

## **Skills Sector Development Programme (Grant) - 2019**

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The audit of financial statements of the Skills Sector Development Programme (Grant) for the period of 13 ½ months 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 the provisions in the Article IV of Section 4.02 (a) of the Grant Agreement No. 9193 SRI (EF) dated 11 May 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be report to parliament appear in this report.

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

According to the Programme Implementation Document 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 (a) strengthening of private sector engagement in Tertiary and Vocational Education Training Sector, (b) enhancement of entrepreneurship development training programme self-employment with a focus on women, (c) provision of women targeted incentives, mentoring and on-the-job training to attract women into non-traditional areas and (d) demonstration of gender – inclusive recruitment and working environment practices in private sector. As per the agreement the estimated cost of the Programme US\$ 3 million equivalent to Rs.534 million and were agreed to be financed by the Japan Fund for Poverty Reduction (JFPR) as a grant and it is administrated by ADB for the purposes of financing the project. The Programme had commenced its activities in 16 November 2018 and scheduled to be completed by 31 March 2021.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying Summary Statement of Expenditure of the Skill Sector Development Programme (Grant) for the period of 13 ½ months ended 31 December 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 Summary Statement of Expenditure section of this 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 Summary Statement of Expenditure**

Management is responsible for the preparation of Summary Statement of Expenditure 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 Summary Statement of Expenditure, management is responsible for assessing the Programme 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 Programme's financial reporting process.

The Programme is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic Summary Statement of Expenditure to be prepared by the Programme.

#### **1.6 Auditor's Responsibilities for the Audit of the Summary Statement of Expenditure**

My objective is to obtain reasonable assurance about whether the Summary Statement of Expenditure 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 Summary Statement of Expenditure.

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 Summary Statement of Expenditure, 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 Summary Statement of Expenditure, including the disclosures, and whether the Summary Statement of Expenditure 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	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
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(a)	<p>As per the Article IV, Section 4.02(a) of the Grant Agreement, The annual financial statements of the Grant should be prepared in accordance with financial reporting standards acceptable to ADB. In addition, according to the Circular No. 30/94 and dated 20 April 1994 issued by the Department of State Accounts, Annual Accounts of Foreign Grants and Loans should be prepared in accordance with Generally Accepted Accounting Principles and on accrual basis. However, the financial statements of the Programme had been prepared and submit on cash basis along with summary of statement of expenditure, statement of cash receipts and payments and statement of budget vs. actual expenditure in Dollar value on 31<sup>st</sup> December 2019.</p>	<p>The Financial Position of the Programme were not shown in the financial statements.</p>	<p>As disclosed in para 4 of significant accounting policies, financial statements have been prepared in historical cost convention and on cash basis. This is comply with the Article 1v, section 4.02(a) of the Grant agreement. As per the ADB requirement, the content of the project financial statement are given below.</p> <ul style="list-style-type: none"> <li>- A statement of cash receipts and payments</li> <li>- A statement of budgeted verses actual expenditure</li> <li>- A statement of imprest account (where applicable)</li> <li>- A summary statement of expenditure (where applicable)</li> <li>- Significant accounting policies and explanatory notes</li> <li>- Any additional schedules agreed(e.g summary of expenditure</li> </ul>	<p>Financial Statements should be prepared in accordance with the Programme Agreement and as per the Government requirements.</p>

Therefore, financial statement is complying with the requirement.

- (b) According to the paragraph 20 of the Programme Implementation Document, the Implementing Agency should open a separate bank account to receive the Grant Funds and maintain the bank account statements as well as details accounting of financial transactions using the proceeds of the grant and it was instructed at the finance meeting held on 13 May 2019 to submit the monthly bank reconciliation statements to the Programme office. However, the Implementing Agency had not been opened a separate bank account even at the date of audit on 17 October 2020.
- Unable to verify the accuracy of transactions shown in the Financial Statements.
- At the initial stage of the project the plan international Sri Lanka has used a common bank account. However, from February 2020 onwards they have opened a separate bank account for the project as per the ministry requirement. And from 06 October 2020 Oxfam has opened a separate Bank account for the Project as the new implementing partner of the project.
- Separate bank account should be open for the financial transactions of the Programme.

## 2.2 Non- compliance with Rules and Regulations

Reference to the Rules and Regulations	Non-Compliances	Impact	Response of the Management	Auditor's Recommendation
As per the Circular No. MOFP/ERD/2007/2 dated of 07 August 2007 issued by the Ministry of	Financial Statement of the Programme had been submitted on	Delay in submission of Financial Statements.	Not commented	Financial Statements of the Grant should be submitted to the Audit as per the

Finance and Planning, 17 June 2020.  
the Financial Statement  
of the programme  
required to be submit to  
the Auditor General on  
or before 31 March  
2020.

Circular instructions

### 2.3 Delays in submission of Withdrawal Applications

No	No. of the WA	Period	Date of submission	Days of Delay	Impact	Response of the Management	Auditor's Recommendations
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(i)	01	Dec 2018 – Mar 2019	02 Aug 2019	124days	Delays in Programme implementation	As of 26 March 2020, total of US 109,837.91 have been disbursed by the Asian Development Bank to the Plan international Australia.	Management should take necessary action to submit Withdrawal Applications in time
(ii)	02	Apr 2019 – July 2019	24 Dec 2019	146days			
(iii)	03	Aug 2019 – Dec 2019	02 Mar 2019	62 days			

**3. Physical Performance**

**3.1 Physical progress of the activities of the Project**

No	As at 31 December 2019		Impacts	Responses of the Management	Auditor's Recommendations
	Expected physical performance	Performance Achieved			
	Units/ percentage	Units/ percentage			
(a)	To complete the training of 6,524 participants during the period of under review.	Only 5,053 participants had been completed the training, accordingly the dropout rate was 23 percent. Further, it was observed that trainees had left from 18 training courses conducted in 16 training centers ranging from 50 percent to 100 percent without fully completed the training programmes.	Expected objective could not be achieved in time.	Noted	Management should take necessary action to plan and implement the trainings to achieve expected targets of the Programme
(b)	According to the detail action plan of the Programme, it was expected to implement 19 activities under 04 expected outputs from this Programme at an estimated cost of US\$ 462,060 during the period under review. However, only 07 activities had been implemented and a sum of US\$ 31,823 had been incurred thereon at the end of the year.		Expected objective of the Programme could not be achieved	Noted	Immediate action should be taken to implement expected activities of Programme since more than half of the Programme period had already been completed.

(c)	<p>Eventhough the main objective of this Programme is Empowerment of Women in Tertiary and Vocational Education Training sector in Sri Lanka. 226 training programmes were conducted at 84 training centres with the participation of 6,524 trainees during the period under review for the purpose of the achieving the objective of the Programme. Only 1,543 women representing 24 percent of total participants had been attended to those training programmes. Further it was observed that out of 226 programmes conducted. Further it was observed that, 110 training programmes were conducted without a participation of single woman.</p>	Main objective of the Programme could not be achieved.	Noted	<p>Programme Monitoring Unit should keep close supervision and coordination with the consultants to achieve expected outcome of the Programme</p>
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