

Vocational Training Authority of Sri Lanka - 2021

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 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in net assets 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 give a true and fair view of the financial position of the Authority as at 31 December 2021, 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 Audit Observations on the Preparation of 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

Non-Compliance with the reference to particular Standard	Comment of the Management	Recommendation
(a) Although revenue and expenses should not be offset unless required or permitted in terms of Section 48 of Sri Lanka Public Sector Accounting Standard 01, expenditure total amounted to Rs. 23,917,086 had been off set against 05 revenue subjects total amounted to Rs. 53,382,820 and the net income of Rs. 29,465,734 had been stated in the financial statements.	Action will be taken to state these incomes and expenses separately in the preparation of the financial statements of the year 2022.	Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.
(b) In terms of Section 14 of the Sri Lanka Public Sector Accounting Standard 7 and paragraph 47 of 7, the value of 29 lands belonging to the authority was not valued and accounted for.	Presently, 28 plots of land owned by the Sri Lanka Vocational Training Authority had been provided to the Valuation Department with the necessary information for the purpose of valuation. Adjustments will be made in	Sri Lanka Public Sector Accounting Standards should be followed.

the accounts as soon as the reports are received.

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| (c) | Although the fair value of property, plant and equipment should be revalued in every 03 or 05 years in terms of the paragraph 47 of Sri Lanka Public Sector Accounting Standard 7, the land and buildings owned by the authority were not revalued after 2008. | The Valuation Department is currently valuing the land and building and once the work is completed, adjustments will be made in the accounts. Valuations of gold coins had been done in the year 2020 and those gold coins will be correctly valued in the year 2022, and adjustments will be made in the year 2022. | Non-current assets should be revalued in every 03 or 05 years as per the reference standard. |
| (d) | Treasury and other government grants received during the year under review amounted to Rs. 240,467,473 had not been recognized and measured in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard 11. | According to the amendments to the Accounting Standard 11, will be accounted correctly in the year 2022. | Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards. |
| (e) | Freehold lands and leased lands had not been stated separately in the Financial Statement as per Sri Lanka Public Sector Accounting Standard 12 and five leased lands valued for Rs. 9,842,565 had not been amortised according to the reference standard. | As mentioned in the query, the authority pays a rent of Rs.9000 only for the Yatianthota land while acquiring the land on lease basis and no rent will be paid for the other 04 lands. Accordingly, the amortization under Standard No. 12 will be done during the preparation of accounts in the year 2022. | Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards. |

1.5.3 Accounting deficiencies

----- Audit Observation -----	Comments of the Management	the Recommendation -----
(a) A company was registered under the Companies Act No. 07 of 2007 in the name of VTA Holdings (Private) Limited on 18 December 2013 with the full equity (100%) ownership in Sri	Ledger accounts related to these incomes and expenses are maintained separately and it will be stated separately in the statement of operations and related notes in the final accounting statements as	As per the share issue certificate under Section 51 (4) (a) of the Companies Act No. 07 of 2007, shares of Rs. 10 had been issued to the Vocational Training

Lanka Vocational Training Authority. But due to the fact that the relevant financial statements were not submitted to the audit from 18 December 2013 to 31 December 2021, the consolidated financial statements were not submitted by the Authority.

indicated by the audit in the year 2022.

Authority. Hence, the financial statements of the relevant company should be submitted to the audit expeditiously.

- (b) Due to duplicate calculation of depreciation for assets in relation to 03 asset classes procured in the year 2018 at a total cost of Rs. 25,775,505, the depreciation for the year under review was over accounted by Rs. 2,943,759 and the depreciation for the years 2019 and 2020 was over accounted by Rs. 9,221,628. As such, the deficit of the year by Rs. 2,943,759 and the debit balance of Accumulated Fund by Rs. 9,221,628 were over stated in the financial statements.

The relevant adjustments will be made in the preparation of 2022 final accounts.

Depreciation calculations should be done accurately while preparing financial statements.

- (c) Revalued assets total valued for Rs. 198,889,054 as on 31 December 2018, purchased under government capital grants and fully depreciated and completely written off as deferred income, and due to further accounting of the same amount as deferred income while amortizing the assets on their revaluation value, the deficit for the year by Rs. 18,780,149 and the debit balance of Accumulated Fund by Rs. 76,820,627 were understated in the financial statements.

According to Sri Lanka Accounting Standard No. 13, 02 methods are considered while revaluation of assets. Those are market cost and Purchased cost. Accordingly, if the year of procured or cost of the relevant asset was not known, the above market cost method will be applied. Since the Sri Lanka Vocational Training Authority has assets from the year 1996 and assets taken over from the Department of Labour, it was difficult to specify the period of purchase. Accordingly, above method was followed.

Accurate calculations should be done in the preparation of the financial statements.

- (d) The cost and accumulated depreciation related to the assets disposed of during the year under review had not been removed from the respective accounts and a sum of Rs: 2,030,410 received from the sale of assets had been accounted as other income without recognizing the profit on disposal of the assets. Assets will be identified accurately and auctioned from 2022 onwards. Income should be accurately recognized and accounted for in the preparation of the financial statements.
- (e) Twenty four motor vehicles with a net value of Rs.4,496,902 as on 31 December 2018 were omitted in the revaluation conducted in that year, but no action was taken to rectify the same even during the year under review. These 24 motor vehicles had been used as training tools. The Ministry has informed the Motor Transport Commissioner to cancel the registration of the relevant motor vehicles and the necessary actions are being taken in this regard accordingly. The 24 cars that were accounted for under the motor vehicle class should be identified and accurately accounted for by the division currently in use.

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

Reference to laws, rules, regulations -----	Non compliance -----	comment of the Management -----	Recommendation -----
(a) Chapter XXIV of the Financial Regulations of Socialist Democratic Republic of Sri Lanka			
i. General Form 288 of schedule 04 of the Financial Regulation	A fixed assets register had not been maintained for the property, plant and equipment of the Authority valued for Rs. 7,971,202,923 as at 31 December 2021.	The authority is currently carrying out activities related to maintaining an up-to-date fixed asset register through the Busy software and, accordingly, this problem will be avoided in the future.	The Financial Regulations should be followed.
ii. Financial Regulation 1646	Although the running charts of the pool vehicles being driven should be furnished to	A part of the running charts related to the years 2020, 2021 had been submitted for	Action should be taken to submit the running charts to the audit before

- the Auditor General audit by 29.03.2022 the due date as per before 15 of following and the balance will be the referred month, the running submitted in the regulations. charts of 123 pool future.
- vehicles for the period from the month of January 2019 to December 2021 had not been submitted to the audit. A sum of Rs. 28,280,105 had been incurred for the fuel of all those vehicles for the relevant period.
- (b) Management Services Contrary to the circular, Necessary action had Payments made Circular No. 05/2017 a sum of Rs. 1,669,516 been taken to recover contrary to the dated 25 October 2017 had been paid to 8 the amount due from the circular provisions 08 officers of the Authority the 08 officers who should be who were receiving 1/3 received 1/3 allowance of the Sectoral Skill Development Project in 08 installments from June 2022. recovered.
- (c) Internal circular Nos. Although the maximum Since there is no The transfer 03/2003 and 05/2013 of service period for each provision for policy should be the Sri Lanka officer of the authority compulsory transfer of implemented as Vocational Training in one district was only an employee after the per internal Authority 06 years, officers with completion of a certain circular provisions. more than 06 years of period of service in the transfer procedure of this authority, action is currently being taken to prepare a methodology to amend it. Relevant amendments will be prepared and proposals will be submitted to the Board of Directors and further action will be carried out.

2. Financial Review

2.1 Financial Results

The operation result in the year under review had been a deficit of Rs. 1,050,040,402 as compared with the corresponding deficit of Rs. 989,421,893 for the preceding year, thus observing a deterioration of Rs.60,618,509 in the financial result. The decrease in the government recurrent grant had mainly attributed to this deterioration.

3. Operational review

3.1 Management inefficiencies

Audit observation	Comments of the Management	Recommendation
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 surcharge of Rs. 7,898,073 had been paid in the year 2019, but action had not been taken to recover from the responsible officers.	The situation was not caused by negligence and the situation arose out of a misinterpretation of the allowance as an interim allowance. The relevant information was submitted to the Board of Directors and approval was taken and this payment was made accordingly.	The surcharge was done due to the negligence. As such, relevant responsible officers should be identified and recovered from them.

3.2 Ideal or Under-utilized Property, Plant, and Equipment

Audit observation	Comments of the Management	Recommendation
157 equipment total valued for Rs.15,743,838 received from the Korean loan project for the construction of the Colombo Vocational Training Center and the Gampaha Technical College and given to the Korean Tech Institute, Orugodawatta, under the Authority in the year 2019 were remained ideal without being utilized and 07 equipment worth of Rs. 1,784,794 were remained out of order. Further, even the posts of	Arrangements have been made to place the relevant equipment in their respective places. The 07 inactive devices had been repaired by the representative agency in Sri Lanka. Medicines cannot be used without medical recommendations and only medicine which can be used for injuries and bruises have been used.	Acquisition and procurement of assets should be done in the order of necessity and the priority of the Authority. Many of the equipment provided on foreign loan funds were inactive and action should be taken to utilize those tools expeditiously.

doctors or nurses have not been approved for that institution, medical equipment and medicines worth of Rs. 3,500,000 uses by doctors had been provided and those medicines had expired without being used.

3.3 Procurement Management

Audit observation

Comments of the Management

Recommendation

 In relation to the procurements worth of Rs.11,776,318 in 173 occasions under the shopping method in the Kalutara District Vocational Training Centre in the year 2021, large scale of deviations against the procurement guidelines, such as non-registration of suppliers, non-appointment of bid opening committees, acceptance of unsealed bids, payment on false price bills etc. were observed.

 Procurements for the urgent necessity works were done considering the prices in the bids received. Instructions have been given to avoid the errors in the future.

 Procurement guidelines should be followed for every purchase to procure quality goods and services at the lowest cost and obtain economic benefits.