Industrial Technology Institute – 2015

The audit of financial statements of the Industrial Technology Institute for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the income statement, statement of changes in equity 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 40 of Part vii of the Science and Technology Development Act, No. 11 of 1994. 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

The 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 Auditing 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 the 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.

1.4 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

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 Industrial Technology Institute as at 31 December 2015 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 Accounting Deficiencies

The following observations are made.

(a) The Board of Directors had decided to repay a sum of Rs.13,279,398 to the European Union in the year 2014 to settle the loss sustained due to non- implementation of a project according to the agreement, commenced under the financial aid of the European Union. However, action had not been taken to make the necessary provisions in the financial statements even up to the year under review.

(b) The profit generated by the sale of fixed assets had been understated by Rs.230,988 in the income statement and the cash flow statement.

(c) Even though provisions had not been made by the previous years' financial statements for the money payable, the annual subscription amounting to Rs.1,081,924 for the year 2013 had been made to an international organization during the year under review. Action had not been taken to make adjustments retrospectively in that connection.

(d) In the cash flow statement presented for the year under review, the interest income received in cash had been understated by Rs.744,659 under the financial activities and the receipts of capital grants had been overstated by Rs.7,975,000 under the investment activities.

2.2.2 Unexplained Differences

The following observations are made.

(a) According to the confirmations received from the Department of Inland Revenue for the period from the year 2000 to the year 2009, although the payable Value Added Tax was Rs.10,475,428, it was Rs.2,475,723 according to the financial statements. Nevertheless, action had not been taken to make adjustments by identifying the difference of Rs.7,999,705.

(b) In comparing the values of five items of fixed assets and the stock of consumable goods with the values stated in the Physical Stock Verification Report and the financial statements, differences of Rs.40,280,486 and Rs.639,461 were observed respectively.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The dishonoured cheques and other debtors from 01 to 05 years included in the financial statements were Rs.70,185, and Rs.2,679,331 respectively. Action had not been taken to settle those balances even during the year under review.

(b) Provisions of Rs.7,030,873 had been made in the year 2009 for the salaries in arrears payable to the officers who had left the service and the officers remaining in service and a sum of Rs.6,980,352 of that had remained unpaid even by 31 of the year under review.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed during the course of audit.

	Reference to Laws, Rules, Regulations etc.	Non-compliance
(a)	Section 11 of the Finance Act, No. 38 of 1971	A sum totalling of Rs.240,226,000 had been invested in fixed deposits by 31 December of the year under review without the approval of the Minister in charge of the subject.

(b)	Establishments Code of the Democratic Socialist Republic of Sri Lanka. Section 9:1 of Chapter II	Without the approval of the Cabinet of Ministers, a retired officer had been appointed as a Technical Assigning Consultant for a period of one year and a sum of Rs.793,990 had been paid as allowances for the year under review.
(c)	Finance and Planning Circular No.MOFP/ERD/2011/1 dated 21 April 2011.	Without making aware of the Department of External Resources, a Korean project valued at Rs.2,443,833 had been commenced during the year under review.
(d)	Section 7.4.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003.	Computer accessories and software valued at Rs.13,581,898 and other assets valued at Rs.4,512,594 had not been physically verified.
(e)	Public Finance Circular No. 380 of 19 January 2000 ---	
	(i) Section 01	Although incentive cannot be paid for the discharge of normal duties as specified in the Act, sums of Rs.11,427,864 and Rs.7,597,411 had been paid as incentives for the year under review and the preceding year respectively..
	(ii) Section 7.1	Even though 10 per cent to 25 per cent of the consultancy services income after deducting the direct costs, should be retained by the Institute and remitted the balance once in 03 months to a Special Fund of the Treasury, it had not been so done.
(g)	Management Services Circular No.02/2014 dated 11 February 2014. Paragraph 06 (iii)	Although it had been specified that the additional researches should be carried out in a manner not to disturb the regular duty in order to obtain the research grants, a research grant amounting to Rs.9,494,405 had been paid during the year under review by taking into consideration a research conducted under the normal duties of the Institute.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year ended 31 December of the year under review had resulted in a surplus of Rs.26,282,796 as compared with the corresponding surplus of Rs. 55,698,487 for the preceding year thus indicating a deterioration of Rs.29,415,691 in the financial result of the year under review as compared with the preceding year. Although the Government contribution on the recurrent expenditure had increased by Rs.40,000,000 , the above deterioration was mainly attributed to the increase in the employees remuneration and the depreciation by Rs.65,654,026 and Rs.13,140,727 respectively.

Analysis of the financial results of the year under review and four preceding years revealed that, the surplus of Rs.59,318,986 of the year 2011 had decreased to Rs.22,628,443 by the year 2012. Nevertheless, the increase in the surplus commenced in the year 2013 was Rs.55,698,487 in the year 2014, but it had decreased to Rs.26,282,796 again by the year 2015. When taking into consideration the employees remuneration and the depreciation for the non-current assets, the contribution of the Institute was Rs.359,862,461 in the year 2011 and it had suffered a certain drowback in the year 2012. However, after experiencing a continuous increase during the subsequent years, it had been Rs.434,404,485 during the year under review.

3.2 Analytical Financial Review

According to the financial statements presented, the current ratio of the year under review and the preceding year was 6.16 and 5.15 and the quick ratio was 6.04 and 5.03 respectively. The increase in the current assets during the year under review was due to the retention of money for the construction activities of the building complex, Malambe.

4. Operating Review

4.1 Performance

According to the Science and Technology Development Act, No. 11 of 1994, the main object of the Industrial Technology Institute was to elevate the level of technology in Sri Lanka to the level required for rapid industrialization and the performance of the following functions had been entrusted to the Institute.

(a) To support industry by discovering new processes and methods for improving product quality technical processes and methods used in industry, undertaking on contract, testing, investigation and research, providing technical services and consultancies and engaging in activities connected with technology transfers, the adaptation of technologies and the development of new technologies.

(b) To conduct research with a view to accelerating industrial technology development.
to collect, process, and disseminate information on "shelf technology" .

(c) To undertake training of persons in areas related to the experience of the Technology Institute.

(d) To collaborate in the survey and monitoring of environmental pollution and to recommend remedial measures to mitigate such pollution

(e) To co-operate with government departments and institutions, universities technical colleges and other bodies in demand driven research.

Although 69 researches, for which patent right could have been obtained had been conducted during the period of past 5 years, it was revealed in the course of test check carried out on the fulfilment of the above activities that neither the patent right had been obtained nor the technology transfers had been carried out for 60 researches.

4.2 Management Activities

The following observations are made.

(a) Due to the reasons such as failure to complete the Water Testing Project carried out in Chunnakam area within the prescribed time, failure to take action in keeping with the requirements of the customers and the submission of an incomplete report, the clients had refused to settle a sum of Rs.3,053,680 to the Institute.

(b) Although the first stage of the Building Complex, Malambe (Agro Food Technology Building) had been completed at a cost of Rs.832,250,000 under a project of the Ministry in the year 2014, action had not been taken to vest that building in the Institute.

4.3 Personnel Administration

The following observations are made.

(a) The approved cadre of the Institute was 392 and the actual cadre was 373. Although the number of vacancies stood at 56, permanent appointments had been given for 07 officers exceeding the approved limit relating to 03 posts.

(b) Without the approval of the Department of Management Services in terms of the Public Administration Circular No.25/2014 dated 12 November 2014, 30 employees had been recruited on contract basis. Even though there were 05 employees in excess for 2 posts of secondary level, 19 employees among the employees recruited on contract basis had been recruited to the secondary level.

(c) Action had been taken to create 12 posts of Senior Deputy Director by following the provisions specified in the Letter No.DMS/E2/24/7/173/2 dated 21 June 2010 of the Department of Management Services. Although cadre had been approved by the Letter No.DMS/B1/62/14 dated 17 May 2012 of the Department of Management Services, action had been taken to pay the allowances entitled to those officers for the year under review deviating from the directives specified therein.

4.4 Idle and Underutilized Assets

The following observations are made.

(a) A balance totalling Rs.1, 820,645 of 03 bank current accounts and 01 savings account had remained idle for over a period of 05 years.

(b) Even though over 05 years had elapsed after the completion of constructions of the Administrative building at Malabe by incurring an expenditure of Rs.78,280,915, it had been closed without utilizing for any administrative purpose.

4.5 Uneconomic Transactions

The following observations are made.

(a) Even though a sum of Rs.350,000 had been paid to a private institution for the introduction of a permanent costing method for fixing prices on technical and research services supplied by the Institute, pricing had been made as before without following the new method thus observing it as a fruitless expenditure.

(b) The Institution had got the accreditation of its laboratories done through an internationally recognized institution to obtain international recognition and the same purpose had been got done again through the Conformity Assessment Institution and as such a sum of Rs. 3,349,962 had been overspent to get the accreditation valued at Rs.1,714,509.

4.6 Delayed Projects

The following observations are made.

(a) Although 09 projects valued at Rs.11.2 million commenced under the capital provisions of the Treasury in the years 2013,2014 and 2015 due to be completed by 31 December of the year under review, action had not been taken to complete them as at that date.

(b) Although it had been planned to commence a small and medium scale Enterprise Development Project under the financial contributions amounting to Rs.03 million and Rs.07 million of the Institute and a foreign Non-Governmental Organizations respectively in the year 2014 and to be completed in the year 2015 and a sum of Rs.2,114,279 had been spent for that project, action had not been taken to complete that project even by August 2016.

5. Accountability and Good Governance

5.1 Action Plan

The following observations are made

(a) Although the Institute had prepared an Action Plan for the year under review, it had not been prepared including the implementing time frame and the expected output or results of those activities in terms of paragraph 04(3) of the Public Finance Circular No. 01/2014 dated 17 February 2014.

(b) In the preparation of the Action Plan for the year under review, a sum of Rs.20 million had been allocated for the research and development projects. As it had not been specified in the Action Plan as to what purposes the above allocation was made, it was not possible to compare the performance with the Action Plan.

5.2 Budgetary Control

Variances between the budgeted and the actual income and expenditure ranging from 31 per cent to 831 per cent were observed in the budget of the year under review, thus indicating that the Budget had not been made use of as an effective instrument of management control.

5.3 Internal Audit

The post of Chief Internal Auditor remained vacant since the year 2014 and only two officers were serving in the Internal Audit Division and therefore, it had not been possible to carry out an adequate audit in taking into consideration the scope of the Institute.

5.4 Unresolved Audit Paragraphs

In terms of Directive No.16 of the Committee on Public Enterprises held on 30 May 2011, a sum of Rs.7,810,032 recoverable from 18 officers who breached the conditions of the foreign scholarships agreements had not been recovered even by 30 April 2015.

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 Institute from time to time. Special attention is needed in respect of the following areas of control.

Area of Systems and Control		Observations
(a) Fixed Assets Control		Existence of underutilized assets.
(b) Procurement	(i)	Not taking action according to the Guidelines.
	(ii)	Delays in the issuance of Goods Received Notes and the delay in making entries in the inventory after the goods were received by the stores.
(c) Internal Audit		Failure to take action to avoid the weaknesses pointed out by the Internal Audit Division.
(d) Research and Construction Project control.		Failure to complete the research projects and construction projects within the prescribed period and not maintaining the documents relating to the projects safely.
(e) Control of Consultancy Services payments.		The approval of the Chief Executive Officer of the Institute had not been obtained before the supply of consultancy services.
(f) Salaries and Allowances		Failure to pay salaries and allowances according to the prescribed salary category.