

## **Sri Lanka Institute of Printing – 2017**

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The audit of financial statements of the Sri Lanka Institute of Printing for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the comprehensive 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 25(3) of the Sri Lanka Institute of Printing Act, No.18 of 1984. 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**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium - sized Entities 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 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.

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 Sri Lanka Institute of Printing as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities.

#### **2.2 Comments on Financial Statements**

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##### **2.2.1 Sri Lanka Accounting Standards for Small and Medium-sized Entities**

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The following observations are made.

- (a) In terms of Note No.2.1(a) furnished with the accounts, it had been indicated that the accounts of the Institute had been prepared in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities. However, in terms of Part I of the first Paragraph of those Accounting Standards, Public Corporations that supply goods or provide services should not follow these Standards and in terms of Part (a) of Paragraph 1.2, it had been indicated that institutions with Public Accountability as well should not use these Accounting Standards in the preparation of accounts. However, the Sri Lanka Institute of Printing had not complied with those rules and prepared the financial statements based on the said Accounting Standards. Even though it had been pointed out by the audits of preceding years thereon, action had not been taken even in the year under review to make relevant rectifications.
  
- (b) In terms of Section 24 of Chapter 18 of Sri Lanka Accounting Standards for Small and Medium-sized Entities, the useful life of non-current assets had not been reviewed annually. Even though fixed assets costing Rs.4,798,955 had been fully depreciated, they had still been in use. Action had not been taken to revise the estimated error accordingly.

### 2.2.2 Accounting Deficiencies

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The following observations are made.

- (a) The value of the land of 0.1012 (approximately 40 perches) hectares in extent vested with the Institute on 18 September 2013 by the Divisional Secretary, Thimbirigasyaya had not been valued and taken to the financial statements.
- (b) Accrued expenses amounting to Rs.177,880 relating to the year 2016 had been brought to account as expenditure of the year 2017 and the accrued expenses of Rs.228,955 relating to the year under review had not been brought to account.

### 2.2.3 Lack of Evidence for Audit

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Detailed schedules with age analyses relating to accrued expenses valued at Rs.1,627,809 had not been made available to Audit.

### 2.3 Accounts Receivable and Payable

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Trade and other receivable balances amounting to Rs.11,783,512 shown under Notes in the financial statements as at 31 December of the year under review comprised of course fees amounting to Rs.11,216,274 recoverable as at 31 December 2017. Out of that, 25 debtors balances older than 05 years, 504 debtors balances between 03 and 05 years and 256 debtors balances between 01 and 02 years totalled Rs.101,250, Rs.3,139,225 and Rs.2,797,025 respectively and proper steps had not been taken to recover the said balances.

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

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Non-compliances with the following Laws, Rules, Regulations and Management Decisions were observed.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliances</b>
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<b>(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka</b>	
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(i) Paragraph 2.1 of Chapter VIII

The Management had not introduced a proper methodology of control for assignment and supervision of overtime of the Institute.

(ii) Paragraphs 7.1 and 7.2 of Chapter VIII

In case of an overtime payment made for officers in excess of the monthly approved number of hours of overtime, the approval

of the Secretary to the Ministry should be obtained therefor. However, overtime of Rs.154,971 had been paid in 22 instances to two officers without obtaining such approval.

(iii) Paragraph 1.7 of Chapter XII

A register of leave granted in terms of Form General 190 relating to officers had not been maintained.

(iv) Paragraph 10.2 of Chapter XXIV

A sum of Rs.329,167 had been paid as distress loans in the year under review to the Chairman of the Institute not in the permanent cadre and to an employee attached to the service on temporary basis.

**(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka**

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(i) Financial Regulations 137 and 138

Payments totalling Rs.137,981 had been made in 09 instances without approval or certification of vouchers in terms of provisions of Financial Regulations.

(ii) Financial Regulation 396 (d)

Action had not been taken in terms of Financial Regulations in respect of 03 cheques issued but not presented to the bank, lapsed for a period over 6 months totalling Rs.9,850 which remained as at 31 December of the year under review.

(iii) Financial Regulation 454 (I)

An Inventory Book including records of inventoried goods used in the Institute, had not been maintained.

(iv) Financial Regulation 751

A Stock Book had not been maintained.

**(c) Sri Lanka Institute of Printing Act, No.18 of 1984**

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(i) Section 14 (i) of the Act

The meetings of the Board of Directors shall be held once at least every month. However, only 09 meetings of the Board of Directors had been held during the year 2017 and adequate attention had not been paid to improve the operations of the Institute even at those meetings.

(ii) Sections 23 and 24 of the Act

(a) Sums of Rs.1,603,996 and Rs.5,598,019 invested respectively in Treasury Bills and short term fixed deposits during the year under review without the approval of the Board, had been withdrawn.

(b) A sum of Rs.8,605,090 had been invested in 03 short term fixed deposits during the year under review and in terms of provisions of Section 23 of Part III of the Statutory Act and the Letter dated 29 June 2012 of the Secretary to the Ministry of Youth Affairs and Skills Development, a detailed report had not been submitted to the Ministry on the above mentioned investments made during the year according to the recommendation of the Minister.

(d) Public Finance Circular No.05/2016 of 31 March 2016

Reports on Boards of Survey for the year 2017 in terms of the Circular had not been presented to the Auditor General.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result for the year under review had been a surplus of Rs.8,896,260 as compared with the corresponding surplus of Rs.7,628,442 for the preceding year, thus indicating an improvement of Rs.1,267,818 in the financial result for the year under review as compared with the preceding year. Even though expenditure on staff and other operating expenditure had increased by Rs.1,619,693 as compared with the preceding year, the increase in income from courses and interest by Rs.3,276,157 had mainly attributed to the above improvement.

An analysis of the financial results of the year under review and four preceding years revealed a decline in the surplus of the year 2014 as compared with the year 2013. Even though a continuous improvement of the surplus was indicated from the year 2015 to the year 2017 after readjusting the employees' remuneration and depreciation on non-current assets, the contribution of the Institute of Rs.12,488,771 for the year 2013 had decreased to Rs.10,961,081 by the year 2014. Nevertheless, it had continuously improved in the ensuing years and it had been Rs.16,607,841 as at the end of the year under review.

### **3.2 Analytical Financial Review**

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The following observations are made.

- (a) Even though there had been a surplus of Rs.8,896,260 in the year under review, the surplus of Rs.1,696,420 received from main operations of the Institute represented only 19 per cent of the total surplus while a sum of Rs.7,199,840 representing 81 per cent had been earned from interest on investments. Moreover, the surplus received from main operations in the year 2017 had declined by Rs.756,143 representing 31 per cent as compared with the year 2016.
- (b) Increase in the number of apprentices recruited for training during the year by 182 and the increase in course fees ranging from Rs.500 to Rs.1,000 had resulted in the increase in the income from annual course fees by Rs.1,253,696 in the year under review.
- (c) The only Branch affiliated to the Institute was established in Matala and there had been a deficit of Rs.143,057 in the year under review from its main operations and the decline in the financial result was Rs.225,530 representing 273 per cent as compared with the preceding year. Therefore, it was observed that the Institute had not paid adequate attention towards improving the operations in this Branch.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Planning**

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The following observations are made.

- (a) The Corporate Plan prepared in a manner to cover the period from 2012 to 2016 had not been updated to suit the year under review. Moreover, functions such as construction of the new building complex, development of a labour force with international professional qualifications and multi skills for foreign employment, establishment of a new organizational structure and obtaining human resources required therefor had not been performed even by 11 April 2018, the date of Audit.
- (b) The annual Action Plan prepared for the year 2017, had not been prepared based on the Corporate Plan in terms of Public Finance Circular No.01/2014 of 17 February 2014.

#### 4.1.2 Operation and Review

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The following observations are made.

- (a) According to the Action Plan for the year 2017, sixteen courses were planned to be conducted. However, the three courses namely Diploma, Advanced Diploma, Estimation and Pre-Press Operator had not been conducted in the year under review.
- (b) A number of 1084 apprentices had been enrolled for conducting 13 courses under 03 areas in the year under review and 58 per cent of the entire recruitments were only courses for Art Design and Media.
- (c) According to the Sri Lanka Institute of Printing Act, No.18 of 1984, the main operation of the Institute is conducting courses and the net contribution of the Institute by those operations had been in a level as low as 19 per cent in the year under review. The Institute had not implemented a procedure in expanding operations such as introducing new courses, opening new Branches and improving the income from the existing Branch in the increase of income from courses.
- (d) Ninety nine apprentices had dropped out in the year under review from 07 courses commenced in the years 2016 and 2017 and the maximum drop out of 38 had been in the Computer Graphics Diploma Course. However, the attention of the Management had been at a minimum level in respect of examining reasons relating to dropping out of courses and minimizing them.
- (e) Out of 16 courses conducted in the year under review, accreditation for National Vocational Qualification had been carried out relating only to 02 courses namely Computer Graphics and Offset Lithography Printing for school leavers. Moreover, necessary steps had not been taken to develop other courses as certificate courses of National Vocational Qualification Level. However, according to the information obtained from the Tertiary and Vocational Education Commission, the number of certificates issued to the apprentices of the Sri Lanka Institute of Printing during 04 years from the year 2014 to the year 2017 had been only 08. As such, it was observed that even those two courses are not efficiently implemented for issue of certificates of national level.
- (f) A number of 1,401 certificates belonging to 18 various courses (non NVQ) conducted from the year 2011 to the year 2017 had been retained in the Institute even by 11 April 2018, the date of Audit without awarding to the apprentices. Out of them, 442 certificates alone were certificates to be awarded to apprentices who followed the Graphic Design Course.
- (g) Necessary action had not been taken to recover course fees amounting to Rs.440,000 recoverable from 09 apprentices who had completed the Advanced Diploma Course in Printing Technology and Management and course fees of Rs.92,500 from two apprentices who had completed the Advanced Diploma Course in Visual Communication and Management, before completion of courses.

## **4.2 Management Activities**

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The following observations are made.

- (a) The operation of the Institute had been allowed in the premises of the Sri Lanka Printing Department without entering into a proper agreement or a Memorandum of Understanding and without making any payment whatsoever and water and electricity required therefor is supplied by the Department of Government Printing without a limit. Moreover, this printing institute had carried out training of officers of the Department without charging any fees. However, the above situation had not been disclosed in the financial statements.
- (b) A sum of Rs.78,647,481 had been invested in fixed deposits by 31 December 2017 out of the income earned by the Institute and attention had not been paid in utilizing those funds for achieving the objectives by expanding the operations of the Institute.

## **4.3 Operating Activities**

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The following observations are made.

- (a) Duties relating to taking over, being in charge and issuing of certificates had been performed without written assignment by an officer recruited on contract basis and the Institute had not maintained records on certificates printed as well as issued and unissued certificates.
- (b) The Institute was not equipped with a proper methodology to print, confirm the accuracy and sign the certificates. As such, two certificates each had been printed for the same name in 04 instances and a high officer of the Institute had placed his signature on these certificates.
- (c) A number of 1,084 printed blank certificates had not been stored in a protective manner and maintained by a responsible officer of the Institute.

## **4.4 Transactions of Contentious Nature**

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The following observations are made.

- (a) In terms of Section 9.7 of Public Enterprises Circular No. PED/12 of 02 June 2003, no allowance whatsoever can be paid to officers without the approval of the Treasury. However, a sum of Rs.85,000 had been paid to the Chairman as an honour and bonus out of the income from the two year Advanced Diploma Course conducted by the Institute.
- (b) Combined allowances and room rent of Rs.10,000 and Rs.6,000 had been paid respectively for two days to an officer recruited on contract basis on a permanent monthly salary and fuel allowances as the Marketing Assistant for participating at a District youth camp at Polonnaruwa for a purpose of duty relevant to the post.



#### **4.5 Staff Administration**

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The following observations are made.

- (a) The approved cadre and the actual cadre of the Institute stood at 13 and 11 respectively and instead of taking action to recruit officers on permanent basis, officers had been recruited for the posts of Chief Executive Officer and Marketing Assistant on contract basis.
- (b) Two posts of Instructor included in the approved cadre had remained vacant and 29 Visiting Lecturers and 06 Instructors Service had been obtained for conducting courses.

#### **5. Sustainable Development**

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##### **5.1 Achievement of Sustainable Development Goals**

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Every Government Institution should work in terms of Circular No.NP/SP/SDG/17 of 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs and the “2030 Agenda” of the United Nations on Sustainable Development and the Sri Lanka Institute of Printing had not been aware of how to take action in respect of functions coming under its scope relating to the year under review.

#### **6. Accountability and Good Governance**

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##### **6.1 Internal Audit**

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In terms of Management Audit Circular No. DMA/06 of 23 December 2011, an internal audit had not been operated in the Institute and as such, the Institute was not equipped with a methodology in confirming that the affairs of the Institute are carried out efficiently, effectively and in compliance with adequate internal control methodologies.

##### **6.2 Budgetary Control**

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Variances ranging from 10 per cent to 453 per cent relating to 40 instances were observed between the budgeted and the actual income and expenditure for the year under review and an expenditure of Rs.1,233,489 had been incurred in 11 instances without allocating money from the budget, thus indicating that the budget had not been made use of as an effective instrument of management control.

### 6.3 Unresolved Audit Paragraphs

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The following observations are made.

- (a) Even though an establishments procedure and a financial procedure had been prepared by spending a sum of Rs.56,725 in the year 2009 and submitted to the Ministry for approval, the said approval had not been received even by 31 December 2017. However, it was observed during the course of Audit that the Institute had not taken any follow up action whatsoever in that connection.
- (b) Even though the course fees charged from apprentices in the years 2016 and 2017 by the Institute had been increased, no proper policy including indices based therefor had been prepared.

### 7. 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 Institute from time to time. Special attention is needed in respect of the following areas of systems and controls.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Revenue Control	Non-preparation of an accepted policy for revision of course fees
(b) Debtors Control	Unavailability of a proper methodology for provision of bad debts and failure in following a proper methodology for recovery of loans.
(c) Issue of Certificates	An adequate internal control system had not been introduced for printing, being in charge and issue of certificates.