

Skills Sector Development Programme (Grant) - 2021

The audit of financial statements of the Skills Sector Development Programme (Grant) 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 4.02 (a) of the Grant Agreement No. 9193 SRI (EF) dated 11 May 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations 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 Grant Agreement, the Ministry of Skills Development and Vocational Training presently, The Ministry of Education is the Executing Agency and Implementing through ten Agencies of the Programme. The objectives of the Programme are (a) strengthening of private sector engagement in Tertiary and Vocational Education Training Sector, (b) enhancement of entrepreneurship development training programme self-employment with a focus on women, (c) provision of women targeted incentives, mentoring and on-the-job training to attract women into non-traditional areas and (d) demonstration of gender – inclusive recruitment and working environment practices in private sector. As per the Grant agreement, the estimated total cost of the Project was US\$ 3 million equivalent to Rs.534 million and was agreed to be financed by the Japan Fund for Poverty Reduction (JFPR) as a grant and it is administrated by ADB for the purposes of financing the project. The Programme had commenced its activities on 16 November 2018 and scheduled to be completed by 30 June 2023.

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 financial statements give a true and fair view of the financial position of the Programme as at 31 December 2021, statement of project expenditure and its cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.4 Basis for Qualified 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.

Those charged with governance are responsible for overseeing the Programme's financial reporting process.

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 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 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

Audit Issue	Amount million	Response of the Management	Auditor's Recommendation
The expenditure incurred during the year 2021 was US\$ 266,245 equivalent to Rs. 52,558 million as per the financial statements of the programme. However, the total expenditure for the year according to the withdrawal applications submitted with the financial statements was US\$ 291,099.19 equivalent to Rs. 57,010 million. Therefore, work in progress account had been understated by the Rs.4,452 million.	4,452	True. There was a difference between the total value of withdrawal applications and the total expenditure related to the final accounts in the year 2021.	Action should be taken to rectify the error.

2.2 Non Compliance with Rules and Regulations

Reference to the Rules and Regulations	Non-compliance	Management Response	Auditor's Recommendation
Circular No. MOFP/ERD/2007/2 dated of 07 August 2007 issued by the Ministry of Finance and Planning.	The financial statements of the Program for the year ended 31 December 2021 should be submitted to the Auditor General on or before 31 March 2022. However, the financial statements of the program had been submitted to audit on 12 July 2022.	Agreed. Unacceptable delay was due to financial management issues of the authorized implementation partner	Financial statements of the Grant should be submitted to the Audit as per the Circular instructions.

2.3 Delays in submission of Withdrawal Applications

No	Withdrawal Application No.	Period	Date of submission	Period of Delay (Months)	Response of the Management	Auditor's Recommendation
(a)	05	March.2020 – July. 2020	17 February 2021	4 - 9	This delay was identified by the ministry and ADB as well and instructed the implementing partner. It was rectified during the year 2022.	Action should be taken to submit Withdrawal Applications in time.
(b)	06	August.2020 – December 2020	20 April 2021	2 - 6		
(c)	07	January 2021 – February 2021	22 July 2021	3 - 4		

(d)	08	March 2021- June 2021	25 2021	August	1 - 3
(e)	10	August 2021	19 2021	November	1
(f)	11	September 2021	14 2021	December	1
(g)	12	November 2021	21	March 2022	2
(h)	13	December 2021	24	March 2022	1

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	According to the detailed action plan of the year 2021, the project had identified 24 main target tasks and 110 sub-target tasks to be achieved within the specified period. However, out of these targets, 83 sub targets had not been reached the desired targets.	During the year 2021, the project has achieved the significant level of targets. There are a few reasons for some activities haven't been touched during the year 2021.	Management should take necessary action to achieve expected targets of the Programme.
(b)	As per the 2021 Details Action plan, no program had been introduced to Reach Link Women Entrepreneur with International Markets under activity 2.6.2	This activity process was started in the year 2021. As this kind of activity needs a reasonable time period and as the project plan, this was achieved in the year 2022.	Management should take necessary action to achieve expected target.
(c)	Out of 24 activities of the program, 07 activities which had been allocated US\$ 822,255.59 were not implemented.	There are some activities had to pause due to the below reasons i.) The prevailed country bad situation of COVID ii.) The government restriction on traveling and gathering iii)Economic and business declined and paused new recruitments and business activities.	Management should take necessary action to achieve expected target.

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| (d) | Although the Program period was ended on 31 December 2021, progress in the implementation of its 14 tasks was in the low range of 2 percent to 50 percent. | There were some activities were slowdown due to the some reasons. But most of the planned activities were carried out and achieved the deliverables as per the DMF targets. And due to the exchanged rate fluctuates, the value of the spent amount was reduced significantly. | Management should take necessary action to plan and implement the achieve expected targets of the programme within the project period. |
| (e) | Although over 1300 new female students should be trained and employed in non – traditional and emerging fields, only 305 students had been given the opportunity to do so by the end of 2021. | There was a delaying conducting trainings, due to government restriction. But these targets were successfully competed in the year 2022. | Management should take necessary action to plan and implement the trainings to achieve expected targets of the Programme. |
| (f) | Although the objective is to over 1000 Female students provided with mentoring and career counseling, only 180 students have been supported as at 31 December 2021. | Schools and all other educational institutions were closed over 08 months during the year 2021, this activity was paused. | Management should take necessary action to achieve expected target. |
| (g) | A significant decrease was observed in the year 2021 compared to the two years 2019 and 2020 in the enrollment of students for training courses, although 137 students were enrolled in 2019, only 78 students were enrolled in the year 2021. Also enrollment of students for each district was very low and it ranged from 0 to 20 in the year 2021. | Yes, this situation happened due to all the TVET institutions were closed many months and conducted online sessions which did not eligible for enrollments | Management should take necessary action to achieve expected target. |
| (h) | All the three districts of the western province did not recruit students for job oriented training in the year 2019 and only two students were recruited from Gampaha district in 2020 and only 22 students were recruited for all three districts in 2021. | Western Province considered for the project since only 2020. | Management should take necessary action to achieve expected target. |
| (i) | An amount of US\$ 3,000,000 had been allocated for Grant program. However, it had been utilized only US\$ 535,266.76 or 18 percent as at 31 December 2021, | The reasons are as below
a) Country lockdown due to the COVID
b) Government restriction on traveling and gathering
c) Declining the rupee value | Management should take necessary action to achieve expected targets. |

- d) Compared to the Dollar value
 - e) Closedown the TVET institutions due to COVID
 - f) Economy declines and business scaled down and paused the recruitments.
- (j) Although at least 500 Tertiary Vocational Education Training graduates are targeted to be employed find job placements in the private sector through industry council's interventions, However, the targets were not fully achieved even by 31 December 2021.
- Due to the country economy frailer, most of the private sector companies have declined their businesses and paused the new recruitments
- 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 the Grant Agreement entered in to the Asian Development Bank with the Consultancy Institute, the value paid for the consultancy by the ADB will be obtained directly by the consulting firm. However, no any confirmation received to the audit whether General Treasury accounted for the direct receipts of US\$ 249,239.05 obtained on 31 December 2021.	ADB reimbursed the expenditure incurred by the Consulting Institute and there is no advance payment to the Consulting Institute. All copies of withdrawal application of all reimbursements amounting to referred total sum have been submitted to the auditor.	Action should be taken to rectify from Department of External Resources.
(b)	Out of the allocated expenditure for achieving the objectives of the program as at 31 December 2021, US\$ 217,765.16 or 9 percent of the allocated amount had been spent for that purpose. Further, the amount allocated to pay the staff of the consultancy firm, a sum of US\$ 317,501.60 or 72 percent allocated amount had been spent. Accordingly, it was observed that the Institution had taken allocated money to pay its staff without working to implement the purpose of the program.	The reasons are as below i.) Deffreciation of the currency rate. ii.) The consultancy fee will be paid in USD. So, the exchange rate difference had not given any impact for the consultancy fee. iii.)The project team has many preliminary work and round level work before disbursing the grants, conduct trainings and spend the funds.	Management Should take necessary action to achieve expected targets.

3.3 Issues Related to Human Resources Management.

Audit Issue	Management Response	Auditor's Recommendation
As per the program implementation document, 03 Area coordinators posts were to be recruited for The Skill Sector Development (Grant) Program, but contrary to that 05 coordinators were recruited.	Only three Area coordinators are working under project from the beginning to date. The three area coordinators are allocated for North (1), North Western (1) Uwa and Sabaragamuwa (1). Other than that, there were no any coordinators.	Action should be taken to deploy officers according to the programme implementation document.