

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Skills Development Fund Limited (“Company”) for the year ended 31 March 2025 comprising the statement of financial position as at 31 March 2025 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information 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 National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except of the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2025, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 qualified opinion.

1.3 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 Sri Lanka Accounting Standards, 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 Company’s 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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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

1.4 Audit Scope

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 the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of the Company on accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause to continue as a going concern.
- 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.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

Non-Compliance with reference to particular Standard	Management Comment	Recommendation
(a) According to the Paragraph No. 27 of Sri Lanka Accounting Standard No. 1, the entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting, however expenses amounting to Rs.1.218 million which relate to the year under review but paid after 31 March 2025, had not been recognized as expenditure in the financial statement for the year under review. Therefore, the profit for the year had been overstated and current liability had been understated by similar amount.	As per the audit observation, it has been noticed to make necessary adjustments for accrued expenses in the financial statements of 2025/26.	The accountant should certify the financial statements after confirming that the financial statements have been prepared in accordance with Sri Lanka Accounting Standards.
(b) According to the Paragraph 36 of Sri Lanka Accounting Standard No.02, the financial statements should disclose the accounting policies adopted in measuring inventories, including the cost formula used, and the total carrying amount of inventories and the carrying amount is classified appropriately to the entity. However, the Company had not adhered to the Standard accordingly.	As per audit observation, necessary adjustments will be made in financial statements for the year 2025/26 accordingly.	-Do-
(c) According to the Paragraph 31 of Sri Lanka Accounting Standard No.07, cash	As per audit observation, necessary adjustments will	-Do-

flows from interest shall be disclosed separately and a consistent manner from period to period as either operating, investing or financing activities. However, the interest income amounting to Rs.22.650 million had been adjusted to net profit and recorded as cash inflow under investing activities, instead of recognizing the actual interest income of Rs.21.169 million received during the year under review. Therefore, the difference of Rs.1.481 million had been recorded under the working capital changes in operating activities. Further, the Company had shown interest income under operating activities, although it should be shown under investing activities.

be made in financial statements for the year 2025/26 accordingly.

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| (d) | The assets valued at Rs.32.02 million of the Company had been fully depreciated but further being used. However, the Company had not conducted an annual review of those assets and make necessary adjustments as required by the Paragraph 51 of Sri Lanka Accounting Standard No. 16 and as per the Sri Lanka Accounting Standard No. 08. | As per the audit observation, the Company has already taken necessary actions to revalue all the depreciated assets and revaluation adjustments will be made in financial statements for the year 2025/26 accordingly. | -Do- |
| (e) | According to Paragraph No.67 of Sri Lanka Accounting Standard No.19, an entity is required to use the projected unit credit method to determine the present value of its defined benefit obligation and the related current service cost. However, the Company had calculated the retirement benefit obligation using ½ month salary for each completed year of service of all employees. As a result, gratuity liability of Rs.6.69 million reported at the end of the year under review had not been calculated in accordance with the standard. | As per audit observation, it has been noted to follow the actuarial valuation method and also to make necessary adjustments to financial statements for the year 2025/26. | -Do- |
| (f) | Trade receivable amounting to Rs.15.453 million had been reported at year end without any provision for expected credit | The Company has already taken actions to analyze the outstanding trade debtor | The accountant should certify the financial statements after |

losses, contrary to the requirements of Paragraph 5.5.3 of Sri Lanka Accounting Standard No. 39. amount of Rs.15.453 million based on the committee report forwarded to Board Meeting No 126 dated 21 December 2021. Thereby, necessary adjustments will be made to write-off bad debts and make provision for bad debts in financial statements for the year 2025/26. confirming that the trade receivable amount has been reported in accordance with Sri Lanka Accounting Standard and the Company should take prompt actions to recover the outstanding balances.

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	According to the financial statement, a sum of Rs.7.95 million was shown as fixed deposit of scholarship fund under the non-current assets & corresponding payable balance of same fund had been shown as Rs.7.75 million under non-current liability. As a result, an unexplained difference of Rs.0.2 million was observed between these two balances.	Interest income adjusted to scholarship fund balance as at 31 March 2025 was Rs.7.95 million and necessary adjustments will be made in financial statements for the year 2025/26.	Before certifying the financial statements, the accountant should ensure that they have been prepared in accordance with Sri Lanka Accounting Standards.
(b)	In the cash flow statement, cash outflows were reported as Rs.0.57 million under trade and other payable within operating activities. However, the difference between the opening and closing balances of trade and other payables amounted to Rs.0.79 million. Accordingly, cash outflows in the cash flow statement had been understated by Rs.0.22 million.	As per audit observation, necessary adjustments will be made in financial statements for the year 2025/26 accordingly.	Before certifying the financial statements, the accountant should ensure that the cash flow statement has been properly prepared.

1.5.3 Documentary Evidences not made available for Audit

	Item	Amount Rs. million	Evidence not available	Management Comment	Recommendation
(a)	Retained Earnings	0.22	The supporting documents	It has been noted to look into changes	The relevant journals and

together with made for retained subsidiary records the journal earning amount of should be submitted voucher and Rs.0.22 million and for audit without journal entries adjustment will be delay. made in financial statements of 2025/26 accordingly.

- (b) Income Tax Refund 1.29 Required document to prove the recoverability of tax refund from the Inland Revenue Department As per the observation, this matter will be forwarded to Board of Directors and necessary actions will be taken based on the decision of the Board Members. The Company should submit the document which were issued by the Department of Inland Revenue for audit to confirm the recoverability of the balance.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comments	Recommendation
(a)	Section 14(1) of the Tertiary and Vocational Education Act No. 20 of 1990 of the Parliament of the Democratic Socialist Republic of Sri Lanka	No person shall, establish, manage, run or control any institute for the provision of tertiary and vocational education, without being registered under this Act. However, the Company had entered into agreements with 05 institutions which were not registered as per the Provision of the act to conduct training programmes.	It has been already noticed by Board of Directors and set new process to enter into agreement with third parties. New policy paper has already been developed on this purpose and new process has already been submitted to the Line Ministry.	Actions should be taken to register the training programs and conduct examination by the Company as per the Act.
(b)	Paragraph 6.1 of Chapter VIII of Establishment code of the Democratic Socialist Republic of Sri Lanka.	Although overtime payment for an officer receiving monthly salary, should be calculated	The Company compiled administration and financial manual with the support of	Overtime allowances should be calculated in accordance with the Establishments

as 1/30 of the basic monthly salary, the Company had calculated daily overtime allowance as 1/20 of consolidated monthly salary during the year under review. As a result, calculated excess overtime payment relevant to the month of May in 2024 was Rs.0.254 million, and the total overtime expenditure incurred in the year under review was Rs.4.342 million.

administration sub-committee of the Company. This manual set clear guidance of staff categorization for overtime entitlement, calculation of overtime rates and overtime limits etc. That manual based on Establishment Code and relevant circulars.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

I. Financial Regulation 188

When monies are banked, the officer responsible should ensure that they receive the acknowledgement from bank and verify credits by reference to bank statements. However, actions had not been taken to recognize 04 unrealized cheques aggregating to Rs.72,500, and accordingly, the amount had been accounted for as receivable income in the financial statement for the year under review.

As per audit observation, necessary actions will be made to adjust in financial statements 2025/26.

The accountant should ensure that the relevant officer reconcile the cash deposits with bank statements timely and identify deposits with acknowledgement.

II. Financial Regulation 138 and 257	<p>The officer authorized to certify vouchers is responsible for ensuring the accuracy of the expenditure and certifying it accordingly.</p> <p>However, the payment vouchers aggregating to Rs.0.451 million had been paid without any voucher certification in the month of May 2024.</p>	<p>Currently, no voucher has been proceeding for a payment without being certified by authorized officer.</p>	<p>The accountant should ensure before paying for a voucher that the relevant officer has authorized the payment.</p>
III. Financial Regulation 396	<p>If the cheque remains unrealized for more than six months and no reply to the letters issued to payee, the entity should cancel the cheque and note the amount as a liability in the relevant ledger. However, actions had not been taken on 03 cheques which were not presented for payment within 06 months from the date issue amounting to Rs.0.205 million.</p>	<p>As per audit observation, necessary actions will be taken for not presenting cheques as per financial regulations.</p>	<p>The accountant should cancel the cheque remains unrealized for more than six months and recognized as a liability accordance with Financial Regulation 396.</p>
(c) Paragraph 09 of Public Finance Circular No. 01/2020 dated 28 August 2020.	<p>i. Although the issued sub-impres should be settled within 10 days after the completion of the relevant tasks, the total of Rs.1.64 million in 24 cases had been settled with a delay of 10 to 111 days from the date of</p>	<p>As per the audit observation, it has been accepting that some imprest settlements took more than 10 days. However, the Company will take necessary internal control mechanism to avoid unnecessary delays for</p>	<p>Advances should be granted and settled in accordance with the provisions of the Financial Circular.</p>

completion of the task.	settlement of sub-imprest by introducing new Financial Regulation Manual. Explanation for unutilized advance from relevant officers are enclosed in Annexure III, IV & V.	
ii. Sub-imprest of Rs.0.128 million obtained by officers in 04 cases had been settled without being utilized any.	However, it has already been informed officers to avoid such practices.	-Do-
iii. Even though Chief Financial Officer is permitted to grant an imprest up to a maximum of Rs.100,000 on a single occasion only to officers in executive grade for a specific task, it was observed that in 16 advances amounting to Rs.2.3 million had been granted by the Company exceeding the limit specified in Financial Regulation.	It has been noticed to limit maximum amount of Rs.100,000 of sub-imprest for officers in staff grades.	-Do-

(d) Public Enterprises
Circular No. 01/2021 of
16 November 2021 for

Guidelines on Corporate Governance and the Operational Manual for State Owned Enterprises (SOEs)

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| I. | Section 4.2 of the Audit and Management Committee Meetings should be held once in 03 months. However, the Company had held only one Audit and Management Committee (AMC) meetings during the year under review. | In 2024/25, only one Audit and Management Committee Meeting was held due to the appointment of the Chairman and Board of Directors. However, for the year 2025/26 the Company already hold two AMC meeting for first two quarters and 3rd meeting scheduled to be held on month of October 2025. | Actions should be taken to conduct Audit Committee Meetings as per the Section 4.2 of the Guideline. | |
| II. | Section 4.4 of the Guideline | Although all State-Owned Enterprises should have Internal Auditor, it was observed that the Company had not appointed such officer as per the guideline. | Board of Directors had already approved to establish Internal Auditor position to the Company. Thereby, the Company forwarded a request letter for the approval for position of Internal Auditor to Department of Management Services through Line Ministry. | Actions should be taken to appoint an Internal Auditor as per the Section 4.4 of the Guideline. |

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| III. | Paragraph 5.3 of the Operational Manual | Although it is expected that at least 30 per cent of the profit after tax is distributed to the consolidated fund/ shareholders, having satisfied the solvency test as stipulated in the Companies Act No 07 of 2007 the Company had not acted accordingly. | The Company has taken necessary steps to do solvency test and to hold AGM of the Company in due course. | The Company should distribute the profit after tax as per the Operational Manual. |
| IV. | Paragraph 6.6 of the Operational Manual | Although financial statement should be handed over to the Auditor General within 60 days after the closure of the financial year, the financial statement had been submitted with a delay of 105 days. | It has been noticed to submit financial statements of 2025/26 within 60 days after the closure of the financial year. | Financial Statement should be handed over to the Auditor General as per the Operational Manual. |

1.7 Cash Management

Audit Issue

The Company owned a current account of a bank with a balance of Rs.161,076 that had remained dormant since 2015.

Management Comment

It has been noticed the audit observation is accurate and necessary arrangements will be made to clear this matter after having evidence and required approvals.

Recommendation

Actions should be taken to activate or closure of the account.

2. Financial Review

2.1 Financial Results

The operating result for the year under review amounted to a surplus of Rs.30.31 million and the corresponding surplus in the preceding year amounted to Rs.44.33 million. Therefore, a deterioration amounting to Rs.14.01 million of the financial result was observed. The decrease of the total income by Rs.20.26 million was the reason for the deterioration.

03. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
Although instructions had been given by the Secretary to the Line Ministry to restructure the Company in the year 2022, a sum of Rs.0.33 million had been incurred to conduct a seminar to explain restructuring method at a hotel and apart from the seminar, the Company had not implemented any activity by the end of the year under review.	Administration sub-committee of the Company already compiled Strategic Plan for the Company and organization restructuring process will be implement align with that Strategic Plan.	The Company should identify the need for restructuring and prepare a detailed plan regarding the restructuring actions to be taken. Further, the timeline for their implementation, and the manner in which they will be executed, should be considered accordingly.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
Although the Company had planned to conduct 262 programs, including open workshops, customized workshops, examination courses and external training programs to train and develop human resources in both public and privet sector institutions during the accounting year of 2024/2025, around 198 programs had only been conducted actually during the period. Accordingly, it was observed that the planned target could not be achieved as scheduled.	Due to prevailing economic crisis, most of the institutes have reduced their HRD budgets. This was the major reason that Company failing to achieve expected target. However, Top Management already advised the Program divisions to promote set of our future programme (prospectors) using marketing strategies and new technologies including social media plat forms.	The Accounting Officer should issue written instructions and directives regarding the identification of areas and the manner of conducting programs to train and develop human resources.

3.3 Under -utilization of Funds

Audit Issue	Management Comment	Recommendation
A scholarship fund had been initiated in 2013 in line with the program to declare a National Day for Technical and Vocational Education. Accordingly, students raised Rs.3.27 million by selling bookmarks in	This matter has already been discussed in Audit and Management Committee Meeting and this matter is reviewing in the Line Ministry level as well. Also,	Actions should be taken to either utilize the Fund to achieve its intended purpose or to remit it to the Consolidated Fund in accordance with the Public

2014, to establish the scholarship fund. However, this amount was not utilized for the intended purpose and had remained as a fixed deposit. The value of this Fund had increased to Rs.7.75 million by the year under review. Accordingly, no action was taken either to use the funds for the intended purpose or to remit the funds, which had no specific purpose, to the Consolidated Fund in accordance with Public Finance Circular 04/2024.

the Company expects to forward this matter to Board of Directors and take a decision in this regard. Finance Circular.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>Out of the approved cadre of 32 posts including all executive grade positions as at 31 July 2025 of the Company, 10 posts had remained vacant including key positions such as General Manager and Consultants. Hence, it may adversely affect the achievement of the objectives of the Company.</p>	<p>Suitable candidates have been selected for the previously vacant positions of Auditor and Administrative Officer positions. A newspaper advertisement regarding the recruitment for the vacant position of General Manager was published on 5 October 2025. An application for approval to recruit for the Management Assistant positions has been submitted to the Recruitment Review Committee through the Secretary to the Line Ministry.</p>	<p>Actions should be taken to restructure the workforce in accordance with current requirements of the Company and recruit the approved cadre accordingly.</p>