

Skills Sector Development Programme - 2018

The audit of financial statements of the Skills Sector Development Programme for the year ended 31 December 2018 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 Article iv of Section 4.04 (a) of the Loan Agreement No.s 3119 SRI (SF) and 3120 SRI (SF) dated 27 May 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank and the provisions in the Schedule 2 Section 11 B.3 of the Agreement Nos. 5516 LK and 5517 LK entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. 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 Loan Agreement of the Programme, the Ministry of Industry and Commerce, Resettlement of Protracted Displaced Persons, Co – operative Development and Vocational Training and Skills Development 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 Project are implemented under the component of Results Based Lending Mode. As per the Programme Implementation Document, the estimated total cost of the Project was US\$ 961.2 million equivalent to Rs 125,916 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. Out of the balance amount of Rs. 84,107.77 million, Rs. 68,093 million and Rs. 16,014.77 million are expected to be financed by government of Sri Lanka and other sources respectively. The project had commenced its activities in September 2014 and scheduled to be completed by June 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 Consolidated Statement of Expenditure gives a true and fair view of the financial position of the project as at 31 December 2018, financial performance and its cash flows for the year then ended 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.

In preparing the financial statements, management is responsible for assessing the Project 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 Project's financial reporting process.

The Project 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 by the Project.

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 Project.
- 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

No	Accounting Deficiency	Amount Rs.	Impact	Response of the Management	Auditor's Recommendation
01	The financial statements of the Implementing Agencies of Vocational Training Authority of Sri Lanka, National Apprentice and industrial Training Authority, Tertiary and Vocational Education Commission, Sri Lanka Institute of Printing for the year ended 31 December 2018 had not been presented even as at 31 May 2019 as per the paragraph 16 (2) of the National Audit Act, No. 19 of 2018.	-	Financial Information provided under the respective Implementing Agencies in the Consolidated Statement of Expenditure Could not be reconciled.	The financial statements of several Implementing Agencies had not been submitted on time due to delays in appointing of the members for the Governing Boards of such Agencies.	Action need to be taken to confirm the accuracy of the information provided in the Consolidated Statement of Expenditure by the chief financing officers.

3. Physical Performance

3.1 Physical progress of the activities of the Project

No	As at 31 December 2018	Delay/ Audit Issue	Impact	Response of the Management	Auditor's Recommendation
	Expected physical performance Units/ Percentage	Performance achieved Units/ Percentage			

<p>01 (i) Renovation of 90 training centers of Vocational Training Authority. 25 training centers had been renovated.</p>	<p>} Material delays were observed in construction works against the Action Plan.</p>	<p>The demands for the vocational training sector couldn't be fulfilled.</p>	<p>This was due to unforeseen delays in construction works resulting in limited financial allocations.</p>	<p>The allocations to complete the construction works should be made on time as enable to achieve the targets stipulated in the Action Plan.</p>
<p>(ii) Construction of 20 new centers of Vocational Training Authority. 03 new training centers had been completed and construction of other 05 new centers had been commenced.</p>		<p>The outcome of Employment Link Training Programme will not be achieved satisfactorily.</p>	<p>1. Students had been dropped out due to changes in their mindsets regarding their career plans. 2. Discussions had been made with Tertiary and Vocational Education Commission for the improvement of Existing delays. 3. 65 % of employability is achieved.</p>	<p>1. The end result of the programme is targeted to employability of the trainees and therefore, a mechanism for continuous evaluation needed to established. further, vocational trainers should be encouraged to improve their quality of training programmes offered. 2. Action need to</p>

02 The Employment Link Training Programme had been implemented by the Skills Sector Development Division of the Project through 13 vocational training providers in private sector and a sum of Rs. 40 million had been spent during the year under review to increase the training opportunities in priority skill areas and job placements. It was observed in audit that 365 trainees representing 21 per cent of 1,760 trainees enrolled for vocational training programmes had been dropped out during the period of training. Further, the Certificates on National Vocational Qualification had not been issued to other 915 trainees who completed the training courses, due to delays in accreditation of training courses, assessments and application of certificate issuing process by the Tertiary and Vocational Education Commission. Further, the target of 65 per cent of employability rate as per the training agreements entered into by the Skills Sector Development Division with the training providers had not been achieved and actual employability ratio had remained at 03 per cent as at 04 June 2019. Further, the information relating to 310 trainees who have completed courses was not made available at the Skills Sector Development Division.

be taken to avoid unnecessary delays noticed with the Tertiary and Vocational Education Commission.

As this programme is implemented annually, the corrective measures have to be taken to avoid this situation.

3. Students who have registered under this programme should be motivated to complete the programme and obtain the National Vocational Qualification Certificate.

03	As per the Annual Action Plan, 07 Diploma Courses were expected to be conducted by the Ocean University of Sri Lanka during the year under review and intended to approach 232 students. However, the respective courses could not be commenced due to erroneous information contained in the paper advertisement published by the University at a cost of Rs. 1,449,000.	Intended objectives may not be achieved	Not responded.	Action should be taken to investigate the responsible parties.
----	---	---	----------------	--

3.2 Contract Administration

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendation
01	The process commenced in 2017 to procure training Equipment at a cost of Rs. 2,576,404 for Motor Cycle and Scooter Repairing Diploma conducted by Technical Collages at Dambulla & Rathmalana had not been completed up to 30 April 2019.	Unavailability of the training equipment will adversely be affected to the quality of the training.	Order had been cancelled on 09 July 2017 due to non-submission of performance bond.	According to the Procurement Guide Lines, necessary actions have to be taken to procure the equipment to ensure the expected quality of the training.
02	National Apprentice and Industrial Training Authority had procured training Equipment valued at Rs. 46,558,506 for Engineering Technical Institute at Katunayake Using procurement method of Shopping Procedure by Regional Procurement Committee instead of using National Competitive Biding Method by Department Procurement Committee contrary to the Supplementary No. 33 dated 15 March 2017 to the Procurement Guide Line 2.14.1 and the Procurement Guide Line 4.4.2 of the Procurement Guide Lines – 2006	Lack of competitiveness of bidding process.	Not responded.	Government Procurement procedures should be adopted to ensure the competitiveness of the bidding process.
03	Action had not been taken to complete balance work of under mentioned construction projects terminated by 02 Implementing Agencies during the year 2018 even up to 18 June 2019. Further, the cost incurred on such constructions as at 31 December 2018 amounted Rs. 101.08 million.	Possible increase of the cost of the contracts.	-	Immediate actions have to be taken to award contract to complete balance works and eligible contractors should be selected after a strong evaluation as per the Procurement Guide Lines.
	1. Continuation work of Vocational Training Center at Pettigalawatta 2. Continuation work of Vocational Training Center at Rattota 3. Renovation, Modification & Improvement of Training Building at			

Love lane (Stage2)

4. Proposed refurbishment work of Training Center at Dambulla.

3.3 Observations made on site visits

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
The laboratory equipment procured at a cost of Rs. 6.93 million in 2015 for the use of students of Diploma Course in Food Technology in University College at Ratmalana had remained idle, due to lack of infrastructure facilities in the laboratory building.	No benefit from the expenditure made for last 03 years and students had followed the course without obtaining the knowledge in that field. Intended benefits of the procurement will not be received to the trainees.	This situation has arisen mainly due to delays in construction activities of the lab.	Immediate action need to be taken to complete the construction work of the lab to enable the students to make use of such Equipment.

3.4 Payments made out of the Project objectives

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
The surcharge payment to the Employees Provident Fund and the Employees Trust Fund amounting Rs. 886,801 had been made during the year under review by University Collage at Batangala, out of the Projects Funds.	Expenditure not related to achieve the objectives of the project.	Accepted.	Implementing agencies should be instructed to utilize project funds strongly for the intended purpose.

3.5 Idle/ Unutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
The Vocational Training Authority of Sri Lanka had spent a sum of Rs. 121.81 million up to 31 December 2018 to renovate existing hotel school at Ahangama and convert it to a tourist hotel with the purpose of providing practical training for 04 Diploma courses related to tourism industry. Even though the renovation works had been completed as at 31 August 2018, the activities of the tourist hotel had not been commenced	Possibilities to misuse/obsolete of the assets.	The efforts taken at several times had been failed to conduct the model hotel under public private partnership. Recruitment of staff is in	1. Feasibility studies need to be conducted before making changes of the decision. 2. Immediate actions need to be taken to commence the operations of the hotel

even up to 31 May 2019. The training equipment procured at a cost of Rs. 19.67 million and office equipment procured at a cost of Rs. 9.40 million in 2017 had remained idle allowing to obsolete even at the end of the year under review. Further, the intakes of students under 04 such Diplomas had not been done for over 03 years, due to subsequent decision on conversion as a tourist hotel and changes of construction works.

process.

to deliver the expected practical trainings to trainees.

3.6 Matters in Contentious Nature

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendation
01	Ocean University of Sri Lanka had spent a sum of Rs. 479,924 during the year under review to obtain the certificate of ISO 9001 – 2015 for 03 training courses conducted by the Training Collage at Tangalle. However, the respective courses had neither been conducted by the Collage and scheduled to implement during the year under review in the Action Plan.	Fruitless expenses.	Not responded.	Immediate Actions have to be taken to commence the respective courses in the Collage.
02	Tertiary and Vocational Education Commission had spent a sum of Rs. 11.06 million up to 31 December 2018 to renovate upper most floor of 8 storied existing building of the Line Ministry without being obtained the prior approval of the Line Ministry. However, according to information of the Central Engineering Consultancy Bureau, the respective location was not suitable for a office purposes and currently it was not used by the Commission for the intended purpose.	Wasteful expenses.	The prior approval has been obtained. After period of nearly one year of occupation, Tertiary and Vocational Education Commission had requested a report from Central Engineering Consultancy Bureau due to damages occurred to floor area.	Action should be taken to investigate the responsible officers for the renovation works and immediate actions to be taken to rectify the defects in the renovation works.