

Education for Knowledge Society Project - 2014

The audit of the financial statements of the Education for Knowledge Society Project for the year ended 31 December 2014 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 4.02 (a) of Article IV of the Loan Agreement No.2371 SRI (SF) and the Grant Agreement No.0091-SRI (SF) dated 18 December 2007 entered into between the Asian Development Bank and the Democratic Socialist Republic of Sri Lanka.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan and the Grant Agreements of the Education for Knowledge Society Project, the Ministry of Education is the Implementing Agency of the Project. The expected impact of the Project is to increase relevance of secondary and tertiary education to labour market requirements, resulting in increase employability of educated youth. The expected outcome of the Project is to improve quality, relevance, effectiveness and equity of access to secondary and tertiary education. According to the Loan and the Grant Agreements, the estimated total cost of the Project is US\$ 105.32 million equivalent to Rs.11,267 million. Out of that, the Asian Development Bank had agreed to finance US\$ 65 million equivalent to Rs.6,955 million as a Loan and US\$ 15 million equivalent to Rs.1,605 million as a Grant. The Project commenced its activities on 07 March 2008 and scheduled to be completed by 30 June 2013. According to the Letter dated 07 August 2014 of the Asian Development Bank, the completion date of the Loan was extended up to 31 October 2014 and completion date of the Grant was extended up to 31 December 2014.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements 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 financial statements 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 financial statements are free from material misstatements. An audit involves performing procedures to obtain audit

evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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 Project'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 financial statements. 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 Project management and the reliability of books, records etc. relating to the operations of the Project,
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project,
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure for three central institutions of the education sector from the funds of the Government of Sri Lanka and the Donor Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations, the identifications of purchase made out of the Loan and Grant, etc.,
- (d) Whether withdrawals under the Loan and Grant had been made in accordance with the specifications laid down in the Loan and Grant Agreements,
- (e) Whether the funds, materials and equipments supplied under the Loan and Grant had been utilized for the purposes of the Project,
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (g) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,

- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and
- (i) Whether financial covenants laid down in the Loan and Grant Agreements had been complied with.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for replenishment in accordance with the requirements specified in the Loan and Grant Agreements.
- (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 and Grant Agreements had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Sources	Amount agreed for financing in the Loan and Grant Agreements		Budgetary provision for the year 2014	Funds utilized		
	US\$ million	Rs. million	Rs. million	during the year under review	up to 31 December 2014	
	US\$ million	Rs. million	Rs. million	Rs. million	US\$ million	Rs. million
ADB -Loan	65.00	6,955.00	1,647.40	1,513.24	58.54	6,264.19
-Grant	15.00	1,605.00	370.60	331.92	15.00	1,737.27
GOSL	25.32	2,707.00	320.00	478.43	25.32	3,587.79
Total	<u>105.32</u>	<u>11,267.00</u>	<u>2,338.00</u>	<u>2,323.59</u>	<u>98.86</u>	<u>11,589.25</u>

3.2 Physical Performance

The following observations are made.

- (a) Advance amounting to Rs.10.90 million granted by the Project for 37 schools to meet expenses on opening ceremonies of Mahindodaya Technological Laborites was not directly related for the activities of the Project. Further, such advances had been settled without obtaining any supporting documents to prove the actual expenses incurred thereon and shown under staff training in the financial statements.
- (b) The Project had provided internet access to 1724 schools and educational institutions through “School Net” network since 2008 and a sum of Rs.835 million had been spent to supply of computers and other accessories thereon. It was observed that telephone charges aggregating Rs.813.9 million had been incurred since 2011 to 2014 without taking action to evaluate the effectiveness of the system provided. It was observed in audit that most of schools do not access the network due to slowness and frequent failure of the system. Further, Educational Management Information System installed at a cost of Rs.64 million had also become inactive due to poor usage of the “School Net”.
- (c) Advertisement expense amounting Rs.1.2 million incurred to publish inauguration ceremonies of Mahindodaya Technological Laboratories utilizing the allocations made for staff training and publication purposes was not directly related to the activities of the Project.