financial and Public Finance Circular No 3/2015 dated 14 July 2015	Even though the ad-hoc imprest should be settled soon after the intended work is completed, un settled advance balances of Rs. 5,031,401 were remained before from the year 2017.	Action Will be taken to correct.	Referred regulations and circular should be followed.
(ii) Financial Regulation 115	Although the approval of the Chief Accounting Officer should be obtained before making any claim prior to the previous financial year, contrary to	Action Will be taken to correct.	Referred regulations should be followed.



that, rental of Rs. 567,000 relevant to the years 2016 and 2017 had been paid in the year under review.

**2. Financial Review**  
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**2.1 Financial Results**  
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The operations in the year under review had resulted in a surplus of Rs. 16,887,271 as compared with the corresponding deficit of Rs. 143,056,895 for the preceding year, thus observing an improvement of Rs.159,944,166 in the financial result. The increase in operational income and other income had mainly attributed to this deterioration.

**3. Operational review**  
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**3.1 Management inefficiencies**  
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Audit observation -----	Management comment -----	Recommendation -----
Despite the possibility of negotiating with the lowest bidder and reaching an agreement on the terms out of the bids received to select a supplier for the Authority's clean-up operations, it was observed that turning to the second lowest bidder would result in a financial loss of around Rs. 5,065,860 per annum.	No reply was made.	The procurement process should be followed when purchasing goods and services.

**3.2 Operational inefficiencies**  
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Audit observation -----	Management comment -----	Recommendation -----
According to the judgement of the case filed by a lecturer against the termination of the service, who was recruited on a contract basis, an extension of the service was given to him without interruption of service and the Authority had to pay compensation of Rs. 3,875,000.	No reply was made.	Legal advice should be sought when entering into agreements.

### 3.3 Under-Utilization of Funds

The following observations are made.

Audit observation	Management comment	Recommendation
(a) Income received from part-time training courses, years ago, amounted to Rs. 33,911,384 had been invested in fixed deposits and instead of being utilized for the improvement of those courses it has been used for purchasing of 300 computers to be distributed to various sections of the Authority.	The approval of the Governing Body had been received.	Management should focus in using the money collected from apprentices to improve their training activities.
(b) Investment in fixed deposits amounted to Rs. 1,515,000 relevant to Student Welfare and Program Improvement and Rs. 3,088,910 belonged to the part-time course had been withdrawn and spent on the purchase of capital items for the use of the Authority.	No reply was made.	The Governing body had only approved the withdrawal of the fixed deposit. But money collected from the apprentices should be used to improve their training activities.

### 3.4 Idle or underutilized Property, Plant and Equipment

Audit observation	Management comment	Recommendation
(a) A sum of Rs. 8,185,249 had been spent in the year 2018 to modify Buildings in an abended school to establish an Engineering Technology Institute without conducting a basic feasibility study. It was revealed in the physical test check conducted on 19 July 2019 that those buildings had been abandoned without use.	It is currently under discussion to hand over this building to the Southern Provincial Industrial Development Authority subject to the approval of the Board.	Idle or underutilized property, plant and equipment should be identified as soon as possible and engage in a useful purpose.

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| <p>(b) Although a showroom has been set up at the institute premises at a cost of Rs. 18,847,771 for the purpose of selling furniture manufactured by the apprentices of the Katubedda Industrial Engineering Training Institute during the period 2014 and 2016, it was observed that the building remained idle until January 2020.</p> | <p>It is proposed to set up a Japanese Language Center here.</p>   | <p>Idle or underutilized property, plant and equipment should be identified as soon as possible and engage in a useful purpose.</p> |
| <p>(c) A private telephone company had donated 450 Huawei Tabs to the Authority On 18 November 2018 and out of that 16 Tab computers valued for Rs. 1,626,400 were kept in the main store without release till 15 October 2019.</p>   | <p>Out of the 450 donated Tab computers, 434 were released and 16 Tab computers were kept in storage until requirements were identified.</p> | <p>Idle or underutilized property, plant and equipment should be identified as soon as possible and engage in a useful purpose.</p> |

### 3.5 Procurement Management

Audit observation	Management comment	Recommendation
<p>(a) Apart from the procurement process, the Cleaning Service for 2018/2019 of Sri Lanka German Technical Institute in National Apprenticeship and Industrial Training Authority, Kilinochchi, had been awarded to an another institution under the management of a private company which supply the security services of the Authority and a sum of Rs. 7,155,761 had been paid.</p>	<p>No reply was made.</p>	<p>The procurement process should be followed when purchasing goods and services</p>

<p>(b) In accordance with Section 2.14.1 of the Procurement Guide 2006 and supplement 33 dated 15 March 2017, even though Open Competitive Procurement Procedures to be followed under the Departmental Procurement Committee, contrary to Procedure 4.4.2 of the Procurement Guidelines, items worth of Rs. 50,211,231 had been procured by following the procedures in the slicing.</p>	<p>No reply was made.</p>	<p>The procurement process should be followed when purchasing goods and services</p>
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**3.6 Human Resource Management**

Audit observation	Management comment	Recommendation
<p style="text-align: center;">-</p> <p>Contrary to the provisions of Regulation 71 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and was not included in the approved recruitment procedure of the Department of Management Services dated 07 April 2017, a new post was created and 04 officers were recruited therein as Project Coordinator and a sum of Rs. 1,350,119 had been paid for by the Skills Sector Development Project Funds for the period from the year 2016 to year 2018.</p>	<p>No reply was made</p>	<p>Referred regulation should be followed.</p>

