

Education for Knowledge Society Project - 2013

The audit of the financial statements of the Education for Knowledge Society Project for the year ended 31 December 2013 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 (ADB) and the Democratic Socialist Republic of Sri Lanka (GOSL).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan and 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 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 USD105 million equivalent to Rs. 11,267 million. Out of that, the Asian Development Bank had agreed to finance USD 65 million equivalent to Rs. 6,955 million as a Loan and USD 15 million equivalent to Rs. 1,605 million as a Grant. The Project commenced its activities on 7 March 2008 and was scheduled to be completed by 30 June 2013. According to the Asian Development Bank Memorandum dated 16 March 2012 the project completion date was extended up to 30 June 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive test of samples of transactions. The scope and extent of such review and tests were such as to enable as wide as audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in Financial Statements and assessment of accounting policies used and significant estimates made by the management in the preparation of the financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief

were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records 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 project management and the reliability of books, records etc. relating to the operations of the Project.
- (b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Asian Development Bank, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project and the identification of purchases made out of the Loan and the Grant.
- (c) Whether the withdrawals under the Loan and the Grant had been made in accordance with the specifications laid down in the Loan and the Grant Agreements.
- (d) Whether the funds, materials and equipment supplied under the Loan and the Grant had been utilized for the purposes of the Project.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (g) Whether the initial deposit, withdrawals from and replenishments to the Imprest Fund Accounts had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.
- (i) Whether the financial covenants laid down in the Loan and Grant Agreements had been complied with.

3. 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 5 of this report, I am of opinion that;

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles,

- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the withdrawals from and replenishments to the Imprest Fund Accounts during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan and the Grant Agreements,
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Loan and the Grant Agreements had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available, the expenditure of the Project for the year under review amounted to Rs.1,973,186,144 and the cumulative expenditure as at 31 December 2013 amounted to Rs.9,265,670,955. The following statement shows a summary of expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 under each item.

Item -----	Expenditure for the year ended 31 December		Cumulative
	2013	2012	Expenditure as at 31 December 2013 -----
	Rs.	Rs.	Rs.
Civil Works	835,008,510	802,107,067	3,385,014,658
Equipment	235,183,099	423,653,045	2,220,950,059
Furniture	57,284,091	42,600,440	282,717,548
Motor Vehicles	-	-	46,592,327
Material	22,003,587	83,423,127	371,774,838
Staff Development - Local Training	234,296,144	202,676,382	1,043,003,268
- Foreign Training	337,225	40,350,100	91,747,345
Consultancy	3,308,966	87,683,499	420,373,647
Ministry of Education - Evaluation and Auditing	20,067,284	12,270,906	37,697,648
Student Scholarships	183,757,269	169,384,746	548,768,320

Incremental Expenses	65,168,161	80,823,914	349,021,404
School Development- Financial Grant	30,094,997	18,788,090	56,433,087
-Maintenance Grant	233,129,987	124,899,994	358,029,982
Debt Service	53,546,824		53,546,824
Total	<u>1,973,186,144</u>	<u>2,088,661,310</u>	<u>9,265,670,955</u>

4.2 **Imprest Fund Accounts**

According to the financial statements and information made available, two Imprest Fund Accounts had been operated at the Central Bank of Sri Lanka for Loan and the Grant purposes. The details of the operations of the Imprest Fund Accounts during the year under review and the balances available as at 31 December 2013 are shown as follows.

Description -----	Imprest Accounts -----			
	Loan (SL 127) -----		Grant (SL 128) -----	
	USD	Rs.	USD	Rs.
Balance as at 01 January 2013	1,872,797	238,146,464	73,127	9,298,891
<u>Add</u>				
Replenishments	8,847,866	1,160,273,163	5,379,122	700,603,464
Foreign Exchange Loss		(3,767,589)		(1,342,617)
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	10,720,663	1,394,652,038	5,452,249	708,559,738
<u>Less:</u>				
Withdrawals	(5,387,830)	(697,368,155)	(4,230,742)	(548,844,044)
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Balance as at 31 December 2013	<u>5,332,833</u>	<u>697,283,883</u>	<u>1,221,507</u>	<u>159,715,694</u>

5. **Audit Observations**

5.1 **Presentation of Financial Statements**

According to the Circular No. MOFA/ERD/2007/2 of 07 August 2007 to the Ministry of Finance and Planning the financial statements of the Project should be presented for audit on or before 31 March of the year following. However, the financial statements of the Project for the year under review had been presented for audit only on 09 August 2014.

5.2 **Financial and Performance Review**

5.2.1 **Utilization of Funds**

According to the information made available, certain significant statistics relating to the allocations made for the components of the Project and the utilization of funds thereon as at 31 December 2013 are shown below.

Source	Allocation of Funds		Funds Utilized up to 31 December 2013		Utilization as a Percentage
	USD (Mn)	Rs. (Mn)	USD (Mn)	Rs. (Mn)	
ADB Loan	65.00	6,955.00	56.48	6,043.85	86.89
Grant	15.00	1,605.00	14.08	1,506.69	93.87
GOSL	25.30	2,707.00	15.48	1,657.11	61.21
Total	<u>105.30</u>	<u>11,267.00</u>	<u>86.04</u>	<u>9,207.65</u>	<u>81.72</u>

The following observations are made.

- (a) According to the Project Implementation Plan for the year 2013, a sum of Rs. 2,045 million had been allocated for improvements of buildings and computer and language laboratories in secondary level schools in all nine Provinces. However, a sum of Rs.835 million representing 41 per cent of allocation had only been utilized during the year under review.
- (b) According to the Project Implementation Plan for the year 2013, a sum of Rs.67 million had been allocated under foreign training category. However a sum of Rs.3 million representing 4.5 per cent of allocation had only been utilized during the year under review.
- (c) Loan proceeds amounting to Rs.105.54 million and Grants amounting to Rs.128.76 million had been utilized during the year under review, out of the allocation amounting of Rs.113.13 million made under the Loan and a sum of Rs.194.40 made under the Grants for local training activities of the Project Implementation Plan for the year 2013.
- (d) Grant proceeds amounting to Rs.183.76 million had been utilized during the year under review out of sum of Rs.383 million allocated under the grant for scholarship to the school leavers made in the Project Implementation Plan for the year 2013.

5.3.2 Physical Performance

The following observations are made.

- (a) According to the Annual Action Plan for the year 2013 an allocation amounting to Rs. 17,600,000 had been made to procure furniture and fittings for the Sri Lanka Institute of Advanced Technological Education (SLIATE) and such assets had been procured a cost of Rs. 17,722,466 from five suppliers during the year under review. However, the Technical Evaluation Committee appointed for that purpose had made recommendation thereon without considering the quality of the assets procured.
- (b) Even though it was planned to provide financial assistance for school development and maintenance purposes for 1,400 secondary level schools, such grants had been made only for 1,366 schools. Accordingly, grants aggregating Rs. 220,910,000 had been released, out of total allocation of grants amounting to Rs. 284,800,000. As such only 78 per cent had been utilized as at 31 December 2013.
- (c) It was observed that the grants aggregating Rs. 14,540,000 allocated for the years 2011 and 2012 under "Sisudiriya Scholarship Scheme" for 1,454 students with financial difficulties had been paid during the year under review instead of making payments in respective years. As such the objective of the Scholarship Scheme to assist students with financial difficulties who entered for the higher education could not be achieved due to delays in making financial assistance.
- (d) Although a sum of Rs.3.385 million had been utilized under civil work up to 31 December 2013, a contract register on civil works had not been maintained by the Project Monitoring Unit. Therefore, information relating to the physical progress of civil construction works carried out under the Project were not be readily made available at the Project Monitoring Unit.
- (e) A contract had been awarded to supply furniture and fittings at a cost of Rs. 37,927,554 for 27 schools. Out of that, the furniture and equipment valued at Rs. 24,846,400 supplied for 16 schools remained unutilized as at 31 December 2013 as the construction works of buildings of the respective schools had not been completed as at that date.
- (f) The Project had awarded three contracts to supply science and laboratory equipment at a cost of Rs. 174,900,593 for 150 Mahindodaya Technological Faculties. It was observed that the respective equipment had been supplied directly to the schools. The Technical Evaluation Committee appointed for this purpose had selected a sample of 12 items of equipment valued at Rs. 5,551,650 supplied for 07 schools and revealed that, such equipment did not conform to the specifications and were inferior in quality. However, action had been taken to deduct the payments for the equipment which were substantially not conforming to technical specifications. Further, it was observed that the equipment in several schools were located in school premises without a proper security due to delays in construction of buildings for laboratories.

- (g) In addition to above, contracts valued at Rs. 199,285,500 had been awarded to supply furniture and equipment for 150 Mahindodaya Technological Faculties. It was observed that such contracts had been awarded before construction of buildings for respective faculties. Therefore, such furniture and equipment remained at the school premises without a proper security.