

Institute for Construction Training and Development

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Institute for Construction Training and Development as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Accounting policies

According to the ICTAD accounting policies statement, income is recognized on accrual basis. However, due to failure in issuing invoices for the services provided during the year 2012 such income had not been recognized as income for the year under review and as a result profit was understated by that amount.

1.2.2 Accounting Deficiencies

Following observations are made.

(a) Property, Plant and Equipment

- (i) Following disclosures had not been made in the financial statements.
 - The gross carrying amount and the accumulated depreciation at the beginning of the year.
 - The effective date of the revaluation and the methods and significant assumptions applied in estimating the fair values with regard to property, plant and equipment stated at revalued amounts.
- (ii) Assets purchased at a cost of Rs.697,646,458 which were fully depreciated but are being in use at present had not been revalued and taken into accounts.

- (iii) Although revaluation should be made for the entire class of property, plant and equipment, the ICTAD had not revalued of assets worth of Rs.200,100,473 in the same class during the year under review.
 - (iv) Although balance of service advance account amounting to Rs.8,007,337 had been transferred to non-current assets during the year under review, no any evidence had been made available to audit that such works were completed.
 - (v) Certain property, plant and equipment purchased during the year under review at a cost of Rs.2,674,250 had not been capitalized, and remained as stocks. Hence, stocks and non-current assets had been overstated and understated respectively by the same amount.
 - (vi) Non-current assets valued at Rs.2,778,676 had been capitalized without any acceptable supporting documents attached to the journal entries.
 - (vii) Assets relating to Centre for Habitat Planning and Development (CHPD) taken over from the Ministry of Construction, Engineering Services, Housing and Common Amenities in 2010 had not been valued and taken into accounts.
- (b) The subscription income received from contractors had not been recorded on accrual basis. According to the sample test, it was noticed that subscription fee amounting to Rs.1,546,250 which was not relevant to the year 2012 had been included and they need to be accounted as future income.

1.2.3 Contingent Liabilities

The ICTAD had not disclosed information relating to contingent liabilities arising from five legal cases filed against the ICTAD.

1.2.4 Accounts Receivable and Payable

Following observations are made.

- (a) The hire charges receivable amounting to Rs.114,529,393 with regard to the hire of motor vehicles, plant and machinery to the National Equipment and Machinery Organization (NEMO) during the period from 1997 to 2004 had not been recovered even up to 06 June 2013.

- (b) A sum of Rs.19,696,070 relevant to debtors of Head office, Operational Training Centre (OTC) and Construction Equipment Training Centre (CETRAC) had been continually shown as receivable since 1992 without action being taken to recover.
- (c) The debtor control accounts balance had been decreased by Rs.7,229,513 or 36 percent as compared with previous year. The debtors amounting to Rs.6,761,278 had been transferred to the debtor clearance account for more than one year. The ICTAD had not taken follow up action to recover it.
- (d) Out of the sundry debtor balances of Rs.118,042,203 as at 31 December 2012, a sum of Rs.116,412,258 or 99 percent had been outstanding for more than five years and no confirmation letters had been called for on such debtors despite our request to do so.
- (e) Confirmation letters had been sent for debtors totaling of Rs.12,785,721 which represented 65 percent of the total debtor balances amounting to Rs.19,696,070 and out of that only Rs.1,687,144 representing 13 percent had been responded. Out of Rs.1,687,144 , balances had not been accepted for Rs.1,445,502 which represented 86 percent. Following observation is made in this regard.
 - (i) The line Ministry debtor balance amounting to Rs.1,280,265 represented 5 percent of total debtors. According to the confirmation letter, the Ministry had not agreed to pay this amount. The ICTAD had not taken any action to collect these amounts from the line Ministry in timely basis.
- (f) A sum of Rs.1,128,270 shown in the financial statements as the amount to be claimed from Inland Revenue Department since 2004. The ICTAD had not made any attempt to recover this amount.
- (g) According to the Financial Statements, debtors balance of Construction Equipment Training Centre (CETRAC) was Rs.3,129,957 which had arisen due to the credit facility extended to the training participants where the recoverability of these outstanding debtors were doubtful.
- (h) Certain courses had been conducted by the Centre for Habitat Planning and Development (CHPD) but course fee amounting to Rs.184,150 up to 31 December 2012 had not been recovered due to lack of follow up action.
- (i) According to the age analysis provided by the ICTAD, sundry creditors amounting to Rs.2,305,021 had been outstanding for more than 5 years without being settled.

- (j) Refundable foreign Aid amounting to Rs.2,663,659 was shown under Non-Current Liabilities in the balance sheet. This balance had been brought forward since 1996. However, no any effective action had been taken to settle this amount.

1.2.5 Lack of Evidence for Audit

The following items could not be satisfactorily vouched in audit due to non-availability of evidence shown against each item.

Item	Value	Evidence not made available
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	Rs.	
(a) VAT,GST and Stamp duty	1,128,270	} Detailed Schedules Physical verification reports and Fixed Assets Register
(b) Refundable Foreign Grants	2,663,659	
(c) Property, Plant and Equipment	1,786,004,708	

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

Instances of non-compliance observed in audit are given below.

Reference to Laws, Rules, Regulations, and Management Decisions	Non-compliance
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(a) Finance Act, No. 38 of 1971 Section 13(2)	The determined audit fees for the period from 1998 to 2011 amounting to Rs.2,300,678 had not been paid by the ICTAD up to 05 April 2013.
(b) Economic Service Charges Act No. 13 of 2006	The ICTAD had not paid any amount of Economic Service Charges since the inception and even the returns had not been sent.

1.2.7 Transactions not supported by Adequate Authority

Providing security services for the Centre for Habitat Planning and Development (CHPD) had been assigned to a private security firm and the agreement had been extended up to 30 September 2012. Even thereafter, the security services had been provided by the same private firm and Rs.85,312 had been paid for the period from September to December 2012 without proper authority.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, operations of the ICTAD for the year under review had resulted in a deficit of Rs.78,758,145 as compared with the corresponding deficit of Rs.77,929,027 for the preceding year thus indicating an increase in the deficit of Rs.829,118, after taking into accounts of the Government recurrent Grants of Rs.47,150,000 received during the year under review as compared with the recurrent grant of Rs.55,200,000 received in the preceding year. The reason for the increase of deficit was due to the higher expenditure on revenue generation activities during the year under review.

2.2 Analytical Financial Reviews

Following observations are also made.

- (a) The operating deficit of the ICTAD was Rs.79 Mn resulting from the utilization of 260 staff, total assets worth Rs.727 Mn and the government contribution of Rs.87 Mn received during the year under review. (capital and recurrent grants)
- (b) The deficit of the ICTAD for the year under review represented 11 per cent of the total assets as compared with 12 percent for the preceding year indicated a favorable position of 1 percent.

3. Operating Review

3.1 Performance Review

Following observations are made.

(a) **Development Division**

The main objectives of the Institute for the Construction Training and Development are Registration of contractors, grading and maintaining related data base, promoting new technical knowledge, providing standard and directions for construction field. The Development Division had been established as main division to achieve above goals and objectives. The total employees of the division were 19 officers including the Director and the Deputy Director. A proper Annual Implementation plan had been prepared for the year 2012, and the actual revenue for the year 2012 were Rs.75Mn when compared with the budgeted amount of Rs.70 Mn. Total expenditure for the staff of this division was Rs.10 Mn for the year under review.

(b) **Training Division**

- (i) According to the Corporate plan of ICTAD, main objectives of the division are, conducting research and development, identify the training needs and man power assessment for the national construction industry. Sufficient evidence was not made available to audit, whether any research and development activities were conducted by the ICTAD.
- (ii) Six programmes which were included in the Annual Implementation Plan (AIP) for the year 2012 had not been conducted during the year under review.
- (iii) Another, main objective of the training division is, to establish a National Vocational Qualification (NVQ) assessment Centre to award NVQ certificates for skilled technician to improve competence and abilities of persons who occupied in the construction industry, and award the certificates. Following observations are made in this regard.
 - Even four NVQ/ Recognition of Prior Learning (RPL) pre assessment programmes and four NVQ/RPL full assessment programmes had

been budgeted for the year 2012 no any programme were conducted for NVQ/RPL during the year 2012.

- Even though NVQ had been started as national requirement and 12,575 persons had been provided knowledge under NVQ pre assessment programme in the past three years, only 1,423 participants had completed full assessment programme. But certificates were obtained only by 1017 participants out of the candidates who completed the programme.

(c) Centre for Habitat Planning and Development (CHPD)

- (i) Total income and expenditure of the CHPD were Rs.17.7 Mn and Rs.17.6 Mn respectively for the year 2012 and the profit earned thereon was very low representing 0.56 percent only.
- (ii) Eight Courses, Seminars and Workshops which were included in the Annual Implementation Plan (AIP) for the year 2012 had not been conducted during the year under review.
- (iii) Although five courses had been conducted during the year 2012 the targeted income as included in AIP had not been achieved. Accordingly 62 percent of income had been earned out of targeted income of the above courses and thereby CHPD was unable to earn Rs.2,262,500. However, reasons for decreasing of income were not analyzed and taken actions for rectification.

(d) Construction Equipment Training Centre (CETRAC)

- (i) Total income and expenditure of the CETRAC were Rs.15.5Mn and Rs.46.5Mn respectively in the year 2012 and thereby a loss of Rs.31Mn had occurred and net profit ratio was minus 201 percent.
- (ii) Seven Projects, Programmes, and Activities which were included in the Annual Implementation Plan (AIP) had not been carried out to achieve the targeted income.

(e) Operator Training Center (OTC)

- (i) Total income and expenditure of the OTC were Rs.28.8 Mn and Rs.62.8Mn respectively in the year 2012 and thereby a loss of Rs.34 Mn had occurred and net profit margin ratio was minus 118 percent.
- (ii) Even though, 13 programmes had been budgeted in the annual implementation plan, only 11 programmes had been conducted and additional 4 new programmes had been held during the year 2012.
- (iii) According to the annual implementation plan, 1055 training activities to be conducted and expected revenue was Rs.16.4 Mn. However, the achievement was Rs.13.4 Mn by conducting 816 activities only. Although Dump truck driver training and Crawler tractor training programme had been budgeted to carry out 16 and 12 times respectively, no such activities were conducted during the year under review. The Chairman had informed me that the two programmes included in the AIP were not conducted due to poor response from the applicants.

(f) Advisory Division

Although six seminars and activities (overall performance of the division) had been conducted during the year, the targeted income which was included in AIP had not been achieved and 36 percent of income only had been earned out of targeted income of the above seminars and activities.

3.2 Management Inefficiencies

Following observations are made.

- (a) Machine cost report (MCR) had not been updated and maintained properly. Hence it was unable to identify income, cost, profit / loss and repair cost in relation to training activities of the Operating Training Center at Galkulama in audit.
- (b) 2000 copies of Directory for Contractors had been printed at a total cost of Rs.4,351,000 without ascertaining the demand. As the information becoming outdated, selling price of the books had to be reduced thus resulting a loss of Rs.534,767 occurred to the Institute up to 31 December 2012. Since the information contained in 1132 books which were already outdated the recoverability of cost of Rs.2,462,666 is in doubt.

- (c) The ICTAD had signed Memorandum of Understanding (MOU) with Wayamba Creative Engineering Consortium (WCEC) on 16 September 2012 to cater the provincial demand for the construction training. Following observations are made in this regard.
- (i) Diploma course had been commenced on 30 September 2012 but ICTAD portion of Rs.143,500 had not been received at the commencement of the programme.
 - (ii) Further no any invoice had been issued to WCEC by CHPD up to the date of audit on 31 January 2013. This situation had been observed in audit as poor internal control system implemented by the CHPD.
 - (iii) The ICTAD had conducted same courses in the year 2011 with a Government Institution having same conditions which were included in the MOU. Therefore, it was unable to understand the reasons for signing MOU with a private institution to conduct such course without having enough benefits.
- (d) A sum of Rs.533,333 ($50,000 \times 32 \times 1/3$) had been received from National Apprentice and Industrial Training Authority (NAITA) for 32 students. However, invoice had not been issued until the date of audit on 11 March 2013 by the ICTAD.
- (e) Stock Control

Stocks of Rs.194,121,235 had been shown in the financial statements and following observations are made in this regard.
- (i) Tyres valued at Rs.181,140 had been idling in the stores since 1997.
 - (ii) The ICTAD stocks represent 78 percent of current assets and 27 percent of total assets and this position had been maintained for last several years. Therefore, the ICTAD had tied up much of its capital, in stocks which would adversely affected the cash position of the Institute.
 - (iii) Following Observations were made in connection with the Stores in CETRAC;

- Large number of stocks had not been used for more than 10 years. Out of that, some of the stocks had remained unused since 1997.
- Certain stocks had obsoleted. Furthermore, it was unable to value them because values were not made available to audit.
- There were certain spare parts where relevant machines and equipment were not with the CETRAC

3.3 Uneconomic Transactions

Following observations are made.

- (a) The ICTAD had signed an agreement with a private party in February 2011 to promote the domestic foods for six years which was not within the objections of the ICTAD. Following observations are made in this regard.
 - (i) According to the agreement entered, the private party should pay rental amounting to Rs.17,500 per month which is to be increased by 10 percent annually. Rental includes electricity, water and security service costs. As per cost benefit analysis, the ICTAD had to incur more expenses for this private party than its income and it was observed as an uneconomic transaction.
 - (ii) If it terminates the agreement during the six year period, the ICTAD should pay Rs.525,000 for a temporary building to the private party according to the agreement which could be identified as an unfavorable condition.
- (b) A sum of Rs.5,232,728 had been incurred on vehicle repairs which were carried out through private garages. However it was observed that this could have been reduced if the repairs were done at the workshop of CETRAC.

3.4 Inappropriate Disclosures

Circuit banglows at Katharagama, Anuradhapura and OTC Tiripanne valued at Rs.2,321,208, Rs.1,360,215 and Rs.16,582,992 respectively had been capitalized and shown under property, plant and equipment of the financial statements by the ICTAD without the ownership of the lands to the ICTAD. The ICTAD had not made any action to acquire the lands in the name of the ICTAD.

3.5 Utilization of Resources by other Institutions

Following observations are made.

- (a) Four A/C rooms and non A/C rooms in the CETRAC building had been given free of charge to seven external parties who were officers / employees in other Government Institutions. As a result CETRAC had occurred an estimated loss of Rs.3,737,532.
- (b) Though the ICTAD should not release employees to the Ministry or any other Institution in terms of Public Enterprises circular No PED/12 dated 02 June 2003, three employees had been given to the line Ministry without the requisite approval. Further the ICTAD had paid emoluments amounting to Rs.1,932,704 for the released employees during the year under review.

3.6 Human Resources Management

Following observations are made.

- (a) The Director post which is the top position had been vacant in CETRAC since May 2010. In addition to that, 26 other positions had been in vacant position in the CETRAC. Among them Training officers, Engineer assistants, Demonstrators, who are directly relevant to the training had been included and it would adversely affect the quality of training provided by the CETRAC.
- (b) The Public Enterprises circular No PED/12 of 02 June 2003 provides guidelines to govern public enterprises in different fields relating to planning and administration of human resource. Following observations are made in this regard.
 - (i) 19 positions were made as acting appointment in the ICTAD including senior management positions such as Internal Auditor, Director Finance and Deputy Director of operational training. In addition to that approval for 16 appointments had been made by the Chairman without the consent of the Board of Directors.
 - (ii) A person who had been appointed and designated as office aid was engaged for the driver's duty since 01 September 2011. Furthermore, another person had been appointed for the post of office aid in the same section.

- (iii) Five members were appointed for the post of acting security supervisors on 21 November 2011 and they were continued to be engaged as acting positions without considering them being appointed for the permanent post of security supervisors.
- (iv) Following observations are made relating to the “Scheme of Recruitment” (SOR) of the ICTAD.
 - No specific “Job descriptions” were made available for the Deputy Directors in each section of the Institute in SOR and therefore it was unable to evaluate the functions they had handled.
 - Even though, some specific “Job descriptions were available with regard to certain designation in SOR, it had not been considered when preparing duty list to the staff. Hence it was unable to ascertain in audit whether the purpose of SOR had been achieved.

4. Accountability and Good Governance

4.1 Corporate Plan

Following observations are made.

- (a) The Corporate Plan had not been prepared according to the guidelines of the Public Enterprises Circular No. PED/12 of 02 June 2003 and following observations are made in this regard.
 - (i) The available resources such as land, buildings, operating facilities, human resources and management skills needed had not been shown in the Corporate Plan.
 - (ii) Strength and weaknesses of the ICTAD and the external threats and opportunities (SWOT) had not been analysed and considered in the Corporate Plan.
 - (iii) Key Performance indicators had not been decided and included in the Corporate Plan.
- (b) A Human Resource and Marketing and Publicity Divisions had not been established up to the date of audit on 16 April 2013. However the Corporate Plan had identified certain activities to be carried out by these divisions during the year

under review. Furthermore, the said two divisions were not identified in the organization chart of the ICTAD.

- (c) Consultancy services had not been carried out in the CETRAC during the year 2012. However providing consultancy services on Construction Equipment, Machines and Maintenance and Management of Construction Equipment had been stated in the Corporate Plan as a key activity of the division.

4.2 Annual Action Plan

Following observations are made.

- (a) The responsibilities of managers with regard to the goals and targets to be achieved during the planned period had not clearly been identified.
- (b) An Action plan for the year 2012 had not been prepared for the Finance Division.
- (c) The Board of Directors of the ICTAD had suggested some of the revenue generation activities to be implemented in each division and Training Centre separately since 2012. However, the action plan prepared for the year 2012 had not been amended accordingly.
- (d) It was stated in the Annual implementation Plan (AIP) that trainees from Maldives and South Asian countries to be trained in Construction Equipment Training Programme, but none of the foreign trainees were trained during past few years. Actions that need to be taken to attract foreign customers and the reasons for not participating such trainees had not been analyzed and considered by the ICTAD.

4.3 Budgetary Control

Significant variances were observed between the budget and the actual income and expenditure thus indicating that the budget had not been made use of as an effective instrument of management control.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the ICTAD by my detailed report issued in terms of Section 13(7)(a) of the Finance Act. Special attention is needed in respect of the following areas of control.

- (a) Accounting and Maintenance of Accounting records
- (b) Receivables and Payables
- (c) Budget
- (d) Measurement of Performance against targets
- (e) Settlement of Advances
- (f) Issue of Invoices
- (g) Assets Management