Tertiary and Vocational Education Commission - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Tertiary and Vocational Education Commission for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity 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 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, except for the 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 Commission as at 31 December 2019, 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 Commission'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 Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the commission's financial Reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Commission 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 commission.

1.4 Responsibility of the Auditor on Audit financial statements

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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 Commission'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 Commission'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 Commission 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

Commission, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Commission has complied with applicable written law, or general or special directions issued by the governing body of the commission.

- Whether the Commission has performed according to its powers, functions and duties; and

- Whether the resources of the commission had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws,

1.5 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

The following observations are made.

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	Even though income and expenditure should not be set off at any occasion except where it is required or permitted to do so as per the para 48 of Sri Lanka Public Sector Accounting Standards No 01, a sum of Rs. 456,000 received for implementation of projects during the year under review had been set off against the project expenses instead of accounting as income.	Action will be taken to keep accounts for income and expenses separately without offsetting each other.	Sri Lankan public sector accounting standards should be followed.
(b)	Even though revaluation should be carried out on the change in fair value of property, plant and equipment in accordance with paragraph 47 of the Sri	Action will be taken to revaluate fixed assets in this year based on the change	Non-current assets should be revalued as per the referred standard.

	Lanka Public Sector Accounting Standards 07, net value of assets shown in the financial statements amounted to Rs. 27,087,974 had not been revalued after the year 2008.	in the value of the property, plant and equipment as per paragraph 47 of Sri Lanka Public Sector Accounting Standards 7.	
(c)	Even though the fixed assets costed Rs. 70,494,799 had been fully depreciated the useful lifetime of non-current assets had not been reviewed annually in terms of paragraph 65 of the Sri Lanka Public Sector Accounting Standard 7, they were being further used despite of the useful life time is over. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 3.	The institution uses the reducing balance system for the depreciation and, hence, any asset depreciates over a long period of time. As such, there are no any fully depreciated assets.	Due to that the useful life time of the relevant assets is over as per the depreciation policy, the effective life should be reviewed.
(d)	Even though a third party had filed a legal case demanding a compensation of Rs. 1,200,000 on a vehicle accident, disclosure had not been made in the financial statement in accordance with paragraph 34 of the Sri Lanka Public Sector Accounting Standards 08.	Action will be taken to disclose as an intangible liability.	It should be disclosed in the financial statements that there is an intangible liability which is unable to get a definite estimate is remained.
(e)	A sum of Rs. 197,097 had been written off against the profit in the year as motor vehicle and building maintenance expenses instead of capitalized under property, plant and equipment as per the para 13 of the Sri Lanka Public Sector Accounting Standard 07.	The ownership of the office premises building is belongs to the Ministry and hence, improvements to the building will be charged as capital expenditure under building rehabilitation expenses. As per the guideline given by the audit action will be taken to account under the vehicle account if the fixing of vehicle accessories is relevant to the increase the lifetime of it.	Sri Lankan public sector accounting standards should be followed.

1.5.3 Accounting deficiencies

The following observations are made.

	Audit Observation	Management Comments	Recommendation
(a)	Sundry payable expenses, Printing expenses and sectional expenditure a total amounted to Rs. 2,783,258 and receivable certificate income amounted to Rs. 840,727 had omitted from the income accounts.	As recommended by the audit, action will be taken to check and account under prior year adjustment relevant to the year 2020.	All income and expenditure relevant to the year should be accounted when the preparation of the financial statements.
(b)	Evaluation charges, salaries and overtime relevant to the year 2018 a total amounted to Rs. 2,501,102 paid in the year under review had been accounted as the expenses of the year under review instead of adjusted to the profit of that year.	Action will be taken to transfer to the prior year adjustment account.	All expenditure relevant to the year should be accounted when the preparation of the financial statements
(c)	As per the bank reconciliation for the month of December 2019, direct credit during the year amounted to Rs. 1,463,907 and direct debit including payments on standing orders amounted to Rs. 1,002,905 had not been identified and accounted for. As such, the income and expenditure in the year had been under stated from that amount.	Due to that preparation of financial statement for the year 2019 was completed, those un accounted direct debits and direct credits have been adjusted in the year 2020.	Action should be taken to identify the direct debits and direct credits made by the bank and should be adjusted in the financial statement relevant to the year.
(d)	When creating creditors in terms of the Financial Regulation 396 for the un present cheques for payments worth of Rs. 323,028 included in the bank reconciliation statements, due to erroneous	Even though account was marked as 01.01.2019 due to an issue in the computer software, it was actually corrected after 03.09.2019.	In the future, the internal control system should be strengthened and bank reconciliation statements should be prepared without delay.

debiting to the creditor account instead of crediting the creditor account for the expired cheques which, that account had been under stated by Rs. 646,605.

1.5.4 Lack of evidence for auditing

Subject	Amount	Audit evidences not submitted	Management comment	Recommendation
	Rs.			
Advance Balance	1,879,170	Comprehensive documents	Action will be taken to submit relevant schedules to the audit regarding the balance of advance account amounted to Rs. 1,879,170.00.	Required to submit relevant schedules and other evidences for verification of balances in the financial statement.

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

The following non- compliances were observed.

Reference to laws, rules, regulations	Non compliance	Management comment	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Section 103 (1), 104 (3) and 104 (4) of the Financial Regulations	Financial Regulation had not been followed with regards to the accident that met on 25 August 2016 in a vehicle belonging to the Commission.	As per the report of the Internal Inquiry Board, it was recommended to recover the full amount from the driver and accordingly, the total cost is being deducted from his salary in installments.	A comprehensive report should be submitted in accordance with the applicable regulations.
(ii) Financial Regulation 395 (c)	Even though bank reconciliation statements should be prepared for	Arrangements have been made to submit bank reconciliation	Strong internal controls should be put in place and bank

		each bank account before the 15th of the following month on the status of the end of each month, bank Reconciliation Statements for the main current account of the Commission from December 2019 to February 2020 had not been prepared and submitted for audit till 15 June 2020.	reports to the Audit Division in accordance with Financial Regulation 395(c).	reconciliations should be prepared accordingly.
(iii)Financial Regulation 188 (2)		Action had not been taken in terms of Financial Regulations on 309 unrealized deposited cheques valued for Rs. 3,209,720 from 06 months to 24 months period since it was deposited in the bank.	This situation has arisen due to the delay in the preparation of bank reconciliation and action will be taken to check the unrealized cash deposits for the year 2017 and 2018 and make the relevant adjustments.	Bank reconciliation statements should be prepared on the due date and necessary adjustments should be made.
(iv)Financial Regulation 396		The referred regulation had not been complied relevant to 517 issued cheques but the validity period was expired valued for Rs. 6,497,642.	This situation had arisen due to the delay in the preparation of bank reconciliations and action will be taken to make the relevant adjustments regarding expired cheques.	Bank reconciliation statements should be prepared on the due date and necessary adjustments should be made.
(v)Para **371 (2) (**d**)** of the Financial regulation and Public Finance Circular No 3/2015 dated 14 July 2015.	(i)	Even though Ad-hoc imprest should be released only to the staff officers, contrary to that the Commission had issued ad-hoc imprest in 110 occasions, to the total value of Rs. 3,097,597 to 28 non-executive officers.	In accordance with the audit report of the previous year and the instructions there on, strict action had been taken from 03.07.2019 onwards in accordance with the Financial Regulations 371 (2) and the Public Finance Circular dated 14th July 2015.	Should act in accordance with the referred regulations.

(ii)	Even though an ad-hoc imprest could be issued to the maximum limit of Rs. 100,000 only for staff officers for a specific work, contrary to that the Commission has issued ad-hoc imprest in 45 instances between the range from Rs. 102,000 to Rs. 3,894,302 to 30 officers without the Treasury approval.	It is stated that, the advances exceeding the limit were issued for the examination activities on the verbal instructions received from the General Treasury during the year under review.	Should act in accordance with the referred regulations
(iii)	Even though the ad-hoc imprest should be settled soon after the intended work is completed, advance balances, a debit balance of Rs. 2,760,082 and a credit advance balance of Rs. 593,236, more than a year since the advance was taken were remained.	Action had been taken to settle these advances soon after the work is properly completed.	The advance should be settled as per the circulars.

2. Financial Review

2.1 Financial Results

The operations in the year under review had resulted in a surplus of Rs. 14,567,897 as compared with the corresponding deficit of Rs. 29,585,644 for the preceding year, thus observing an deterioration of Rs.15,017,747 in the financial result. The increase in operational expenditure and decrease in project grants had mainly attributed to this deterioration.

2.2 Trend Analysis on Main Income and Expenditure Subjects

The decrease in project grants by 25.8 percent had mainly attributed to the deterioration of total income in the year under review compared to the previous year and the increase in personal emoluments by 6.3 percent, increase in travelling expenses by 60 percent and increase in operational expenses by 19.6 percent had mainly attributed to the increase in total expenditure.

2.3 Ratio analysis

The current ratio of the Tertiary and vocational Education Commission, which was remained at 5.74 in the year 2018 had improved to 8.0 by the year 2019, as such, the amount of current assets to meet current liabilities increased by 2.26 compared to the previous year.
In terms of the quick assets ratio, it had increased from 5.48 in the year 2018 to 7.7 in the year 2019.

3. Operational review

3.1 Management inefficiencies

Audit observation	Management comment	Recommendation
Even though the Evaluators are required to submit the results of the evaluation to the Tertiary and Vocational Education Commission within 2 weeks from the date of the final evaluation as per the final evaluation procedures of the Commission, observed that according to the information obtained from the Investigation and Evaluation Division of the Vocational Training Authority of Sri Lanka, the results were submitted to the Commission more than three months after the evaluation.	No reply was made.	Attention should be made to provide an efficient service by expediting the evaluation process, issuing of results and issuance of certificates.

3.2 Operational inefficiencies

Following observations are made.

	Audit observation	Management comment	Recommendation
(a)	Even though the Commission has prepared VET Plan in terms of Section 2 of Act No. 20 of 1990 and submitted it to the relevant Vocational Training Institutions, no recommendations had been given to the relevant vocational training institutes to follow up on their implementation.	No reply was made.	Plans should be prepared and submitted to the relevant vocational training institutes and attention should be paid to their implementation.

(b)	Even though a sum of Rs. 2,034,886 had been spent in the year 2018 by the Sectoral Skills Development Project for the Tourism Industry Sector Skills Council established under the Tertiary Vocational Education Commission to formulate National Skills Standards, the National Skills Standards for Chef and Bakery courses had not been updated.	No reply was made.	Attention should be paid on updating the skills standards and syllabus for all courses and producing professionals to match the present.
(c)	It was observed in the audit conducted on 03 December 2019, that evaluation of 28 apprenticeships related to the hotel and hotel sector training programmes conducted in 13 training centres in the year 2018 had not been conducted.	No reply was made.	Action should be taken to carry out evaluations within the stipulated time.