

Financial Statements of the Skills Development Fund Ltd – 2018/2019

1.1 Qualified Opinion

The audit of the financial statements of the Skills Development Fund Limited for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 and the statement of comprehensive income 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. My comments and observations which I consider should be report 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 Company as at 31 March 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka 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 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

1.4 Auditor's Responsibility on the Audit of 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 Company'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 Company'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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company 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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Comment of the Management	Recommendation
<p>As per Sri Lanka Accounting Standards No. 9, the Company had not classified financial assets and as per business framework of the institution which administer the financial assets in terms of Section 4.1.1 of the Standard, the financial assets of the institution had not been classified at the fair value created through the impairment cost identified later and the other comprehensive income or through profit or loss or through both ways. Likely, as per Section 5.5 of the Standard, expected credit loss of financial assets had not been identified.</p>	<p>Action will be taken to rectify.</p>	<p>Action should be taken as per Accounting Standards.</p>

1.5.3 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
<p>A balance amounting to Rs. 4,478,854 was available under current assets as fixed deposits in the scholarship fund of the Ministry of Skills Development and Vocational Training and there was a balance amounting to Rs. 4,156,378 as Non-current liabilities and a difference of Rs.322,476 was observed and reasons for the difference had not been explained to the Audit.</p>	<p>Action is being taken to identify.</p>	<p>Action should be taken to rectify.</p>

1.5.4 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available	Comment of the Management	Recommendation
-----	-----	-----	-----	-----
	Rs.			
A balance amounting to Rs.297,303 that had been brought forward for several years as other reserves under capital and reserve in the statement of financial position prevailed and information to substantiate this balance was not presented to the Audit.	297,303	Schedules, decisions of the Director Board	This had taken place through net actuarial adjustments of pension benefits.	Action should be taken to rectify this.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Management	Recommendation
-----	-----	-----	-----
(a) Sections 9.2 and 9.4 of Chapter VIII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	In contrary to the Provisions of the Establishments Code, amount of Rs. 1000 per day had been paid to Non- staff grade officers of the Company for working in holidays without considering the number of hours worked.	These payments had been made on the approval of the Board of Directors.	Should be in compliance with the Provisions of the Establishments Code.
(b) Section 10 of Chapter VIII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	Even though an allowance of 1/20 of the monthly salary can be paid to one staff officer for working on a holiday, an allowance amounting to Rs. 1500 had been paid per day for employees of the Company without complying to that.	These payments had been made on the approval of the Board of Directors.	Should be in compliance with the Provisions of the Establishments Code.

(c) Paragraph 1.4.1 of Chapter XXX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	A sum of Rs. 676,000 had been paid to an Officer of the Company during the year under review for conducting lectures during the office time and charges that should be recovered to the Consolidated Fund had not been credited to the Consolidated Fund.	A definite reply had not been given.	Action should be taken in compliance with the Establishments Code.
(d) Public Enterprises Circular No. 3/2016 of 29 April 2006.	A sum of Rs.383,396 that had to be paid to the Inland Revenue Department as Pay As You Earn tax in relation to the year 2017 had been paid from the Fund of the Company.	Payments had been made on the permission of the Board of Directors since payments had not been made in the previous year.	Action should be taken in compliance with the Circular.

1.7 Non -compliance with Tax Regulations

Not complied with the following observations.

Audit Observation	Comment of the Management	Recommendation
-----	-----	-----
(a) As per Section 21 (1) of the Value Added Tax (Amendment) Act No . 14 of 2002, Tax Return on Value Added Tax collected on the last date of the month subsequent to the lapse of the period of levying each tax or prior to that should be provided. However, there was a delay in the Company for a period of 19 months to 28 months in 04 instances in the 03 previous years in contrary to the aforementioned Provisions.	Action had been taken to rectify.	Action should be taken in compliance with the Act.
(b) In terms of Section 124 (1) of the Inland Revenue Act No.10 of 2006 and in terms of Section 86 (2) of the Inland Revenue Act No. 24 of 2017, the statements on Pay As You Earn tax should be submitted within 30 days after the end of the each valuation year. However, valuations for the last 03 years had been done with a delay of 01 year to 03 years and late payments had been made for the years 2018/2019 with a delay of 44 days.	Action had been taken to pay.	Action should be taken in compliance with the Act.

- | | | | |
|-----|---|---|--|
| (c) | As per Section 2 (2) of the Economic Service Charge (Amendment) Act No. 13 of 2006, the Companies which exceed the turnover of a Quarter of Rs. 12.5 million should register for economic service charges, the Company had not been registered for economic service charges though the Company had obtained a turnover higher than that. | The Company is in the process of Registering for economic service charges and it has been scheduled to pay economic service charges as arrears. | Action should be taken in compliance with the Act. |
| (d) | In terms of Stamp Duty (Special Provisions) (Amendment) Act No.10 of 2008, the Company had not yet registered under the Stamp Duty Act and stamp duty amounting to Rs. 11,325 had not been charged from the employees for the year 2018/2019. | The Company is taking action to be registered under the Stamp Duty Act. | Action should be taken in compliance with the Act. |
| (e) | In terms of Section 8 of the Nation Building Tax Act No. 09 of 2009, even though tax returns for the quarter should be provided on the 20 th day of the month immediately commencing after the end of the quarter or prior to that, the Company had not taken action in compliance with the Section. Likely, when a turnover exceeding Rs. 3 million per Quarter is earned, the Company should pay Nation Building Tax. Nevertheless, the Company had not taken action to pay tax on the turnover during the year. | A request letter had been submitted by the Company to the Inland Revenue Department to obtain tax release from Nation Building Tax and the fines imposed based on the arrears in Nation Building tax had been removed. Action had been taken to resolve this issue. | Action should be taken in compliance with the Act. |
| (f) | In terms of Section 8 of Inland Revenue Act No. 24 of 2017, the amount deducted as Pay As You Earn Tax should be remitted to the Commissioner General within a month, it had been paid after a delay of 01 month to 13 months. Tax had not been deducted on the salaries of the employee for a period of last 3 years. | Action had been taken to make payments. | Action should be taken in compliance with the Act. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 14,750,722 and the corresponding profit in the preceding year amounted to Rs. 6,544,228. Therefore, an improvement amounting to Rs. 8,206,494 of the financial result was observed. The major reason for this improvement is the reduction in direct cost by Rs. 8,199,278 and administration expenses by Rs. 4,959,947 even though the operating income had declined by Rs. 4,122,774.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
	-----	-----	-----
(a)	The total of Rs. 2,593,613 comprised of the amount estimated as the Nation Building Tax and the fines of the Inland Revenue Department had not been paid and disclosures had not been made in the financial statements in this regard.	The Company had submitted a request letter to the Inland Revenue Department to get the tax release from the Nation Building Tax.	Action should be taken to make disclosures in the Accounts.
(b)	As per the letter of the Department of Management Services bearing No. DMS/E4/47/9/282/1 of 18 November 2011, any other allowances apart from the Cost of Living allowances should not be paid in addition to the salary. Nevertheless, in contrary to that, an amount of Rs. 2,638,750 had been paid as incentives on the approval of the Board of Directors without obtaining the approval of the General Treasury.	These payments had been made after taking the decision by the Board of Directors with the basic objective of encouraging all the officers through an incentive allowance payable on the performance of the employees.	Action should be taken in compliance with the letter of the Department of Management Services.
(c)	In contrary to the Paragraph 04 of the Finance Ministry Circular bearing No. FM 01/2015/01	The amount for air tickets and for the insurance of	Action should be taken in compliance

of 15 May 2015, a total of Rs. 467,681 had been overpaid as combined allowances to officers of the Fund for the foreign workshop in the year under review.

the officers had been incurred by the institute with whom the agreement had been signed and food, accommodation and the other expenses would be borne by our institution. Accordingly, payments had been made.

with the instructions stipulated in the Circular.

3.2 Operational Inefficiencies

Audit Observation -----	Comment of the Management -----	Recommendation -----
Efficiency Bar examination had been conducted extraneous to the objectives of the Company and the role assigned to the Company and an income of Rs. 1,134,720 had been generated.	As per Memorandum and Articles of Association of the Skills Development Fund, it is possible for the Company to conduct Efficiency Bar Examinations on the role assigned to the Company and examination activities had already been conducted with the proper responsibility and confidentiality according to the requests made by the external institutions.	Action should be taken in compliance with the Objectives of the Company.

3.3 Procurement Management

Audit Observation -----	Comment of the Management -----	Recommendation -----
In terms of 3 (a) of the Government Procurement Guidelines 2006, even though the shopping method is an appropriate procurement system for materials that are consumed constantly, purchases had been made under retail prices from the same supplier without adhering to the said Procurement Guidelines. The Fund had been deprived of the advantage of getting a discount owing to this reason.	The Procurement process had been commenced by publishing public advertisements in relation to the purchase of short eats.	Action should be taken in compliance with the Procurement Guidelines.

