

National Apprentice and Industrial Training Authority - 2019

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the National Apprentice and Industrial Training Authority for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 the 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 give a true and fair view of the financial position of the Authority as at 31 December 2019, 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 Qualified opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 qualified opinion.

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 Responsibility of the Auditor on Audit financial statements

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

Non Compliance with the Reference to Particular Standard	Comment of the Management	Recommendation
Even though the motor vehicles costed Rs. 125,829,561 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 used. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 3.	The Authority is currently being revaluating property, plant and equipment including motor vehicles and relevant values will be included in the 2021 final accounts.	The Sri Lankan Public Sector Accounting Standards should be followed.

1.5.3 Accounting deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Due to errors in the calculation of depreciation in accordance with the	Depreciation in the year under review for 4 categories of assets was under calculated as Rs.	Depreciation calculations should be done accurately in accordance with the

accounting policy in 1,036,737.28 but not as Rs. accounting principles in depreciation of the authority's 2,766,966.00 and was corrected the preparation of non-current asset, by journal Nos. 803, 808, and financial statements. depreciation expenditure for 809 in the year 2020. the year under review was under accounted by Rs. 1,036,737 and the deficit in the year under review was under stated by that amount in the financial statements.

- (b) The payable rental Instructions were given to avoid Accounts should be expenditure for a land taken such errors in preparing prepared accurately. on lease basis amounted to accounts in future. Rs. 6,070,000 relevant to the year from 2017 to year 2018 had been charged as the expenditure of the year under review instead of adjusting to the prior year profit and, therefore, the deficit of the year under review was over stated by that amount in the financial statement.

1.5.4 Lack of written Audit Evidence

Subject	Amount	Audit Evidence not Provided	Comments of the Management	Recommendation
Sundry Payments	Rs. 3,634,377	Payment vouchers	Arrangements have been made to inquire into these 39 vouchers belongs to the Colombo District Office as pointed out by the audit and submit them for audit immediately.	All payment vouchers should be submitted for audit.

1.6 Accounts payable and Receivable

1.6.1 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
Out of the total outstanding loan balance amounting to Rs. 110,783,640 as at 31 December of the year under review, the unrecovered sundry debtor balance for a period of 02 to 14 years of Rs. 38,254,776 and the total employee loans of Rs. 966,107 were included and action had not been taken to recover these balances.	Out of Staff loans and advances amount, a sum of Rs. 966,107.00 is due from the staff members who have left the institution and that amount is being recovered gradually. The remaining staff loans and advances are being recovered monthly from the salary. Other debtor balance to be recovered is Rs. 7,127, 295.00 and action is in progress to recover this amount.	Action should be taken to recover the money due expeditiously.

1.6.2 Accounts Payables

Audit Observation	Comments of the Management	Recommendation
Advances payable, deposit balances payable and sundry creditors total amounted to Rs. 60,006,839, for a period of 02 years to 12 years, were included in the outstanding payable balance of Rs. 265,123,534 as at 31 December of the year under review and the management had not taken action to settle these outstanding balances.	Out of the balance amounted to Rs. 265,123,534.00 mentioned in the audit report, a sum of Rs. 74,131.406.00 was deposits payable balance and out of that a sum of Rs. 4,567,683.00 had been settled as at 31.12.2020. Out of the sundry credit balances a sum of 11,242,366.00 and the accrued expenditure balance of Rs. 157,501,878 had been settled in the year 2020.	Action should be taken to settle payable balances expeditiously.

1.7 Non-compliance to Laws, Rules, Regulations and Management Decisions

The following observations are made.

Reference to laws, rules, regulations	Non compliance	Comment of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(a) Financial Regulation 757 (2)	Even though copies of all board of survey reports should be submitted to the Auditor General by the end of the year, board of survey reports of the head office and 06 district offices were not submitted.	The Authority had planned to conduct board of survey activities covering all offices for the year 2019. But some offices could not be covered due to the sudden outbreak of Covid-19 epidemic. However, surveys had been carried out covering these places for the year 2020 as well.	Financial Regulations should be followed.
(b) Public Finance Circular No. 3/2015 dated 14 July 2015			
(i) Paragraph 5 of the Financial Regulation 371	Although the settlement should not be delayed beyond 31 December of the financial year in which the imprest is issued, there was an unsettled ad-hoc imprest balance of Rs. 3,823,220 as at 31 December of the year under review.	Although instructions were given to settle, unsettled imprests were remained in some district offices as on 31.12.2019. Action had been taken to settle all imprests presently and arrangement has been taken to avoid such deficiencies in the future.	Advance settlements should be made as scheduled.

- (ii) Financial Regulation 371 (2) b Even though an ad-hoc imprest maximum amount to Rs. 100,000 can be issued to one staff officer at a time, contrary to that, ad-hoc imprests ranged from Rs. 108,800 up to Rs. 397,270 were issued in 07 occasions during the year under review. Arrangements have been made to prevent such situations in the future. Circular provisions should be complied.

2. Financial Review

2.1 Financial Results

The operations in the year under review had resulted in a surplus of Rs. 12,027,810 as compared with the corresponding surplus of Rs. 16,887,271 for the preceding year, thus observing a deterioration of Rs.4,859,461 in the financial result. The increase in employee cost and increase in depreciation of capital assets had mainly attributed to this deterioration.

3. Operational review

3.1 Ideal or Under-Utilization of Property, Plant and Equipment

The following observations are made.

Audit observation	Comment of the Management	Recommendation
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(a) A total sum of Rs. 18,847,771 had been spent on the construction of a showroom building and two National Training and Training Institutes during the period 2014 and 2016 for the purpose of selling furniture manufactured by apprentices of a National Training Institute and equipment purchased thereon by spending a sum of Rs. 2,863,475 and Rs. 790,500 in the year 2018 and 2019	It is proposed to use this showroom building for future corporate activities and its' water supply was given. It is expected to take action to obtain three-phase electricity in the future.	Action should be taken to utilize long-term idle assets. When building a new project, a feasibility study should be done and the funds should be spent after evaluating its success.

respectively were remained idle even till June 2021 without any use.

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| <p>(b) Due to not enrollment of apprentices to the Multipurpose Construction Course in the Construction Division of a National Training Institute after 2018, it was revealed that in a physical inspection carried out by the audit in January 2020 that 3,459 items related to 84 training equipment were being destroyed.</p> | <p>The multi-purpose construction course was started by amalgamating five existing training divisions of the institute. The tools and equipment in those sections were used for this course and no any special equipment was purchased for the course. Although applications were called for this course after the year 2018, the course could not be continued due to insufficient candidates.</p> | <p>Enrollment for the relevant courses should be done and action should be taken to utilize this equipment.</p> |
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3.5 Procurement Management

The following observations are made.

Audit observation	Comment of the Management	Recommendation
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<p>(a) Contrary to paragraph 5.3.1 (d) of the Guidelines, without preparing a total cost estimate in accordance with the provisions of paragraphs 4.3.1 and 4.3.2 of the Procurement Guidelines, an old 02 storied building of a National Training Institute had been renovated at a cost of Rs. 8,381,900 by selecting of a contractor on the basis of bids not approved by the Technical Evaluation Committee in the year 2018. Also, a sum of Rs. 485,185 had been spent</p>	<p>The observation is correct. From now on, the total cost estimate will be prepared in accordance with the Procurement Guidelines 4.3.1 and 4.3.2.</p>	<p>The provisions of the Procurement Guidelines should be followed in carrying out procurement activities.</p>

on the purchase of equipment for the use of the hostel in the year 2019. However, the building and equipment were not in use until June 2021.

- (b) Contrary to paragraph 4.4.2 of the Procurement Guidelines for Purchasing Stationery for the Printing Division of the National Training Institute, for the purpose of deviation from the competitive bidding for purchasing items, by dividing purchases up to the purchase limit of Rs. 500,000 that the Chairman can approve, printing stationery worth of Rs. 8,850,721 had been purchased at different prices from the same company without calling bids. As a result, the opportunities to get discounts the more economic benefits through competitiveness had lost by the institute. Also, validity of 92 items belonging to 11 types of printing inks and various raw materials had expired due to purchases irrespective of the existing stock balances.
- This method is used to minimize the delay in printing as it takes a long time to get items by calling bids on the purchase of paper inks and other chemicals required for printing after placing an order. However, the relevant officials have been instructed to take action to prevent such incidents in future.
- The provisions of the Procurement Guidelines should be followed in carrying out procurement activities.