

1.1 Disclaimer of Opinion

The audit of the financial statements of the Construction Industry Development Authority (“the Authority”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, 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 report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

I do not express an opinion on the accompanying financial statements of the Authority. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 1.5 of this report I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of financial performance, statement of changes in equity and cash flow statement.

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.

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

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 Auditor’s Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Authority’s financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor’s report. However, because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

Audit Issue	Management Comment	Recommendation
Unidentified differences aggregating Rs.9,132,850 was observed between the amounts shown in the financial statements for the year under review and the corresponding amounts shown in the detailed schedules and general ledger presented for audit with regard to 16 items of in the financial statements. Hence, the accuracy of those items of accounts is questionable.	Action will be taken to prepare detail schedules with comparing ledger balances from 2019 financial statements.	Due attention to be paid in preparation financial statements by considering the balances of ledgers and other schedules

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards (SLPSAS)

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) SLPSAS 7 – Property, Plant and Equipment; It was unable to examine the completeness, physical existence and accuracy of the currying amount of Rs.921,569,395 and provision for depreciation of Rs.341,783,232 relating to property, plant and equipment as reported in the financial statements due to absence of completed fixed assets register and physical verification reports. Further, the cost of property, plant and equipment shown in the financial statements included unidentified and un-reconciled assets values and some of which represent opening balances amounting to Rs.335,204,308.	Action is being taken to make a complete fixed Assets register according to SLPSAS-07. It will be present with detailed schedules from 2019 financial Statements.	The Authority should ensure that the entity is adherent with Sri Lanka Public Sector Accounting Standards and action to be taken to maintain a fixed asset register with updated manner.

(b) SLPSAS 9 – Inventories;

It was not possible to observe the physical inventories counting at the end of the year and even not satisfied alternative methods to verify the availability of inventory held at 31 December 2018 valued at Rs. 142,251,060 due to absence of stock verification reports or any independent confirmations with regard to existence of inventory balances.

Action is being taken to segregate Consumable stocks with proper independent physical verifications at the end of each financial year. It will be presented with detail schedules from 2019 financial statements.

Action to be taken to conduct an independent physical verification of stocks after the end of each financial year before preparation of financial statements.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Although the balance of accrued expenses as at 01 January 2018 was amounting to Rs.16,240,668, a sum of Rs. 17,876,237 had been paid during the year under review thereof and the excess payment of Rs.1,635,569 had been deducted from the accrued expenditure for the year under review without being adjusted to the accumulated surplus/deficit. Hence, the expenditure for the year under review and accrued expenditure as 31 December 2018 had been understated by similar amount.	The Accounting error was corrected in 2019 form relevant Accounts under SLPSAS 03.	Attention to be paid to correctly identify the accrued expenditure and accounted them accordingly.
(b) Value Added Tax (VAT) paid to contractor amounting to Rs. 670,644 had been erroneously debited to the advance to contractor account instead of being debited to VAT control account and subsequently, to rectify the above error, the same amount had been debited to the advance to contractor account and credited to the VAT control account. Therefore, the both accounts had been overstated by Rs. 1,341,288	The Accounting error was corrected in 2019 form relevant Accounts.	Fundamental accounting principles to be applied to mitigate this kind of errors in future.
(c) Although an amount of Rs. 2,169,034 was shown as profit from disposal of non-current assets, no adjustments had been made to the relevant assets and accumulated depreciation accounts in this connection. In the meantime, a sum of Rs. 3,097,246 had been shown as proceeds from sales of non-current assets in the statement of cash flows. Hence, the accuracy and reliability of accounting treatments made on	Action will be taken to be adjusted disposals asset's cost, Accumulated depreciations and sales income from relevant accounts according the SLPSAS 07. The disposal assets detailed schedules will be presented from	Necessary measures to be initiated to ensure the accuracy and reliability of accounting treatments made to the financial statements.

the disposal of fixed assets could not be ascertained in audit.

2019 financial statements.

1.5.4 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
<p>(a) Since the Authority had failed to prepare the monthly bank reconciliation statements for two current accounts since the month of June to December 2018 and for the month of December 2018 respectively, the unreconciled differences aggregating Rs.149,379,649 was observed between the balances shown in the bank statements and the corresponding balances shown in the cash book (General Ledger) up to 31 December 2018. As such, the unadjusted balance of Rs. 276,021,675 and cash in hand of Rs. 16,116,434 was shown as cash and cash equivalents in the statement of financial position as at 31 December 2018. Hence, the possibility for prevailing several unrecorded revenue and expenditure in the financial statements presented for the year under review could not be ruled out in audit. Further, the accuracy and completeness of the cash and cash equivalents amounting to Rs. 450,649,044 and surplus of Rs.23,261,094 shown in the financial statements could not be relied upon in audit.</p>	<p>Action is being taken to complete all bank reconciliations before 31st December each year.</p>	<p>Attention of the management to be paid to avoid the room for fraud or misconduct within the organization by ensuring the effective control over financial management.</p>
<p>(b) In most of the instances it was observed that, the cash book balances which shown in the general ledgers as at the end of each month were not tallied with the corresponding cash book balances shown in the bank reconciliation statements prepared by the Authority. Accordingly, the unidentified differences aggregating Rs.9,045,270 was observed between those two figures.</p>	<p>Action is being taken to prepare financial statements considering the corrected balances of ledger and other schedules.</p>	<p>Due attention to be paid in preparation financial statements by considering the balances of ledgers and other schedules</p>

1.5.5 Suspense Nature Account

Audit Issue

A sum of Rs. 625,570 had been shown in the statement of financial position as unidentified receipts without being identified and cleared the relevant accounts

Management Comment

Action will be taken to be transferred un-identified receipts account balance as an institution income in reporting period.

Recommendation

Action to be taken to clear this kind of suspense nature balances from the books of account.

1.5.6 Documentary Evidence not made available for Audit

Item	Amount	Evidence not made available	Management Comment	Recommendation
	Rs.			
(a) Sponsorship and construction excellence income	4,032,500	Files including letters of requisitions made to outsiders for obtaining sponsorships and actual amount received on those requests made.	Action will be taken to submit all documentary evidence in relevant programmes from 2019 financial Statements.	All documentary evidence should be submitted for audit to satisfactorily vouch and accept the transactions and amount shown in the financial statements.
(b) "Shilpa Saviya" Program	121,734,231	Training details such as number of programs conducted, list of participants, titles of training programs, and monitoring and evaluation reports etc.	-do-	-do-
(c) Construction Equipment Mechanic Course	15,951,137	-do-	-do-	-do-
(d) Debtor balances	14,876,930	Debtor's Confirmations	Action is being taken to be send confirmation letters to relevant debtor's and taken action to minimize the	-do- -do-

			debtor outstanding balances from 2019.
(e) Creditor balances	11,302,490	Confirmations, age analysis and detailed schedules.	Action is being taken to be send confirmation letters to relevant creditors and taken action to minimize the creditor outstanding balances from 2019.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue

The debtors amounting to Rs.7,210,101 were remained outstanding for more than three years as at 31 December 2018 without being recovered and out of that Rs. 6,415,111 had remained unrecovered for more than five years

Management Comment

Action is being taken to recover all debtors' outstanding balances. According to the CIDA accounting policy unrecoverable debtors' balances (100% Provision of Bad and doubtful debts) will be removed from books of accounts as recommendation obtaining proper approval from audit, management committee and Board of management of CIDA.

Recommendation

Necessary actions to be taken to recover these long outstanding balances or remove them from the books of accounts after conducting proper investigation and obtaining relevant approvals.

1.6.2 Payables

Audit Issue

Effective action had not been taken to refund the foreign aid balance of Rs. 2,663,659 to the General Treasury since the year 1996 which brought forwarded year by year in the financial statements.

Management Comment

Action will be taken to be adjusted foreign aid balance as an income of CIDA, approved by audit, management committee and board of management of CIDA.

Recommendation

Necessary actions to be taken to clear these long outstanding balances or remove them from the books of accounts after conducting proper investigation.

1.6.3 Advances

Audit Issue

Management Comment

Recommendation

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| <p>(a) Advances such as supply, general, fuel, training programs etc. to the total value of Rs. 811,852 had not been settled or recovered for the period ranging from one month to 15 years as at 31 December 2018.</p> | <p>Action is being taken to recover advances on time.</p> | <p>A proper system should be introduced to overcome the issue of misusing the public money by way of non-settling the cash advances, immediately after completion of purposes for which they were obtained</p> |
| <p>(b) The ad-hock sub imprests obtained should be settled immediately after the completion of the purposes for which it was granted. However, those imprests aggregating Rs. 1,853,134 granted in 38 instances had been settled after delaying the period ranging from 31 days to 141 days. Out of those imprests, an amount of Rs. 554,019 or around 30 per cent had been settled by cash without being utilized for intendant purposes. Hence, it was observed in audit that the Authority had provided the room for misuse of the public fund by its employees due to not making proper assessment before granting advances.</p> | <p>Action will be taken to be comply with Laws, Rules, Regulations and Management Decisions etc.</p> | <p>Due attention to be paid to comply with Laws, Rules, Regulations and Management Decisions etc.</p> |

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.

Non-compliance

Management Comment

Recommendation

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|--|--|---|--|
| <p>(a) Section 11 of the Finance Act, No. 38 of 1971</p> | <p>A sum of Rs. 150,707,803 had been invested in short term investment sources such as call deposits, treasury bills and fixed deposits etc. without obtaining required approvals.</p> | <p>Fund has been deposited to meet the cost of gratuity payment to employee and not as an investment.</p> | <p>Due attention to be paid to comply with provisions in the Finance Act and respective Circulars.</p> |
|--|--|---|--|

(b) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation

371 as amended by Public Finance Circular No.: 03/2015 of 14 July 2015

(i) Although the ad-hock sub-impresst should only be paid to a staff officer, at the sample audit check it was revealed that such impresst totalling to Rs. 1,095,375 and Rs.123,000 had been granted to 03 non staff grade officers in 07 instances and 07 drivers in 08 instances respectively contrary to this provision.

Action has taken to be given advances only staff level officers following authority levels and regulations

Due attention to be paid to comply with Financial Regulations.

(ii) An accounting officer may authorize an ad-hock sub impresst up to a maximum Rs. 100,000 in each case. Nevertheless, the ad-hock advances totalled Rs.3,153,585 had been granted to 07 staff officers and 03 non staff officers in 15 instances without obtaining prior approval from the General Treasury.

Action will be taken to be comply with Laws, Rules, Regulations and Management Decisions etc.

Due attention to be paid to comply with Financial Regulations.

(ii) Financial Regulation 395

Although the bank reconciliation statements should prepare as at the end of each month before the 15th of following month, the Authority had failed to prepare the monthly bank reconciliation statements for a current account since the month of June 2018.

Action has been taken to be prepared monthly bank reconciliations end of the each and every month.

Due attention to be paid to comply with Financial Regulations.

(c) Paragraph 4.2.5 of the Public Enterprises Circular No. PED/12 of 02 June

Age analysis of debtors, creditors, and stocks and statements identifying slow

Action is being taken to fulfill relevant

Due attention to be paid to comply with these Circular provisions.

2003 on Public Enterprises moving and obsolete stocks requirements
 Guidelines for Good had not been reviewed by the
 Governance Board on a monthly basis.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 23,261,094 and the corresponding surplus in the preceding year amounted to Rs. 10,044,982. Therefore, an improvement of Rs.13,216,112 in the financial results was observed. Increases of interest income on fixed deposit, hire income of auditorium & seminar rooms and course fee by Rs. 2,706,723, Rs.4,509,484 and Rs.4,617,732 respectively and account of receipt of the ILO Program amounting to Rs. 9,629,547 as income for the year under review were the main reasons attributed for this increase in financial results.

2.2 Trend Analysis of major Income and Expenditure items

 The following observations are made.

- (a) Income from hire of machinery, auditorium and seminar rooms had been increased by Rs.7,959,405 or 45.68 per cent in the year under review as compared with the previous year while the interest income on investments had been increased by 24.53 per cent as a result of increase in investments by Rs. 60 million (2017 – Rs. 90 million) as compared with the previous year.
- (b) The operating expenditure for the year under review had been increased by Rs. 35,342,025 mainly due to payment of compensation of 19,767,644 to the employees who retired on Voluntary Retirement Scheme introduced by the Authority.

3. Operational Review

3.1 Operational Inefficiencies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) According to the information made available for audit, the capital Grants received for “Shilpa Saviya” Training Programs during the previous years and in the year under review amounting to Rs. 182,244,511 had remained in the bank current accounts of the Authority without being utilized for intendant purpose. However, this amount was shown in the financial statements as Rs.180,321,128 by understating Rs.1,923,383. The acceptable reasons for this difference had not been provided for audit	Action will be taken to be utilized capital grants to specific purpose through proper supervision and budgetary control.	Management should take effective actions to utilize the treasury grants received for intendant purposes and account them accordingly.

(b) Although a provision of Rs.1,383,211 provided for redundant items in the year 2017, it had been continuously brought forwarded in the accounts without being taken necessary actions thereon.	Action has been taken to be adjusted balance of redundant items in 2019.	It should be taken necessary steps to clear these kinds of accounts after conducting proper investigation.
(c) An amount aggregating Rs. 150,707,803 had been invested in short term investment sources such as call deposits, treasury bills and fixed deposits etc. without being utilized those money to perform the functions of the Authority which set out in Sections 12, 13 and 14 of the Construction Industry Development Act, No. 33 of 2014 and an interest income of Rs.11,032,159 representing 47 per cent of the operational surplus for the year had been earned during the year under review from these investments	Action will be taken to achieve the objectives of authority performing the functions as per construction industry development act, No 33 of 2014.	Actions to be taken to achieve the objectives and perform the functions which set out in the Construction Industry Development Act, No. 33 of 2014 by efficiently utilizing the Treasury grants obtain for capital and recurrent expenditure.

3.2 Under -utilization of Funds

Audit Issue

According to the bank statements received for audit with regard to three current accounts of the Authority, an average cash amount of Rs. 212,973,855 had remained idle in those bank current accounts throughout the year under review without being utilized for any purpose. Further, the balances of those current accounts as at 31 December 2018 were stood at Rs. 329,940,433. As a result, an amount approximately Rs. 21 million had been lost to the government.

Management Comment

Action will be taken to be managing the funds under the proper supervision and control.

Recommendation

Actions to be taken to utilize the idle bank and cash balances in the bank current accounts to achieve the objectives of the Authority.

3.3 Procurement Management

Audit Issue

The capital grant amounting to Rs.4,127,769 received from the General Treasury in the year 2016 for purchase of Hydraulic Training Kit had not been purchased even up to 31 August 2019.

Management Comment

Action has been taken to call national competitive bidding to purchase a hydraulic training kit for CIDA in 2016. Sole agent had provided a quotation. But relevant quotation was failed to be fulfill specified requirements. Hence the management of CIDA instructed to purchase lab instruments for CETRAC utilizing these funds.

Recommendation

Actions have to be taken to utilize the fund for intendant purpose without further delay.

3.4 Human Resources Management

Audit Issue

The approved cadre of the Authority as at 31 December 2018 was 390 while the actual cadre as at that date 278, thus the number of vacancies was 112. However, the Authority had failed to ascertained realistic cadre levels, followed by reviews on a periodic basis

Management Comment

It has been a practiced as certain the realistic Carder levels followed by reviews on a periodic basis. Further it has been planned to fill the vacant essential posts in 2019.

Recommendation

Actions to be taken to ascertain realistic cadre levels, followed by reviews on a periodic basis.

3.5 Transactions of Contentious Nature

Audit Issue

According to the agreement entered into between the International Labour Organization and the Authority it was agreed to provide a grant not exceeding Rs. 10,169,300 for the implementation of enhanced recognition of skills and reduced vulnerability of Sri Lankan workers in selected Gulf Cooperation Council (GCC) countries during the year under review and of that Rs.9,629,548 had been received to the Authority. However, out of that only Rs. 3,151,369 was spent by the Authority in the year under review

Management Comment

Action will be taken to follow Circular No. MOFP/ERD/2014/1 dated 26 June 2014 issued by the Ministry of Finance and Planning form upcoming foreign funded projects/ programmes.

Recommendation

Steps to be taken to inform the line ministry and the General Treasury before entering any grant or loan agreement with the international organizations. Please refer the Circular No. MOFP/ERD/2014/1 dated 26 June 2014 issued by the Ministry of Finance and Planning in this regard

for this purpose and the Authority had failed to utilize the remaining amount of Rs. 6,478,179 for the intended purpose even up to 15 May 2019. Further, the Authority had not complied with the provisions in Circular No. MOFP/ERD/2014/1 dated 26 June 2014 issued by the Ministry of Finance and Planning in this regard.

3.6 Management of Vehicle Fleet

Audit Issue

According to the information provided for audit 12 vehicles had met with accidents in 18 instances during the year 2018 and Rs. 624,259 had been incurred for repair those vehicles. However, no inquiries had been instituted to ascertain the extent and causes of the loss and to fix responsibility before obtaining insurance claims.

Further, according to the vehicle accident register maintained by the Authority, it was reported that 23 vehicles have been met with accidents during the year 2018. Nevertheless, the amount incurred for repairing of those vehicles had not been entered in that register.

Management Comment

Action is being taken to conduct an inquiry regarding vehicle accidents. Furthermore CIDA has been maintained updated accident register.

Recommendation

Actions has to be taken to conduct the inquiries for ascertain the extent and causes of the loss and to fix responsibility before obtaining insurance claims.

3.7 Apparent Fraudulent Nature Transactions.

Audit Issue

A sum of Rs. 65,000 had been obtained by the District Coordinating Officer of Ampara after make several alters (such as change of date, amount and description etc.) to the invoice attached to the payment voucher No. C1 18050175 dated 28 May 2018.

Management Comment

Action will be taken to prevent fraudulent nature transactions and inquiring has been instructed

Recommendation

Proper internal control mechanisms to be introduced to eliminate this kind of fraudulent nature transactions and disciplinary actions to be taken against the officer involved with this transaction.

3.8 Management Inefficiencies

Audit Issue

The Authority had not performed the following activities which set out in the Construction Industry Development Act, No. 33 of 2014 for the effective and smooth operations of the Authority.

Management Comment

Recommendation

Reference to provisions in the Act

Target Activity

Section 7(1)

Only one National Advisory Council meeting had been held in the year under review instead of conducting at least once in three months.

Two meetings have been held on 12.02.2019 and also on 24.06.2019. it is intended to convene another meeting soon.

Section 13(k), (m) and (q)

The functions to be performed by the Authority under these provisions had not been performed.

13 (k) registrations of property developers -this function will be commenced soon.

13 (m) Directory of importers, manufactures and suppliers on construction materials and component- this function will be commenced soon. Rule will be published soon.

Effective and fruitful actions to be immediately taken to perform the activities mentioned in the Act for the smooth operations and development of the construction industry of the country.

Section 19 (1) Failed to establish the Construction Industry Development Fund. 13(q) Directory of heavy construction machinery- this function was commenced. Rule was published.

Construction industry development fund has not been established yet. Because cabinet has decided that all funds must be operated through the consolidated fund. Therefore it was needed to bring amendments to the construction industry development act No 33 of 2014 that construction industry development Levy must be channeled through the consolidated fund. The amendment to the act already been approved by the cabinet of ministers and send to legal draftsman. Once the amendment act is the enacted regulation will be published establishing construction industry development fund.

Effective and fruitful actions to be immediately taken to perform the activities mentioned in the Act for the smooth operations and development of the construction industry of the country.

Section 41 Maintain a Register of Property Developers.

Registration of property developers -this function will be commenced soon.

Section 43 Maintain a Directory of Importers, Manufactures, and Suppliers of Construction Materials and Construction Components

Directory of importers, manufactures and suppliers on construction materials and component- this function will be commenced soon. Rule will be published soon.

3.9 Assets Management

Audit Issue

It was observed that, a sound internal control procedure over property, plant and equipment was not designed and implemented such as carrying out of physical verification on regular

Management Comment

Action is being taken to establish proper internal control system for property, plant and

Recommendation

Action to be taken to establish a proper internal control system over property, plant and equipment.

basis, identification of impairment losses if any, and de-recognition of property, plant and equipment etc.

4. Accountability and Good Governance

4.1 Table of Annual Report

Audit Issue

The Annual Report of the Authority for the years 2016 and 2017 had not been tabled in Parliament even up to the date of this report.

Management Comment

Action has taken to send relevant annual reports to ministry and it will be tabled in parliament soon.

Recommendation

Expedite the actions to table those reports in Parliament without further delay.

4.2 Budgetary Control

Audit Issue

Significant variances relating 78 items ranging from 25 per cent to 1634 per cent were between the budgeted and actual figures, thus indicating that the budget had not been made use as an effective instrument of management control.

Management Comment

Action will be taken to prepare realistic annual budget minimizing the variations.

Recommendation

Actions to be taken to use the budget as an effective instrument of management control