

Sri Lanka Institute of Development Administration 2015

The audit of financial statements of the Sri Lanka Institute of Development Administration for the year ended 31 December 2015, comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, 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 21 of the Sri Lanka Institute of Development Administration Act, No.09 of 1982. 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 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 misstatements 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 the 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 Sri Lanka Institute of Development Administration 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard - 03

Consultancy fees valued at Rs.9,124,036 and Rs.17,942,843 received in the year under review for the years 2013 and 2014 respectively, had been brought to account as the income in the year under review without making adjustments retrospectively in terms of the Standard.

(b) Sri Lanka Public Sector Accounting Standard - 07

Even though the fixed assets costing Rs.93,773,720 had been fully depreciated as the useful life of non-current assets had not been reviewed annually, they were being further used. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 03.

2.2.2 Accounting Deficiencies

A sum of Rs.1,015,270 paid in the year under review for purchase of ceramic ware had been shown in the financial statements under consumer goods, despite non-receipt of relevant goods instead of indicating under advances.

2.2.3 Lack of Evidence for Audit

Confirmation of debtors balances totalling Rs.27,656,085 had not been made available to Audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to recover a sum of Rs.13,339,159 recoverable from a Ministry and several institutions relating to Training Programmes from the years 2010 and 2011.
- (b) According to provisions of Section 13(2) of the Act, the officers who serve on secondment basis, are the officers without the Public Service salaries and as such, they should settle the loan balances when leaving the Institute. However, action had not been taken even up to the end of the year under review to recover the loan balances amounting to Rs.418,527 recoverable over periods ranging from 01 year to 03 years from 04 officers who had left the service.

Reference to Laws, Rules, Regulations, etc.

Non-compliances

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| (a) Section 3 of the Sri Lanka Institute of Development Administration Act, No.9 of 1982. | Action had been taken contrary to the Objectives of the Institute, to conduct examinations for the recruitments to the posts of external institutions on the approval of the Director General. |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
Financial Regulation 571 | Action in terms of Financial Regulation had not been taken in respect of retention money and deposits amounting to Rs.2,958,396 older than 02 years as at 31 December 2015. |
| (c) Public Administration Circular No.18/2015 of 26 June 2015 | Even though the approval had been given to pay special allowances only for the officers in the category of Executive Service of the Government Service, a sum of Rs.701,903 had been paid for 11 Executive Officers of the Institute from July to December of the year under review. |
| (d) Letter No.HR/FTR/MQU/12/15 of 17 | Even though a report should be furnished |

September 2015 of the Secretary (Acting) within a month of returning to the Island after
of the Ministry of Public Administration the foreign tour, 08 officers had not taken
and Management action accordingly.

- (c) The report that should be submitted on due time after conducting lectures by the Coordinators who had conducted lectures of Consultation Courses, had not been submitted on due time and as such, the fees payable amounted to Rs.147,705,928. Out of that, balances totalling Rs.2,903,080 had exceeded 5 years and balances totalling Rs.40,488,585 had been between 01 year and 05 years.

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

Non-compliances with following laws, rules, regulations and management decisions were observed.

2.5 Transactions not supported by Adequate Authority

The following observations are made.

- (a) Even though the approval had been given by the Cabinet Decision dated 19 April 2013 to pay 50 per cent of the salary as secondment allowance for the Academic Staff, contrary to that Cabinet Decision, a sum of Rs.2,516,398 had been paid as 50 of the salary in the year under review based on the Letter No. S/AD/1/3/11 of 23 April 2014 of the Director General for 10 Staff Grade Officers of the non-academic staff deployed in service on secondment basis.
- (b) A sum of Rs.15,817,483 had been received for expenses of the programmes for 60 officers who participated in 02 Foreign Training Programmes from institutions in which those officers serve and only a sum of Rs.11,636,733 had been spent for food, accommodation and course fees. Contrary to Circulars No.01/2010/01 and No.01/2015/1 of the Ministry of Finance and Planning, action had been taken to pay the balance of Rs.4,180,750 to the officers concerned without returning to the relevant institutions.
- (c) A sum of Rs.633,150 brought to account as hostel fees receivable from the year 2011, had been written off without proper approval.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institute for the year ended 31 December 2015 had been a deficit of Rs.9,798,215 as compared with the corresponding deficit of Rs.34,195,260 for the preceding year, thus indicating a decrease of Rs.24,397,045 in the deficit for the year under review as compared with the preceding year. Even though the total expenditure had increased by Rs.27,665,948 in the year under review, the increase in the Recurrent grants by Rs.6,974,765 and other income by Rs.45,088,229 had been the main reasons for the decrease in the deficit. However, adjustment of over provisions for bad debts by Rs.12,028,934 had been the reason for the increase in other income.

An analysis of financial results of the year under review and 04 preceding years revealed that a surplus of Rs.640,761 in the year 2011 had converted to a deficit of Rs.14,875,471 in the year 2012 and it had decreased to Rs.9,798,215 in the year under review. However, taking into consideration the employees' remuneration, and depreciation for the non-current assets, the contribution of Rs.69,040,146 in the year 2013 had improved continuously and become Rs.125,405,149 in the year under review.

4. Operating Review

4.1 Performance

The main objectives of the Institute in terms of Section 3 of the Sri Lanka Institute of Development Administration Act, No.09 of 1982 are given below.

- (i) Develop through training, knowledge skills, and behaviour in public officers, which are necessary for the effective performance of their official duties.
- (ii) Organize training courses in the fields of management and public administration and award Certificates and Diplomas in connection with training courses.
- (iii) Develop a competent cadre of supervisory and support staff throughout the public service to ensure efficient and effective administration at all levels.
- (iv) Make available to the Government and the country, the services of specialists in the various functional areas of management, for advice, consultancy and special assignments.
- (v) Assist public sector agencies in reviewing and improving their organizational management systems and assist public sector organizations in management development, establishment of work norms, determination of compensation systems and generally improve their productivity.

- (vi) Actively collaborate with other organizations groups and individuals in management training, research and related activities in Sri Lanka and abroad.

The following matters were observed at the examination carried out in respect of achievement of the above objectives.

(a) Consultation Programmes

A Consultant employed in the Institute should cover a minimum 45 lecture hours without charging fees per month. Nevertheless, the minimum 797 lecture hours that should be covered by 13 Consultants during the last six months of the year under review had not been covered. Even though the fees paid amounting to Rs.713,300 therefor should have been recovered, action had not been taken to recover a sum of Rs.369,045 out of that, even by the end of the year under review. Accordingly, a sum of Rs.2,633,750 had been paid for 2,131 lecture hours during the year under review by getting Visiting Lecturers to fulfill the training and consultation programmes due to the failure in taking action to cover the number of lecture hours that should be covered monthly.

(b) Training Activities

The following observations are made.

- (i) The number of students selected annually for the Diploma Course in the year 2012 stood at 628 whereas it had dropped to 288 by the year 2015. However, the number of dropouts of courses in the year 2012 had been 16 per cent whereas it had increased to 26 per cent by the year 2015.
- (ii) The percentage of dropouts of the Management and Non-Management Certificate Courses had shown an increase as compared with the preceding year whereas they had been 62 per cent and 47 per cent respectively in the year under review.

The Director General had commented that the reasons for dropping out of training courses had been extraneous to the scope of the Institute.

4.2 Operating Activities

The following observations are made.

- (a) The opening balance of capital grants at the beginning of the year under review amounted to Rs.42,805,432 and only a sum of Rs.51,549,835 representing even less than 50 per cent of the capital grants for the year under review had been utilized. As such, the balance of capital grants that remained as at the end of the year amounted to Rs.96,050,096.

- (b) A sum of Rs.100,000,000 invested in fixed deposits in the year 2016 including capital balance and the cash balances generated by the operation of the Institute without obtaining approval of the Minister of Finance and the relevant Minister, had been shown as investments in the financial statements of the year under review.

4.3 Apparent Irregularities

The following observations are made.

- (a) Twenty two officers had participated in the Capacity Building Programme held in Great Britain for Senior Finance Managers of the Public Sector for 11 days, from 21 June to 02 July 2015. The following observations were made in this connection.
- (i) According to the Circular No. MF 01/2015/01 of 15 May 2015 of the Ministry of Finance, a sum of Rs.18,899,159 had been obtained as the full combined allowance and incidental allowance entitled to officers leaving abroad from the institutions where those officers are employed and out of that, a sum of Rs.6,191,691 had been paid as course fees, air tickets and souvenirs. Action had been taken to divide the remaining sum of Rs.12,707,486 at Rs.577,612 per officer.
- (ii) The approval of the Department of Public Enterprises should be obtained before two weeks for foreign travel of officers of Statutory Boards from local funds in terms of Public Enterprises Circular No. PED/17 of 28 October 2003. Nevertheless, action had not been taken accordingly in respect of two officers of the Institute who had participated in this tour.

4.4 Identified Losses

The expenditure of Rs.2,062,325 was shown as work-in-progress carried out in the preceding year for the activities of preparing the land for the construction of a training centre without vesting a land belonging to the Department of Forests. However, constructions had been discontinued due to failure in obtaining approval of the institutions relating to these constructions. As such, the Institute had sustained a loss from the said money and action had been taken to write off that expenditure against the income of the year under review.

4.5 Staff Administration

The following observations are made.

- (a) The cadre approved by the Department of Management Services as at 31 December of the year under review stood at 162 whereas the actual cadre stood at 110. It was observed that 52 posts out of them were vacant.
- (b) According to the Cabinet Decision No. CM 13/0237/523/011 of 19 April 2013, in the recruitment on secondment basis, action should be taken to select the qualified persons by calling for applications through public notices by an Interview Board consisting all members of the Board of Control of the Institute. However, those steps had not been followed in respect of recruitment made to 10 staff grade posts and 08 non-staff grade posts.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The draft Annual Report should be presented to the Auditor General along with the annual financial statements within 60 days from the close of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003. However, the draft Annual Report had not been presented and the financial statements had been presented on 22 August 2016, after a delay of 174 days. The deficiencies pointed out by audit had been rectified and the revised financial statements had been presented on 03 January 2017.

5.2 Internal Audit

An Internal Audit Unit is in operation and only the Chief Internal Auditor and one officer are engaged in service. As such, it was observed that an adequate internal audit is not carried out in respect of the entire activities of the Institute and that the Annual Audit Plan had not been operated as expected.

5.3 Procurement Plan

The following observations are made.

- (a) According to Guideline 4.2.1 (b) of the Government Procurement Guidelines 2006, a Master Procurement Plan inclusive of the expected procurement activities at least for a period of three years had not been prepared.
- (b) Even though it had been planned in the Procurement Plan, prepared for the year under review to spend a sum of Rs.1,700,000 for the purchase of 07 air- conditioners, 34 air-conditioners had been purchased by spending a sum of Rs.7,532,369 in the year under review. As such, it was observed in audit that the Procurement Plan had been prepared without identifying the requirements.

5.4 Budgetary Control

The following observations are made.

- (a) According to Sections 5.2.4 and 5.2.5 of Public Enterprises Circular No. PED/12 of 02 June 2003, the draft budget should be presented to the Board of Control 3 months before the commencement of the year of Accounts and to the Line Ministry, Department of Public Enterprises and the Auditor General 15 days before the commencement of the year of Accounts. Nevertheless, the budget of the year under review had been presented to the Board of Control on 15 February 2015.

- (c) Variances ranging from 27 per cent to 1760 per cent were observed between the budgeted income and expenditure for the year under review and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.5 Tabling of Annual Reports

Even though the Annual Reports should be tabled in Parliament within 150 days after the close of the year of Accounts according to Section 6.5.3 of Public Enterprises Circular No. PED/12 of 02 June 2003, action had not been taken to prepare the annual reports of the years 2013 and 2014 and table them in Parliament.

6. Systems and Controls

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

Areas of Systems and Control	Observations
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(a) Debtors and Creditors Control	Failure in taking action to accurately identify and account for amounts the receivable and payable.
(b) Inventory Control	Non-maintenance of proper Inventory Registers.
(c) Conduct of Examinations	Failure in arranging the Examinations Division so as to safeguard the transparency and confidentiality.
(d) Fixed Assets Control	Failure to issue Goods Received Notes and properly record in the books.

(e) Consultancy fees payable

Non-establishment of a methodology for the settlement of the consultancy fees for the year in the current year itself.