Industrial Technology Institute – 2016

The audit of financial statements of the Industrial Technology Institute for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items and the elements making up the statement of financial position, income statement, statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

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 07

(i) In terms of Section 14(a) of the Standard, property, plant and equipment shall be recognized as assets if it is probable that future economic benefits or service potential associated with the item will flow to the entity. Even though the Portable Ambient Air Quality Measuring equipment purchased in the year 2016 by spending an initial cost of Rs.24,119,273 should be recognized as property, plant and equipment from 31 October 2016, it had not been recognized as an asset of the year under review.

(ii) In terms of Section 49 of the Standard, if items of property, plant and equipment are revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. However, only 11 motor vehicles costing Rs.37,390,367 out of 23 motor vehicles costing Rs.80,446,056 of the Institute had been revalued.

(iii) In terms of Section 90 of the Standard, if a class of property, plant and equipment is stated at revalued amounts, the matters to be disclosed in terms of sub-sections (a) to (g) of Section 90 of the Standard had not been disclosed in the financial statements by the Institute.

(iv) Property, plant and equipment costing Rs.543,456,926 had been fully depreciated as the useful life of non-current assets had not been annually reviewed. However, they had still been in use. Accordingly, the estimated error had not been revised in terms of Sri Lanka Public Sector Accounting Standard 03. In terms of Section 65 of the Standard

(b) Sri Lanka Public Sector Accounting Standard 08

Provisions had not been made in the financial statements for a sum of Rs.12,300,860 payable to the European Union relating to a project not executed as agreed.

(c) Sri Lanka Public Sector Accounting Standard 09

In terms of Section 15 of the Standard, inventories shall be measured at the lower of cost and net realizable value and the closing inventory should be computed through the physical stock verification and brought to account. Nevertheless, the policy of measuring the inventories had been identified contrary to that and the book value of inventories had been brought to account.

2.2.2. Accounting Deficiencies

The following observations are made.

(a) Even though the interest on income received from money in the current year, amounted to Rs.17,391,528, it had been shown as Rs.19,942,279 under financial activities in the cash flow statement. As such, the balancing of the cash flow statement had been problematic in Audit.

(b) Provisions totalling Rs.7,252,348 comprising Rs.6,532,538 and Rs.719,810 for trade debtors and non-trade debtors had been made respectively for bad debts in the year under review. The total amount had been deducted from the trade debtors balance and shown and as such, the trade debtors had been understated by Rs.719,810.

(c) Even though a sum of Rs.4,788,041 had been paid in the year under review to the Department of Inland Revenue by the Institute as Nation Building Tax, only a sum of Rs.4,310,255 had been shown in the income statement as expenditure on Nation Building Tax. As such, the expenditure had been understated by Rs.477,786.

2.2.3. Lack of Evidence for Audit

A physical verification had not been carried out in confirming property, plant and equipment costing Rs.619,137,988 shown in the financial statements as at 31 December of the year under review. As such, the values of those assets could not be satisfactorily accepted or verified in audit.

2.2.4. Unexplained Differences

A difference of Rs.87,702 relating to 04 balances as at 31 December 2016 was observed in the comparison of the Debtors' Age Analysis Report of the Institute with the balances of the Debtors' Ledger.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Action had not been taken even in the year under review to settle dishonoured cheques and other debtors' balances totalling Rs.2,858,744 included in the financial statements since many years.

(b) Action had not been taken even by 31 December 2016 to recover a sum of Rs.7,810,032 recoverable from 18 officers who had breached the conditions in foreign scholarship agreements.

(c) A provision of Rs.7,030,873 had been made in the year 2009 as salaries payable for salary revisions in respect of 352 officers who had left the service and remaining in the service and only a sum of Rs.185,739 had only been further payable by 31 December 2016.

(d) Action had not been taken to settle a sum of Rs.2,475,723 brought forward continuously in the financial statements as Value Added Tax payable from the year 2009 up to the end of the year under review.

(e) Action had not been taken even in the year under review to settle accrued expenses totalling Rs.617,763 brought forward in the financial statements from the year 2009 up to the year 2014.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance
(a) Finance and Planning Circular No. MOFP/ERD/2011/1 of 21 April 2011.	Without notifying the Department of External Resources, a Korean project valued at Rs.2,443,833 and an Indo- Sri Lanka project valued at Rs.9,471,966 had been commenced in the years 2015 and 2013 respectively.
(a) Section 7.1 of the Public Finance Circular No.380 of 19 January 2000	Even though 10 per cent to 25 per cent of the income from consultancy services 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.

3. Financial Review

Financial Results

According to the financial statements presented, the financial result of the Institute for the year under review had been a surplus of Rs.56,290,243 as compared with the corresponding surplus of Rs.26,282,796 for the preceding year, thus indicating an improvement of Rs.30,007,447 the financial result of the year under review as compared with the preceding year. The increase in the Government contribution on the recurrent expenditure and other income by Rs.6,655,145 and the decrease in employees' remuneration and maintenance expenditure by Rs.25,967,017 and Rs.3,032,707 respectively had mainly attributed to the above improvement.

An analysis of the financial results of the year under review and four preceding years revealed a continuous increase in the surplus of Rs.22,628,443 of the year 2012 up to the year 2014. Even though the surplus had decreased by 52 per cent in the year 2015 as compared with the year 2014, it had again increased in the year 2016. However, in readjusting the employees' remuneration and depreciation for non-current assets to the financial result, the contribution of Rs.282,478,889 of the Institute for the year 2012 had continuously increased and become Rs.439,637,022 in the year under review.

3.1 Analytical Financial Review

Even though the current ratio remained at 6.76:1, cash and cash equivalents of 87 per cent are included in the current assets and it is observed that a considerable amount of cash is retained in the liquid assets.

4. Operating Review

4.1 Performance

According to the Science and Technology Development Act, No. 11 of 1994, the main objective of the Industrial Technology Institute is to elevate the level of technology in Sri Lanka to the level required for rapid industrialization and its functions are as follows.

- 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.

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

- To undertake training of persons in areas related to the experience of the Technology Institute.

- To collaborate in the survey and monitoring of environmental pollution and to recommend remedial measures to mitigate such pollution.

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

The following observation is made in respect of performing the above objectives and functions.

Even though provisions of Rs.23,390,000 had been made for the research and development project in the preparation of the Action Plan relating to the year 2016, the expected functions had not been mentioned. As such, the performance could not be compared with the Action Plan.

4.2 Management Activities

The following observations are made.

(a) Even though the first stage of the Building Complex, Malambe (Agro Food Technology Building) had been completed at a cost of Rs.831,253,856 under a project of the Ministry and handed over to the Institute, action had not been taken to vest that building legally in the Institute.

(b) A project commenced under the financial aid of the European Union had not been implemented as agreed. As such, a sum of Rs.13,279,398 had to be repaid to the European Union in settlement of the losses occurred.

4.3 Procurement and Contract Process

An agreement had been entered into with the contractor for a sum of Rs.46,430,000 for supply and fixing of furniture and fittings, partition of rooms, fixing of the ceiling, painting and installation of electrical equipment for the 3 storeyed Administrative building of the Technological Science building at Malabe. Payments of Rs.27,848,021 had been made therefor.

The following observations are made in this connection.

(i) Bids had been invited for by including supply of goods and constructions in the same bid. As such, the competition had been limited and only two bids had been submitted.

(ii) Even though separate agreement formats should be used for supply of goods and works, agreements in the same format had been used for supply of goods and works.

(iii) In terms of the agreement entered into with the supplier for supply of goods, the supplier had agreed to complete the contract within 120 days from 15 November 2015. However, it had not been confirmed that the supplier had completed the contract even by 12 July 2017.

(iv) Instead of selecting a Consultant by following the procurement process for supervising the constructions, supervision had been assigned to the same private company which supervised the constructions of the building and 6 per cent or Rs.2,815,000 out of the contract amount had been agreed to be paid therefor. Even though payments of Rs.1,913,595 out of that, had been made in the year 2016, information was not made available to Audit that the consulting institute had given instructions to complete the contract on the due date.

(v) In the payment of the second interim payment of Rs.17,623,761 on 29 September 2016 to the supplier, even though liquidated damages totalling Rs.2,815,800 could be recovered out of the contract value in terms of paragraph 6 of the contract agreement for the period of delay at the rate of 1 per cent for each month, the Institute had not recovered liquidated damages.

4.4 Staff Administration

Even though the approved cadre of the Institute stood at 392, the actual cadre stood at 349. The following matters were observed in this connection.

(i) Even though there were 54 vacancies in the posts of Staff Grade in the current year, no recruitments had been made for those vacancies.

(ii) Even though 22 officers had been recruited on contract basis for covering the duties of vacant posts, the approval of the Department of Management Services had not been obtained therefor.

(iii) Fifty four of the vacant posts are of Staff Grade and failure in making recruitments for these vacancies had directly affected the efficiency of the Institute.

4.5 Idle and Underutilized Assets

Four bank current accounts with balances totalling Rs.1,820,645 had been dormant for over a period of 05 years.

4.6 Uneconomic Transactions

An order had been placed for the Cry/2A/Elisa Kit equipment on 29 August 2016 and it had been confirmed by the information made available to Audit that the said equipment had been received to the Airport warehouse on 15 October 2016. Even though the recommended minimum level of temperature should be maintained in transporting and storing this equipment, action had not been so taken. As such, it is in an unusable condition and the Institute had not released this equipment even by 20 July 2017 and as a result, the sum of Rs.83,804 spent in purchasing this equipment had become an uneconomic expenditure.

5. Accountability and Good Governance

5.1 Action Plan

Even though an Action Plan had been prepared by the Institute for the year under review, in terms of paragraph 04(e) of Public Finance Circular No.01/2014 of 17 February 2014, the time frame for implementing and the expected output had not been included in the Action Plan prepared.

5.2 Budgetary Control

Variances ranging from 49 per cent to 85 per cent were observed between the estimated and actual expenditure in the year under review thus observing that the budget had not been utilized as an effective tool of management control.

5.3 Internal Control

Recruitment had not been made to the post of Chief Internal Auditor, vacant from 01 October 2014. Moreover, only 02 officers had been deployed in the service in the Internal Audit Unit while it was observed in Audit that the number of officers was inadequate in considering the scope of the Institute.

6. Systems and Controls

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

Areas of Systems and Controls	Observations
(a) Accounting	Deficiencies in the computer programming system operated in the Institute for accounting.
(b) Funds Control	Dormant cash balances in bank current accounts.
(c) Fixed Assets Control	Failure in carrying out physical verifications and availability of underutilized assets.
(d) Human Resources Management	Existence of vacancies and deviating from the Scheme of Recruitment.
(e) Internal Audit	Failure in taking action in accordance with the recommendations of the internal audit reports and in making recruitments to the posts of the Internal Audit Unit.
(f) Control of Operations	Failure in due completion of the projects in progress and in achieving expected results.
(g) Contract Control	Failure in completion of the Project on Construction of the Administrative Building at Malabe on the agreed date.