

FINANCIAL MANAGEMENT ASSESSMENT

for

SRI-42251: SKILLS SECTOR ENHANCEMENT PROGRAM

ABBREVIATIONS

ADB	-	Asian Development Bank
AGD	-	Auditor General's Department
CIGAS	-	Computerised Integrated Government Accounting System
DLI	-	disbursement-linked indicator
DTET	-	Department of Technical Education and Training
ESDP	-	Education Sector Development Program
FMA	-	financial management assessment
MOFP	-	Ministry of Finance and Planning
MTEF	-	medium-term expenditure framework
MYASD	-	Ministry of Youth Affairs and Skills Development
NAITA	-	National Apprenticeship and Industrial Training Authority
NYSC	-	National Youth Service Council
PAP	-	program action plan
PFM	-	Public Finance Management
RBL	-	results-based lending
SSDP	-	Skills Sector Development Plan
SSEP	-	Skills Sector Enhancement Program
TVEC	-	Tertiary and Vocational Education Commission
TVET	-	technical and vocational education and training
UIFR	-	
UNIVOTEC	-	University of Vocational Technology
VTA	-	Vocational Training Authority

FINANCIAL MANAGEMENT ASSESSMENT

A. Introduction

1. This financial management assessment updates an earlier assessment carried out as part of Asian Development Bank (ADB)'s Project Preparatory Technical Assistance to Sri Lanka (TA7746-SRI: Technical Education and Vocational Training Sector Development Project) in 2011–2012. It is intended to determine the degree to which the system will be able to manage fiduciary risks relating to financial management and provide reasonable assurance that program funds will be used appropriately. While the earlier assessment supported a project lending modality, the emphasis for this update is an assessment of the financial management system with regards to a results-based lending (RBL) modality. The assessment has been conducted with reference to the *Guidelines for the Financial Management and Analysis of Projects*¹ and *Financial Due Diligence: A Methodology Note*.² As required by ADB's policy paper on *Piloting Results-Based Lending for Programs*, it focuses on accountability and transparency and covers (i) internal controls, (ii) funds flow arrangements, (iii) accounting, (iv) financial reporting, and (v) independent audit.³

2. The proposed arrangements for the program imply full use of the country Public Finance Management (PFM) systems and, as ADB policies on financial management and procurement will not apply, it is relevant to assess the strength of government systems to determine whether additional assurances and/or institutional capacity building measures should be required. The assessment therefore includes a review of the Government of Sri Lanka's PFM system which was conducted through a combination of review of relevant policy, rules, and regulations, as well as previous assessments of the PFM system and structured interview with representatives of the Ministry of Finance and Planning (MOFP), Auditor General's Department (AGD), Ministry of Youth Affairs and Skills Development (MYASD), and its participating training agencies. As part of the overall financial management assessment, detailed assessments were conducted for the MYASD, Department of Technical Education and Training (DTET), Vocational Training Authority (VTA), National Apprenticeship Industrial Training Authority (NAITA), Tertiary and Vocational Education Commission (TVEC), University of Vocational Technology (UNIVOTEC), National Youth Service Council (NYSC), and National Institute of Fisheries and Nautical Engineering applying the detailed Financial Management Assessment Questionnaire in accordance with ADB's *Guidelines for the Financial Management and Analysis of Projects*. These are attached to this report as Appendixes 1 and 2. Briefing sessions on the implications for RBL were also held with the finance departments of each of these institutions. The assessment also draws from the financial management assessment carried out for the Education Sector Development Program (ESDP), which was also an RBL in Sri Lanka.⁴

B. Overview of the Government System of Budget Execution, Accounting, and Auditing

1. Budget Preparation and Resource Allocation

3. The government budget preparation process is standard for all sectors and is under the control of the MOFP. Sri Lanka uses a modified Program Budgeting System and each ministry

¹ ADB. 2005. *Guidelines for the Financial Management and Analysis of Project*. Manila.

² ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

³ ADB. 2013. *Piloting Results-Based Lending for Programs (approved 6 March 2013)*. Paragraph 102. Manila.

⁴ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loans for Democratic Republic of Sri Lanka: Education Sector Development Program*. Manila.

and department is treated as a budgetary unit under the Appropriation Act. The legal framework for government finance is in the 1978 Constitution and the Public Finance Act No.38 of 1971. Rules and procedures on finance are detailed in the Government Financial Regulations, 1992 which is amended from time to time through the issue of government circulars. Public procurement guidelines were updated in 2006 and manuals for its implementation were published by the National Procurement Agency at this time. In addition, the Fiscal Management (Responsibility) Act No. 3 of 2003 lays down guidelines on the overall exposure of the government by specifying the maximum liabilities in relation to the gross domestic production.

4. The total expenditure budget is classified into recurrent expenditure and capital expenditure (development budget). The recurrent expenditure includes all expenditure incurred in carrying out operational activities, while the acquisition, rehabilitation and improvement of capital assets and development of resources are categorised as capital expenditure. It is usual practice to capitalize some costs of training activities if they are funded from external funds as part of a development project.

5. In Sri Lanka, the Program Budgeting System starts with the identification of the functions of each ministry and its objectives. Summary tables are provided showing actual expenditure from the previous year, estimated expenditure for the year in which budget preparation occurs, and estimates for the budget year. Recurrent expenditure and capital expenditure are shown separately as well as combined. Projections are made for the next 2 years.

6. A program in the national budget format is a financial unit of appropriation, and can contain a small number of projects. When a new project is proposed for inclusion in the national budget, it has to be approved by the Cabinet of Ministers. The Cabinet makes its decisions based on recommendations from the Committee of Development Secretaries and takes into account the cost of the project in terms of national planning and the national budget. Each project of the program is listed in the national budget in aggregate rather than by object of expenditure. The financing source of the project is also identified in the budget structure. For example, The National Department of Budget in the MOFP have included the Technical Education and Vocational Training Sector Development Project Phase III in the latest draft of the 2014 budget estimates as:

Table 1: Budget Code Hierarchy (extract)

PBS class	Code	Description
Head	156	Minister of Youth Affairs and Skills Development
Program	02	Development Activities
Project	4	Vocational Training and Technical Education Development (Capital)
Sub-project	18	Technical Education and Vocational Training Sector Development Project
Object	2001	Rehabilitation and Improvement of Capital Assets - Buildings and Structures
Finance Code	14	Rehabilitation of 25 existing training institutes into model training centers (9 COTs, NAITA centres, VTA centres, NYSC centres and selected Private Sector Institutions)
Object	2502	Other Investments
Finance Code	14	Remuneration for Visiting Lectures and payments for contractual staff

COT = Colleges of Technology, NAITA = National Apprentice and Industrial Training Authority, NYSC = National Youth Services Council, PBS = Program Budgeting System, VTA = Vocational Training Authority
Source: Asian Development Bank.

7. A medium-term expenditure framework (MTEF) is in process through the development of the Skills Sector Development Plan (SSDP), 2014–2020, which sets out the sector policies and key strategies for policy implementation. This plan brings together the various policies for the sector found in the national level *Mahinda Chintana: Vision for the Future*, which sets out the development policy framework for the country including the role of technical and vocational training for economic development; the National Policy Framework on Higher Education and Technical and Vocational Education prepared by the National Education Commission in 2009. Over time, this needs to be better integrated within the ‘regular’ development activities of MYASD. Currently, this is budgeted as a separate activity. Our budget analysis indicates that there is a shortfall in the announced budget allocation, although the SSDP may be ambitious and not account for MYASD’s absorption capacity. Accordingly, the program action plan (PAP) agreed with the government that performance partnership agreements are required between (i) MOFP and MYASD and (ii) MYASD and technical and vocational education and training (TVET) agencies (including DTET) on the key performance indicators from SSDP (priorities to be given to disbursement-linked indicator [DLI] areas), attached with annual implementation plan and budget estimation for the following year and two subsequent years’ estimates, within the overall framework of SSDP in terms of activities and expenditures. To induce adequate allocation, part of the disbursement will be linked to adequate budget allocation. The PAP also requires that at least 95% of the approved recurrent budget is spent to ensure that recurrent expenditure continues to be adequately funded, while increasing funding to capital expenditure.

8. In the TVET sector, budget preparation processes follow a bottom-up process. The Chief Accountant of the MYASD issues a budget preparation call notice to its department and statutory boards. This instruction, in turn, is issued to individual training institutions requesting them to prepare and submit their budget estimates for the following year. Separate budget requests are prepared for capital and recurrent budgets. These initial budget estimates are not made within a specified budget ceiling and therefore have a tendency to be overstated and not prioritised at this stage. As a rule, requests for reduction in overall budget estimates will be made by both the MYASD and the MOFP during the budget negotiation process. Recurrent budgets are prepared on an incremental basis using the previous year’s expenditure as a base adding increased expense for expected inflation in salaries and non-training operational and facilities running costs, such as the cost of utilities. Variable budgets are calculated for training activities based on standard costs of training materials multiplied by the volume of planned activities. The finance department of each agency consolidates all internal budget requests for onward submission to the MYASD Chief Accountant. Upon receipt of budget estimates from DTET and training agencies, the Chief Accountant will consolidate these with the Ministry’s own budget estimate from its divisions to prepare a draft budget estimate for the entire Ministry using the formats provided by the Department of National Budget for both capital and recurrent expenditure.

9. The MOFP reviews the total budget proposals from all ministries in light of available resources and subsequently provides budget ceilings to MYASD in order to make adjustments to the proposals for both recurrent and capital budgets to bring into line with the budget ceilings. The MYASD reviews and makes adjustments in consultation with the various department and agency heads. It is usually the case that reductions are needed for original estimates to reach lower targets set by MOFP. Following the receipt of amended draft budgets, the Department of National Budget calls a meeting with MYASD officials to negotiate the contents of the budget submission. When negotiating the proposed budget, priority is first given to recurrent budget provisions such as wages, salaries, and facility running costs such as the cost of utilities. Variable costs associated with training activities and included in the recurrent budget are considered next and adjustments may be made to the volume of planned activities to constrain

estimated costs to budget availability. The capital budget requests are considered on a case to case basis with non-essential items deferred until the following year, where appropriate.

10. The budget negotiation meetings are called by the Secretary of the General Treasury and involve officials from the line ministry including the Ministry Secretary and heads of department. Treasury departments involved are the National Budget, National Planning, External Resources, and the State Accounts Department. The final figure for budget provision is incorporated in the Appropriation Bill prepared by the Department of National Budget for approval by the Parliament. This is in line with the Constitution which requires prior approval from the Parliament before any money can be withdrawn from the Consolidated Fund. Submitting supplementary budgets for Parliamentary approval provides for shortfalls.

11. There is limited flexibility to add additional budget provision during the financial year. Each line ministry has the authority to make budget virement between budget heads within restrictions which are listed in the Financial Regulations as long as the overall total budget is not exceeded. Restrictions include the exclusion of transferring funds between salary and non-salary budget heads. Transfers between recurrent and capital budgets of the same program are also prohibited. Funds are not allowed to be transferred to a new project unless the project has prior approval by the Parliament. It is also not permissible to transfer savings from a Foreign Aid Financing to the Consolidated Fund, neither is it allowed for funds to be transferred from direct Foreign Funding to Reimbursable Foreign Aid or to a Counterpart Fund. Likewise, savings from Counterpart Funds cannot be transferred to the Consolidated Fund. It is also not allowed to create or increase or transfer savings from provision for grants or subsidies to any specific institution, agency, or individual (F.R 18). It is possible to make a special request to the Secretary of Treasury for release of additional allocations from the miscellaneous vote of Treasury in the form of supplementary budgets, although these are rarely granted. In the case of unforeseen emergency, an advance can be obtained from the Treasury under the Contingency Fund.

2. Government Fund Release Process

12. After the President has given consent to the proposed national budget, the Minister of Finance signs the General Warrant. The MYASD will then prepare its annual cash requirement and submit it to the State Accounts Department in the General Treasury to obtain imprest funding. The cash imprest required by MYASD is facilitated in three ways by the Treasury:

- (i) a bank facility for recurrent expenditure: the bank is notified by the Treasury to honor up to the pre-determined limit;
- (ii) by direct cash release to the Ministry bank account in the State Bank for capital expenditure and the payment of loans to public servants in the Ministry;⁵ and
- (iii) cash is released directly to each bank account opened separately for each foreign-aid funded project.

13. Since the Skills Sector Enhancement Program (SSEP) will be treated as capital expenditure in the national budget, option (ii) will apply and the State Accounts Department will process direct cash release to the MYASD bank account in the State Bank.

⁵ The DTET and the Statutory Boards receive their funding notifications directly from the Treasury rather than through the MYASD except in the case of externally-funded projects which are always notified by MYASD. Under this program, DTET will continue to receive a separate budget allocation. TVET agencies will get their allocations through MYASD.

14. Those involved in implementing the Ministry's Annual Implementation Plan are informed of the approved budgetary provisions. Cash imprest allocations are released by MYASD to the training authorities for onward transfer to district offices and training establishments. Expenditure includes recurrent training expenditure including salaries of trainers, overhead costs for running training centers, and training material costs.

15. MYASD departments and agencies submit summaries of expenditure and receipts after making payments for services, procurement, and civil works and these monthly summaries are consolidated into a single summary and submitted to the State Accounts Department. These monthly financial statements serve as cash forecast requests for subsequent monthly release. The Computerised Integrated Government Accounting System (CIGAS) can generate financial statements on a real time basis, but unaudited interim financial information would normally be available 15–20 days after the close of a month.

3. Accounting Information Systems

16. Expenditure in government ministries and departments is managed through two computerised systems. CIGAS is used for financial reporting and is installed in all ministries and departments. CIGAS is a cash-based accounting system developed by MOFP and used across the government for transaction recording and for reporting to MOFP. CIGAS reports actual transactions only and does not incorporate estimates and forecasts which are prepared externally to the system. The other computerised system manages the payroll and is also installed in all ministries and departments.

17. Government statutory boards and agencies such as NAITA, VTA, NYSC, TVEC, and UNIVOTEC are able to either install their own choice of accounting software or operate using manual accounting systems.

4. Control and Audit

18. The safe custody of public funds and accountability is governed by a number of methods and techniques identified in Table 2 below.

Table 2: Control and Audit in the Government of Sri Lanka

Method	Details
Financial Regulations	Financial Regulations are issued under the hand of the Secretary to the Treasury. The financial regulations are applicable to all governmental, semi-governmental, public corporations, other institutes, and government-owned business undertakings.
Administrative Regulations	Administrative Regulations are contained in the Establishments Code and are issued by the Ministry of Public Administration and the Public Service Commission. Generally referred to as "Administrative Regulations".
Circular Instructions	Issued by the Treasury and the Ministry of Public Administration.
Internal audit	Each government Ministry, Department, and Agency has an internal audit service.
External audit	An independent office of the Auditor General, created under the Constitution, conducts external audits, whose report is annually placed before the Parliament and considered in detail by two Standing Committees of Parliament: the Committee of Public Enterprises and the Committee on Public Accounts.
Parliament's Committee on	This committee is a Standing Committee of Parliament set up under

Method	Details
Public Accounts	standing orders comprising of Members of Parliament from both the opposition and the government. Its specific task is to consider the report of the Auditor General and present its observations and recommendation to the House.

Source: Asian Development Bank.

5. Financial Management Risk Analysis

19. The objective of this assessment is to understand the financial management system and practices at MYASD and its TVET agencies and identify areas for improvements to give assurance of economic, efficient, and accountable use of public funding. The specific appraisal objectives are to identify the institution's financial management development needs that should be addressed and to determine whether fiduciary risks are adequately addressed to support RBL. The *Financial Management and Analysis of Projects*⁶ guidelines provide the framework for the completion of the financial management assessment (FMA) and reference is made to ADB's policy on Piloting for Programs (2013).⁷ The assessment of the financial management system focuses on accountability and transparency, and will cover internal controls, funds flow, accounting, financial reporting, and independent audit.

6. Assessment Methodology

20. The risks that financial resources placed at the disposal of the MYASD and its implementing agencies do not serve the intended purpose. It exists at all stages in the continuum from setting and agreeing TVET policy through training delivery. For each part of the financial management system, there is a risk that the endeavor goes off-track and that what is delivered does not align with the stated policy. A policy, which is clear and agreed upon, may get diluted and distorted in the process of turning it into a strategy and, in turn, into action plans. In the translation from plan to budget, priorities risk getting compromised. Also, virement, administrative bottlenecks, and cash-rationing may result in an execution that differs substantially from the agreed and approved budget. Inadequate monitoring and feedback and weak lesson-learning may perpetuate inappropriate approaches and priorities and systemic inefficiencies.

21. Each of the steps in the financial management cycle are briefly examined and used as the basis for this assessment. The strengths, weaknesses, and risks identified in the report therefore follow the financial management process which sees policy converted to strategy, strategies into plans, plans costed and forming the basis of budgets, execution of the budget and internal and external monitoring, review, and audit.

22. Several documents were consulted as part of the financial management assessment, particularly methodology notes and guidelines from ADB and the government financial guidelines including the Financial Regulations, 1992. ADB has recently approved an RBL for the education sector and the financial management systems assessment undertaken at the time of preparation has been consulted and country-level issues are summarized from this report.⁸ It identifies the main country-level issues that potentially impact financial management: (i) an

⁶ ADB. 2005. *Financial Management and Analysis of Projects (The Guidelines)*. Manila.

⁷ ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila.

⁸ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loans to the Democratic Socialist Republic of Sri Lanka for the Education Sector Development Program, Financial Management Systems Assessment* (accessible from the list of linked documents in Appendix 2). Manila.

unpredictable budget allocation process, (ii) weak oversight and public accountability arrangements, and (iii) management and staff capacity issues.

23. A public expenditure and financial accountability (PEFA) assessment has recently been completed at country-level. However, the report was not finalized at the time of this assessment. The draft report indicates that Sri Lanka scores very well for some of the functions required for financial compliance and fiscal control. Based on the latest draft PEFA assessment, strong performance of the overall PFM system was found in dimensions of PIs 1 and 3 (revenue and expenditure turn out), 6 (budget documentation), 8 (transparency of provincial government fiscal transfers), 11 (orderly budget process), 17 (debt and cash management), 22 (reconciliations of bank accounts), 25 (annual financial statements) and 27 (legislative scrutiny of the budget).⁹ Areas which were found to be weaker include managing variations in budget outcome composition, timely monitoring of fiscal risks from public enterprises, and sub-national government and use of internal audit to report on system issues. Success in achieving intended budget outcomes requires realistic budgeting, in-year control over spending, in-year control over revenues, and timely accounting and reporting. Earlier reports prepared by ADB,¹⁰ World Bank,¹¹ and the World Bank and the government¹² identified concerns regarding (i) shortages of suitably skilled accountants and auditors; (ii) financial reporting standards; (iii) and arrangements and weaknesses in external auditing, oversight, and public accountability. The FMA undertaken for ESDP identifies that the government has made progress in addressing many of these challenges relating to the government's PFM system. The World Bank is supporting capacity at the AGD through their Public Sector Capacity Building Initiative which commenced in 2008 and has been extended to the end of 2013. This project has established a Departmental Training Center which will facilitate the continuous professional development of the AGD staff. There has been evidenced improvement in investigative and performance audits by the AGD staff as a result of this project. ADB is also supporting PFM reforms through its Fiscal Management Efficiency Project for the Revenue Administration and Management Information System, Integrated Treasury Management Information, and some training programs.

24. The TVET sector FMA is based on face-to-face interviews with officials of various agencies and departments in the government, including MYASD and MOFP, and updates an earlier assessment on the financial management of the sector for appropriateness to implement an RBL program. The approach adopted in interviews with finance staff of the MYASD, DTET, TVEC, NAITA, UNIVOTEC, and NYSC was structured around the sections included in the ADB FMA questionnaire. In the case of UNIVOTEC and TVEC, the assessment tool was used for the first time while for the other agencies the original responses from 2011 were verified and updated as appropriate. Summaries of the responses to the questionnaire are included as Appendixes 1 and 2.

7. Key Findings

25. **Budget credibility and comprehensiveness.** Although the government financial management is based on a robust framework of laws, circulars, and practices, there are a number of areas affecting budget credibility which require further strengthening at the sectoral

⁹ B and above rating given for these indicators.

¹⁰ ADB. 2002. *Diagnostic Study of Accounting and Auditing Practices in Sri Lanka*. Manila.

¹¹ World Bank. 2003. *Sri Lanka: Country Financial Accountability Assessment*. Washington D.C.

¹² World Bank and Government of Sri Lanka, 2007, *Sri Lanka – Public Sector Accounting and Auditing: A Comparison to International Standards: Country Report*, Washington D.C.

level. The earlier TVET sector FMA recommended strengthening the link between policy, planning, and budgeting, including the need for robust sectoral strategies to guide medium-term sectoral resource allocations. This is in process through the development of the SSDP, 2014–2020, which sets out the sector policies and key strategies for policy implementation. This plan brings together the various policies for the sector found in the national level *Mahinda Chintana: Vision for the Future* which sets out the development policy framework for the country including the role of technical and vocational training for economic development; the National Policy Framework on Higher Education and Technical and Vocational Education prepared by the National Education Commission in 2009 which identifies the main policy initiatives in the TVET sector; and the Draft National Human Resources and Employment Policy for Sri Lanka prepared by the Secretariat for Senior Ministers (December 2011) which provides an overarching policy framework to provide ‘full, decent, and productive employment to all Sri Lankans’. With the support of ADB, the MYASD has been leading SSDP formulation to respond to the various demands presented by each of these initiatives and provide a process that ensures that top-down initiatives driven by the national government match up with the bottom-up inputs required by the MOFP for annual action plan and budget preparation. The National Planning Department under MOFP coordinated the integration of other ministries’ plans in skills development into the SSDP. The SSDP incorporates the medium-term action plans for the sector and includes indicative medium-term resource allocations to support the actions. In the absence of the sectoral MTEF, the MYASD prepares only the annual budget and is in the process of preparing a Five-Year Corporate Plan. TVET agencies also prepare Five-Year Corporate Plans. Next year’s budget is usually based on prior year’s expenditure adjusted for inflation assumptions rather than through a medium-term planning process. In the 2014 budget, the SSDP MTEF was included as a separate additional activity in addition to the regular development/capital expenditure. This needs to be better integrated over time.

26. The medium-term sector development plan is expected to influence the usual government budget process in Sri Lanka which is based on the preparation of Annual Action Plans using formats prescribed by the MOFP. Each spending unit in the MYASD and its agencies are required to make an Annual Action Plan, however, for some of the agencies, it is not clear how participatory this is at the training establishment level and whether colleges and training institutions are involved in budget negotiations for development activities. While each agency prepares a medium-term corporate plan, these do not appear to influence the annual budget setting exercise. Initial draft budgets are not constrained by global resource ceilings and it is not clear whether resource allocation decisions are made keeping the policy priorities in mind. Ministry budget ceilings are fixed later during budget negotiations between the National Budget Department and the MYASD and it is difficult to judge whether the composition of the Annual Action Plans reflect the priorities expressed or if they are outcomes of the negotiating skill of individual agency heads. The plans seem to be non-binding, are not used as a basis for improving performance, do not improve accountability and transparency, and are not used to reward good and sanction bad performance. There is also a tendency for budget estimates to be reduced even after final approval. For example, the MYASD requested a capital budget of Rs5.2 billion for 2012. This was subsequently reduced to Rs2.5 billion in the Appropriation Act. The actual amount received from the Treasury is further reduced to Rs1.7 billion for the year.

27. Budget credibility is undermined by the dual nature of the recurrent and capital budget preparation processes. The coordinated planning process being introduced should ensure that the capital and recurrent budgets at each level of the MYASD are articulated in a coordinated manner and in keeping with top-down estimates of resource availability. Better budget coordination is expected to improve budget credibility and facilitate the correct accounting treatment of recurrent expenditures arising from capital expenditures in the recurrent budget

rather than the capital budget. This will also contribute to the sustainability of development activities, especially financed by external sources, by incorporating expenditures of recurrent nature (staff costs and operation and maintenance costs) in the recurrent budget.

28. The internal control assessment reviews the financial management arrangements in place to provide reasonable assurance that (i) operations are being conducted efficiently and effectively, (ii) financial reporting is reliable, (iii) government rules and regulations are being complied with, and (iv) the assets of the organization are protected. The broad categories of internal controls are assessed in the following paragraphs.

a. Segregation of Duties

29. Adequate segregation of duties depends on the different stages of transaction processing being separated so that the person authorizing a payment is not the person recording that data, making the payment, or checking the transaction. There should be clear lines of authority with every area of work being independently supervised, validated, or reconciled and competence and accountability are promoted. The risk of intentional errors or abuse and the opportunity for collusion are reduced and unintentional errors have a higher chance of being detected.

30. The Financial Regulations define functional responsibilities and segregations between the various stages of recording financial transactions and managing cash. The Chief Accountant of MYASD has the responsibility for ensuring appropriate finances are available to implement the ministry's activities and for reporting financial performance to the Treasury. At the transaction level, there is clear segregation between ex-ante approvals for ordering, receiving, recording payments, and clear lines of authority and routine checking within the MYASD, by MOFP, and Treasury staff. In addition, internal audit personnel and external audits by the Auditor General can also, potentially, undertake checks.

b. Organizational Structures

31. The organizational structures in place for managing the government budget and external financing appear to be adequate to eliminate duplication of effort, achieve objectives and plans, and maintain a disciplined control environment.

c. Authorization and Approval

32. The Financial Regulations, which includes those relating to procurements as well, identify the appropriate authorization and approval procedures to ensure that only legitimate activities are performed, the use of systems and assets are controlled and the operation of authority is documented, and a clear audit trail is maintained.

d. Physical Safeguards

33. The government financial procedures maximize the use of bank systems for money transfers and only minimum cash resources are held on government premises. Access to cash requires two people, in accordance with the Financial Regulations. Fixed Asset Registers and Stock Registers are maintained and updated annually. Physical checks are undertaken annually and reconciled with the books of accounts. In the case of TVEC, UNIVOTEC, NAITA, NYSC, and VTA, assets are recorded in the balance sheets and assets are depreciated under accrual

accounting principles. However, for the MYASD and DTET, cash accounting principles are in place and consistent with government accounting; assets are not depreciated.

e. Management Review and Monitoring

34. The accounting and reporting requirements of the MYASD are maintained in accordance with government rules and regulations. Financial statements are prepared regularly as required by MOFP.

f. Accounting and Arithmetical

35. There is evidence of arithmetical checking in the book of accounts and through control account reconciliations. However, there is an absence of a comprehensive integrated financial management information system. While the CIGAS is used for accounting and financial reporting by the MYASD and DTET Headquarters, financial data is processed manually using MS Excel or MS Word for reports at Colleges of Technology, VTA training facilities, and NYSC. UNIVOTEC, TVEC, NAITA, and VTA central offices use different accounting softwares chosen by each institute to manage their accounts and financial reporting.

g. Personnel Arrangements

36. This assessment considers that there are sufficient numbers of accounting staff in the central finance departments of MYASD and agencies with appropriate skills and qualifications to manage the current level of transactions. At training facility level, the staff is less likely to have specific accounting qualifications. Accountants to the public service are recruited through an internal government examination. Public sector accounting functions are under the control of the Sri Lanka Accounting Service, which staffs central government, Provincial Councils, Divisions, and local authorities. The Sri Lanka Accounting Service has no support grade and uses officers from the General Clerical Service as support staff. The government finance staff is transferred at three-yearly intervals in accordance with the policy. This is not a requirement for the TVET agencies designated as statutory bodies. If there is a substantial increase in the volume of financial transactions as a result of SSDP implementation, there may prove to be a need to increase staffing numbers.

h. Internal and External Audit

37. Internal and external audit functions in the government sector of Sri Lanka are considered to provide some level of reassurance against financial management risk and the overall risk has been assessed as moderate. The internal audit function across the government is developing over time including establishment of internal audit units located across government ministries and departments. These internal audit units are staffed by Sri Lanka Accounting Service cadre personnel ensuring some level of financial training and experience although not specializing in audit training to international standards. The MOFP has a dedicated Department of Management Audit which issues circulars as guidance to internal auditors in ministries and departments. It also provides some training to internal audit staff. All internal audit units prepare internal audit plans which are reviewed by the Department of Management Audit. The Department of Management Audit also receives copies of all internal audit reports. In all ministries and departments, the Chief Internal Auditor reports to the head of the organization and not to the Chief Accountant. The Secretary to the Ministry is the Chief Accounting Officer and supervises all institutions coming within the purview of the Ministry. Prior to the enactment of the present Constitution in 1978, the post of the Secretary was a permanent public service

appointment similar to the Chief Accountant and accordingly some of the Financial Regulations are based on such. However, the 1978 Constitution authorized appointment of non-public service personnel as Secretaries and the validity of the post is until the dissolution of the Cabinet due to election or other reasons. This has created a challenge, especially for ex post accountability. In this context, a strengthened internal audit function is required. A major weakness reported in the draft Public Expenditure and Financial Accountability is that internal audit functions being conducted are limited to pre-audit of transactions and inspections of financial records for compliance with regulations rather than conducting any form of system audit. There is a small internal audit function in the MYASD and each vocational training authority also has its own independent internal audit function. Therefore, the TVET sector is responsible for its own internal audit function at both central and sub-national levels rather than depending on provincial government internal audit units at the sub-national level. The provincial government internal audit units were found to be seriously understaffed in the recent financial management assessment carried out for ESDP.¹³

38. The MYASD internal audit unit has a monitoring role for internal audit at the vocational training authorities but does not conduct internal audits itself provided at this level. The MYASD internal audit unit also has an Investigation Unit which may be called in for special cases such as receipt of public complaints. In all TVET agencies, the internal audit is independent of the finance function and reports directly to the head of agency. In all agencies assessed in this FMA, internal auditors prepare an annual audit plan which is approved by the MYASD Secretary or the Board of Directors, as appropriate. Frequency of internal audit varies for each agency. For example, Colleges of Technology are subject to internal audits annually by the DTET internal audit function while in the case of VTA, the internal audit unit conducts internal audits at district level every 6 months. It should be noted that there has been an increase in the number of staff vacancies in the internal audit function between the earlier assessment and this update. This should be monitored during implementation in case internal audit departments lose further personnel.

39. Internal audit officers have either finance or management qualifications and generally have adequate experience for their positions. Internal audit responsibilities rest with activities funded through the consolidated fund and do not include externally-funded activities as part of their scope of work. As the proposed program will use RBL and the funding would become part of government budget, internal audit will also cover the program. Performance auditing is conducted in accordance with activities reflected in Annual Work Plans. The capacity of the internal audit departments to carry out effective risk-based audits in accordance with guidelines issued by the Institute of Internal Auditors needs to be enhanced under the program.

40. The annual external audit of financial statements is carried out each year by the Auditor General in accordance with the Sri Lankan Accounting Standards and Sri Lankan Auditing Standards. There have been no reported delays in the audit of the MYASD or any of the vocational training agencies. The Auditor General also has responsibility for auditing all ADB-financed projects in Sri Lanka. A review of MYASD audit reports for 2011 did not reveal any major audit objections. ADB shall continue to require submission of audited program financial statements within 6 months of the end of the fiscal year which has been agreed and discussed with the AGD.

41. The Auditor General audits financial statements, human resources employed against approved establishment, and also conducts performance audit in comparison with Annual Work

¹³ Footnote 4.

Plans. In the case of the training agencies under MYASD, they can be subjected to two audits by the Auditor General. For example, NAITA and NYSC identified they have two inspections by the Auditor General on an annual basis as an entity in their own right and secondly as part of the overall audit of the MYASD.

C. Fiduciary Risk Assessment and Risk Mitigation Measures

42. The risk assessment approach is based largely on International Standard on Auditing 400 Risk Assessment and Internal Control. The following risk assessments are based on existing circumstances, staffing and procedures, and include recommendations for risk mitigation measures.

1. Inherent Risk

43. Inherent Risk is the susceptibility of the project financial management system to factors arising from the environment in which it operates, such as country rules and regulations and entity working environment.

Table 3: Overall Inherent Risk

Risk Type	Risk Description	Risk Rating ^a	Mitigation Measures
1. Country-specific risks	Unpredictable budget allocation and low or delayed release of funds is a key risk to the program achieving its physical targets. Vocational training authorities have not previously been widely consulted in setting sectoral budgets although they are responsible for service delivery.	H	This is the first time MYASD has introduced a sector development action plan and budgets to guide medium-term resource allocation, and it is not yet fully integrated into the system. To induce adequate allocation, part of the disbursement will be linked to adequate budget allocation. The PAP also requires that at least 95% of the approved recurrent budget is spent to ensure that recurrent expenditure continues to be adequately funded, while increasing funding to capital expenditure. ADB will also require the government to separately identify ADB funding in the Budget.
2. Sector or program-specific risks	Numerous implementing agencies including a government ministry, its department and six statutory bodies TVET agencies do not have the absorption capacity to deliver the physical targets of the program, which are almost twice their current level of activities. Funds may be provided to newly established University Colleges.	M	Program Coordination Committee to have membership from all implementing agencies. Regular supervisory and review missions including financial management and procurement. RBL modality lowers financial risk as disbursement will not proceed if indicators are not achieved. These will be managed 100% by MYASD.
Overall inherent risk		S	

ADB = Asian Development Bank, MYASD = Ministry of Youth Affairs and Skills Development, PAP = program action plan, RBL = results-based lending, TVET = technical and vocational education and training.
Source: Asian Development Bank.

2. Control Risk

44. Control Risk is the risk that the project's accounting and internal control framework are inadequate to ensure project funds are used economically and efficiently and for the purpose intended, and that the use of funds is properly reported.

Table 4: Control Risks

Risk Type	Risk Description	Risk Assessment	Risk Mitigation Measures
1. Implementing Entity	<p>The implementing agencies will include a government ministry, its department, and six statutory bodies all majority funded by the Government of Sri Lanka.</p> <p>The government internal control framework is well-defined in the Financial Regulations which specifies functional responsibilities, appropriate segregation between the various stages of recording financial transactions, and managing cash. At the transaction level, there is a clear segregation between ex-ante approvals for ordering, receiving, recording, and payments and clear lines of authority, routine checking within the MYASD, by MOFP, and Treasury staff.</p> <p>Each organization unit has a clear organizational structure and clear reporting lines.</p> <p>Country level assessments have indicated that although there is a robust internal control environment it is not always rigorously enforced as evidenced by qualifying comments found in audit reports.</p>	M	<p>Regular joint monitoring of sector plan implementation to be undertaken.</p> <p>Establishment of SDD to ensure fiduciary oversight is required.</p> <p>ADB to receive copies of audited TVET sector financial statements. With the exception of the DTET, which is a government department, the others are statutory entities which are guided by different accounting standards.</p> <p>All currently have a deadline to have completed annual financial statements by 28 February.¹⁴</p> <p>Monitor follow up of external audit observations.</p>
2. Internal controls	<p>The Government internal control framework is well-defined in the Financial Regulations which specifies functional responsibilities, appropriate segregation between the various stages of recording financial transactions and managing cash. At the transaction level, there is clear segregation between ex-</p>	S	<p>Monitor follow-up of external audit observations.</p>

¹⁴ http://www.youthskillsmin.gov.lk/web/index.php?option=com_content&view=article&id=81&Itemid=96&lang=en.

Risk Type	Risk Description	Risk Assessment	Risk Mitigation Measures
	<p>ante approvals for ordering, receiving, recording and payments, and clear lines of authority, routine checking within the MYASD, by MOFP, and Treasury staff.</p> <p>Each organization unit has a clear organizational structure and clear reporting lines.</p> <p>Country level assessments have indicated that although there is a robust internal control environment it is not always rigorously enforced as evidenced by qualifying comments found in audit reports.</p>		
3. Staffing	<p>The established finance personnel in all TVET sector organization units will be responsible for the SSDP financial management. In the case of MYASD and DTET, the staffs are employed under Civil Service contracts. The role of the services to be provided by the Chief Accountant and the other designated accountants are defined by the government accounting service. Government accounting service rules apply for recruitment.</p> <p>Financial management personnel employed by the statutory bodies are not civil servants or members of the government accounting service. However, most have some kind of accounting qualification or are business graduates.</p> <p>All agencies reported they currently have sufficient accounting personnel for their current volume of transactions. However, they generally expressed concern that if the program generated significantly higher workloads, additional recruitment might be needed and this might prove difficult as salaries in the government sector are not attractive compared to jobs in the private sector.</p> <p>There are many vacancies reported in accounting staff establishments. However, these seem to be surplus</p>	N	Training plans should be prepared for medium-term planning, budget preparation, and financial performance reporting.

Risk Type	Risk Description	Risk Assessment	Risk Mitigation Measures
	<p>to requirement.</p> <p>There is no training policy for accounting staff and most training is task-related or for users of accounting software.</p>		
4. Funds flow	<p>ADB funds will follow government funds flow processes.</p> <p>Budget allocation for TVET training agencies are not consistently provided in full requiring adjustment of action plans during the implementation period. Some agencies reported receipt of only 80% of recurrent non-salary budget and 80% of domestically financed capital request during 2012.</p>	H	<p>TA to support improvements in sector budget planning and management at MYASD.</p> <p>Funding allocations to TVET training agencies to be monitored as part of regular performance reporting.</p> <p>Medium-term plans and budgets are being prepared as part of the SSDP preparation which aligns budget allocations to plan activities.</p> <p>DLI approach to funds release requires compliance with performance expectations prior to providing finance</p>
5. Accounting and financial reporting	<p>All government financial reports are prepared in accordance with the Government Financial Regulations 1992. The integrated Chart of Accounts is consistent with IPSAS and is adequate to properly account for program activities and disbursement categories.</p> <p>Government financial reports are prepared from the CIGAS. Government reporting formats are not fully compliant with IPSAS.</p> <p>The TVET Statutory Bodies all prepare financial statements in line with SLPSAS.</p> <p>Financial information is not clearly linked to physical progress from the government accounting system for projects and supplementary reports are prepared outside of the system.</p> <p>Different accounting systems and charts of accounts are used by TVET training agencies. MYASD</p>	S	<p>Financial reporting formats consistent with SLPSAS and in line with the emerging sector program design shall be developed by the FM Specialist at the SDD in collaboration with ADB, with TA support, and provide training for its implementation.</p> <p>Regular review of internal and external audit reports should be used to update financial management action plan as required.</p> <p>Monitoring tools including variance analysis of actual vs budgeted financial and physical targets shall form part of the program monitoring</p> <p>TVEC and UNIVOTEC are</p>

Risk Type	Risk Description	Risk Assessment	Risk Mitigation Measures
	<p>and DTET use the government CIGAS, NAITA uses TALLY, and VTA installed BUSY accounting software in 2013 to replace TALLY. TVEC and UNIVOTEC use software developed under the TEDP and maintenance contracts are due to finish soon. Computerization is only partially functional at UNIVOTEC and spreadsheets are used to supplement reporting. NYSC is planning to install accounting software in 2014 but maintains their accounts manually currently.</p> <p>All units maintain manual asset registers.</p>		<p>both using software developed with financial and technical support from TEDP rather than installing off-the-shelf solutions. Both agencies will need to include the cost of software maintenance into their recurrent budgets once the current support contracts set-up under TEDP come to an end.</p>
6. Independent audit (Internal Audit)	<p>All TVET organizations have internal audit units although some reported an increased number of vacancies in this function with the exception of VTA which increased its staffing by recruiting additional six staff members during 2013.</p> <p>All agencies have an annual internal audit plan and use manuals prepared by the Department of Management Audit of MOFP. There is a range of skills in the units - at MYASD, DTET, and the heads of the units are members of the Sri Lanka Accounting Service. In the statutory bodies, post holders are less likely to have specific training in International Auditing Standards.</p>	M	<p>Prepare a recruitment plan for understaffed internal audit departments, particularly at MYASD and NYSC.</p> <p>Arrange for training for the internal auditors from the Department of Management Audit as well as consider certification of key IA staff by the Institute of Internal Auditors.</p>
7. Independent External Audit	<p>The AGD has responsibility to audit all government ministries and agencies on an annual basis. In the case of the TVET sector, annual audits are generally completed in a timely manner.</p> <p>The statutory bodies are issued with audit opinion in compliance with the SLPSAS but MYASD and DTET, as a government ministry and government department, are not yet required to prepare financial statements in accordance with SLPSAS.</p>	S	<p>Statement of Audit Needs agreed between ADB, AGD, IAs to ensure that audited program financial statements prepared and audited in accordance with Sri Lankan accounting and auditing standards are submitted within 6 months of the end of the fiscal year.</p>
8. Information Systems	<p>The CIGAS has been in place for the past decade. TVET training agencies have</p>	M	<p>Sector financial reporting and monitoring formats should be developed once SSDP design</p>

Risk Type	Risk Description	Risk Assessment	Risk Mitigation Measures
	<p>installed their own accounting software and these operate different Charts of Account.</p> <p>It is not possible to consolidate financial reports for program monitoring. Fund transfers to training agencies are recorded in MYASD accounts as block transfers so additional analysis for sector reporting may need to be undertaken outside of the government accounting system.</p>		<p>is completed and procedures drawn up for integration of training agency information with government financial reports.</p>
Overall Control Risk		S	

ADB = Asian Development Bank, AGD = Auditor General's Department, CIGAS = Computerised Integrated Government Accounting System, DLI = disbursement-linked indicator, DTET = Department of Technical Education and Training, FM = financial management, IA = internal audit, IPSAS = International Public Sector Accounting Standards, MOFP = Ministry of Finance and Planning, MYASD = Ministry of Youth Affairs and Skills Development, NAITA = National Apprenticeship Industrial Training Authority, NYSC = National Youth Service Council, SDD = Sector Development Division, SLPSAS = Sri Lanka Public Sector Accounting Standards, SSDP = Skill Sector Development Program, TA = technical assistance, TEDP = Technical Education Development Project, TVEC = Tertiary and Vocational Education Commission, TVET = technical and vocational education and training, UNIVOTEC = University of Vocational Technology, VTA = Vocational Training Authority.

Source: Asian Development Bank.

* H = High, S = Substantial, M = Moderate, N = Negligible or Low.

D. Program Financial Reporting and Auditing

45. The annual program expenditure statements will be audited by AGD. These include audit reports of the above appropriation accounts for MYASD, DTET, and the TVET training agencies participating in the program (implementing agencies). AGD will issue separate audit reports for each of the implementing agencies, including an audit opinion in compliance with the Financial Regulations and the Appropriations Act and will provide management letters on the financial reports prepared for the sector.¹⁵ AGD will also issue audit opinions on the financial statements of the TVET agencies and their compliance with the Sri Lanka Public Sector Accounting Standards.

46. The audited financial statements in English should be received by ADB within 6 months of the end of the fiscal year.

47. The reports will reflect the entire TVET sector expenditures for all sources of funds including all the appropriation accounts mentioned above. ADB requires all the expenditure for the program to be disclosed adequately in line with the Sri Lanka Public Sector Accounting Standards. A separate statement of sources of funds shall also be provided. Detailed financial reporting requirements shall be set out in the statement of audit needs and agreed at loan negotiations. In addition to the statutory opinion, ADB will require AGD to give specific positive audit assurance with respect to use of the loan proceeds and compliance with financial covenants in the loan agreement. ADB will brief AGD to ensure that its staff understands the development partner requirements.

¹⁵ Statement of Audit Needs is attached as Annex 3.

48. Participating spending agencies making charges to the SSEP included in the MYASD budget will provide the auditors with full access to the related documents and records. The government system for resolution and settlement of audit observations will be applicable to the SSEP. The government will provide evidence to ADB of the course of action to resolve financial irregularities within 6 months after the date of the audit report. ADB will monitor the timely resolution of any irregularities identified in financial audit reports and follow up on the government's compliance on audit observations.

49. ADB will reserve the right to commission supplementary financial and compliance audits, if required. Any irregular expenditure will be followed up through the government's own accountability procedures.

50. A detailed statement of audit needs has been agreed and communicated with MOFP, AGD, and MYASD.

E. Disbursement Arrangements

51. The disbursement arrangement is designed to promote results-based management by linking disbursements to government's delivery of results. Disbursement by ADB will be subject to achievement of key results of the SSEP result framework as presented in the DLI matrix. The DLIs will focus on the results critical to meet the goals of the government's sector development plan. They are a combination of sector specific reforms, sector performance, and monitoring. They also include required actions to improve on sector governance and management including financial management.

52. Disbursement by ADB will be subject to the submission of the withdrawal application attached with the evidence of DLI achievements and unaudited interim financial statements (UIFRs) of the MYASD and the implementing agencies. UIFRs should show the government expenditures incurred under SSEP is cumulatively more than the sum of ADB's disbursement and other development partners' disbursements in support of SSEP over the program period. UIFRs should be prepared on the basis of latest audited financial statements and subsequent interim unaudited expenditures.¹⁶ For the prior results, the government will provide unaudited financial statements of the implementing agencies that show the government's expenditures for SSEP for the period of July to December 2013 which should be \$20 million or more. Other key results which are not included in the DLI matrix, as well as capacity building improvements, shall be incorporated in the PAP and monitored by ADB. Expenditure eligible for reimbursement shall be the total expenditure by the government under the SSEP less finding by other development partners and excluding any payments made for goods or services to contractors or consultants from non-ADB member countries.

53. The management of funds in support of the program will follow the government's system for budget formulation, execution, accounting, internal control/audit, and external audit. The implementation of SSEP will be entirely funded through the consolidated fund with no requirement to identify which transaction or payment is funded from which source: i.e., all transactions are funded from one single source; the consolidated fund of the government.

¹⁶ For example, for expenditure incurred up to, say 15 September 2015 should be based on the expenditure as per audited financial statements up to 31 December 2014 plus unaudited expenditure from 1 January 2015 to 15 September 2014.

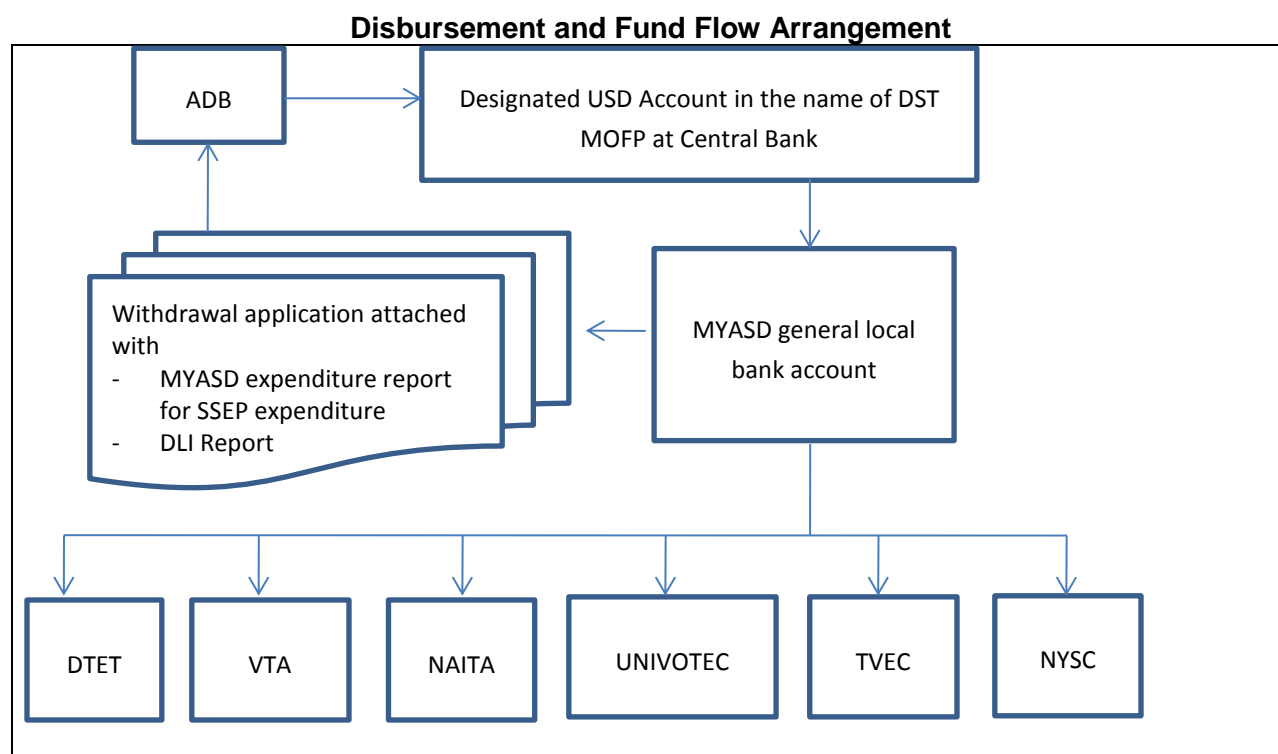
54. There will be no requirement for a Project Implementation Unit to ring-fence the implementation of an ADB-funded program, applying specific accounting and reporting of ADB funding. However, additional support will be provided to strengthen sector management for the implementation of the SSEP, i.e., to strengthen government management capacity rather than for the purpose of complying with ADB-specific monitoring and reporting requirements.

55. Total ADB loan of \$100 million will be disbursed over 3 years. The first disbursement will be made for carefully selected prior results (DLI year 0) after loan effectiveness. Achievement of DLIs shall be independently verified. Each DLI will be associated with a set amount. If all DLIs are met for the period and the achievements are verified, the total sum of all DLIs will be disbursed. If few DLIs are not met, only the amount for achieved DLIs can be disbursed while the rest of the disbursement can be made at a later period.

F. Fund-Flow Mechanisms

56. ADB will be disbursing to the consolidated fund from where the resources will be merged with other revenues. Implementation of SSEP will be financed by regular releases from the consolidated fund. The flow of funds will follow a procedure where ADB disburses directly to one of the government's central revenue accounts with the Central Bank of Sri Lanka. However, to encourage budget allocation to MYASD, ADB has agreed with MOFP to identify ADB funds in the budget.

57. The funds from the consolidated fund are released entirely in accordance with government procedures.



ADB = Asian Development Bank, DLI = disbursement-linked indicator, DST = Deputy Secretary's Treasury, DTET = Department of Technical Education and Training, MOFP = Ministry of Finance and Planning, MYASD = Ministry of Youth Affairs and Skills Development, NAITA = National Apprenticeship Industrial Training Authority, NYSC = National Youth Service Council, TVEC = Tertiary and Vocational Education Commission, TVET = technical and vocational

education and training, UNIVOTEC = University of Vocational Technology, USD = US Dollar, VTA = Vocational Training Authority.

Source: Asian Development Bank.

58. This arrangement is fully aligned with the government's systems and procedures for fund management. The government budget allocated to MYASD will serve as the program budget. The government accounting system CIGAS will be used for financial monitoring and reporting procedures.

59. The financial regulations set out clear rules for transfers between budget heads to ensure compliance with overall budget allocation objectives. Transfer of savings from a recurrent expenditure head of any program to capital expenditure of the same program, or to the recurrent or capital expenditure of any other program, should be ordered by the Secretary to the Treasury or any officer authorized as provided for in the Appropriation Act. Transfers between programs can be done only if the Appropriation Act provides for such transfers.

60. Transfers between Object Classes of recurrent expenditure (type of expenditures) within projects (subsectors) can only be made if authorized by the Secretary to the Ministry concerned/Chief Accounting Officer. Transfers between Object Classes of a capital expenditure project can only be made if authorized by the Secretary to the Treasury/Deputy Secretary to the Treasury or any other officer authorized by Secretary to the Treasury.

G. Financial Covenants

61. ADB will be contributing to the total government expenditure framework allocated for the SSEP. For the SSEP to deliver on results, it requires among others that sufficient budgetary resource will be allocated for MYASD and its training agencies.

62. To ensure that ADB's contributions serve to leverage required additional resources for financing of SSEP rather than substituting government allocations financed from the consolidated fund, the government should agree to a minimum threshold of budget allocations broadly consistent with the resource requirements of SSEP.

H. Supervision and Monitoring

63. As added assurance and in guiding supervision, an annual fiduciary review process is proposed to assess key risk areas identified through annual audits by AGD and other sources of information. The annual fiduciary review will focus on sector specific risk areas such as salaries, civil works of training colleges, procurement for upgrading/equipping training colleges, and skills-training grants.

I. Financial Management Action Plan

64. An overview of main risks and proposed mitigating action are provided in Tables 3 and 4 above. With these risk mitigating actions implemented, the risks in use of the government financial management system and procedures are considered reasonable and manageable.

FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE – MYASD, DTET, AND NAITA

The financial management questionnaire was completed for the Ministry of Youth Affairs and Skills Development (MYASD), Department of Technical Education and Training (DTET), and National Apprenticeship and Industrial Training Authority (NAITA) based on *Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank*.

Topic	MYASD	DTET	NAITA
1. Implementing Agency			
1.1 What is the entity's legal status/registration?	Government Ministry	Government Department	Statutory body established under part II of the Tertiary and Vocational Training Act No 20 1990
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	The MYASD has implemented four ADB projects prior to the proposed project including TEDP from 2006 to 2011 and its predecessor SDP. MYASD has not implemented an RBL program before.	Infrastructure, equipment, and training received with funding from KOICA, JICA, and GIZ. No direct funding received.	Has previously received funds from GIZ, Japan, UNDP and WUSC to fund training centers.
1.3 What are the statutory reporting requirements for the entity?	<p>All government financial statements are prepared in accordance with the Financial Regulations and other relevant rules and regulations of the Government of the Democratic Socialist Republic of Sri Lanka, 1992 as amended by Government Circulars published by MOFP and MOPA. Statutory requirements are monthly financial statements sent to Treasury within 5 working days of the following month and annual account submitted to the Auditor General on or before 31 March of the following year with a copy to the Treasury.</p> <p>Bank reconciliation statements also sent on or before 15th following month with a copy to the Auditor General.</p>	<p>Monthly financial statements are completed in accordance with Financial Regulations.</p> <p>Annual financial statements are prepared in accordance with the Government of Sri Lanka Accounting Standards.</p> <p>Monthly cash forecast statements are prepared for MYASD and Treasury.</p>	<p>Monthly financial reports to Chairman and Board of Directors.</p> <p>Annual financial statements and Annual Report are prepared in accordance to the Sri Lankan Public Sector Accounting Standards.</p> <p>Monthly financial statements and cash forecasts are also sent to MYASD and then to Treasury as requests for budget release.</p>

Topic	MYASD	DTET	NAITA
1.4 Is the governing body for the project independent?	Not relevant for budget support.	N/A	Chairman and Board of Directors. The Board meets each month. A number of Sub-Committees have been formed including Finance, Admin and Training, Audit & Management (members from MYASD, Treasury, and Auditor General).
1.5 Is the organizational structure appropriate for the needs of the project?	MYASD is the government policy and regulatory authority for the skills sector. It is responsible for the formulation of national policies and implementation of youth development programs by providing necessary vocational and technical training, developing their entrepreneurial and leadership skills, and enhancing their socio cultural activities. The Ministry has 18 institutes under its purview to achieve this objective.	DTET is a government department which functions under MYASD. It manages 38 Technical Colleges throughout the country.	NAITA has three National Institutes (Institute of Engineering Technology Katunayaka Apprenticeship Training Institute (ATI) and Katubadda and Automobile Engineering Training Institute), 23 district offices operating 95 NAITA training centres, and 43 affiliated training centres. NAITA mainly delivers training through Enterprise Based Apprenticeship (EBA) training, Dual Apprenticeship (DA) training, and In-Plant Training and Competency-Based Training under the NVQ framework.
2. Funds Flow Arrangements			
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government, and other financiers.	ADB will credit funds to the National Treasury. All sector program funds will be released through the normal government processes for budget execution.	Domestically-funded capital and recurrent budget government funds are transferred to DTET directly from the national Treasury. Externally provided funds are transferred via the MYASD.	ADB funds will be credited to National Treasury adding to overall financial resource of the government. All sector program funds (including ADB funds) will be released through the regular government budget processes.
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Government systems will apply.	Government systems will apply.	Proposed arrangements will use national budget transfer processes.

Topic	MYASD	DTET	NAITA
2.3 What have been the major problems in the past in receipt of funds by the entity?	No problems associated with regular receipts are reported but amount of funds released scaled back towards the end of the financial year. In 2012, MYASD received approximately 75%-80% of approved capital budgets and approximately 90% of their recurrent budget.	Funding requests are scaled back by Treasury from October onwards. It is estimated that only 80% of recurrent non-salary funds and 80% of domestically financed capital funds were received by DTET in 2012. No funds for capital items were received in December 2012.	None reported.
2.4 In which bank will the Imprest Account be opened?	A Deputy Secretary's Treasury (DST) Account will be used for ADB credit. Transfers to MYASD will be through the usual Bank of Ceylon account.	No imprest account will be opened.	No Imprest Account will be set up. Transfers will be made by the MYASD to the NAITA bank account held in the People's Bank.
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	No PIU will be established. All disbursements will use government processes as agreed with the ADB.	No PIU will be established. All disbursements will use government processes as agreed with the ADB.	N/A. There will be no PIU established.
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	MYASD does not have foreign exchange accounts. MOFP manage all foreign exchange transactions.	DTET does not manage foreign currencies.	No – budgets are estimated in Sri Lankan rupees and funds received in LKR. Foreign exchange risks are managed by the MOFP.
2.8 How is the counterpart funds accessed?	Government funding processes will apply for all sector funds.	Government funding processes will apply for all sector funds.	ADB funds released as budget support to usual government funding.
2.9 How are payments made from the counterpart funds?	Government funding processes will apply for all sector funds.	Government funding processes will apply for all sector funds.	Normal government processes.
2.10 If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	N/A	DTET provides imprest funding arrangements to District Offices and COTs.	N/A –no funds to be transferred by NAITA to its training institutes.

Topic	MYASD	DTET	NAITA
<p>2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?</p>	<p>N/A</p>	<p>N/A</p>	<p>N/A</p>
<p>3. Staffing</p>			
<p>3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.</p>	<p>The approved government staff structure will manage the funds. The MYASD Finance Branch is led by an Additional Secretary Administration & Finance. Reporting to him are the Chief Accountant and three accountants (Budget and Finance, Payment, Salary and Supply). Management Assistants support the accountants. All are directly supervised by the Chief Accountant.</p>	<p>A new organisational structure for the finance department was introduced in 2013. Headed by Chief Accountant (Acct Class1), There are 4 Accountants (Salary, COT/TC, Budget, Payment). 9 x Budget Asst, 25 Management Asst, 1 Est Asst, 7 Computer Operator.</p> <p>There are 14 current vacant positions in the established posts including two of the accountant posts.</p> <p>Each COT has a Registrar and two Training Assistants involved in finance.</p>	<p>There are 35 finance staff at NAITA including three accountants at HO level (including the 'finance Director) and three accountants for the National Level Institutes. Of these four are qualified accountants, one holds a Diploma, and another is an accounting graduate.</p>
<p>3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.</p>	<p>Civil service staff with their services and job descriptions defined by the government accounting service.</p>	<p>Civil service staff with their services and job descriptions defined by the government accounting service.</p>	<p>No additional staff is proposed to manage the additional funding.</p>

Topic	MYASD	DTET	NAITA
3.3 Is the project finance and accounting function staffed adequately?	The Chief Accountant considers there is enough staff in place to manage the current workload. In the case of additional work a higher staff requirement than existing level is needed.	There are considered to be enough staff for the current level of transactions.	NAITA has sufficient staff for current levels of transactions.
3.4 Is the finance and accounts staff adequately qualified and experienced?	At MYASD government accounting service rules for recruitment apply.	At the central DTET level the Chief Accountant and Accountants are from the Sri Lankan Accounting Service. At COTs, the Registrars and Training Assistants do not have formal accounting qualifications but are generally accounting graduates	As above.
3.5 Is the project accounts and finance staff trained in ADB procedures?	Not relevant as government processes will apply.	Not relevant as government processes will apply.	Government financial regulations will apply so no ADB procedure training required.
3.6 What is the duration of the contract with the finance and accounts staff?	All finance staff in MYASD are permanent staff members.	All finance staff in DTET are permanent staff members.	Permanent positions.
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	No major vacancies in MYASD Accounts Division at present.	14 vacancies including 2 accountants (the accountants positions are expected to be filled in the next two months).	N/A
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	All government staff has job description and duty list.	All government staff has job description and duty list.	N/A
3.11 At what frequency are personnel transferred?	There is no transfer of personnel -5 year government transfer policy applies for TVET agencies but transfer policies do not apply for the Ministry.	Staff is transferred every 5 years.	Personnel are transferred within the Finance Division and National Institutes in an annual basis.

Topic	MYASD	DTET	NAITA
3.12 What is training policy for the finance and accounting staff?	No specific training policy is in operation but periodic training is provided according to need. Government training institutions are used for training in financial procedures and new systems as they are introduced.	Training on CIGAS and the payroll system is provided by INGAF. Internal training seminars are held by the accountants for the support staff.	There is no training policy for finance and accounting staff however staff are identified for training and courses attended as needed.
4. Accounting Policies and Procedures			
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	The government budget structure defines block budgets for projects as part of the development budget. Project components are not identified in detail through this system, however, more detailed project financial statements are prepared at MYASD level in accordance with project components. The government CIGAS financial management system will be used to record all project expenditure.	Accounts maintained in accordance with Financial Regulations 1992. CIGAS is used to prepare monthly summary reports for Treasury (since 1996). Government payroll system has been in use since 1999.	NAITA uses the TALLY system for accounting and financial reporting. Annual financial statements are prepared in accordance with the Sri Lankan Public Sector Accounting Standards (SLPSAS) to meet all statutory reporting requirements.
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	The Financial Regulations 1992 describes all processes required for preparation and approval of transactions. There is clear segregation of duties between executing unit, payment processes and accounting. MYASD has a resident internal audit department.	Financial Regulations 1992 apply.	According to Financial Regulations 1992 (amended from time to time).
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	The government chart of accounts will apply. The sector program will be identified as part of the development budget of the MYASD. Individual components and activities will be identified during annual sector planning and budget preparation.	The government chart of accounts will apply. The sector program will be identified as part of the development budget of the MYASD including components to be implemented by DTET.	All budgeted grant receipts and expenditures captured and recorded using TALLY. Different Chart of Accounts than government but able to be mapped if necessary.

Topic	MYASD	DTET	NAITA
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	ADB funds will be treated as a sector budget resource and will not be reported separately from other sector funds allocated for the program.	ADB funds will be treated as a sector budget resource and will not be reported separately from other funds allocated to DTET.	Yes. Cost allocations are in accordance with agreed budget lines.
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	General Ledger and subsidiary ledgers are maintained manually as well as CIGAS system and all ledgers are reconciled monthly.	Monthly basis in accordance with government procedures.	Yes – on a monthly basis.
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	All supporting documents, cash books, vote documents, imprest ledgers, etc. should be stored for 5 years according to government regulations. Salary vouchers may be kept for up to 20 years.	In accordance with Financial Regulations 1992.	Yes.
<i>Segregation of Duties</i>			
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	Authorization to execute a transaction is generally provided from head of department or according to delegation of authority, recording of transactions is by the accounts department, asset records are maintained in inventory ledgers held by delegated personnel and divisions.	Authorization to execute a transaction is generally provided from head of department or according to delegation of authority, recording of transactions is by the accounts department, asset records are maintained in inventory ledgers held by delegated personnel and divisions.	Head of Departments up to LKR 250,000, National Institute up to LKR 250,000, District Office LKR 50,000 for recurrent items. All development funds are managed by the NAITA Head Quarters. Procurement Committee is convened for items up to LKR50 million.
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	There is clear segregation between procurement division, supplies division and accounts division in place. These are detailed in Financial Regulations 1992.	These are detailed in Financial Regulations 1992.	In accordance with Financial Regulations 1992 and National Procurement Agency.
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Financial regulations apply and different personnel are involved in making and approving payments and bank reconciliations.	In accordance with Financial Regulations 1992.	Yes. In accordance with Financial Regulations 1992.

Topic	MYASD	DTET	NAITA
Budgeting System			
4.10 Do budgets include physical and financial targets?	<p>Budgets are accompanied by an annual action plan supporting budget submission.</p> <p>Annual budget prepared for government funded recurrent and capital budgets and submitted to Treasury with physical targets for forecasting year and achievements of current year up to 30 of June.</p>	<p>Annual budget prepared for government funded recurrent and capital budgets and submitted to Treasury.</p> <p>Donor budgets separately submitted and may include physical targets as required.</p> <p>COT/DA salaries, capital requirements and training materials budgets are prepared in line with planned targets. Action plan also submitted – planning division prepare action plan and send it to finance and they prepare budget based on action plan.</p>	<p>There is an element of variable budgeting where standard costs are used to determine the budget for training materials and visiting lecturers. Other budgeted costs (e.g. staff and utility costs) are budgeted as fixed costs regardless of physical targets.</p> <p>Salaries and institute running costs are treated as central costs and other training costs are decentralized.</p>
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	<p>Budgets are prepared using input line item format. The volume of planned training activities is identified through training material budgets rather than fully costed budgets.</p> <p>This format contains sufficient relevant information to relate monitoring and performance indicators based on line item inputs.</p>	<p>Line item budgets prepared. Budget Performance measured on an input basis.</p>	<p>Line item budgets prepared. Budget Performance measured on an input basis.</p>
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	<p>Narrative reports are not regularly prepared, however significant variances in actual expenditure compared with budget are explained. Monthly discussions on variances are held in management meetings.</p> <p>Annual reports are prepared combining performance data and financial statements.</p>	<p>Financial statements are prepared on a monthly basis for internal review. Each DTET division head receives a monthly finance statement. COTs receive quarterly reports.</p>	<p>Yes – discussed at Board level on monthly basis. Budget virements agreed by the Board as long as not exceeding total approved budget.</p>

Topic	MYASD	DTET	NAITA
4.13 Are approvals for variations from the budget required in advance or after the fact?	Requests for additional supplementary budget are required in advance and can be requested only on one occasion during the year (Sep/Oct). Reasons need to be submitted prior to approval. Internal virement can be made at MYASD within budget limits.	Transfers between COTS and within line items allowed without recourse to Treasury as long as budget total not exceeded.	An annual revision can be requested (Sep–Oct).
4.14 Who is responsible for preparation and approval of budgets?	Budget preparation procedures are issued by MOFP in budget call circulars to each ministry. The Chief Accountant for MYASD then issues instructions to each TVET agency and ministry division to prepare their draft budget. Ministry consolidation is performed by the Chief Accountant and submitted to MOFP. Approval is provided by the cabinet in parliament.	Bottom up budget process from COTS to DTET for consolidation and onwards to Treasury for negotiation. DG of the DTET is responsible for preparation while the Secretary of MYASD approves.	Bottom up budget preparation process with National Institutes and District Officers identifying required budget based on their proposed plan. Head Office consolidates budget requests for NAITA and submits to MYASD. Subsequent revisions are made following negotiation with MYASD and Treasury.
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	All TVET agencies and MYASD divisions participating in the sector program are aware of the program and initial planning and budget costing activities have started. Procedures are yet to be documented.	Annual Work plans and budget prepared by Divisional Heads and Colleges as part of budget preparation.	Five-Year Corporate Plan has been prepared, Annual Work Plans (Implementation Plan) prepared to support budget proposals.
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Initial plans and budgets are currently being prepared by appropriate ministry and TVET agency personnel supported by ADB consultants.	There is a tendency to overstate budget requests in anticipation of budget cuts during negotiation. Government funds for capital items are limited.	Initial budgets need to be revised following budget negotiation with Treasury and MYASD.

Topic	MYASD	DTET	NAITA
Payments			
4.17 Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	All invoice-processing procedures are included in the Financial Regulations. All supporting documents are attached and filed with the Payment Vouchers. Internal audit perform spot checks.	All invoice-processing procedures are included in the Financial Regulations. All supporting documents are attached and filed with the Payment Vouchers.	Yes.
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	All invoices are processed and recorded in accordance with FR 139.	All invoices are processed and recorded in accordance with FR 139.	Yes.
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	The CIGAS payroll system is used to process salary payments. A summary control sheet is available from the system and manual pay ledgers are also maintained in addition to system. Administration branch provide details of salary changes such as annual increments etc. Proposed salaries are authorised by heads of department and accounts division execute the payments in accordance with FR 201	Payroll for DTET and COTs is managed centrally by DTET using CIGAS payroll system and direct bank transfers to individuals' bank accounts.	All salaries including those for head Office, 25 District Office and one National Institute staff are controlled centrally. The other two National Institutes prepare their own payrolls using the same software as NAITA Head Office.
Policies And Procedures			
4.20 What is the basis of accounting (e.g., cash, accrual)?	Cash basis is currently used in MYASD.	Cash basis	Accrual basis

Topic	MYASD	DTET	NAITA
4.21 What accounting standards are followed?	Since 2002 the finance department has been preparing annual statements increasingly in accordance with the Cash Basis IPSAS. There are plans to introduce accrual accounting to the government sector in 2014	Since 2002 the finance department has been preparing annual statements increasingly in accordance with the Cash Basis IPSAS. There are plans to introduce accrual accounting to the government sector in 2014.	Compliance with Sri Lankan Public Sector Accounting Standards (SLPSAS) issued by the Chartered Accountants of Sri Lanka for financial reporting. Government Financial Regulations apply for routine transaction processing.
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Financial Regulations 1992 plus later amendments	Financial Regulations 1992 plus later amendments.	TVE Act. No. 20 of 1990 establishing NAITA. Financial Regulations (1992) apply. Internal guidelines exist defining authority limits.
4.23 Is the accounting policy and procedure manual updated for the project activities?	Government procedures apply.	Government procedures apply.	N/A
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	The Financial Regulations and subsequent amendments state the financial rules and regulations to follow as issued and updated by MOFP.	The Financial Regulations and subsequent amendments state the financial rules and regulations to follow as issued and updated by MOFP.	No changes to accounting principles permitted by NAITA, however changes to delegation of authority limits for transactions are approved by Board of Directors.
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	The Financial Regulations and subsequent amendments state the financial rules and regulations to follow.	Financial Regulations and National Procurement Agency Administration Manual	Financial Regulations and National Procurement Agency Administration Manual
4.26 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Not explicit in existing policies. MYASD considers occurrence of COI low however this is not verified.	Not explicit in existing policies.	Not explicit in existing policies.
4.27 Are manuals distributed to appropriate personnel?	Copies are available in government offices to anyone who needs them. They are also available for download from the MOFP website.	All personnel have access to manuals in the workplace.	Yes

Topic	MYASD	DTET	NAITA
Cash and Bank			
4.28 Indicate names and positions of authorized signatories in the bank accounts.	MYASD account: signatories are Secretary, Additional Secretary, Chief Accountant, Accountants (3). 2 signatures are needed for signing cheques.	2 signatures needed (one from DTET management and one from finance). At COT signatures provided by Principal plus Registrar.	2 signatures required. One from management and one from finance. The authorised signatories are Chairman/ Director/Deputy Director/ Assistant Director for management and Director Finance and accountants for finance. District Officer and Accounts Assistant at provincial levels and the Accountant or Registrar plus the Principal or Deputy Principal at National Institute. The combination of signatures depends on authority levels required for individual transaction.
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Cashbooks are maintained using the CIGAS system and are also backed up by manual cashbooks.	Cashbooks maintained at each location reporting to DTET. There are some fees charged at COT level and in accordance with 2002 Circular 90% of the fee may be retained for use at the COT while the remaining 10% remitted to Treasury.	Yes.
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	There are procedures in place for recording all receipts including daily bank deposits requirements.	Procedures are described in Financial Regulations 1992.	Yes. Transfers from Treasury and transfers to National Institutes and District Offices are by direct bank transfer.
4.31 Are bank and cash reconciled on a monthly basis?	Must be completed by 15 th day of following month and submitted to MOFP and Auditor General	Must be completed by 15 th day of following month and submitted to MOFP and Auditor General.	Yes.
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Reviewed by Chief Accountant plus copies sent to Treasury, auditor General, MYASD Internal Audit on a monthly basis.	Reviewed by accountant.	Yes.
4.33 Are all receipts deposited on a timely basis?	MYASD receipts are usually banked daily.	Daily	Cheques from students are banked daily.

Topic	MYASD	DTET	NAITA
Safeguard over Assets			
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	All assets are recorded in a Fixed Asset Register.	Fixed Asset Register maintained.	Fixed Asset Register maintained. A Board of Survey is convened and annual physical inventories made and reconciled with register.
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Reconciliations only take place on an annual basis.	Annual physical inventories reconciled with stock records and registers.	Yes, however 2010 audit report indicates that control accounts are not adjusted for surplus and deficit stock differences.
4.36 Are there periodic physical inventories of fixed assets and stocks?	A Board of Survey is convened annually to perform physical checks of assets and stocks.	A Board of Survey is convened annually to perform physical checks of assets and stocks.	Yes. Annual inventories in accordance with Financial Regulations. Board of Survey convened annually.
4.37 Are assets sufficiently covered by insurance policies?	Vehicle insurance is provided but other assets are not insured which is current government policy.	Vehicle insurance is provided by Sri Lankan Insurance Corporation but other assets are not insured which is current government policy.	General insurance for buildings and equipment are in place for the National Institutes but not for Head Office or District Offices. All Motor Vehicles are covered by insurance policies.
Other Offices and Implementing Entities			
4.38 Are there any other regional offices or executing entities participating in implementation?	No regional offices are involved but a number of TVET agencies are participating in the sector program.	9 Colleges of Technology, 29 Technical colleges and their satellite colleges.	National Institutes and District Offices.
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Government funds flow, financial information, accountability and control systems and processes will be used.	DTET transfers approximately 500,000LKR (without salary) at the beginning of the year to each COT (actual amount dependent on staff numbers, student numbers, etc.). Subsequent transfers are based on monthly requests.	NAITA sets authority levels internally approved by the Board of Directors. NAITA Head Office operates an imprest system for National Institutes and District Offices.
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Follows government systems.	Follows government systems.	Yes, regular monthly procedures. Late submission of financial statements from District Offices occasionally experienced.

Topic	MYASD	DTET	NAITA
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	Reconciliations are performed at agency level.	Monthly reconciliations made – financial management on imprest basis managed by DTET.	Yes, on a monthly basis. Disbursement to District Offices based on Imprest system.
Other			
4.42 Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	The system to be followed is laid down in the Establishment Code involving formal investigation and disciplinary processes as necessary. CIABOC has been reconstituted in 2012 and publicly advocates against corrupt practices.	Financial Regulations 101 (1992)	Covered in Financial Regulations 101, (1992), Commission to Investigate Allegation of Bribery and Corruption (CIABOC) established in 1994 but reconstituted in 2012 set up to receive anonymous complaints on its website.
5. Internal Audit			
5.1 Is there an internal audit department in the entity?	MYASD has an Internal Audit department however there was no internal audit of the TEDP project during implementation. There are currently the Chief Internal Auditor, 1 auditor, 2 management assistants and 5 development officers in the department.	DTET Internal audit department has a scheduled audit to each COT in each year. Ad hoc/ special audits also carried out as required.	Internal Audit Department has 6 staff. The position of Internal Auditor is currently vacant. Two audit officers and four management assistants are in post. Audits carried out in line with annual audit plan agreed by the Board of Directors.
5.2 What are the qualifications and experience of audit department staff?	The Chief Internal Auditor and auditor have qualifications as required by the Sri Lankan Accounting Service. No specialist auditing experience is required but in-service training is available.	Finance or management related qualifications for auditor position. (SL Accounting Service Class 1 accountant). 13 subordinate officers. Random checks of PVs.	Finance or management related qualifications. No specific training in International Auditing Standards.
5.3 To whom does the internal auditor report?	Secretary MYASD. Reports are provided to the Auditor General.	DTET Director General	Chairman and the Audit and Management Committee of the Board of Directors.
5.4 Will the internal audit department include the project in its work program?	Internal audit does not include externally funded projects however their scope covers the central MYASD and its institutions although in practice they do not cover institutions which have their own internal audit department.	Internal audit does not include external projects in its work program.	Yes, annually in accordance with the Work Program.

Topic	MYASD	DTET	NAITA
5.5 Are actions taken on the internal audit findings?	The Secretary MYASD chairs the Audit and Management Committee which meets quarterly and reviews internal audit reports and follow-up actions. MOFP representation included in the AMC.	Internal audit findings are followed up in subsequent audits. Minor problems dealt with internally – major problems are notified to the Auditor General.	Followed up in subsequent audits by Board of Directors and Auditor General.
6. External Audit			
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Annual audit of all financial statements by the Auditor General	Annual audit by the Auditor General. The Auditor General Department also audits a sample of COTs but does not audit all at this level each year - approximately 10 colleges per year.	Annual audit from the Auditor General
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	Annual statements are submitted to Treasury and Auditor General before 28 February. Appropriation accounts completed by 31 March. Auditor General should submit the audited report on or before 31 May.	Annual audited statements are submitted to Treasury before 28 th February. Appropriation accounts completed by March 31 st . Auditor General audit should be conducted by end of April.	Annual audited statements should be submitted to Treasury before 28 th February. There was a 2-3 month delay in submitting 2012 statements to the Auditor General.
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Audits are required to be conducted in accordance with INTOSAI and IFAC audit standards.	Audits are required to be conducted in accordance with INTOSAI and IFAC audit standards.	Statutory audit in accordance with Sri Lankan Public Sector Accounting Standards and Sri Lankan Auditing Standards
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	Most recent audit report states that Auditor General considers financial statements are true and fair. There were some qualifying statements in MYASD 2010 but nothing major noted.	DTET audit comments included in MYASD report. 2010 AG report shows no major problems however it was noted that Asset registers were not maintained and updated and 7 audit queries from the previous year remained outstanding. Superintendent auditor deals with audit comments and reports actions taken to auditor general.	No major items reported. NAITA occasionally received conflicting advice on accounting methods from AG and Treasury on how to deal with specific transactions.
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	The Auditor General Department will undertake sector program audits.	The Auditor General Department will undertake sector program audits.	No project specific reports will be prepared. Annual audit for the agency will be conducted by the Department of the Auditor General.

Topic	MYASD	DTET	NAITA
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Follow-on actions are coordinated by Chief Internal Auditor. The 2010 Auditor General Report does not report any previous year audit comments which remained outstanding but noted not all of AMC decisions had been implemented.	The Auditor General Report for 2010 indicates that 7 queries from 2009 audit remained outstanding.	NAITA publish all actions taken on prior year's audit audit comments as part of their annual report.
6.7 Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	Auditor General is the external auditor and the Supreme Audit Institution of Sri Lanka.	Auditor General is the external auditor and the Supreme Audit Institution of Sri Lanka.	Department of the Auditor General is the external auditor and the Supreme Audit Institution for Sri Lanka.
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	Annual audit will follow AGDs annual audit program as stipulated by law.	Annual audit will follow AGDs annual audit program as stipulated by law.	Audit will be provided by the Department of the Auditor General according to INTOSAI/IFAC standards of auditing.
7. Reporting and Monitoring			
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	CIGAS system prepares financial statements in accordance with the Financial Regulations and Appropriation Act	Monthly financial statements prepared in accordance with Financial Regulations 1992	Financial statements prepared for internal use on monthly basis and annual financial statements for audit purposes in accordance with Financial Regulations 1992 and Sri Lanka Public Sector Accounting Standards.
7.2 Are financial statements prepared for the implementing unit?	As required by government processes and regulations.	Monthly	NAITA prepare monthly financial statements– presented to Treasury, line ministry and Board of Directors
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Monthly and annual financial statements are prepared.	Monthly	Monthly reports are prepared as part of the monthly cash forecast process which initiates fund disbursement from Treasury.
7.4 Does the reporting system need to be adapted to report on the project components?	The program will be designed in accordance with the framework of the government's budget and accounts structure.	The project components will be reported as part of the MYASD development budget with codes set up for a new project.	Existing progress reports are prepared in accordance with the AWP budget.

Topic	MYASD	DTET	NAITA
7.5 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	The CIGAS system presents only financial information. Performance monitoring against annual Implementation plans is prepared separately but reported together in Annual Reports.	No, the present system cannot determine discrepancies between physical and financial data. Separate reports are prepared.	Separate finance reports are prepared based on budget. Physical progress reports are prepared separately and these are checked against the AWP but not presented on the same report as the financial performance.
7.6 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	Reporting responsibilities are established in government finance procedures.	Reporting responsibilities are established in government finance procedures.	Financial management responsibilities are identified for the finance department and usual accounting and reporting processes will apply with no parallel reporting for the project.
7.7 Are financial management reports used by management?	The Accounts Division prepare and print budget/expenditure variance reports from the CIGAS system for management review.	The Accounts Division prepare and print budget/expenditure variance reports from the CIGAS system for management review. COT has a Management Committee made up of Heads of Department.	Yes. Financial statements are discussed at monthly Board of Director meetings.
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Budget expenditure reports are available from the CIGAS system.	Budget expenditure reports are available from the CIGAS system.	Yes – variances are used to identify potential budget virements which are discussed at monthly Board meetings.
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	All financial reports are prepared from the CIGAS accounting system Payroll linked to CIGAS.	All financial reports are prepared from the CIGAS accounting system Payroll linked to CIGAS.	Generated from the TALLY system at central level. At District Office and National Institute they are prepared from manual books of account.

Topic	MYASD	DTET	NAITA
8. Information Systems			
8.1 Is the financial management system computerized?	CIGAS is the comprehensive Integrated Accounting Software package for Government Accounting of Sri Lanka. It automates accounting processes and consolidates the accounts from the grassroots level up to the Treasury.	DTET uses the government Financial Management Information System – CIGAS. Manual cash books and ledgers maintained at COTs.	NAITA uses TALLY at head office level but not at institutes or district offices.
8.2 Can the system produce the necessary project financial reports?	All financial reports will be prepared from the CIGAS system.	Yes, but not linked to MIS for physical reports.	Yes, but not linked to MIS for physical reports.
8.3 Is the staff adequately trained to maintain the system?	Training for staff is provided for CIGAS operators.	Training has been provided by InGAF.	Yes - software supplier provided initial training.
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	System back-ups are made daily. Hard copy back-ups on external devices are also used. Password – controls level of access.	Treasury system – daily back up, month end additional back up. Passwords linked to levels of access.	TALLY software off-the-shelf accounting software developed in India. Uses password access controls.

**FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE –MYASD INSTITUTIONS
(VTA, TVEC, UNIVOTEC, NYSC AND NIFNI)**

The financial management questionnaire was completed for the TVET Agencies participating in SSEP based on *Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank*.

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
1. Implementing Agency					
1.1 What is the entity's legal status / registration?	Statutory body established under the provisions of the Vocational Training Authority of Sri Lanka Act No: 12 of 1995.	TVEC was established in 1991 under the Tertiary and Vocational Education Act No. 20 of 1990 and reconstituted as a statutory body by the TVE (Amendment) Act. No 50 of 1999. It is a government agency funded by Treasury.	Established by University of Vocational Technology Act No 31 of 2008	Statutory body established by Parliamentary Act No. 69 of 1979. The Council implements annual youth programmes and projects related to developing creativity, artistic, technical and leadership skills; and works to encourage participation in volunteer programmes.	Statutory body –Act No 06 of 1999. Separate legal entity with a statutory identity.
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	UNICEF – from December 2010. WUSC funded Child Protection Project - no direct funding received.	There is an ongoing ILO project in Eastern Province. TVEC also received funding for specific activities funded from TEDP however these were managed through the PIU.	NORAD funded project National Institute Technology Sri Lanka	JICA, KOICA have provided infrastructure and equipment. UNICEF are providing infrastructure and equipment from 2013	Has received TA grant for construction of building post-tsunami by IFADF (SLR 40 million in 2012)
1.3 What are the statutory reporting requirements for the entity?	District level monthly progress reports and donor wise reports to Treasury. Annual financial	District level monthly progress reports and donor wise reports to Treasury. Annual financial	Annual financial statements and Annual Report are prepared in accordance to the Sri Lankan Public Sector	Monthly financial reports to Treasury in accordance with Financial Regulations.	Monthly reports to ministry –Annual Accounts are prepared in accordance with the public sector

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
	<p>statements and Annual Report are prepared in accordance to the Sri Lankan Public Sector Accounting Standards.</p> <p>Monthly financial statements and cash forecasts are also sent to MYASD and The onwads to Treasury as requests for fund release.</p>	<p>statements and Annual Report are prepared in accordance to the Sri Lankan Public Sector Accounting Standards.</p> <p>Monthly financial statements and cash forecasts are also sent to MYASD and The onwads to Treasury as requests for fund release.</p>	<p>Accounting Standards.</p> <p>Day to day transactions in accordance with Financial Regulations</p>	<p>Annual financial statements are prepared in accordance to the Sri Lankan Public Sector Accounting Standards</p>	<p>Accounting standard. An expenditure forecast is submitted for 'Fund Request'</p>
1.4 Is the governing body for the project independent?	<p>Under MYASD. Six of the Board members are regulatory members from NAITA, MOFP, MoE, MYASD. 4 members from private sector industries.</p>	<p>Board of Directors appointed by Minister. 17 members including members of Chambers, DTET, NAITA, MOFP.</p>	<p>Board of Members. VC, Secretary MoHE, Nominee MYASD, MOFP, MD Colombo Dockyard, University Member, Board of Investment, Chambers</p>	<p>Board of Directors- 25 members and >20 regularly attend monthly meetings. Representatives from culture, sport, films etc</p>	<p>Members of the governing council sector expert from Finance, NARA chairman, Ministry of Fisheries chamber of commerce, University scholars. The independent board includes a chairman nominated by MYASD as well as representatives from MoFP.</p>
1.5 Is the organizational structure appropriate for the needs of the project?	<p>Yes. Functional structure in place under the purview of Director General who is ultimately responsible for operations.</p>	<p>No specific structure to be put in place for the project. Government processes will apply</p>	<p>No specific structure to be put in place for the project. Government processes will apply</p>	<p>No specific structure to be put in place for the project. Government processes will apply</p>	<p>Yes-Function structure in place under the D.G who is responsible for day Day parathions control process of the cool system is applied</p>
2. Funds Flow arrangements					

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Donor funds are received by MYASD and deposited to the Treasury Account. VTA receives from MYASD based on approved activity budget. Government provided funding received directly from Treasury using government processes.	Monthly cash request prepared based on monthly expenditure and forecast. Sent to MYASD for approval before submission to the Treasury. Treasury transfer cash through direct bank transfer to TVEC. Other income comes from income generation activities such as sales of publications.	Monthly cash forecast and request prepared. Requested sent to MYASD and onwards to Treasury for funds release. Direct bank transfer to UNIVOTEC.	Government budget transferred from MYASD, some sponsorship from private sector for specific programmes, small income generated from students (10-20% of fees). Income from fees reinvested in youth affairs projects.	Monthly cash forecast submitted to the treasury through Ministry of youth affairs & skills Development. Monthly requirement would be transfer to the NIFNE Account.
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Proposed arrangements will use national budget transfer processes.	Proposed arrangements will use national budget transfer processes.	Proposed arrangements will use national budget transfer processes.	Proposed arrangements will use national budget transfer processes.	Yes .Provided funds flow is satisfactory.
2.3 What have been the major problems in the past in receipt of funds by the entity?	None reported	Funds are received from Treasury 2-3 weeks after request. Funding for Salaries always received in full but non-salaries not always received in full.	Funding for Salaries received in full but non-salaries requests not always received in full.	Do not receive the full budget allocations. In 2012 LKR 300 million not received	Funds for recurrent is ok .There had been a little delay in releasing capital funds.
2.4 In which bank will the Imprest Account be opened?	No Imprest Account will be set up. Transfers will be made by the VTA	No imprest account to be set up	No Imprest Account will be set up. Transfers will be made to the	No imprest account to be set up. Transfer will be made to NYSC account held in	Can manage with the present Account in peoples 'bank

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
	bank account held in the People's Bank		UNIVOTEC bank account held in the People's Bank	People's Bank	
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	N/A	N/A	N/A	N/A	N/A
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	No – budgets are estimated in Sri Lankan rupees and funds received in LKR	N/A	No – budgets are estimated in Sri Lankan rupees and funds received in LKR	No – budgets are estimated in Sri Lankan rupees and funds received in LKR	NO-MOFP will look into the matter
2.8 How are the counterpart funds accessed?	No access to counterpart funding	N/A	N/A	No access to counterpart funding	No access to counterpart
2.9 How are payments made from the counterpart funds?	N/A	N/A	N/A	N/A	N/A
2.10 If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems	No communities or NGOs will be involved in implementation. VTA network consists of 7 National Vocational Training Institutes, 25 District Vocational Training Centers and 238 Vocational training centres	N/A	If program funding allocated for colleges funds will be transferred directly to the college not via UNIVOTEC	Yes – financial statements record expenditure made from internal fee income and sponsorships	No communities or N.G.Os would be involved in the process

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
to track the use of project proceeds by such agencies?					
2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	N/A	N/A	N/A	N/A	Not applicable
3. Staffing					
3.1 What is the organizational structure of the accounting department? Attach an organization chart.	<p>Finance division is headed by the Director Finance & Supplies appointed by the Ministry. Supported by 4 Accountants including Deputy Director, 35 Assistant Accountants and Accounts Clerks. Staff are sufficient for the current number of transactions.</p> <p>At District level there are 44 Accounting</p>	<p>TVEC structure approved by Board of Directors, MOFP, Treasury, Department Management Service, salaries & Cadre Commission.</p> <p>The Finance Division is composed of a Deputy Director of Finance 1 Development Officer, 4 Management Assistants and 1 Office Assistant</p>	<p>Finance Director, 2x Assistant Bursars, 5 Management Assistants + 1 Cashier</p> <p>Separate Supplies Dept and Stock assistants.</p> <p>Each staff member has job description</p>	<p>Finance Director, Chief Accountant, 2x accountant and 9x island wide assistant accountants. The central positions are filled by part-qualified chartered accountants while the island-wide positions are occupied by candidates with accounting degrees and diplomas.</p> <p>A support staff of about 50 (island</p>	<p>Structure by the Governing council Director General Director Finance Accountant Management Assistant Cashier</p>

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
	staff (not professionally qualified although may hold a Diploma)			wide) also in post.	
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	N/A	N/A	N/A	N/A	No Chartered Accountant on Finance Team. However, Class 1 member of the Sri Lankan Accounts Service with over 10 years of experience.
3.3 Is the project finance and accounting function staffed adequately?	Yes – for the current level of transaction processing	Additional activities and transactions may be difficult to absorb by current staff.	Adequate staffing for current level of transactions.	Yes for current levels of transactions but may need to recruit additional staff at central and provincial levels depending on increase in activity	Some additional support may be required for training in applying SLFRS
3.4 Is the finance and accounts staff adequately qualified and experienced?	Yes at central level but not qualified at District Offices. At District Office finance staff are provided with on-the-job training and subject to 6 month probationary period.	Accountants hold professional accounting memberships (CIMA, Chartered Accountant etc.) and 5 years' experience. Difficult to attract good entrants to vacancies as salaries offered in the government service are lower than the private sector.	Finance Director has BBA and part qualified Chartered Accountant. Referred in final examination	As above	Director Finance one officer of the Sri Lankan Accounts Service

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
3.5 Is the project accounts and finance staff trained in ADB procedures?	Government financial regulations will apply so no ADB procedure training required	Government financial regulations will apply so no ADB procedure training required	Government financial regulations will apply so no ADB procedure training required	Government financial regulations will apply so no ADB procedure training required	Additional training may be required
3.6 What is the duration of the contract with the finance and accounts staff?	Permanent positions	Permanent contracts although not subject to full benefits e.g. not eligible for pension	Permanent positions. Salaries are on a par with university salaries not MYASD. Not eligible for government pensions.	Semi-government positions (Combination of permanent, casual, and contract staff in place). Similar pay scales but less benefits i.e., no pension entitlement.	Permanent positions, and very low turnover
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	None	N/A	None	N/A	N/A
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	All finance department positions have job descriptions.	There are no specific positions for the project but in general each staff member has a defined job description approved by the Board of Directors	N/A	N/A	N/A GFR and relevant circulars are applicable
3.11 At what frequency are personnel	Once in each three years. Staff members at District	N/A	N/A	N/A	Junior staff will be transferred annual basis

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
transferred?	Office can be transferred between Districts on mutual transfer agreements				
3.12 What is training policy for the finance and accounting staff?	No formal training policy for accounting staff. Professional senior staff attend seminars held by professional training bodies. Internal seminars & workshops held for other staff organized by the Finance Director.	An annual training plan is prepared and consolidated by the Administration Division and approved by the Board. It may not be possible to provide full planned training and this is dependent on funding received.	No specific policy but training provided for users of the accounting software. Training provided often as a result of audit queries	No specific training policy. No training programmes provided to NYSC from government training institutions	No specific policy ad hoc basis Accountant offered – B com chartered inter medium & B com graduate
4. Accounting Policies and procedures					
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting	VTA uses the BUSY Accounting System, installed in 2013, for accounting and financial management purposes. Annual financial statements are prepared in accordance with the Sri Lankan Public Sector Accounting Standards (SLPSAS) to meet all statutory reporting requirements.	TVEC use a customized accounting system developed under the MIS component of TEDP. The system is currently covered under a prepaid maintenance contract which will reach the end of the contract in 2014. Future funding for system maintenance is uncertain.	Accounting system provided as part of EMIS component of TEDP. System is not 100% functional but prepares accounts up to trial balance. Spreadsheets are used to prepare final accounts. System was developed specifically for UNIVOTEC and the supplier is providing support to complete development. UNIVOTEC are struggling a bit with the software and indicate they would prefer a new system	Accounts maintained in accordance with Financial Regulations 1992 and Sri Lanka Public Sector Accounting Standards	NIFNE Is using “TFMS” financial management system. Computerised system, double entry, trial balance can be generated on real time basis, accrual entries at year end only, cheques printed by software, immediate voucher processing, not in batches.

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
system?			rather than continue with partial system.		
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Preparation and checking of transactions by Accounts Clerks and certification of payments by Director of Finance and Accountant.	According to Financial Regulations 1992 (amended from time to time)	Approvals are all set out in the Delegation of Authority. Upper limit approved by Vice Chancellor	According to Financial Regulations 1992	Financial Regulation are ad hexed to
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	All budgeted grant receipts and expenditures captured and recorded using BUSY accounting package. Different Chart of Accounts than government but able to be mapped if necessary	Different Chart of Accounts than government but able to be mapped if necessary	Different Chart of Accounts than government but able to be mapped if necessary. Also different to TVEC although same software developer via TEDP	Different Chart of Accounts than government but able to be mapped if necessary	Different chart of Accounts from Government system but able to be mapped it if required
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes. Cost allocations are in accordance with agreed budget lines	Yes. Cost allocations are in accordance with agreed budget lines	Yes. Cost allocations are in accordance with agreed budget lines	Yes. Cost allocations are in accordance with agreed budget lines and government regulations	Yes .cost allocation are in accordance with agreed budget lines
4.5 Are the General Ledger and subsidiary ledgers reconciled and	Yes – on a monthly basis	Yes – on a monthly basis	Yes – on a monthly basis General Ledger control accounts are regularly reconciled	Yes – on a monthly basis	Yes – Monthly basis

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
in balance?					
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes Records are retained at District Offices and photocopies sent to head office. Salary records kept for 30 years and other documents for 5 years.	Purchase Request, Purchase Order, Goods Received Note, Suppliers Invoice and Payment Voucher all filed together. Monthly filing system in place.	Records are stored in box files for 5 years.	Yes	Yes – 5 years
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	Yes. Assistant Accountant approves transactions up to 250,000LKR. Accountant or Finance Director >250,000 LKR. Accounts Clerk records transactions into ledgers. Assistant Directors at District Offices responsible for custody of assets	1. Authority to execute a transaction provided by DG 2. Transaction recorded by accounting office 3. Payment Approval by Finance Director >LKR200,000 Tender Board approves <LKR 200,000 DG approves	(i) authorization is according to delegation of authority (ii) management assistants enter data to system (iii) stock-keepers and receiving departments have custody of the assets	In accordance with Financial Regulations 1992 and other government circulars	Yes In accordance with FR 135
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Tender Board established for procurement decisions. PO raised by Supplies Clerk and approved by supply manager. GRN signed by	In accordance with Financial Regulations 1992 and National Procurement Agency	In accordance with Financial Regulations 1992 and National Procurement Agency Ordering – Supplies Receiving – Stores Accounting – Finance Payment – Finance but different personnel to	In accordance with Financial Regulations 1992	Yes In accordance with FRR & procurement manual

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
	Stores Officer Payment Vouchers signed by Director Finance.		accounting.		
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Yes, Accounts Clerk prepares bank reconciliations and Accountant approves.	Management Assistant prepares bank reconciliations and Finance Director approves	Bank reconciliations are carried out by a management assistant and certified by an assistant bursar. Completed by 10th day of following month	Yes In accordance with Financial Regulations 1992	Yes in accordance with FRR
4.10 Do budgets include physical and financial targets?	Annual budget prepared for recurrent and capital budgets and submitted to Treasury via MYASD. Standard unit costs are used to calculate training costs (training materials, teaching cost, admin & overheads) Donor budgets separately submitted and may include physical targets as required.	Annual workplans and annual budgets are prepared. Each Division prepare their own plans and budgets and they are consolidated by Planning and Finance Divisions respectively.	Budget does not include physical targets. Academic departments set targets and plans and prepare first estimate of income and expenditure. Finance Department consolidates and prepares the Institutional budget. Director of Finance prepares detailed budget estimates using previous year expenditure. A consolidated draft budget is presented to the MYASD. Later revisions are made by the Finance Director and submitted to the VC and Board.	Recurrent budget only includes physical targets for variable budgets relating to planned activity. Capital budget prepared on project basis and individual items listed.	Monthly physical & Financial targets are calculated

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Line item budgets prepared. Budget Performance measured on an input basis	Planning prepare monthly performance reports. Budget/Finance prepare monthly finance reports for cash requests. Both are discussed together at monthly management staff meetings	UNIVOTEC are monitored centrally and used as a financial monitoring tool as not linked to activity performance reports	Line item budgets prepared. Budget Performance measured on an input basis	Not for all significant activities
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes – discussed at Board level on monthly basis. Budget variation reviewed and agreed periodically by the Board as long as not exceeding total approved budget	Yes – discussed at Board level on monthly basis. Budget variation reviewed and agreed periodically by the DG and Board as long as not exceeding total approved budget. No movement between capital and operational costs are allowed.	Discussed on a monthly basis particularly towards the end of the year. Budget revisions are requested Aug/Sep. Budget virements between budget heads requested and supplementary funds also requested although rarely approved. FD presents revised budget to Board prior to sending to MYASD and Treasury.	Monthly- internal review by Board of Directors. Budget virements agreed by the Board as long as not exceeding total approved budget	Yes-Discussed at board level on monthly basis
4.13 Are approvals for variations from the budget required in advance or after the fact?	As above and approved by Chairman/Vice Chairman before submitting to MYASD and Treasury.	As above and approved by DG and Board before submitting to MYASD and Treasury. Generally approvals received post spending.	As above and approved by DG and Board before submitting to MYASD and Treasury. Generally approvals received post spending.	Transfers between budget lines can be made by Board of Directors as long as total budget not exceeded.	Approval of the Governor for variation required before hand at least covering approval is needed
4.14 Who is responsible for	Annual budget proposals prepared	TVEC Divisions prepare plans and	FD prepares budgets and Board approves.	Finance division prepare budget.	With the assistance of the senior officers

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
preparation and approval of budgets?	<p>by division heads, compiled by Finance department and approved by the VTA Board.</p> <p>At District Office the accountant prepares the budget for the District Office and the reporting VTCs. Standard costs are used to prepare variable training programmes.</p>	<p>budget requests. Division plans are consolidated by the Finance Director and reviewed by the DG. Draft budget is sent to MYASD for ministry consolidation by the Chief Accountant and onward to Treasury. Treasury prepare targets for budget reductions and return for subsequent amendment.</p>		<p>Planning and research division prepare annual work plans and development plans</p>	<p>budget prepared it & Governing council approval it</p>
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	<p>5 year Corporate Plan, Budget 3 years rolling plan. Annual Work plans and budget prepared by Divisional Heads as part of budget preparation.</p>	<p>Process proceeds as above. 5 year corporate plan is updated each year which informs the budget preparation and activity planning. Activities revised in line with budget cuts.</p>	<p>Process proceeds as above. 5 year corporate plan is updated each year which informs the budget preparation and activity planning. Activities revised in line with budget cuts.</p>	<p>Organisation units provide data regarding staffing and planned activities. Budget estimates are prepared centrally</p>	<p>Budget is prepared based on 5 years' corporate plan. Bottom up from the colleges (recurrent + capital) for both financial and non-financial targets</p>
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	<p>Initial budgets need to be revised following budget negotiation with Treasury and MYASD. Changes made in liaison with Division Heads</p>	<p>Corporate Plan 5 years Budget 3 years</p>	<p>Initial budgets need to be revised following budget negotiation with Treasury and MYASD.</p>	<p>Budget proposals are reduced annually by Treasury during negotiation.</p>	<p>Project plans and budgets for project activities were prepared realistically based on valid assumption with consultation of the available staff.</p>

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
4.17 Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	Yes	Yes	Yes	Yes	Yes
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes	Yes	Yes	Yes	Yes

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Payroll procedures by Director of Administration. Payroll changes are authorized by Finance Director. Monthly payroll prepared by Accounts Clerk and checked and approved by Accountant	Administration Division provide payroll details for new starters, changes to payments etc. Finance Division process the payroll. Payments are made to staff members by bank transfer	Dedicated management assistant processes payroll based on information passed by the Administration division. Excel sheet used for payroll information, checked by a different management assistant and certifies by assistant bursar prior to transfer to individuals' bank accounts.	Yes – CIGAS payroll system is used to process payroll	Yes
4.20 What is the basis of accounting (e.g., cash, accrual)?	Accrual basis	Accrual basis	Accrual basis	Accrual basis	Accrual basis
4.21 What accounting standards are followed?	Compliance with Sri Lankan Public Sector Accounting Standards (SLPSAS) issued by the Chartered Accountants of Sri Lanka	Compliance with Sri Lankan Public Sector Accounting Standards (SLPSAS) issued by the Chartered Accountants of Sri Lanka	Compliance with Sri Lankan Public Sector Accounting Standards (SLPSAS) issued by the Chartered Accountants of Sri Lanka	Compliance with Sri Lankan Public Sector Accounting Standards (SLPSAS) issued by the Chartered Accountants of Sri Lanka	Compliance with Sri Lanka Public Sector Accounting Standards (SLPSAS) issued by the ICASL.
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Parliamentary Act No 12 of 1995 establishing VTA. Government Financial Regulations apply.	Government Financial Regulations manuals are used to process for daily transactions	Government Financial Regulations manuals are used to process for daily transactions	Financial Regulations 1992 and subsequent government circulars	N.A.

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
4.23 Is the accounting policy and procedure manual updated for the project activities?	VTA Finance Staff are in the process of developing an accounting policy and procedure manual for internal use.	N/A	N/A	N/A	N.A.
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	No changes permitted by VTA.	No changes permitted unless related to new Sri Lanka Public Sector Accounting Standards. Process is for the Finance Director to inform the DG who in turn informs the Board.	No changes permitted by UNIVOTEC. FD responsible for compliance with SLPSAS	Government accounting principles, policy and procedure are only altered by MOFP.	No changes permitted the Institution. NIFNE is responsible for the compliance with SLPSAS.
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Financial Regulations and National Procurement Agency Administration Manual	Financial Regulations and National Procurement Agency Administration Manual	Generic government manuals apply	Financial Regulations and National Procurement Agency Administration Manual	Financial Regulations and national procurement Agency Guidelines are followed.
4.26 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide	Not explicit in existing policies	Not explicit in existing policies	Not explicit in existing policies	Not explicit in existing policies	Particularity for procurements on this subject guidelines were issued.

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
safeguards to protect the organization from them?					
4.27 Are manuals distributed to appropriate personnel?	Yes at Head Office although not at each District Office.	Yes	Yes	Yes	Yes
4.28 Indicate names and positions of authorized signatories in the bank accounts.	2 signatures required. One from Finance and the second from Management.	2 signatures required. One from Finance (Deputy Director of Finance) and the second from Management (DG, DDG or Director of Admin).	FD or Asst Bursar provides 1 st signature (according to Delegation of Authority levels), Vice Chancellor, DF or a Director provides 2 nd signature.	1 st signature Finance Director or other finance staff (accountant/ assistant accountant), 2 nd signature Development Officers	Signallers required one from Finance and second from Management.
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes. Cash book updated daily in BUSY system plus manual cash books maintained in parallel.	Cash book maintained as part of accounting package. Hard copy printed and signed each month.	Manual cash books maintained for each bank account	Yes. Manual cashbooks and ledgers maintained.	Yes
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes. Receipts are issued in accordance with Financial Regulations	Receipts are issued from the Cashier office in accordance with the Financial Regulation 1992. Daily recording in computerized system and daily bank deposits.	Receipts are issued in respect of income from course fees. Students deposit funds directly to the bank and produce a deposit slip to the cashier in exchange for a receipt. Daily cash balances transferred to cash books	Yes. Fees received from the University (Youth) directly from student to bank account	Yes
4.31 Are bank and	Yes	Daily and monthly	Yes	Yes	Yes

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
cash reconciled on a monthly basis?		cash reconciliations performed. Monthly submission to Auditor General			
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Approved by Accountant after reviewing.	Reviewed by Deputy Director of Finance	Assistant Bursar checks bank reconciliations. Unusual items are referred to the Finance Director.	Yes	Yes
4.33 Are all receipts deposited on a timely basis?	Yes - Income from course fees, examination fees, etc are deposited on a daily basis.	Daily deposits	Daily	Yes	Yes, receipts are deposited daily.
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Inventory records maintained by Storekeeper Admin and verified by committee. Fixed asset register maintained.	Petty cash kept in the safe. Cheque books locked in safe. Fixed asset register maintained.	Board of Survey verifies stocks, surcharges are imposed for shortages or damages. Fixed Asset register maintained	Fixed Asset Register maintained. Annual physical inventories made and reconciled with register	Fixed Assets Registers are maintained. A Board of Survey is convened and annual physical inventories made and reconciled with relevant register.
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes, Annual Board of Survey convened as per Financial Regulations. Audit reports show Board of Survey not convened in 2010 but management confirmed verification occurred for 2012.	Annual Board of Survey for verification.	Annual Board of Survey verification. 2009 Assets valued on transfer to University now updated from original valuation.	Board of Survey convened	Annual Board of Survey is done with subsidiary records

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
4.36 Are there periodic physical inventories of fixed assets and stocks?	Yes. Annual asset verification by committee (internal audit, admin and finance staff, regional office Assistant Director)	DG appoints Board and no finance staff included for independent verification of records. Stationery Stocks checked against stock bin cards	Yes. Annual inventories in accordance with Financial Regulations. Board of Survey convened annually	Yes. Annual inventories in accordance with Financial Regulations	Yes, Board of Survey is concerned annually in terms in Financial Regulations.
4.37 Are assets sufficiently covered by insurance policies?	The general policy of Government is to bear its own risks; and insurance should therefore be effected only in exceptional cases. Motor Vehicles, Fixtures and Fittings are covered by insurance policies	Motor vehicles and cash in transit covered by insurance.	Vehicle insurance in place	The general policy of Government is to bear its own risks; and insurance should therefore be effected only in exceptional cases. Motor Vehicles, Fixtures and Fittings are covered by insurance policies	Only the motor Vehicles were insured.
4.38 Are there any other regional offices or executing entities participating in implementation?	Regional offices and district offices implement district level activities and VTA head office are responsible for overall agency performance	N/A	University colleges to be established	Provincial offices	There are 8 regional colleges. But they are not involved in Financial Management.
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in	Monthly transfers from MYASD based on approved Annual Work Plan. Transfer by bank transfer. On request from regional Assistant Director funds	N/A	No controls are planned – UNIVOTEC will have no financial responsibility over University Colleges	Central accounting for major items. Imprest account transfers to provincial offices via bank transfer. Government procedures are	Colleges are operated through a imp rest system

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
relation to the other offices or entities?	<p>transferred to District Offices by bank transfer.</p> <p>District Office prepare monthly financial reports for consolidation at VTA head office.</p>			applied	
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	BUSY accounting system is a decentralized real-time system allowing daily updating online.	N/A	N/A	Yes, regular monthly procedures. Most problem experienced result from Treasury fund flows and reduced amounts	
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	Consolidated system	N/A	N/A	Yes	
4.42 Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Staff made aware of their responsibilities during induction training. Can report directly to Chairman or by letter to Internal Audit	No official notification to employees provided.	Storekeepers report suspicions to DG. There is a written procedure. Individuals are responsible for portable items.	Covered in Financial Regulations 101, (1992), and Government circulars	

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI	
5. Internal audit						
5.1	Is there an internal audit department in the entity?	Yes staff of twelve including Audit Officers, Audit Assistants and Audit Clerks. This represents an increase of 6 from assessment carried out in 2011.	Small internal audit department with 2 personnel. 1 auditor plus management assistant	Small internal audit department with 2 personnel. 1 auditor plus management assistant	Internal audit has 6 staff. Chief Internal Auditor and 5 Audit Officers. This is a reduction of 3 from FMA conducted last year. NYSC is trying to recruit an additional 5 internal audit staff	With two personal One Auditor One Management Assistant 2 more shall be advertised under the program
5.2	What are the qualifications and experience of audit department staff?	Finance or management related qualifications	Degree or professional qualification required for internal auditor (post holder is part-qualified). Management assistant should have A levels	Auditor is a degree graduate	Finance or management related qualifications. Minimum qualification is degree or equal qualification	In terms of approved M.S. standards, B.Com graduate is heading unit, but has >12 years of experience. As part of program, certification of Institute of Internal Auditors (IIA) by atleast 1 member
5.3	To whom does the internal auditor report?	VTA Chairman and Audit and Management Committee of the Board of Directors. Committee. The Treasury Board member is the Chair of the AMC	Reports to DG	Report to Vice Chancellor	Director General	Chairman and Audit and Management committee
5.4	Will the internal audit department include the project in its work program?	Scope of internal audit covers all VTA activities.	Scope defined in Annual Audit Plan	Scope defined in Annual Audit Plan - monitored by VC	Yes, annually in accordance with Work Programme	Yes, In accordance with the work programme
5.5	Are actions taken on the	Yes – action points in audit report followed	Followed up by DG and AMC. AMC	Findings are reported to VC and Board	Followed up in subsequent audits.	Yes, Finders are reported to DG and

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
internal audit findings?	in following year audit.	reports to Auditor General.	AMC. Board recommends course of action	Internal audit reports are submitted to the Auditor General plus all reports on corrective actions taken	Audit & Management Committee and action would be to rectify deficiencies.
6. External audit					
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Annual audit from the Auditor General	Annual audit from the Auditor General	Annual audit from the Auditor General	Annual audit from the Auditor General	Yes, Auditor General
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	Annual financial statements submitted to Treasury before 28 th February. The 2010 Audit report indicates that this did not occur within the timescales and audit opinion was unable to be provided. More recent reports have been on time.	Annual audited statements submitted to Treasury before 28 th February. Audit carried out within one month	Annual financial statements submitted to Treasury before 28 th February. Audit carried before mid-year	Annual statements submitted to Treasury before 28 th February.	Annual Accounts to be submitted Audit before 28 th February 14(2)(L) Final Reports to be issued within 3 months
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Statutory audit in accordance with Sri Lankan Public Sector Accounting Standards and Sri Lankan Auditing Standards	Statutory audit in accordance with Sri Lankan Public Sector Accounting Standards and Sri Lankan Auditing Standards	Statutory audit in accordance with Sri Lankan Public Sector Accounting Standards and Sri Lankan Auditing Standards	Statutory audit in accordance with Sri Lankan Public Sector Accounting Standards and Sri Lankan Auditing Standards	Statutory Audit is done in accordance with public sector Accounting Standards which are parallel to International Accounting Standards.
6.4 Were there any	2010 audit report	None reported	No major issues	2010 Auditor General	No major issues

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
major accountability issues brought out in the audit report of the past three years?	reviewed and discussed with VTA Finance Director. All issues have been attended to since report was issued.		observed in 2010	report indicated AG unable to issue opinion since no consolidated statement including subsidiary companies presented. No major issues since then (verbal from AG)	observed due to some short comings in keeping records not qualified Audit opinion was expressed. (this was happened due to lack of staff)
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	No project specific reports will be prepared. Annual audit for the agency will be conducted by the Department of the Auditor General.	No project specific reports will be prepared. Annual audit for the agency will be conducted by the Department of the Auditor General.	No project specific reports will be prepared. Annual audit for the agency will be conducted by the Department of the Auditor General.	No project specific reports will be prepared. Annual audit for the agency will be conducted by the Department of the Auditor General.	No specific Accounts reports will be prepared for project Accounts. Hence the annual Audit will be conducted by the Auditor General.
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Verbal update received from VTA Finance Director that issues have been resolved and reported to AMC and Auditor General.	None	Nothing major outstanding. Reports presented to the Board by the VC. AMC oversee actions arising from comments received	None reported but reports not reviewed. Audit comments have been resolved.	No major recommendations. A.M.C Oversees action arising out of Audit Reports.
6.7 Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	Auditor General is Supreme Audit Institution for Sri Lanka	Auditor General is Supreme Audit Institution for Sri Lanka	Auditor General is Supreme Audit Institution for Sri Lanka	Auditor General is Supreme Audit Institution for Sri Lanka	Auditor General is the Internal Auditor and supreme body in Auditing public sector Accounts.

Topic		VTA	TVEC	UNIVOTEC	NYSC	NIFNI
6.8	Has the project prepared acceptable terms of reference for an annual project audit?	Audit will be provided by the Department of the Auditor General according to INTOSAI/IFAC standards of auditing	Audit will be provided by the Department of the Auditor General according to INTOSAI/IFAC standards of auditing	Audit will be provided by the Department of the Auditor General according to INTOSAI/IFAC standards of auditing	Audit will be provided by the Department of the Auditor General according to INTOSAI/IFAC standards of auditing	Auditing will be done on Auditor General.
7. Reporting and Monitoring						
7.1	Are financial statements prepared for the entity? In accordance with which accounting standards?	Financial statements prepared for internal use on monthly basis and annual financial statements for audit purposes in accordance with Financial Regulations 1992 and Sri Lanka Public Sector Accounting Standards	Financial statements prepared for internal use on monthly basis and annual financial statements for audit purposes in accordance with Financial Regulations 1992 and Sri Lanka Public Sector Accounting Standards	Financial statements prepared for internal use on monthly basis and annual financial statements for audit purposes in accordance with Financial Regulations 1992 and Sri Lanka Public Sector Accounting Standards	Monthly financial statements prepared in accordance with Financial Regulations 1992. Annual financial statements prepared in accordance with SLPSAS	Monthly and Annual accounts prepared and transmitted to stakeholders in accordance with Sri Lanka Accounting standards.
7.2	Are financial statements prepared for the implementing unit?	Monthly financial statements prepared	Usual financial statements will apply	Income & expenditure, Performance report, Cash Flow Statement, Balance Sheet, Notes to Accounts	Monthly and annually	Accounts prepared by the Institution is available for the unit
7.3	What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so	Monthly project progress reports prepared for submission to MYASD for onward	Annual – statutory requirement Monthly – for cash release Quarterly for Board	Annual – statutory requirement (will move to half-yearly next year) Monthly reports prepared within 7 days	Monthly and annually	Monthly and Annually

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
as to useful to management for decision making?					
7.4 Does the reporting system need to be adapted to report on the project components?	Existing progress reports are prepared in accordance with the AWP budget so report structure may need to be adapted to take the project activities into account.	Existing progress reports are prepared in accordance with the AWP budget so report structure may need to be adapted to take the project activities into account.	Physical targets not included in finance reporting	Existing progress reports are prepared in accordance with the AWP budget.	Report structure may need to be adopted to take the project activity in to Account.
7.5 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	VTA installed the BUSY accounting software package to be able to develop performance reports. Currently expenditure is reported against AWP budgets.	Separate finance reports are prepared based on budget. Physical progress reports are prepared separately and these are checked against the AWP but not presented on the same report as the financial performance.	No – reports prepared using excel spreadsheet	No, the present system cannot determine discrepancies between physical and financial data	Separate financial reports are prepared issued on budget. Physical progress reports are prepared separately and these are checked against the AWP and not presented on the same report.
7.6 Does the project have established financial	Normal government prescribed reporting responsibilities will	Normal government prescribed reporting responsibilities will	N/A - Normal government prescribed reporting	N/A - Normal government prescribed reporting	Normal Government prescribed reporting responsibilities will

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	apply	apply	responsibilities will apply	responsibilities will apply	apply
7.7 Are financial management reports used by management?	Yes. Financial statements are discussed at monthly meetings.	Board reviews financial statements at quarterly meetings	Yes. Financial statements are discussed at monthly meetings.	Yes. Director General presents reports for discussion at Board of Director meetings	Yes, Monthly Financial statements are discussed at the Governing Council Meeting.
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes – required budget virements discussed at monthly Board meetings and requested amendments proposed to Treasury as appropriate.	Monthly and quarterly progress reports are prepared and compared to the financial statements	Budget and expenditure variances presented in order to discuss potential budget virements	Yes – required budget virements discussed at monthly Board meetings. Variance reports submitted with annual financial statements	Yes, monthly and quarter progress reports are prepared and compared with Financial statements
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Generated from the BUSY system	Automated from accounting system.	Trial balance prepared from accounting software but further reporting prepared using Ms excel	Manual Accounts maintained. Spreadsheets and MS word used for reporting. Computerised system to be introduced from 2014	Financial statements are prepared directly by the automated system simultaneously manual records are maintained.
8. Information Systems					
8.1 Is the financial management system	Yes – VTA now use BUSY accounting software. All remote	Yes	Only up to Trial Balance	No – installation to be started in 2014	Final Accounts are prepared by the system

Topic	VTA	TVEC	UNIVOTEC	NYSC	NIFNI
computerized?	locations record transactions accessing the Head Office server with HO access to monitor all data entry functions by online accessing.				
8.2 Can the system produce the necessary project financial reports?	Yes, but not linked to MIS for physical reports	Organisation financial reports possible but not linked to government system	Supplemented by spreadsheets	No computerized system but reports able to be prepared using combination of manual system and spreadsheets	No, Possibilities are there to develop the
8.3 Is the staff adequately trained to maintain the system?	Yes	Staff will need additional support once maintenance contract ends in 2014. Normal system use is fine but staff not competent in developing and enhancing the system	Yes	N/A. Training will be provided as part of system implementation in 2014	Yes
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Passwords used to limit access to data levels according to position held. Backups are made daily with a copy held off-site. Anti-virus software in use.	Backups are carried out. Software provider has system backup. Password limited access for users.	Password limited access. Backups made on server. Copies kept at TVEC	N/A – to be incorporated in new system design	Password limitation is there. Backups are prepared and pressured.

PROPOSED INPUTS FOR FINANCIAL MANAGEMENT ACTION PLAN

The following table proposes inputs to be included in the Financial Management Action Plan. It is based on the risk analysis found as section E (Tables 6 & 7) and addresses the identified control risks.

	Risk Description	Risk	Action	Period	Responsibility
1.	Budget credibility	Moderate			
1.1	Medium-term plans and budgets for the SSEP have been prepared as part of program design with support from ADB. The processes for medium term planning are not fully institutionalised in MYASD and TVET agencies. The costing of the SSDP is not fully reflected in the 2014 budget estimates and 2015 & 16 estimates.		Provide TA to provide technical support to assist with improving sector budget planning and management at MYASD and TVET agencies. This should include the development of a training program for financial management personnel in all the participating agencies. Training should include all elements of financial management required by the RBL program design incorporating medium-term planning, budget and expenditure frameworks, variance analysis, unit costing, results-based financing and performance monitoring.	Yr 1	Sector Development Division (SDD) under MYASD, MYASD and MOFP
2.	Funds Flow	Moderate			
2.1	Annual fund allocations to the TVET training institutions responsible for delivering the planned training inputs are not always made in line with agreed plans and budgets.		Although expenditure for the program need not be segregated by donor, donor funds should be reflected in the 'sources' if funds in the budget to ensure that DP contribution is used for intended purposes.	Annually	MOFP, MYASD
3.	Staffing	Low			
3.1	The financial management assessment highlighted a number of vacancies in the existing establishment in each of the agencies assessed. Although management agreed they had sufficient staff for the current workload any additional workload arising from the program implementation may demand		Recruitment and development plan to be prepared by all IAs		MYASD (incl. DTET), NAITA, TVEC, UNIVOTEC, VTA, NYSC, NIFNI

	recruitment of extra staff.				
3.2	Government recruitment processes take a significant period of time to complete which may result in delays in filling vacancies. Recruitment and posting of professional accountants are under the control of the Sri Lanka Accounting Service.		Review existing recruitment plans where staff shortages have been identified and update as required. The status of recruitment requests should be reported at the regular monthly management meetings of the MYASD.	Monthly	MYASD, NAITA, TVEC, UNIVOTEC, VTA, NYSC
4.	Internal controls	Moderate			
4.1	Country level assessments have indicated that although there is a robust internal control environment it is not always rigorously enforced as evidenced by qualifying comments found in audit reports.		Monitor internal and external audit reports for all participating agencies and include frequently occurring violations in staff training plans. Monitor follow up of audit observations.	Ongoing	MYASD, NAITA, TVEC, UNIVOTEC, VTA, NYSC
5.	Internal audit	Moderate			
5.1	The internal audit units at MYASD and NYSC have reported shortages of internal audit staff for monitoring additional workload for the SSEP.		Prepare a recruitment plan for understaffed internal audit departments, particularly at MYASD and NYSC.		MYASD, NYSC
5.2	There is a range of qualifications and skills in the internal audit units. At MYASD and DTET the heads of the units are members of the SL Accounting Service. In the statutory bodies the post holders are less likely to have specific training in International Auditing Standards.		Arrange for training by the Department of Management Audit for the internal auditors in the TVET training agencies.		MYASD, NAITA, TVEC, UNIVOTEC, VTA, NYSC
6.	Reporting and Monitoring	Moderate			
6.1	There are many institutions involved in the implementation of the sector plan each preparing separate annual financial statements. Sector plan management will require the		The MYASD, with support from TA, should develop sector financial monitoring reports which incorporate planned activities by all participating TVET agencies in a format agreed by all sector partners. These would include IFRs, advance tracking, budget	(Q1) Yr 1	MYASD, SDD

	development of reporting formats which incorporate financial and non-financial performance for all participating agencies.		variance analysis of financial and non financial targets, and any other relevant monitoring required by TVET agencies.		
6.2	There are differences between the reporting requirements of the government financial management system generated from CIGAS and those from the TVET Statutory Bodies which follow SLPSAS. Currently training activities by statutory bodies are reflected in the national budget as block allocations and activity detail is reported outside of the government financial reports.		Financial reporting formats consistent with SLPSAS and in line with the emerging sector program design should be developed at the beginning of program implementation allowing financial performance monitoring for all participating agencies. TA support should be provided to support this activity.	(Q1)	MYASD, NAITA,TVEC,UNIVOTEC, VTA, NYSC
7.	Information systems	Moderate			
7.1	TVET training institutes do not use the same accounting software or Charts of Accounts as the government.		Ensure all agency accounting systems have the ability to report the data required in the SSEP. Review the potential requirement for system modification including additions to account codes and modifications in reporting formats.	(Q1)	MYASD, NAITA,TVEC,UNIVOTEC, VTA, NYSC
7.2	UNIVOTEC and TVEC operate accounting software specifically developed for these institutes with support from TEDP. There is insufficient in-house skill in these agencies to maintain or modify the system internally and contracts with the developers are coming to an end.		Ensure government funding is made available to extend maintenance contracts with the system developers. Extend maintenance contracts with current software suppliers.	Yr 1	MYASD, TVEC, UNIVOTEC