

Audited Project Financial Statements

Project Number: 42251-018
Loan Numbers: 3119 and 3120
Period covered: 1 January 2014 to 31 December 2014

SRI: Skills Sector Enhancement Program

Prepared by Ministry of Skills Development and Vocational Training

For the Asian Development Bank
Date received by ADB: 16 December 2015

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and the Ministry of Skills Development and Vocational Training.



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 திறன்கள் அறிவிருத்தி மற்றும் வாழ்க்கைத்தொழில் பயிற்சி அமைச்சு
 Ministry of Skills Development and Vocational Training

My No. 6/2/7/1
 01.12.2015

Country Director
 Asian Development Bank
 Sri Lanka Resident Mission
 No. 23, Independence Avenue
 Colombo 07

Data Received	
6/12/15	
CD	
ECOH	
PAU 1	
PAU 2	✓ SM
F&A	
DISBURSEMENT	✓
FRG	
CD's Office	

Attn: Mr. S. Muthugala

Dear Madam,

Skills Sector Development Program of Asian Development Bank Loan Nos. 3119 - SRI and 3120 – SRI (SF), Skills Sector Enhancement Programme. Consolidated Financial Statement for the year ended 31.12.2014

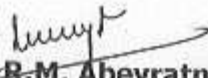
Pursuant to above loan agreements, herewith forwarding copy of Audited Consolidated Financial Statement (Annex I) for your records.

As per the request of Ms. Gi Soon Song, Principal Social Sector Specialist of Asian Development Bank (ADB) following documents attached for your perusal.

- Ministry responses for the Audit Quarries of year 2015 (Annex II)
- Request letter addressed to the Auditor General to adjust/amend unreconciled balances referred in subparagraph 2.2.2 of 2.2 Comments on Financial Statement (Annex III).

It is reported that translation work of english version of agency audit reports are in progress.

Yours faithfully,


R.M. Abeyratne

Additional Secretary (Skills Sector Development)
 Ministry of Skills Development and Vocational Training



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය } YS/D/SSDP/4/14/06 (ADB) }
 எனது இல. } }
 My No. } Your No. }

දිනය } 30 September 2015 }
 திகதி } }
 Date } }



The Secretary,
 Ministry of Skills Development and Vocational Training

Report of the Auditor General on the Consolidated Financial Statement of the Skills Sector Development Programme for the first accounting year ended 31 December 2014

The English version of the above mentioned report is sent herewith.



W.P.C. Wickramaratne
 Acting Auditor General

- Copies -
1. Secretary, Ministry of Finance
 2. Additional Secretary, Skills Sector Development Division

Chief Financial Officer

Mr. dismissed 2/16/10

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දිනය } 30 September 2015 }
 திகதி } }
 Date }

The Secretary,
 Ministry of Skills Development and Vocational Training

Report of the Auditor General on the Consolidated Financial Statement of the Skills Sector Development Programme for the first accounting year ended 31 December 2014

The audit of consolidated financial statement of the Skills Sector Development Programme for the first accounting year ended 31 December 2014 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions in the Article IV of Section 4.04 (a) of the Loan Agreement No. SRI 3119 – SRI (SF) 3120 dated 27 May 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Programme Implementation Document, then Ministry of Youth Affairs and Skills Development, presently Ministry of Skills Development and Vocational Training is the Executing Agency of the Programme and 09 other institutions under then Ministry of Youth Affairs and Skills Development, presently Ministry of Skills Development and Vocational Training are the Implementing Agencies of the Programme. According to the Programme Implementation Document, the objectives of the Programme are building an efficient education system to meet the local and foreign labour market demand by 2020 and improving quality, relevance, access, recognition for vocational training and supportive policies, systems and structures. The estimated total cost of the Programme amounted to US\$ 961 million equivalent to Rs.125,916 million and agreed to provide US\$ 100 million equivalent to Rs. 13,100 million by the Asian Development Bank. Further, US\$ 141 million equivalent to Rs. 18,523 million was expected to be provided by the International Development Association, Government of Germany and Export - Import Bank of Korea. This report consists of the comments on activities carried out by then Ministry of Youth Affairs and Skills Development, presently Ministry of Skills Development

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and Vocational Training and other 09 Implementing Agencies. The Programme activities were commenced in 2014 and scheduled to be completed by 2020.

1.3 Responsibility of the Management for the Consolidated Financial Statement

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

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statement based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Programme's preparation and fair presentation of the consolidated financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the programme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the consolidated financial statement. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over the Programme management and the reliability of books, records etc. relating to the operations of the Programme.

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- (b) Whether the expenditure shown in the consolidated financial statement of the Programme had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Programme.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure for the Line Ministry and 09 other Implementing Agencies from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Programme in financial and physical terms, the assets and liabilities arising from the operations, the identifications of purchase made out of the Loan, etc.
- (d) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds under the Loan had been utilized for the purposes of the Vocational Training Sector.
- (f) Whether financial covenants laid down in the Loan Agreement had been complied with.

1.5 Basis for Qualified Audit Opinion

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

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Programme had maintained proper accounting records for the year ended 31 December 2014 and the consolidated financial statements give a true and fair view of the state of affairs of the Programme as at 31 December 2014 in accordance with Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) the financial covenants laid down in the Loan Agreement had been complied with.

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2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following deficiencies had been observed.

- (a) Computer and accessories procured for the Ministry of Skills Development and Vocational Training at a cost of Rs. 2.5 million during the year under review had been categorized and shown under the vehicles due to a posting error.
- (b) Building renovation works carried out and equipment procured for Skills Sector Development Division at a cost of Rs.24.65 million had been charged as the expenditure of the Programme instead of treated as an expenditure of the Line Ministry.
- (c) Salaries and other operating cost of Rs. 53.03 million and advertisement cost of Rs. 4.6 million had been shown as the cost of staff training.

2.2.2 Un-reconciled Balances

Although material differences were observed between several capital and recurrent expenditure items shown in the individual financial statements of 06 Implementing Agencies, out of 09 Implementing Agencies with the figures shown in the consolidated financial statements, those differences were not reconciled and adjusted in the consolidated financial statements.

Details are given below.

<u>Institution</u>	<u>Expenses of the year under review</u>	
	<u>as per individual financial statement presented</u>	<u>as per consolidated financial statement</u>
	<u>Rs. million</u>	<u>Rs. million</u>
Vocational Training Authority	1,830.61 ✓	1,668.11 ✓
National Apprentice and Industrial Training Authority	1,061.37 ✓	994.75 ✓
University of Vocational Technology	248.02 ✓	248.02 ✓
Ceylon German Technical Training Institute	299.03 ✓	347.57 ✓

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National Institute of Fisheries and Nautical Engineering	172.06	191.22
Tertiary and Vocational Education Commission	99.81	94.25

3. Financial and Physical Performance

3.1 Utilization of Funds

According to the information furnished, the details of funds scheduled to be disbursed to the General Treasury as a budgetary support and actual amount released as at 31 December 2014 are given below.

Source	<u>Amount agreed to be financed</u>				<u>Funds released up to</u>	
	according to the Loan Agreement		up to 31 December 2014		to 31 December 2014	
	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	100.0	13,100	40.0	5,240	20.04	2,613
IDA	100.0	13,100	9.6	1,205	-	-
Government of Germany	15.4	2,017	-	-	-	-
Export-Import Bank of Korea	26.0	3,406	-	-	-	-
GOSL	719.8	94,293	-	-	-	7,308
	<u>961.2</u>	<u>125,916</u>	<u>49.6</u>	<u>6,445</u>	<u>20.04</u>	<u>9,921</u>

3.2 Physical Progress

According to the Action Plan of the Programme, 59 sub programs was scheduled to be implemented during the year under review by the Implementing Agencies and a sum of Rs. 3,457.52 million had been allocated thereon. However, only 44 sub programs had been implemented during the year under review and a sum of Rs. 1,657.53 million had been spent thereon. The following observations are made.

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- (a) Out of 10 Implementing Agencies including then Ministry of Youth Affairs and Skills Development, 05 Implementing Agencies had commenced sub programs during the year under review as scheduled, whilst other 05 Implementing Agencies had shown slow progress as described below.

Implementing Agency	Sub Programs	
	Expected to be commenced	Commenced as at 31 December 2014
Tertiary and Vocational Education Commission	11	05
National Apprentice and Industrial Training Authority	08	05
University of Technical Education	06	04
National Institute of Fisheries and Nautical Engineering	06	04
Vocational Training Authority of Sri Lanka	05	03

- (b) The Programme had spent a sum of Rs. 100.64 million for renovations of building and to procure computers for the University College located in Kuliyaipitiya. However, only 05 training courses had been conducted, out of 09 training courses expected to be conducted during the year under review. Further, it was revealed that only 14 students had been registered for 02 training courses above mentioned. Thus revealed that the resources allocated for training purposes were remained underutilized as at 31 December 2014.

- (c) The first year studies for 02 year Diploma Programs had been commenced at the University College located in Matara during the year under review. However, recruitments for second batch of same course would be questionable due to lack of class rooms and other facilities. Further, the Food Technology Courses with practical sessions had been commenced at the University College located in Matara, required training equipment, lab layouts and other facilities such as electricity, water and gases had not been provided adequately at the end of the year under review.

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3.3 Contract Administration

The following deficiencies are made.

- (a) According to the information made available, the contracts for construction of buildings for 09 University Colleges had been awarded during the year under review to a state owned Corporation and out of that, cost estimates of 06 buildings located at Kuliypitiya, Anuradhapura, Ratmalana, Katubedda, Matara and Jaffna had been revised from Rs 673.8 million to Rs 1,022.3 million subsequently. It was observed that the scope variations made on installation of passenger lifts, air-conditioning system, transformers, fire protections system and additional concreting works due to structural changes were the major causes for the escalations of the cost of constructions.
- (b) According to the Programme Implementation Plan, a sum of Rs. 1,700 million had been allocated for the purpose of procuring of training equipment for newly constructed University Colleges. However, action had been taken at the end of the year under review to award contracts to procure equipment valued at Rs. 1,579 million only and out of that, training equipment valued at Rs. 98.57 million had been received at the end of the year under review, as per records made available at the Skills Sector Development Division of the Programme. Further, as specified in the Programme Implementation Document, International Competitive Bidding Procedures was required to be applied to procure equipment valued over US\$ 0.5 million and equipments with similar nature should be grouped together and packaged accordingly. However, the Skills Sector Development Division had applied National Competitive Bidding Procedure to procure training equipment under individual basis of assets.
- (c) It was observed that the bids had been called to procure training materials at a cost of Rs. 186 million for Production Technology Courses at newly constructed University Colleges without preparing of cost estimate and grouping of assets with similar nature and as a result, the bidders had not responded properly. Eventhough the Technical Evaluation Committee and Procurement Committee had recommended to recall the bid for 35 items out of 97 items, Skills Sector Development Division had not taken action to recall bids even as at 31 July 2015.

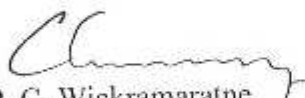
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- (d) National Youth Services Council had awarded a contract to procure training equipment at a cost of Rs.35.54 million and the contract was required to be completed by 24 December 2014. However, the training equipment valued at Rs.14.68 million had not been received even as at 31 August 2015. The Skills Sector Development Division had reimbursed a sum of Rs.30.94 million to the Council without tracing evidence to prove the equipment physically received.
- (e) It was observed at the site inspection made by the auditors that the Consultant had failed to identify defects of the newly constructed building at the University College at Matara at the time of handing over on 03 December 2014 and action had not been taken to rectify 06 major defects identified by the officers of the University College even up to 31 May 2015. Further, the some of the training equipment could not be installed as the building layout plans were not properly prepared. In addition, several major defects and cracks of the building constructed at University College located at Kuliyaipitiya had also been observed at the time of audit inspection made.

3.4 Issues on Financial Controls

The following observations are made.

- (a) According to the paragraph 24 of Project Appraisal Document, the Internal Audit Units of every Implementing Agency of the Programme are required to be carried out risk based high impact audits and Skills Sector Development Division of the Programme is required to take action for the monitoring purposes. Even though Internal Audit Units had been established in the Line Ministry and 04 other Implementing Agencies and 55 auditors attached therein, material findings had not been included in the internal audit reports relating to the operations of the Programme. Further, the Internal Audit Units had not been established in 05 Implementing Agencies.
- (b) Incentive schemes, introduced to the staff of the Implementing Agencies had not been based on results and criteria developed by the Line Ministry. The total cost of the incentive payments amounted Rs. 97.09 million.


W. P. C. Wickramaratne
Acting Auditor General

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**Financial Reports
for the period from
01.01.2014 to 31.12.2014**

**SKILLS SECTOR
DEVELOPMENT
PROGRAM**

Skills Sector Development

Division

**Ministry of Skills Development
and Vocational Training**

"Nipunatha Piyasa"

No. 354/2, Elvitigalla Mawatha

Narehenpita

Colombo 05.

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Skills Sector Enhancement
Program Reporting
Requirement under Loan Nos.
3119-SRI, 3120 – SRI (SF)

Skills Sector Development Program.
Ministry of Skills Development and
Vocation Training.

**“Consolidated Financial Statement
for the Period 01.01.2014 to
31.12.2014”**

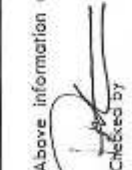
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**Skills Sector Development Program ADB Loan Nos. 3119 SRI and 3120 SRI (SF) and World Bank Loan Nos. 3516-LK and 3517-LK
Consolidated Statement of Accumulated Total Expenditure for the period from 01.01.2014 to 31.12.2014 - Amended**

Cash flow item	Unaudited Expenditure 01.01.2013 to 31.12.2013	* Technical Vocational Education and Training Agencies											Total				
		VTA-SI	NAITA	TVEC	UNIVOTEC	NYC	NYSC	CGTI	NIFNE	DIET	MYSAD	SSDO		Actual			
Operating Activity																	
1. Recurrent expenditure	2,079,351	434,865	379,513	35,703	85,347	122,296	387,175	66,370	48,572	505,251	195,040	-	2,210,111				
Salaries & wages	45,258	12,615	9,344	858	2,720	1,670	14,885	1,428	2,230	4,836	7,577	-	58,0				
Overtime and holiday pay	856,526	235,939	10,068	1,880	7,843	52,700	106,164	72,095	27,537	469,169	134,455	-	1,110,8				
Other allowances	164,613	9,251	30,016	173	26,267	132,281	3,267	11,690	11,690	212,8	8,009	-	619				
Other personal emolument	34,732	8,637	9,868	331	92	1,458	27,169	84	1,825	4,374	6,809	-	12,6				
Domestic travelling	16,829	4,469	2,798	718	56	10	417	-	348	73	6,809	-	12,6				
Foreign travelling	18,251	4,444	648	6	249	4,122	34,610	-	1,596	4,122	2,443	-	52,2				
Transport	61,346	17,382	13,375	1,850	7,038	3,758	8,594	990	9,833	8,711	10,393	-	81,8				
Postal communication	210,361	58,470	30,764	3,268	13,305	19,452	27,010	9,302	9,581	55,846	15,512	-	242,5				
Electricity and water	39,787	5,768	26,429	131	563	726	2,612	242	460	1,744	631	-	39,3				
Rent and local taxes	1,219,078	305,498	267,516	32,693	38,259	321,010	54,609	49,500	57,424	259,511	72,386	-	1,458,7				
Other recurrent expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-				
Ex. of Incidental sector Skills councils	-	-	-	-	-	-	-	-	-	-	-	-	-				
Purchase model Expenditure	59,933	22,527	-	-	-	-	3,073	10,713	846	-	-	-	97,0				
Teacher performance allowances	4,747,131	1,154,921	752,846	77,891	150,552	554,469	798,491	213,871	171,951	1,313,737	453,256	-	5,641,2				
Sub total 1	709,763	4,881	80,130	26,655	37,871	25,242	854,758	1,831	5,821	16,760	45,131	-	1,165,5				
2. Investment Activity	121,358	9,367	4,983	613	83,053	31,541	-	7,560	5,147	41,762	6,471	-	913,2				
Staff training/Capacity building	392,378	185,821	73,399	3,171	10,620	48,414	206,570	16,770	97,902	99,251	69,453	-	836,1				
Building construction	178,521	90,871	18,453	-	22,124	29,113	-	22,430	13,233	12,665	6,481	-	110,584				
Building Rehabilitation	154,344	7,048	10,243	44	1,391	12,059	-	16,610	842	115,720	10,260	-	173,4				
Training Equipment	25,872	16,837	14,312	1,210	570	15,150	-	-	842	8,839	4,926	-	1,72				
Other equipment	207,504	12,023	40,991	10,076	4,385	503	61,354	6,102	5,892	242,862	-	-	384,1				
Vehicles	-	-	-	-	-	-	-	-	-	192	-	-	-				
Other Assets/Capitalised	1,789,740	326,848	241,931	41,769	166,014	162,061	1,122,682	71,203	128,419	295,065	385,574	-	3,948,5				
Capital Expenses Refunded	-	-	-	-	-	-	-	-	-	-	-	-	-				
Sub total 2	-	-	-	-	2,546	-	-	-	35	-	-	-	-				
3. Other Expenditure	6,336,870	1,481,169	994,797	119,660	313,112	716,530	1,921,093	285,174	300,404	1,608,742	838,830	-	9,592				
Financial Charges	-	-	-	-	-	-	-	-	-	-	-	-	-				
Exchange losses	-	-	-	-	-	-	-	-	-	-	-	-	-				
Total Expenditure 1 & 2 & 3	6,336,870	1,481,169	994,797	119,660	313,112	716,530	1,921,093	285,174	300,404	1,608,742	838,830	-	9,592				
Less: Cash & Cash Equivalent	72,935	87,438	87,438	12,411	15,708	-	109,403	30,078	1,447	95	-	-	329,2				
Total Expenditure + Cash Balance - Agency	6,536,870	1,554,103	1,082,235	132,071	328,820	716,530	2,030,496	315,252	301,852	1,608,837	838,830	-	9,921,1				
Financing Activity																	
Block grant Consolidated fund	1,129,746	899,382	861,000	223,100	653,117	1,247,725	212,011	197,450	1,448,778	828,830	1,647,672	-	8,582,2				
SSDD - Consolidated fund	197,413	62,549	10,878	59,209	62,689	55,946	11,027	63,710	101,472	101,472	101,472	-	110,1				
Refund to SSDD	-	-	-	-	-	-	-	-	1419	192	-	-	10,8				
SSDD expenses incurred by MYSAD	5,697	-	-	5,000	-	-	-	-	-	-	-	-	-				
SSDD - World bank (Camp-2)	191,645	109,737	12,230	23,456	794	161,008	82,407	41,112	-	-	-	-	622,2				
Self financing	29,602	10,567	22,863	18,955	-	565,817	9,807	58,879	-	-	-	-	716,2				
Other(Specify the source of funds)	1,554,103	1,082,235	132,071	328,820	716,530	2,030,496	315,252	301,852	1,608,837	838,830	1,012,594	-	9,921				
Total																	

Above information are extracted from the certified financial /expenditure statements submitted by the respective TVET agencies for the period from 01.01.2014 to 31.12.2014. Notes to the account is attached.

Checked by:  Accountant
 Skills Sector Development Division

Recommended by:  Financial Analyst
 Skills Sector Development Division

Approved by:  Additional Secretary
 Skills Sector Development

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SKILLS SECTOR ENHANCEMENT PROGRAM (JULY 1, 2013 – 2020)
EXECUTED BY THE MINISTRY OF SKILLS DEVELOPMENT AND VOCATIONAL TRAINING

NOTES TO THE INTERIM UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

1. PROGRAM NATURE AND ACTIVITIES

- 1.1. Skills Sector Development Program (SSDP) (2014-2020) is a medium term sector development program the Sri Lankan Government has undertaken for TVET sector. SSDP covers all skills development activities carried out by agencies and training providers under the Ministry of Skills Development and Vocational Training (MSDVT). Following table shows the program scope.

Outcome	An efficient skills education system to meet the local/foreign labor market demand
Outputs	Improving (i) quality (ii) relevance (iii) access (iv) recognition for vocational training and (v) supportive policies, systems and structures.
<i>Executive agency</i>	<i>Ministry of Skills Development and Vocational Training (MSDVT)</i>
<i>Period of the program</i>	<i>2014-2020</i>

SSDP has supported the public investment strategy 2014 – 2016. The ADB's Results Based Lending (RBL) for the government sector program is called Skills Sector Enhancement Program (SSEP) 2014-2016. Outcomes, outputs, participating ministries and agencies are same as for SSDP.

Originally estimated total expenditure of SSDP is \$ 961 for 2014-2020. SSEP total expenditure for 2014-2016 is \$ 386. The ADB contribution is \$ 100 for 2014-2016, \$ 50 Mn. From Ordinary Capital resources and SDR 32.6 Mn from Special Fund resources.

Implementation agencies under the purview of MSDVT are as follows.

- a. Ministry of Skills Development and Vocational Training (MSDVT)
- b. Department of Technical Education and Training (DTET)
- c. Vocational Training Authority of Sri Lanka (VTA)
- d. National Apprentice and Industrial Training Authority (NAITA)
- e. Tertiary and Vocational Education Commission (TVEC)
- f. University of Vocational Technology (UNIVOTEC)
- g. National Youth Corps (NYC)
- h. National Youth Service Council (NYSC)
- i. Ceylon German Technical Training Institute (CGTTI)
- j. National Institute of Fisheries and Nautical Engineering (NIFNI)

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- 1.2 MSDVT is a Government ministry and the DTET is a Government department. Both of them are coming under separate expenditure heads as budgetary units of the appropriation bill. All other agencies are treated as public enterprises under a line ministry as separate legal entities. Ministries, Departments and public enterprises are regulated by government finance.

The legal frame work 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 has been amended time to time.

2. STATEMENT OF COMPLIANCE

These special purpose interim unaudited financial statements has been prepared for the Skills Sector Enhancement Program on a cash basis of accounting as provided in the Finance Regulations, Finance Act No 38 of 1971 and Enabling Acts of Parliament as applicable in Sri Lanka.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Unaudited Interim Consolidated Financial Statement

This comprises of the consolidated statement of Sources and Uses of Funds according to the information available in the statements submitted by implementation agencies, and related notes to these the financial statement.

3.2. Basis of measurement

Financial Statements have been prepared under the historical cost convention and on a cash basis of accounting. Data has been obtained from the implementation agencies, consolidated and reconciled with the CIGAS accounting records for (i) expenditure incurred by MSDVT and DTET and for (ii) amount transferred to the TVET agencies as block Grants. TVET agencies maintain this books of accounts on an accrual basis of accounting. However to reconcile with the GOSL cash basis accounting system, financial information relating to cash inflows and outflows has been obtained from the TVET agencies financial/ expenditure reports.

3.3. Fund Flow mechanism

All transactions are funded by consolidated funds, other than World Bank funding for the component 2 where the conventional investment project procedure is applied. Consolidated funds are received by MSDVT/DTET on cash imprest to their Bank Accounts. Specific allocation for SSDP will be transferred to SSDD Bank account as a sub imprest to disburse to TVET agencies on monthly progress. Block grant will be transferred to TVET agencies by the treasury on direct recommendation of MSDVT.

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3.4. Cash and cash equivalents

Cash in hand is minimized at implementation agencies. Other than the unspent amount of Block grant, all other imprest cash balances should be refunded to the treasury through MSDVT/DTET at the year end. Unspent block grant shall be used in the following year and accounted by the agencies. Self-financing cash balances are remaining in agencies accounts. Advances not charged to the expenditure codes are also treated as cash equivalents.

3.5. Accrued and other liabilities

On the cash basis policy, year-end commitments are not accounted as expenditure in the current year. Although the policy is contrary to the time basis, the expenditure will be recorded in the following year where the payment is made.

3.6. Income

- I. In the government finance , other than to the self-financing activities, all income shall be accounted to the government revenue. Revenue in self –financing activities is reflected in the income and expenditure Accounts.
- II. If any asset is given free of charge by the government , such asset is not accounted in the financial statements of the agencies.

3.7. Interest and Financial Charges

If the finance charges are derived from the specific project identified to the Head (Ministry) , such expenditure would be charged to the ministry's head as an expenditure. If they are common charges, the accounting will be done at the treasury for a common vote.

4. BLOCK GRANTS, ADVANCES & CASH EQUAL ANT

Under the cash basis of accounting , advances by MSDVT and DTET to suppliers and contractors are charged as expenditure under a separate identifiable code. In addition ,block grants to TVET agencies which have not yet been recorded as expenditure by the TVET agencies but charged to expenditure under the cash basis of accounting are attached as Table 01.

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5. FINANCING FROM CONSOLIDATED FUND AND OTHER SOURCES

Government budgeting and funding mechanism under the RBL

Government budget is prepared for the entire activities of MSDVT , DTET and TVET agencies, except for self-financing activities. TVET agencies shall include self – financing budget in their corporate plan. Fund flow is effected in the following manner.

5.1. Block grant transfer

Treasury disburses the funds directly to TVET agencies on the recommendation of MSDVT for recurrent and approved capital expenditures. Actual expenditures are reported monthly to the treasury and recorded by CIGAR system to the MSDVT Head and disclosed in Treasury print outs. Unspent balance, if any at the year end, will be used in the following year by the agencies and reported under new Treasury Votes. The imprest authority lies on MSDVT for Block grant transfers.

5.2. Project specific funds and others

SSDP specific and others of consolidated funds allocated to MSDVT are issued periodically to the MSDVT Bank account as an imprest by the treasury. Project specific fund is managed by a separate division of the Ministry known as Skills Sector Development Division (SSDD) as a sub imprest which is transferred to separate Bank account from the ministry, while others are managed by the MSDVT accounts division. SSDD issues project-specific funds to TVET agencies reviewing the monthly progress and having liquidations for the previous balances monthly. Any balances at the year-end will be refunded to the treasury by MSDVT under these arrangements.

5.3. World Bank contributing

World Bank contribution is effected in two ways. Component 1 is as same as RBL and component 2 is as the conventional investment project frame work under MSDVT.

5.4. Self-financing

Some of TVET agencies are allowed to run the self-financing activities. These cash flows are moved within the Agencies as going concern.

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5.5. Others

Others shall be special purpose programs other than to the above and miscellaneous in come such as scrap sales etc.

Description	Current Period Jan 1, 2014 – Dec 31, 2014	Prior Year	Cumulative Year to date
	Rs. 000		
Government Counterpart	6,935,040	3,321,828	10,256,868
SSDD	1,647,672	0	1,647,672
WB			
Other Sources of Funding	1,338,908	290,847	1,629,755
Total	9,921,620	3,612,675	13,534,295

6. RECONCILIATION OF ASIAN DEVELOPMENT BANK DISBURSEMENT FOR SSEP

Two Loan agreements have been signed between Democratic Socialist Republic of Sri Lanka and Asian Development Bank on 27.05.2014. one is for Ordinary Operations and the other for Special operations. The ADB contribution for SSEP is \$ 100 for 2014-2016, \$ 50 Mn. From Ordinary Capital resources and SDR 32.6 Mn. From Special Fund resources. Interest shall be paid on the principle amount of the loan withdrawn and outstanding from time to time at the rate for

- a. LIBRO
- b. 60% as determined by Sec. 3.02 of the loan regulation less a credit of 0.10% as provided by Sec. 3.03 of the loan regulation
- c. A maturity premium of 0.10% as provided by section 3.03 of the loan regulation
- d. Commitment charges of 0.15% shall be paid per annum

Loan closing date 30 June 2017

ADF loan (SDR 32.6 Mn.)

Interest rate is 2% per annum during the grace period and thereafter.

Loan closing date 30th June 2017

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Details of disbursements are given below:

As of 31 December 2014

SLR '000

SL No	Development Partner	Date	Currency	Disbursed Amount	Exchange Rate	Amount in SLR credited to Consolidated Fund
A	DPs Accumulated disbursement as of 01.01.2014		USD			-
B	Receipts of DPs Contribution during the year					
1	Disbursement	3/6/2014	USD	10,000,000.00	130.35	1,303,500,000.00
2	Disbursement	3/6/2014	USD	10,045,885.60	130.35	1,309,481,187.96
3	Disbursement*	21/11/2014				
	Total Receipts of DPs Contribution during the year					
C	Total cash received as of December 1,2014 (C=A+B)					

As 3rd Withdrawal SSDD submitted application for USD 16,000 Mn. As per the donor information USD 15,625,948 scheduled to be disbursed on 26.11.2014. 4th Withdrawal Application submitted on 18.12.2014, has not been reimbursed.

7. GIVE DETAILS FOR OTHER DONOR FUNDING TO SSEP

World Bank	USD	101.5 Mn.	(SDR 65.7 Mn.)
(a). Component 01	USD	93.6 Mn.	
(b). Component 02	USD	7.9 Mn.	

8. PROCUREMENT FROM NON ADB MEMBER COUNTRIES

Procurement were based on National Competitive Bidding from the period 01.01.2014 to 31.12.2014.

9. DATE OF AUTHORIZATION

These financial statements have been authorized for issue by Secretary of Ministry of Skills Development and Vocational Training and Skills Development on 25.06.2015

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Note 04 of Table 01:

Cash and Cash equivalent as at 31.12.2014

	VTA-SL	NAITA	TVEC	UNIVOTEC	NYC	NISC	CGTI	NIFNE	DIET	MYASD	SSDP	Total
Unspent block grant at the beginning of the period	58,146	62,682	4,081	13,930	0	113,134	19,956	1,279	0			773,228
Transferred as Block grant from MYASD/SSDP	1,332,857	908,049	96,978	288,869	709,238	1,303,671	222,215	261,160	1,549,958	838,830	0	7,511,871
Other Sources of Financing	163,100	111,504	31,012	28,565	7,291	613,671	79,081	38,833	58,879			1,126,931
Less: Spent/charged by TVET Agency	1,481,169	994,797	119,560	315,691	716,530	1,921,099	285,174	300,824	1,608,742	838,830	0	8,507,508
Cash and Cash Equivalent as at 31.12.2014 (Including Advances)	72,934	87,438	12,411	15,708	0	109,403	30,078	1,447	95	0	0	329,511

* Ministry of Youth Affairs and Skills Development (MYASD) total expenditure has been treated as receipts as per the information provided.

* Skills Development Division Expenses and Receipts includes block grant received and spent by MYASD. Self Financing Income Received Rs. 2,945,000/- returned to MYASD and has not been taken into receipt and payments of SSDP.

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