

Establishment of Colombo Vocational Training Centre and Upgrading of Gampaha Technical College Project – 2017

The audit of financial statements of the Establishment of Colombo Vocational Training Centre and Upgrading of Gampaha Technical College Project for the year ended 31 December 2017 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. This 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 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 Science, Technology, Research, Skills Development and Vocational Training and Kandiyani Heritage is responsible for execution and implementation of the Project. The objectives of the Project are to establish and develop the Vocational Training Centre in Colombo and Technical College at Gampaha, play key role in spurring industrial growth and in human resources development with the assistance of Experts of the Republic of Korea in technical transfers and economic development. The activities of the Project include supply of equipment and facilities for the above mentioned Vocational Training Centre and the Technical College, providing overseas training in Korea, dispatch of Korean Experts, test book development and providing consulting services for the Vocational Training Centre and the Technical College. The estimated total cost of the Project amounted to US \$ 31.41 million equivalent to Rs. 4,172 million, and out of that the US \$ 26.05 million equivalent to Rs. 3,460 million agreed to be financed by the Economic Development Cooperation Fund. The Project commenced its activities on 18 November 2013 and expected to be completed by 18 November 2016. Subsequently, the period of the Project had been extended in two instances up to 31 December 2018.

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 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.

1.4 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 Public Sector 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 explanations given to me I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Public Sector Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided.

(c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

(d) the financial covenants laid down in the Loan Agreement had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing budgetary provisions for the year under review, funds received during the year, the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing according to the Loan Agreement		Allocation made for the year 2017	Funds utilized			
	US\$ million	Rs. million		during the year 2017		up to 31 December 2017	
	US\$ million	Rs. million	US\$ million	US\$ million	Rs. million	US\$ million	Rs. million
EDCF	26.05	3,461	3.85	1.69	219.60	8.28	1,076.60
GOSL	5.36	711	0.92	0.50	65.50	0.86	112.00
	<u>31.41</u>	<u>4,172</u>	<u>4.77</u>	<u>2.19</u>	<u>285.1</u>	<u>9.14</u>	<u>1,188.60</u>

3.2 Physical Progress

According to the Loan Agreement, the activities of the Project were expected to be completed within 36 months from the effective date of the Project of 19 November 2013. However, the period of the Project had been extended up to 31 December 2018, due to delays in selecting and deploying of Consultants and contractors for building construction works and other activities such as supply of equipment, development of text books and providing of overseas training for the managers and teachers etc. However, the overall physical progress of the activities of Project was remained at 46 per cent as at 31 December 2017. Further, the construction works of buildings at the Vocational Training Centre in Colombo and Technical College in Gampaha expected to be completed by 29 June 2018, the physical and financial progress of the construction works as at 31 December 2017 was remained at 34 per cent and 24 per cent respectively. According to the Implementation Plan of the Project, the works under the development of text books was expected to be completed by 30 September 2017 and 50 per cent of works thereon had only been completed at the end of the year under review.

3.3 Human Resources Management

The following observations are made.

a) A Civil Engineer for the Project had been appointed at a monthly remuneration of Rs.100,000 since March 2017 without a proper approval of the Department of

Management Services. However, the Department of Management Services had informed by the Letter dated 07 May 2015 that the duties of Civil Engineer was required to be covered through the additional staff approved for the Skills Sector Development Project of the Ministry.

- b) It was observed that the Project Director recruited on 10 December 2016 had not possessed adequate experience as specified in Paragraph 2.2.5 (a) of the Circular No. 1/2016 dated 26 March 2016 of the Department of Management Services. Further, the Technical Officer recruited on 16 January 2017 had not possessed required National Vocational Qualification as per the Paragraph 2.2.9 of the above mentioned Circular.

3.4 Issues on Financial Controls

According to the Financial Regulation 134 (3) and Management Audit Circular No. 05 of 26 July 2010, the activities of the Project had not been subjected to audit of the Internal Audit of the Line Ministry.