

Establishment of Colombo Vocational Training Centre and Upgrading of Gampaha Technical College - 2016

The audit of financial statements of the Establishment of Colombo Vocational Training Centre and Upgrading of Gampaha Technical College Project for the year ended 31 December 2016 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. This Project is implemented under the Loan Agreement No. 2013033/SL-SRI-22 dated 23 July 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Export – Import Bank of Korea.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, then Ministry of Youth Affairs and Skills Development, presently Ministry of Skills Development and Vocational Training is responsible for execution and implementation of the Project. The objectives of the Project are to establish and develop 02 vocational training centres in Colombo and Gampaha and play key role in spurring industrial growth and in human resources development with the assistance of Korea's expertise in technical transfers and economic development. The estimated total cost of the Project amounted to US\$ 31.41 million equivalent to Rs. 4,172 million and out of that the US\$ 26.05 million equivalent to Rs. 3,461 million was agreed to be financed by the Export – Import Bank of Korea. The Project commenced its activities on 18 November 2013 and scheduled to be completed by 18 November 2016. Subsequently, the period of the Project had been extended up to 12 June 2018.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Public Sector 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.

1.4 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. 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project'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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specification laid down in the Loan Agreement.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (f) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards.
- (g) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (h) Whether the financial covenants laid down in the Loan Agreement had been complied with.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 in accordance with Sri Lanka Public Sector Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

(e) the financial covenants laid down in the Loan Agreement had been complied with.

3. **Financial and Physical Performance**

3.1 **Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provisions for the year under review and the utilization of funds during the year under review and up to 31 December 2016 are shown below.

Source	Amount agreed for financing according to the Loan Agreement		Allocation made in the Annual Budget Estimate during the year under review	Funds utilized			
	US\$ million	Rs. million		during the year 2016		up to 31 December 2016	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
Exim Bank of Korea	26.05	3,461	1,000	5.75	748	6.59	857
GOSL	5.36	711	200	0.16	20	0.36	47
Total	<u>31.41</u>	<u>4,172</u>	<u>1,200</u>	<u>5.91</u>	<u>768</u>	<u>6.95</u>	<u>904</u>

3.2 **Physical Progress**

The following observations are made.

- (a) According to the information received, the building construction works at Colombo Vocational Training Centre and Gampaha Technical College had shown a slow progress mainly due to delays in establishing of the Project Monitoring Unit with dedicated staff. As a result, the Consultant for the civil construction works had been appointed with delays on 22 August 2014 and the contract for the construction of the buildings had been awarded to a foreign company only on 12 October 2016. According to the Implementation Plan of the Project the buildings construction works were scheduled to be completed by 29 June 2018. However, the physical progresses of the construction works were remained at 10 per cent as at 31 December 2016. Therefore, the completion of construction works within the period of the Project is remained in doubt.
- (b) The activities other than building construction works, other activities such as procurement of equipment, developing text books and reading materials and providing overseas training for teachers etc, which was expected to be completed within 30 months from the date of Loan Agreement had also not been implemented.

3.3 Human Resources Management

It was observed that the Project Director recruited on 10 December 2016 had not possessed adequate experience as specified in the Paragraph 2.2.5 (a) of the Management Services Circular No. 1/2016 of 24 March 2016.

3.4 Issues on Financial Controls

The transactions on the activities of the Project had not been subjected to audit of Internal Audit Unit of the Line Ministry, as required by Financial Regulation 133 and the Management Audit Circular No.05 dated 26 July 2010.