

## **Industrial Technology Institute - 2020**

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### **1. Financial Statements**

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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 2020 comprising the statement of financial position as at 31 December 2020 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 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 provisions of the National Audit Act, No.19 of 2018 and the Finance Act, No. 38 of 1971. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Institute as at 31 December 2020, and its financial performance and 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 based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my 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 management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial 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 intends 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 the preparation of annual and periodic financial statements of the Institute.

#### **1.4 Scope of Audit**

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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 skepticism 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 the 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 of 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 Audit Observations on the Preparation of Financial Statements**

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### **1.5.1 Internal Control over the Preparation of Financial Statements**

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Institute is 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.

### **1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non-compliance with Reference to the relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) According to paragraph 35 of Sri Lanka Public Sector Accounting Standard 9, the cost of inventories shall be assigned by selecting either the first in, first out (FIFO) or weighted average cost (WAC) formulas. However, without taking such action, the Institute had assigned and accounted the inventory for Rs.22,966,848 as at 31 December 2020 using the simple average cost formula. Nevertheless, the reasons for following the simple average cost formula had not been	The simple average cost formula is used for computation of inventory in the existing computer system as no necessary facilities are available for computation of inventory at the weighted average cost formula. The new computer system with the said facility has been	The cost of inventory should be computed in terms of the Accounting Standard.

disclosed in the financial statements.

established at present. The inventory can be computed at weighted average cost formula from the year 2022.

(b) According to Sri Lanka Public Sector Accounting Standard 3, the rectifications in accounting estimates should be made by accurately identifying the useful life of assets. However, action had not been taken to review the useful life of fixed assets still in use costing Rs.804,936,305 and include them in the financial statements despite having been fully depreciated.

Assets fully depreciated but still in use should be revalue. However, it has become difficult for revaluation due to practical difficulties and the situation which prevailed in the country. Nevertheless, action is being taken to obtain services of a competent and experienced client therefor.

The useful life of assets should be accurately identified and included in the financial statements.

(c) According to financial statements, unutilized Treasury capital grants amounting to Rs.619,826,595 relating to the period from year 2002 up to 31 December 2019 had been shown after adding to the Accumulated Fund. Moreover, the disclosures thereon in terms of Sri Lanka Public Sector Accounting Standard 11 had not been made by the Institute.

This information has been included in the statement of changes in equity. According to paragraph 88 of Sri Lanka Public Sector Accounting Standard 1, information should be presented in an identifiable manner and details on provisions have been presented in the manner mentioned above since the year 2009 as “net assets/shares attributable to owners of the controlling entity.”

Necessary disclosures should be made in terms of Accounting Standards.

(d) A multi-employer plan had been followed for employees’ gratuities (post-employment benefits) of the Industrial Technological Institute. However, it had not been disclosed in the financial statements according to provisions in paragraph 141 of Sri Lanka Public Sector Accounting Standard 19.

Accounting activities for gratuity have been carried out by the Industrial Technological Institute even in the year under review (2020) as in previous years. Explanations have been given in this regard in the notes to accounts.

Necessary disclosures should be made in terms of Accounting Standards.

### 1.5.3 Accounting Deficiencies

----- <b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
<p>(a) Funds from capital grants of Rs.219 million received from the General Treasury to the Industrial Technology Institute during the period from the year 2017 to the year 2019 for the establishment of the petroleum laboratory and the pharmaceuticals laboratory and expenditure incurred therefrom had been recorded in two project accounts as debit and credit respectively deviating from the accepted accounting procedure. As such, the capital grant received and the value of laboratory equipment amounting to Rs.211.2 million purchased by utilizing the said capital grant had not been reflected by financial statements. Moreover, the expenditure on depreciation for the aforesaid equipment already in use as well had not been included in the financial statements.</p>	<p>The petroleum laboratory and the pharmaceuticals laboratory maintain the relevant receipt of provision and the expenditure incurred separately as project accounts. The relevant assets have been transferred to accounts in the year 2021 in which the project was completed and operations were commenced. Even though these assets had been established, commissioning, which is carried out for using most assets, have been carried out in the year under review. As such, depreciation is made from the year of establishment. (2021)</p>	<p>Laboratory equipment purchased by utilizing capital grants received for establishment of laboratories should be reflected by financial statements and depreciation for equipment should be included in financial statements.</p>
<p>(b) The error of indicating the cost of land on which the Malabe research and development building is located amounting to Rs.40,000,000 in the final account statements of the year 2017 had been rectified. However, the overstatement of annual expenditure on depreciation by Rs.2,000,000 due to increase of depreciation on the cost of the said land by 5 per cent had not been rectified even in the year under review.</p>	<p>Adjustment will be made on the relevant provision for depreciation.</p>	<p>The overstatement of annual depreciation due to indicating the cost of land under buildings, should be rectified properly.</p>
<p>(c) Instead of taking action even in the year under review to identify unidentified credits of Rs.12,756,253 made directly to the bank up to the 31 December 2020, they had been shown as expenditure payable under current liabilities in the financial statements.</p>	<p>Several necessary steps (Web Pay, Smart Pay) have been taken since the latter part of the year 2021 to avoid this situation and for identifying and accounting of direct banking. Moreover, reconciliations necessary for identifying and accounting direct banking unidentified so far, are being made.</p>	<p>Action should be taken for proper identification of unidentified credits made directly to the bank.</p>

(d) Variances in the working capital have been indicated in an inaccurate manner, thus understating the net cash flow received from operating activities by Rs.81,203,438 in the cash flow statement. Moreover, the net cash flow received from investment activities had been overstated by Rs.91,690,122 under the value of Work-In-Progress.

This situation has arisen due to lack of proper link connections of the cash flow statement. Action will be taken to correct and submit same.

Variances in the working capital should be indicated in the cash flow statement in an accurate manner.

## **1.6 Accounts Receivable and Payable**

### **1.6.1 Receivables**

#### **Audit Observation**

#### **Comments of the Management**

#### **Recommendation**

(a) Sundry debtors' balances included in balances receivable totalling Rs.14,535,683 for a period between 1 and 7 years had not been recovered even in the year under review.

This is the rental receivable relating to the period in which the State Ministry of Science and Technology occupied the Industrial Technology Institute and requests have been made on several occasions for obtaining the said sum.

Action should be taken to recover monies from debtors.

(b) The sum of Rs.16,799,429 recoverable from 20 officers who breached the conditions in foreign scholarship agreements, had not been recovered even by 31 December 2020.

A sum of Rs.4,020,392 thereof is related to 17 officers and steps were taken for the recovery of relevant monies from the officers who breached agreements. However, those steps failed as the said officers have left the country. Most of their guarantors as well were out of the country and some were not living. Necessary action relating to the two female officers who breached agreements valued at Rs.12,541,165, is already being taken with the assistance of the Attorney General's Department.

Action should be taken to recover monies receivable.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 15 of the National Audit Act, No.19 of 2018	The Secretary to the Treasury shall submit the financial statements of the Government to the Auditor-General not later than three months after the close of each financial year of the Government. Nevertheless, the Institute has submitted the financial statements to Audit only on 22 October 2021, seven months after the date on which the accounts relating to the financial year should be submitted.	The Finance Division had to be closed as several employees in the Finance Division were infected with the virus. As such, the submission of statements of accounts was delayed.	Action should be taken to submit financial statements within the due period.
(b) Financial Regulation 371(5) as revised by the Public Finance Circular No.2015/03 of 14 July 2015	The unexpended balances of a Sub-Imprest should be surrendered not later than the 31 <sup>st</sup> of December of the financial year in which the Sub-Imprest is issued. However, advances of Rs.1,188,770 issued in the year 2020 had not been so settled. Even though an Ad-hoc Sub- Imprest should be settled within 10 days immediately after the completion of the purpose for which it is granted, settlement of advances in the year under review had been delayed during a period ranging from 01 month to 07 months.	Most of these imprests are issued for projects and settlement of these imprests as at 31 December is practically difficult for an institute such as ours. Imprests relating to this balance have been settled later.	Action should be taken in terms of circulars and Financial Regulations.
(c) Financial Regulations of Sri Lanka Regulation 396(d)	Fifty one cheques lapsed for 06 months valued at Rs.1,599,117 issued within the period up to December 2020 not presented for payment, had been credited to an account named 02 Months	Action could not be taken as mentioned in Financial Regulation 396 due to the difficulty in obtaining necessary confirmation on lapsed cheques in this	Action should be taken in terms of Financial Regulations relating to lapsed cheques.

Cheque Validity Expired manner as a result of lock  
 Creditors Account. down of the Institute due  
 Nevertheless, action had not to Covid-19(Corona).  
 been taken in terms of the pandemic in the year 2020.  
 aforesaid Financial Regulation  
 relating to lapsed cheques.

## 1.8 Financial Management

### Audit Observation

Six bank accounts valued at Rs.6,443,743 had been maintained as dormant bank accounts over a period of 06 years.

### Comments of the Management

This is a project operated with the collaboration of the Industrial Technology Institute and several institutions which manufacture products related to ceramic tiles. This project remained inoperative for several years and the relevant project is currently in operation and a written request has been made for the recovery of this amount.

### Recommendation

Necessary action should be taken relating to dormant bank accounts.

## 2. Financial Review

### 2.1 Financial Results

The operations of the year under review resulted in a deficit of Rs.11,065,299 as compared with the corresponding deficit of Rs.4,058,920 of the preceding year, thus observing a decline of Rs.7,006,379 in the financial result. Decrease in income and increase in administrative expenditure as compared with the preceding year had mainly attributed to the decline in the financial result.

## 3. Operating Review

### 3.1 Management Inefficiencies

#### Audit Observation

(a) In obtaining machinery and equipment for the establishment of petroleum and lubricant laboratory, it was observed that ordering of equipment had been delayed during a period from 09 months to 01 year from the date of approval by the Technical Evaluation Committee. Moreover, in obtaining 12 items of equipment, a sum of Rs.2,562,464 had to

#### Comments of the Management

No changes in the recommended prices (US\$) of 12 items of equipment of selected suppliers occurred and an excess payment of Rs.2,562,464 had to be made due to the price increase occurred as a result of the devaluation of the exchange rate between the Rupee and the Dollar as a result of

#### Recommendation

Action should be taken to make relevant purchases within a short period after obtaining approval.



be paid in excess over the price recommended by the Procurement Committee. delays.

(b) Prevention of incurring an exorbitant expenditure on foreign countries for obtaining pharmaceuticals laboratory services is one of the objectives in establishing the pharmaceuticals laboratory within the Industrial Technology Institute by spending Rs.99 million. Nevertheless, the objective of establishment of the laboratory is not being achieved due to failure in paying attention towards obtaining test services, which are obtained from foreign countries, from this laboratory. Moreover, further spending of foreign currency on tests could not be prevented.

As we have no regulatory authority for this laboratory as well, all samples are not received by our laboratory. This process is included in the main objective and as it is a national requirement, arrangements are being made to take action therefor as quickly as possible as per the Cabinet Decision on the fullest cooperation of the Ministry of Power and Energy and the Public Utilities Commission of Sri Lanka.

Necessary action should be taken to obtain tests for which foreign currency is spent, to the pharmaceuticals laboratory established in the Industrial Technology Institute.