

Skills Sector Development Programme - 2021

The audit of financial statements of the Skills Sector Development Programme for the year ended 31 December 2021 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 4.04 (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. My comments and observation 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 Loan Agreement, 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 Programme are implemented under the component of Results Based Lending Mode. As per the loan agreement, the estimated total cost of the Programme was 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 on September 2014 and scheduled to be completed by 30 June 2022.

1.3 Opinion

In my opinion, the accompanying Consolidated Statement of Total Expenditure of the Skill Sector development Programme agreed with the Information provided in the financial statements of the 11 Agencies as at 31 December 2021 gives a true and fair view of the Consolidated statement of Total Expenditure of the Programme.

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 Consolidated Statements of Total Expenditure 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 Consolidated Statement of Total Expenditure

Management is responsible for the preparation of Consolidated Statement of Total Expenditure that give a true and fair view in accordance with the information provided in the financial statements of the 11 Agencies and for such internal control as management determine is necessary

to enable the preparation of Consolidated Statement of Total Expenditure 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 Consolidated Statement of Total Expenditure

My objective is to obtain reasonable assurance about whether the Consolidated Statement of Total 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 Consolidated Statement of Total 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 Consolidated Statement of Total 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 Consolidated Statement of Total Expenditure, including the disclosures, and whether the Consolidated Statement of Total Expenditure represent the underlying transactions and events in a manner that achieves fair presentation.

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

2. Comments on Consolidated Statement of Total Expenditure

2.1 Non-Compliance with Laws, Rules and Regulations

The following observations are made.

No	Reference to the Laws Rules and Regulations	Non- Compliance	Responses of the Management	Auditor's Recommendations
(a)	Section 5.4.8 of the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka	The Procurement entity must hold not less than five percent of the estimated contract amount as performance security to protect the Procurement Agency. Contrary the guideline National Youth Services Council has increased the Contract value of 2017 to Rs. 129.9 million for the performance guarantee of the Moneragala Training Center Construction Project of Rs. 1,999,41 had been Obtained less.	Not Commented	Should be act in accordance with the Guidelines.
(b)	Ministry of Finance and Mass Media Circulars No DMS/Circular/2017 and Department of Management Services Circular No. 05/2017 of 25 October 2017.	Facilitated to pay maximum of Rs.5,000 per monthly performance allowance to officers who directly involve consultations, training and staff directing activities. However Rs.253,600 had been overpaid to 58 officers of 09 Provincial Councils and Maharagama Training Centers of the National Youth Services Council.	Not Commented	Should be act in accordance with the circulars.

3. Physical Performance

3.1 Physical Progress of the Activities of the Programme

The following observations are made.

	Expected physical performance As at 31 December 2021	Responses of the Management	Auditor's Recommendations
(a)	Although 51 targets were to be met under the 09 Disbursement Link Indicators to be achieved under the Asian Development Bank loan agreements No. 3650 and 3651, 08 of them had not been fully completed by the end of the year under review and	Achievement of 08 targets was delayed due to insufficient budget allocations, cash flow constrains, limited programme staff and partial/complete closure of training centers and industry due to Covid 19 pandemic during the year.	The management Should take necessary action to achieve the targets on rest of the activities of DLIs under the Loan Agreements of ADB.

only 85 per cent had been completed by one target.

- (b) Skills Sector Development Division had been disbursed US\$ 23 million and It had been observed that US\$ 11.3 million was remained uncollectible although the project period had been expired at the end of the year under review. US\$ 7 Mn was disbursed as of 31.03.2022. Remaining US\$ 4 million to be disbursed during project extended period. As it was shown the inefficiency in utilization of the funds, the management should take necessary action to achieve the targets of the programme.
- (c) The Project monitoring Unit had been spent Rs. 79 million for the job oriented training programs in the year 2021 and the contract had not been awarded to recruit the targeted 2000 additional trainees. The total number of trainees recruited for this training program was 8,419 out of 3,161 students had been dropped out of the course. Due to the high demand of the selected sectors under ELTP (Construction, Manufacturing, Tourism, Healthcare, etc.) some of the trainees get job opportunities and leave the training programme before obtaining the certification. Hence the number of certificates awarded may reduce than the enrolled number. Management should take necessary action to plan and implement the trainings to achieve expected targets of the programme.
- (d) Although Rs 17.5 million was allocated for the Flexibility Learning Program during the year under review to enhancing the skills of the Industry workers in the Industrial Organizations and minimizing the skill gap of the certificate holders, only Rs. 5 million out of them had been spent and the target for the year 2021 was to provide training to 2000 industrialists through the Flexible Learning Program. However, only 1175 industry workers had been trained by the end of 2021. The budget was not spent under Flexible Learning Programme due to the cashflow constrains and partial/complete closure training centers and industry due to covid 19 pandemic. Management should take necessary action to achieve expected targets.

3.2 Operating Inefficiencies

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	According to progress reports, The University of Vocational Technology had enrolled 32 students for the postgraduate course and only 12 trainees had completed the course.	Not Commented	Management should take necessary action to plan and implement the trainings to achieve expected targets of the programme.
(b)	According to the revised action plan, Rs. 1 million had been allocated for the Vocational Training Authority's "Rekawarani" training program. However, only 61 trainees were recruited and by spending Rs. 536,000 or 53.6 percent of the allocated amount.	The programme management agree with audit observations on financial progress of "Rakawarani" training programme.	Management should take necessary action to achieve Expected targets.
(c)	A sum of Rs. 4 million had been allocated for Supporting Academic Researches & Innovative Projects conducted by staff of UOVT & UCS in University of Vocational Technology however the financial progress had not been made and only 5 project proposals had been submitted for approval.	Not commented	Management should take necessary action to achieve Expected targets.
(d)	Although the allocations have been made to providing induction training for newly recruited staff and provide 2 1/2 months training to those officers, however the National Youth Services Council and the Vocational Training Authority had not paid attention to the new recruitments and Vocational Training Authority had not implement an introduction training program for newly recruited instructors.	Not Commented	Management should take necessary action to achieve expected targets.
(e)	The Skills Sector Development Program had been launched in 2014 and was scheduled to be 100 percent completed by 30 June 2021. However, the project period was extended to 30 June 2022, due to the failure to achieve the targets. As a result, the Treasury has not been able to recover the US\$ 4 million it owes until this. The one year extension of the project would have increased recurring	Programme activities to be implemented during the year 2020 and 2021 were severely affected due to Covid-19 pandemic causing delays as a result of complete or partial closure of training centers during this period.	Management should take necessary action to achieve the targets within the Loan period.

costs, including staff salaries and allowances, and the government could not get the real benefits of the project.

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| (f) | Thirty two students were selected for the higher National Diploma in Training Center Management course program in the Vocational Technical University and allocated Rs. 2 million, however, its financial progress was 12 percent as at 15 December 2021 . Also, a sum of Rs. 1 million has been allocated for the postgraduate scholarship program targeting 16 students, a financial progress had not been made for the program. | Not Commented | Management should take necessary action to achieve expected targets. |
| (g) | It was observed that Rs. 10 million had been allocated for 4 assignments for the year 2021 under the Skills Sector Program of the University of Ratmalana. The Board of Directors had given its approval for Assignments except for one assignment and however assignments had not yet been completed under the audited year. | Not Commented | Management should take necessary action to achieve expected targets. |
| (h) | There have been instances where university degree programs had not been introduced so that those who have completed the NVQ 5, 6 Level Courses at the university colleges and have applied for degree courses at the university of vocational Technology have the opportunity to pursue degree courses directly related to the Subjects Studied. | Not Commented | Management should take necessary action to achieve expected targets. |

3.3 Contract Administration

The following observations are made.

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Four projects worth of Rs. 1226.78 million had been commenced on 2017 under the Skills Sector Development Program. However, the constructions had not been completed by February 2022 and delay period was from 5 months to 2 years.	Status of four construction projects under Skills Sector Development Programme - Delayed due to COVID & non availability of material. - Planned for amicable settlement due to poor progress. - Work stopped & contract or filed a case against client	Management attention needs to be drawn to expedite the Construction works.
(b)	A sum of Rs.348 million worth of two construction projects commenced in 2017 and 2018 and had been completed. However, they had not been used for more than a year.	Not commented.	Action Should be taken to commence the operations of the building to deliver the expected training.
(c)	Evaluation work base on the faulty engineering estimate, related to the construction of the Kegalle District Vocational Training Center under the Skill Sector Development Project and because of the selected bidder submitted a non-compliant bid, resulting a Rs. 3 million loss and when taking physical measurements related to the execution of the contract, Rs.4.8 million had been overpaid.	Not commented.	Action should be taken to investigate the responsible parties.

3.4 Idle Resources

Audit Issue	Response of the Management	Auditor's Recommendation
A sum of Rs. 464,400 worth of bathroom accessories provided by Project on 24 August 2015 to the University of Batangala remained idle until 31 January 2022.	Not Commented	Management should take necessary action to uses the assets.

3.5 Issues Related to Human Resources Management

Audit Issue	Response of the Management	Auditor's ecommendation
Eleven posts including Procurement Specialist, Assistant Procurement Specialist, Civil Engineering Environmental Protection Officer and Internal auditor were vacant for a period of 01 to 04 years in the Skills Sector Development Division at the end of the year under review.	Carder positions are filled based on the requirement of the programme activities and hence, certain carder will be remained vacant until there is a requirement to fill based on activities at that instance.	Action should be taken to deploy officers in order to efficient operation of the Projects Monitoring Unit.