

Vocational Training Authority of Sri Lanka - 2023

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 2023 comprising the statement of financial position as at 31 December 2023 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 2023, 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 Scope of the Audit (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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non-Compliance with the reference to particular Standard	Comment of the Management	Recommendation
(a) According to the paragraph 21 of Sri Lanka Public Sector Accounting Standard 07, the repair and maintenance costs of vehicles which should has been recognized as an expenses amounted to Rs.1,501,393 had been capitalized to the vehicle account. As such, the surplus of the year under review and the balance of the vehicle account as of 31 December 2023 were overstated by that value.	This situation will be included under recurrent expenditure from the year 2024.	Action should be taken to accurately identify and account for expenditure as specified in the Sri Lanka Public Sector Accounting Standards.
(b) According to the paragraph 14 of Sri Lanka Public Sector Accounting Standard 7, action had not been taken to asses and account for the value of the lands used by the authority as training centres and the value of 28 buildings constructed on those lands.	Action will be taken for valuation of these lands and buildings and account for in the future.	All assets belonging to the institute should be assessed and accounted for.
(c) According to the paragraph 47 of Sri Lanka Public Sector Accounting Standard 7, when the fair value of a revalued asset differs materially from its' carrying value, a further revaluation is necessary in every three or five years. But Lands, buildings and vehicles with a value of Rs.6,098,701,187 accounted for by the authority in the revaluation format were not revalued within a period of 5 to 15 years. As such, the fair value of those 03 asset classes was not reflected.	At present, the revaluation activities are being carried out and it will be accounted for as soon as it is completed.	According to Sri Lanka Public Sector Accounting Standards, the assets should be revalued and shown in the accounts to reflect the fair value.

1.5.2 Accounting deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) In the test check conducted regarding the course income received during the year under review, the income of Rs.6,952,728 had been received for the next year from 43 courses started in the year 2023 in 05 training centers. It had been accounted as income of the year under review instead being accounted as deferred income. As a result, the surplus of the year was overstated and deferred income was understated by that amount.	That the district and national training centres have been informed to account for the course fees according to the relevant period in the future.	Income and expenditure related to the year should be accurately identified and dealt with.
(b) The recruitment date of each employee had not been taken in to account in the calculation of provision for employees' gratuity. As such, the balance of the provision for gratuity account as at 31 December 2023 had understated by Rs.26,046,767 and the accumulated fund had overstated by that value.	That this problem has occurred due to taking the date of confirmation has been taken as the date of appointment of the employees, in the confirmation of them after hiring them on contract basis. Action will be taken to rectify this issue.	In calculating the gratuity allocations, action should be taken to use correct data.
(c) Due to the interest income related to the fixed deposit of Rs.48 million which was started on 25 May 2022 was not accounted on accrual basis, As such, the interest income of the year under review by Rs.124,695, the accumulated surplus by Rs.4,923,568 and the interest income receivable by Rs.5,048,263 had been understated.	That the accounts will be prepared on the accrual basis of fixed deposit interest income.	Income received in cash related to the year and receivable income should be correctly identified and accounted for.
(d) The loss of Rs.7,127,888 which occurred in the year 2023 related to the theft of goods in the training centers belonging to the authority had been agreed to pay by the security service providing company. That amount had been deducted from security service expenditure instead of being shown as receivable. As such, the surplus of the year and current assets were overstated and understated respectively.	That such losses will be accounted for in the future.	The expenditure and loss related to the year should be shown accurately in the financial statements.

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| (e) | The Skill for Inclusive Growth (SFIG) project provided training equipment worth Rs.65,170,697 and training materials worth Rs.4,540,165 for training centers in Ahangama and Kaduruwala during the year under review and media equipment worth Rs.1,777,500 received in the year 2022. But had not been accounted for. | Action will be taken to include in the accounts of the year 2024. | Fixed assets should be accurately accounted for. |
| (f) | While only a sum of Rs.107,323,495 was received from the Ministry for the payment of allowances to the instructors in the year 2023, it was shown as Rs.117,168,560 in the financial statements. As such, income and expenditure of the year in the financial performance statement were overstated by Rs.9,845,065. | That this difference has occurred due to an omission, the amount of 9,845,065 received on the 31 of December 2022 was also recorded as a receipt in the year 2023. | Incomes and expenditures related to the year should be correctly identified and accounted for. |
| (g) | A sum of Rs.1,000,000 had been received from the Ministry of Skill Development and Vocational Education for the payment to a consulting company for the preparation of Corporate Plan of the years 2023-2027. Due to the receipts and payments had been made through a same account, the expenditure had not been disclosed in the financial statements. | That the receipts and payments have been recorded in a same account by mistake in accounting. | Receipts and payments should be accounted for separately and should be identifiable. |

1.6 Accounts Receivables and Payables

1.6.1 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
The balance of receivable course fee account as on 31 December 2023 was Rs.39,205,296 and receivable amount from 01 year to 04 years was Rs.7,628,756 and the authority was unable to recover the said balance.	The Ministry of Education has agreed to pay the receivable amount from apprentices who have followed courses under 13-year continuing education programs and that most of the other course fees have been collected by now.	Actions should be taken to recover the due amounts promptly.

2. Financial Review

2.1 Financial Results

The operation result in the year under review had been a deficit of Rs.677,908,091 as compared with the corresponding deficit of Rs.361,681,911 for the preceding year, thus observing a further deterioration of Rs.316,226,180 in the financial result. The increase in other operating expenditure had mainly attributed to this deterioration.

3. Operational review
3.1 Management inefficiencies

Audit observation	Comments of the Management	Recommendation
(a) The amount of Rs. 38,998,981 given to the Authority by the Ministry and other institutions for various activities from 2019 to 2022 had been kept idle in a bank current account without being used for the relevant activities even by the date of this report.	That the main reason for the saving of Rs.27 million from the allocation made for the purchase of motor mechanic training equipment had been the Covid-2019 epidemic situation and limitation of import of goods.	The money received for a specific purpose should be utilized for the relevant purpose within the same year.
(b) A company was 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 Vocational Training Authority from the Authority's fund on 18 December 2013 without Cabinet approval. 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.	According to the instructions of the Board of Directors, will be informed S&A Consultants PVT Ltd, which did the accounting work of VTA Holding for liquidation. If no reply is received from that company, the Board of Directors has given approval to carry out the liquidation work through the formal procurement method.	Actions should be taken to submit a report on operational activities.

3.2 Operational Inefficiencies

Audit observation	Comments of the Management	Recommendation
(a) Although a sum of Rs.19,053,095 had been spent for the construction of workshop building of the Hambantota Mirijjawila National Vocational Training Center, the construction had been suspended from 05 January 2015 due to the poor performance of the contractor. But necessary action had not been taken against the contractor and the construction work which had been stopped on the way had not been completed and to make the building in to usable condition even by the end of 2023.	The Mirijjawila Vocational Training Workshop building will be inspected with the NBRO and a report will be submitted including that works to be done to the authority to prepare a quality report and further action will be taken according to the report.	Necessary actions should be taken so that the money spent is used effectively.

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| (b) | Course fee of Rs.19,003,930 had been collected from 16 courses which had not been approved by the Board of Directors to charge fees for full-time courses during the year under review. | That deficiencies or changes that have occurred due to administrative reasons will be corrected in the future | Course fees should be collected only from duly approved courses. |
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3.3 Ideal or Under-utilized Property, Plant, and Equipment

Audit observation	Comments of the Management	Recommendation
(a) The vehicle repair unit, which was maintained by the authority since 2011 with the aim of providing on the job training for the students studying vocational training courses and for the repair of vehicles owned by the authority had been contributed effectively to the performance of the institution. But it had been closed from 31 December 2018 without formal approval and the equipment of this unit was stored in the automobile industrial sector without being used.	That the maintenance unit had been temporarily closed as there had no participation of an appropriate panel of officers to maintain its administrative and supervisory activities with formal internal administration.	Administrative problems should be solved and the assets should be utilized effectively.
(b) The land of 02 roods and 33.5 perches located in Henakaduwa Welewatta, Hambantota District which was procured at a cost of Rs.5,823,000 in 2010 and the land of 01 acres at Panadura Modaravila, which was acquired on a long term lease basis in 2017 at a cost of Rs.34,030,346 for vocational training remained without effective use even by the year 2023.	The Vocational Training Center has been used effectively for external activities and daily activities of apprentices. That although relevant plans were prepared for the construction of a new center in Panadura Modaravila and funds were allocated under the Sectoral Skills Development Project, the contract was not awarded due to the delay due to the epidemic situation in 2020.	Action should be taken to utilize the assets effectively.
(c) Although a two storied hostel building with 12 fully equipped rooms which can accommodate 52 apprentices of the Kuchchaveli Hotel School was constructed without obtaining a feasibility study report before starting the construction at a cost of Rs.140.21 million in the year 2017. But due to the inability to get a permanent water	That the center was started on the agreement that Bowser would provide the necessary water facilities to the center until a permanent water supply was provided by the Water Supply and Water Transport Board.	Actions should be taken to obtain permanent water supply and use it as hostels for apprentices.

supply from that year until now, it had not been possible to use it as hostels for apprentices.

3.4 Procurement Management

Audit observation	Comments of the Management	Recommendation
<p>In the procurement of sanitary services for the year 2023, the contract has been awarded to the same supplier who had submitted the second lowest price that had been awarded the contract in the last 02 years, without proceeding to award the contract on the due date. As such, the authority had incurred a loss of Rs.2,038,700.</p>	<p>That the Chairman of the new Department Procurement Committee had not enough time to study and finalize all the relevant bid documents.</p>	<p>Action should be taken to carry out the procurement functions in a formal manner.</p>

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit observation	Comments of the Management	Recommendation
<p>The Authority was unable to complete 12 functions included in the Action Plan of the year 2023 during the year under review and the physical progress in 03 functions were between 3 percent to 38 percent.</p>	<p>Since it is proposed to introduce the new e QMS, the reasons for not allocating money for the existing system, limiting public expenditure, not being able to hold non-academic staff training programs and not being able to recruit the expected consultant positions in the year 2023.</p>	<p>Action should be taken to complete the functions of the action plan within the year.</p>