Tertiary and Vocational Education Commission – 2016

The audit of financial statements of the Tertiary and Vocational Education Commission for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 the Section 13(1) of the Finance Act, No. 38 of 1971 and Section 10(d)(2) of the Tertiary and Vocational Education (Amendment) Act, No. 50 of 1999. My comments and observations which I consider should be published with the Annual Report of the Commission in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

1.3 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 consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). 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 Commission'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 Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.
I believe that the audit evidence I have obtained in sufficient an appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of the Tertiary and Vocational Education Commission as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

(a.) Although the furniture, computer accessories, and office equipment valued at Rs. 4,082,996 ordered in the year under review for which no payments had been made, had not been received by the Commission even up to 31 December 2016, those items had been accounted under fixed assets and creditors.

(b.) According to the stock survey reports, the stock value of the Commission amounted to Rs. 2,117,000 as at 31 December 2016, but that value amounted to Rs. 1,319,100 in accordance with financial statements. As such, the closing stock balance had been understated by a sum of Rs. 797,900 in the financial statements.

(c.) The printing cost for the year under review had been understated by a sum of Rs. 793,429, whilst the balance of the Accrued Expenses Account had been understated by a sum of Rs. 2,253,277.

(d.) The Accrued Research Expenses Account had been understated by a sum of Rs. 562,960 by the end of the year under review.

(e.) Due to failure in calculating the period of service accurately when making allocations for gratuity, a sum of Rs. 356,257 had been over allocated in respect of 21 employees.

(f.) The stock containing 11,218 books and publications of 20 categories of which the cost had not been specified, had not been valued and brought to accounts.

(g.) According to the policy on the depreciation of fixed assets disclosed with the financial statements, it had been mentioned that assets would be depreciated based on the date of purchase, but 15 fixed assets purchased in the year had not been depreciated based on the date of purchase. Hence, the annual depreciation had been overstated by a sum of Rs. 1,321,721.

2.2.2 Unexplained Differences

The following observations are made.

(a.) When the balance of fixed assets in accordance with the financial statements as at 31 December 2016 was compared with the Register of Fixed Assets, a difference of Rs. 4,082,996 was observed.

(b.) According to the financial statements as at 31 December 2016, the balance of the Translation Reserve Account amounted to Rs. 229,124, but according to the ledger, that value amounted to Rs. 1,146,753, thus observing a difference of Rs. 917,629 between the financial statements and the ledger.

2.2.3 Lack of Evidence for Audit

The evidence required to confirm the following balances, had not been made available to audit.

Subject	Value Rs.	Evidence not Made Available
Creditors	7,175,841	
Debtors	304,695	Schedules and Age Analysis
Other expenses payable	3,427,229	
Funds receivable from other institutions	2,988,766	Age Analysis
Funds receivable from the staff	444,679	
Journal Vouchers for accrued expenses, balances of Prior Year Adjustment Accounts, etc.	14,241,296	Documentary evidence and particulars confirming the journal entries.
Total	28,582,506	

2.3 Accounts Receivable and Payable

The following observations are made.

(a.) The sum of Rs. 1,123,118 reimbursable from the Line Ministry in respect of the Programme “Touch Your Future” held in the year 2014, had not been reimbursed even up to 17 April 2017.

(b.) Action had not been taken even in the current year to recover a sum of Rs. 115,183 included in the employee loan balance and recoverable from 2 employees whose service had been dismissed in the years 2006 and 2010.

2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

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The following non-compliances were observed.

Reference to Laws, Rules, and Regulations	Non-compliance
(a.) Chapter III of the Tertiary and Vocational Education Act, No.20 of 1990	
(i) Section 14 (I)	No institution for providing tertiary and vocational education shall be established, managed, maintained or administered without being registered under the Act. However, many of the other institutions being maintained in the island had not been registered under the said Act. According to a research conducted by the Institute in the year 2014, the number of institutions conducting training courses had been 2,701, and the number of educational institutions registered with the Commission, had been 1080 representing about 40 per cent. By 01 October 2017, the number of registered institutions had decreased to 692.
(ii) Section 15 (I)	The courses focusing on tertiary and vocational education being conducted by the institutions should be registered with the Commission. However, according to a research conducted in the year 2014, a number of 2,442 out of the overall 9,768 courses had been registered for National Vocational Qualifications representing 25 per cent. By 01 October 2017, the number of registered courses had decreased to 1625. The Institute had not followed a methodology to register all the training institutions and courses.
(b.) Financial Regulation of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 188 (2)	Although a period of 7-17 months had elapsed as at the date of audit, 30 April 2017 with respect to 14 cheques valued at Rs. 51,155 not realized within the specified duration despite being deposited in the bank, no investigation had been carried out in that connection.

(ii)	Financial Regulation 396	Action had not been taken in terms of Financial Regulations on 44 cheques valued at Rs. 161,499 that remained expired for a period ranging from 6 months to 2 years and 5 months without being presented to the bank from the date of issue, 31 December 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Commission for the year ended 31 December 2016 had resulted in a deficit of Rs. 15,982 as compared with the corresponding deficit of Rs. 1,947,804 for the preceding year. As such, an improvement of the financial result amounting to Rs. 1,931,822 had been observed as compared with the preceding year. Despite the increase in the personnel emoluments, and operating expenses by sums of Rs. 11,253,233, and Rs. 25,403,602 respectively, the increase in the Government and project grants by a sum of Rs. 38,098,393 had mainly attributed to the improvement of the financial result.

An analysis on the financial result for the year under review and 4 preceding years indicated deficits for the years 2015 and 2016 despite the surpluses from the year 2012 to 2014. However, when employee remuneration and depreciation on non-current assets were adjusted to the financial result, the contribution for the year 2012 amounting to Rs. 41,489,597 had decreased to Rs. 39,198,869 in the year 2013. Nevertheless, the contribution had constantly increased from the year 2014 and reached Rs. 71,844,533 in the year 2016.

4. Operating Review

4.1 Performance

According to the Tertiary and Vocational Education Act, No.20 of 1990, the planning, co-ordination and development of the Tertiary and Vocational Education System, the award of nationally recognized Certificates and the maintenance of Training Standards had been cited as the objectives of the establishment of the Commission. The following matters were observed during the course of examination on the achievement of those objectives.

(a) Section 11(4) of Chapter II of the Act states that plans should be prepared in respect of provinces. Nevertheless, a plan for vocational education had not been prepared for the Western Province even up to 30 June 2017. Furthermore, the Commission had not taken follow-up action to ensure that training activities had been carried out in other provinces in accordance with the plans prepared for those provinces, whilst failing to coordinate and update the development plans.

(b) The National Vocational Qualifications (NVQ) had been introduced as a methodology to award nationally accepted certificates. Instead of supervising and monitoring that methodology , the Commission itself had carried out activities relating to the appointment of evaluators and making payments despite the lack of an adequate staff. As such, delays had occurred in all the activities such as, appointment of evaluators, evaluation, making payments to the evaluators, and issuance of certificates.

(c) The Commission had not possessed a staff adequate enough to verify through institutional inspections that the training institutions and trainees comply with the Directives or Rules formulated under the Act. However, in order to execute the said activities, evaluators had been recruited to the National Apprentice and Industrial Training Authority that had been incorporated under Sections 50 and 51 of the same Act, but attention of the management had not been drawn even for getting the evaluations done by them.

(d) Despite being targeted by the Commission to evaluate 400 Government and private institutions for new registrations, while evaluating 370 institutions for renewal of registration, only 259 and 339 institutions had been evaluated respectively.

(e) According to the performance report, 503 courses of the Government sector, and 108 courses of the private and Non-Governmental Organizations had been evaluated for accreditation in line with national training standards during the year under review, but only 392 courses that had met the relevant criteria, had been accredited. Only 259 courses offered by the Government sector, private sector, and Non-Governmental Organizations had been evaluated in order to renew the accreditation, and accreditation of 177 courses had been renewed therefrom.

(f) According to the targets of the Skills Sector Development Project, the skills commissions should commence generating income from the first year itself as per the business plan of those commissions. However, despite the lack of a methodology in that connection, a sum of Rs. 14,201,077 had been spent thereon in the year under review.

(g) A sum of Rs. 79 million had been allocated in the year under review on the project activities identified by the Skills Sector Development Project being implemented in respect of the skills sector. Although a sum of Rs. 34.25 million had been spent therefrom in the year, a performance report had not been furnished in accordance with the Action Plan of the project. The following observations are made in this connection.

i. Manuals had not been prepared to guide the school dropouts to vocational training.

ii. Despite the allocation of a sum of Rs. 8.5 million for updating the Management Information System and labour market information, 88 per cent therefrom had been saved as the relevant activities had not been executed adequately.

iii. The activities such as, establishing that the National Vocational Qualification Levels of Sri Lanka are equal to the international levels in co-ordination with the authorities of 10 foreign institutions which are employing Sri Lankans, development of policies relating to vocational training sectors and students' affairs, and making proposals and recommendations based on the baseline survey and skill gap survey, had not been executed.

iv. The activities such as, formulation of a gender policy for the field of vocational technology, and development and implementation of a professional promotional programme for promoting the image of tertiary and vocational education, had not been executed.

(h) The National Apprentice and Industrial Training Authority had been tasked with the responsibility of formulating skills standards in terms of Section 37 (b) of the Act, and the Commission should validate them. Nevertheless, the Commission itself had formulated new skills standards in the year 2016, but those standards had not been formulated in compliance with standard methodologies with the cooperation of the industry.

(i) The Levels from 1 to 7 had been identified with respect to National Vocational Qualifications. However, it was observed in accordance with the performance reports that the highest level of the certificates awarded to all of the vocational training institutions accredited in the year 2016, were of NVQ Level 6. Nevertheless, only 6 certificates had been issued for that Level, whilst only 87 certificates had been issued with respect to NVQ Level 5. Accordingly, it is observed that the produce of highly qualified persons through the National Vocational Qualifications, remains at a low level.

(j) The Commission had implemented a methodology to provide financial aids with the objective of improving the vocational training courses offered by the Government and private institutions up to an accreditable level, but criteria acceptable for selecting institutions therefor, had not been decided. Furthermore, training centres in the Government sector had not been selected in the year 2016 for granting financial aids, whilst 03 centres in the private sector offering 04 courses had been selected for granting financial aids amounting to Rs. 856,835. However, due to delays in the selection process, no institution could reimburse the funds in the year 2016, and the amount not reimbursed even up to 30 March 2017 had been Rs. 336,910. Moreover, courses pertaining to 20 centres to which financial aids amounting to Rs. 3,565,280 had been granted in the years 2012-2016, had not been accredited as expected even up to the end of the year under review.

4.2 Operating Activities

The following observations are made.

(a) The appointment of Evaluation Staff for the evaluation activities based on skills for the award of the National Vocational Qualifications to the vocational training institutions approved in the Government and private sector, and making payments on the evaluations had been assigned to the Commission with effect from the year 2013. Nevertheless, action had not been taken even up to the end of the year 2016 to identify correctly the requirement of the Evaluation Staff and appoint an adequate number of persons. The following matters were further observed in this connection.

(i) Although 2,165 evaluators had been appointed from the year 2005 up to the end of the year 2015, information relating to them had not been updated in a timely manner to verify that they had been actively involved in service.

(ii) Although a period of 02-13 months had elapsed since the date of application for appointing evaluators in respect of 42 courses offered by the National Apprentice and Industrial Training Authority in order to conduct tests for awarding the national skills levels by 20 February 2017, those appointments had not been made by the Commission.

(iii) A period of 03-12 months had elapsed by 20 February 2017 since the date of appointing evaluators to conduct tests for awarding national skills levels. However, evaluations of the National Apprentice and Industrial Training Authority had not been carried out in 111 instances.

(iv) As provision had been made without identifying the requirement accurately, the sum allocated in accordance with the Action Plan for paying to the evaluators in the year 2016 amounted to Rs. 14.45 million. However, according to the performance reports, a sum of Rs. 24.271 million had been paid.

(b) As the computerized accounting system "Thibus" used by the Commission for its accounting activities, had been inoperative since May 2017, the inputted data had been completely destroyed. As the Commission had not followed the accepted safety precautions by saving the data outside the computer, the data that had been destroyed, could not be restored up to 31 August 2017. Furthermore, action had not been taken to identify the reasons that caused the destruction of data and the officers responsible therefor by launching an investigation in that connection. As a consequence of the destruction of data, the schedules relating to the creditors and expenses payable that should have been furnished to audit by 31 December 2016, could not be made available.

4.3 Contract Process

In order to make arrangements for the 8th floor of the building belonging to the Ministry for use of the Tertiary and Vocational Education Commission, a contractor had been assigned thereto on 24 November 2016 for a value of Rs. 6,575,375 subject to a contract period of one month. However, as the supply of facilities such as water, toilets, etc. to that floor had not been included into the estimate, the said floor could not be made use of even up to 31 May 2017.

4.4 Staff Administration

The following observations are made.

(a) The approved cadre of the Commission had been 116 for the year under review, but the actual cadre had been 96, thus indicating 20 vacancies. The post of Administrative Officer, being an essential post, had also been in those vacancies.

(b) In terms of Section 4.1.1 of the Scheme of Recruitment, the internal applicants applying for the posts of managerial level, should complete a satisfactory service period of 05 years in Grade I of the junior management level. However, 06 internal applicants who had not met the said service requirement, had been appointed for the posts of Assistant Director. Furthermore, the Board of Interview had granted marks in respect of additional qualifications and experience in a manner private to each applicant.

4.5 Utilization of Funds

The saving of foreign financial aids amounting to Rs. 3,155,817 received from 03 projects on miscellaneous activities, had been invested in a fixed deposit without a proper plan.

5. Accountability and Good Governance

5.1 Internal Audit

The approved cadre of the Internal Audit Unit had been 05, but 02 posts of Assistant Director had remained vacant therefrom. As such, an adequate internal audit could not be carried out. Furthermore, In addition, the expenditure of the Skills Sector Development Project had not been subjected to an internal audit.

5.2 Budgetary Control

Comparison of the budgeted income and expenditure for the year under review with the actual income and expenditure revealed variances ranging from 25 per cent to 149 per cent, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director General of the Commission from time to time. Special attention is needed in respect of the following areas of control.

	Areas of Systems and Controls	Observation
(a.)	Accounting.	The computerized accounting system had become inoperative in May 2016, and the data had been destroyed due to failure in maintaining backup copies of the data. Failure to restore the data. Failure to carry out an investigation thereon and identify the parties responsible.
(b.)	Financial Control.	Although the Commission had been provided with assistance for regulating the vocational training by the Skills Sector Development Project being implemented under the aids from the Asian Development Bank, action had not been taken to utilize them.
(c.)	Human Resource Management.	Failure to introduce Systems and Controls adequate for assessing the requirement of the evaluation staff, appointment, and making payments.
(d.)	Internal Control relating to Vouchers.	Vouchers had been furnished for audit including outstanding vouchers. A responsible officer had not examined them, and failure to take measures for the safety of the vouchers.