

## **Establishment of Colombo Vocational Training Centre and Upgrading of Gampaha Technical College Project - 2015**

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The audit of financial statements of the Establishment of Colombo Vocational Training Centre and Upgrading of Gampaha Technical College Project for the first accounting period ended 31 December 2015 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. The 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 (GOSL) 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 the Execution and Implementation Agency 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 and out of that US\$ 26.05 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.

### **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 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.

### **1.4 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 Accounting Standards, and
- (g) 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 explanation given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the period ended 31 December 2015 and the financial statements give a true and fair view of the state of the affairs of the Project as at 31 December 2015 in accordance with Sri Lanka 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, and
- (d) the financial covenants laid down in the Loan Agreement had been complied with.

## 2.2 Comments on Financial Statements

### 2.2.1 Non-compliance with Laws, Rules, Regulations

Details of Value Added Tax aggregating Rs. 1.62 million paid by the Project to the contractors in 11 instances had not been informed to the Commissioner General of Inland Revenue with a copy to the Auditor General on or before 15 day of the following month, as required by the paragraph 5.4.11 of the Government Procurement Guideline.

## 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 2015 are shown below.

Source	Amount agreed for financing according to the Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
				during the year		up to 31 December 2015	
	US\$ million	Rs. million	US\$ million	US\$ million	Rs. million	US\$ million	Rs. million
EDCF	26.05	3,460.53	11.42	0.89	108.72	0.89	108.72
GOSL	5.36	711.48	0.87	0.18	25.72	0.19	26.40
	<u>31.41</u>	<u>4,172.01</u>	<u>12.29</u>	<u>1.07</u>	<u>134.44</u>	<u>1.08</u>	<u>135.12</u>

### 3.2 Physical Progress

According to the Implementation Plan of the Project, the activities such as construction of building for vocational training centres, providing foreign and local trainings for the Consultants and Managers etc. should be completed within 30 months from the date of the Loan Agreement. However, the Project had taken action only to select a Consultant for building construction works after lapse of 21 months from the date of the Loan Agreement as at 31 December 2015. The activities of the Project had shown slow progress due to lack of dedicated staff for the implementation of the activities of the Project.

### 3.3 Contract Administration

The following observations were made.

- The contract for consultancy works for the construction of building had been awarded by the Project to a foreign company at a cost of US\$ 2.23 million on 22 August 2014. However, the detailed designs of the buildings and preparation of specifications for procurement of equipment etc, had not been completed even as at 31 December 2015.

- b) The contract for construction of a boundary wall awarded to a local company at a cost of Rs. 53.32 million had not been completed even as at 31 December 2015 eventhough it was scheduled to be completed on 10 November 2015, However, a sum of Rs. 24.16 million had been paid as at 31 December 2015 to the contractor on respective contract.

### **3.4 Human Resources Management**

The following observations were made.

- a) Eventhough the approved cadre of the Project Monitoring Unit consisted with 09 officers, only 03 officers have been recruited on a part time basis to cover up duties during the year under review. According to the Paragraph No 2.2.4 of the Management Services Circular No. 33 dated 05 April 2007, the selection of persons for posts including core Project staff shall be made only after calling for applications by open advertisement followed by interviews. However, 03 staff members of the Project Monitoring Unit had not recruited accordingly.
- b) Further, it was observed that 02 officers employed by the Project and had not possessed adequate experiences as specified in the Paragraph No 2.9 of Management Services Circular No. 33 dated 05 April 2007.

### **3.5 Issues on Financial Controls**

The transactions on the activities of the Project had not been subjected to the audit of Internal Audit Unit of the Line Ministry.