

Institute for Construction Training and Development (ICTAD) - 2014

The audit of financial statements of the Institute for Construction Training and Development (ICTAD) for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 29(2) of the State Industrial Corporation Act, No. 49 of 1957. My comments and observations which I consider should be published with the annual report of the Institute in terms of Section 14(2) (c) of the Finance Act appear in this report.

1:2 Management's Responsibility for the Financial Statements

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

1:3 Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

2. Financial Statements

2.1 Audit Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Institute for Construction Training and Development (ICTAD) as at 31 December 2014 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 (SLPSAS)

SLPSAS 7 –Property, Plant and Equipment - In terms of Paragraph No. 49 of the Standard if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should also be revalued. However, the buildings to the book value of Rs.111, 825,105 included in the property, plant and equipment valued at Rs.685,343,662 shown in the financial statements had not been revalued. Further, both cost method and the revaluation method had been used for ascertaining the carrying value of the property, plant and equipment.

2.2.2 Accounting Deficiencies

The following observations are made

- (a) The ledger balance of the stock as at 31 December 2014 had been brought to the financial statements instead of being taken the physically verified stock balance as at that date. As such the accuracy of the closing stock amounting to Rs. 138,714,770 shown in the financial statements and its impact to the financial statements could not be ascertained.
- (b) According to the annual stock verification reports of the year under review, 47 stock items had been identified as redundant. However, a provision in this regard had not been made in the financial statements.
- (c) The assets valued at Rs.1,410,778 out of the assets amounting to Rs.14,286,462 received to the Institute from the Gesellschaft fur Internationale Zusammenabeit (GIZ) Project in 2013 had remained in the stock even as at 31 December 2014 without being capitalized.

2.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) According to the age analysis furnished, the sundry creditors amounting to Rs.2,550,614 were outstanding for more than three years as at 31 December 2014. Out of that, a sum of Rs.1,719,187 was remained unsettled for more than five years.

- (b) Debtor balance of the Construction Equipment Training Centre (CETRAC) as at 31 December 2014 amounting to Rs.568,847 had arisen due to the credit facility extended to the participants of the respective training programme and as such the recoverability of those outstanding debtor balance was in doubtful.
- (c) Certain courses relating to construction training had been conducted by the Centre for Habitat Planning and Development (CHPD), a centre established by the Institute for training. The course fee of Rs. 175,000 had been outstanding as at 31 December 2013 without being recovered even by 31 December 2014.
- (d) A sum of Rs. 114,529,393 receivable from National Equipment and Machinery Organization (NEMO) relating to hiring of motor vehicles and plant and machinery during the period from 1997 to 2004 had remained unrecovered even as at 31 December 2014. However, a full provision had been made in the financial statements for those outstanding balances.

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

Instances of non-compliances observed in audit are given below.

Reference to Laws, Rules, Regulation and Management Decisions	Non-compliance
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Finance Act, No.38 of 1971	
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(a) Section 11

A sum of Rs.15,707,803 had been invested in Treasury bills during the year under review without being obtained the required approval from the Ministry of Finance .

(b) Section 13(2)

The audit fees for the period from 1998 to 2011 amounting to Rs.1,417,983 had not been paid even up to the end of the year 2014.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year under review had resulted in a deficit of Rs.20,384,756 as compared with the corresponding deficit of Rs.19,724,647 for the preceding year, thus indicating a deterioration of Rs.660,109 in the financial results for the year under review. The increase of expenditure by Rs. 47,377,348 as against the increase of income and Treasury grant by Rs 26,364,017 and Rs.21,609,999 respectively was the main reason attributed for this deterioration in the financial results.

3.2 Analytical Financial Review

The following observations are made.

- (a) The operating deficit of the Institute was Rs.20 million resulting from the utilization of 266 staff, total assets worth of Rs.1,227 million and the Government contribution of Rs.91 million received during the year under review.
- (b) The deficit of the Institute for the year under review represented 1.6 per cent of the total assets as compared with 3 per cent for the preceding year, thus indicating a favorable position of 1.4 per cent.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) Effective action had not been taken to refund a balance of Rs.2,663,659 to the General Treasury which remained in the foreign aid account since the year 1996.
- (b) Two thousand copies of Contractors' Directory had been printed in the year 2009 at a total cost of Rs.4,351,000 without being assessed the actual requirement. Therefore, 966 copies of that had remained idle in the stores as at end 31 December 2014 even though the contained therein had already been outdated.
- (c) The operating losses of CETRAC for the year 2014 was Rs.26,435,396 and the net profit ratio was negative 101 per cent. However, reason for the failure had not been discussed at the senior management meetings.
- (d) National Environment Construction Technical Theme Park had been evolved in introducing and displaying the model construction types, utilizing modern and traditional buildings materials and techniques in present day context and to shone and distribute knowledge on construction with the society. The above Project had been commenced in December 2011 and scheduled to be completed within three years. The following observations are made in this regard.
 - (i) All component of the Project other than construction of administrative building to be undertaken by the stakeholders in the construction industry. The Government had agreed to finance Rs.60 million for the administrative building of the Project and Rs.40 million of that had already been released to the ICTAD as at 31 December 2014. The construction works were still in progress even though the period allocated for this Purpose already had been elapsed.
 - (ii) The Project had planned to build five model houses during the Project period. However, only four model houses had been commenced to build and two of them had only been completed within the stipulated period of three years.

The remaining model houses had not been constructed even as at 31 May 2015.

- (iii) Activities such as construction of houses with rain water harvesting system, displaying in the effective use of solar power as energy efficiencies, establish model wind power generation plant, construction of earth roads for dry zone areas which were included in the Project proposal had not been completed even at the end of May 2015.
- (iv) Ownership of the Theme Park was not clearly identified.
- (e) “Mahabhimani” National Construction Award Ceremony had been conducted for the second time by the ICTAD in the year 2014. An expenditure of Rs.11,322,890 had been incurred in order to achieve the objectives such as encourage the persons in the industry, change the social attitudes and create attractive environment to construction industry etc. However, a sum of Rs.5,961,712 or 53 per cent out of that total expenditure had been incurred for publicity which appeared to be the excessive.

4.2 Transactions of Contentious Nature

The following observations are made.

- (a) The Institute had incurred a sum of Rs.1,156,250 for advertising the “Deyatakirula” Programme and World Habitat Day Programme on the request made by the line Ministry.
- (b) Five cheques valued at Rs.4,671,161 issued for advertising expenses of “Mahabhimani” Programme in 2014 had been subsequently cancelled in January 2015 and reason for cancellation of this cheque was not made available for audit.
- (c) According to the financial statements presented for audit, the financial results of the ICTAD for the year 2014 was a deficit of Rs.20,384,756. However, in the aim of paying annual bonus to its staff the Institute had prepared a separate income statement by showing a net profit of Rs. 31,529,349 for that year. Accordingly a sum of Rs.3,380,459 had been paid as annual bonus to its staff in contrary to the Management Service Circular No. 05/2014 of 21 November 2014.

4.3 Human Resources Management

The following observation is made.

The approved and actual cadre of the Institute as at 31 December 2014 was 360 and 266 respectively. It was observed in audit that 25 vacancies out of 94 including sixteen posts in executive level such as Internal Auditor, Director Finance, Deputy Director of Operation (Training Center) etc. were in acting basis as at 31 December 2014 since several years without being taken adequate action to fill those vacant posts.

5. Accountability and Good Governance

5.1 Annual Implementation Plan

According to the Annual Implementation Plan of the Construction Equipment Training Centre (CETRAC), the key activities of the Advisory Division were providing adversary services, consultancy services and maintenance management services for the construction industry. However, the income earned by the CETRAC during the year 2014 from these services was only Rs.354,870.

5.2 Budgetary Control

Significant variances were observed between the budgeted and actual income and expenditure of the Institute for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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

- (a) Accounting
- (b) Accounts Payable and Receivable
- (c) Maintenance of Accounting Records
- (d) Issue of Invoices
- (e) Control over Fixed Assets
- (f) Human Resource Management