

## **National Apprenticeship and Industrial Training Authority - 2014**

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The audit of financial statements of the National Apprenticeship and Industrial Training Authority 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 equity, and the consolidated 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 56(2) of the National Apprenticeship and Industrial Training Authority Act, No. 20 of 1990. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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 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 Authority'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 Authority'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 Audit 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.

**1.4 Basis for Qualified Opinion**

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

**2. Financial Statements**

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**2.1 Qualified Opinion**

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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 National Apprenticeship and Industrial Training Authority 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**

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**2.2.1 Accounting Deficiencies**

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The following accounting deficiencies were observed.

- (a) The expenditure of capital nature amounting to Rs.12,399,864 incurred during the year under review had been brought to account as revenue expenditure.
- (b) Rent amounting to Rs.338,513 paid in respect of the preceding year had been shown as expenditure of the year under review while accrued expenses amounting to Rs.72,837 had not been brought to account.
- (c) The debtors and creditors resulting from the internal transactions between the Head Office and the Branch Offices of the Authority had been shown separately instead of being set off against each other.

**2.2.2 Non-reconciliations**

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A difference of Rs.95,295 was observed between the cash balances relating to 04 Bank Accounts included in the cash and cash equivalents appearing in the statement of financial position and the cash balances of the cash books of the District Offices.

**2.2.3 Lack of Evidence for Audit**

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The evidence indicated against the following items appearing in the financial statements had not been furnished to audit

<b>Particulars</b> -----	<b>Value</b> -----	<b>Evidence not made available</b> -----
	<b>Rs.</b>	
(a) Expenditure on Exhibitions, Seminars and Publicity	402,275	Purchase Orders, Goods Issue Notes and Goods Received Notes of Stores
(b) Training Equipment, Stocks of Raw Materials, T Shirts, Flags, Invitation Cards, Posters and Banners obtained for the Skills Achievement Programmes at Matara and Kurunegala organized by a public institution.	16,799,674	Information on the receipt of goods in the stores and issue therefrom.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Debts older than 05 years amounting to Rs.1,469,022, a sum of Rs.1,603,608 between 03 to 05 years old and a sum of Rs.2,996,665 between 01 year to 03 years old had been outstanding.
- (b) Action had not been taken even up to the end of the year under review for the recovery of the loan balances amounting to Rs.209,185 recoverable from the employees who had vacated posts.
- (c) Action had not been taken even up to the end of the year under review for the settlement of 21 advance balances amounting to Rs.265,154 granted by the Authority to different parties during the period from the year 1995 to the year 2013.
- (d) Creditors balances amounting to Rs.323,970 older than 03 years had not been settled.

### **2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions**

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The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b> -----	<b>Non-compliance</b> -----
(a) Finance Act, No. 38 of 1971 (i) Section 11	The concurrence of the Minister of Finance had not been obtained for the investments amounting to Rs.78,685,317 made during the year under review.

- (ii) Section 13.8
- Even though the steps proposed to be taken on the matters pointed out in the Audit Report in terms of Section 13(7)(a) of the Finance Act should be furnished to the Auditor General by the Board of Governors within 03 months from the date of such report, action had not been taken in respect of the reports for the years 2012 and 2013 accordingly.
- (b) Establishments Code of the Democratic Socialist Republic of Sri Lanka
- (i) Chapter II – Section 7.1
- Even though an officer dismissed from service after a disciplinary inquiry is unfit to receive an appointment in the Public Service, the officer who had been accused of a cash fraud and interdicted had been recruited to the post of Director (Finance).
- (ii) Chapter XV Section 3.1
- Even though an officer on probation should not be sent abroad unless for obtaining the qualifications necessary for the confirmation in service, contrary to that, the Director (Finance) who was on probation had been granted authority to proceed abroad in two instances and spent a sum of Rs.921,102 in that connection.
- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulation 104
- Action on losses had not been taken in connection with 16 accidents caused to motor vehicles in the year under review and the accidents caused to motor vehicles in the preceding years.
- (ii) Financial Regulation 395(c)
- The Bank Reconciliation Statements in respect of the year under review had not been prepared for 04 Bank Accounts.
- (iii) Financial Regulation 396(d)
- Action had not been taken on 27 cheques and Money Orders valued at Rs.590,306 issued but not presented to Banks for more than 06 months.
- (iv) Financial Regulation 1646
- The Daily Running Charts and the Monthly Performance Summaries relating to 23 motor vehicles and the Daily Running Charts for 58 months in respect of 17 motor vehicles for the year under review had not been furnished to audit.

- (d) Public Enterprises Circular No. PED/12 of 02 June 2003
- (i) Section 6.5.1 A copy of the Draft Annual Report had not been furnished with the accounts.
- (ii) Section 8.3.8 Even though donations and rewards should be paid only after obtaining the prior approval of the Cabinet of Ministers, a sum of Rs.2,700,000 had been spent on donations without obtaining such approval.
- (e) Public Administration Circular No. 41/90 of 10 October 1990 Even though the fuel consumption of motor vehicles should be tested once in every 06 month, the fuel consumption of 55 motor vehicles of the Authority had not been tested.
- (f) Procurement Guidelines 2006 Section 1.2.1 (c) Even though fair, equal and maximum opportunity for eligible interested parties should be provided for them to participate in procurement, the organization of the Skills Achievement Programmes at Matara costing Rs.33 million and the organization of 09 festivals and seminars costing Rs.14 million had been awarded to 02 private institutions without following the Procurement Procedure.
- (g) Public Finance Circular No. 446 of 01 September 2010 The expenditure incurred on telephones exceeding the approved limits in the year under review and the preceding year amounting to Rs.258,091 and Rs.127,927 respectively had not been recovered from the officers concerned. A sum of Rs.7,705,000 had been paid as telephone expenses for the period September 2012 to 31 December 2014 to 410 officers holding posts not covered by the circular provisions.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial results of the Authority for the year ended 31 December 2014 had been a deficit of Rs.19,566,476 as compared with the corresponding deficit of Rs.68,317,478 for the preceding Year. The financial results for the year under review, as compared with preceding year had indicated an improvement of Rs.48,751,002. The increase of the Government grants and the income over that of the preceding year had contributed to the improvement.

### **3.2 Legal Action instituted against or by the Authority**

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Four cases in connection with the non-payment of the Employees' Provident Fund in respect in 03 employees and the termination of the service of one employee had been filed against the Authority. The Authority had filed a case in connection of the ownership of the land of the Wellawatta Training Centre.

## **4. Operating Review**

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### **4.1 Performance**

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The following observations are made.

- (a) Even though targets for the year under review had been set for enrollment of 81,150 Apprentices under the various training fields, the actual enrollment had been 31,464 only. As such the actual enrollments had been less by 61 per cent of the target. Out of the Apprentices enrolled, 4,026 or 13 per cent had abandoned the courses.
- (b) Even though targets for the year under review had been set for carrying out 20 Development and Validation of National Competency Standards only 14 National Skills Standards Developments and 04 National Skills Standards Validations had been carried out. Even though targets had been set for carrying out 20 moderation of Question Papers Validation of Competency based Assessment Resources, only 2 had been carried out. Out of 20 updates had been targeted for carrying out, none of the updatings revision had been carried out.
- (c) The observations on the expected targets and the actual performance under the Skills Sectoral Development Project are as follows.
  - (i) Even though a sum of Rs.1,493,637 in addition to the sum of Rs.2,000,000 allocated in the year under review for the modernization of the Jaffna Training Centre had been spent, the modernization work had not been completed even by 30 June 2015.
  - (ii) Even though an allocation of Rs.9,000,000 had been made for increasing the number of the on the job trained Apprentices to 60,000 , that work had not been commenced even by the end of the year under review.
  - (iii) A sum of Rs.1,000,000 had been allocated in the year under review for appointing Commissions for 04 selected fields and after spending a sum of Rs.773,739 the work had been abandoned stating that not falling within the scope of the Authority.
  - (iv) Even though the development of New National Skills Standards for 10 sectors had been planned, the National Skills Standards had been developed only for 02 sectors during the year.

- (v) A sum of Rs.25,000,000 had been allocated for the issue of 5,000 Certificates under the Record of Prior Learning Programme during the year under review, while a sum of Rs.58,114,789 had been spent for the issue of 1,666 Certificates. Even though the Authority had estimated a sum of Rs.5,000 for the issue of a certificate to an individual, it had spent a sum of Rs.34,883 per certificate.

#### **4.2 Management Inefficiencies**

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The following observations are made.

- (a) The following observations were made at an examination of the Skills Achievement Programmes held under the Skills Sectoral Development Project in Matara and Kurunegala.
  - (i) According to the Circular No. 02/2014 dated 04 April 2014 of the Tertiary and Vocational Education Commission, the allowance payable per day to a person for evaluation of a Skills Enthronement Programme is Rs.3,000. Nevertheless, the payments made in connection with the Skills Enthronement Programme held at Matara ranged from Rs.7,500 for the evaluation of Electricians and Masons and Rs.5,000 for the evaluation of Beauticians and Plumbers. The payments made by the Programme in Kurunegala for evaluation had been Rs.5,000 per day. Thus the overpayment made amounted to Rs.560,500.
  - (ii) Despite an allowance of Rs.5,000 to the evaluators and the officers for the evaluation of 500 masons under the Record of Prior Learning Programme, had been paid, the Authority had spent a sum of Rs.335,823 for providing lodging and food.
  - (iii) Rewards costing Rs.275,000 had been given to the applicants who were evaluated without obtaining an assurance from the Tertiary and Vocational Education Commission whether they were qualified for the grant of certificates.
  - (iv) An awareness programme for the evaluators for this Programme had been held in a hotel without identifying the need and without obtaining the prior approval. A sum of Rs.199,500 had been spent for the supply of food to 70 persons at the rate of Rs.2,850 per person and hall fees while each participant had been paid a sum of Rs.1,000. Nevertheless, information to ensure their participation and the receipts for acknowledgement of money was not available.
- (b) Even though a sum of Rs.129,780 had been spent for the printing of 3,000 greeting cards for the year 2014, the particulars of distribution of the greeting cards were not made available to audit.

- (c) Even though a sum of Rs.780,000 had been spent for the production of 30 television advertisements for telecasting 5 days by a private television channel, the particulars of telecasting and the quotations called for were not available.
- (d) Five officers had been paid Rs.709,491 as performance based allowances under the Skills Sectoral Development Project without obtaining the information relating to the criteria which formed the basis for evaluation and whether they were engaged on part time duty basis to be entitled to the allowances.
- (e) The Authority had paid an advance of Rs.1 million to the service supplier for the foundation stone laying ceremony of the Training Centre at Kilinochchi, even before the quotations were submitted by the supplier. The service supplier institution had been paid a sum of Rs.4,098,950 as the expenditure of the Ceremony without the approval of the Board of control.
- (f) Even though a sum of Rs.1,005,161 had been paid to a private institution on 29 May 2014 for the installation of a Transformer, it had not been installed even by 06 June 2015, the date of audit.
- (g) Action had not been taken to identify and account the direct deposits amounting to Rs.1,657,580.
- (h) Action had not been taken to reimburse a sum of Rs.02 million spent on reimbursement basis from the Ministry on the World Youth Conference.

#### **4.3 Transactions of Contentious Nature**

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A sum of Rs.368,000 had been paid to a private institution for illuminating the building of the Authority concurrently with the Commonwealth Leadership Conference. Further, a sum of Rs.175,000 had been paid for the souvenirs of various institutions, while sums of Rs.111,600 and Rs.67,500 had been spent for the display of a banner at a foundation laying ceremony and the purchase of T Shirts for 100 journalists respectively.

#### **4.4 Idle and Underutilised Assets**

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The following observations are made.

- (a) Goods valued at Rs.563,360 lying in the stores for more than 02 years had not been distributed to the Regional Offices even by 15 July 2015, the date of audit.
- (b) The usable training equipment valued at Rs.1,464,848 purchased on 14 August 2014 for the Skills Enthronement Programme in Kurunegala remained idle in the Orugodawatta Store, without being used for the next Skills Achievement Programme held in Matara.
- (c) Thirteen motor vehicles of the Authority remained idle for over 03 years.



#### **4.5 Resources of the Authority given to other Government Institutions**

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Six employees and 02 employees of the Authority had been released to the line Ministry and other Government institutions respectively and the periods of release ranged from 04 months to 10 years. A sum of Rs.279,829 paid by the Authority to two of those employees had not been reimbursed from the institutions concerned.

#### **4.6 Personnel Administration**

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The following observations are made.

- (a) The approved cadre for the year had been 1,358 while the actual cadre had been 887, thus indicating 471 vacant posts. Action had not been taken to recruit officers for those posts.
- (b) A sum of Rs.4,248,402 had been paid as salaries in the year under review to the employees recruited on casual, temporary and contract basis without obtaining the approval of the Ministry or the Department of Management Services.
- (c) According to the Scheme of Recruitment of the Authority, an applicant should have a degree in Engineering or Agriculture or Mathematics obtained from any recognized University in Sri Lanka together with 05 years experience in the field to recruit for the post of Inspector. Nevertheless, two persons who had not fulfilled those qualifications had been recruited as Inspectors and one of those officers held a degree in Business Management (Special Accounting).
- (d) Even though a minimum of 15 years management level experience in a Corporation, Board or a recognized Business Enterprise is required for the post of the Director (Training) of the Authority, an officer who did not have such experience had been recruited on 01 October 2014 to the post of Director (Training) of the Authority.

### **5. Accountability and Good Governance**

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#### **5.1 Presentation of Financial Statements**

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According to the Public Finance Circular No.PF/PE/21 of 24 May 2002 the financial statements should be presented to audit within 60 days after the close of the financial year. Nevertheless, the financial statements of the Authority for the year under review had been furnished to audit only on 01 June 2015.

#### **5.2 Procurement Plan**

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The Authority had not prepared a Procurement Plan for the year under review.

### **5.3 Budgetary Control**

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Variances amounting to Rs.60,095,856 were observed between the estimated income and expenditure of the budget and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

### **5.4 Unresolved Audit Paragraphs**

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The following observations are made.

- (a) Action had not been taken even during the year under review for the rectification of the management inefficiencies such as the failure to recover liquidated damages, failure to enter into contract agreements, failure to issue letters of award of contracts and the failure to complete works on the due dates relating to 07 contracts shown as works-in-progress in the preceding year.
- (b) A letter of award of contract had not been issued or a proper agreement had not been entered into in connection with the contract valued at Rs.1,999,500 for the construction of the main Lobby. Other than a sum of Rs.200,000 paid in that connection on 28 February 2013 no other payments had been made thereafter.
- (c) An agreement had not been entered into in connections with the contract valued at Rs.1,327,000 for carrying out improvements to the Head Office premises. Even though a sum of Rs.700,000 had been paid to the contractor in the year 2013, the work had not been completed even by July 2015, the date of audit. No other payments had been made.

## **6. Systems and Controls**

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

- (a) Stores Control
- (b) Management of Fixed Assets
- (c) Motor Vehicles Utilisation
- (d) Apprentices and Training activities
- (e) Personnel Management