

## Education Sector Development Project (ESDP) - Central Level

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### **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 3 of this report ,I am of opinion that;

- (a) the Project had maintained proper accounting records for the ten month period ended 31 October 2011 and the Financial Statements give a true and fair view of the state of affairs of the Project as at 31 October 2011 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 Special (Dollar) Account during the ten months period ended 31 October 2011 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 October 2011 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 Grant/Loan 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 Grant/Loan Agreements had been complied with.

2. Financial Statements

2.1 Rendition of Financial Statements

According to the Ministry of Finance and Planning Circular No.MOFA/ERD/2007/2 of 07 August 2007 the financial statements of the project should be rendered for audit on or before 31 March of each year. However, the financial statements of the Project for the period under review had been rendered for audit only on 31 May 2012.

2.2 Financial Performance

According to the statement of sources and uses of funds and information made available, the project expenditure for the ten months period ended 31 October 2011 amounted to Rs.26,496,647,000 and the cumulative expenditure as at 31 October 2011 amounted to Rs.166,964,000,000. The following statement shows a summary of the expenditure for the 10 months period under review and the expenditure of the preceding year and the cumulative expenditure as at 31 October 2011.

Category	10 months period ended 31 October 2011	Year ended 31 December 2010	Cumulative Expenditure as at 31 October 2011
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	Rs.million	Rs.million	Rs.million
<b>IDA participation</b>			
<b>Capital Expenditure</b>			
Development Activities	252	403	1,499
Evaluations and Assessments	16	135	323
Educational Publications	8	28	68
Ministry of Finance –ProjectExpenditure	3	7	27
<b>Non IDA participation (Eligible expenditure)</b>			
<b>Capital Expenditure</b>			
Development Activities	56	65	797
Evaluations and Assessments	930	991	9,034
Educational Publications	10	16	53
Ministry of Finance –ProjectExpenditure	1	30	860

**Recurrent Expenditure**

Operational Activities	269	529	1,336
Development Activities	3,846	5,105	30,600
Evaluations and Assessments	1,294	1,415	7,057
Educational Publications	2	2	11

**Non IDA participation (ineligible expenditure)**

Personal Emoluments	14,705	16,318	79,676
School uniforms	1,101	949	5,910
Non pooling donors	1,764	2,606	11,033
Other Treasury Ledger Accounts	2,239	3,923	17,186
Ministry of Higher Education			1,494
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	26,496	32,522	166,964
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The cumulative expenditure of Rs.166,964 million as at 31 October 2011 consisting expenditure of Rs.1,917million and Rs.165,047 million incurred on Education Sector Development Project for five years period from IDA funds and Consolidated Fund respectively.

### 2.3 Statements of Sources and Uses of Funds

According to the financial statements and information made available, the sources and uses of funds of the Project during the period under review is shown below.

	<b><u>10 months period ended 31 December</u></b>	
	<b><u>2011</u></b>	
	<b>Rs.</b>	<b>Rs.</b>
	<b>Million</b>	<b>Million</b>
<b><u>Sources of Funds</u></b>		
IDA - Grant	133	
- Loan	146	
Consolidated Fund	26,802	
Sub Total	-----	27,081
 <b><u>Uses of Funds</u></b>		
IDA Participation Capital Expenditure	279	
Non IDA Participation (Eligible Expenditure)		
Capital Expenditure	998	
Recurrent Expenditure	5,410	
Non IDA Participation (Ineligible Expenditure)	19,809	
	-----	26,496
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Surplus Funds		585
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2.4 Special (Dollar) Account (Sub Ledger No: SL 122)

According to the books and records maintained by the Project and information made available, the operations of the Special (Dollar) Account during the ten months period ended 31 October 2011 is summarized below.

	<u>USD</u>	<u>Rs</u>
Balance as at 01 January 2011	Nil	Nil
Add:- Replenishments		
- Grant	726,744	80,671,273
- Loan	753,997	83,696,456
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	1,480,741	164,367,729
Less - Withdrawals	1,480,741	164,367,729
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Balance as at 31 October 2011	Nil	Nil
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3. Audit Observations

Following observations are made.

(a) Construction of Stores Complex for Text Books in Pitipana - Phase II

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An estimate for Rs. 25,700,000 had been prepared for the construction of Phase II of the Stores Complex for Text Books belonging to the Educational Publications Department. Notices had been published in the national newspapers on 30 August 2010 calling for quotations for the aforesaid construction. Steps had been taken to award the contract to a company which submitted the lowest price. Following observations are made in this regard.

- (i) Even though the construction works should have been completed by 30 June 2011 as per the agreement, extensions had been made in 5 instances. According to the date agreed upon finally, the construction works should have been completed by 8 March 2012. However, actions had not been taken to hand over the building even as at 15 June 2012.
  - (ii) The concrete slab of the building spanned over 4554 Square Feet and the construction company had been allowed to lay concrete by completing the shuttering on two occasions.
  - (iii) Out of the funds amounting to Rs.25,417,690 deposited in the General Deposits Account of the Treasury in the year 2010 for the construction works, a sum of Rs.9,629,513 had been spent as construction and administrative activities during the period under review.
  - (iv) Further it was observed that if it was possible to construct the building constructed as per the agreement, the rental of Rs. 4.6 million paid as expenses for the books storage on the Deens Road taken on rental from a private party, could have been avoided.
- (b) Facilitation of Hostel Facilities for the Science Centre

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Even though a sum of Rs.3,505,697 had been spent on the renovation of male hostel of the Ibbagamuwa Central College in order to furnish the Science Centre with accommodation, it was observed that the hostel remained without being utilized for intended purposes.

(c) Performance

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A sum of Rs.1,916,816,448 had been spent by the Project using IDA funds for the improvement of the educational sector from 2006 to 2011 and a sum of Rs.148,983,578,947 had been spent from the Consolidated Fund for the development of the educational sector during the same period.

4. Systems and Controls

Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Maintenance of Accounting Records
- (c) Internal Audit
- (d) Contract Administration