

Skills Sector Development Programme - 2017

The audit of consolidated financial statements of the Skills Sector Development Programme for the year ended 31 December 2017 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. This report consisted with the comments only on activities carried out by the Ministry of Skills Development and Vocational Training and other Implementing Agencies based on the Disbursement Link Indicators of the Programme. My reports on financial statements of the individual Implementing Agencies for the year under review are issued separately.

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. However, Sri Lanka Institute of Printing which was initially identified as an Implementing Agency had been excluded during the year under review. According to the Programme Implementation Document, the objectives of the Programme are building of 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 agreed 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. 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 Programme 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 the 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 Training and seven 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 08 Institutions of the Vocational Training Sector and the Ministry of Skills Development and Vocational Training.
- (f) Whether the consolidated financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (g) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (h) Whether the 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 2017 and the consolidated financial statements give a true and fair view of the Programme as at 31 December 2017 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the amount of eligible expenditure except the amount financed by other Development Partner to the Programme had not been exceeded the proceeds withdrawn during the year under review,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) The opening balance of cash and cash equivalents aggregating Rs. 109.02 million as at 01 January 2017 shown in the Consolidated Statement of Total Expenditure under the National Apprentice and Industrial Training Authority, Tertiary and Vocational Education Commission and Skill Sector Development Division had not been agreed with the corresponding balance of cash and cash equivalents aggregating Rs. 80.04 million shown in the Consolidated Statement of Total Expenditure as at 31 December 2016.
- (b) Payment of gratuity amounting to Rs. 34.24 million made during the year under review by the National Youth Services Council had not been brought to the Consolidated Statement of Total Expenditure. Further, the costs incurred on rent, rates, postal and telecommunication and other recurrent expenses shown in the Consolidated Statement of Total Expenditure had been understated by Rs. 2.32 million, due to posting errors.
- (c) The income and expenditure shown in the Consolidated Statement of Total Expenditure had been overstated by Rs. 24.97 million, due to erroneous accounting entries made by the Ceylon German Technical Training Institute.

2.2.2 Lack of Documentary Evidence for Audit

The financial statements for the year under review had not been prepared and presented by the Tertiary and Vocational Education Commission even up to 15 July 2018 and therefore, the information shown in the Consolidated Statement of Total Expenditure could not be reconciled with the figures shown in the financial statements.

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 during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreements for Central Level		Total allocation made in the Annual Budget Estimate for the year under review	Funds utilized during the year under review up to 31 December 2017		
	US\$ million	Rs. million		Rs. million	US\$ million	Rs. million
ADB	100.0	13,100	11,782	9,554	87.01	12,246
IDA	100.0	13,100			41.23	6,063
GOSL	519.8	68,093			187.70	28,691
Government of Germany	15.4	2,017	-	-	7.47	1,232
Export Import Bank of Korea	26.0	3,406	500	220	7.26	1,077
Other	200.0	26,200	-	-	-	-
Total	<u>961.2</u>	<u>125,916</u>	<u>12,282</u>	<u>9,774</u>	<u>330.67</u>	<u>49,309</u>

The following observations are made.

- Out of the Budgetary allocation amounting to Rs. 12,282 million made in the Annual Budget Estimate for the year under review, a sum of Rs. 9,774 million representing 79.6 per cent of the total allocation had been utilized.
- According to the Loan Agreement, SDR 32.60 million (US\$ 50 million) equivalent to Rs.9,739.22 million was expected to reimburse as at 31 December 2017 from the allocation made by the Asian Development Bank. However, SDR 29.34 million (US\$ 45 million) equivalent to Rs.5,965.17 million had only been utilized as at that date.

3.2 Physical Progress

According to the Action Plan of the Programme, 73 activities under 09 Disbursement Link Indicators scheduled to be implemented through 08 Implementing Agencies and Skill Sector Development Division of the Ministry of Skills Development and Vocational Training, using the proceeds of the Loans. The following observations are made in this regard.

- (a) According to the information received, the targets of 03 activities, out of 23 activities under 03 Disbursement Link Indicators to be implemented using the proceeds of Loan of Asian Development Bank had not been achieved as at 31 December 2017.
- (b) According to the Programme Implementation Document, the ultimate outcome of the Programme is to make improvement of the quality and recognition of the technical and vocational education and trainings in the island. Therefore, the courses conducted island wide by the Vocational Training Institutes should be reviewed regularly and improved up to the level of National Vocational Qualification to ensure the international recognition for the technical and vocational trainings activities conducted in the country. It was revealed that 1,454 study courses, out of 3,719 study courses conducted by the Implementing Agencies had not been accredited up to the level of National Vocational Qualification as at 31 December 2017. Thus it indicated that the Line Ministry had not taken action to review the training courses for improvement purposes.
- (c) The Tertiary and Vocational Training Commission is responsible for developing and certification of quality management systems of the Vocational Training Institutes which conduct training programmes to meet the National Vocational Qualifications and allocation of Rs. 02 million had been made thereon for the year under review. The following further observations are made thereon.
 - (i) According to the information received, only 170 certificates on quality management systems for the Vocational Training Institutes had been issued as at 31 December 2017 including 74 such certificates issued during the year under review out of 1,614 Vocational Training Institutes remained island wide.
 - (ii) Eventhough the Commission had taken action to recruit Lead Auditors to review the systems adopted by the Vocational Training Institutes for quality certification purposes, the duties had not been equally distributed among the officers. Therefore, 10 externally recruited Lead Auditors had not carried out any audit whilst other internally recruited Lead Auditors had conducted the audits ranging from 27 to 35 audits during the year under review.
- (d) According to the information received, Sri Lanka Ocean University had registered 243 students for 07 certificate courses whilst the intakes of 549 students targeted during the year under review. Further, the Study Centres of the Sri Lanka Ocean University at Batticalo, Jaffna and Trincomalee had not conducted any Diploma Level courses during the year under review.

- (e) According to the Programme Implementation Document, it is expected to build an efficient education system to meet the demands of the local and foreign labour market by 2020 and improving quality, relevance, access, recognition for vocational training and supportive policies, systems and structures etc. Therefore, it is necessary to conduct surveys on local and international job market to explore the new job opportunities for younger generation. The following further observations are made thereon.
- (i) Eventhough the Vocational Training Authority had continued to conduct training courses in 18 sectors of the vocational training, action had not been taken to explore the status of the labour market and with the consultation of Tertiary and Vocational Education Commission to identify skill gaps of labour market and establish the targets for long, mid and short term training courses.
 - (ii) As per the Annual Action Plan of Vocational Training Authority and Department of Technical Education and Training, actions are required to be taken to identify, develop and implement new training programmes for the purpose of increasing foreign employment opportunities and allocation amounting to Rs. 3 million had been made thereon. However, no evidence had been made available to audit on action taken to identify, develop and implement new training programmes.
 - (iii) According to the Annual Action Plan of the National Youth Services Council for the year under review, new training programmes should be introduced and implemented annually to meet the labour market demand and increasing student intake for such programmes. However, it was observed that only the training centres at Rikkillagakada and Dehiattakandiya of the National Youth Services Council had taken action to introduce new training programmes during the year under review.
- (f) According to Detailed Activity Plans of the National Youth Services Council and Vocational Training Authority, it was expected to assist 2,100 under privileged students and a sum of Rs. 1,144.80 million had been allocated to provide financial assistance to them during the period from 2014 to 2020. However, no action had been taken to implement the programs thereon even as at 31 December 2017.
- (g) The Ministry of Skills Development and Vocational Training as the Executing Agency of the Programme is responsible to take action to encourage Private Public Partnerships as enable to increase the level of employability of the technical and vocational education sector. Further, the allocation amounting to Rs. 7 million had been made during the year under review to the University of Vocational Technology to establish University Colleges including the Colleges under the agreement on public and private partnerships to offer demand driven study courses and meet the levels 05 and 06 of National Vocational Qualification programs. However, no actions had been taken to establish new University Colleges during the year under review.

3.3 Contract Administration

The following observations are made.

- (a) The Department of Technical Education and Training, Vocational Training Authority and National Youth Services Council had awarded 09 contracts on civil construction works during the year under review at a cost of Rs. 367.98 million. Out of that works under 05 contracts expected to be completed by 31 December 2017 had not been completed even as at 30 June 2018, due to shortages of the human and other resources of the contractors and time taken to release funds from the General Treasury etc.
- (b) Eventhough the approval of the Cabinet of Ministers had been granted at its meeting held on 05 August 2014 to construct 02 buildings for the Vocational Training Authority at an estimated cost of Rs. 295.77 million had not been commenced even as at 31 December 2017, due to delays in acquisition of lands and disputes of the management of the Authority to implement the decision.
- (c) The initial plan for the renovation of a hotel school in Ahangama had been changed subsequently to develop it as a model hotel and therefore, the cost of the contract amounting to Rs. 110.35 million awarded on 24 October 2014 had also been increased up to Rs. 122.75 million. Further, a separate contract had been awarded on 14 November 2017 at a cost of Rs. 4.92 million to construct a kitchen for the hotel. As a result of changing the decisions, the training equipment procured in 2015 and 2016 at a cost of Rs. 10.93 million had remained idle at the District Office of the Vocational Training Authority even as at 30 June 2018. In addition, furniture, fittings and hotel equipment procured during the year under review at a cost of Rs. 13.52 million for the hotel had remained idle, as the construction works are not completed even up to 30 June 2018. According to the information received, the Authority is in the process of leasing out this property to a third party, due to lack of operational and financial capacities of the Authority to operate it as a hotel. Considering the above information, the possibility of achieving the expected results of the investments made thereon is remained questionable in audit.

3.4 Human Resources Management

The following observations are made.

- (a) According to the information received, the high rate of staff turnover of the Project Management Unit in the recent past had badly affected for the performance of the Project. It was observed that the posts of Procurement Specialists, Environmental Safe Guard Officer, and Financial Analysts etc of the Project Management Unit had remained vacant throughout the year under review.
- (b) It was observed that no action had been taken for over 02 years to recruit 31 Lectures and 21 Demonstrators for 06 University Colleges established under University of Vocational Technology. Further, vacancies in 59 posts of academic staff and post of Director (Training) and Deputy Director (Technical and Vocational Training) of Technical and Vocational Training Division of the National

Youth Services Council had remained unfilled for over a year as at 31 December 2017.

- (c) It was revealed in audit test checks that the performance allowance had been paid under the Skills Sector Development Programme to the academic staff of National Youth Services Council, Ceylon German Technical Training Institute, Vocational Training Authority and Ocean University based on wrong interpretation of scheme introduced by the Line Ministry and payments amounting to Rs. 133.29 million had been made during the year under review without evaluating performance under relevant criteria.
- (d) Eventhough a sum of Rs. 1 million had been allocated for capacity development purposes of the staff of the Ceylon German Technical Training Institute under the Action Plan for the year under review, only 11 instructors had been trained under 03 training programmes and only Rs. 0.29 million had been utilized thereon.
- (e) The Human Resource Development Plan had not been prepared for the Vocational Training Authority even as at 31 December 2017 and no any data base had been maintained with the required qualifications of the Instructors of the Authority.

3.5 Idle/Under Utilized Assets

The following observations are made.

- (a) Training Equipment valued at Rs. 59.53 million received to the Batangala University College had remained idle for over 03 years, due to delays in taking action to set up the laboratories.
- (b) According to records of the Project Monitoring Unit, 18 computers procured at a cost of Rs. 1.92 million on 02 July 2015 had been transferred to the Batangala University College. However, according to the information received the respective assets had not been received to the language laboratory of the Batangala University College even as at 31 May 2018 and no action had been taken to investigate it.
- (c) The Ministry of Skills Development and Vocational Training had procured 66 items of equipment at a cost of Rs. 99.57 million in 2016 and handed over to the Ceylon German Technical Training Institute to commence the training course on Production Technology. However, the respective training course had not been commenced even up to May 2018 and the respective equipment remained underutilized over 1 1/2 years up to 29 May 2018. Further, the guaranty period of all such equipment had been expired.

3.6 Issues on Financial Controls

The following observations are made in this regard.

- (a) According to the Circular No. 02/2016 of 10 June 2016 of the Secretary of the Ministry of Finance, the action had not been taken to appoint an Internal Auditor for the Programme up to 31 December 2017.

- (b) The procurement plan for the year under review had not been prepared by the Project Monitoring Unit, as required by the paragraph 4.2.1 of Government Procurement Guidelines and the Section 1.18 of Guidelines for procurement of Goods, Works and Non Consulting Services of the International Development Association.
- (c) According to the Financial Regulation No. 751, the Inventory Register had not been maintained by the Project Monitoring Unit to record the assets of the Programme. Therefore, the information relating to the assets transferred from the Project Monitoring Unit to the respective Implementing Agencies had not be readily made available for verification purposes. In addition no records had been maintained by the Project Monitoring Unit on assets valued at Rs. 2.76 million transferred from the Line Ministry to the Project Monitoring Unit during the year under review.
- (d) It was observed that 40 inventory items handed over by the Programme to the Batangala University College had not been recorded in the Inventory Register maintained by the University College.