

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 2022 comprising the statement of financial position as at 31 December 2022 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 2022, 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 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. Accordingly, the following observation is made.

Audit Observation	Comments of the Management	Recommendation
It was revealed in the test check conducted in relation to the accounting system that, out of the data entered into the system in the year 2022, 144 receipts total valued for Rs.1,155,529 and 96 sales invoices total valued for Rs.1,027,250 were deleted and amended in the period from January to April 2023 without applying journal entries. Further, the officers who enter the data into the accounting system were given the authority to change the data without any control.	As mentioned in the audit, action will be taken to limit the errors which have to be corrected in the accounting system and to prepare and implement a transparent formal system for that purpose, and to find out about the facilities in the computer accounting software for that purpose and implement them.	A formal internal control system should be implemented for constantly testing of the accounting system and limits should be introduced for the tasks to be performed in the accounting system.

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) According to Section 14 of Sri Lanka Public Sector Accounting Standard 7, action had not been taken to asses and account for the value of buildings constructed on 20 land plots which were not owned by the authority, 08 owned land plots and the buildings constructed thereon.	Out of the 29 land plots, 07 plots of land have not yet been assessed and, as such, the value of the assessed 22 plots of land was not included in the accounts of the year 2022.	All assets belonging to the institute should be assessed and accounted for.

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| (b) | Due to non-compliance with paragraph 52 of Sri Lanka Public Sector Accounting Standard 7 regarding the revaluation losses of Rs. 51,409,653 identified in the revaluation of assets conducted in the year 2018 in accounting for the revaluation surplus identified in the revaluation conducted in the year 2022, the Accumulated Surplus and Revaluation Reserve as on 31 December 2022 were understated and overstated by that amount respectively. | Action will be taken to rectify this revaluation surplus in the year 2023. | The revaluation surplus or deficit should be adjusted correctly according to Sri Lanka Public Sector Accounting Standards. |
| (c) | Due to implicit interest rate had not been applied as specified in Sri Lanka Public Sector Accounting Standard 12 in accounting of financial leasing liability and interest expense related to 03 vehicle procured under the financial leasing basis in the year 2019, the non-current and current lease liability as on 31 December 2022 were understated by Rs.1,177,479 and Rs.1,119,992 respectively and the accumulated surplus as on 31 December 2022 was overstated by Rs.2,297,471 | According to the highlighted in the audit report for the financial statement of the year 2022, relevant adjustments will be made in the year 2023 and the accounts will be kept according to Sri Lanka Public Sector Accounting Standard 12. | Financial statements should be prepared in accordance with the provisions of Sri Lanka Public Sector Accounting Standards. |

1.5.3 Accounting deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Due to non-capitalization of the Ruhunugama Vocational Training Centre building in Matara District costed for Rs.7,743,902, which was completed on 30 November 2021 and handed over to the authority, the value of the building from that amount and the value of the retention money account by Rs.398,158 were understated and the balance of the works in progress account was overstated by Rs.7,345,744.	As the final bill was not settled, it was accounted for under work in progress in the year 2022, but the cost of the building will be capitalized in the preparation of the final accounts for the year 2023.	Action should be taken to capitalize of the buildings after the completion of the construction and hand over to the authority.

- (b) Due to the dual calculation of depreciation of the assets acquired during the period from 2018 to 2021 in the calculation of depreciation for buildings and motor vehicles asset classes in the year under review, the depreciation expenditure for the year was over stated by Rs.134,630,322. As such, the surplus of the year under review and the property, plant and equipment balance as on 31 December 2022 were understated by that value.
- As the asset classes are currently identified, it will be rectified in the year 2023.
- Depreciation values should be accurately calculated and adjusted in the financial statements.
- (c) It was revealed in the test check that, the expenditure of Rs.3,054,300 related to the year 2023 of 09 part-time courses started in the academic year 2022/2023 had been accounted as the expenditure of the year 2022. As such, the deficit and accrued expenses of the year under review were overstated by that amount.
- Income and expenses have been adjusted based on the year in which the part-time courses are started and income and expenses will be adjusted based on the period related to the year of the course in the future.
- Only the incomes related to the year should be correctly identified and adjusted in calculating the deficit and surplus of the year.
- (d) According to the information received from the Examinations and Evaluation Division of the Authority and the Certificate Issuance Division of the Tertiary and Vocational Education Commission, a sum of Rs.8,156,600 payable to the Tertiary and Vocational Education Commission by the authority as on 31 December 2022 for the issuance of NVQ certificates had not been accounted for.
- At present, as unavailability of provision for this payment, action will be taken to settle this payment from the provisions of the year 2023 based on the agreement to be reached in the future.
- All transactions relating to the year should be accounted to reflect a true and fair view by the financial statements.
- (e) A sum of Rs.45,326,885 given by various institutions to the Vocational Training Authority in the year 2022 and previous years for the execution of special projects was credited to the expenses payable account instead of being credited to a deposit account.
- The funds received from the projects and expected to be spent in the next years were recorded in this account and this money will be spent in the year 2023.
- Action should be taken to utilize the funds receiving for carrying out special projects within the relevant year and the remaining balance should be remitted to the treasury.

1.5.4 Documentary Evidences not made available for Audit

	Item	Amount (Rs.)	Evidence not Available	Comments of the Management	Recommendation
(a)	Special Project Grants	13,266,934	Details of the projects and the allocated funds for each project and letters of release of funds.	The written evidence related to the receipt of allocation for special project will be submitted to you.	Relevant evidence should be submitted to verify the correctness of the special project receipts which were accounted for.
(b)	Capital Grant Revenue arose from Non-Exchange Transactions	18,632,491	Do	The written evidence related to the receipt of allocation will be submitted to you.	Relevant evidence should be submitted to verify the correctness of the Capital Grant Revenue arose from Non-Exchange Transactions which were accounted for.

1.6 Accounts Receivables and Payables

1.6.1 Accounts Receivables

	Audit Observation	Comments of the Management	Recommendation
(a)	A receivable amount to the authority amounted to Rs.20,246,792 from 35 officers who had left the service of the Sri Lanka Vocational Training Authority between the year 2003 and year 2022 was unable to recover even by 26 July 2023.	It has referred to the Attorney General to proceed Legal actions against these officers.	A formal mechanism should be implemented to recover all dues from the leaving officers.
(b)	A total sum of Rs.5,512,969 receivables to the authority from 03 government institutions due for more than 10 years as on 31 December 2022, could not be recovered even by 31 May 2023.	That according to the Circular No. PED/01/2021(i) and dated 16.05.2023 issued by the Ministry of Finance, Economic Stabilization and National Policy, it will be submitted to the Audit and Management Committee and then submitted to the Board of Directors on its recommendations.	Action should be taken to recover the long-term outstanding balances without delay and make sufficient provisions for bad debts.
(c)	A sum of Rs.9,280,000 was paid to the Land Reform Commission on 25 April 2018 for the transfer of ownership of 31.3 roods and	As there is currently a legal action for the Wanarajawatta land, the amount will be settled after its settlement.	The payment for land acquisition should be done upon focusing on clearance of the ownership of land.

03 perches of land to the authority where Nuwara Eliya Wanarajawatta Rural Vocational Training Center was located without concern about the clearance of title of the land and although 5 years had passed, it was not possible to take over the ownership of the land to the authority or recover the amount paid.

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

	Reference to laws, rules, regulations	Non compliance	comment of the Management	Recommendation
(a)	Financial Regulation 371(2)(b) as amended by the section 09 of the Public Finance Circular No. 1/2020 dated 28 August 2020.	Although an ad-hoc imprest up to a maximum limit of Rs.100,000 should have been given for any specific work at a time, contrary to that, advances total amounting to Rs.1,788,693 were given in 12 occasions in the range of Rs.100,500 to Rs.340,404.	That instructions have been given to the Finance Department that ad-hoc imprests should be issued within the maximum limit in the future.	Provisions in the Financial Regulations should be followed.
(b)	Paragraph 8.1 and 8.2 of State Accounts Department Guidelines No. 221/03 dated 26 November 2021	A proper fixed asset register was not maintained to verify the accuracy of the property, plant and equipment amounting to Rs.7,659,583,443 stated in the statement of financial position as on 31 December 2022.	At present, a formal fixed asset register is being prepared.	A formal fixed asset register should be maintained to ensure the accuracy of property, plant and equipment.

2. Financial Review

2.1 Financial Results

The operation result in the year under review had been a deficit of Rs.544,059,934 as compared with the corresponding deficit of Rs.327,145,399 for the preceding year, thus observing a further deterioration of Rs. 216,914,535 in the financial result. The decrease in government capital grants and increase in employment and other operating expenditure had mainly attributed to this deterioration.

3. Operational review

3.1 Uneconomical Transactions

Audit observation	Comments of the Management	Recommendation
Although a sum of Rs.1,212,570 was paid to the consultancy company in the year 2014 for the modernization of 03 vocational training centers on the financial allocation of the Sectoral Development Project (SSDP), the modernization works had not been commenced until 31 July 2023, as such, the expenditure incurred was an uneconomic transaction.	As the allocations given by the SSDP project in each year were limited, the construction of the 3 centers could not be started. But the submitted plans and estimates (Bills of Quantities) are available for future use. The instructions from the Board of Directors has been received in this regard and it will be submitted to the Audit and Management Committee.	Activities should be planned to receive a benefit for commensurate with the expenditure incurred.

3.2 Management inefficiencies

Audit observation	Comments of the Management	Recommendation
(a) In comparison with the target number and the apprentices enrolled for 13 courses conducted in 11 training centers belonging to the Colombo District Office of the Authority for the period from 2018 to 2022, the enrollment percentage was low from 10 percent to 66 percent. Further, the percentage of dropping out of those courses ranged from 20 percent to 58 percent and the management had not focused to find out the reasons for leaving out of those courses and take necessary remedies to them.	The courses could not be conducted continuously due to various reasons had in the programs and administration issues in the relevant training centers and due to the corona epidemic conditions in the years of 2019 and 2020.	Action should be taken to reduce the various administrative issues existing in the training centers and the management should immediately focus to find out the reasons for students leaving the courses and take necessary measures.
(b) The officer held the position of Deputy Director of the Authority during the period from January 2006 to December 2013, he has served as the Working Director of the Central Cultural Fund and during the relevant period he received allowances and transportation facilities from both institutions and accordingly, he received a sum of Rs.5,443,723 as monthly allowances	This ex-Director (Administration) has been released from the service to the Central Cultural Fund on 23.12.2005 on the instruction of the President Secretary. According to the instructions given in the COPE committee meeting, the instructions was requested from the President	The necessary instruction should be taken immediately and acted accordingly.

from the Central Cultural Fund. Although the Director General of the Central Cultural Fund informed to the Chairman of the Authority to conduct an investigation in this regard through the letter dated 20 October 2015, the inquiry could not be conducted even till 30 July 2023.

Secretary in two occasions, but due to the change of ministries, the necessary instructions were not received. Action had been taken to resend a letter to the President Secretary on 19.04.2023 asking for the necessary instructions to proceed in this regard.

- (c) Although Ahangama Hotel School was renovated as a hotel in 2019 at a cost of Rs.148.92 million with the objective of providing better training for students and provide further training for the students who follows courses of Vocational Training Authority, no any apprentice had been provide practical training from this tourist hotel from that year to 30 June 2023.
- The instructions and approval had been given to legally lease the hotel to a private or public sector entity for a long-term following the procurement methods and select investors for the same through procurement methods. Further, the lessee should be informed that it should be mentioned in the lease agreements that our apprentices should be recruited for further training.
- It should be acted in accordance with the objectives set out in the Vocational Training Authority Act.
- (d) 30 computers and computer accessories costed for Rs.11,721,081 were procured for a computer course, contrary to the objective of the Early Childhood Development Program.
- Ten Information Technology Technician (NVQ Level IV) courses were converted into Computer Graphic Designer courses in 2019, which were in high demand in the job market, and although all other requirements such as instructor training and classroom arrangements were fulfilled the opportunity to procure the necessary computers for the courses was not available until the year 2020 as the Treasury allocations were limited.
- The attention of the management should be focused on spending the allocations for special projects to achieve those objectives.
- (e) A company registered under Companies Act No. 07 of 2007 under the name of VTA Holdings Ltd with the full (100 percent) share ownership of the Sri Lanka
- A committee has already been appointed to give a preliminary report on this company as it was not managed by officers of this
- A report on the company's bank accounts and operations should be submitted as per the

Vocational Training Authority from the Authority's fund on 18 December 2013 without the Cabinet approval and the documents required to liquidate the company had been handed over to the Department of the Registrar of Companies on 20 June 2022. Although the Secretary of the Ministry had given instructions to prepare a report on the company's bank accounts and operations, the report was not prepared even by 20 July 2023.

authority. That the report of this committee will be submitted to the Ministry Audit and Management Committee and the Institutional Audit and Management Committee in the future.

instructions of the Ministry Secretary.

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| (f) | 19 types of equipment with a total value of Rs.28,078,556 ordered in the years 2019 and 2022 for the implementation of the 13-year continuing education project have not been supplied to the authority by the suppliers even by 31 December 2022. Furthermore, out of the equipment ordered and received by the authority in the year 2019 and 2022, 07 types of items worth Rs.4,589,944 were rejected due to non-compliance with the specifications and those items also were not re-supplied even by 31 December 2022. | The relevant supply agencies have informed the authority in writing that they have not been able to supply these training equipment items due to import restrictions. Also, due to some equipment supplied by some suppliers was not match with the specifications of the final technical evaluation, the items were not accepted and those suppliers were informed to supply the goods according to the correct specifications, but due to the dollar crisis in the country, they informed that the equipment could not be supplied due to the import restrictions. | The management should focus special attention to get the necessary equipment for the 13-year continuous education project. |
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3.3 Operational Inefficiencies

Audit observation	Comments of the Management	Recommendation
(a) A sum of Rs.19,053,095 spent for the construction of workshop building at the Hambantota Mirijjawila National Vocational Training Center, started in 2017, was shown in the work in progress account from the year 2017 and the constructed parts of the building were decaying due to the contractor abandoned the construction midway.	The project was suspended on 05.01.2015 as the construction work could not be completed due to poor performance of the contractor. Although the procurement work was carried out to	Immediate action should be taken to complete the construction work which has been stopped in the middle and make it ready for use and necessary action should be taken against the contractor.

complete the balance works of the project, but since the previous project was not formally completed (due to the non-receipt of the decision of the Procurement Committee), it has not been possible to resume the construction work so far.

- (b) Although a 48-room student hostel with all facilities which can provide accommodation for nearly 100 students has been built for Orugudawatta Sri Lanka National Vocational Training Institute in the year 2020 with the assistance of the Korean government, necessary arrangements had not been made for providing hostel facilities for students studying full-time courses even by the date of audit of 30 June 2023 but hostel facilities were provided for 14 consultants. Also, out of the 400 students enrolled for the courses in the year 2022/2023, nearly 110 students were students with permanent residence outside the Western Province where the training institute is located. As such, arrangements had not been made to increase of students' attraction to vocational education by providing relief to such students. This building, which was constructed using foreign aid (loans), remained underutilized for 03 years without being used for the relevant purpose
- At present, the institution has charged a monthly charge and provided residential facilities for the consultants. Necessary arrangements should be made to provide hostel facilities to the students in a way that provides relief to the students and increases the students' attraction towards vocational education.

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

Audit observation	Comments of the Management	Recommendation
Outside the objectives of the authority, 22 rooms had been constructed at a cost of Rs.91,026,186 to provide to the tourists in hotel schools premises at Pothuvil of Ampara district and Karainagar of Jaffna district, were	Hotel schools in Pothuvil and Karainagar will also be formally leased.	It should be acted in accordance with the objective set out in the Vocational Training Authority Act.

remained underutilized even by 30 July 2023.

3.5 Procurement Management

Audit observation	Comments of the Management	Recommendation
As per guideline 5.3.10 (b) of the Government Procurement Guidelines, in the procurement process of obtaining of sanitation service for the year 2023, due to the contract had not been awarded to the lowest bidder within the bid validity period by the responsible officials, the second bidder was awarded the contract and the sanitation service had to be obtained by paying additional sum of Rs.2,038,700.	This situation was due to the arrival of a new chairman, the appointment of the chairman to the procurement committee by the ministry and the fact that a considerable period of time was taken to study this file.	Action should be taken to proceed according to the procurement timetable without causing any loss to the authority.