

## **Skills Sector Development Programme - 2019**

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The audit of financial statements of the Skills Sector Development Programme for the year ended 31 December 2019 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 Article IV of Section 4.04 (a) of the Loan Agreement No.s 3119 SRI (SF) and 3120 SRI (SF) dated 27 May 2014 and Additional Financing Agreements No. 3650 SRI (COL) and No. 3651 SRI dated 11 May 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank and the provisions in the Schedule 2 Section 11 B.3 of the Agreement Nos.5516 LK and 5517 LK dated 12 September 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. My comments and observation which I consider should be report to parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Programme**

According to the Programme Implementation Document and Financing Agreement of the Programme, then the Ministry of Skills Development and Vocational Training, presently the Ministry of Education is the Executing Agency and there are 10 implementing Agencies of the Programme. The objectives of the Programme are building of efficient skills 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 activities of the Project are implemented under the component of Results Based Lending Mode. As per the Programme Implementation Document and with the additional funds allocated by Asian Development Bank, the estimated total cost of the Programme is US\$ 1,061.2 million equivalent to Rs. 141,524.23 million and out of that US\$ 200 million equivalent to Rs. 28,708.23 million and US\$ 100 million equivalent to Rs. 13,100 million were agreed to be financed by Asian Development Bank and International Development Association respectively. The balance amount of US\$ 761.2 million was financed by the Government of Germany, Exim Bank of Korea, others and Government of Sri Lanka. The Programme had commenced its activities in September 2014 and scheduled to be completed by 30 June 2021.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Table 2.1 of this report, the accompanying Consolidated Statement of Total Expenditure of the Programme as at 31 December 2019 gives a true and fair view in accordance with Generally Accepted Accounting Principles.

### **1.4 Basis for Opinion**

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 opinion.

## **1.5 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 Generally Accepted Accounting Principles 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 Project 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 Project or to cease operations, or has no realistic alternative but to do so.

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

The Project 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 by the Project.

## **1.6 Auditor's Responsibilities for the audit of the 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 skepticism 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 internal control of the Programme.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- 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.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

**2. Comments on Financial Statements**  
**2.1 Accounting Deficiencies**

No	Accounting Deficiencies / Audit Issues	Amount	Impacts	Responses of the Management	Auditor's Recommendations
		Rs.			
(a)	Financial statements of the Implementing Agencies of Vocational Training Authority of Sri Lanka, National Youth Services Council and National Apprentice and Industrial Training Authority, had not been submitted to the Audit even as at 08 September 2020.	-	Financial Information provided under the respective Implementing Agencies in the Consolidated Statement of Expenditure Could not be reconciled.	Financial Statements of Vocational training Authority had been returned by the General Audit, due to the difference in opening balances and not resubmitted as at 17 <sup>th</sup> September 2020. NAITA informs that they will submit the Financial Statements for the year ending 31.12.2019 to the board meeting scheduled for the 24 <sup>th</sup> September 2020.	Action need to be taken to confirm the accuracy of the information provided in the Consolidated Statement of Expenditure by the chief financing officers.
(b)	Unsettled advances shown in the financial statements of the Ceylon German Technical Training Institute had been treated as expenditure in the Consolidated Financial Statements without being treated as cash and cash equivalents as per the notes 3.4 of the Consolidated Financial Statement.	5.35 million	Total expenditure in Consolidated Income and Expenditure Statement was overstated	Ceylon German Technical Training Institute agrees with the Audit observation. Steps will be taken to avoid such mistakes occurring in the future.	Need to be rectify the error shown in the Financial Statements.

(c)	Total sundry income of Rs. 2.63 million generated by the Ceylon German Technical Training Institute had been overstated in the Consolidated Income and Expenditure Statement.	1.2 million	Overstatements	Ceylon German Technical Training Institute agrees with the Audit observation. Steps will be taken to avoid such mistakes occurring in the future.	Need to be rectify the errors shown in the Expenditure Statements.
(d)	As per the notes 3.1 of the Consolidated Financial Statements of the Programme stated that the financial information of the Consolidated Financial Statements of the Programme required to be prepared on cash basis. However, income and expenditure details of the Sri Lanka Institute of Printing prepared on accrual basis had been included in the Consolidated Financial Statements of the Programme.		Inadequate disclosure in financial information	Sri Lanka Institute of Printing agreed with the Audit observation.	Action need to be taken to confirm the accuracy of Financial information submitted by the implementing Agencies before Consolidate
(e)	Income relating to the previous year of the Sri Lanka Institute of Printing had been erroneously shown as income for the year under review in the Consolidated	21.47 million	Inappropriate disclosure	Sri Lanka Institute of Printing agrees with the Audit observation.	Need to be rectify the error

Financial Statements.

- (f) Differences in seventeen items of Expenditure ranging from Rs. 3,000 to Rs. 4,971,000 had been observed between the amount shown in the Consolidated Financial Statement of the Programme and the Income and Expenditure Statement of Tertiary and Vocational Educational Commission.
- Correct financial information was not shown in the Consolidated Financial Statements
- The differences observed in the Consolidated Statement of total expenditure related to Tertiary and Vocational Education Commission, and the justification by the commission on same has been given.
- Action need to be taken to submit correct information as enable to prepare Consolidated Financial Statements by the Chief Finance Officer.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

	As at 31 December 2019		Audit Issue	Impacts	Responses of the Management	Auditor's Recommendations
	Expected physical performance	Performance achieved				
(a)	According to the Annual Action Plan of National Youth Services Council, a sum of Rs. 70.10 million had been allocated under Skills Sector Development Programme with the objective of enhance the quality of the	Rs. 43.50 million representing 62.05 per cent had only been spent at the end of the year 2019.	Expected targets could not be achieved	The demand for Quality training could not be fulfilled	Although the Annual Action Plan allocated Rs.70.10 million to National Youth Services Council, this allocation could not be utilized completely due to the delay in completing the construction work.	Failures in construction administration should be mitigate to achieve expected targets

training courses.

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| (b) | According to the Loan Agreement No 5516 LKR and No 5517 LKR of the International Development Association, SDR 65,700,000 were targeted to be disbursed by the end of the year under review. However, only SDR 34,320,000 had been disbursed representing 52.24 percentage and the 17 tasks under 08 Disbursement Link Indicators to be implemented had not been achieved even as the valid period of the loan had been expired at the end of the year under review. | Expected objectives could not be achieved   | With the completion of mid-term review in November 2017, the World Bank suggested to restructure programme activities with a new set of DLI targets. The World Bank agreed to disburse only two pending DLIs for the period 2017 and before and stopped further disbursements on the old DLIs. However, the World Bank and the Government Sri Lanka could not reach to an agreement on the new programme activities under the proposed new restructured program. Therefore, disbursement was stopped in 2018 after disbursement of pending DLIs for the period 2017 and before was done. | As it was shown the inefficiency in utilization of funds, the management should take necessary action to achieve the targets of rest activities of DLIs under the Loan Agreements of ADB. |
| (c) | According to the Detailed Activity Plan of the National Youth Services Council, it was expected to assist 100 stipends for needy trainees by incurring Rs. 4.8 million annually and a sum of Rs. 33.6 million had been allocated thereon for the period from 2014 to 2020. However, no  | Students who have financial difficulties would not be attracted to the vocational | Although the detailed TVET sector action plan for the period 2014 – 2020 reflects a stipend payment for  | This activity should have been implemented using Programme finance  |

any action had been taken to implement this Programme even as at 31 December 2019.

training Programmes. needy trainees, Skills Sector Development Programme has not committed to fund stipend for needy trainees at NYSC in the Detailed Action Plan of SSDP for the period 2014 – 2020.

- (d) As per the detailed Action plan of the National Youth Services Council, it was intended to develop a policy for charging of course fees. However, even at the end of the year under review, the Council was unable to develop a policy and charged various fees for the same training courses conducted at the training centers of the Council.
- It will adversely affect to the demand of the training programmes, conducted by NYSC
- Arrangements are being made to regularize the course fee of full time, part time and short-term courses at NYSC from the second semester of year 2020.
- Action need to be taken to regularize the system.
- (e) As per the Annual Action Plan of National Youth Services Council, 80 per cent of academic carder position should be increased by recruiting 55 instructors under the Skills Sector Development Programme. However, only 34 instructors had been recruited on contract basis up to 31 December 2019.
- Quality of the training could not be enhanced
- To comply with the approved carder of Instructors at NYSC, 65 recruitments were planned for the year 2019. 34 No's of Instructors were recruited to the Vocational Training Sector during the year 2019. As at 31.08.2020 NYSC Instructor carder is 82% complete.
- Need to take action to recruit sufficient and qualified academic staff to fulfill the training requirement.

### 3.2 Contract Administration

No	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
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(a)	<p>According to the Detailed Activity Plan prepared by the National Youth Services Council under this Programme, it was expected to upgrade 10 training centres to give training facilities for additional 1,700 students in demand driven quality assured courses with an estimated cost of Rs. 611 million and construction works of 06 training centres had only been commenced by spending Rs. 438 million as at 31 December 2019. Out of that construction works of 02 training centres had been suspended after being spend of Rs. 114.9 million, due to poor performance of the contractor. Further, construction works of 01 training centre expected to be suspended after being incurred Rs.50.3 million, due to slow progress of the works.</p>	<p>Unavailability of training facilities will adversely affect to the demand of the training programme conducted by NYSC</p>	<p>Although the detailed Action Plan of NYSC expected to modernize 10 Training centers, with the funds allocated by Skills Sector Development Division enabled modernization of only 06 Training centers. Accordingly, modernization of 03 training centers have been completed and courses commenced.</p>	<p>More attention has to be drawn to keep continuous supervision on civil works assigned to the contractors.</p>
(b)	<p>Eventhough approval of the Cabinet had been granted to construct two new buildings for training centres at Rathmalana and Horana on 05 August 2014 and scheduled to be completed the construction works of those two buildings on April and March in 2019, none of the constructions could not be completed even at the end of the year under review. Further, physical progress of the Horana and Rathmalana buildings were remained at 85 per cent and 45 per cent respectively and a sum of Rs. 295.77 million had been incurred thereon as at 31 December 2019.</p>	<p>Demands of the vocational Training would not be fulfilled due to delay in Construction works</p>	<p>Various reasons for delay in constructions had been mentioned by the Implementing Agency.</p>	<p>Management attention need to be drowned to expedite the construction works</p>

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| (c) | National Apprentice and Industrial Training Authority had agreed to construct the Hawlock Town City office at an estimated cost of Rs. 9.7 million by the Programme funds on December 2016. As it was not shown the expected progress, the Programme office had rejected to provide the funds and subsequently the construction works of the contractor had been suspended on 26 September 2018. As a result, the National Apprentice and Industrial Training Authority had awarded the contract to another contractor using local funds.   | Expected objective could not succeeded   | Various reasons for delay in constructions had been mentioned by the Implementing Agency.   | Action need to be taken against the officers who are responsible to delay in construction works                                      |
| (d) | According to the Detailed Action Plan of Vocational Training Authority, it was expected to construct 20 training centres at an estimated cost of Rs. 3,495 million. However, construction works of 14 training centres had not been commenced even at the end of the year under review. Further, out of 6 training centres commenced the construction works, construction works of 4 training centres had not been completed at the end of the year under review and achieved 30 per cent of the physical progress at the end of the year under review. In addition, it was expected to modernize 90 training centres at an estimated cost of Rs. 3,935 million. However, the modernization activities of 27 training centres had only been completed at a cost of Rs. 857 million by achieving the 31 per cent progress. | Demand of the Vocational trainings would not be fulfilled, due to delay in construction works of training centres. | The Management of VTA agrees with the audit observations. Although the Action plan, Vocational Training Authority of Sri Lanka scheduled Construction of 20 new training centers, due to the restricted fund releases by the General Treasury construction of 07 centers were commenced. Out of the 07 centers, 04 centers are completed. | Special attention needs to be paid to expedite the civil works of training centres which are identified to construct and modernized. |

### 3.3 Observations made on site visits

No	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a)	Eventhough training centers situated at Panadura, Chillaw and Rathmalana of National Youth Services Council had been modernized with the objective of commencement of 17 labour market demand courses identified in the year 2013, only 10 courses were commenced even at the end of the year under review.	Market demand for skilled labour could not be fulfilled	The answer will be submitted by 23 <sup>rd</sup> September, once clarified by NYSC	Management should take necessary action to achieve expected targets
(b)	According to the Detailed Action Plan of Vocational Training Authority for the years 2014 – 2020, it was expected to train 15,000 students in 20 training centres during the year under review. However, only 586 trainees had been trained within the first half of the year under review.	Training requirement of Skills development sector could not be fulfilled Training requirement of Skills development sector could not be fulfilled	Due to the restricted fund releases from the General Treasury, construction of new training centers were limited and the progress of rehabilitation and improvement of centers were delayed due to limitation in the availability of funds, resulting a drop in the trainee enrollment percentage.	Need to take necessary action to improve training availability developing infrastructure facilities
(c)	A sum of Rs. 6 million had been allocated to provide training for 60 trainees in carpentry and masonry sector in Monaragala District under the 120 days programme of Vocational Training Authority and expected to spend Rs.100,000 per trainee. However, 37 trainees had only been completed the course and received Certificates on National Vocational Qualification under this programme and cost of	Market demand in skilled labour sector could not be fulfilled	The 120 Day Program was organized launched in Monaragala in the year 2018, targeting Carpentry and Masonry courses, where the target number of trainees per batch were 20 and total number of trainees 40 thereby the audit observations on the	Attention has to be drawn to achieve the expected outcome

Rs.155,400 had been spend per trainee exceeding the estimated cost.

number of trainees should be rectified. The enrolment for the said program was 37, making the enrolment percentage 92.5%. Estimated budget for this program was Rs. 8.78 Million and the estimated cost per trainee Rs. 219,500.00. The actual cost spent per trainee was Rs.155,400.00.

### 3.4 Idle/ Unutilized/ Underutilized Resources

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
The Vocational Training Authority of Sri Lanka had spent a sum of Rs. 124.69 million up to 31 December 2019 to renovate existing hotel school at Ahangama and convert it to a tourist hotel with the purpose of providing practical training of 04 Diplomas related to tourism industry. As a result of the renovation of hotel school was done without a feasibility study, the hotel building is used for the progress review meetings of the Authority without being given facilities for vocational training related to tourism industry Further, the training equipment and other equipment procured in 2016 – 2019 at a cost of Rs. 24.24 million for the use of tourist hotel had remained idle without being utilized for intended purposes at the end of the year under review.	Expected objective could not be achieved	The efforts taken at several times had been failed to conduct trainings using this place as model hotel under public privet partnership.	Action should be taken to commence the operations of the hotel to deliver the expected practical training

### 3.5 Matters in Contentious Nature

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
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Delays in civil works of training centres in Implementing Agencies.	Overall target of the SSD Programme could not be achieved	Various reasons such as Fund restrictions, inefficiencies of contractors have been mentioned.	Management of every Implementing Agency should take necessary action to avoid unnecessary delay in construction, renovation and modernization works of training Centres.