

# Audited Project Financial Statements

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Project Number: 42251-018  
Loan Numbers: 3119 and 3120  
Period covered: 1 January 2016 to 31 December 2016

## SRI: Skills Sector Enhancement Program

Prepared by the Ministry of Skills Development and Vocational Training

For the Asian Development Bank  
Date received by ADB: 17 July 2017

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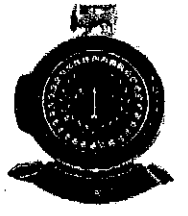




# විගණකාධිපති දෙපාර්තමේන්තුව

கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்

## AUDITOR GENERAL'S DEPARTMENT



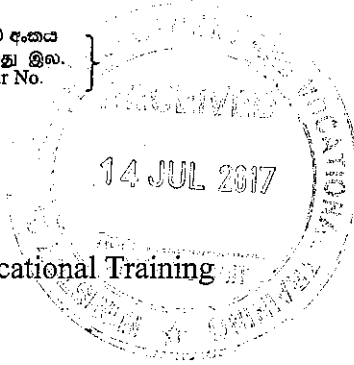
මගේ අංකය  
எனது இல.  
My No.

VTY/A/SSDP/4/16/06 (ADP)

ඔබේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

14 July 2017



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 year ended 31 December 2016

The audit of consolidated financial statement of the Skills Sector Development Programme for the year ended 31 December 2016 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 Agreements No. 3119 SRI and 3120 SRI (SF) dated 27 May 2014 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. This report consists with the comments only on activities carried out by the Ministry of Skills Development and Vocational Training and other Implementing Agencies based on the Disbursement Link Indicators of the Programme. My reports on financial statements of the individual Implementing Agencies for the year under review are issued separately.

#### 1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Programme Implementation Document, the Ministry of Skills Development and Vocational Training is the Executing Agency and 09 other Institutions under the 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 of 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\$ 961.2 million equivalent to Rs.125,916 million and out of that US\$ 100 million equivalent to Rs. 13,100 million each expected to be provided by

the Asian Development Bank and the International Development Association. Further, US\$ 41.40 million equivalent to Rs 5,423 million was agreed to be provided by the Government of Germany and Export and Import Bank of Korea. In addition, US\$ 200 million equivalent to Rs. 26,200 million was expected to be financed through other sources. The activities of the Programme commenced in 2014 and scheduled to be completed by 2020.

1.3 **Responsibility of the Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements 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.
- (b) Whether the expenditure shown in the consolidated financial statements of the Programme had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Programme.
- (c) Whether the adequate accounting records were maintained on a continuing basis to show the expenditure for the Ministry of Skills Development and Vocational Training and the Department of Technical Education and eight semi – autonomous institutions 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 Loans, etc.,
- (d) Whether withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements,
- (e) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the 09 Institutions of the Vocational Training Sector and the Ministry of Skills Development and Vocational Training.
- (f) Whether the consolidated financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (g) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (h) Whether the financial covenants laid down in the Loan Agreements 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 Statement

### 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 2016 and the consolidated financial statements give a true and fair view of the Programme as at 31 December 2016 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the amount of eligible expenditure except the amount financed by other Development Partner to the Programme had not been exceeded the proceeds withdrawn during the year under review,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreements had been complied with.

### 2.2 Comments on Financial Statements

#### 2.2.1 Accounting Deficiencies

The following observations are made.

- (a) The costs incurred on water, electricity and telephone etc, related to the National Youth Council shown in the financial statements of the Programme for the year under review had been overstated by Rs.3.77 million due to erroneous accounting treatments.

(b) Training equipment procured by the Programme for the Tertiary and Vocational Training Commission at a cost of Rs 3.15 million had been shown under the Investment Activities of the financial statements even though respective assets were not received by the Programme even as at 30 April 2017.

### 3. Financial and Physical Performance

#### 3.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2016 are shown below.

Source	Amount agreed for		Total Allocation	Funds utilized		
	financing in the			made in the Annual	during the	up to
	Loan Agreements for		Budget Estimate for	Year under	31 December 2016	
	Central Level		the year under	review		
	US\$	Rs.	Rs.	Rs.	US\$	Rs.
	million	million	million	million	million	million
ADB	100.0	13,100	8,900	6,049	73.58	10,187
IDA	100.0	13,100			21.83	3,096
GOSL	519.8	68,093			143.36	21,447
Government						
of Germany	15.4	2,017	1,200	1,142	7.47	1,232
Export Import						
Bank of Korea	26.0	3,406	1,000	748	5.82	857
Other	200.0	26,200		-	-	-
<b>Total</b>	<b><u>961.2</u></b>	<b><u>125,916</u></b>	<b><u>11,100</u></b>	<b><u>7,939</u></b>	<b><u>252.06</u></b>	<b><u>36,819</u></b>

The following observations are made.

- (a) Although a budgetary allocation of Rs.11,100 million had been made for the year under review, only a sum of Rs.7,939 million, representing that is 71.50 per cent of the total allocation had been utilized.
- (b) According to the above information, out of the total proceeds amounting to Rs.36,819 million utilized by the Programme as at 31 December 2016, a sum of Rs.15,372 million representing 41.70 per cent had been received from the Lending Agencies whilst the contribution of the Government of Sri Lanka and other Implementing Agencies amounted to Rs.21,447 million representing 58.30 per cent at the end of the year under review.
- (c) According to the disbursement schedules in the Programme Appraisal Documents, US\$ 52.80 million equivalent to Rs.6,917 million and US\$ 100 million equivalent to Rs.13,100 million is required to be reimbursed from International Development Association and Asian Development Bank respectively at the end of the year under review. However, the Programme had reimbursed only US\$ 21.80 million equivalent to Rs.3,096 million and US\$ 73.60 million equivalent to Rs.10,187 million from the International Development Association and Asian Development Bank as at 31 December 2016.

### **3.2 Physical Progress**

According to the Action Plan of the Programme, 73 activities under 09 Disbursement Link Indicators scheduled to be implemented through 09 Implementing Agencies and Skill Sector Development Division of the Ministry of Skills Development and Vocational Training. Although the National Youth Corps was also included in the above mentioned 09 institutions, no funds had been allocated for the year under review for the operations thereon. Further, it was observed that a Comprehensive Action Plan for the entire period of the Programme had not been prepared even after lapse of 03 years of operations of the Programme covering all the activities of the Programme to be carried out by the Implementing Agencies. Thus, it indicated that the Implementing Agencies had not been aligned to achieve the common goals and monitored their activities, accordingly. The following observations are made in this regard.



- (a) According to the Programme Implementation Document, the ultimate outcome of the Programme should be the improvement of the quality and recognition of the technical and vocational education and trainings. Therefore, the courses conducted by the Vocational and Training Institutes should be reviewed and improved up to the level of National Vocational Qualification in order to ensure the international recognition for the technical and vocational education and trainings conducted in the country. However, the Line Ministry had not taken action to fulfil the above requirement and it was revealed that 442 study courses, out of 2,487 study courses conducted by the Implementing Agencies had not been accredited up to the level of National Vocational Qualification as at 31 December 2016.
- (b) As required by the Disbursement Link Indicator 03, the Line Ministry had taken action in 2014 to prepare a human resources policy for the academic staff of the Implementing Agencies. However, the vacancies in 1,306 posts of the academic staff, out of the approved carder of 3,758 posts in 07 Implementing Agencies were remained unfilled even as at 31 December 2016. Further, the approved academic cadre of 06 University Colleges comprised with 168 posts and out of that 74 posts of academic staff were remained vacant as at 31 December 2016. In addition, it was planned to recruit 10 Training Managers and 38 Instructors to strengthen the Training Division of the National Youth Service Council and no action had been taken to recruit the respective officers even as at 30 June 2017.
- (c) The Ministry of Skills Development and Vocational Training as the Executing Agency of the Programme is responsible to take action to encourage Private Public Partnerships as enable to increase the level of employability of the technical and vocational education sector and implement training courses in 05 University Colleges. However, only 03 University Colleges had been established even as at 30 June 2017, with the participation of the institutions in private sector. In addition to the above, the Line Ministry should take action under the Disbursement Link Indicator - 03 to establish other 20 University Colleges which expected to be operated under the University of Vocational Technology. However, only 06 University Colleges had been established as at

31 December 2016. The following observations are made on operations of the University Colleges established.

- (i) Eventhough the allocation for capital expenditure amounting to Rs. 80 million had been made for University Colleges of Matara and Ratmalana, and out of that only a sum of Rs 17 million had been utilized as at 31 December 2016. It was revealed in audit that University Colleges were not aware about the respective allocations and therefore, no requests had been made to procure the capital items.
  - (ii) According to the information collected, the facilities are made available to enrol 1,470 students per annum under 49 study courses in 06 University Colleges. However, only 1,380 students had been admitted during the year under review, out of that 245 student had left the University Colleges without completed respective courses.
  - (iii) Eventhough the academic and non- academic staff had been recruited for the University College at Batangala with effect from 01 January 2015, the academic activities had been commenced in October 2016. However, the salaries and other recurrent expenditure aggregating Rs.12.05 million had been incurred during the period which the academic activities not carried out.
- (d) According to the Action plan for the year under review, the buildings of 10 training centres of National Youth Services Council were scheduled to be renovated at an estimated cost of Rs. 385 million under the Disbursement Link Indicators 06 and 09. However, the Council had taken action to construct 03 new buildings and only renovate building of 03 other training centres at a cost of Rs 339 million as at 31 December 2016. Further, the Council had procured training equipment during the year under review at a cost of Rs. 78.30 million without considering the current needs of such equipment. As a result, the equipment procured for the training courses such as motor mechanics, electricians and beauticians etc, procured at Rs.7.62 million had remained idle at the training centres at Dambulla, Trincomalee and Chilaw.

- (e) According to the Action Plan for the year under review, the Tertiary and Vocational Training Commission should implement 18 activities under 06 Disbursement Link Indicators and a sum of Rs. 86 million had been allocated thereon. However, the Commission had implemented 07 activities and a sum of Rs.39.58 million had been spent as at 31 December 2016. The activities such as developing the curricular in the field of technical education, formulate a Gender Policy to expand employment opportunities for females, developing a Professional Social Marketing Plan, selecting 10 major labour market destinations in foreign countries and reviewing of the standard of national vocational qualifications etc had not been carried out. Further, the slow progress had been shown on activities scheduled to be carried out for strengthening of national vocational qualification assessment, due to delays in recruiting of Assessors for the Commission.
- (f) A sum of Rs. 17 million had been allocated to provide financial support to 17 staff members of the University of Vocational Technology to acquire post graduate qualifications. However, it was observed that Rs.10.7 million had only been granted as at 31 December 2016 for 05 officers of the University to read for post graduate qualification.

### 3.3 Contract Administration

The following observations are made.

- (a) Training equipment procured by the Vocational Training Authority for 06 training courses of hotel schools at Ahangama and Kuchchaweli at a cost of Rs. 15.5 million had remained idle since 2015, as such procurements had been done before completion of the construction works of the hotel schools. Further, a Model Hotel at Ahangama with three star class facilities had been constructed before the completion of the building construction works of the hotel schools, hence it was decided to lease out the Model Hotel to the outside parties for long term basis.
- (b) Further, it was revealed at the physical examination on 02 February 2017 that the soil compaction for the foundation for the construction of a building for a Hotel School of the Vocational Training Authority at Kuchchaweli had not been done according to the specification.

### 3.4 Idle/Under Utilized Assets

The training equipment procured in 2015 at a cost of Rs. 2.83 million and Rs. 98.69 million had remained idle even as at 30 April 2017 at the University Colleges at Rathmalana and Batangala, as the training courses had not been commenced. Further, the other training equipment supplied during the year under review to the University Collage at Rathmalana at a cost of Rs. 7.31 million could not be utilised effectively, due to problems in laboratory lay outs and providing water supply facilities.

### 3.5 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 Agencies under the Programme should carry out risk based high impact internal audits based on the Disbursement Link Indicators and the Line Ministry is required to take action accordingly for monitoring purpose. Eventhough Internal Audit Units had been established in the Line Ministry and other 05 Implementing Agencies, the activities carried out by the Programme was not subjected to internal audit in detailed manner. Therefore, overall evaluation on achieving the targets of the Programme could not be ensured in audit.
- (b) Incentives aggregating Rs.141.20 million had been paid during the year under review to the Training Instructors and other staffs involved in activities of the Programme based on the criteria developed by the Implementing Agencies individually, contrary to the instructions issued by the Circular Letter No. 4-1/2/1/17 of 19 May 2014 of the Ministry of Skills Development and Vocational Training.



H. M. Gamini Wijesinghe

Auditor General

# **SKILLS SECTOR DEVELOPMENT PROGRAMME**

**FINANCIAL STATEMENTS FOR THE YEAR ENDING  
31.12.2016**

Skills Sector Development Division  
Ministry of Skills Development  
and Vocational Training  
“Nipunatha Piyasa”  
No. 354/2, Elvitigala Mawatha,  
Narahenpita,  
Colombo 05

**Skills Sector Development Program ADB Loan Nos. 3119 SRI and 3120 SRI (SF)  
Consolidated Statement of Total Expenditure for the Period from 01.01.2016 to 31.12.2016**

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Description	Audited Expenditure 2015	* Technical Vocational Education and Training Agencies										DTEI	MSDVT	SSDD	Year 2016 Actual		
		VTA-SL	NAITA	TVEC	UNIVOTEC	NTVSC	CGITI	Ocean University	Uni. Colleges								
<b>Operating Activity</b>																	
<b>1. Recurrent expenditure</b>																	
Salaries & wages	2,403,626	445,316	485,358	56,796	123,145	563,518	114,389	52,528	96,415	660,546	135,151	2,733,162					
Overtime and holiday pay	59,007	13,446	8,359	1,261	2,415	21,511	1,830	4,414	1,428	5,234	4,532	64,430					
Other allowances	1,694,374	404,873	21,720	3,206	3,831	136,867	98,140	58,991	11,129	921,548	130,756	1,791,111					
Other personnel emolument	316,427	175,795	40,170	-	-	123,105	7,394	24,992	14,416	-	-	385,872					
Domestic travelling	57,985	7,396	9,481	469	70	26,323	108	1,852	1,412	4,670	5,143	56,924					
Foreign travelling	11,074	3,040	3,605	1,345	-	579	-	439	-	1,329	7,439	17,776					
Transport	42,652	2,629	859	9	81	30,209	-	2,902	5,177	14,241	5,177	56,765					
Postal communication	77,547	22,348	16,122	3,112	6,946	12,717	1,065	5,030	2,453	11,985	6,786	88,554					
Electricity and water	206,538	57,933	31,731	2,897	12,894	22,832	8,397	7,998	5,642	53,611	10,309	214,244					
Rent and local taxes	23,425	7,196	25,408	190	-	2,963	-	-	36	10,135	626	46,554					
Other recurrent expenditure	1,347,923	297,271	227,924	39,246	53,538	64,072	48,672	64,969	54,747	258,328	44,505	1,153,272					
Industrial sector Skills councils	551	-	1,391	-	-	-	-	-	-	-	-	15,592					
Purchase model Expenditure																	
Teacher performance allowances	138,128	95,724	26,727	-	-	4,980	12,080	1,695	-	-	-	141,206					
<b>Sub total 1</b>	<b>6,371,857</b>	<b>1,532,967</b>	<b>898,905</b>	<b>122,732</b>	<b>202,920</b>	<b>1,009,676</b>	<b>292,075</b>	<b>225,810</b>	<b>188,336</b>	<b>1,941,627</b>	<b>350,424</b>	<b>6,765,472</b>					
<b>2. Investment Activity</b>																	
Staff training/Capacity building	710,980	-	-	4,148	54,854	981,703	958	17,995	526	14,356	42,608	1,120,342					
Building construction	975,138	-	13,345	8,650	-	19,128	11,108	17,995	179	27,867	14,731	1,211,410					
Building Rehabilitation	335,315	137,923	41,050	68	16,522	80,927	16,747	179	27,867	8,808	31,290	367,304					
Training Equipment	1,720,250	205,914	24,617	22,694	-	272,878	12,514	30,762	36	53,800	179,803	684,081					
Other equipment	99,217	26,767	343	460	34,910	-	101,341	11,470	8,351	53,800	179,803	63,266					
Vehicles	15,820	2,910	915	915	-	-	2,232	-	332	8,771	47,606	63,266					
Other Assets/Capitalized	949,512	98,682	50,495	45,139	32,802	20,971	21,042	767	53,874	344,210	859,890	1,615,213					
Interagency Transfers	3,403	-	-	-	-	-	8,280	-	-	-	-	9,015					
<b>Sub total 2</b>	<b>4,809,835</b>	<b>476,196</b>	<b>129,870</b>	<b>50,730</b>	<b>170,642</b>	<b>1,083,601</b>	<b>440,374</b>	<b>56,765</b>	<b>133,487</b>	<b>539,269</b>	<b>2,563,106</b>	<b>5,987,876</b>					
<b>3. Other Expenditure</b>																	
Financial Charges	4,644	207	369	3,031	-	-	-	29	-	-	-	3,636					
Exchange losses																	
Total Expenditure 1 & 2 & 3	11,186,336	2,009,370	1,029,144	176,493	373,562	2,093,277	732,449	282,604	321,823	2,480,896	2,913,530	12,756,984					
4. Unrecd./Cash & Cash Equivalent	381,366	158,829	66,940	13,403	25,246	161,809	33,346	34,552	16,161	-	-	510,316					
<b>Total Expenditure 1+2+3+4</b>	<b>11,568,326</b>	<b>2,168,199</b>	<b>1,096,084</b>	<b>189,896</b>	<b>398,808</b>	<b>2,255,086</b>	<b>765,795</b>	<b>317,156</b>	<b>337,984</b>	<b>2,480,896</b>	<b>2,913,530</b>	<b>13,267,300</b>					
<b>Financing Activity</b>																	
Block grant Consolidated fund	10,321,919	1,397,973	862,350	115,788	298,222	1,324,963	282,500	256,694	219,926	2,039,583	2,913,530	11,330,152					
SSDD - Consolidated fund	6,251	419,594	54,713	37,550	52,591	232,230	13,033	17,153	115,148	334,428	-	1,275,492					
Cash in Transit / Refund to SSDD	(2,856)	-	-	193	-	-	-	3	-	-	-	-					
Interagency Transfers	(3,396)	-	-	-	-	-	-	-	-	-	-	-					
SSDD - World bank (Comp.2)	659,594	203,452	49,456	13,196	23,951	201,489	16,325	22,773	2,194	106,885	-	639,721					
Self financing	-	-	-	-	-	-	-	-	-	-	-	-					
Refund Self Financing	586,814	57,361	30,786	18,401	7,074	376,210	428,239	20,531	416	-	-	939,753					
Other (Specify the source of funds)	90,819	98,779	4,768	16,970	120,194	17,418	289	-	-	-	-	349,237					
Opening Balance Difference:																	
<b>Total</b>	<b>11,568,326</b>	<b>2,168,199</b>	<b>1,096,084</b>	<b>189,896</b>	<b>398,808</b>	<b>2,255,086</b>	<b>765,795</b>	<b>317,156</b>	<b>337,984</b>	<b>2,480,896</b>	<b>2,913,530</b>	<b>13,267,300</b>					

Note:

\*Above information are extracted from the certified financial /expenditure statements submitted by the respective DTEI agencies for the period from 01.01.2016 to 31.12.2016. Notes to the account is attached.  
\*The adverse balance reflected under SSDD consolidated fund relates to the difference in the expenditure reported by DTEI financial statements and funds released by SSDD for the Year 2016.

Accounting policies and other expenditure notes on pages 01 -06 forms an integral part of these financial statements. I certify that these financial statements have been prepared in compliance with generally accepted accounting principles

**H.M. Ajiith Chandra**  
Financial Analyst

(Skills Sector Development Division)  
Ministry of Skills Development and Vocational Training  
"Nipunatha Piyasa", No. 354/2, Elvitigala Mawatha,  
Narahenpita, Colombo - 05.

**CHANDRA WICKRAMASINGHE**  
Additional Secretary  
(Skills Sector Development Division)

(Skills Sector Development Division)  
Ministry of Skills Development and Vocational Training  
"Nipunatha Piyasa", No. 354/2, Elvitigala Mawatha,  
Narahenpita, Colombo - 05.

**P. Ranepura**  
Secretary

Ministry of Skills Development and Vocational Training  
"Nipunatha Piyasa", No. 354/2, Elvitigala Mawatha,  
Narahenpita, Colombo 05.

**Skills Sector Development Program ADB Loan Nos. 3119 SRI and 3120 SRI (SF)**  
**Consolidated Statement of Total Expenditure for the Period from 01.01.2016 to 31.12.2016**

Description	University colleges						Total	
	Kuliyapitiya	Anuradhapura	Matara	Batangala	Ratmalana	Jaffna	Actual	
<b>Operating Activity</b>								
<b>1. Recurrent expenditure</b>								
Salaries & wages	22,416	8,513	22,482	7,314	21,084	14,606	96,415	
Overtime and holiday pay	282	397	227	93	86	343	1,428	
Other allowances	350		316	51	116	10,296	11,129	
Other personnel emolument	535	11,464	828	1002	235	352	14,416	
Domestic travelling	62	518	565	6	114	147	1,412	
Foreign travelling								
Transport	172	422		3		61	658	
Postal communication	311	879	428	31	357	447	2,453	
Electricity and water	985	1,207	1,177	297	946	1,030	5,642	
Rent and Local taxes	11		24			1	36	
Other recurrent expenditure	7,245	11,055	12,750	4956	8,971	9,770	54,747	
Ex.of Industrial sector Skills councils								
Purchase model Expenditure								
Teacher performance allowances								
<b>Sub total 1</b>	<b>32,369</b>	<b>34,455</b>	<b>38,797</b>	<b>13,753</b>	<b>31,909</b>	<b>37,053</b>	<b>188,336</b>	
<b>2. Investment Activity</b>								
Staff training/Capacity building		40			417	69	526	
Building construction	11,775						11,775	
Building Rehabilitation		9,306			2,774	15,787	27,867	
Training Equipment	6,963	22,914				885	30,762	
Other equipment	1,924		1,721		914	3,792	8,351	
Vehicles					209	123	332	
Other Assets/Capitalized	7,318	11,523	11,874		8,163	14,996	53,874	
Interagency Transfers								
<b>Sub total 2</b>	<b>27,980</b>	<b>43,783</b>	<b>13,595</b>		<b>12,477</b>	<b>35,652</b>	<b>133,487</b>	
<b>3. Other Expenditure</b>								
Financial Charges								
Exchange losses								

**Skills Sector Development Program ADB Loan Nos. 3119 SRI and 3120 SRI (SF)**  
**Consolidated Statement of Total Expenditure for the Period from 01.01.2016 to 31.12.2016**

LKR '000

<b>Total Expenditure 1 &amp; 2 &amp; 3</b>					13,753				13,753
Unspent/Cash & Cash Equivalent	2,778	1,096	2,281	642	3,991		5,373		16,161
Cash in Transit / Refund to SSDD									-
<b>Total Expenditure 1+2+3+4</b>	<b>63,127</b>	<b>79,334</b>	<b>54,673</b>	<b>45,028</b>	<b>17,744</b>		<b>78,078</b>		<b>337,984</b>
									-
									-
									-
<b>Financing Activity</b>									
Block grant Consolidated fund	38,928	39,556	44,996	36,724	17,213		42,509		219,926
SSDD - Consolidated fund	23,211	39,583	9,413	7,490			35,451		115,148
Cash in Transit / Refund to SSDD									-
Interagency Transfers									-
SSDD - World bank ( Comp.2)							63		2,194
Self financing	580	184	237		531				11
Refund Self Financing		11							
Other(Specify the source of funds)	134		27	215			40		416
Opening Balance Difference.	274						15		289
<b>Total</b>	<b>63,127</b>	<b>79,334</b>	<b>54,673</b>	<b>45,028</b>	<b>17,744</b>		<b>78,078</b>		<b>337,984</b>



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

**NOTES TO THE INTERIM UNAUDITED FINANCIAL STATEMENTS  
FOR THE PERIOD FROM 01.01.2016 TO 31.12.2016**

**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 Mn for 2014-2020. SSEP total expenditure for 2014-2016 is \$ 386 Mn. The ADB contribution is \$ 100 Mn 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. Ocean University of Sri Lanka (OU)
- k. University College of Jaffna, Matara, Kuliypitiya, Anuradhapura, Ratmalana & Batangala

- 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**

The programme adopts generally accepted accounting principles in preparation of the financial statements.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **3.1. Financial Statements**

The Statement of consolidated expenditure which is prepared on cash basis of accounting according to the information available in the statements and notes submitted by implementing agencies, sources and users of funds, accounting policies and related notes to the financial statements.

These financial statements have been prepared for the Skills Sector Development Programme on a cash basis of accounting

### **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.

### **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.

## **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 by the submission of a cash forecast. Unspent balance, if any at the year end, will be used in the following year by the agencies.

### 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.

### 5.5. Others

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

Description	Current Period Jan 1, 2016 – Dec 31, 2016	Prior Year Exp. B/F	Cumulative Year to date
	Rs. 000		
Government Counterpart	9,711,529	17,494,548	27,206,077
SSDD	1,618,623	4,751,044	6,369,667
Interagency transfers	8,478		8,478
Other Sources of Funding	1,579,485	2,857,031	4,436,516
Op Balance Difference	349,237		349,237
Difference in exp- DTET	(51)		(51)
Total	13,267,300	25,102,623	38,369,923

## 6. RECONCILIATION OF DISBURSEMENTS

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 Mn 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 of,

ADB loan (USD 50 Mn.)

- LIBOR
- 0.60% 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 regulations
- A maturity premium of 0.10% as provided by Section 3.03 of the Loan Regulation
- Commitment charges of 0.15% shall be paid per annum
- Loan closing date 30<sup>th</sup> June 2017

ADB loan (SDR 32.6 Mn.)

- Interest rate is 2% per annum during the grace period and thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.
- Loan closing date 30<sup>th</sup> June 2017

Details of disbursements are given below:

As at 31 December 2016

SL No	Development Partner	Date	Currency	Disbursed Amount	Exchange Rate	Amount in SLR credited to Consolidated Fund
A	DPs Accumulated disbursement as of 01.01.2016		USD	63,167,591.75		8,541,840,958.86
B	Receipts of DPs Contribution during the year					
1	Disbursement – WB WA 02	17/06/2016	SDR	7,780,758.22 (USD 11,003,107.65)	204.47	1,590,931,633.24
2	Disbursement – WB WA 03	27/10/2016	SDR	3,120,000.00 (USD 4,313,203.54)	203.08	633,609,600.00
3	Disbursement – ADB WA – OCR05	15/12/2016	USD	9,000,000.00	148.69	1,338,186,600.00
4	Disbursement – ADB WA – ADF05	15/12/2016	USD	7,926,553.08	148.69	1,178,578,568.43
	<b>Total Receipts of DPs Contribution during the year</b>		USD	32,242,864.27		4,741,306,401.67
C	<b>Total cash received as at December 31, 2016 (C=A+B)</b>			95,410,456.02		13,283,147,360.53

**7. GIVE DETAILS FOR OTHER DONOR FUNDING TO SSEP**

World Bank

Credit No. 5517 LKR – SDR 51.6 Mn ( Portion A)

Credit No. 5516 LKR – SDR 14.1 Mn ( Portion B)

Total Loan - SDR 65.7 Mn ( USD 101.50 Mn)

Financing Charges,

Commitment charges – 1/2 %

Service charges - 3/4 %

Interest Charges – 1.25% (Portion A )

- 1.40 % ( Portion B)

**8. PROCUREMENT FROM NON ADB MEMBER COUNTRIES**

Procurement were based on National Competitive Bidding for the period 01.01.2016 to 31.12.2016.

**9. DATE OF AUTHORIZATION**

These financial statements have been authorized for issue by Secretary of Ministry of Skills Development and Vocational Training on 31.03.2017

Table 01 of Note 04

Cash and Cash equivalent as at 31.12.2016

For the period 01.01.2016 to 31.12.2016												Rs.000
	VTA-SL	NAITA	TVEC	UNIVOTEC	NYSC	CGTTI	OCEAN UNI	DTET	MSDVT	SSDP	University Colleges	Total
Unspent block grant at the beginning of the period	90,819	98,779	4,768	16,970	120,194	17,418	-	-	-	-	289	349,237
Transferred as Block grant from Ministry/SSDD (Subnote 1)	1,816,567	917,063	153,338	350,813	1,557,193	295,533	273,847	2,374,011	2,913,530	343,131	335,074	11,330,100
Other Sources of Financing	260,813	80,242	31,597	31,025	577,699	444,564	43,304	106,885	-	735	2,621	1,579,485
Less: Spent/charged by TVET Agency	(2,009,370)	(1,029,144)	(176,300)	(373,562)	(2,093,277)	(724,169)	(282,599)	(2,480,896)	(2,913,530)	(343,836)	(321,823)	(12,748,506)
Cash and Cash Equivalent as at 31.12.2016 (Including Advances)	158,829	66,940	13,403	25,246	161,809	33,346	34,552	-	-	30	16,161	510,316

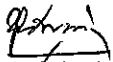
\* Ministry of Skills Development and Vocational Training total expenditure has been treated as receipts as per the information provided.

Skills Sector Development Project - Component 1  
IDA Loan 5516-LK, 5517-LK  
Financial Report Period 01.01.2016 to 31.12.2016

Rs.000

Eligible Expenditure Program - MYASD, DTET and Agencies	Expenditure for the Period 01.01.2016 to 31.12.2016	Prior Year expenditure B/F	Cumulative upto date
Salaries & wages	2,733,162	4,376,328	7,109,490
Overtime and holiday pay	64,430	107,099	171,529
Other allowances	1,791,111	2,652,901	4,444,012
Other personnel emolument	385,872	478,871	864,743
Domestic travelling	56,924	117,402	174,326
Foreign travelling	17,776	26,318	44,094
Postal communication	88,564	151,133	239,697
Electricity and water	214,244	412,703	626,947
Teacher Performance Base Allowances	141,207	235,220	376,427
Skills Sector Council Expenses	15,592	551	16,143
<b>Total</b>	<b>5,508,882</b>	<b>8,558,526</b>	<b>14,067,408</b>

Recommended by



Financial Analyst

Skills Sector Development Division

**H.M. Ajith Chandra**

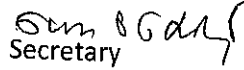
Financial Analyst

(Skills Sector Development Division)

Ministry of Skills Development and Vocational Training

"Nipunatha Piyasa", No. 354/2, Elvitigala Mawatha,  
Narahenpita, Colombo - 05.

Approved By



Secretary

Ministry of Skills Development and  
Vocational Training

**P. Ranepura**

Secretary

Ministry of Skills Development & Vocational Training

"Nipunatha Piyasa", 354/2, Elvitigala Mawatha,  
Narahenpita, Colombo 05.



**Skills Sector Development Project - Component 1**  
**IDA Credit Nos. 5516-LK, 5517-LK**

**MSDVT and MSDVT Agencies EEP break down by Agencies (01.01.2016 to 31.12.2016)**

DA Participation	MSDVT	DTET	* Technical Vocational Education and Training Agencies										SSDD	Total
			VTA-SL	NAITA	TVEC	UNIVO TEC	NYSC	CGTTI	OUSL	Uni.Coil				
Salaries & wages	135,151	660,546	445,316	485,358	56,796	123,145	563,518	114,389	52,528	96,415				2,733,162
Overtime and Holiday Pay	4,532	5,234	13,446	8,359	1,261	2,415	21,511	1,830	4,414	1,428				64,430
Other Allowances	130,756	921,548	404,873	21,770	3,206	3831	136,867	98,140	58,991	11,129				1,791,111
Other Personnel Emolument			175,795	40,170			123,105	7,394	24,992	14,416				385,872
Domestic Travelling	5,143	4,670	7,396	9,481	469	70	26,323	108	1,852	1,412				56,924
Foreign Travelling	7,439	1,329	3,040	3,605	1,345		579		439					17,776
Postal Communication	6,786	11,985	22,348	16,122	3,112	6946	12,717	1,065	5,030	2,453				88,564
Electricity and Water	10,309	53,611	57,933	31,731	2,897	12894	22,832	8,397	7,998	5,642				214,244
Ex.of Industrial Sector Skills Councils				1,391	14,201									15,592
Purchase Model Expenditure														0
Teacher Performance Allowances			95,724	26,727			4,980	12,080	1,696					141,207
<b>Sub total 1</b>	<b>300,116</b>	<b>1,658,923</b>	<b>1,225,871</b>	<b>644,714</b>	<b>83,287</b>	<b>149,301</b>	<b>912,432</b>	<b>243,403</b>	<b>157,940</b>	<b>132,895</b>				<b>5,508,882</b>

DA Participation	University Colleges							Total
	Kuliyapitiya	Anuradhapura	Batangala	Matara	Jaffna	Ratmalana		
Salaries & wages	22,416	8,513	7,314	22,482	14,606	21,084	96,415	
Overtime and Holiday Pay	282	397	93	227	343	86	1,428	
Other Allowances	350		51	316	10,296	116	11,129	
Other Personnel Emolument	535	11,464	1,002	828	352	235	14,416	
Domestic Travelling	62	518	6	565	147	114	1,412	
Foreign Travelling								
Postal Communication	311	879	31	428	447	357	2,453	
Electricity and Water	985	1,207	297	1,177	1,030	946	5,642	
Ex. of Industrial Sector Skills Councils								
Purchase Model Expenditure								
Teacher Performance Allowances								
<b>Sub total 1</b>	<b>24,941</b>	<b>22,978</b>	<b>8,794</b>	<b>26,023</b>	<b>27,221</b>	<b>22,938</b>	<b>132,895</b>	