Skills Sector Development Programme -2014

--

The audit of consolidated financial statements of the Skills Sector Development Programme for the first accounting year ended 31 December 2014 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 in the Schedule 2 Section II.B.3 Financing Agreements No. 5516 LK and No.5517 LK dated 12 September 2014 entered into between the Democratic Socialist Republic of Sri Lanka and International Development Association.

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Programme Implementation Document, then Ministry of Youth Affairs and Skills Development, presently Ministry of Skills Development and Vocational Training is the Executing Agency of the Programme and 09 other institutions under then Ministry of Youth Affairs and Skills Development, presently Ministry of Skills Development and Vocational Training are the Implementing Agencies of the Programme. According to the Programme Implementation Document, the objectives of the Programme are building an efficient education system to meet the local and foreign labour market demand by 2020 and improving quality, relevance, access, recognition for vocational training and supportive policies, systems and structures. The estimated total cost of the Programme amounted to US$ 961 million equivalent to Rs.125,916 million and agreed to provide US$ 100 million equivalent to Rs.13,100 million by the International Development Association. Further, US$ 141 million equivalent to Rs.18,523 million was expected to be provided by the Asian Development Bank, Government of Germany and Export - Import Bank of Korea. This report consists with the comments on activities carried out by then Ministry of Youth Affairs and Skills Development, presently Ministry of Skills Development and Vocational Training and other 09 Implementing Agencies. The Programme activities were commenced in 2014 and scheduled to be completed by 2020.

1.3 Responsibility of the Management for the Consolidated Financial Statement

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor`s judgement, including the assessments of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Programme's preparation and fair presentation of the consolidated 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 Programme'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 consolidated 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 the Progamme management and the reliability of books, records etc. relating to the operations of the Programme.

(b) Whether the expenditure shown in the consolidated financial statements of the Programme had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Programme.

(c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure for the Line Ministry and 09 other Implementing Agencies from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Programme in financial and physical terms, the assets and liabilities arising from the operations, the identifications of purchase made out of the Loans, etc.

(d) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreements.

(e) Whether the funds, under the Loans had been utilized for the purposes of the Vocational Training Sector**.**

(f) Whether financial covenants laid down in the Financing Agreements had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

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, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

(a) the Programme had maintained proper accounting records for the year ended 31 December 2014 and the consolidated financial statements give a true and fair view of the state of affairs of the Programme as at 31 December 2014 in accordance with Generally Accepted Accounting Principles.

(b) the funds provided had been utilized for the purposes for which they were provided and

(c) the financial covenants laid down in the Financing Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following deficiencies had been observed.

(a) Computer and accessories procured for the Ministry of Skills Development and Vocational Training at a cost of Rs. 2.5 million during the year under review had been categorized and shown under the vehicles due to a posting error.

(b) Building renovation works carried out and equipment procured for Skills Sector Development Division at a cost of Rs.24.65 million had been charged as the expenditure of the Programme instead of treated as an expenditure of the Line Ministry.

(c) Salaries and other operating cost of Rs. 53.03 million and advertisement cost of Rs. 4.6 million had been shown as the cost of staff training.

2.2.2 Un-reconciled Balances

Although material differences were observed between several capital and recurrent expenditure items shown in the individual financial statements of 06 Implementing Agencies out of 09 Implementing Agencies with the figures shown in the consolidated financial statements and those differences were not reconciled and adjusted in the consolidated financial statements. Details are given below.

Institution	Expenses of the year under review as per individual financial statements presented	Expenses of the year under review as per consolidated financial statements
	Rs. million	Rs. million
Vocational Training Authority	1,830.61	1,668.11
National Apprentice and Industrial Training Authority	1,061.37	994.75
University of Vocational Technology	248.02	313.11
Ceylon German Technical Training Institute	299.03	347.57
National Institute of Fisheries and Nautical Engineering	172.06	191.22
Tertiary and Vocational Education Commission	99.81	94.25

3. Financial and Physical Performance

3.1 Utilization of Funds

It is observed that a sum of Rs. 2,585 million had been allocated for the Programme during the year under review to meet certain Disbursement Link Indicators as agreed with Donor Agencies. However, only Rs. 1,648 million had been utilized during the year under review.

According to the information furnished, the details of funds scheduled to be disbursed to the General Treasury as budgetary support and actual amount utilized as at 31 December 2014 are given below.

Source	Amount agreed to be financed according to the Loan Agreement		Amount agreed to be financed up to 31 December 2014		Funds released up to 31 December 2014	
	US$ million	Rs. million	US$ million	Rs. million	US$ million	Rs. million
ADB	100.0	13,100	40.0	5,240	20.04	2,613
IDA	100.0	13,100	9.6	1,205	-	-
Government of Germany	15.4	2,017	-	-	-	-
Export-Import Bank of Korea	26.0	3,406	-	-	-	-
GOSL	719.8	94,293	-	-	-	7,308
	961.2	**125,916**	**49.6**	**6,445**	**20.04**	**9,921**

According to the paragraph 41 of the Programme Appraisal Document, US$ 9.6 million was scheduled to be received from International Development Association during the year under review. However, no funds had been released by the International Development Association during the year under review. It is observed that Loan Agreement had been signed with the Lending Agency only on 12 September 2014.

3.2 Physical Progress

According to the Action Plan of the Programme, 59 sub programs were scheduled to be implemented during the year under review by Implementing Agencies and Rs. 3,457.52 million had been allocated thereon. However, only 44 sub programs had been implemented during the year under review and a sum of Rs. 1,657.53 million had been spent thereon. Further, only 05 sub programs had been implemented out of 11 sub programs scheduled to be conducted by the Tertiary and Vocational Education Commission and 05 programs had been conducted out of 8 sub programs scheduled to be carried out by the National Apprentice and Industrial Training Authority.

3.3 Issues on Financial Controls

The following observations are made.

(a) According to the Paragraph 24 of the Project Appraisal Document, the Internal Audit Units of every institutions under the Programme are required to carry out risk based high impact audits and Skills Sector Development Division of the Programme is required to take action for the monitoring purpose. Even though Internal Audit Units had been established by the Line Ministry and all other Implementing Agencies and 55 auditors were attached therein, no internal audits had been carried out on activities implemented under the 05 Implementing Agencies. Further, material findings had not been made in the internal audit reports presented by other Agencies.

(b) Incentive schemes, introduced to the staff of the Implementing Agencies of the Programme had not been implemented based on the expected results and criterias developed by the Line Ministry. The total cost incurred for the incentive payments amounted to Rs.97.09 million during the year under review.