

## **Skills Sector Development Programme (Grant) - 2020**

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The audit of financial statements of the Skills Sector Development Programme (Grant) for the year ended 31 December 2020 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 reported to parliament appear in this report.

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

According to the grant Agreement, the Ministry of Skills Development and Vocational Training presently, the Ministry of Education is the Executing Agency and Implementing through ten 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 Grant agreement, the estimated total cost of the Project was US\$ 3 million equivalent to Rs.534 million and was 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 on 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 financial Statement give a true and fair view of the financial position of the Programme as at 31 December 2020, statement of expenditure for the year 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.

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

## **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

<u>Audit Issues</u>	<u>Amount</u> <u>Rs.</u>	<u>Responses of the</u> <u>Management</u>	<u>Auditor's</u> <u>Recommendations</u>
As per the financial policy mentioned under No.4.1, the financial statement are prepared on accrual basis. However payable amount of Rs.717,500 for the year under review had not been brought to the financial statement.	717,500	Oxfarm informed that Invoices for the Rs.717,500 have not been received during the year 2020 in order to accrue the expenditure for the period.	Need to be rectify the error

### 2.2 Delays in submission of Withdrawal Applications

<u>No</u>	<u>Withdrawal</u> <u>Application</u> <u>No.</u>	<u>Period</u>	<u>Date of</u> <u>submission</u>	<u>Period of</u> <u>Delay</u>	<u>Response of the</u> <u>Management</u>	<u>Auditor's</u> <u>Recommendations</u>
(a)	01	Dec.2018 – Mar.2019	02 Aug2019	124days	Noted. Request is made implementing agency to submit the same in time. However, unavoidable circumstances prevailed in said time period also badly effected for timely disbursement.	Management should take necessary action to submit withdrawal Applications in time
(b)	02	Apr.2019 – July 2019	24 Dec2019	146days		
(c)	03	Aug. 2019 – Dec. 2019	02Mar 2020	69 days		
(d)	04	Janu.2020- Apr .2020	05octo 2020	158 days		
(e)	05	Mar 2020- july 2020	22Feb 2021	200 days		

### 3. Physical Performance

#### 3.1 Physical Progress of the activities of the Project

	<u>Audit Issues</u>	<u>Response of the Management</u>	<u>Auditor's Recommendation</u>
(a)	In the year 2019, 226 training programmes were conducted with participation of 6524 trainees, but during the year under review 11 training programmes were conducted with participation of 309 participants. However Out of which 5 persons had left from the training.	Training proggmm for 2019 and 2020 are different & direct comparison cannot be made.In 2020. it is only enterprenership development training and for year 2020 entire student population considered under selected 266 programs conduct by all instutes.	Management should take necessary action to plan and implement the trainings to achieve expected targets of the programme with in the period of the programme.
(b)	As per the Inception report of the program dated 9th April 2019, the project activities were initially planned to be implemented in 5 provinces namely Western, Northern, North Western, Uva and Sabaragamuwa,but training programs had conducted only North Western and Northern Provinces during the year.	The poverty pocket survey was conducted in Western Province during the period of June to July 2020. (COVID lockdown period). And SSDP approval received for the western province poverty pockets on 20 <sup>th</sup> November 2020. So, we started the Western Province activities from the 1 <sup>st</sup> intake of 2021. Uwa and Sabaragamuwa coordinator has resigned in June 2020 and new recruitment was done on October 2020. Soon after he joined COVID second wave was started and was unable to do the filed trainings. During the position vacant period, the project has not conducted the program in those two provinces. And there no National level program staff also during this period.	Management should take necessary action to achieve expected target.
(c)	According to the detailed action plan of Programme for the years 2018-2020, it was expected to implement 110 sub targeted activities under the 24 major targeted tasks under this programme. However, 48 sub-	following unavoidable circumstances prevailed in the country badly effected implementation of the programme.	Management should take necessary action to achieve expected target.

targets under 17 major targets had not been reached as expected.

Project activity plan finalized and received the approval in June 2019.

Easter attack had happened on 21<sup>st</sup> April 2019

COVID epidemic has started in March 2020

Staff turnover

Program staff recruitment issues

COVID second wave started

October 2020 and it went until

December 2020.

### 3.2 Operating Inefficiencies

<u>No</u>	<u>Audit Issues</u>	<u>Response of the Management</u>	<u>Auditor's Recommendations</u>
(a)	<p>According to the paragraph 20 of the Program Implementation Document, the implementing agency should open a separate bank account to receive the grant funds and maintain the bank account statement 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 statement to the programme office. However, the project had been operational since on 16 November 2018, the consulting firm had open a separate bank account in October 2020 and had prepared bank reconciliation statements for the project. Further it was noted that a sum of Rs. 140,671 spent for consultancy firm's expenditure from that bank account.</p>	<p>Plan international has started to use a separate bank account from February 2020 onwards. As Plan International closed the activities in Sri Lanka it is not possible to collect the bank reconciliation report. Bank account details are as follows.            Account Name - FOSTER PARENTS PLAN INTERNATIONAL            Account Number - 01369286802LKR            Bank Name - Standard Chartered Bank            Oxfam is using a separate bank account for this project from October 2020. All project related costs and administration cost pay through this bank account. Rs.140,671 is the admiration cost related to this project.</p>	<p>Separate bank account should be open for the financial transactions of the programme</p>

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| (b) | As per the project proposal documents, quarterly progress reports were required to be prepared every quarter during the Programme period, but progress reports for this 3-year project were not submitted as scheduled. | Not commented .   | Quarterly progress reports should be submitted in accordance with the requirement of the programme. |
| (c) | As per the progress report of the project, budget grant of US\$ 860,059 had been allocated for 11 non-performing components at end of the year under review.  | Noted.  | Management should take necessary action to achieve expected targets.                                |
| (d) | As per the progress report of the program, the budgeted allocations for 23 components were US\$ 2,253,620 and only US\$ 74,542 had been spent by end of the year under review.  | <p>following unavoidable circumstances prevailed in the country badly effected implementation of the programme.</p> <p>Project activity plan finalized and received the approval in June 2019.</p> <p>Easter attack had happened on 21<sup>st</sup> April 2019</p> <p>COVID epidemic has started in March 2020</p> <p>Staff turnover</p> <p>Program staff recruitment issues</p> <p>COVID second wave started October 2020 and it went until December 2020.</p> | Management should take necessary action to achieve expected targets.                                |

### **3.3. Matters in contentious Nature**

<b><u>Accounting Deficiencies/Audit Issues</u></b>	<b><u>Response of Management</u></b>	<b><u>Auditor' Recommendations</u></b>
The Institute of Plan international had invited bids for the assessment of the preparation of Operational Plan for Strategy Development and Facilitation in the Industrial Skills Division, for which selected Industrial service Bureau who was the 4th lowest bidding as Rs.3,079,125 .A difference of Rs.967,125 was observed between the lowest bidding institution and	ISB has been selected after following a competitive bidding procurement process and through an interview process and technical committee evaluation. Related documents have submitted.	Necessary actions to be taken of adopt the procurement guidelines.

the selected institution. Although it was stated that the selection of the Industrial Services Bureau was mainly based on technical capacity, consultant profile and budget, but relevant information had not been submitted for Audit regarding the postgraduate and other qualifications to be hold by the advisors of the selected institution as per the terms of reference.