

Head 421- State Ministry of Skill Development, Tertiary Education, Research and Innovations

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the State Ministry of Skill Development, Tertiary Education, Research and Innovations for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statement for the year then ended 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 provisions of the National Audit Act No. 19 of 2018. The summary report including my comments and observations on the financial statements of the State Ministry of Skill Development, Tertiary Education, Research and Innovations was issued to the Accounting Officer on 31 May 2022 in terms of Sub-section 11 (1) of the National Audit Act No. 19 of 2018. The Detailed Annual Management Audit Report relevant to the State Ministry in terms of Section 11 (2) of the Audit Act was issued to the Accounting Officer on 30 Jun 2022. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, the financial statements give a true and fair view of the financial position of the State Ministry of Skill Development, Tertiary Education, Research and Innovations as at 31 December 2021, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 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.

1.3 Responsibilities of the Accounting Officer for the Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Accounting Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the State Ministry 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.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the State Ministry exists and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 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 the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures.
- 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 the Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

I express the following matters in accordance with Section 6 (1) (d) of National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.
- (c)

2. Financial Review

2.1 Expenditure Management

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The total provision of Rs. 11,100,000 and Rs. 63,400,000 provided for 08 recurrent subjects and 15 capital subjects respectively in the annual estimates, were totally saved.	The provision was saved as per the Cabinet Memorandum issued on the Public Expenditure Review dated 28.08.2021.	Action should be taken to make maximize the utilization of allocated provisions to achieve the goals and objectives of the institution.
(b) A total provision of Rs. 11,250,000 related to 08 recurrent subjects and a total provision of Rs. 374,581,000 related to 20 capital subjects had been transferred to other subjects under the Financial Regulation 66 due to the provision had not been allocated in a planned manner and it was ranged from 25 percent to 100 percent.	The surplus provision was transferred to the underfunded subjects as expenditure had not arisen as expected.	The estimate should be prepared after identification of the requirement correctly.
(c) A total sum of Rs. 327,656,000 related to 09 subjects was transferred from other subjects under the Financial Regulation 66 as the estimates were prepared without proper planning. It was ranged from 28 percent to 100 percent. Out of that total amounted to Rs. 1,958,354 were saved and it was ranged from 19 percent to 40 percent.	The excess provision was transferred to the underfunded subjects as the expenditure had not arisen as expected. Also, savings in casual expenditure and surplus allocations were transferred due to non-incurrence of expenditure as per the Cabinet Memorandum issued on the review of public expenditure dated 28.08.2021.	The requirement for provision should be correctly identified while preparing estimates and arrangements should be made to utilize the provisions obtained.

2.2 Advance Account Balances

Audit Observation	Comments of the Accounting Officer	Recommendation
An unrecovered total loan balance of Rs. 522,270 was remained as at 31 December 2021 from the resigned and retired officers, and the period of arrears was ranged from 03 years to 21 years.	These loan balances have not been settled for various reasons and will be rectified in the future.	Action should be taken to recover the outstanding loan balances in accordance with the relevant circular provisions.

2.3 Obligation in Liabilities and Commitments

Audit Observation	Comments of the Accounting Officer	Recommendation
Even though all liabilities should be recorded as per State Accounts Circular No. 255/2017, liabilities valued for Rs. 220,967 had not been included in the financial statements in the year under review.	The values of the vouchers mentioned here had not been included in the liabilities register due to omission. That will be correctly identified and recorded in the future.	Action should be taken to record all liabilities relevant to the year in the liabilities register.

2.4 Non-compliance to laws, rules and regulations

Reference to laws, rules, regulations	Non compliance	Comments of the Accounting Officer	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulations No. 756,757 and 1647	Annual board of surveys on vehicles and other accessories should have been conducted, but had not been done so.	The report could not be submitted to you as the vehicle survey could not be done in the scheduled date due to various difficulties.	Annual board of surveys on vehicles and other accessories should be conducted.
(b)			

- (ii) Financial Regulation 1646 Although the daily running charts of each month with the original copy of the monthly summary of travelling should be sent to the Auditor General before the 15th day of the following month, 22 pool vehicles owned by the Ministry were not dealt with accordingly. The running charts could not be submitted properly due to various reasons such as, several vehicles had not been driven due to lack of repairs, and several vehicles had been handed over to other agencies. Financial Regulations should be followed.
- (b) Public Finance Circular No. 03/2015 dated 14 July 2015 The delay in settlement of fuel and various advances given in 19 occasions were ranged from 01 month to 04 months. Even this situation had been pointed out before, but had not been corrected at present. Special reasons like Covid epidemic situation and misplaced of bills had affected. Circular instructions should be followed.
- (c) Public Administration Circular No. 09/2009 dated 17 June 2009 Salaries and allowances total amounted to Rs. 9,212,498 had been paid in the year 2021 without confirming the arrival and departure of the officers of the ministerial staff by fingerprint machines as per the circular instructions. It had been stated that maintenance of arrival and departure register will be sufficient in respect of reporting for duties of public servants in view of the Covid-19 epidemic situation during the year 2021 in the paragraph 7 of the Public Administration circular No. 02/2021(V) dated 01/10/2021. Accordingly, an arrival and departure register was maintained. According to the instructions in the circular, the necessary activities should be carried out.

- (d) Self-Employment Promotion (SEPI) Scheme Phase II Agreement dated of 29 March 2016.
- i Section (f) of Paragraph 3.2 Although the Central Bank should submit the accounts to the Auditor General relevant to the SEPI Loan Scheme – Phase II within three months after the end of the accounting year, accounts were not submitted from the year 2016 till the year under review. As per clause 3.2 (f) of the agreement, the Central Bank is responsible for submitting the accounts to the Auditor General. Action should be taken to submit the accounts.
- ii Section (b) of Paragraph 2.2 A loan amount of Rs. 491,134,875 had been granted for 1,109 beneficiaries, out of 1,295 registered beneficiaries from the year 2016 to the year 2021 without intervention of the Ministry, for all the applications related to providing loans. It was revealed in the audit that the lending banks had selected the borrowers and granted the loans themselves and the same process are still continuing. Students who are expected to obtain loans will be directed to the relevant regional branches of the bank through professional guidance officers of vocational training institutes, and loans will be granted to the applicants who meet the criteria specified in the operational orders issued by the Central Bank. Conditions mentioned in the relevant agreement should be followed.

3. Operational Review

3.1 Performance

	Audit Observation	Comment of the Accounting Officer	Recommendation
(a)	Although accreditation of National Vocational Qualification (NVQ) courses to provide locally and internationally recognized education and training is required as per the Tertiary and Vocational Education Act No. 20 of 1990, the necessary arrangements for issuing accreditation certificates for 343 applications received from the year 2018 to 18 January 2022 had not been made till the date of the report.	Certain courses have not been accredited due to non-fulfilment of the required criteria.	The relevant activities should be carried out efficiently as the accreditation is essential for high-quality local and internationally recognized education and training.
(b) (i)	A single loan application was not registered in the year 2020 under the Self-Employment Promotion (SEPI) Scheme Phase II and although a sum of Rs. 90 million was estimated for the year under review, due to the lack of a proper loan plan and the number of target beneficiaries had not been decided, an amount of Rs. 80 million or 89 percent of the allocated amount had been transferred to another subject. Only 03 borrowers were registered during the year and Rs. 500,000 each, a sum of Rs. 1.5 million had been distributed among them.	The Central Bank of Sri Lanka had not issued any loan due to the country was closed due to the Corona epidemic situation in the year 2020.	To increase the number of borrowers in order to fulfill the desired objectives of this loan scheme.

- (ii) Although the loan can be given for the purchase of basic equipment and raw materials required for starting a self-employment business as per the loan agreement, nearly 38 percent had taken loans for expansion of business. Approximately 14 percent had not utilized the respective loan amount. The audit revealed that the desired objectives of the loan scheme had not achieved due to the intervention and follow-up activities of the ministry had not been carried out properly.
- Action had been taken to overcome the problematic situations by conducting progress review meetings and discussing the ministry officials with the officials of the Central Bank of Sri Lanka, beneficiary institutions and banks etc.
- The management should take action to follow up whether the basic objectives of the loan were fulfilled.

3.2 Not Achieving in Expected Output Level

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) Although a sum of Rs. 100 million had been allocated in the year under review for establishing of 05 city universities project recognized under special priorities in Gazette No. 2209/14 dated 04 January 2021, an amount of Rs. 6.11 million had been spent by the end of the year and basis construction and land acquisition works had started in only 03 city universities.	The District Secretaries of the 8 districts where the feasibility studies were conducted were consulted in this regard and field inspections were carried out at the district level by the officials of the Ministry and the chief advisor of “Purwara University” regarding the existing physical resources.	Action Should be taken to achieve the desired results.

- (b) Although a provision of Rs. 500 million was allocated targeting to provide scholarships for 55,000 students under the budget proposal of the year under review with the objective of expanding the vocational training opportunities for the youth community by doubling the number of students engaged in vocational education, a bursary of Rs. 142.4 million had been given to 26,730 students by the end of the year under review.
- The bursary system was implemented from February 2021 and due to the Corona epidemic situation during that period, it took a considerable number of months to gather information from the students who are eligible for the bursary as an initial step and send it to us.
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3.3 Delays in Execution of Projects

Audit Observation	Comment of the Accounting Officer	Recommendation
<p>(a) The approval of Cabinet of Ministers was granted on 20 June 2017 to establish Kinnia University College in Trincomalee district at a cost of Rs. 434 million. Although a sum of Rs. 8,931,683 had been spent in the year 2019 to obtain consultancy services and construct a staff hostel, the hostel which was built remained idle until 31 December 2021 due to the non-construction of the college.</p>	<p>The awarding of the Kinnia University College construction contract was submitted to the Cabinet of Ministers for approval and the approval was given for the completion of the construction works by utilizing the allocated funds for the Skill Sector Development Division. Since the Skill Sector Development Section ends in June, no provision has been allocated for the year 2022.</p>	<p>To make arrangements to utilize the provision to fulfill the requirement.</p>
<p>(b) The approval was received for the construction of a student hostel in Sri Lanka German Training Institute at Kilinochchi for 400 students at a cost of Rs. 300 million in the year 2017</p>	<p>The selection of a consultant for the proposed project was delayed. The implementation of the projects was delayed in the years 2018 and 2019 due to the limited financial</p>	<p>Projects should be implemented within the planned period.</p>

and a sum of Rs. 6,028,015 had been spent for the payment of consultancy service fees in 2018. But due to non-construction of the student hostel till 30 June 2022, the amount spent was an idle expenditure.

- (c) The proposal was made in the year 2017 to start a Social Innovation Lab costing for Rs.80 million with the approval of the Cabinet of Ministers with the objective of starting in the year 2018 and completing by the end of that year. The Secretary of the Ministry and the Director of the United Nations Development Program (UNDP) of Sri Lanka had reached an agreement and signed for this purpose. Although a sum of Rs. 35 million had been spent from the year 2017 to the year 2018 for its operation works, no written evidence related to that expenditure or any effective decision was submitted for audit. Accordingly, the audit revealed that the Rs. 35 million spent was an idle expenditure.
- provisions allocated to the skill sector development division, the delay in appointing members to the procurement committee and the resignation of the procurement committee members due to official and health reasons.
- The approval of the Cabinet of Ministers to implement the activities of the laboratory in accordance with the globally accepted standards was received on 27 September 2017. That the project document for the implementation of the project has been agreed and signed by the Secretary of the Ministry of Science, Technology and Research and the Director of the United Nations Development Program (UNDP) in Sri Lanka on 22 September 2017.
- Ensure that effective and efficient utilization of provisions.

3.4 Projects that have not progressed even though funds have been released

	Audit Observation	Comment of the Accounting Officer	Recommendation	
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(a)	(i)	<p>Although a sum of Rs. 280 million had been paid to the Urban Development Authority for taking over of the ownership of land required for the establishment of National Science Center approved by Cabinet Paper No. 403/16/0167/716/008 dated 11 February 2016, it was unable to transfer the ownership of the land to the Ministry even by the end of the year under review. Further, an estimate of Rs. 2,819,711,538 was prepared in the year under review to complete the construction works of the center within 24 months, but the construction works had not been started.</p>	<p>Out of the allocation received for the year 2017, a sum of Rs. 100 million and in the year 2018 a sum of Rs. 80 million was paid for the allotment of the land and although an agreement was reached with CECB and CESL, the work could not be carried out as per the agreement due to insufficient provision.</p>	<p>Land acquisition should be completed and the balance works should be expedited.</p>
	(ii)	<p>The estimate of Rs. 7,837,061 prepared for the construction of a security fence around the land where the proposed center is to be built was in delay of 03 months in submitting the estimate to the Director (S.R.D.). As such, an amount of Rs. 25 million allocated through a</p>	<p>The estimate had been obtained from NERDC as per the Cabinet decision dated 21.03.2018 which was allowed of consulting works, planning and constructions related to the construction of government institutions can be carried out directly deviating from the procurement procedure using cost saving technology.</p>	<p>To complete the desired construction within the stipulated time.</p>

supplementary vote could not be used for related activities. The construction work of the fence had not been started even by the date of audit of January 2022.

- (b) Six special priority areas had been identified in relation to the research and invention sector with the vision of making it a developed country in the year 2030 through science technology and a sum of Rs. 80 million had been allocated for 05 projects identified in that field. Out of that, only Rs. 7.68 million which was only 9.6 percent of the planned amount was incurred to achieve the desired objectives.
- Mainly, it was to be used for the activities of setting up a new database at the national level for research supervision, carrying out activities related to the payment of research allowances according to Management Service Circular No. 02/2014, and setting up a system for commercialization of research and new inventions. But the activities of setting up of the database and setting up a system for research and commercialization of inventions had been suspended as per the instructions of the secretary and other activities were also slowed down under the condition of the Covid epidemic.
- To complete the desired construction within the stipulated time.