

Sri Lanka Institute of Advanced Technological Education - 2016

The audit of financial statements of the Sri Lanka Institute of Advanced Technological Education for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 the Section 13(1) of the Finance Act, No. 38 of 1971 and Section 19 of the Sri Lanka Institute of Advanced Technological Education Act, No.29 of 1995. 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. Subsections (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 Sri Lanka Institute of Advanced Technological Education as at 31 December 2016 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

In terms of Sri Lanka Public Sector Accounting Standard 07, provisions for depreciation had not been made annually for the Accounting Package valued at Rs.1,394,400 identified and capitalized as intangible assets and for the sum of Rs.9,697,817 spent for construction of walls and fences around lands.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though provisions for gratuity for the year 2016 amounted to Rs.9,939,324 according to the Register maintained by the Institute, it had been shown as Rs.12,737,848 in the financial statements. As such, provisions for gratuity had been overstated by Rs.2,798,524 in the financial statements.
- (b) A sum of Rs.3,696,461 had been incurred during the year under review as expenditure on trainings and evaluations for conducting courses, membership fees of vocational institutions and conducting efficiency bar examinations for the staff of the Institute and the expenditure so incurred had been brought to account as expenditure on capacity building under the intangible assets instead of writing off against the income of the year.
- (c) Even though the investment value as at 31 December 2016 relating to a Treasury Bill of which the face value was Rs.104,087,300 amounted to Rs.96,125,922, according to the financial statements, it had been shown as Rs.91,129,593. As such, the investment value had been understated by Rs.4,996,329 in the financial statements. Even though the income from interest on this Bill for the year under review amounted to Rs.6,436,074, it had been shown as Rs.1,439,745 in the financial statements. As such, the income from interest of the year under review as well had been understated by Rs.4,996,329.

- (d) The income from interest on fixed deposits amounting to Rs.74,342 of the Advanced Technological Institute, Jaffna for the year under review had been brought to account as prior year adjustments instead of accounting as income of the year.

2.3 Accounts Receivable

The following observations are made.

- (a) Action had not been taken even up to 31 July 2017 to settle the advances valued at Rs.333,697 remained as at the end of the year 2013 relating to the Advanced Technological Institute of Ampara.
- (b) Action had not been taken even up to the end of the year under review to recover the outstanding amount of Rs.1,615,795 recoverable to the Institute due to matters such as outstanding balances of distress loans, balances recoverable for breach of agreements, balances recoverable for unreturned books and leaving the service without prior notice in respect 12 officers who had left the service of the Institute.

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

The following non-compliances were observed.

Reference to Laws, Rules and Regulations	Non-Compliance
-----	-----
(a) Section 21(m) of the Sri Lanka Institute of Advanced Technological Education Act, No.29 of 1995.	The powers have been delegated to the Institute of Advanced Technological Education by the Act to maintain a fund to which both grants received and any income earned by the Institute should be credited. However, the Institute had been informed by the Letter No. SLIATE/CT/2016 of 03 March 2016 of the Director General that the income earned by the Advanced Technological Institute should be deposited in the Savings Account of the Head Office as at the date of earning.
(b) Section 3.7 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	Recovery of loans should commence from the month immediately following the month in which the loan is granted. Nevertheless, it was observed that recovery of distress loans granted to three officers of the Institute had been made after a delay from 2 months to 3 months.
(c) Section 2.1 of the Treasury Circular No. 842 of 19 December 1978.	Registers of Fixed Assets had not been maintained in terms of the Circular by the Advanced Technological Institutes of Kegalle, Kandy, Badulla and Mattakkuliya.

- (d) Management Services Circular No.02/2014 of 11 February 2014
- (i) Even though the research proposals had not been approved by the Research Committee, research allowances had been paid in terms of the Circular to officers of the Advanced Technological Institutes.
- (ii) Even though the research proposal had been rejected in terms of the Circular, instances where the research allowances had been paid to officers of the Advanced Technological Institutes of Badulla , Jaffna and Dehiwala, were observed.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review had been a surplus of Rs.81,198,532 as compared with the corresponding surplus of Rs.16,516,167 for the preceding year thus indicating an improvement of Rs.64,682,365 in the financial result of the year under review as compared with the preceding year. The increase in the Government grants for recurrent expenditure by Rs.93,400,000 and other income by Rs.51,697,449 had been the main reason for the above improvement.

An analysis of financial results of the year under review and 04 preceding years revealed a deficit from the year 2012 to the year 2014. Nevertheless, there had been a financial surplus in the years 2015 and 2016. However, after readjusting employees' remuneration and depreciation on the non-current assets to the financial result, the contribution which was Rs.245,179,260 in the year 2012 had improved to Rs.988,934,215 by the year 2016.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) According to the Corporate Plan, the number of students planned to be enrolled for the Institute had been compared as follows with the number of students actually enrolled in 03 preceding years.

Year	2013	2014	2015	2016
-----	-----	-----	-----	-----
Number of students planned to be enrolled	6,696	7,000	7,200	7,400
Number of students actually enrolled	5,172	6,696	6,942	8,008
Difference	1,524	304	258	608
Percentage of the difference	23	4	3.5	8

It was observed that the number of students actually enrolled had increased by 608 or 8 per cent than the number of students planned to be enrolled in the year 2016.

- (b) Even though foreign students had been planned to be enrolled since the year 2015, no foreign student had been enrolled to the Institute in the years 2015 and 2016.
- (c) Even though an electronic library had been planned to be established in the year 2016 for students and academic and non-academic staff of the Advanced Technological Institutes, it had not been implemented even up to 30 June 2017.
- (d) Even though the establishment of a fund at institutional level for granting financial aid since the year 2015 for academic purposes of the students who do not received Mahapola Scholarships, had been included in the Corporate Plan for the period 2015-2017, that Fund had not been established even up to the end of the year under review.

4.2 Management Activities

The following observations are made.

(a) Conducting Lectures

- (i) No co-curricular Lecturer, pertaining to the Higher National Diploma in Accountancy conducted in the Advanced Technological Institute of Kegalle, had been attached to conduct lectures during the year under review and lectures on subjects relating to the course had been conducted by visiting Lecturers.
 - (ii) Variances ranging from 3 per cent to 95 per cent were observed between the number of hours to be covered and the number of hours actually covered by Lecturers relating to subjects of each course conducted in the Advanced Technological Institutes of Kegalle and Kandy.
- (b) No action whatsoever had been taken by the Management in respect of 226 misplaced books valued at Rs.35,583 from the year 1997 to the year 2015, hundred and fifty six books valued at Rs.33,305 and 20 books valued at Rs.4,102 which were not returned by students and visiting Lecturers respectively from the year 1997 to the year 2008 of the Library maintained by the Advanced Technological Institute of Badulla.
 - (c) Even though examinations had been conducted and completed according to the revised final time table due to revision of the time table of the first semester several times in the year 2016, it was observed that the said examination had been again conducted for one subject on behalf of two students of the Advanced Technological Institute of Badulla. All students should answer the same question paper relating to each subject of various courses of the Advanced Technological Institutes at one sitting. However, proper management on examinations was problematic due to answering for a separate question paper as above.

(d) Action had not been taken even by June 2017 to acquire the lands on which the Advanced Technological Institutes of Labuduwa, Ampara, Anuradhapura, Batticaloa, Naiwala, Vavuniya, Kurunegala and Nawalapitiya and Establishment Divisions thereof are located.

(e) **Award of Mahapola Scholarships**

One thousand five hundred students or 50 per cent out of them admitted to a new academic year or whichever is minimum had been considered in awarding of scholarships by the Mahapola Scholarship Trust Fund. However, it was revealed in audit that the scholarships had been deprived of to a considerable number of students who are entitled to get qualified for receiving scholarships due to weaknesses and shortcomings in criteria based for the selection of qualified students for scholarships and forwarding them to the Mahapola Trust Fund by the Institute. The following matters were observed at audit test check carried out in respect of offering of Mahapola Scholarships of the Advanced Technological Institute of Mattakkuliya.

- (i) The students of high income families who are not entitled to scholarships had been considered as students without income in entering data to the Need Index which was used for selecting students for scholarships awarded by the Mahapola Higher Education Scholarship Trust Fund for new students admitted for the academic year of 2013/2014. Further, it was observed in audit test check carried out in that connection that the students of low income families had been deprived of the opportunity of receiving scholarships due to awarding scholarships to students of high income families, who are not entitled to Mahapola scholarships.
- (ii) In the selection of students for Mahapola scholarships, instances were observed, where the Need Index had been computed including an amount of other income instead of the amount of monthly income submitted by the students.
- (iii) The total monthly income of both mother and father should be considered in determining the income considered for the Need Index. However, in certain instances, only the income of the mother and only the income of the father or if not, either the minimum or maximum income of both of them had been considered.
- (iv) Checking of applications, computation of Need Index and the relevant administrative purpose relating to the selection of Mahapola Scholarship holders for the academic year of 2015 had been carried out only by one officer and it was not observed in audit that those purposes had been carried out at the Advanced Technological Institutional level or an internal control procedure therefor had not been formulated in a manner of subjecting to the evaluation of the Head Office.

- (v) Even though the academic years of the students of the Advanced Technological Institute had been commenced during the period ranging from January to March, it was observed that selection of scholarship holders for Mahapola scholarships and awarding those scholarships had not been carried out until a period over one year had lapsed subsequent to the admission of students.
- (vi) It was further observed that the issue of first installments of scholarships to students who had admitted to academic courses for the academic year of 2013/2014, had not been made until the duration of academic courses comprising two years was completed.

4.3 Underutilization of Funds

The following observations are made.

- (a) The capital provisions of Rs.978 million had been allocated to the Institute for the year under review and a sum of Rs.545 million had been received in cash by 31 December 2016. Out of this amount, only a sum of Rs.395 million or 72 per cent had been utilized and a sum of Rs.150 million or 28 per cent had remained underutilized.
- (b) No amount whatsoever had been invested by the Institute during the year under review and the balances remained in 12 current accounts of branches of Banks belonging to the Head Office and Advanced Technological Institutes by 31 December of the year 2016 totalled Rs.518,491,883.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The financial statements and Draft Annual Report should be furnished to the Auditor General within 60 days after closure of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003. Nevertheless, the financial statements of the year 2016 had been furnished on 28 March 2017.

5.2 Action Plan

The Annual Action Plan had not been prepared according to paragraph 04 of the Public Finance Circular No. 01/2014 of 17 February 2014 and only the timeframe for implementing had been furnished for the Action Plan prepared.

5.3 Procurement Plan

A Procurement Plan for the year 2016 had not been prepared in terms of Guideline 4.2 of the Government Procurement Guidelines 2006.

5.4 Budgetary Control

The following observations are made.

- (a) Factors that should be included in the Annual Budget Estimate in terms of Section 5.2.1 of the Circular No. 12 of 02 June 2003 of the Department of Public Enterprises, had not been included therein.
- (b) Variances ranging from 15 per cent to 95 per cent were observed between the budgeted expenditure and the actual expenditure, thus indicating that the Budget had not been made use of as an effective instrument of financial control.

5.5 Tabling of Annual Reports

The Annual Report of the year 2015 had not been tabled in Parliament even by the end of July 2017.

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 Controls -----	Observations -----
(a) Accounting	Failure in identifying weaknesses in the Accounting Package and rectifying them.
(b) Budgetary Control	Preparation of budget without specified forecast.
(c) Control of Fixed Assets	Failure in maintenance of Registers so as to identify the cost.
(d) Control of Matters of the Library	(i) Failure in following a proper methodology for issuing and receiving of library books. (ii) Failure in taking action without a delay in respect of misplaced and unreturned books.

- (e)Control of Mahaploa Scholarship Fund Failure in taking action to offer benefits of the Fund for a large number of students who are entitled to scholarships by minimizing weaknesses existed in the selection of students for awarding scholarships and minimizing delays in payments.
- (f) Control of Operations Failure in taking action to improve the quality of courses through the receipt of lecture hours of Lecturers for courses to the maximum and through the deployment of internal co-curricular Lecturers in lectures.