

Industrial Technology Institute -2019

1.1 Qualified Opinion

The audit of the financial statements of the Industrial Technology Institute for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 2019 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

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

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

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 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 Financial Statement

1.5.1 Internal Control over the preparation of financial statements

Execute with general and specific authority of transaction management, record transactions as required to prepare financial statements in accordance with applicable reporting standards and maintain accounting for assets, access to assets only with general and specific authority of management, recorded assets The organization needs to maintain a well-designed and well-organized internal accounting control system to ensure that the accounting performance for existing assets is comparable to existing assets at reasonable times and appropriate action is taken on any discrepancies. Audit observations related to the maintenance of major accounting records such as General Ledger, Journal, Journal Vouchers, Payment Vouchers are included under the following headings.

1.5.2 Non – compliance with Sri Lanka Public Sector Accounting Standards

Non compliance with the reference to particular Standard	Comment of the Management	Recommendation
(A) A private company had filed a lawsuit against the Institute against the release of a performance bond demanding payment of Rs. 6,355,550, which may have a contingent liability on that value, although it is subject to Sri Lanka Public Accounts Standard No. 08 (100). According to the clause, it was not disclosed in the financial statements.	The company received Rs. 4.6 million due to deficiencies in the project as per the terms of the agreement. The balance amount is noted as an accrual liability. Although they had been informed that they would take legal action, but no legal action had been taken. Therefore, I would like to inform you that it was not included in the final accounts.	A probability for future contingent liabilities should be identified and adjusted according to the accounting standard
(B) According to the Sri Lanka Public Sector Accounting Standards No. 09, the closing stock should be valued at the minimum value of cost value or net selling value, without following these methods the closing stock was valued at Rs.25.1 million at the simple average cost method and stated in the financial statements.	Since the existing computer system does not have the facilities to calculate weighted average cost method therefore the simple average cost method is used for stock calculations. A new computer system with this feature is being installed. Agreements have been signed to complete it within 08 months. We will work to resolve this issue through the new computer system in the future.	Action should be taken to calculate the value of closing stocks in accordance with Sri Lanka Public Sector Accounting Standards No. 09.
(C) Rs. 290,816,686 worth fully depreciated assets were still used for the activities of the Institution but no revaluation was done as per the Public Sector Accounting Standards No. 03.	The value of the fully depreciated assets in the accounts is Rs. 786,800,587 Should be correct as.	Action should be taken according to the Public Sector Accounts Standards of Sri Lanka No. 03 for the fully depreciated but used assets.

1.5.3 Accounting Deficiencies

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
(a) Depreciation of the land on which the Malabe Research and Development Building is located by 5 percent for last year therefore, the error of having Rs. 2,000,000 in the depreciation allocation account had not been corrected during the year under review as well.	The adjustment of the relevant depreciation allocation will be made in the current year.	As pointed out in the audit reports of previous years, action should be taken to correct the errors.
(b) Unidentified credits made directly to the bank to the 31 December of the year under review Rs, 6,993,491 had not been adjusted to the account and shown as current liabilities in the financial statements. As a result, the financial statements for the year under review had been understated the income and overstated the current liabilities by that amount.	Appropriate actions will be taken during the current year to avoid this situation and to identify and account for the relevant direct banking.	Transactions made directly through the bank should be credited to the accounts of the institution without delay.
(c) Provision had been made of Rs.1,134,572 as a doubtful debts for the unsettled advances of Rs.9,476,908. As a result, deficit of the year under review had increased by Rs. 1,134,572 in the financial statements.	Provisions for doubtful debtors will be adjusted through the relevant advance account.	When allocating a doubtful debts for each loan balance should be analyzed separately.
(d) The value of assets fully depreciated as at 31 December 2019 was Rs. 790,816,686 as stated in the financial statements. However, according to the schedule submitted for audit, the value was Rs. 786,800,587 and a difference of Rs. 4,016,099 was observed between those values.	The value of the fully depreciated assets in the accounts should be correct as 786,800,587.	The detailed schedules for the assets mentioned in the financial statements should be matched with the relevant values.

1.6 Accounts Receivable and Payable

1.6.1 Receivable

Audit Observation	Comment of the Management	Recommendation
(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.	A board paper had been presented to write-off some debtors. Actions will be taken according to board recommendations. Some items are received in the current year. Appropriate action will be taken on the remaining items in the current year.	Proper procedures should be implement to recover the receivable debtors of the institute.
(b) The amount of Rs. 16,899,429 due from 20 officers who had violated the terms of the foreign scholarship agreements due for many years had not been recovered by 31 December 2019.	Out of this, Rs. 4,020,392 was involved in 17 officers and steps were taken to recover the money from the officers who had violated the agreement, but those measures failed as the officers had left the island. Many of their hostages have also fled the island and some are no longer alive. Necessary action is being taken with the Attorney General's Department regarding the officer who violated the agreement worth Rs. 3,789,640.	Action should be taken to recover the amount due from the violating officers in accordance with the agreement and without delay.
(c) Out of the trade receivable balance of Rs. 29,378,901 as at 31 December 2019, there are 448 outstanding balances outstanding for more than 06 years and the value was Rs. 10,612,617. Adequate actions had not been taken to recover the money.	The increase in these debtor balances is largely due to the collection of SVAT loan vouchers. SVAT preparation was done with trainees and it is difficult to recruit such trainees due to the current situation.	Appropriate arrangements should be made to recover the amount due to the institution.
(d) Although the value of the trade debtor as at 31 December 2019 was Rs. 29,791,016 but the balance verification letters had not been submitted to the audit to confirm the balance.	Letters were sent in January to confirm the relevant balances. Responses may be delayed due to the COVID-19 (corona) epidemic. Copies of the answers are being received for the relevant confirmations.	Letters of balance should be obtained from the trade debtors regarding the amount due.

1.6.2 Payable

Audit Observation	Comment of the Management	Recommendation
The institute had not taken action to cover the accrued expenses amounting to Rs. 1,272,918 consisting of 6 items from 03 to 10 years.	SLT has paid the phone bill through the Phone Expenses Account. This will be adjusted accordingly in the current year. The dishonored cheque account balance is a balance brought forward as at 31 December 2007. So far no one was able to present. Action will be taken to adjust to the cumulative profit. Reimbursements were made to the entities that claimed the VAT overpayment and the unclaimed balance will be properly adjusted in the accounts.	Action should be taken to settle current liabilities and Action should be taken to take income if there are no liabilities.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of Management	Recommendation
A) Sri Lanka Financial Regulations No. 507 (2) and Section 7.4.5 of the Circular No. PED / 12 of 02 June 2003.	The institute had not conducted a physical verification for non-current assets worth Rs. 2,952 million during the year under review.	This activity will be completed gradually and expeditiously (by August 08, 2020).	In the preparation of financial statements, the existence of non-current assets and their value should be physically examined and action should be taken to make the necessary disclosures through financial statements.
B) Section 395 (c) of the Sri Lanka Financial Regulation.	Each institution with a bank account should prepares a bank reconciliation statement before the 15th of the following month	Section 395 (c) states that the shortage of staff in the financial sector has affected this and that all bank reconciliations have	Should be taken an action in accordance with Sri Lanka Financial Regulation No. 395 (c).

regarding the transaction status at the end of each month, but the institute does not prepare separate monthly bank reconciliation statements for each month and only one bank reconciliation for the year 2019 had been prepared.

been completed for the year 2019 and the bank reconciliation for this year 2020 has been delayed due to the Corona epidemic in 2020. Work in progress now.

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| (C) Section 396 (d) of Sri Lanka Financial Regulation . | According to the bank reconciliation statement as at 31 December 2019, the value of cheques not submitted for payment was Rs. 11,414,070. Of that amount, Cheques amounting to Rs. 1,031,917 had not been dealt with in accordance with financial regulations. | Although cheques under Section 396 (d) which have expired have been dealt with under this section, this year it has not been done and action will be taken under this section this year. | Must act in accordance with Sri Lanka Financial Regulation No. 396 (d). |
| (D) Section 4 .2.1 (c) of 2006 Code of National Procurement Guidelines. | Although a detailed procurement plan for the next year should be prepared, the institute had not prepared a detailed procurement plan for 2019. | The detailed procurement plan for the year 2019 has not been prepared and a detailed schedule is attached in the relevant files for the more valuable capital goods. Update it and keep checking this procurement file regularly. | In the Code of National Procurement Guidelines 4.2.1 (c) should be complied with. |
| (E) Section 4.2.2 (a) of the 2006 Code of National Procurement Guideline. | Although a procurement schedule was to be prepared for each procurement process from the beginning to the end with a | A detailed schedule will be prepared and updated in the future regarding the procurement file. | Must comply with Section 4.2.2 (a) of the National Procurement Guideline. |

systematic description of each process, the company had not done so in 2019.

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| (F) Section 5.3.11 (a) of the 2006 Code of National Procurement Guidelines . | Bidders were required to submit bid security in the prescribed format as per the provisions of the Procurement Guidelines, but had not secured bid securities for eight procurements amounting to Rs. 21,261,119 in the year 2019. | They are unable to submit bid securities in the absence of local agencies owned by foreign suppliers under the call. However, due to the urgent need to purchase the goods on the requirement of the institution, the relevant tender will be awarded subject to the approval of the Technical Evaluation Committee and the Departmental Procurement Committee. | Must comply with Section 5.3.11 (a) of the 2006 National Procurement Guidelines. |
| (G) Section 5.4.4 (iii) of the 2006 Code of National Procurement Guideline. | Although the advance paid up to 90 percent of the payment to the contractor should have been recovered in full, the advance payment to the contractor for the construction of a canteen for the office complex in Malabe on 12J July 2018 had not been fully recovered. | 100% of the advance on the bill for the final payment submitted for this had been recovered. But so far this contractor has not been paid for the final bill. | Must act in accordance with 5.4.4 (iii) of the National Procurement Guidelines. |

- (H) Section 5 (i) (c) and 5 (ii) of the Management Services Circular No. 2/2014 dated 11 February 2014. The research proposals made by the officials should have been submitted to a committee consisting of officials from several other government organizations with the participation of the Secretary to the Ministry of Science, Technology and Research, but the Institute had not done so.
- The matter is also being looked into by a sub-committee set up at the Institute of Industrial Technology. The research activities are carried out using the proposed funds for the research of the Institute of Industrial Technology from the treasury funds and the recommendations are made by the sub-committee of the institute.
- Must comply with Sections 5 (i) (c) and 5 (ii) of Circular No. 2/2014 dated 11 February 2014 of the Director of Management Services.
- (I) Section 6 (i) of the Management Services Circular No. 2/2014 dated 11 February 2014. Treasury funds should not be used for research projects and should be funded by the National Research Council or the National Science Foundation, but without doing so, Treasury funds were used for 87 research projects from 2015 to 2019.
- In addition to research projects funded by the Institute of Industrial Technology or the Research Council or the National Science Foundation, the Treasury funds are used for research projects with budget approvals.
- Action should be taken in accordance with Section 6 (i) of the Management Services Circular No. 2/2014 dated 11 February 2014.
- (J) Section 4(ii) of the Management Services Circular No. 2/2014 dated 11 February 2014. Within six months from the date of commencement of the research, an action plan was required to submit a progress report as per the action plan relevant to the research proposal, but this was not done.
- Although reports were not collected every 6 months, a progress presentation was held once a year to evaluate progress. Following the audit, progress reports were obtained every six months from 2019 and progress was reviewed.
- Must comply with Section 4 (ii) of the Management Services Circular No. 2/2014 dated 11 February 2014.

1.8 Cash Management

Audit Observation	Comments of the Management	Recommendation
Five bank account balances amounting to Rs. 3,066,925 had been maintained as non-performing bank accounts for over 05 years.	No, 000-0351 account is related to a project jointly conducted by the Institute of Technology and several companies engaged in the manufacture of ceramic products. The project has not been active and the project has made a written request to get this money back. Account 000-2876-229 was used for the related project and this balance is to be returned to the Coconut Development Board. Account 000-9283-122 and Account 000-8174-439 are accounts of the EEPEx project and this project is currently suspended.	That the money inactive in the current accounts should be used for the activities of the institution.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a deficits of Rs. 4,058,920 and corresponding surplus in the preceding year amounted to Rs.12,252,426. Therefore a decline of 16,311,346 or 133 percent of the financial result was observed. This decline was mainly due to rising operating costs.

2.2 Trend Analysis of Major Income and Expenditure Subjects

Total revenue of the Institute increased by 6.94 percent compared to the previous year and total expenditure increased by 9.5 percent compared to the previous year. 46 percent of the total expenditure was on personal emoluments.

2.3 Ratio Analysis

The current ratio had been 2.76 in the year 2018 and it had been 1.96 in the year 2019. Working capital showed a decline in the year under review compared to 2018. The increase in operating costs had contributed to this decline.

3. Operational review

3.1 Non-financial transactions

Audit Observation	Comments of the Management	Recommendation
(A) Out of 56 research projects to be completed by the Institute of Industrial Technology during the period from 2015 to 2019, 25 projects had not issued final research reports. Due to this, the research projects carried out during that period did not achieve the desired objectives.	At the time of the audit, the remaining project reports had not been received, but the publication of six research papers and technical assignments confirm that the activities related to them had been carried out properly. However, the final reports have been received and can be submitted for audit today.	Research reports need to be updated to reap the desired benefits from research projects.
(B) During the period from the year 2015 to 2019, the research conducted by the Institute of Industrial Technology had identified that an income of Rs.1,610,000. The expenditure for research was 61,449,858 and research allowances were 33,980,404. Thus the total expenditure was Rs.95,430,262. Accordingly, the money spent on research projects did not bring any economic benefits.	Revenue earned through technology assignments for the period 2015-2019 was Rs. 17,430,270. The benefits of technology transfer should not be limited to just one year, but should have long-term economic benefits.	Efforts should be made to ensure a fair return on the money spent on research and to implement proper procedures to identify and report on the social and economic benefits of research.

3.2 Inactive or underutilized property, plant and equipment

Audit observation

Rack Mountable Server worth Rs. 2,549,321 provided to the Computer Division for installation of LIMS computer system was received by the company on 05 September 2019, but it was not in use until June 23, 2020.

Comments of the Management

Agreed to monitor (ISS) Computer System Integrated Software System (Science Land Pvt Ltd) These officers are conducting preliminary study work for ISS software with relevant departments. The relevant contract agreement was signed with the company on 24 June 2020 and the preliminary work of installing the software is in progress. This is expected to be completed within 8 months and then the relevant Rack Mount Sever system can be used.

Recommendation

The assets purchased by the company should be used for the relevant project.

3.3 Procurement Management

Audit observation

There were shortcomings in the preparation of cost estimates related to the procurement as the company did not introduce a formal methodology to identify the prevailing prices in the international market for technical equipment. As a result, cost estimates for 12 devices purchased in the year 2019 had increased by 25 percent to 107 percent.

Comments of the Management

Here the estimated price of the capital goods is determined on the basis of the trade prices of the last year and the market prices published on the internet. Those prices are not the actual value of the goods and the estimated value of the goods when importing the goods, including customs duties, warehousing charges and all other related expenses, and the depreciation of the rupee on the exchange rate, which is more than the estimated value of the goods has increased the true value.

Recommendation

A proper system should be put in place to identify the prevailing prices of technical equipment in the international market and a proper methodology should be developed for the preparation of estimates.

3.4 Human Resource Management

Audit observation	Comments of the Management	Recommendation
A) During the audit it was observed that 06 posts including Senior Computer Systems Engineer have been vacant for many years.	Due to the lack of qualified applications and the interview board did not recommend anyone to delay the recruitment for these posts, and some of the posts were advertised again and a letter was sent to the Department of Management for some of the posts.	Action should be taken to fill the vacancies.
B) During the year under review there were 29, 20 and 09 vacancies in the Staff, Non-Staff and other staff respectively and no action had been taken to fill these vacancies.	Additional Director General interviews and interviews for engineering posts were held and were cancelled on the decisions of the Board of Management. The Secretary of the Institute and the Chief Internal Auditor conducted the interview and the Interview Board did not recommend that any candidate be selected from the interviews. No qualified applications have been received for the post of Chief Research Technologist.	Action should be taken to fill the vacancies.
(C) A total of 47 posts were approved by the Department of Management Services for the Pharmaceuticals and Petroleum Laboratory to carry out the activities of the Institute of Industrial Technology on a commercial level out of which 21, 18 and 8 posts of Staff, Non Staff and other staff were converted respectively. Although there were vacancies during the year, no action had been taken to fill the vacancies.	Applications were also invited for the posts of Chief Research Scientist / Chief Research Engineer (03) and Senior Research Scientist / Senior Research Engineer (06) but had to be suspended due to recruitment restrictions. Interviews were also conducted for the posts of Research Scientist / Research Engineer (12) in the new Pharmaceutical and Lubricant Laboratories on 19th, 20th and 21st February 2020 and so far 09 persons have been recruited for those posts.	Action should be taken to fill the vacancies.

4. Accountability and Good Governance

4.1 Internal Audit

Audit observation	Comments of the Management	Recommendation
The post of Chief Internal Auditor has been vacant for many years.	Chief Internal Auditor (HM 1-3) Applications were called 4 times before 2019 and a qualified applicant could not be selected.	Arrangements should be made to recruit for the post of Chief Internal Auditor.