

Vocational Training Authority of Sri Lanka – 2015

The audit of financial statements of the Vocational Training Authority of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 25 of the Vocational Training Authority of Sri Lanka Act, No. 12 of 1995. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Vocational Training Authority of Sri Lanka as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements.

2.2.1 Sri Lanka Accounting Standards

(a) Sri Lanka Accounting Standard 16

- (i) Depreciation begins when the asset is available for use. Nevertheless, assets had been depreciated by the Authority based on the year of purchase.
- (ii) According to the Standard, the residual value, useful life, as well as the method of depreciation of an asset should be reviewed by the end of every financial year. Nevertheless, the assets had been depreciated by the Authority by applying a common rate that had been used for each category of asset.

(b.) Disposal of assets had not been accounted after the year 2009.

2.2.2 Lack of Evidence for Audit

Schedules of creditors relating to the other payables valued at Rs. 7,170,061 shown in the financial statements, had not been made available to audit.

2.3 Accounts Receivable and Payable

- (a.) Of the debtor balance of Rs. 34,825,040 by the end of the year under review, seven balances totalling Rs. 3,177,689 had been old between 1 to 5 years, whilst 21 debtor balances totalling Rs. 7,068,641 had been old between 5 to 13 years. Rs. 3,035,710 of that had remained receivable from Government institutions.
- (b.) The balances payable by the end of the year under review totalled Rs. 90,775,779, whereof a sum amounting to Rs. 265,000 had been older than 05 years, whilst sums of Rs. 13,313,061 and Rs. 19,969,169 had remained outstanding for periods from 3 to 5 years, and 1 to 3 years respectively. However, action had not been taken to settle those balances.

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

The following instances of non-compliance were observed.

Reference to Laws, Rules, and Regulations	Non-compliance
(a.) Establishments Code of the Democratic Socialist Republic of Sri Lanka.	
Section 2.2 of Chapter IX	The royalty of 10 per cent had not been deducted from the payments amounting to Rs. 168,835 made with respect to the lectures conducted for the part-time training courses by the permanent lecture panel of the Authority.
(b.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 104 and 110.	Two computers pertaining to the Computer Hardware Course conducted at the National Vocational Training Center in Ratmalana, had been misplaced on 15 January 2015. However, action had not been taken in accordance with the relevant regulations.
(ii) Financial Regulation 188 (2)	Follow-up action had not been taken even up to 31 December 2015 in respect of 02 unrealized cheques valued at Rs. 49,644 despite being deposited in the year 2009, and a cash deposit of Rs. 320,915 that had not been credited to the account despite being deposited in the year 2013.
(iii) Financial Regulation 385	When a bank account is kept, payments of Rs. 500 and over must not be made in cash. However, it was observed in an audit test check that instructors' fees of the part-time courses amounting up to Rs. 86,400 had been paid in cash in 08 instances.
(c.) Section 9.3.1 (vii) of the Public Enterprises Circular, No. PED/12, dated 02 June 2003.	If an acting appointment is made under exceptional circumstances, it should be limited to a period not exceeding 3 months. Nevertheless, 04 instances were observed in which acting appointments had been made for periods of up to 04 years.

2.5 Transactions not Supported by Adequate Authority

The following observations are made.

- a) A part time training course had been conducted at a National Vocational Training Centre since 11 March 2015 without a proper approval. A sum of Rs. 42,700 collected from the apprentices had been retained by the instructor for a period of 04 months without being handed over to the Cashier.
- b) A sum of Rs. 7,500,000 had been received from the Sri Lanka Tourism Promotion Bureau in February, 2012 in order to pay to the Salacine institute for commemorating the World Tourism Day in the year 2011. A sum of Rs. 1,000,000 that had been saved after making payments therefrom, had been credited to the income of the Authority in the year under review without a proper approval.
- c) In order to establish an insurance fund for the apprentices of the Authority, a sum of Rs. 24,905,500 had been collected from them during the period from the year 2013 to 31 December 2015, and deposited in a bank account of the Authority without approval of the Treasury in accordance with Section 3.1 of the Public Finance Circular, No. P. F/423, dated 22 December 2006.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result for the year under review amounted to a deficit of Rs. 75,332,248 as compared with the corresponding deficit of Rs. 76,456,852 for the preceding year, thus indicating an improvement of Rs. 1,124,604 in the financial result for the year under review as compared with the preceding year. Although the expenditure on cost of staff, contractual services, and the security services had increased by sums of Rs. 287,078,707, Rs. 4,815,454, and Rs. 10,536,480 respectively as compared with the preceding year, the decrease in the supply and consumer services, and other operating expenses by sums of Rs. 8,516,189, and Rs. 17,817,128 respectively whilst the increase in the Treasury grants by a sum of Rs. 236,753,539, had mainly attributed to the aforesaid improvement.

The analysis of the financial results of the year under review and 04 preceding years revealed that a financial surplus had resulted in for the year 2012, whereas a deficit had resulted in for the other years. However, in considering the employee remuneration and the depreciation on non-current assets, the contribution of the Authority in the year 2013 amounting to Rs. 1,023,595,450, had continuously increased up to Rs. 1,338,404,900 in the year under review.

3.2 Legal Action Instituted by or against the Authority

By the end of the year under review, 07 cases had been filed by the employees against the Authority whilst 02 cases had been filed by the Authority against the Director (Finance)

whose service had been suspended. A sum of Rs. 713,508 had been paid during the year as legal expenses.

4. Operating Review

4.1 Performance

The following observations are made.

- a) (i) According to the Vocational Training Authority of Sri Lanka Act, No. 12 of 1995, the Authority should execute the functions such as, conducting vocational training programs and providing training, carrying out research and development in vocational training and labour market, co-ordination of vocational training conducted by agencies in the public and private sector, offering career guidance and counselling services , offering job placement services, establishing links with local and international Vocational Training Organizations, and facilitating the training of trainers required for vocational training. However, no researches on the demand and supply of the labour market had been conducted whilst attention had not been paid on establishing international relationships in the year under review. Furthermore, the Authority had not implemented programs suitable for providing training by attracting the apprentices to the courses identified to be in line with the requirements of the labour market, and the participation of the apprentices in those courses had remained at a low level.
- (ii) The number of apprentices trained in the year under review in respect of the vocational areas such as, refrigeration and air-conditioning repair, gem and Jewellery, food technology, leather and footwear, fisheries and ornamental fish, and printing, had been less than 5 per cent of the overall number of apprentices.
- b) Observations on the performance in accordance with the Action Plan for the year and the conducting of classes during the 03 preceding years are as follows.
 - (i) From the year 2013 up to 2015, the numbers of apprentices enrolled for the training had been 28,446, 28,692, and 28,745 respectively. Accordingly, it was observed that the increase in the number of apprentices had been less than even 1 per cent. As the number of courses conducted had been 1925, 1939, and 1952, it was observed that the increase in the number of courses during those years had also been less than 1 per cent.

- (ii) The number of courses not accredited to the vocational level (NVQ), had been decreased from 522 in the year 2013 to 198 in the year 2015. The increase in the number of courses under vocational skills level 4 from 383 up to 775 in the year 2013 had been a favourable trend.
 - (iii) Despite being targeted to conduct 2405 full time and part time courses for the year 2015, only 1952 courses had been conducted. As such, 453 courses had not been conducted.
 - (iv) The number of courses for which, 5 or less apprentices had been enrolled was 28.
- c) The performance of the activities under the Skills Sector Enhancement Project.
- (i) Despite being targeted to establish 60 business units at 60 training centers by the end of the year under review, only 07 centers had been established.
 - (ii) Although a staff of 167 employees should have been recruited by 31 December 2015 under the Skills Sector Enhancement Project, only 43 officers had been recruited, thus indicating the unaccomplished target of 75 per cent. Of the 25 Instructors recruited, 11 had left the Authority. Although courses had been commenced at the centers by targeting another 7 of them, they had not been attached thereto.
 - (iii) As budgeted provisions had not been made for 43 Instructors recruited by the Authority in the year 2015 in addition to the recruitments made under the Project Plan, payments amounting to Rs. 13,147,737 had been made by the Project in the year 2015 for their salaries.
 - (iv) Although it had been targeted to commence 40 new courses at 07 selected centers, and to provide all the equipment required for those courses by the Project, 26 of those courses had not been commenced up to 31 December 2015.
 - (v) Although it was expected to establish a computer network by reviewing and improving the existing Information System of the Authority to encompass and formalize the activities such as, apprentice registration, and financial, stores and library administration, the activities for establishing such a system had not been commenced up to the end of the year under review.
 - (vi) A methodology had not been implemented by the Authority in the year under review to promote new training courses targeting foreign employment which is an objective of the Project.

- (vii) According to the Project Plans, construction of 10 new training centres should have been completed by the end of the year under review. Nevertheless, construction of only one centre had been commenced whilst only 12 out of the 50 centres to be improved, had been improved.
 - (viii) It was revealed at a sample check that the apprentices who had followed the Motor Vehicle Engineering Technician course at a centre in Colombo in the years 2012 and 2014, had not been awarded with certificates up to 26 October 2016.
- d) The establishment of Vocational Training Councils is stated under Section 15(1) of the Vocational Training Authority of Sri Lanka Act, No. 12 of 1995. Accordingly, directives relating to the establishment of Vocational Training Councils had been issued through the Gazette Extraordinary dated 30 April 1996 of the Democratic Socialist Republic of Sri Lanka, but such Councils had not been established up to 31 December 2015. It was further observed that courses had been commenced and discontinued improperly.
 - e) The number of Vocational Training Centers that remained functional during the years 2013, and 2014 was 275, and 251 respectively. However, that had decreased to 247 by 31 December 2015.
 - f) As only a part of the equipment required for commencing the Technician Course at the Vocational Training Centre in Puttalam, had been provided, the course had not been commenced.
 - g) Although it had been proposed to construct a new Hotel School in Ahangama, and training equipment valued at Rs. 8,605,519 required for 03 courses scheduled to be conducted therein had been purchased under the Skills Sector Enhancement Project since the year 2015, the construction of the Hotel School had not been commenced even up to May 2016. The equipment had been stored at the nearby centres since the year 2015.

4.2 Management Activities

The following observations are made.

- a) According to the information made available, the number of lands where the Vocational Training Centers of the Authority had been located, was 248, and of that, 178 lands belonged to the Public sector, whereas 70 lands belonged to the private sector. The ownership of only 32 lands belonging to the Government had been properly vested in the Authority by 31 December 2015. Despite being planned to take over the ownership of 60 lands, no action whatsoever had been taken to take over the

rest of the 86 lands. Of the lands owned by the private sector, agreements had been signed between the two parties only for 35 lands.

- b) The contribution to the Employees' Provident Fund and Employees Trust Fund amounting to Rs. 207,752,019 in respect of the cost of living allowance and the budget allowance paid to the officers of the Authority from January 2006 up to May 2015, had not been remitted by the Authority to the relevant Funds.
- c) A course for the Air Pressure Technicians had been commenced by the National Vocational Training Centre in Ratmalana, without an instructor, and without having the equipment required for accrediting the vocational qualification level, and class room facilities.
- d) Two new petrol engines valued at Rs. 1,639,729 provided for the training activities of the Motor Vehicle Engineering Technician course of the Vocational Training Centre in Anuradhapura district on 30 March 2012, had remained non-functional by 31 December 2015, but no action had been taken in that connection.

4.3 Transactions of Contentious Nature.

Disciplinary action had not been taken against the officers who had paid a sum of Rs. 1,711,961 as salaries without approval to a Director interdicted on financial misappropriation against whom a case had been filed.

4.4 Idle and Underutilized Assets

- a) The Lanka Ashok Leyland Bus the written off value of which amounted to Rs. 266,968 as at 31 December 2014, had remained parked at the premises of the District Office in Anuradhapura without being utilized.
- b) The binding machine used to bend the large- sized metal sheets and the rolling machine used to roll the sheets that had not belonged to the Welder Training course conducted at the National Vocational Training Centre, in Ratmalana, had remained idle at the premises pertaining to the Welder Training course over an extensive period of time.
- c) Despite the availability of the equipment required for the Steward Training course being conducted at the National Vocational Training Centre in Anuradhapura, the Skills Sector Enhancement Project had granted equipment valued at Rs. 4,862,672 on 06 May 2015, and those equipment had remained idle up to the end of the year under review.

4.5 Underutilization of Funds

The following observations are made.

- a) A sum of Rs. 201,737 in 05 bank accounts belonging to 02 centers closed for renovation, and 02 other centers, had remained idle over many years.
- b) A sum of Rs. 9,815,345 granted by the Tertiary and Vocational Education Commission in the year 2011 for purchasing training equipment, had remained idle without being used for the intended purpose.

4.6 Resources of the Authority Released to other Public Institutions

An officer, and 02 vehicles had been released to the Ministry of Skills Development and Vocational Training without proper approval, whilst 02 officers had been released to the Skills Sector Enhancement Project.

4.7 Personnel Administration

The following observations are made.

- a) The post of Director (Finance) of the Authority had remained vacant since 30 April 2015, and the Chief Internal Auditor had been appointed to act in that post on full time basis with effect from 05 May 2015. However, action had not been taken to appoint permanently an officer to the said post even up to 28 February 2017. As an auditor subordinate to the said officer had been appointed to perform the duties of the Chief Internal Auditor, it was observed that the transactions of the Finance Division were unlikely to come under an independent internal audit.
- b) The approved permanent cadre of the Authority had been 2438 as at 31 December 2015, and the actual cadre had been 1894, thus observing 544 vacancies. As 260 of the vacancies had been for the Instructors, the number of targeted training programmes could not be held.
- c) In making recruitment for the post of Instructor in terms of Section 5.1.1 of the Scheme of Recruitment of the Authority, a certificate of competence should be obtained by following a technical course on or above par with NVQ Level 5. However, out of the 91 files examined in the audit test check conducted in respect of the Instructors recruited in the year 2014, it was observed that 23 of them had not fulfilled that requirement.
- d) In terms of the Scheme of Recruitment of the Authority, recruitment for the post of Director (Human Resources and Administration) should have been made after calling for applications from the external and internal applicants and adhering to the system of granting marks by a board of interview comprising of the officers specified in Section 5.2.6 of Chapter II of the Establishments Code. Nevertheless, an officer had improperly been recruited to the said post with effect from 22 April 2015 in accordance with a letter signed by 08 members of the Board of Directors along with the recommendation of the Chairman of the Authority dated 05 June 2015.

- e) Six Instructors whose periods of service ranged from 10-16 years had been employed at a Vocational Training Centre in Colombo where an excess of Instructors had existed. As Instructors had been transferred whilst the courses had been in progress, instances in which apprentices, following the courses had faced up to difficulties, had been observed in the audits conducted at the district centers in Ratmalana, and Anuradhapura.
- f) Although the Authority had not conducted training programs on media, an Instructress who had not completed the basic qualifications in that field, had been recruited in the year 2011 on contract basis. Despite her failure in carrying out the duties relating to the post of Instructor, extension of service had continuously been granted to her, and her scope had been changed in the year 2014 as an Information Technology Instructress. The duties in that field had not been performed properly as well. Despite the non-availability of an approved methodology since the year 2016, this officer officiating for 3 days a week on contract basis, had been released for activities relating to the media coordination, by the top management.

4.8 Weaknesses in Contract Administration

Although a sum of Rs. 2,130,290 had been incurred in the year 2014 on consultancy services relating to the constructions of the 05 centers proposed for renovation in Eheliyagoda, Mapakada Wewa, Bingiriya, Baddegama, and Wellawaya, procurement activities had not been commenced in respect of those constructions up to 31 March 2016.

5. Accountability and Good Governance

5.1 Internal Audit

Audit programmes should have been planned and implemented in accordance with Management Audit Circular, No. DMA/2009(i), dated 09 June 2009, and Financial Regulation 133. Nevertheless, despite an Internal Audit Unit consisting of 12 officers had functioned at the Authority during the year under review, it was observed that the objectives expected by maintaining that Unit, had not been achieved due to weaknesses in areas such as planning and implementation of audit programmes, and follow up actions.

5.2 Unresolved Audit Paragraphs

The following observations are made.

- a) An investigation had not been conducted in accordance with Financial Regulations up to 30 July 2014 in connection with a vehicle that had met with an accident on 10 June 2011. A case had been filed against the driver, and a letter of demand had been sent on 04 May 2012 stating to pay the fines by pleading guilty, and compensate for the loss of Rs. 255,950 sustained by the third party at the accident. Nevertheless, no action had been taken in that connection even up to 31 July 2015.

- b) Even though the cost and accumulated depreciation of the non-current assets eliminated from use should be eliminated from the accounts through an Assets Disposal Account at the time of eliminating them from use and the resulting profit or loss should be adjusted in the financial statements of the relevant year itself. Nevertheless, the value of the assets eliminated from the year 2009 up to 2016 had not been eliminated from the Assets Accounts and the Accumulated Depreciation Account.
- c) The Chairman of the Authority had released a Deputy Director with salaries from 17 January 2006 for executing the duties of the Board of Control and the post of Working Director of the Central Cultural Fund for 03 half days per week, and to take part in the meetings of the Board of Control whenever held. The said officer had officiated at both of the institutions even up to the year 2014. A sum of Rs. 5,444,015 had been obtained as allowances from the Central Cultural Fund while receiving the salary from the Authority.

Even though the Secretary had been directed at the COPE meeting held on 12 September 2014 for the Vocational Training Authority of Sri Lanka that instructions be obtained from the Secretary to the President on the matter of obtaining salaries in addition to the Authority, the action taken in that connection had not been made available to audit.

- d) Even though the qualifications or experience had not been met in accordance with the Scheme of Recruitment of the Authority, recruitments had been made for the posts of Director General, Director (Planning, Research and Development), Director (Career guidance, establishment of employment and promotion), 03 posts of Deputy Directors, 02 posts of Assistant Directors, and the post of Legal Officer. Furthermore, an officer had been recruited for the post of Assistant Director (Finance) which had not been in the approved cadre.

6. Systems and Controls

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

Area of Systems and Controls	Observations
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a. Personnel Administration	<ul style="list-style-type: none"> - Recruiting officers who had not fulfilled the minimum qualifications. - Failure of the Boards of the Interview and Practical Test to function properly. - Non implementation of a proper transfer scheme.

- b. Assets Management
 - Failure to maintain a Register of Fixed Assets properly.
 - Failure to use codes for identifying the assets.
 - Existence of idle assets.
 - Failure to ensure all assets being inventorized. Non confirmation of the safeguard of assets.

- c. Control of Income
 - (i) Allowance for Apprentices
 - Failure to obtain an acknowledgement from the apprentices for the receipt of the apprentice allowance.
 - Differences in the methodology for computing the allowance.
 - (ii) Course Fees
 - Obtaining monies by the Instructors without banking the course fees.
 - Failure to ensure that the royalty is charged for all of the part-time courses, and failure to account after being identified as a separate income.

- d. Financial Control
 - Failure to assign the functions, and non-execution of the functions in an internal check system.
 - Failure to carry out supervisions properly.
 - Existence of the differences between the values paid by the bank , and the values shown in the ledger with respect to the expenses.