

## **Skill Development Fund Limited – 2017**

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The audit of financial statements of Skill Development Fund Limited for the year ended 31 March 2018 comprising the statement of financial position as at 31 March 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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. My observations on the performance of the company in the year under review which I consider should be presented to Parliament in terms of Section 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

### **1.2 Management’s Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of Skill Development Fund Limited as at 31 March 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

##### **2.1.1 Report on Other Legal and Regulatory Requirements**

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As required by Section 163(2) of the Companies Act, No.07 of 2007, I state the following matters.

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) \* Except for the effects of the matters described in paragraph 2.2 of this report, all the information and explanations required for the audit were received, and according to my observations company has maintained proper accounting records.
  - \* The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

#### **2.2 Comments on Financial Statements**

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##### **2.2.1 Sri Lanka Accounting Standards**

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The following observations are made.

###### **(a) Sri Lanka Accounting Standard 16**

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Even though fixed assets costing to Rs.5,485,778 had been fully depreciated, had been in further use due to non-reviewing of the effective life time of the non-current assets annually in terms of Paragraph 51 of the standard. Action had not been taken to revise the estimated error occurred accordingly, as per Sri Lanka Accounting Standard 08.

###### **(b) Sri Lanka Accounting Standard 39**

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According to paragraph 9 'B' of the standard fair value of employee's loans amounting to Rs.2,024,276 had not been disclosed in the financial statements.

## 2.2.2 Lack of Evidence for Audit

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The Following observations are made.

- (a) Schedule for deferred tax amounting to Rs. 486,768 had not been furnished for audit.
- (b) An unusual balance amounting to Rs.297,303 coming from past several years had been in the financial statements as Other Reserves under Capital and Reserves and information had not been presented to the audit to confirm this balance.
- (c) Even though there had been a balance of Rs.4,065,489 in the assets account under the scholarship fund of Ministry of skill Development and Vocational Training, a difference of Rs. 342,380 was observed due to being a balance of Rs. 3,723,109 in respective liability account and reasons were not explained to the audit thereto.

## 2.3 Non – compliance with Laws, Rules, Regulations etc.

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Following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non- compliance</b>
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
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(i) Financial Regulation 188	
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	At the time of cash deposit to the bank, if the bank had not given a confirmation on cash credited within a considerable time period, it is required to carry out a review on it. However actions had not been taken for unrealized deposit amounting to Rs. 72,500.
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(ii) Financial Regulation 225	
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	It was observed instead of preparing vouchers separately for expenses, payment had been made for the same voucher including several expenditures
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(iii) Financial Regulation 396(d)	
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	Actions had not been taken in accordance with financial regulations for the cheques not presented for the payments amounting to Rs.388,713 which had been taken more than 06 months from the very next date out of issued date or validated date.
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- (b) Public Enterprises Circular No. PED/12 of 02 June 2003 Under a maximum limit of Rs. 10,000 per person a sum of Rs.962,495 had been paid as overtime for the posts of driver and peon of the company during the year 2017/2018 without a prior approval of a senior management officer.
- (c) Value Added Tax (Amended) Act, No. 14 of 2002.  
Section 21(1) A sum of Rs. 20,000 had to be paid as penalty as not furnishing the Value Added Tax report for the quarter ended on 31 March 2017 and 30 June 2017, Further there were 27 days and 11 days delay respectively for not presenting tax reports for the quarters ending on 31 December 2017 and 31 March 2018.
- (d) Economic Services Charge (Amended)Act, No. 13 of 2006.  
Section 2(2) It is required to register under Economic Services Charge Act when the quarter income exceeds Rs. 12.5 million However actions had not been taken for registration of assessment year 2017/2018 even the quarterly income exceeds by Rs.12.5 million.
- (e) Stamp Duty (special provisions) Act, No. 10 of 2008 The company had not been registered under this Act and sum of payable stamp duty amounting to Rs. 14,650 for the year 2017/2018 had not been recovered from the employees.
- (f) Nation Building Tax (Amended) Act, No. 22 of 2016 Even though it is required to pay National Building Tax when the quarterly turnover exceeds Rs. 3 million actions had not been taken to pay tax on turnover for year 2017/2018.

## **2.4 Transactions not supported by Adequate Authority**

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According to the Treasury letter No.DMS/E4/47/9/282/1 dated on 18 November 2011 it should not paid other allowances other than cost of living. However a sum of Rs. 3,281,271 had been paid as incentives during the accounting year.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial results of the Company for the year under review amounted to a profit before tax of Rs.6,544,228 as compared with the corresponding loss of Rs.7,059,468 for the preceding year, thus indicating a improvement of Rs.13,603,696 in the financial results for the year under review as compared with the preceding year. Revenue increased by Rs. 40,624,445 in the year under review as compared to preceding year had been the main reason for the above improvement.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Activity and Review**

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The following observations are made.

The following observations are made in relation to number of programs conducted by Skill Development Fund Limited, number of participants for those programs and planned/assisted income level for the year under review.

- (i) Even though plans had been made to conduct 13 diplomas and certificate courses in the year under review, among them one certificate course on English language had been conducted. Therefor the actual income from this section was Rs.775,000 which is 5 per cent from targeted income.
- (ii) Even though it was expected an income of Rs. 56,020,000 for 164 programs of open section, only 95 programs had been conducted during the year and sum of Rs. 41,182,500 had been earned.
- (iii) Even though plans had been made to conduct 151 programs and earn to income of Rs.11,695,000 on sponsors request, among them only 142 programs had been conducted.
- (iv) Even though it was expected to train 15,215 officers under the 328 programs in the year, only 244 programs had been conducted and 10,649 officers had been trained was observed.

## 4.2 Management Inefficiencies

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The following observations are made.

- a) According to Public Enterprises Circular No. PED 01/2015 dated on 15 May 2015 chairman of the company eligible for 170 Litres of fuel per month; however referring to Public Administration Circular No. 13/2008(iv) dated on 09 February 2011 an additional sum of Rs.36,575 had been over paid for consumption of 225 Litres of fuel per month in the accounting year.
- b) According to Public Enterprises Circular No. PED 02/2015 dated on 15 May 2015 it is allow to reimbursed the telephone bill, However contradictory to it sum of Rs.10,000 and Rs.5,000 respectively totaling to Rs.120,000 of telephone allowance had been paid for two officers in every month. Also Telephone bills had not been presented along with the vouchers to receive that allowances.

## 4.3 Resources of the Company Released to Other Public Institutions

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According to the paragraph 9.4 of the Public Enterprises Circular No.PED/12 of 02 June 2003 without the permission of Cabinet should not be released to other institution or ministry and further no salary or allowance should be paid by the releasing institution during the period of released. As per the latter dated 18 December 2015 of the Chairman of the company,03 permanent officers of the company had been released to the service in the parliament from the date of the above letter and during the year a sum of Rs.801,861 had been paid to those officers as salary and wages.

## 4.4 Staff Administration

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The Following observations are made.

- (a) According to the letter No. DMS/E4/47/9/282/1 dated 18 November 2011 and letter No. DMS/1676 dated 17 September 2014 of Director General of Management Services Department approval had been taken for company staff. However by exceeding that amount 12 employees had been recruited to 04 posts. Further it was observed 04 officers who had to be recruited on permanent basis had been recruited on contract basis.
- (b) Contradictory to the letter No. DMS/E4/47/9/282/1 dated 18 November 2011 of Director of Management Service Department without approving the recruitment procedures for each posts, 05 officers had been recruited for 05 posts. Although it had been highlighted in the previous audit query a sum of Rs.1,345,718 had been paid as salaries and allowances for 04 officers during the year of 2017/2018.
- (c) Instead of recruiting an officer on permanent basis for the position of General Manager, An officer without required qualification as per the recruitment procedures had been recruited on contract basis with a monthly basic salary of Rs.55,786 from 24 August 2017 for 02 years. Even though it is required to select the suitable applicant after to calling for applications by publishing public advertisements, action had not been taken accordingly in recruitment of above officer.

- (d) During the year 08 officers had been recruited for 05 different posts, however according to recruitment procedures these officers had not fulfilled required qualifications.
- (e) According to the recruitment procedures the advices and commands of Chief Executive Officer, handling all the accounts and financial activities of the company is a duty of the Accountant. However the officer held the post of Accountant of the company from 15 March 2016 to 08 September 2017 had given the preparation of Financial Statements of 2017 to a private audit firm and a sum of Rs.175,000 had been incurred for it during the year.
- (f) According to appointment letter an officer resigned from the post on his own desire should be informed about it before three months or three months salary should be paid for it. Former Accountant submitted the resignation letter on 07 September 2017 and had resigned on very next date of 08 September 2017. However no actions had been taken to recover the three months' salary of the officer amounting to Rs.150,492 until now.

#### **4.5 Utilization of Vehicle**

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The following observations are made.

- a) A sum of Rs. 671,861 had been incurred by the company for vehicle repair and maintains during the year under review. According to the paragraph 3.4 of National procurement guidelines No. 08 of 25 January 2006 and paragraph 2.14.1 of procurement handbook, relevant suppliers should be selected for duties and services of procurement process through a competitive basis. However it was observed that the company had not complied in vehicle repairs according to it.
- b) According to Public Finance circular No. 02/2015 of 10 July 2015 and Financial Regulations 756(4) vehicle numbered 302-1353 owned by the company disposable due to non-usage. However action had not been taken to dispose by appointing a special board of Survey.

### **5. Sustainable Development**

#### **5.1 Achievement of Sustainable Development Goals**

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Even though every Public Institution should be act in compliance with the Circular No. NP/SP/SDG/17 of 14 August 2017 issued by the Secretary to the National Policy and Economic Affairs and the United Nations year 2030 "Agenda" for Sustainable Development. Nevertheless, due to failure of the being aware of the said Agenda for the year 2030 Ministry of Public Administration, actions had not been taken to identify the sustainable development goals and targets relating to the activities thereof, along with the milestones in respect of achieving those targets, and the indicators for evaluating the achievement of such targets.

## **6. Accountability and Good Governance**

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### **6.1 Audit Committee**

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Even though audit committee meetings should be held at least once in 03 months as per Section 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, only one audit committee meeting had been held in the accounting year of the Company.

### **6.2 Procurement and Contract Process**

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#### **6.2.1 Deficiencies in Contract Administration**

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The following observations are made.

- a) In terms of section 6.2.2 of public procurement guidelines, when the bids are calling through national competitive method, it was mentioned that the bidding should be opened at least for 21 days. However the procurement advertisements published by the company on 03 and 04 October 2017, it had been opened only for 12 days. Therefore by adjusting the dates a newspaper advertisement had been published again incurring an unnecessary expense of Rs. 54,625.
- b) In terms of 6.2.1 of that paragraph, period of presenting bids for potential bidders should be remained from the date of purchasing the bidding document to closing date. However it was observed in the audit that the company had published the advertisement without complying with it and restricting the purchasing date and bidding calling closing date to 20 October 2017 and to 23 October 2017 respectively.
- c) The preparation of corporative plan of the fund for years 2017-2019 had been given to an outside person for Rs. 250,000 without following procurement guidelines.

### **6.3 Action Plan and Budget**

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Even though accounting year of the Company is started on 01 April and ended on 31 March in the next year, it was unable to evaluate financial and operating performance therein due to the preparation of budget estimate and action plan for a year starting from 01 January and ending on 31 December.

### **6.4 Tabling of Annual Reports**

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Even though it is required to prepare Annual report which includes annual final accounts with audit report in trilingual and to be tabled in the Parliament before 150 days of ending the financial year as per Section 6.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003, it had not been done accordingly for the accounting years of 2014/2015, 2015/2016 and 2016/2017 of the Company.



## 7. **Systems and Controls**

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

### **Areas of Systems and Controls**

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### **Observation**

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| (a) Accounting                | No action had been taken to prepare journal vouchers, invoices relation to income cannot be adjusted with accounting system. |
| (b) Internal Control          | Job had not been allocated in a proper manner in the Accounting section.   |
| (c) Human Resource Management | In recruiting of staff, non - performing according to the Scheme of Staff recruitment.                                       |
| (d) Vehicle Control           | Non-maintenance of running charts, non-following of proper procedures in repairing of vehicles.                              |