

**1. Financial Statement**

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**1.1 Qualified Opinion**

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The audit of the financial statements of the Vocational Training Authority of Sri Lanka for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 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, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements do not give a true and fair view of the financial position of the Authority as at 31 December 2020, 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**

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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**

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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 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 Authority'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 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

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### 1.5.1 Internal control over the preparation of financial statements

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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

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The following observations are made.

	<b>Non-Compliance with the reference to particular Standard</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a)	Although revenue and expenses should not be offset unless required or permitted by Sri Lanka Public Sector Accounting Standards in terms of Section 48 of Sri Lanka Public Sector Accounting Standard 01, expenditure amounted to Rs. 23,847,123 had been off set against 06 revenue subjects amounted to Rs. 44,150,305 and the net value of Rs. 20,303,182 had been stated in the financial performance statement.	The Authority maintains separate ledger accounts for revenue Sources as income and expenditure and the net value was shown in the presentation of the income position statement.	Income and expenditure in the financial statements should not be offset in accordance with Sri Lanka Public Sector Accounting Standards.
(b)	In terms of Section 14 of the Sri Lanka Public Sector Accounting Standard 7, the cost of an item of property, plant and equipment shall be recognized as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the entity and the cost or fair value of the	The ownership of the training centers mentioned herein are held by the Divisional Secretary and a specialist consultant has been recruited on contract basis to	Assets used for the operations of the institution should be accounted for in accordance with the Sri Lanka Public Sector Accounting Standards.

item can be measured reliably. However, the cost of the building which running the courses by the Authority from June 2019 valued for Rs. 1,833,749,343 at the Orugodawatta National Center and the value of 28 unacquired lands which the Authority was conducting courses had not been taken into account.

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| <p>(c) Although the fair value of property, plant and equipment has changed significantly, those assets should be revalued in accordance with paragraph 47 of the Sri Lanka Public Sector Accounting Standard 07, lands and buildings owned by the authority valued for Rs. 6,172,723,341 had not been revalued since 2008. As such the fair value of those assets were not reflected in the financial statements.</p> | <p>Action will be taken for revaluation of property, plant and equipment is currently planned</p>                                    | <p>Non-current assets should be reassessed in every 03 or 05 years as per the reference standard.</p> |
| <p>(d) Freehold lands and leased lands had not been stated separately in the Financial Statement as per Sri Lanka Public Sector Accounting Standard 12 and five leased lands valued for Rs. 9,842,565 had not been amortised according to the reference standard.</p>  | <p>Accounts should be submitted accurately in the future in accordance with the Sri Lanka Public Sector Accounting Standards 12.</p> | <p>Amortization should be calculated according to the reference standard.</p>                         |

### 1.5.3 Accounting deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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<p>(a) A company named VTA Holdings (Pvt) Ltd was registered under the Companies Act No. 07 of 2007 with the full (100%) shareholding ownership to the Vocational Training Authority of Sri Lanka on 18 December 2013. However, Financial statements consolidated with the financial statements of the relevant company from 18 December 2013 to 31 December 2020 were not prepared and submitted for audit.</p>	<p>There are no written records or annual accounts stating that any of the shares of this company were held by the Vocational Training Authority</p>	<p>As per the share issue certificate under Section 51 (4) (a) of the Companies Act No. 07 of 2007, Rs. 10 shares had been issued to the Vocational Training Authority. Hence, the information of the relevant company should be submitted to the audit expeditiously.</p>

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| (b) | The land called “Atthidiya Paddy Field and Hunukumbura” in Atthidiya area extended for 02 Acres 03 Roods and 38.38 Perches received by the Vocational Training Authority of Sri Lanka instead of the land given to the National Apprenticeship and Industrial Training Authority with the approval of the Cabinet of Ministers dated 20 December 2017 had not been assessed and accounted for. | Arrangement is being formally taken to acquire this land to the Vocational Training Authority and will be accounted once the acquisition has taken place properly. | All non-current assets used for the operations of the organization should be accounted for.   |
| (c) | Twenty four motor vehicles net valued for Rs.4,496,902 identified as assets under the motor vehicle class as at 31 December 2018 had omitted in the revaluation of the year. However, action had not been taken to rectify the situation during the year under review.   | Action will be taken to formally remove from the accounts after deregistration of 24 motor vehicles provided for the training in the motor vehicle class.          | The 24 cars that were accounted for under the motor vehicle class should be identified and accurately accounted for by the sector currently in use. |
| (d) | A sum of Rs. 1,300,000 received on 12 August 2020 for the year 2019/2020 according to an agreement reached between the Vocational Training Authority of Sri Lanka and Mobitel regarding the purchasing of telephone SIMs had been used contrary to the intended purpose without being accounted for under other income. As such, the income of the year was under stated by that amount.       | Such receipts will be credited to the revenue account in the future.   | All income and expenses for the year should be accurately accounted for in the preparation of financial statements                                  |

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

Reference to laws, rules, regulations	Non compliance	comment of the Management	Recommendation
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(a) Financial Regulations of Socialist Democratic Republic of Sri Lanka	i. General Form 288 of schedule 04 of the Financial Regulation	Even though a fixed assets register should be maintained by every institutions, a fixed assets register had not been	Action will be taken to avoid such a situation in future. Fixed assets registers should be maintained in the formats stipulated in the Financial

		maintained for the property, plant and equipment of the Authority valued for Rs. 6,279,859,791 as at 31 December 2020.		Regulations.
ii.	Financial Regulation 1646	Although the running charts of the pool vehicles should be furnished to the Auditor General before 15 of following month, running charts of 123 pool vehicles for the period from the month of January 2019 to December 2021 had not been submitted to the audit. As a result, fuel consumption of Rs. 28,280,105 could not be examined.	Already submitted for audit.	Running charts for 134 pool vehicles for the year 2019, 93 vehicles for the year 2020 and 52 vehicles for the year 2021 had not been submitted for audit as on 25 April 2022.
(b)	Circulars			
i.	Public Finance Circular No, 03/2015 dated 14 July 2015	Although ad-hoc imprest up to maximum limit of Rs. 100,000 for certain specific activity could be given to executive level officers in one instance as per the Paragraph 371 (2) of the circular, contrary to that ad-hoc imprests from Rs. 107,500 to Rs. 300,000 in 10 instances had been given at district offices and head office.	Action has already been taken to correct.	Should be complied to the provisions in the circulars.
ii.	Secretary to the Treasury Circular No. PED / 2020 dated 27 January 2020	(a) Despite being informed that new recruitment should not be done in appointing new chairmen as per the referred circular, two consultants were recruited which are not in the approved cadre of the Authority and a total sum of Rs. 1,749,872 had been paid as allowances and fuel allowances during the year.	Specialist consultants have been recruited with the approval of the Board of Directors to obtain expertise as per the requirements of the institute and the relevant allowances have been paid accordingly.	Recruitment should be done only for the existing posts in the approved cadre and recruitments and promotions should be made in accordance with the approved recruitment and promotion procedure.

(b) In addition to the provisions of the Circular, it has been emphasized that the Chairmen of the Institutions should not receive any additional allowance or financial benefit. Contrary to that a sum of Rs. 446,673 as additional fuel allowance and a sum of Rs. 435,982 as outbound travel and hotel accommodation expenses had been paid to the Chairman.

The Chairman and CEO of this Authority are held by the same person and those expenditure has been made with the approval of the Secretary to the Ministry on the recommendation of the Board of Directors for fuel expenditure.

Although the approval of the Secretary to the Ministry had been obtained for additional fuel, approval had not been obtained for other food and lodging charges.

**2. Financial Review**

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**2.1 Financial Results**

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The operation result in the year under review had been a deficit of Rs. 36,288,167 as compared with the corresponding deficit of Rs. 77,296,679 for the preceding year, thus observing an improvement of Rs.41,008,512 in the financial result. The decrease in operation expenses had mainly attributed to this improvement.

**3. Operational review**

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**3.1 Management inefficiencies**

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Audit observation	Comments of the Management	Recommendation
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(a) Due to the cost of living allowance had not been taken for the calculation of the Employees' Trust Fund contribution from the year 2006 to May 2015, a surcharge of Rs. 7,898,073 had been paid in the year 2019, but action had not been taken to recover from the responsible officers.	Payment had been made from the funds received for the Authority's expenses by the Treasury.	The surcharge was done due to the negligence. As such, relevant responsible officers should be identified and recovered from them.

- (b) Despite the emphasis that the Treasury provisions should be spent only for the approved expenditure and the letter of the Secretary to the Ministry of Skills Development, Vocational Education, Research and Innovation dated 08 September 2020 informed that government funds should not be spent on the 25th anniversary celebrations of the Vocational Training Authority of Sri Lanka, treasury funds amounted to Rs. 2,296,885 and funds to be accounted as Authority's income amounted to Rs. 1,300,000 had been spent for goods and services procured by deviation of the procurement procedure.
- These expenses were borne with the approval of the Heads of Divisions and with the approval of the Chairman for the purpose of Employee Welfare and Employee Motivation.
- Procurement guidelines should be followed and government funds should not be spent on unnecessary activities.

### 3.2 Idle or Under-utilized Property, Plant, and Machinery

Audit observation	Comments of the Management	Recommendation
<p>157 equipment total valued for Rs.15,743,838 received from the Korean loan project for the construction of the Colombo Vocational Training Centre and the Gampaha Technical College in the year 2019 to the Korean Tech Institute, Orugodawatta under the Authority were remained Idle without utilizing and 07 equipment worth of RS. 1,784,794 were out of order. Further, even the posts of doctors or nurses have not been approved for that institution, medical equipment and medicines worth of Rs. 3,500,000 uses by doctors had been provided and those medicines had expired without any use.</p>	<p>The local agency which was appointed in this regard has taken actions to restore all the equipment which was out of order and if an error occurs in any device, the relevant agency is constantly working to rectify that error.</p>	<p>Acquisition and purchase of assets should be done in the order of necessity and the priority of the Authority. Many of the equipment provided on foreign loan funds were inactive and action should be taken to utilize those tools expeditiously.</p>



### 3.3 Procurement Management

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Audit observation	Comments of the Management	Recommendation
<p>Due to the Department Procurement Committee decided to award the contract to a security service provider who had submitted the second lowest bid despite the recommendations of the Technical Evaluation Committee in the procurement process for the selection of a service provider for the security service for the year under review, a loss of 2,984,572 was incurred during the year under review.</p>	<p>In awarding this contract, the contract was awarded to the second lowest bidder, the highest quality and most practical and sustainable company in terms of Whole Life Costing Concept. Therefore, kindly inform you that do not accept that the institution has incurred a financial loss. The full monthly fee is paid based on the attendance certificates submitted with the monthly bills.</p>	<p>Procurement guidelines should be followed.</p>

### 3.4 Deficiencies in Construction Administration

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Audit observation	Comments of the Management	Recommendation
<p>There was a loss of Rs.3,073,038 to the Authority due to carrying out evaluation activities based on a faulty engineering estimate and selecting a bidder who makes a non-comparable bid compared to the second lowest bidder related to the construction of the Kegalle District Centre Building constructed in the year 2019 under the Sectoral Skills Development Fund. Further, in the physical measurement taken by the audit on 01 December 2021 related to the execution of the contract, it was revealed that a sum of Rs. 4,857,017 had been overpaid.</p>	<p>The engineering estimate was prepared on the basis of the then prevailed conditions of the project for the construction of the first floor of the new two-storey building. The contractor selected for this had offered extraordinary bids. Also, the actual size of the upstairs concrete slab was less than the proposed size. The reason was that the selected contractor had offered an unusually low price for this item. This situation in the project was adversely affected by the increase in the unit price of the contractor for the work items that had to be done more, and the reduction in the unit cost of the contractor for the work that had to be done less.</p>	<p>Actual prices should be used for accurate quantities when preparing estimates for construction contracts and Bids should be evaluated carefully when selecting of contractors.</p>