

## **Education Sector Development Program (ESDP) - Provincial Level - 2014**

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The audit of Consolidated Programme Annual Financial Reports of the Education Sector Development Program (ESDP) 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 provisions in the Section 4.04 of the Article IV of the Loan Agreements No-3008 SRI Ordinary Operations and No-3009 SRI Special Operations dated 19 August 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. According to the Loan Agreements the activities of the Program at provincial level are expected to be carried out by the Ministry of Education and all the Provincial Councils. This report is consisted with the comments on activities carried by the all the Provincial Councils.

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

According to the Loan Agreements, the Project is implemented to provide financial support to implement Education Sector Development Framework and Programme 2013-2017 which address the challenges facing general education sector of the country. The Implementing Agency of the Project is the Ministry of Education. The objectives of the Program are to develop a modernized secondary education school system that improved the employability of male and female secondary school graduates. As per Loan Agreements, the estimated total cost of the Program is US\$ 200 million. The activities of the Program had been commenced on 19 August 2013 and scheduled to be completed by 31 August 2018.

### **1.3 Responsibility of the Management for the Consolidated Programme Annual Financial Reports**

Management is responsible for the preparation and fair presentation of these Consolidated Programme Annual Financial Reports which is the compilation of the Appropriation Accounts of the Ministry of Education and all nine Provincial Councils 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 this Consolidated Programme Annual Financial Report 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 Programme Annual Financial Report is free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Programme Annual Financial Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Programme Annual Financial Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program's preparation and fair presentation of the Consolidated Programme Annual Financial Report 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 Program'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 Programme Annual Financial Report. 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 program management and the reliability of books, records etc. relating to the operations of the Program.
- b) Whether the expenditure shown in the Consolidated Programme Annual Financial Report of the program 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 the Education Sector from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Program 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 Education Sector.
- f) Whether the Consolidated Programme Annual Financial Reports had been prepared in conformity of Financial Regulation (FR) 150 and the State Account Circular No.239/2014 of 01 December 2014 of the General Treasury,

- g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- h) Whether financial covenants laid down in the Loan 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 Appropriation Accounts of the nine Provincial Councils for the year 2014 presented to audit was prepared and presented in conformity with the provisions in Financial Regulation 150 of the Democratic Socialist Republic of Sri Lanka and the State Accounts Circular No. 239/2014 of 01 December 2014. The above Appropriation Accounts were agreed with the Treasury computer printouts, Annual Budget Estimates and the books, registers and records maintained by the nine Provincial Councils. The costs incurred out of the proceeds of Loans had been duly recorded in the Appropriation Accounts of the nine Provincial Councils for the year 2014.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Loan 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.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Fund Utilized			
	US\$ million	Rs. million	Rs. million	during the year 2014		up to 31 December 2014	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
Donor Agency	200	26,000	3,094	23.8	3,091	23.8	3,091
	<b>200</b>	<b>26,000</b>	<b>3,094</b>	<b>23.8</b>	<b>3,091</b>	<b>23.8</b>	<b>3,091</b>

### 3.2 Physical Progress

According to the Attachment 01 to schedule 03 of the Financial Agreement the Project is implemented to achieve 09 Disbursement Link Results under 33 Disbursement Link Indicators. Further, the Consolidated Programme Annual Financial Report representing the total expenditure aggregating Rs. 94.237 million incurred by the Provincial Councils for educational sector from all sources of funds as at 31 December 2014 had been furnished for audit as the financial statements for the year ended 31 December 2014. Some of the key audit observations made on the Appropriation Accounts of the Provincial Councils for the year 2014 relating to the operations of the Provincial Departments of Education and Provincial Ministries of Education are reproduced as follows.

- (i) According to the information received, the savings ranging from 25 per cent to 69 per cent had been reported during the year under review, out of total provision amounting Rs. 5,910,000 made for the North Central Province.
- (ii) Under the 1000 Secondary School Development Programme, 83 secondary schools in the North Central Province had been selected to develop and construct Mahindodaya Technological Laboratories. However, activities of 10 Laboratories only had been opened for the use of students even up to 31 August 2015. The Technical Laboratories of other schools were not functioned due to lack of necessary equipment and power connections.
- (iii) According to the information collected 25 schools in the North Central Province which were initially included in the Feeder Schools Program had been later withdrawn from the Program. As a result, the admissions of students to grade 6 classes of such schools for the year under review were declined during the year under review.

- (iv) The allocation of the teachers for the schools in provincial levels had not been done satisfactorily. According to the information collected, there were shortages of the teachers for main subjects in rural schools in the Northern, North Central, North Western, Sabaragamuwa, and Western Provinces whilst excesses of teachers in urban schools in respective Provinces. Further, annual transferring system had not been properly implemented and as a result, school Principals and teachers were remained over 10 years in the same school in the Sabaragamuwa, North Central and North Western Provinces. In addition, circular instructions issued by the Ministry of Education had not been properly implemented by the schools in Sabaragamuwa and North Western Provinces and it was observed in detailed audit that the teachers were underutilized in such schools.
- (v) According to the information collected, the student population of the primary and secondary schools in rural schools in several provinces were remained low. There were 823 and 1211 secondary level schools having less than 500 students in the Southern Province and the Central Province respectively whilst 564 primary level schools in Central Provinces having student population less than 100. There were 244 schools having less than 50 students in Sabaragamuwa Province. It was reported that 126 schools in the North Western Province and 88 schools in the Northern Province had remained closed as at 31 December 2014.
- (vi) The student pass rate of the Grade-05 Scholarship Examination was 21 per cent in the Northern Province whilst the student pass rate of other provinces were remained in the range from 11 per cent to 17 per cent. The rate of failing in all subjects in G.C.E. (O/L) Examination in Uva, Northern, and Central Provinces were ranging from 4 per cent to 6 per cent. Further, the rate of failing in all subjects in G.C.E. (A/L) Examination was remained higher in the North Central, Northern and Eastern Provinces ranging from 8 per cent to 11 per cent.
- (vii) Weaknesses in financial controls in provincial level schools such as payments without supporting documents or proper authority and properly prepared vouchers were observed in detailed audits carried out in the school in the Sabaragamuwa and the Western Provinces. Further, quarterly accounts reports of the Bank Accounts had not been prepared by 343 schools in the Sabaragamuwa and the Western Provinces. Further, general administration activities of the Provincial schools in areas of human resources management, maintaining proper records for teacher's leave and quality inputs, distribution of government grants under student's scholarship program and non-recoveries of teacher's distress loans, projects not implemented according

to action plan were observed in the detailed audits carried out at the Provincial Departments of Education in the Western, Sabaragamuwa, Northern, North Central and North Western Provinces. Further, Register of Losses and Annual Procurement Plan etc had not been maintained by the Provincial Ministries of the Northern, Sabaragamuwa and North Central Provinces.

- (viii) Annual Boards of Survey to ensure the physical existence of the assets had not been carried out in 2014 by the Provincial Departments of Education in the North Western, North Central and Sabaragamuwa Provinces.