

## PROGRAM FIDUCIARY SYSTEMS ASSESSMENT

### A. Background and Information Sources

1. The Skills Sector Enhancement Program (SSEP) will finance the government's Skills Sector Development Program (SSDP), 2014–2020, which aims at an efficient skills education system to meet local and foreign labor market demand by 2020. It means adopting a five-pronged strategy for vocational training by improving its quality, relevance, accessibility, recognition and supportive policies and structures. SSEP activities will be implemented by the Ministry of Youth Affairs and Skills Development (MYASD) and selected technical and vocational education and training (TVET) agencies under MYASD. MYASD, the main line ministry for skills development, is responsible for (i) quality assurance of public and private TVET providers; (ii) an extensive network of public TVET providers, consisting of over 600 training centers across the country; and (iii) implementation of more than 90% of SSDP financing. Procurement under the program will exclude activities that involve high-value contracts or activities classified as category A for safeguards, in line with the Asian Development Bank (ADB)'s policy on results-based lending (RBL).

2. This assessment of the program's financial management and procurement systems is intended to determine how well the executing and implementing agencies will be able to manage fiduciary risks and provide reasonable assurance that program funds will be used appropriately, i.e., in line with the sound procurement principles of competition, economy and efficiency, transparency, and fairness. Fiduciary systems have been assessed based on ADB's extensive experience in supporting technical and vocational education in Sri Lanka, as well as earlier country and sector assessments, and recent analysis and field-based assessments conducted as part of the SSEP's due diligence following RBL staff guidance<sup>1</sup> and other relevant guidelines and tools of ADB.

3. A detailed financial management assessment was conducted in August 2013 with reference to ADB's Guidelines for the Financial Management and Analysis of Projects and Financial Due Diligence: A Methodology Note. An additional assessment was carried out in December 2013 to fill the gaps in the earlier assessment. As required by ADB's RBL policy, the financial management assessment emphasizes accountability and transparency. It covers (i) internal controls, (ii) funds flow arrangements, (iii) accounting, (iv) financial reporting, and (v) audit arrangements. The assessment includes a review of the government's public financial management (PFM) system and of the capacity of the Ministry of Finance and Planning, MYASD, eight selected TVET agencies under MYASD, and the Auditor General's Department (AGD). Under the proposed arrangements, country PFM systems will be fully used. The assessment draws from a number of recent assessments.<sup>2</sup> For an institutional assessment, ADB's Financial Management Assessment Questionnaire was filled out by each agency and validated by a financial management specialist engaged for the financial management assessment (FMA).<sup>3</sup>

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<sup>1</sup> ADB. 2013. *Staff Guidance for Piloting Results-Based Lending for Programs*. Manila.

<sup>2</sup> (i) ADB. 2013. *Financial Management Systems Assessment*, Education Sector Development Program (RRP SRI 392930); (ii) ADB. 2002. *Diagnostic Study of Accounting and Auditing Practices in Sri Lanka*. Manila; (iii) World Bank. 2003. *Sri Lanka: Country Financial Accountability Assessment*. Washington, DC; (iv) World Bank. 2007. *Sri Lanka: Public Sector Accounting and Auditing, A Comparison to International Standards*. Washington, DC; (v) ADB. 2012. *Financial Management Assessment*. Consultant Report. (TA-7746); (vi) PEFA. 2013. *Draft Public Expenditure and Financial Accountability Assessment Report— Sri Lanka*. Washington, DC. (vii) ADB. 2012. *Country Portfolio Review Meeting*.

<sup>3</sup> Financial Management Assessment (accessible from the list of linked documents in Appendix 2).

4. The procurement assessment has been carried out in October–December 2013 based on a detailed review of procurement systems, capacities, and practices at MYASD and in eight TVET agencies under MYASD.<sup>4</sup> The assessment followed the standard methodologies prescribed in ADB’s Procurement Capacity Assessment and Procurement Review for Effective Implementation questionnaires and tools. The assessment also benefited from earlier country procurement assessments.<sup>5</sup> In addition, field visits were conducted to the offices of MYASD and all TVET agencies, detailed discussions were held, and samples of technical and vocational education sector procurement in each category were reviewed to complete the detailed assessment.<sup>6,7</sup>

5. The fiduciary systems assessment indicates that although overall fiduciary risk in Sri Lanka is substantial on account of weaknesses in budget credibility and execution, internal audit oversight, and transparency, various national PFM reforms and initiatives are being undertaken.<sup>8</sup> At MYASD, despite weaknesses in budget formulation and development, the systems and performance in terms of sector outcomes are satisfactory. MYASD has implemented a number of projects financed by international development agencies, including ADB, and its staff members are familiar with national and international procurement and financial management procedures. To improve capacity and compliance, action plans that include measures to boost financial management and procurement systems have been developed to reduce risks associated with the implementation of the SSDP in a more efficient manner, while enabling the achievement of sector results. The following sections summarize the assessments of financial management, procurement, and anticorruption systems.

## B. Financial Management System

6. **Program financial management profile.** The proposed RBL program implies full use of government financial management systems, including the budgeting, accounting, reporting, monitoring, and auditing arrangements of the Government of Sri Lanka. A public expenditure and financial accountability assessment was recently completed but the report had not been finalized at the time of this assessment (footnote 2, item [vi]). Based on the latest draft, strong performance of the overall PFM system was found in revenue and expenditure turnout, budget documentation, transparency of provincial government fiscal transfers, orderly budget process, debt and cash management, reconciliations of bank accounts, annual financial statements, and legislative scrutiny of the budget.<sup>9</sup> Areas that were found to be weaker include managing variations in budget outcome composition, timely monitoring of fiscal risks from public enterprises and subnational government, and use of internal audits to report on system issues.

<sup>4</sup> The eight agencies are: (i) Tertiary and Vocational Education Commission, (ii) Department of Technical Education and Training, (iii) Ceylon German Technical Training Institute, (iv) University of Vocational Technology, (v) Vocational Training Authority, (vi) National Apprenticeship and Industrial Training Authority, (vii) National Institute of Fisheries and Nautical Engineering, and (viii) National Youth Services Council.

<sup>5</sup> World Bank and Asian Development Bank. May 2012. *Report on Public Procurement Modernization and Reform Assessment in Sri Lanka*. (Unpublished)

<sup>6</sup> The field visits in preparation of the PCA involved focus group and individual consultations with MYASD and the TVET agencies. The questionnaire included in the PREI manual was completed for each TVET agency. Contracts for procurements under government financing in each agency were carefully reviewed following the guidance and questionnaire in the PREI.

<sup>7</sup> Procurement Capacity Assessment (accessible from the list of linked documents in Appendix 2).

<sup>8</sup> These include the Fiscal Management Efficiency Project, which is to improve tax administration and compliance through computerization of revenue administration, using the revenue administration and management information system (RAMIS); and implementation of an integrated treasury management information system (ITMIS), whose functional specification covers budget preparation, cash flow management, and fiscal planning and reporting. This also includes the adoption of Sri Lankan financial reporting standards, which are aligned with international standards, and more timely submission of better-quality audit reports by the AGD.

<sup>9</sup> Ratings of B and above were given for these indicators.

Success in achieving intended budget outcomes requires realistic budgeting, in-year control over spending, in-year control over revenues, and timely accounting and reporting.

7. The FMA undertaken for the program as well as the Education Sector Development Framework and Program approved in 2013, found that the government has made progress in rectifying many of the weaknesses in its PFM system. The World Bank has been supporting capacity at the AGD through its Public Sector Capacity Building Initiative, which began in 2008 and was extended to the end of 2013. The initiative established a departmental training center that facilitates the continuous professional development of AGD staff. There has been a marked improvement in investigative and performance audits by AGD staff as a result of this initiative. ADB is also supporting PFM reforms through its Fiscal Management Efficiency Project, which includes implementing the revenue administration management information system, the integrated treasury management information system, and some training programs.

8. **Budget.** The earlier TVET sector FMA recommended strengthening the link between policy, planning, and budgeting, including meeting the need for robust sector strategies to guide medium-term, sector-specific resource allocations. This assessment indicates that (i) recurrent expenditure historically is funded adequately; (ii) budget cuts are made to the amount requested, both at the time of initial allocation and upon midyear budget revisions; and (iii) allocated funding is generally released late. Indeed, it indicates that one of the most substantial risks is the unavailability of adequate budget allocation and timely release to MYASD to meet physical targets.

9. A medium-term expenditure framework is in process through the development of the SSDP, which sets out the sector policies and key strategies for policy implementation. This brings together the various policies for the sector contained in different documents: (i) the government's development vision up to 2020, Mahinda Chintana, which sets out the development policy framework for the country, including the role of technical and vocational training for economic development; (ii) the National Policy Framework on Higher Education; and (iii) Technical and Vocational Education, prepared by the National Education Commission in 2009. Over time, SSDP needs to be better integrated in the "regular" development activities of MYASD. Currently, SSDP is budgeted as a separate activity. The present budget analysis indicates that there is a shortfall in the budget allocation announced in November 2013, although the SSDP may be ambitious and not account for MYASD's absorption capacity. Accordingly, a disbursement-linked indicator (DLI) will require performance partnership framework between (i) Ministry of Finance and Planning and MYASD and (ii) MYASD and the TVET agencies on the key performance indicators from the SSDP (with priority to be given to DLI areas), attached with annual implementation plan and budget estimation. To induce adequate allocation, part of the disbursement will be linked to the performance partnership framework for adequate budget allocation. The same DLI will also require a certain spending target for the approved budget for MYASD every year. ADB will also require the government to identify ADB funding separately in the budget.

10. **Accounting, financial reporting, and auditing.** The government's financial accounting and reporting framework, supplemented by a detailed statement of audit needs, will ensure that program audited financial statements are prepared and audited in accordance with international accounting and auditing standards, and provide adequate levels of disclosure to meet the needs of decision makers and promote transparency.

11. To provide support for this as well as other financial management matters, a financial specialist shall be recruited to the Sector Development Division. The Program Action Plan will also require MYASD and the TVET agencies to develop and approve a recruitment and training plan that would include training on ADB disbursement procedures, preparation of financial

statements in line with Sri Lankan financial reporting standards and/or Sri Lankan public sector accounting standards, and preparation of a budget.

12. **Internal audit.** The overall internal audit framework requires strengthening. As part of the program, MYASD and the TVET agencies shall be required to develop and approve a recruitment and training plan that would include certification of key staff as certified internal auditors and a regular report on audit findings.

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

**Table 1: Financial Management Risks**

<b>Risk Type</b>	<b>Risk Description</b>	<b>Risk Rating<sup>a</sup></b>	<b>Mitigation Measures</b>
<b>Inherent Risk<sup>b</sup></b>			
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 sector 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 program action plan 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 for capital expenditure. ADB will also require the government to identify ADB funding separately in the budget.
2. Sector- or program-specific risks	There are multiple implementing agencies, including a government ministry, a 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 will be formed by representatives from all implementing agencies.  Regular supervisory and review missions, including on financial management and procurement.  The results-based lending modality lowers the financial risk because disbursement will not proceed if indicators are not achieved. These will be managed 100% by MYASD.
<b>Overall inherent risk</b>		<b>S</b>	
<b>Control risk<sup>c</sup></b>			
1. Internal controls	The government's internal control framework is well defined in the Financial Regulations (1992), which specify functional responsibilities,	S	Monitor whether qualifying comments in external audits of internal controls are acted on.

Risk Type	Risk Description	Risk Rating <sup>a</sup>	Mitigation Measures
	<p>adequate segregation of duties for the various stages of recording financial transactions, and managing cash. As for transactions, there is a clear segregation of duty for ex-ante approvals for ordering, receiving, recording, and paying. There are also clear lines of authority and routine checks at 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>		
2. Funds flow	<p>ADB funds flow will follow government funds flow processes.</p> <p>Budget allocations for TVET training agencies are not consistently provided in full, requiring adjustment to action plans during the implementation period. Some agencies reported receipt of only 80% of recurrent nonsalary budget and 80% of domestically financed capital request during 2012.</p>	H	<p>Technical assistance to support improvements in sector budget planning and management at MYASD.</p> <p>Funding allocations to TVET agencies to be monitored as part of regular performance reporting.</p> <p>Medium-term plans and budgets are being prepared as part of Skills Sector Development Program preparation, which aligns budget allocations to plans.</p> <p>The disbursement-linked indicator approach to funds release requires compliance with performance expectations before providing finance.</p>
3. Accounting and financial reporting	<p>All government financial reports are prepared in accordance with the Financial Regulations (1992). The integrated Chart of Accounts is consistent with IPSAS. Government financial reports are prepared from the computerized integrated government accounting system. Government reporting formats are not fully compliant with IPSAS.</p> <p>All TVET agencies prepare financial statements in line with SLPSAS.</p> <p>There is some concern on provision of software maintenance support for the systems developed under the</p>	S	<p>Financial reporting formats consistent with SLPSAS and in line with the sector program design shall be developed by the financial management specialist at MYASD's Sector Development Division in collaboration with ADB technical assistance. Training on the use of the formats will also be provided.</p> <p>Regular review of internal and external audit reports should be used to update the financial management action plan as required.</p> <p>Accounting software maintenance contracts will need to be arranged for the Tertiary and Vocational Education</p>

Risk Type	Risk Description	Risk Rating <sup>a</sup>	Mitigation Measures
	<p>Technical Education Development Plan.</p> <p>Government accounting system for projects does not have a clear link between financial information and physical progress. Supplementary reports are prepared outside of the system.</p>		<p>Commission and the University of Vocational Technology.</p> <p>Monitoring tools including variance analysis of actual versus budgeted financial and physical targets shall form part of program monitoring.</p>
4. Independent audit (internal audit)	<p>All TVET agencies have internal audit units, although some reported an increase in vacancies in this function. The Vocational Training Authority, on the other hand, recruited six more staff during 2013. All agencies have an annual internal audit plan and use manuals prepared by MOFP's Department of Management Audit. The range of skills differs across the units—at MYASD and DTET, the unit heads are members of the Sri Lanka Accounting Service, whereas in the statutory bodies, they 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 the National Youth Services Council.</p> <p>Arrange training for internal auditors from the Department of Management Audit and consider certification of key internal audit staff by the Institute of Internal Auditors.</p>
5. Independent external audit	<p>The Auditor General's Department is responsible for annual audits of all government ministries and agencies. In the case of the TVET sector, annual audits are generally completed in a timely manner.</p> <p>The statutory bodies are issued with an audit opinion on compliance with SLPSAS, but MYASD (as a government ministry) and DTET (as a government department) are not yet required to prepare financial statements in accordance with SLPSAS.</p>	S	<p>Statement of Audit Needs agreed between ADB, Auditor General's Department, and internal auditors to ensure that program financial statements are prepared and audited in accordance with Sri Lankan accounting and auditing standards, and are submitted within 6 months of the end of the fiscal year.</p>
<b>Overall control risk</b>	<b>S</b>		
<b>Overall Risk</b>	<b>S</b>		

ADB = Asian Development Bank, DTET = Department of Technical Education and Training, IPSAS = International Public Sector Accounting Standards, MOFP = Ministry of Finance and Planning, MYASD = Ministry of Youth Affairs and Skills Development, SLPSAS = Sri Lankan Public Sector Accounting Standards, TVET = technical and vocational education and training.

<sup>a</sup> Low (L), moderate (M), substantial (S), or high (H).

<sup>b</sup> The susceptibility of the results-based lending program's financial management system to factors arising from the environment in which it operates, such as country rules and regulations and the agency's working environment (assuming absence of any counter checks or internal controls).

<sup>c</sup> The risk that the program's accounting and internal control frameworks are inadequate to ensure that results-based lending program funds are used economically and efficiently and for the purpose intended, and that the use of funds is properly reported.

Source: Asian Development Bank.

### C. Procurement Systems

14. **Program procurement profile.** The procurement of goods, works, and consulting services under the SSDP will be processed using a country procurement system that is in line with the sound procurement principles of open competition, economy and efficiency, transparency, and fairness. All procurement under the program will follow national procurement guidelines, manuals, and standard bidding documents. The SSDP will exclude activities that involve high-value contracts, i.e., where the estimated value exceeds the monetary amounts specified in ADB's policy on RBL. The procurement responsibilities will be shared between MYASD and all eight TVET agencies. The bulk of the procurement would involve civil works for about 130 existing or new training centers with package sizes of up to SLRs650 million; training equipment packages ranging from SLRs50 million to SLRs250 million; and office furniture, laboratory or information technology equipment, vehicles, and consulting service packages ranging from SLRs5 million to SLRs50 million. While civil works and consulting services will be procured through national competitive bidding, training equipment will be procured through international competitive bidding. Very small-scale procurement items valued up to SLRs5 million will follow shopping procedures by inviting at least five sealed quotations. Some specialized consulting services may be procured using quality- and cost-based selection under international competitive bidding procedures. MYASD and each of the eight TVET agencies will appropriately package civil works under their respective procurement plans to improve efficiency and economy, and similarly, training equipment procurement will be suitably packaged to enhance competition and improve overall efficiency and economy. All consultant recruitment for the whole TVET sector will be managed centrally at MYASD to maximize efficiency. About 75% of program procurement will be conducted by MYASD and three TVET agencies— Department of Technical Education and Training, University of Vocational Technology, and Vocational Training Authority—which have reasonable procurement capacity.

15. **Country procurement and consultant recruitment systems.** The government has a functional public procurement system, based on comprehensive National Procurement Guidelines<sup>10</sup> and National Guidelines on Selection and Employment of Consultants<sup>11</sup> that are in line with the sound procurement principles of open competition, economy and efficiency, transparency, and fairness. In the absence of a codified public procurement statute, these guidelines are legally enforceable. They are supplemented by detailed manuals on procedural aspects and standard bidding documents. The manuals and bidding documents are improved and updated from time to time. Overall, public procurement in Sri Lanka at all levels is governed by national guidelines, manuals, and standard bidding documents. Open competitive bidding is mandatory for all contracts over SLRs5 million for goods and works. Small-scale contracts up to SLRs5 million may follow shopping procedures. Each procurement is evaluated by a technical evaluation committee comprising at least three members,<sup>12</sup> including at least one subject specialist and a representative from the ministry involved. The committee's evaluation report is reviewed and approved by an appointed procurement committee in line with the delegation of powers. Appointing authorities, composition, and the thresholds for approval authority of procurement committees are well defined in the national procurement guidelines. Similar procedures and the aforementioned national guidelines (footnote 9) apply in the case of consultant recruitment.

<sup>10</sup> Government of Sri Lanka, National Procurement Agency. 2006. *National Procurement Guidelines*. Colombo.

<sup>11</sup> Government of Sri Lanka, National Procurement Agency. 2007. *Guidelines: Selection and Employment of Consultants*. Colombo.

<sup>12</sup> For goods and services contracts valued above SLRs5 million, and works contracts valued above SLRs10 million, the technical evaluation committee must have at least five members.

16. **Key findings of recent procurement assessments.** A detailed review of procurement systems, capacities, and practices was conducted at the executing and implementing agencies (i.e., MYASD and its designated TVET agencies) using standard methodologies for the Procurement Capacity Assessment and Procurement Review for Effective Implementation tools. All procurement under the program will be processed using the country system, which is in line with the sound procurement principles of competition, economy and efficiency, transparency, and fairness. The assessment concluded that MYASD and all TVET agencies have reasonable procurement capacity, except for two smaller ones: the National Institute of Fisheries and Nautical Engineering and the National Youth Services Council (NYSC). The limited procurement capacity of the National Institute of Fisheries and Nautical Engineering and the National Youth Services Council will not affect program procurement significantly because these two agencies will process less than 10% of the total procurement volume. About 75% of the total program procurement will be managed by MYASD, Vocational Training Authority, Department of Technical Education and Training and University of Vocational Technology, all of which have reasonable procurement capacity. Although the current level of staffing in the procurement units of MYASD and the TVET agencies is adequate for handling the present procurement volume, staff will need to be strengthened for the additional procurement workload under the SSDP.

17. **ADB's past experience and proposed support to strengthen procurement systems in agencies.** Given that MYASD has extensive experience in implementing donor-funded projects, including two earlier ADB-financed loan projects in the TVET sector,<sup>13</sup> it has gained the required understanding and knowledge of basic procurement principles, and of the guidelines of both international development partners and the government. As most public procurement in the sector has been processed by MYASD itself, the individual TVET agencies have had little exposure to international best practices in procurement. They have reasonable experience in following national procurement and consultant selection guidelines, but staff capacity and knowledge is limited due to inadequate capacity-building measures and weak compliance-monitoring mechanisms. TVET agencies' procurement units will need strengthening to manage additional procurement activities under the SSDP. Well-structured, sequential training on procurement, consultant recruitment, and contract management topics will be required for each TVET agency, as a key component of the RBL. The positive impact of such capacity building is expected to be long-lasting and will greatly benefit the efficiency, economy, and transparency of procurement practices at all levels, as well as accelerating the implementation of the SSDP. ADB will build capacity for this program in part under ongoing capacity development technical assistance.<sup>14</sup>

18. **Key risks.** While Sri Lanka has a well-established and functional public procurement system, the procurement assessment determined the following key risks to the implementation of the results-based lending program:

- (i) weak procurement capacity in smaller TVET agencies;
- (ii) inadequate capacity of procurement staff and associated facilities (e.g., office space, computers, printers) to match the scale of program procurement;
- (iii) absence of well-structured capacity building programs in procurement, consultant recruitment, and contract management;
- (iv) weak procurement planning and compliance monitoring;

<sup>13</sup> ADB. 1999. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Socialist Republic of Sri Lanka for the Skills Development Project*. Manila; and ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Socialist Republic of Sri Lanka for the Technical Education Development Project*. Manila.

<sup>14</sup> ADB 2012. *Technical Assistance to Sri Lanka for Human Capital Development Capacity and Implementation Support*. Manila.



- (v) inadequate monitoring and tracking of contractual performances; and
- (vi) inefficient complaints-handling mechanism and inadequate document management and retrieval systems.

19. **Key mitigating measures.** Ongoing technical assistance (footnote 13) will mitigate some of the identified risks by strengthening the capacity of MYASD and TVET agencies. Special attention will be paid to strengthening the capacity of smaller TVET agencies in procurement planning, budgeting, contract administration, and monitoring at all levels. The key mitigating measures include:

- (i) the establishment of a dedicated procurement cell in MYASD's Sector Development Division for centralized monitoring and interfacing with TVET agencies on procurement matters;
- (ii) timely increase of procurement staff strength and associated facilities in procurement units to match the SSDP workload;
- (iii) provision of well-structured, sequenced training to procurement staff at MYASD and TVET agencies on all steps of procurement, consultant recruitment, and contract management;
- (iv) suitable packaging of civil works and goods procurement to ensure economy, efficiency, greater competition, timeliness, and quality in procurement; and
- (v) wide dissemination of procurement plans, bid invitations, bid documents, contract award data, and status of complaints, if any, on program-specific pages of MYASD's website to boost transparency; efficient electronic document management and retrieval systems; and periodic procurement reviews and audits.

20. Key risks, mitigating measures, and actions have been consolidated and summarized in the risk assessment and program action plan.<sup>15</sup>

#### **D. Anticorruption System**

21. Corruption risks are proportionate to opportunities for corruption. Opportunities for corruption arise when there is room for exercising administrative discretion, i.e., making decisions. The major corruption risk is in procurement. The envisaged program will procure not only goods and services but also private sector partners under various arrangements such as public-private partnerships.

22. Procurement and consultant recruitment in Sri Lanka is substantially based on the guidelines developed by the National Procurement Agency (footnotes 8 and 9). These provide ethical standards and prohibit corrupt activities, conflicts of interest, and the acceptance of gifts or inducements. Although the process is not being practiced consistently, these guidelines provide procedures for blacklisting. The AGD also conducts external audits. The AGD's recommendations are considered by two parliamentary oversight committees: Committee on Public Expenditure and Committee on Public Accounts. The guidelines have provisions for debriefing, establishing appeal procedures, and setting up an appeals board. The appeals board is established directly under the President of Sri Lanka. For small-value contracts, the appeal procedure is administered by the secretary of the line ministry.

23. The approvals are accorded by the designated procurement committees, and in higher value case, the concerned secretary or the Cabinet of Ministers. The government requires that all records be kept for at least 5 years. In practice, while records are kept, document management and retrieval systems are suboptimal and could be further improved by training the

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<sup>15</sup> Integrated Risk Assessment and Mitigating Measures and Program Action Plan (accessible from the list of linked documents in Appendix 2).

personnel involved. All procurement is subject to an annual internal audit by the agencies' internal auditors and to an external audit by the AGD as part of the annual financial audits. No separate procurement audits are carried out by the auditor general on regular basis. In special cases, the AGD conducts field checks and reviews on request. ADB will conduct annual fiduciary reviews covering procurement and financial management, with a focus on higher-risk areas identified by the AGD. A procurement action plan that includes mitigating measures as described above will also help rectify weaknesses.

24. Transparency International<sup>16</sup> ranked Sri Lanka 91 out of 176 countries on its Corruption Perception Index in 2013. Although Sri Lanka performed significantly better than most of its neighbors in South Asia and several countries in Southeast Asia, with a score of 37/100, anticorruption mechanisms clearly need to be strengthened. The SSEP will help mitigate these risks by providing comprehensive capacity-building training and creating a program-specific link on MYASD's website to update all procurement-related information, including contract awards data, winning bidders, complaints received, if any, and their status, and by conducting regular procurement audits to incrementally reduced weaknesses in the system.

25. An effective interface will be established between MYASD and the TVET agencies to set out clear and agreed targets for procurement performance, and accordingly protocols will be clearly articulated, including the requirements for strict compliance with national procurement guidelines, submission of regular procurement activity updates, periodic reviews of SSDP procurement activities, participation of staff in the procurement capacity building programs, and adequate financing and funds release for SSDP implementation. The role played by the SDD in providing technical support to TVET agencies on procurement matters will also be articulated.

26. Through its built-in mechanisms of linking results to disbursement, the SSEP provides an opportunity for ADB to help the government build stronger accountability in achieving development results. Linking ADB financing to verifiable results will help ensure that funds are used appropriately and for the intended purposes. Second, confronting systemic weaknesses and fostering institutional development in financial management and procurement will help build robust and transparent public management systems, and will reduce opportunities for corruption. Third, ADB's RBL policy includes specific guidelines to address corruption risks, which have been communicated to MYASD. This includes blacklisting of corrupt service providers and the monitoring role of ADB's Office of Anticorruption and Integrity.<sup>17</sup>

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<sup>16</sup> 'Transparency International', an organization based in Berlin, was established in 1993 to tackle corruption on the regional and global stage. The Corruption Perceptions Index ranks countries based on how corrupt a country's public sector is perceived to be. It is a composite index, drawing on corruption-related data from expert and business surveys carried out by a variety of independent and reputable institutions. Scores range from 0 (highly corrupt) to 100 (very clean).

<sup>17</sup> ADB.2013. *Staff Guidance for Piloting Results-Based Lending For Programs. (Appendix 7)*. Manila.