

PROGRAM FIDUCIARY SYSTEMS ASSESSMENT

A. Background and Information Sources

1. The Skills Sector Enhancement Program, approved in 2014 with financial and technical assistance from the Asian Development Bank (ADB), has supported the Government of Sri Lanka in implementing the Skills Sector Development Program (SSDP). The SSDP aims to establish an efficient skills education system to meet local and foreign labor market demand by 2020, by improving its quality, relevance, accessibility, recognition, and supportive policies and structures.

2. The ADB program aimed to support the first phase of the SSDP, from 2014 to 2016. The Ministry of Skills Development and Vocational Training (MSDVT) is the executing agency, and eight selected technical and vocational education and training (TVET) institutions under MSDVT are the implementing agencies.¹ MSDVT is the main line ministry for skills development and is responsible for (i) quality assurance of public and private TVET providers; (ii) an extensive network of public TVET providers, consisting of more than 600 training centers country-wide through the institutions under the ministry purview; and (iii) facilitating more than 90% of SSDP financing. The program procurement excludes high-value contracts in line with ADB's policy on results-based lending (RBL).²

3. Until the end of December 2017, MSDVT achieved 30 out of 33 disbursement-linked indicator targets. The remaining three targets are nearing achievement. ADB had disbursed \$87.0 million out of \$96.1 million equivalent, which consists of loan components of \$50.0 million from its ordinary capital resources and of SDR32.6 million from its Special Fund resources.

4. The objectives of this program fiduciary systems assessment (PFSA) are to (i) evaluate and determine how well the executing and implementing agencies have managed fiduciary risks during the first phase, and (ii) provide reasonable assurance that program funds will continue to be used appropriately—i.e., in line with the sound procurement principles of competition, economy and efficiency, transparency, and fairness—for the proposed additional financing. Fiduciary systems were assessed based on outcomes and observations made at the annual fiduciary reviews (AFRs) for 2014 and 2015 against the baseline established by the PFSA carried out for in 2013 and referring to relevant guidelines and tools of ADB.

5. The previous financial management and procurement assessments, conducted in 2013 and 2014 in preparation for the current financing phase of the program, were comprehensively amended and updated to reflect the current developments in the regulatory and legal framework, implementation environment, AFR outcomes specific to the executing and implementing agencies, and improvements made by them since the inception of the program.³

¹ The eight institutions 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) Ocean University of Sri Lanka (formerly the National Institute of Fisheries and Nautical Engineering), and (viii) National Youth Services Council. At the request of MSDVT, the Sri Lanka Institute of Printing is a new implementing agency under the additional financing.

² As per the list of transactions reviewed for the annual fiduciary review of 2014 and 2015, no single contract awarded by MSDVT and institutions had exceeded this threshold.

³ The updated financial management and procurement capacity assessments are available upon request.

6. The updated financial management assessment (FMA) covers the overall public financial management (PFM) system in Sri Lanka, and institutional systems at MSDVT, eight selected TVET institutions under MSDVT, and one TVET institution currently functioning under the Ministry of National Policies and Economic Affairs, i.e., the National Youth Services Council (NYSC). ADB's FMA questionnaire was filled out for MSDVT, Vocational Training Authority (VTA), National Apprenticeship and Industrial Training Authority (NAITA), NYSC, and the Sri Lanka Institute of Printing (SLIOP). The assessment also refers to the reports from the Auditor General's Department.

7. An update was made to the procurement capacity assessment (PCA) carried out in 2013, based on a detailed review of procurement systems, capacities, and practices at MSDVT and the four TVET institutions mentioned above. The standard methodologies prescribed in ADB's PCA and Procurement Review for Effective Implementation questionnaires and tools were followed for the assessment, in addition to procurement guidelines and supplements issued by the National Procurement Agency, up to March 2017. The assessment also benefited from outcomes of the AFRs and observations made in compliance tests on areas that were not subject to review at the AFRs. In addition, field visits were made to the offices of MSDVT and the four TVET institutions, and detailed discussions were held with senior officials engaged in procurement at the respective TVET institutions and MSDVT, and with the procurement specialist of the Skills Sector Development Division (SSDD) of MSDVT. Samples of procurement contracts were reviewed for SLIOP, which has been newly added as a TVET institution seeking funding support from the SSDP under the proposed additional financing.

8. The PFSA indicates that the overall fiduciary risk in Sri Lanka is substantial because of weaknesses in budget credibility and execution, internal audit oversight, and transparency—despite various national PFM reforms and initiatives being undertaken.⁴ However, at MSDVT, and the SSDD in particular, weaknesses observed in budget formulation and development before the ADB program have been improved under the current program phase, and the systems and performance in terms of sector outcomes were satisfactory. This is partly attributable to the nature of RBL, which links funding with results and continuous oversight exercised by the external lending agencies. MSDVT has implemented several projects financed by international development agencies, and its staff members are particularly familiar with national procurement and financial management procedures. The program action plan, which includes measures to boost financial management and procurement systems, have mitigated the risks associated with the implementation of the SSDP and also increased system capacity, while enabling the achievement of sector results. The following sections summarize the assessments of financial management, procurement, and anticorruption systems.

B. Financial Management System

9. **Summary of previous financial management assessment.** ADB carried out an FMA of MSDVT and seven institutions responsible for implementing the ADB program in 2013. Based on the RBL policy of ADB, the PFSA conducted in 2013 emphasized accountability and transparency and covered the government system of budget execution, accounting, and auditing since the program was to be implemented using the country PFM system.

⁴ 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 Auditor General's Department.

10. The key findings from the earlier assessment were as follows:
- (i) Weaknesses exist in the budgeting process, especially in the linkage between policy, planning, and budgeting.
 - (ii) The SSDP introduced a medium-term expenditure framework, setting out sector policies and strategies for implementation.
 - (iii) Development activities of MSDVT should be better integrated with the SSDP—MSDVT and TVET institutions to incorporate the disbursement-linked indicators (DLIs) in their annual implementation plans and budget.
 - (iv) The government's financial rules clearly define functional responsibilities and segregation between various stages of recording financial transactions and managing cash, and at transaction level there is clear segregation between advance approvals for ordering, receiving, and recording payments.
 - (v) Appropriate organizational structures exist, ensuring clear lines of authority and eliminating duplication of effort.
 - (vi) Internal audits are limited because of concentration on pre-audit transactions and compliance with regulations rather than system or process audits based on risk.
 - (vii) Annual external audits of financial statements by the Auditor General for MSDVT and TVET institutions are in line with Sri Lanka Auditing Standards, which in turn are based on International Standards on Auditing.

11. The overall inherent risk was assessed as substantial, and as high with regard to the country-level PFM system because of the lack of results-based budgeting, while sector and program risks were deemed moderate. The overall control risk assessment covers risk types of implementing entities, internal controls, staffing, fund flows, accounting and financial reporting, independent internal audit, independent external audits, and information systems. The overall control risk was assessed as substantial. The updated risk assessment is in Table 1.

12. **Risk mitigation measures implemented.** To mitigate the identified risks, especially high and substantial ones, mitigation measures were incorporated as DLIs and in the program action plan.

13. Prior results in DLI 8—coordination and implementation capacity strengthened. Prior results in DLI 9—improved medium-term skills sector budgeting and expenditure addressed the inherent risks in planning and budgeting as well as implementation capacity. The SSDP was approved along with the medium-term expenditure framework covering both the recurrent and capital budget for 2014–2020. The program has 5 strategic thrusts with activities and performance indicators. MSDVT established a dedicated team, the SSDD, headed by an additional secretary-level officer as program director, to coordinate and monitor program implementation across multiple implementing agencies, and to provide technical support to expedite procurement actions. A high-level interministerial committee was also established to provide overall policy direction and strategic guidance for program implementation. These were achieved by mid-2014 upon the approval of the ADB program. MSDVT also introduced a performance partnership agreement with implementing agencies to ensure that their annual workplan and budget request are well aligned with SSDP objectives and activities. Activities to achieve DLIs were prioritized in the workplan and budget request. This further strengthened the link between program workplan and budget allocation. The expenditure level was monitored as part of DLI 9 to ensure that MSDVT and implementing agencies keep up with the implementation of the expenditure program.

14. The program action plan included PFM-related actions to manage the control risks. All program action plan items pertinent to financial management have been followed up. The time taken for the executing and implementing agencies to submit their financial statements for audit gradually improved, and the fiscal year (FY) 2016 audited financial statements and auditor's report were submitted to ADB in July 2017. All audit queries raised by the Auditor General on the audits of financial statements for FY2014 and FY2015 were responded to before the end of 2016. The SSDD was established to coordinate implementation activities with the implementing agencies. Among its senior personnel is a financial analyst responsible for following up on the PFM improvement actions as well as on capacity development activities.

Table 1: Financial Management Risks

Risk Type	Risk Description	Risk Rating ^a	Mitigation Measures
Inherent Risk^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, in RBL modality. Medium-term sector development program along with results and expenditure frameworks increased predictability and result orientation in budget preparation. Performance partnership agreements between MSDVT and TVET institutions increased interaction on priority setting in planning and implementation performance monitoring. These are, however, still regarded as project activities, and the dichotomy between the SSDP and the ministry's regular work programs remains, which may lead to duplication of efforts and inefficiency in public expenditures.	H (2014) S (2017)	MSDVT and MOF&MM will adhere to medium-term expenditure framework for the SSDP, and the planning and budgeting practices will be further strengthened through the annual planning exercises under the performance partnership agreement discussion and monitoring. MSDVT will institutionalize these improved interactions for planning and budgeting process. The lessons from the SSDP, as the first medium-term sector development program, will be factored in when developing the next sector program.
2. Sector- or program-specific risks	There are multiple implementing agencies, including a government ministry, a department, and eight statutory bodies, of which one is under a different ministry. Focus on priority reform areas and effective coordination are important to keep the program and expenditure on track. Institutional changes and high staff turnover delayed implementation in 2015 and 2016. TVET institutions' absorption capacity to deliver the physical targets of the program should be further strengthened. Capacity to implement a large sector-wide program with several new initiatives and reform agenda needs further improvement.	M (2014) S (2017)	The SSDD has been instrumental in coordinating implementation activities and monitoring the progress. It was strengthened with market-sourced staff with higher qualifications and experience as of early 2017. The SSDD will continue to support TVET institutions with weaker procurement capacity to improve absorption capacity. The steering committee will focus on strategic issues and bottlenecks in the reform agenda and create synergies with other initiatives.
Overall inherent risk		S (2014) / S (2017)	

Risk Type	Risk Description	Risk Rating ^a	Mitigation Measures
Control risk^c			
1. Internal controls	Country-level assessments have indicated that although a robust internal control environment exists, it is not always rigorously enforced, as evidenced by qualifying comments found in audit reports.	S (2014) S (2017)	MSDVT/SSDD will continue monitoring whether qualifying comments in external audits of internal controls are acted upon. AFR will assess any systematic patterns in lapses in internal control for reviewed TVET institutions, and MSDVT/SSDD and TVET institutions will implement AFR recommendations.
2. Funds flow	Delays in budget release were not observed, except in early 2015 when the skills development responsibility was attached to another ministry for a short period before it moved to MSDVT. Alignment with the medium-term expenditure framework remains a concern, especially from 2017, because the difference between budget estimates by MOF&MM and the expenditure framework requirement is large compared with the 2014–2016 period.	H (2014) S (2017)	The government budget allocation is increasingly tied to performance as well as priority areas with strong justification. TVET remains a government priority, so adequate budget allocation is subject to the absorption capacity of MSDVT and TVET institutions, which should be further improved.
3. Accounting and financial reporting	The accounting systems at TVET institutions are not integrated, and the institutions record financial transactions both manually as well as in an automated accounting systems. The parallel records are not reconciled. The accounting systems at most TVET institutions do not generate comprehensive financial reports. Backups from the systems are stored in the same locations and not tested for data retrieval at a later stage.	S (2014) M (2017)	AFR will assess any systematic issues in accounting and financial reporting at reviewed TVET institutions, and MSDVT/SSDD and TVET institutions will implement AFR recommendations, especially the options for a more integrated accounting system. Monitoring tools, including variance analysis of actual versus budgeted financial and physical targets, form part of program monitoring. Annually, the total net book values as per the asset registers are reconciled with the net book values reported in the financial statements. Reconciliations are performed between separate accounting modules to ensure accuracy and completeness of financial reporting.
4. Independent audit (internal audit)	The range of skills differs across the units at MSDVT 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 Standards	M (2014) S (2017)	MSDVT's internal audit unit, which is responsible for the SSDD's internal audit, is expected to perform comprehensive audits; these are currently limited by staff constraints, although sufficient staff is available for audits at ministry and department level available.

Risk Type	Risk Description	Risk Rating ^a	Mitigation Measures
	on Auditing. Most internal audit units concentrate on pre-audit of transactions and on checking compliance, but do not perform system or process audits to identify control weaknesses.		Arrangements for training the internal auditors from the Department of Management Audit of MOF&MM, and the option of certification of key internal audit staff by the Institute of Internal Auditors, need to be followed up.
5. Independent external audit	The Auditor General's Department is responsible for annual audits of all government ministries and institutions. In the case of the TVET institutions, timeliness of annual audits should be improved. The TVET institutions are issued with audit opinions in compliance with Sri Lanka Auditing Standards, consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810).	S (2014) M (2017)	Auditor General's Department continues to follow the statement of audit needs. MSDVT and TVET institutions will submit the consolidated financial statements to Auditor General's Department by March every year to ensure that the audited financial statement can be submitted to ADB within 6 months of the end of the fiscal year.
Overall control risk		S (2014) / S (2017)	
Overall risk		S (2014) / S (2017)	

AFR = annual fiduciary review, DTET = Department of Technical Education and Training, MOF&MM = Ministry of Finance and Mass Media, MSDVT = Ministry of Skills Development and Vocational Training, RBL = results-based lending, SSDD = Skills Sector Development Division, TVET = technical and vocational education and training.

^a The risks are low (L), moderate (M), substantial (S), or high (H).

^b The susceptibility of the RBL 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 counterchecks or internal controls).

^c The risk that the program's accounting and internal control frameworks are inadequate to ensure that RBL 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.

15. Changes to previous assessment from new policies, institutions, and rules.

Following the presidential election in early 2015, the executing agency known as the Ministry of Youth Affairs and Skills Development changed to MSDVT. The medium-term expenditure framework (MTEF) was developed in 2013 setting out the sector policies and key strategies for policy implementation, and approved in 2014. The policies contained in the MTEF remained valid and in line with the new government's manifesto announced in 2015. One of the implementing agencies, NYSC, is presently under the Ministry of Policy Planning and Economic Development. The performance partnership agreement between MSDVT and NYSC becomes more important than before to ensure that NYSC's activities under the SSDP are adequately funded, although the fund flow would be through the other ministry.

16. In addition to the existing implementing agencies, MSDVT proposed to include the Sri Lanka Institute of Printing (SLIOP) as a new implementing agency effective 2017.⁵ Under the program, SLIOP aims to improve the skills of the potential trainees in the printing trade by

⁵ SLIOP is a self-financed government institution established by the Sri Lanka Institute of Printing Act, No. 18 of 1984, under the purview of MSDVT.

investing in an advanced printing machine, which has become a necessity if those in the sector are to compete with international requirements and find employment in foreign job markets. It will also improve the local printing trade. As per program action plan #1.10, a FMA and a PCA were carried out for SLIOP to incorporate capacity development and risk mitigation measures necessary for including SLIOP as an implementing agency.

17. In March 2016, the government issued a new management circular to increase qualification and experience requirements for development project management.⁶ Following the circular, the SSDD staff recruited previously were replaced with new staff. As of May 2017, 21 staff led by an additional secretary-level program director are in place. The newly staffed SSDD is expected to accelerate the program implementation pace.

18. **Remaining risks or new risks requiring mitigation.** The country- and sector-specific risks remain substantial, although budget allocation and utilization have improved. The control risk relating to internal controls remains substantial, based on a review of audit reports of MSDVT, SSDD, and the respective implementing agencies during the fiduciary review conducted in 2016. This is indicated by an extensive number of audit issues in the external audit reports. The issues mostly arose from lapses in managing risks, especially those relating to operational transactions, compliance with laws and regulations, and management override of controls.

19. Improvements were seen in the fund flow and accounting and financial reporting mechanisms, and the risks involved have been mitigated—having initially been assessed as high and substantial, these risks can now be considered as moderate. The internal audit risk remains substantial because formal recruitment and training plans are yet to be introduced for internal audit staff. Further, internal audits focus on the pre-audit of transactions and on compliance with financial rules, administrative rules, and National Procurement Agency (NPA) guidelines, and do not address lapses in control over processes and systems. It seems that the internal audit function also did not contribute to improving internal control issues, as evidenced in the extensive external audit observations.

20. The non-integration of modules in the accounting system and lack of uniformity in the systems used by the SSDD and some of the implementing agencies subject to assessment (NAITA and NYSC) has resulted in excessive efforts in preparation and reporting. Moreover, such non-integration has resulted in manual intervention and use of Excel spreadsheets for recording and reporting of transactions, which may result in errors and omissions going undetected. As mitigating measures, the AFRs will assess feasible options for integrated automated accounting systems in MSDVT and TVET institutions.

C. Procurement Systems

21. **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 continue to be shared between MSDVT and all nine TVET institutions. The bulk of the procurement would involve civil works for existing or new training centers, training equipment packages, and office furniture,

⁶ Management Circular No. 1/2016 replaced the previous management circulars No. 33 dated 5 April 2007 and No. 33 (i) dated 20 December 2007 on Cadre and Remuneration Management of Projects.

laboratory and information technology equipment, vehicles, and consulting service packages. All procurement will mandatorily be carried out in compliance with procedures specified in the NPA guidelines and manuals, and subsequent amendments made to them. MSDVT and the TVET institutions will prepare their respective needs-based procurement plans by appropriately packaging civil works of a similar nature wherever possible to achieve economy and efficiency. Similarly, each TVET institution will package procurement of training equipment in an appropriate form to improve overall efficiency and economy, and boost competition among bidders.

22. Country procurement and consultant recruitment systems. The government has a functional public procurement system based on comprehensive National Procurement Guidelines issued in 2006 and National Guidelines on Selection and Employment of Consultants issued in 2007.⁷ In the absence of a codified public procurement statute, these guidelines have the force of law. They are supplemented by detailed manuals on procedural aspects and standard bidding documents issued by the Construction Industry Development Authority (formerly Institute for Construction Training and Development) for procurement of civil works. These manuals and bidding documents are improved and updated from time to time through various amendments called supplements, and 33 such supplements have been issued to date. These amendments would need to be consolidated for ease of reference and accessibility by all implementing agencies and prospective bidders. These national guidelines, manuals, and bidding documents govern all public procurement activities in Sri Lanka at central, provincial, and agency level.

23. Key findings of updated procurement assessments. A detailed review of procurement systems, capacities, and practices was conducted at the executing and implementing agencies (i.e., MSDVT and its designated TVET institutions) using standard methodologies for the Procurement Capacity Assessment and Procurement Review for Effective Implementation tools. Further, the AFR carried out for the FY2015 procurement transactions of MSDVT also reviewed the SSDD and selected TVET institutions on a sample basis. All procurement under the program was processed using the country system (NPA guidelines), which is in line with the sound procurement principles of competition, economy and efficiency, transparency, and fairness. The assessment concluded that MSDVT and all TVET institutions have reasonable procurement capacity, except for two smaller ones: Tertiary and Vocational Education Commission (TVEC) and SLIOP. Their limited procurement capacity will not affect program procurement significantly because they will have limited scope of procurement; in addition, the SSDD will fill in any gaps that exist in these institutions. During the current program phase, the SSDD assumed procurement functions funded by ADB and other development partners and was responsible for more than 90% of the capital budget of MSDVT.

24. The individual TVET institutions had been given the responsibility for large-scale civil works procurement under the SSDP, and they have procured goods and services from funding sources other than the ADB program. Accordingly, major TVET institutions have gained reasonable experience in following national procurement and consultant selection guidelines, but staff capacity and knowledge has been limited in some institutions because of inadequate capacity-building measures and weak compliance monitoring mechanisms. By May 2017, however, most institutions had enough procurement staff. Nonetheless, frequent staff turnover and transfers have undermined the effectiveness of these institutions and MSDVT's SSDD. The procurement units of these institutions—especially NAITA, the Ocean University of Sri Lanka,

⁷ Government of Sri Lanka, National Procurement Agency. 2006. *National Procurement Guidelines*. Colombo; and Government of Sri Lanka, National Procurement Agency. 2007. *Guidelines: Selection and Employment of Consultants*. Colombo.

and SLIOP—will need strengthening to manage additional procurement activities under the SSDP.

25. Structured, sequential training on procurement, consultant recruitment, and contract management topics was conducted for procurement staff of MSDVT and TVET institutions as an integral part of the ADB program. The positive impact 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 SSDP implementation. However, it is pertinent to note that such capacity-building activities may have a limited positive impact in the case of MSDVT and DTET because mandatory, periodic staff transfers could gradually deplete the pool of skilled procurement staff. This situation could worsen if the replacements do not possess adequate exposure to procurement management. Hence, repetitive capacity building may be required based on a continuous needs assessment. A procurement capacity development program is part of the overall TVET human resource development policy, and an annual training budget has been made available.

26. **Key risks.** While some improvements were made during the current program, the following risks were found for the additional financing: (i) weak procurement planning, especially linked to the program results and targets, and monitoring of physical progress; (ii) non-compliance with NPA guidelines, especially as regards transparency and competition; (iii) inadequate capacity and high staff turnover of procurement staff; (iv) weak procurement capacity in smaller TVET institutions, such as TVEC or SLIOP; (v) inadequate monitoring and tracking of contractual performances; and (vi) inefficient complaints-handling mechanism and inadequate document management and retrieval systems.

27. **Key mitigating measures.** The SSDD has adequate capacity to lead and support procurement operations for the program, and will continue playing a crucial role in implementing key mitigation measures set out in the program action plan. These include:

- (i) Continuous support and oversight of procurement activities carried out by TVET institutions through the SSDD, with centralized procurement operations under the SSDD, particularly for high-value and complex transactions.
- (ii) Timely increase of procurement staff and associated facilities in procurement units to match the SSDP workload.
- (iii) Provision of well-structured, sequenced, and needs-based training to procurement staff at MSDVT–SSDD and TVET institutions 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.
- (v) Wide dissemination of procurement plans, bid invitations, bid documents, contract award data, and status of complaints, if any, on program-specific pages of MSDVT–SSDD and TVET institutions' websites to boost transparency.
- (vi) Where such facilities are not available on a TVET institution's website, the postings should be made on the SSDD website until the institution's website is operational.
- (vii) Efficient electronic document management and retrieval systems.
- (viii) Periodic pre- and post-procurement reviews and audits.

28. For item (viii), ADB will continue conducting an AFR every year to gauge progress in procurement capacity improvement and assess the effectiveness of the program action plan as well as capacity development efforts, and make recommendations to MSDVT–SSDD and TVET institutions on any other areas that will improve the system.

D. Anticorruption System

29. Transparency International ranked Sri Lanka 95th out of 176 countries on its Corruption Perception Index in 2016.⁸ Although Sri Lanka performed significantly better than most of its neighbors in South Asia and several countries in Southeast Asia, its score of 36 out of 100 indicates that its anticorruption mechanisms clearly need to be strengthened.

30. In 2015, several new mechanisms were introduced to investigate and combat corruption in the public sector. These include the Commission to Investigate Allegations of Bribery or Corruption, an independent commission established under the Constitution of Sri Lanka, and the Financial Crimes Investigation Division, a special branch added to the Sri Lanka Police in 2015. A special presidential commission with specific terms of reference—Presidential Commission to Investigate and Inquire into Serious Acts of Fraud, Corruption and Abuse of Power—has been in operation since 2015. The Commission concluded its mission in December 2017 and submitted reports on 34 cases to the President of Sri Lanka. Subsequently these reports had been tabled to the Parliament on 23 January 2018 for pursuing necessary actions, based on recommendations made by the Commission. It is expected that these anticorruption measures would act as deterrent and help curtail corruption in the public sector.

31. The ADB program will continue to mitigate procurement-related risks by improving capacity and transparency of procurement operations. It will continue to provide comprehensive capacity-building training and will create a program-specific link on MSDVT'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 reduce weaknesses in the system. An effective interface will be established between MSDVT and the TVET institutions 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 SSDD in providing technical support to TVET institutions on procurement matters will also be articulated.

32. Through its built-in mechanisms of linking results to disbursement, the ADB program provides an opportunity to help the government build stronger accountability in achieving development results. First, 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 MSDVT. This includes blacklisting of corrupt service providers and the monitoring role of ADB's Office of Anticorruption and Integrity.⁹

⁸ Transparency International, an organization based in Berlin, was established in 1993 to tackle corruption regionally and globally. The Corruption Perceptions Index ranks countries based on how corrupt their 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).

⁹ ADB. 2013. *Staff Guidance for Piloting Results-Based Lending For Programs*. (Appendix 7). Manila. This is included in the Program Implementation Document, accessible from the list of linked documents in Appendix 2.