

Vocational Training Authority of Sri Lanka - 2019

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Vocational Training Authority of Sri Lanka for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, 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 reported to Parliament appear in this report.

In my opinion, effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements do not give a true and fair view of the financial position of the Authority 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 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

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 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 financial statements, management is responsible for assessing the Authority'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 Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial Reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority 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 Authority.

1.4 Responsibility of the Auditor on Audit 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 scepticism 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 Authority'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 Authority'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 Authority 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 Authority, and

whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Authority has complied with applicable written law, or general or special directions issued by the governing body of the Authority.
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws,

1.5 Financial Statements

1.5.1 Internal control over the preparation of financial statements

Entities are 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

The following observations are made.

Non-Compliance with the reference to particular Standard	Comment of the Management	Recommendation
(a) Although all economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities should be taken into account, as per paragraph 7 (b) of the Sri Lanka Public Sector Accounting Standards 01, building improvements costed Rs. 2,037,242 and purchases of training equipment and office equipment at a total cost of Rs. 8,541,394 relevant to the year 2019 and paid in 2020 had not been taken in to accounts. As such, property, plant, and equipment and current liabilities were under stated by Rs. 10,578,636.	These payments could not be made in 2019 due to non-receipt of capital grants from the Treasury. These payments have been made from the provision of 2020. Accordingly, adjustments have been made to the accounts in the year 2020.	Should be complied with the Sri Lanka Public sector Accounting Standards.

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| (b) | Even though property, plant and equipment should be revalued in every 03 or 05 years in accordance with paragraph 47 of the Sri Lanka Public Sector Accounting Standards 07, land and building owned by the Authority had not been revalued since 2008. | Agreed. Land and building had been referred to the Valuation Department for revaluation. The accounts will be adjusted as soon as the assessment reports are received. | Non-current assets should be re-valued as per the reference standard. |
| (c) | Although freehold lands and leased lands should be stated separately in the Financial Statement as per Sri Lanka Public Sector Accounting Standards 12, five leased lands valued for Rs. 9,842,565 were stated under the lands and those leased lands had not been amortised according to the reference standard. | At present, actions are being taken to acquire ownership of government-owned leased lands. | Amortization should be calculated according to the reference standard. |

1.5.3 Accounting deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Although the depreciation amount as per the financial performance statement for the year under review was Rs. 472,331,728, differed income in the financial performance statement and the cash flow statement was stated as Rs. 475,521,999. As such, the annual income was overstated by Rs. 3,190,271 and deficit of the year under review was understated by that amount.	This was already corrected.	All revenue and expenditure for the year should be accurately accounted for in the preparation of financial statements.
(b) The book value of the land amounted to Rs. 202,278,158 transferred to the National Apprenticeship and Industrial Training Authority in the year 2015 as per a decision of the Minister of Cabinet had not	The land has been referred to the Valuation Department for re-assessment. Action will be taken to make adjustment in the accounts after receiving the assessment report.	Non-current assets should be accurately identified and accounted when preparing financial statements in the future.

been removed from the value of lands in the Financial Position Statement even till 31 December 2019. Also, the land extends of 02 acres, 03 roods, and 38.38 perches received by the Authority instead of that land had not accounted for.

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| (c) | Although the cost of the 39 vehicles and 25 bicycles valued for Rs. 4,496,902 which were accounted for under the class of motor vehicles as at 31 December 2018 had not been taken for the revaluation in the year 2018, no action had been taken to rectify it during the year under review. | A five members committee has been appointed to identify these vehicles and take further action and make recommendations. Accordingly, a report had been taken and action will be taken to implement the recommendations of the committee report. | Accounts should be kept accurately when preparing account statements in the next year. |
| (d) | When the value of the land had not been capitalized under the non-current assets, a sum of Rs. 1,670,383 paid for surveying of those lands had been accounted for as land acquisitions in the Financial Statement. | Expenditure incurred for surveying land should be treated as capital expenditure. Once the land is acquired, the land will be assessed and capitalized. | Accounts should be kept accurately when preparing account statements in the next year. |
| (d) | 45 motor vehicles which had not been accounted under the motor vehicles had been revalued as at 31 December of the year under review and the revaluation value of Rs. 19,947,000 had been accounted in the motor vehicle account. The asset class in which those vehicles are accounted for had not been identified before revaluation and no action had been taken to remove its cost and provision for depreciation value. | A five members committee has been appointed to identify these vehicles and take further action and make recommendations and Accordingly, a report had been taken and action will be taken to implement the recommendations of the committee report. | All vehicles owned by the Authority should be properly accounted for in the preparation of financial statements in the next year. |

- (e) When accounting the value of the asset revaluation for the year 2018 in three asset classes amounted to Rs. 33,603,241 was under stated in the 2018 financial statements. As a result, non-current assets were under stated by that amount during the year under review and the negative balance of the Cumulative Fund was over stated by Rs. 12,052,310 and the revaluation surplus was under stated by Rs. 21,550,931.
- There was an error in accounting. Corrections will be made in the next year.
- Accounts should be kept accurately when preparing account statements in the next year.
- (f) Due to omission of assets worth Rs. 89,046,292 in the depreciation calculation of revaluated assets for the year under review, depreciation was under stated by Rs. 11,911,930 and due to dual calculation of assets worth Rs. 15,081,844, depreciation was over stated by Rs. 3,563,977.
- There was an error in accounting. Corrections will be made in the next year.
- Depreciation calculation should be done accurately when preparing account statements in the next year.

1.7 Non-compliance to laws, rules, regulations and management decisions

Reference to laws, rules, regulations	Non compliance	comment of the Management	Recommendation
Extraordinary Gazette Notification No. 921/2 dated 30 April 1996	Failure to appoint suitable persons with expertise relevant to the field, due to non-inclusion of qualifications for the appointment of members to the Vocational Training Councils established by the Extraordinary Gazette Notification, that Training Council system was unsuccessful.	The Hon. Minister has the power to appoint Vocational Training Councils. The persons to be appointed are mentioned in the gazette notification.	Action should be taken to issue a new gazette notification including the qualifications of the persons to be appointed.

2. Financial Review

2.1 Financial Results

The operation result in the year under review had been a deficit of Rs. 48,676,134 as compared with the corresponding deficit of Rs. 76,882,490 for the preceding year, thus observing an improvement of Rs.28,206,356 in the financial result. The increase in recurrent grant had mainly attributed to this improvement.

3. Operational review

3.1 Management inefficiencies

The following observations are made.

Audit observation	Comments of the Management	Recommendation
(a) In setting training targets for the Vocational Training Authority of Sri Lanka and in enrolling, less attention had been paid for 07 areas in vocational training field that could contribute to upliftment of the local economy and sufficient attention was not paid for introduction of new courses to suit the existing employment opportunities. Further, 22 percent of targets for the year 2019 were covered from Information Communication and Multifunction Technology Training programs.	The number of those courses had to be reduced due to attendance of apprentices for those courses were gradually decreased. Also, due to available of several specialized government agencies which have the abundant resources allocated for the above field, there were very less apprentice attraction to our course.	More attention should be paid to achieving the objectives of the Authority Establishment Act.
(b) Due to the cost of living allowance had not been taken for the calculation of the Employees' Trust Fund contribution from the year 2006 to May 2015, a sum of Rs. 7,898,073 had been surcharged and it had been charged to the expenditure	Since the funds were received in instalments from the Treasury, the surcharge was paid according to the year in which it was received and adjusted as an expense.	Relevant surcharge should be recovered from the negligent officers.

during the year under review instead of recovering from the responsible officers.

3.2 Operational inefficiencies

Following observations are made.

Audit observation	Comments of the Management	Recommendation
<p>(a) With a view of constructing new Vocational Training Centers, 02 plots of land which had been acquired after payment of total sum of Rs. 43,310,340 to the Urban Development Authority and Land Reforms Commission on long term lease basis in 2017 and 2018, had not been used for the intended purposes till September 2021.</p>	<p>Relevant plans have been prepared for the construction of a new center at Modarawila, Panadura and funds have been allocated under the Sectoral Skills Development Project and although the project have completed all of its procurement by 2020, it was delayed due to the epidemic situation in that year. The contract was not awarded thereafter as this could not be completed in the remained period of the project. Although the Authority has requested for allocations under capital expenditure for the year 2021, no provision has been made for it. A third party has filed a lawsuit against the Land Reforms Commission over its ownership of the Wanarajawatta land after it was purchased by the Authority from the Land Reforms Commission.</p>	<p>Management should focus on decision making with a greater focus on achieving the objectives of the Authority Establishment Act.</p>
<p>(b) The hotel school in Ahangama was converted into a tourist hotel with the approval of the Authority's Board of Governors, without a pre-feasibility study, and a sum of Rs. 124,685,148 had been</p>	<p>The Hotel School in Ahangama was renovated to a tourist hotel with the objective of providing vocational training courses for apprentices studying in the hotel industry in the</p>	<p>Assets should be utilized with maximum efficiency and effectively for the intended purposes.</p>

spent thereon for the renovation activities during the period 2016 and 2018 and also a sum of Rs. 37,556,018 had been spent for the purchase of equipment from the Skills Sector Development Fund. However, it had not been used for the relevant purposes even till September 2021.

Vocational Training Authority and giving them the opportunity to enter the field as skilled person. Agreed that it took a considerable amount of time to complete the project, making changes from time to time. Presently, it has started operating as an advanced training institute in the hotel industry and currently, this center is also used for various needs of the Vocational Training Authority of Sri Lanka (eg training programs, etc.). It also saves money for the authority. It was planned to conduct workshops in the future by aware local and foreign tourists and other government agencies. It is not currently operating at full capacity but hope to do so when the country gradually recovers.

3.3 Ideal or Under-utilized Property, Plant, and Machinery

The following Observations are made.

	Audit observation	Comments of the Management	Recommendation
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(a)	Although a total value of Rs 14,944,049 training equipment were purchased for Chef Course in 02 Hotel Schools, Pottuvil and Karainagar, the equipment remained idle from 2016 to 30 November 2021 due to not taking action to start those courses.	Due to the shortage of Tamil medium instructors and the shortage of qualified instructors in line with the recruitment process, it has not been possible to start training for these courses. However, a person did not qualify in the 2021 interview but it was decided that would be suitable to be attached to	Assets should be utilized with maximum efficiently and effectively for intended purposes

the Karainagar Hotel School for counselling after further training is currently undergoing training at the Kuchchaveli Hotel School and expected to be appointed as an Instructor after completing the training and passing theoretical and practical teaching aptitude tests.

- (b) Although 12 rooms in 02 storied two buildings, 02 hotel schools, and 16 rooms in a National Training Center have been constructed for the purpose of providing accommodation for apprentices, the buildings and equipment have been idle since 2017 due to non-recruitment of hostel wardens, supervisors and other support staff and lack of basic facilities such as water.
- There was no demand for accommodation as only those near the center participate as apprentices. These equipment and buildings are currently being used for training purposes. Kuchchaveli in Trincomalee District is a successful and thriving tourist destination. As such, this center was established with the objectives of providing training and employment opportunities to the youth in the area and in other areas. The hostels are also planned to be used once the permanent water facility is available.
- Before undertaking large-scale constructions at the expense of public funds, a feasibility study should be conducted to identify the strengths and threats associated with them.
- (c) Contrary to the objectives of the Authority and without a basic plan of utilization, 22 hotel rooms had been procured in Ampara and Jaffna districts at a total cost of Rs. 91,026,186 and Rs. 6,102,660 worth of household appliances had been procured to provide for tourists were remained idle from the year 2017 to August 2021.
- Not idle. These items are used for apprenticeship training.
- Before undertaking large-scale constructions at the expense of public funds, a feasibility study should be carried out to identify the strengths and threats associated with them.

3.4 Procurement Management

Audit observation

Although the aggregate amount of the variations is exceeding the contingency provision the approval from the Chief Accounting Officer's should be obtained before issuing such variation orders in accordance with the provisions of Section 8.13.4 of the Manual of the Procurement Guidelines, the approval of the Chief Accounting Officer had not been obtained even the contingencies provision limit for one contract exceeded by 215 percent.

Management comment

These expenses were borne from the value of the savings from the funds allocated for the projects and the contingencies provisions. Relevant payments have been made subject to the approval of the Head of the Institution, not exceeding 10% of the amount allocated for the projects.

Recommendation

Procurement guidelines should be followed.