Skills Sector Development Programme – ADB - 2015

The audit of consolidated financial statements of the Skills Sector Development Programme for the year ended 31 December 2015 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 Article IV of Section 4.04 (a) of the Loan Agreements No. 3119 SRI and 3120 SRI (SF) dated 27 May 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Programme Implementation Document, the Ministry of Skills Development and Vocational Training is the Executing Agency and 09 other Institutions under the 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$ 961.2 million equivalent to Rs.125,916 million and out of that US$ 100 million equivalent to Rs. 13,100 million each expected to be provided by the Asian Development Bank and the International Development Association. Further, US$ 41.40 million equivalent to Rs. 5,423 million was expected to be provided by the Government of Germany and Export and Import Bank of Korea. In addition, US$ 200 million equivalent to Rs. 26,200 million was expected to be financed through other sources. This report consists with the comments on activities carried out under the proceeds of Loan of Asian Development Bank. The activities of the Programme commenced in 2014 and scheduled to be completed by 2020.

1.3 Responsibility of the Management for the Consolidated Financial Statements

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 judgment, including the assessment 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 Ministry of Skills Development and Vocational Training and the Department of Technical Education and eight semi – autonomous institutions 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 Loans had been made in accordance with the specifications laid down in the Loan Agreements,

(e) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the 10 institutions of the Vocational Training Sector**.**

(f) Whether the consolidated financial statements had been prepared on the basis of Generally Accepted Accounting Principles.

(g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

(h) Whether financial covenants laid down in the Loan 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 2015 and the consolidated financial statements give a true and fair view of the Programme as at 31 December 2015 in accordance with Generally Accepted Accounting Principles,

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

(c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

(d) the financial covenants laid down in the Loan Agreements had been complied with.

2.2 Comments on Consolidated Financial Statements

2.2.1 Accounting Deficiency

Advance payments aggregating Rs. 32.93 million made on construction works at 03 University Colleges had been shown as work in progress in the Statement of Financial Position.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds up to 31 December 2015 are shown below.

Source	Amount agreed for financing in the Loan Agreements		Allocation made in the Budget Estimate for the year 2015	Funds utilized up to 31 December 2015	
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	US$ million	**Rs. million**	**Rs. million**	**US$ million**	**Rs. million**
ADB	100.00	13,100.00	5,089.00	56.65	7,670.00
IDA	100.00	13,100.00		6.51	871.36
GOSL	519.80	68,093.00			
Govt. of Germany	15.40	2,017.00			
Exim Bank- Korea	26.00	3,406.00			
Other	200.00	26,200.00			
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	961.20	**125,916.00**	**5,089.00**	**63.16**	**8,541.36**

The following observations are made.

(a) Although budgetary allocation amounting Rs. 5,089 million made for the year under review, only a sum of Rs. 3,103 million representing 61 per cent of the allocation had been utilized. In addition, commitments at Rs. 598.6 million had remained at the end of the year under review.

(b) According to the disbursement schedules of the Programme Appraisal Documents, US$ 70 million equivalent to Rs. 9,475 million from Asian Development Bank should have been reimbursed at the end of the year under review. However, only US$ 56.65 million equivalent to Rs. 7,670 million from Asian Development Bank had been reimbursed.

3.2 Physical Progress

Eventhough individual action plans had been prepared and implemented by the each Implementing Agency, there is no comprehensive detailed action plan had been prepared for the Programme to cover up the activities stipulated in the Project Appraisal Document and utilize allocation of Rs.125,916 million during the entire period of the Programme. Thus, it indicated that a proper mechanism had not been established to align the Implementing Agencies of the Programme to achieve the common goals at the end of the period of the Programme. The following further observations are made thereon.

(a) According to the individual action plans of the Programme for the year under review, 74 programs had been scheduled to be implemented by 10 Implementing Agencies and Rs. 3,520.78 million had been allocated thereon. However, only 44 programs had been implemented during the year under review and a sum of Rs. 1,374.33 million had been spent thereon.

(b) According to the progress reports, Ministry of Skills Development and Vocational Training had implemented 02 programs at a cost of Rs. 547.33 million, out of 06 programs to be implemented at an estimated cost of Rs. 1,573.16 million during the year under review. Further, a sum of Rs. 28.51 million had been allocated to the Tertiary and Vocational Education Commission to implement 24 programs and Rs. 25.6 million had been spent during the year under review to implement only 07 programs.

(c) The National Apprentice and Industrial Training Authority had spent only Rs. 101.87 million to complete 08 programs, eventhough the allocations amounting to Rs. 174.1 million made thereon. Further, National Institute of Fisheries and Nautical Engineering had spent Rs 30.15 million to implement 03 programs, eventhough a sum of Rs. 83.41 million had been allocated to implement 04 programs during the year under review. Thus, it indicated that the allocation for the programs had been made for the above mentioned Institutions, without carrying out of detailed studies on actual requirements of funds to implement the respective activities.

(d) According to the Disbursement Link Indictor - 03 of the Loan Agreement entered into with Asian Development Bank, the Ministry of Skills Development and Vocational Training should take action to prepare a human resources policy to determine the cadre for the academic staff for the priority areas of the Implementing Agencies and a Scheme of Recruitment thereon. However, the new recruitment plans according to the above policy for the Department of Technical Education and Training, Tertiary and Vocational Education Commission, National Apprentice and Industrial Training Authority, National Youth Services Council, Ceylon-German Technical Training Institute and National Institute of Fisheries and Nautical Engineering had not been prepared even as at 31 December 2015. Further, out of the approved cadre of 4,039 posts of Lectures and Instructors in the Implementing Agencies, there were 1,337 posts remained unfilled as at 31 December 2015.

(e) According to the Programme Implementation Document, the ultimate outcome of the Programme should be the improvement of the quality and recognition of the technical and vocational education and trainings in Sri Lanka. Therefore, the action should be taken to review the courses conducted by the Vocational and Training Institutes at present and improve training courses up to the level of National Vocational Qualification (NVQ) in order to ensure the international recognition for the technical and vocational education and trainings of the country. According to the information made available, only 2,532 training courses have been accredited up to the level of National Vocational Qualification even as at 31 December 2015, out of 3,732 training programmes conducted at present by 08 Implementing Agencies.

(f) According to the Programme Implementation Document, the Ministry of Skills Development and Vocational Training should take action to establish 05 University Colleges with Private - Public Partnerships to increase the level of employability of the technical and vocational education sector. However, only 03 University Colleges with Private – Public Partnership mode had been established as at 31 December 2015. The following observations are made on audit test checks carried out at the

University College of Sri Jayawardhanapura which was established under the above mode.

(i) The University College had been established only on the Memorandum of Understanding signed with Sri Jayawardhanapura Hospital and then Ministry of Youth Affairs and Skills Development on 09 May 2013. Further, the Ministry of Youth Affairs and Skills Development had agreed to provide training equipment valued at US$ 560,316 and Rs. 2.11 million for Engineering Technology Courses conducted by the University College and out of that, the training equipment valued at US$ 81,224 and Rs. 1.40 million had not been provided as at 31 December 2015.

(ii) The University College should take action to provide facilities to the Diploma holders of the University College to complete their Degree Programs through University of Vocational Technology. However, necessary action had not been taken by the University College to establish proper links thereon.

(iii) Further, the University College had not taken action to accreditation of the training courses to the level of National Vocational Qualifications.

(g) According to the Programme Appraisal Documents, action should be taken to establish 14 other University Colleges as at 31 December 2015 under the University of Vocational Technology and increase enrolments of students for technical and vocational education and training. It was observed that the academic activities of 05 such University Colleges had only been commenced as at 31 December 2015 eventhough the construction works of buildings for 06 University Colleges were completed. The following observations on operations of the such University Colleges are made.

(i) The academic activities of the University College at Batangala had not been commenced even as at 31 December 2015. Further, 18 staff members at various grades were remained idle over a year at the University Collage as at 31 December 2015, due to delays in commencement of the academic activities. The remuneration of Rs. 4.99 million had also been paid thereon during the year under review.

(ii) Eventhough the facilities were available to admit 1,260 students for 51 Study Courses in the above mentioned 05 University Colleges, only 487 students could be admitted during the year under review for 42 Study Courses and out of that 146 students had dropped out the Courses during the year under review.

(iii) Further, the posts of 40 Lectures, 15 Demonstrators and 11 Lab Assistants were remained vacant as at 31 December 2015.

3.3 Contract Administration

The following observations are made.

(a) Skills Sector Development Programme Unit had procured equipments valued at Rs 5.51 million for the use of the University College -Sri Jayawardhanapura during the year under review under the shopping method without applying National Competitive Bidding Procedure as per paragraph 3.4.1 of the Government Procurement Guidelines and the recommendation made by the Technical Evaluation Committee. Further, the contract agreement had been signed on 21 October 2015 eventhough the respective contract had been awarded on 23 December 2014 after 10 months of the contract awarding date. Those equipment had been used for the practical training purposes without testing and commissioning for quality assurance purposes.

(b) The National Youth Service Council had selected a private firm for consultancy services for the buildings for Training Centres expected to be constructed under the allocation amounting to Rs. 253.40 million made by the Programme. It was observed that the bids had been evaluated based on the criteria developed by the National Youth Service Council for this purpose and the selected firm had remained at 09 position in the evaluation schedule, out of 15 bidders. Further, it was revealed that the business of the selected bidder for the consultancy services had been registered only on 21 April 2014 eventhough the contract had been awarded only on 28 January 2014.

3.4 Idle/Under Utilized Assets

The following observations are made.

(a) It was observed that training equipment procured at a cost of Rs. 210.32 million had remained idle over a year at the University Colleges of Katubedda, Rathmalana, Batangala and Kuliyapitiya operated under the University of Vocational Technology as the respective training courses had not been commenced on time.

(b) Further, other training equipment procured at cost of Rs. 424.33 million had remained underutilized over a year, at the University Colleges of Matara, Rathmalana and Kuliyapitiya operated under the University of Vocational Technology, due to lack of other facilities such as laboratories, water, electricity etc.

3.5 Issues on Financial Controls

The following observations are made.

(a) According to the Paragraph 24 of Project Appraisal Document, the Internal Audit Units of the Institutions under the Skills Sector Development Programme should carry out risk based high impact audits and Additional Secretary of the Programme is required to take action accordingly for monitoring purpose. It was observed that Internal Audit Units had been established in the Line Ministry and other Implementing Agencies and 56 auditors deployed. However, the activities carried out by the Programme in 05 Implementing Agencies were not subjected to internal audits. Further, according to the detailed Activity Plans of the Internal Audit Units of other Implementing Agencies, the action had not been taken to plan and conduct risk based high impact audits, based on the Disbursement link Indicators.

(b) According to the Letter No. 4-1/2/1/17 of 19 May 2014 of the Ministry of Skills Development and Vocational Training, an incentive scheme had been introduced for the training instructors and other staff of the Programme and a sum of Rs.138.13 million had been spent thereon during the year under review. However, the Implementing Agencies had not adopted the criteria and mechanism for evaluation for the incentives scheme in line with achieving of expected targets of the Programme.

3.6 Extraneous Activities

A sum of Rs. 2.56 million spent during the year under review by the Tertiary and Vocational Education Commission, out of the proceeds of the Loan was not directly related to achieve the objectives of the Programme.

3.7 Unsettled Audit Issues Highlighted in the Previous Audit

It was observed that the bids had been called in 2014 to procure training materials at a cost of Rs. 186 million for production technology course without preparation of cost estimate and grouping of items in similar nature. As a result, the bidders had not submitted bids for 35 items, out of 97 items of quotations called for. Eventhough the Technical Evaluation Committee and the Procurement Committee had directed to recall quotation for the items which were not bided, the Skills Sector Development Division of the Ministry of Skills Development and Vocational Training had not taken action to recall quotation even as at 31 May 2016.