

Sri Lanka Institute of Advanced Technological Education – 2017

The audit of financial statements of the Sri Lanka Institute of Advanced Technological Education for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the 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 19 of 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 Institution’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 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 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 2017 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

Sri Lanka Public Sector Accounting Standards 07

Following observations are made.

- (a) According to the paragraph 69 of the standard, although the depreciation should be start based on the date on which the non-current assets were prepared for use, contrary to that, three buildings valued at Rs. 168,255,533 which were handed over to the institution during the year under review had been depreciated based on the final payment date of the construction contract and due to that depreciation of the year had been understated by Rs. 2,298,707.
- (b) The assets total valued at Rs. 639,266 which were purchased using local funds had been capitalized at the time of paying retention money instead of capitalizing as non-current assets when it became ready to use.

2.2.2 Accounting Deficiencies

Following observations are made.

- (a) Depreciation of 2 vehicles which had been purchased in the year 2012 for Rs.18,000,000 had been overstated the cost by Rs.340,603.
- (b) Motor vehicle repair expenditure amounting to Rs. 335,545 which should be account as recurrent expenditure had been capitalized under the cost of motor vehicle.

- (c) The lecture hall in Ampara Advanced Technological Institute of Education which had been constructed for a sum of Rs. 46.1 million provided to the Ministry of Communication and Information Technology in 2015 under the Deyata Kirula program and a sum of Rs. 9.4 million provided to the Sri Lanka Institute of Advanced Technological Education, out of that it was only capitalized the value of Rs.9.4 million spent from the institute and the amount of Rs. 46.1 million which had spent by the Ministry had not been accounted even up to end of the year under review.
- (d) Even though depreciation relating to assets given by 5 Projects since several years had been completed, the total donation liability of Rs. 983,193,091 which had not yet been identified as deferred income earning under a systemic basis.

2.3 Accounts Receivable

Following observations are made.

- (a) Advances of Rs. 333,697 and Rs. 30,000 given to Advanced Technological Institutes of Ampara and Mattakkuliya respectively in the years 2013 and 2015 had not been get settled even up to the date of this report.
- (b) Action had not been taken even by end of the year under review to recover the amount of Rs. 1,279,318 which were receivable to the institute from the balances such as the amount of outstanding distress loan balances of 09 officers who left from the service of the institution, balances as a result of leaving the service without notice, balances for violation of agreements and outstanding balances from non-returned books.

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

The following non compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Section 21(m) of the Sri Lanka Institute of Advanced Technological Education Act, No.29 of 1995	Even though the powers have been delegated to the each 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, the relevant institutions had been informed by the letter SLIATE/CT/2016 dated 03 March 2016 of the Director General that income earned by the Advanced Technological Institute should be deposited in the Savings Account of the Head Office.

- (b) Public Administration Circular No. 30/2016 dated 29 December 2016
- Although a fuel test should be carried out after 12 months after every fuel test of the vehicles used by the institute, it had not been so done.
- (c) The Treasury Circular No. 842 of 19 December 1978. Section 2.1
- Even though a register of Fixed Assets should be maintained, registers of fixed assets had not been maintained by the Head Office of the Sri Lanka Institutes of Advanced Technological Education.
- (d) Procurement Guidelines 2006
- Section 4.3.1 (a) and Section 4.3.2
- Although an total cost estimate should be prepared including the related costs of the procurement contract and should be get approved under the relevant authority, it was not so done relating to the procurement contract of purchase of furniture and equipment for a sum of Rs.17,552,220 to the Mattakkuliya Technological Institute's new hostel.
- Section 8.9.1 (a)
- A formal agreement should be signed for the goods supply contract after issuing the formal letter of acceptance after accepting the bid submitted by a bidder, action had not been taken for the following procurements.
- (i) Supplying of reading tables and bunker beds for the new hostel of the Mattakkuliya Advanced Technological Institute for a sum of Rs. 11,265,670 in the year 2017.
- (ii) Awarding 07 contracts of supplying cleaning services for a sum of Rs. 10,187,040 for the Head Office and 06 sections of the Advanced Technological Institute for the year 2017/2018.
- Section 8.12.3 (a), (b) and (c)
- Even though the officer in charge should be certified whether the supply have been completed according to the approved plan and the compliance with the contract specifications, 181 reading tables, 183 bunker beds and 378 reading chairs purchased for Advanced Technological Institute, Mattakkuliya had been received without such certification.
- Section 5.2.1(a)
- Although all details needed for a bidder should be included in the bid documents, the days of providing cleaning services had not been included in the bid documents relating to procurement of obtaining cleaning services for the Advance Technological Institute head office and 06 Sections.

Section 2.8.4

Even though bid evaluation of the procurement of obtaining cleaning services for the Advance Technological Institute head office and 06 Sections for the year 2016/2017 had been done by a Technical Evaluation Committee, the evidence for appointing a Technical Evaluation Committee had not been presented to audit.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institution for the year ended 31 December 2017 had been a surplus of Rs.61,378,666 as compared with the surplus of Rs.81,198,533 for the preceding year, thus indicating an deterioration of Rs.19,819,867 in the financial result of the year under review. Even though, total income of the institute for the year under review had been increased by Rs. 103,824,727, increase of personal emoluments by Rs.41,409,884 and increase of contractual services expenditure by Rs.34,355,724 had mainly attributed to the above deterioration.

In analyzing the financial results of the year under review and the preceding 4 years an increase in the deficit was observed in the year 2014 compared to the year 2013 and a financial surplus was observed in the year 2015. The financial surplus had been systematically improved in the year 2016 and again that financial surplus deteriorated was observed in the year under review. However, after re-adjusting employees remuneration and depreciation to the financial result, the contribution of Rs.611,058,511 of the Institution in the year 2013 had improved to Rs.1,034,838,550 or by 69 per cent at the end of the year under review.

4. Operational Review

4.1 Performance

It was observed the number of students enrolled for courses in 2017 was increased by 8,264 or 159 per cent while compared to the year 2013, and also, the actual number of students enrolled in that year actually exceeded the number planned for the year 2017, by 5,336 or 66 per cent.

4.2 Idled or Under Utilized Assets

Fifty eight workshop equipment which were provided to the Mattakkuliya Advanced Technological Institute for practical training of the students from the JEMCO project in the year 2011, remained in the stores without being used for any training activity for over 5 years.

4.3 Commencing Projects in the Lands and Properties without Transferring Properly

The institute entered into a contract agreement with the private construction firm for a sum of Rs. 166,614,856 (without Tax) on 12 October 2016 for the construction of a four-storied building for the Advanced Technological Institute of Jaffna.

Following observations are made in this regard.

- (a) After issuing a mobilization advance of Rs.36,988,498 to the contractor on 10 November 2016, the contractor had submitted bills for Rs. 19,389,905 for the completed work. Nevertheless, a case has been filed in the District Court of Jaffna by the private party regarding the ownership of the land submitting documents that the building is being built is owned by a private owner.
- (b) The hearing of the case was taking place in the District Court of Jaffna from 9 March 2017 and the court had restricted the entry to the site and the construction work had been abandoned and the amount paid to the contractor was observed as fruitless expenditure.
- (c) This situation arose due to the commencement of the construction work without come to a settlement of the ownership of the land, and the expected objectives of the construction of the building could not be achieved.

4.4 Operational Activities

The following observations are made regarding the obtaining service from the Lanka Education and Research Network (LEARN) for internet facility for the Mattakkuliya Advanced Technological Institute.

- (a) Even though this LEARN connection had been obtained for the purpose of research activities and academic activities, but to access to the internet was slow and it made interruption for the students and the academic staff to obtaining information of their lectures. As a result, in addition to the LEARN contact, on the request made by the members of the academic staff an additional internet connection had been obtained connecting to the phone used by the institute.
- (b) Even though a sum of Rs. 60,000 per month had been spent for internet connection with 3 telephone connections obtained through Sri Lanka Telecom, which is used by the entire organization, for the LEARN connection, a sum of Rs.121,760 per month had been paid to the above institution in the year 2017.
- (c) While a sum of Rs. 3,962,988 had been paid from April 2015 to December 2017 for the LEARN connection, an additional internet access had been obtained from Sri Lanka Telecom due to a slowdown in the LEARN connection.

4.5 Transactions of Contentious Nature

Following observations are made.

- (a) Seven cheques written for the total amount of Rs. 3,016,408 to be paid to a private institution for obtaining of cleansing services at the Advanced Technological Institutes of Dehiwela and Mattakkuliya for the year 2016/2017 had been obtained by the Director General of the Institution without any authorized document.
- (b) Another cleaning service institution was fraudulently registered in the name of the cleaning service institution which supplied cleaning service for the Advanced Technological Institute and 06 administration units, and an savings account had been opened in an state bank under that fraudulently registered business name. The cheques which were obtained by the Director General had been deposited in that savings account.
- (c) The institute that supplied the cleaning services for the Institute of Advanced Technological Education, Dehiwala in the previous year had been qualified for the cleaning service of the year 2017/2018 and it was confirmed in audit that the company registration certificate and the Employees Provident Fund (EPF) certificates were fake documents that the company had submitted to the institution.

4.6 Staff Administration

Following observations are made.

- (a) Even though the approved cadre of the institute as at 31 December 2017 was 758, the actual cadre was 627, therefore there were 131 vacancies. The vacancies in senior, tertiary and academic level were 10, 43 and 29 respectively included in that.
- (b) Among the senior level vacancies even though the post of Director, Accountant and Internal Auditor were vacant, action had not been taken to fill those vacancies up to the end of the year under review.
- (c) Although the senior, tertiary and academic level positions of the organization are very important when steering the tasks related to the financial, administrative and academic activities of the organization, it was observed action had not been taken to fill above vacancies.

5. Sustainable Development

5.1 Achieving the Sustainable Development Goals

Every public institution should act in compliance with the United Nations Sustainable Development Agenda for the year 2030 and even with respect to the year under review, the Sri Lanka Institute of Advanced Technological Education had been aware as to how to take measures relating to the activities under purview of their scope. However, although accurate data base was necessary to measure the performance of the objectives that were identified, it was observed that the institution had not worked out to build an accurate data base to measure the reaching the sustainable development targets.

6. Accountability and Good Governance

6.1 Internal Audit

Following observations are made.

- (a) Even though the copies of internal audit reports should be submitted to the Auditor General in terms of Financial Regulation 134(3), the copies of internal audit reports had not been submitted to the audit.
- (b) Although there were shortcomings in the procurement process of the institution, it was observed that the Internal Audit Division of the institution had not conducted a sufficient audit to reveal these shortcomings.

6.2 Procurement and Contract Procedure

6.2.1 Deficiencies in Contract Administration

Following observations are made.

- (a) It was entered into an agreement on 18 December 2017 for the procurement of the installation of laboratory equipment for the work shop at the Institute of Advanced Technological Education, Galle at a cost of Rs.49,024,612 and according to the agreement the equipment should be supply and install before 15 February 2018. However, equipment was not supply and install even by the date of this report.
- (b) A sum of Rs. 9,804,922 had been paid as advance for this procurement and the validity period of the advanced bond had been expired on 31 January 2018. However, action had not been taken to cover that amount from bills or extend the bond period.

- (c) An agreement was signed with the contractor on 14 July 2017 for a sum of Rs.3,800,500 for the construction of the Septic Tank for rain water drain at Mattakkuliya Advanced Technological Educational Institutes.
Following observations are made in this regard.
- (i) Even though the bids were called on 02 December 2016, it was taken a delay of nearly 07 months to award the contract and sign the contract agreement.
 - (ii) Even though an estimate of Rs. 3,821,000 had been prepared for the construction, due to lack of bill of quantities relating to that it was problematic in audit that completion of the construction works and how the determination of estimated prices.
- (d) The following matters were observed in the test check of purchase of 190 stainless steel cupboards, 190 reading tables, 380 reading chairs, 190 bunker beds and 380 mattresses for the new hostel at Mattakkuliya Advanced Technological Education Institution.
- (i) The supplier of bunker beds had supplied 180 beds of each Rs.35,493 and valued at Rs.6,388,740 on 10 January 2018 and it was observed in the physical test check carried out on 20 March 2018, those were not finished in proper standard in accordance with the samples and the plan.
 - (ii) According to the plan of the bunker beds the bed upper sections should be finished with SCH 40,1.00 DIA pipes, but all items had been finished using “L Angle”. Also it was necessary to cover 2/3 of the length of the bed with a hand rest for the upper bed left and right both sides, it was used flat iron for pipes and finished the hand rest covering 1/3 of the length of the bed. As a result, the strength of the hand rest in the bunker beds has been reduced and a slight / diminished conditions of the beds has been observed. It was observed that the students had wrapped from cloths and had protected and accordingly it was observed that beds were completely different to the samples presented.
 - (iii) According to the plan, for the upper and lower beds should have use a complete Plywood Sheet of 74x38x0.5 inches but it was observed there were occasions where there were used 03 or 04 pieces of Plywood Sheet for a bed. It was observed in checking of documents that out of 366 upper and lower beds of supplied 183 beds, 152 beds were finished with plank parts.
 - (iv) The supplier of reading desks had supplied 181 reading desks of each Rs.23,800 valued at Rs.4,307,800 on 10 January 2018 and according to the approved specification all the file racks connected to the board and desk should be finished with a thickness of 0.75 inches mahogany wood, all items had been finished with plywood. It was observed during the audit that the powder had sprung up in parts of the file racks because the weevils have damaged.

- (v) Even the supplier of reading chairs had supplied 378 reading chairs of each Rs.5,000 valued at Rs.1,890,000 on 10 January 2018, it was revealed in the student complaints that the procured chairs had not been finished with the shape and strength according to the required specification, due to this that they have to undergo physically restless in their studies.

7. Systems and Control

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

Areas of Systems and Controls	Observations
(a) Accounting	Identification of assets and calculation of depreciation had not been done according to the Public Sector Accounting Standards.
(b) Financial Control	Failure to recover without delay the arrears of balances to the institution from the officers of the institution.
(c) Contract Administration	Not having entered into formal contract agreements, not complying with contractual contracts, avoiding delays in contracts and taking action according to the agreements for delays in contracts
(d) Procurement Control	<p>(i) Not complied with the procurement guidelines when calling bids, opening bids, bid evaluation and awarding bids on procurement decisions.</p> <p>(ii) The Committee had not considered the correctness of the bid documents in the Bid Evaluation.</p> <p>(iii) It was not done the main objectives of the procurement guidelines, such as achieving maximum economic benefits as a result of a high quality with low cost, to provide timely quality, to comply with regulations, specifications, rules, regulations, the evaluation and the selection process ensuring the transparency and legitimacy in the procedure evaluation and selection procedures.</p>
(e) Payment	The payment should be made to the person holding the name of the voucher or his authorized agent, in accordance with the relevant Financial Regulations, but it was not done accordingly.