

## **Industrial Technology Institute – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Industrial Technology Institute for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried 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 provisions of the National Audit Act No.19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be report to the Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conduct my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under these Auditing Standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section in this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institute or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per sub section 16(1) of the National Audit Act No.19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

#### **1.4 Audit Scope Auditors Responsibility for the Financial Statements**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also,

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the

presentation of information to enable a continuous evaluation of the activities of the Institute, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

**1.5 Financial Statement**  
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**1.5.1 Internal Control over the preparation of financial statements**  
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Entries are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) It had been difficult to check the accounting method. Due to the deficiencies in operating computer system for accounting in the Institute.	-	Should be installed accounting system which functioning properly and including all the information required to accounting in the Institute.

### 1.5.2 Non – compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non compliance with the reference to particular Standard	Comment of the Management	Recommendation
In accordance with the section 35 of the Sri Lanka Public Sector Accounting Standard 09. Even though the closing stock should be decided by using cost methods of First In First Out (FIFO) or Weighted Average Cost method (WAC). Without following those methods the Institute had accounted using Simple Average Method.	The existing computer system had been designed based on Simple Average Method and there were no facilities to value the stock using (FIFO) or (WAC) methods.	Should be take actions in terms of Sri Lanka Public Sector Accounting Standards.

### 1.5.3 Accounting Deficiencies

The following observations are made relating to this.

Audit Observation	Comment of the Management	Recommendation
(a) Even though value of the stock of inventory goods as per the physical stock verification reports was Rs.14,690,110 it was shown as Rs.15,450,513 in the final accounts value of the stock had been over stated by Rs.760,403.	Prepare Reconciliation Report and actions shall be take as per that by analysing the reasons for the variances between values as per the financial statements and the physical stock verification reports.	Should be submit reconciling with the items of the financial statements and records corresponding to those.
(b) Even though the cost of Rs.40,000,000 of the building of Research and Development situated at Malabe, accounted buildings in the year 2017 had been corrected depreciating of 5 per cent on the cost of the Land had not been corrected. In accordance with the value of cumulative depreciation over stating by Rs.2,000,000 owing to the depreciation during the year under review had been done based on the opening balance.	To be note down to make adjustments for the depreciation of buildings properly in next year.	Should be submit accurate information through the financial statements.

- (c) It had been entered in to an agreement to charge a monthly rental of Rs.1,368,050 for the establishment of the office of the state Minister of Science Technology and Research and Technical Assignment Unit in the building of Industrial Technical Institute at Bauddhaloka Mawatha. Even though an amount of Rs.12,312,450 of rental should be received to the institute for the period of 09 months from 01 January to 26 September 2018 thus, rent receivable had not been accounted as rental income.
- Non receiving of receivable amount for the supply of required accommodation to the Ministry of Science Technology and Research for the year 2017 and this income should be receivable from the Line in Ministry, Even though that amount would not be realized so the income over counted the rental income to be accounted after receiving in cash.
- Should be submit financial statements with the reports relating to those items.
- (d) The financial value generated from the operational activities had been overstated in the cash flow statement by Rs.40,039 owing to the payments of gratuity and the incentives under stating Rs.40,039 during the year under review.
- To be note down to reanalyze about the flows related to the cash flow statement.
- Should be prepare cash flow statement of the Institute accurately.
- (e) When calculating cash flow generated from financial activities, Even though the interest received for the current year had been Rs.23,798,804 it had been stated as Rs.20,569,727 and therefore the cash flow generated from financial activities under stated by Rs.3,229,077.
- To be note down to reanalyze about the flows related to the cash flow statement.
- Should be prepare cash flow statement of the Institute accurately.

#### 1.5.4 Un reconciled Control Accounts or Records

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The following observations are made relating to this.

Item	As per financial statement	As per corresponding Records	Difference	Comment of the Management	Recommendation
-----	Rs.	Rs.	Rs.	-----	-----
(a) Supply of service income	290,335,090	294,575,089	4,239,999	In accordance with the tax records and stated income reasons for the variance of income was the other operational income it was stated in the financial statements separately.	Should be compared items stated in the financial statements with the other values related to those items and should be submit reasons for the variances accurately.

(b)	Non current assets relating to three items	1,393,292,119	1,368,405,454	24,886,665	Necessary actions shall take further standing about this.	Should be compared items stated in the financial statements with the other values related to those items and should be submit reasons for the variances accurately.
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## 1.6 Accounts Receivable and Payable

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### 1.6.1 Receivable

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The following observations are made relating to this.

	<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
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(a)	Actions had not been taken to recover debtor balances which were carried forward for many years consist of 10 items amounting to Rs.3,433,566 even in the year under review.	Debtors who made aware related to the balance and had taken steps to recover but corresponding recoveries had not received.	Proper procedures should be implement to recover the receivable debtors for the Instituted.
(b)	Proper procedure had not been followed to recover an amount of Rs.7,610,032 recoverable for years from 18 officers who had breached the conditions in foreign scholarship agreements.	Procedures to be taken to recover money had been recorded relating to the 17 no. of officers who had breached the conditions in foreign scholarship agreements within 15 years owing to those officers who had been left from the country. Most of the hostages of those officers also had left the country and some others had died. The age analysis of the officers who had breached the agreement. Officers over 30 years 04, officers over 20 years 08, officers over 10 years 06. Necessary actions are taking relating to the officers who had breached the conditions of the agreement which was valued Rs.3,789,640 by this time.	Proper procedures should be implement to recover money from the officers who breached the agreement.

- (c) There had been 304 number of receivable debtor balances of amounting to Rs.9,302,126 for more than six years in the balance of receivable trade debtors of Rs.29,465,485 as at 31 December 2018. Confirmation letters for balances which were included in the accounts even before year 2005 of cheques and other debtor balances had been directed and there had not been any response from related parties. Therefore approval of the Audit and Management Committee and the Board to be taken to write-off values of those balances. Actions should be taken immediately to receivable balances.

## 1.6.2 Payable

The following observations are made here.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
The Institute had not been taken actions to settle or write-off if there were no any responsibility to those accrued expenses amounting to Rs.7,951,560 of 9 items which were carried forward from the period of nine years to two years.	One of the items amounting to Rs.8.6 million those 9 items relating to the accrued salary and allowances of the employees and the payments had been done using that. Take necessary actions by discussing with the Human Resource Management. Necessary actions to be taken to recover the cash in other items.	Should be settle or adjust by accounts, taking records about the outstanding accrued expenses.

## 1.7 Non – compliance with Laws, Rules and Regulations and Management Decisions etc.

The following observations are made.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of Management</b>	<b>Recommendation</b>
Treasury circular No.1/2016 dated 08 January 2016 paragraph 3	Even though it had been mentioned that the maximum value could be paid is Rs.60,000 for the officers who recruited on the basis of short term period not exceeding 60 days for the purpose of full filing emergency services of the Government needed without paying much attention that an amount of Rs.10,299,805 had been paid for 19 No. of officers with the approval of the Board.	Employees were recruitment with the approval with Board on the basis of assigning to fulfill the operational activities of the Institute due to the delays in the procedure of recruitment. It had been done as per not exceeding the approved cadre of the Institute.	Should be take actions in accordance with the treasury circular.

## 1.8 Cash Management

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The following observations are made relating to this.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
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Four bank accounts with aggregating a sum of Rs.1,819,200 had been maintained as inactive accounts fore more than 5 years.	Those bank accounts were owned to the projects of which Syntec project, Care project, EEPEX project. Some of those accounts had activated and should be refund a few accounts on request of related parties.	Should be utilized those cash by closing inactive current accounts for the activities of the institute.

## 1.9 Non – compliance with Tax Regulations

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The following observations are made relating to this.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
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Information related to Value Added Tax (VAT) and Economic service charges during the year under review had not furnished to the audit.	Those bank accounts were owned to the projects of which Syntec project, Care project, EEPEX project. Some of those accounts had activated and should be refund a few accounts on request of parties.	Records of paying tax should be furnished to the audit.

## 2. Financial Review

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### 2.1 Financial Results

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The operating result for the year under review amounted to a surplus of Rs.12,252,426 and the corresponding deficit in the preceding year amounted to Rs.4,508,341. Therefore an improvement amounting to of Rs.16,760,767 of the financial result was observed. The reason for the improvement is increase of operational income had been mainly attributed.

### 2.2 Ratio Analysis

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The current ratio had been 2.28:1 in the year 2017 and it had been a 2.76:1 in the year 2018 when compared to the year 2017 there had been an increase of working capital. Increase of trade and other receivables were mainly attribute to this increasement.

### 3. Operational Review

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#### 3.1 Procurement Management

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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According to the procurement plan for the year 2018 even though it was planned to purchase non current assets to the value of Rs.294,576,000. Out of that value of Rs.35,150,000. This was only 11.93 per cent of the total amount from that procurement only Rs.3,608,328 of assets had been received to the Institute by the 31 December 2018. For the rest of the assets value of Rs.31,541,772 had been commence the procurement procedure and those procurement be in the initial stage of the procurement procedure.	The estimated total procurement expenditure of the Institute of Industrial Technology was Rs.350 million and actual expenditure was Rs.250.2 million. Would like to mentioned progress of the procurement of the Industrial Technology Institutes 71.5 percent.	Actions should be taken to procure according to the procurement plan and goods which were procured should be acquired timely to the Institute.

#### 3.2 Human Resources management

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<b>Audit observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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It was observed in audit that there had been vacant of 13 posts including Chief Internal Auditor for more years.  Even though a newspaper advertisement published on 20 August 2017 to recruit 03 vacant posts, recruitments had not been done even by 31 December 2018.	According to the decision of the Board held in 10 July 2018 for the posts of Senior Quality Assurance Officer, a decision had been taken to republished the advertisement which was published in August 2017 and the news paper advertisement was republished. There had been 36 number of vacant posts as per that advertisement and number of recruitment had been done by that time giving priority to the requirements of the institute interviews for the post of Senior Quality Assurance Officer shall be held in future. There shall be held interviews for the post of Senior Computer System Engineer interviews had been held on 26 October 2018 for the post of Marketing officer. Appointment was given for the selected applicant from the date of 17 December 2018 but requirement done at the date of 14 February 2019 owing to the extension of time was requested by him.	Should be fill the vacancies to carried out the activities of the institute with out interruption.

#### **4. Accountability and Good Governance**

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##### **4.1 Submission of Financial Statements**

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<b>Audit observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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It was observed during the course of audit the post of Chief Internal Auditor had been vacant for more years.	Newspaper advertisements were published several times for the post of Chief Internal Auditor (in the days of 12.10.2014, 04.01.2018, 03.09.2016) the applications qualified were not received for that so republished the advertisement an 12 July 2018 and interviews will be held in the future.	Should be take actions to recruit an officer for the post of Chief Internal Auditor.