

Education Sector Development Program on Three Central Appropriation Accounts -2015

The audit of Consolidated Financial Management Report of the Education Sector Development Program for the year ended 31 December 2015 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 are expected to be carried out by the Ministry of Education, Department of Examinations and Department of Educational Publications at national level and the Provincial Councils at provincial level. This report consists with the comments on activities carried by the Ministry of Education, Department of Examinations and Department of Educational Publications at national level.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements, the Education Sector Development Program is implemented to provide financial support to implement Education Sector Development Framework and Program 2013-2017 which addresses the challenges facing general education sector of the country. The Ministry of Education is the Implementing Agency of the Education Sector Development Program. The objectives of the Program are to increase equitable access to primary and secondary education, improve the quality of primary and secondary education and strengthen governance and service delivery of education. According to the Loan Agreements, the estimated total cost of the Program is US\$ 200 million. The Program activities had been commenced on 23 August 2013 and are scheduled to be completed by 31 August 2018.

1.3 Responsibility of the Management for the Consolidated Financial Management Report

Management is responsible for the preparation and fair presentation of this Consolidated Financial Management Report in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of Consolidated Financial Management Report 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 Financial Management 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 Financial Management Report is free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Management Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Management Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Programs' preparation and fair presentation of the Consolidated Financial Management 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 Programs' 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 Financial Management 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 Financial Management Report of the Program had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Program.
- (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 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 Loan etc.
- (d) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreements.
- (e) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the three central institutions of the Education Sector.
- (f) Whether the Consolidated Financial Management Report had been prepared in conformity of Financial Regulation 150 and the State Account Circular No. 245/ 2015 of 10 December 2015 of the General Treasury.
- (g) Whether the Consolidated Financial Management Report had been prepared in accordance with accounting principles acceptable to Asian Development Bank.
- (h) Whether the opening and closing balances, withdrawals from and replenishments to the deposit Account had been truly and fairly disclosed in the books and records maintained by the General Treasury and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka, as at that date.
- (i) Whether financial covenants lay down in the Loan Agreements had been complied with.

2. Financial Statements

2.1 Audit 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 Account of Head No 126 of the First Schedule to the Appropriation Act, No. 41 of 2014 relating to the Ministry of Education for the year 2015 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. 245/ 2015 of 10 December 2015 of the General Treasury. The above Consolidated Financial Management Report was agreed with the Treasury computer printouts and the Annual Estimates and the books and records maintained by the three central institutions of the education sector,
- (b) the opening and closing balance, withdrawals from and replenishments to the Deposit Account during the year ended 31 December 2015 had been truly and fairly disclosed in the books and records maintained by the General Treasury and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (c) the Statements of Expenditure submitted could be fairly relied upon to support the applications for replenishment in accordance with the requirements specified in the Loan Agreements, 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 2015 are shown below.

Source	Amount agreed for financing in the Financing Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
Donor Agency	200	26,000	5,144	33.72	4,822	55.33	7,913
	<u>200</u>	<u>26,000</u>	<u>5,144</u>	<u>33.72</u>	<u>4,822</u>	<u>55.33</u>	<u>7,913</u>

The following observations are made.

- (a) Out of total allocation of US\$ 200 equivalent to Rs. 26,000 million, only US\$ 55.33 million equivalent to Rs 7,913 million representing 30.43 per cent had been utilized after lapse of 02 years of the commencement of the operations of the Program.
- (b) Out of the allocation made for the construction of buildings for Mahindodaya Technological Faculties, a sum of Rs. 657 million had been used for “Sanitation First National Program” which implemented to improve sanitary facilities in the schools.
- (c) Eventhough a sum of Rs. 50 million had been allocated for year 2015 for repairs of Technological Faculty buildings, the physical plans prepared thereon had not been presented for the audit. Out of the total allocation, a sum of Rs 19.63 million had only been utilized during the year under review for the respective purposes. However, the information relating to the physical progress of the respective repair works had also not been made available to audit.

3.2 Physical Progress

According to the Education Sector Development Framework and Program 2013-2017 which addressed the challenges facing general education sector of the country, the target to be achieved are identified under 09 Disbursement Link Results and the Indicators thereon. The following observations are made on Disbursement Linked Results expected to be achieved during the year 2015.

- (a) According to the Disbursement Link Indicator - 07, it was observed that 343 School Principals and 593 Deputy Principals had been trained as at 31 December 2015. However, posts of Principals in 155 national schools were remained vacant as at 31

December 2015 and out of those, the posts of Principals in 49 schools were remained vacant since 2009.

- (b) Eventhough all the facilities were provided including Mahindodaya Technological Faculties, no single students was admitted to the classes for Engineering Technology Stream commenced in Passara Tamil Maha Vidyalaya, Oddusudan Maha Vidyalaya and Vaunia Maha Vidyalaya in Badulla, Jaffna and Vaunia Districts and the classes for the Bio Technological Science Stream in Kanthale Central Collage in Trincomalee District.
- (c) According to the information received, 42,514 students were enrolled for the Technology Stream whilst 118,901 students were enrolled for Science and Mathematics Stream during the year under review compared with the enrollment of 28,985 students for Technology Stream and 118,550 students for Science and Mathematics Stream respectively in the previous year. Further, 117,238 students were enrolled for Commerce Stream in 2015 compared with the enrollment of 119,093 students for Commerce Stream in 2014.
- (d) According to the Report on Performance of the Department of Examination, out of 210,340 school candidates who sat for the G.C.E.(Advance Level) Examination held in 2015, 18,183 school candidates representing 8.64 per cent had failed in all subjects in all streams whilst obtaining “A” passes for all subjects by 5,930 school candidates representing 2.83 per cent. Further, 70.38 per cent of school candidates studied in Commerce Stream had recorded highest percentage of qualifying for university entrance whilst 51.65 per cent and 48.03 per cent of school candidates in Physical Science Stream and Bio Science Stream respectively were qualified for university entrance. The school candidates studied in Engineering Technology Stream and Bio-Science Technology stream sat for the G.C.E.(Advance Level) held in 2015 in first time in Sri Lanka had recorded pass rates of 50.09 per cent and 60.66 per cent respectively and only 11 school candidates had obtained “A” passes for all subjects.
- (e) It was observed that shortages of teachers in technological science stream were remained in the schools island wide. According to the information received vacancies of 660 teachers for technological streams were remained as at 31 December 2015.

3.3 Contract Administration

The following observations are made.

- (a) According to the Action Plan of the Program, the buildings for 250 Technological Faculties were expected to be constructed by the Program and out of that, the construction works of buildings for 195 Faculties were completed and 86 Faculties were opened for the use of students as at 31 December 2015. Further, out of 35 Mahindodaya Technological Faculty buildings proposed to be constructed in Colombo and Kalutara districts, the construction works of 17 buildings had only been completed and 12 Faculties were opened for the use of students as at 31

December 2015. The site visits made by the auditors in March 2015 at 06 national schools in Colombo and Kalutara Districts had observed several wall cracks in the buildings of Mahindodaya Technological Faculties at Hanwella Central College, Homagama Central College, Horana Thakshila Maha Vidyalaya, Vethara Maha Vidyalaya, Vevita Maha Vidyalaya and Palannoruwa Maha Vidyalaya in the Western Province. Therefore, it proved that the quality assurance mechanisms on building construction works were not adopted.

- (b) As a practice, the Project initiates actions for the implementation annual procurement plans with delays. According to the annual procurement plan, contracts for the procurement of agricultural equipment and food processing equipment for the Mahindodaya Technological Faculties were scheduled to be commenced on 18 March 2015. However, the respective contracts had been awarded only on 15 February 2016. Further, the contracts for the procurement of furniture items for the Technological Faculties expected to be awarded before 18 March 2015 had been awarded on 20 August 2015 and 18 per cent of items of the contract had only been supplied as at 31 December 2015. In addition, the proposed procurements of motor mechanical equipment for the use of students of Technology Stream had been subsequently cancelled.
- (c) The Project had taken action in 2014 to procure mechanical, civil, and electronic engineering equipment and tools for the use of Mahindodaya Technological Faculties and a contract had been awarded to procure 166 items under 07 packages at a cost of Rs 1,697.64 million. The following observations are made thereon.
 - (i) It was observed that the contract would have been awarded at lowered price, if the bid evaluation had been carried out by item wise instead of being evaluated in package wise. The test checks carried out on 02 packages, out of 07 packages had revealed that the equipment and tools could have been procured at Rs 55.73 million, if the bid had been evaluated item wise. However, such equipment and tools had been procured at a cost of Rs 66.52 million.
 - (ii) Out of 166 items expected to be procured, only 71 items valued at Rs 373.44 million which were necessary for the use of Mahindodaya Technological Faculties had been procured during the year under review. It indicated that the necessity of the items to be procured had not been determined at the time of calling of bids as enable to ensure competitiveness of the procurement process and economy of the items procured.
 - (iii) According to the reports presented for progress review meetings of the Programme, it was observed that only 86 Mahindodaya Technological Faculties had utilized the items supplied for intended purposes as at 31 December 2015, even though equipment and tools for 250 Technological Faculties had been procured and handed over to the respective Faculties.