

## **Education for Knowledge Society Project -2015**

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The audit of financial statements of the Education for Knowledge Society Project 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 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 Democratic Socialist Republic of Sri Lanka and Asian Development Bank.

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

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According to the Loan and the Grant Agreements of the Project, the Ministry of Education is the Executing and 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 increasing 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 amounted to US\$ 105 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. Further, the completion date of the Grant was extended up to 31 July 2015 as per the Letter of 14 February 2014 of the Asian Development Bank. However, the financial statements for the operations made out of the proceeds of the Grant had been presented for the year ended 31 December 2015.

### **1.3 Responsibility of the Management for the Financial Statements**

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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**

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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 of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of purchases made out of the Loan and Grant etc.
- (d) Whether the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether withdrawals under the Loan and Grant had been made in accordance with the specifications laid down in the Loan and Grant Agreements.
- (f) Whether the funds, materials and equipment supplied under the Loan and Grant had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted of the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether financial covenants lay down in the Loan and Grant Agreements had been complied with.

## **2. Financial Statements**

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### **2.1 Opinion**

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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 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (d) 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,
- (e) the 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 Grant Agreements had been complied with.

## **3. Financial and Physical Performance**

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### **3.1 Utilization of Funds**

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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.

Sources	Amount agreed for financing in the Loan and Grant Agreements		Allocation made in the Budget Estimate for the year 2015	Funds utilized		
	US\$ million	Rs. million		Rs. million	during the year under review	up to 31 December 2015
					US\$ million	Rs. million
ADB - Loan	65.00	6,955.00	-	-	63.80	6,264.19
- Grant	15.00	1,605.00	15.80	14.07	14.97	1,751.34
GOSL	25.32	2,707.00	01.69	1.69	25.32	3,589.48
<b>Total</b>	<b><u>105.32</u></b>	<b><u>11,267.00</u></b>	<b><u>17.49</u></b>	<b><u>15.76</u></b>	<b><u>104.09</u></b>	<b><u>11,605.01</u></b>

### 3.2 Physical Performance

The following observations are made.

- (a) As mentioned above, the period of the Grant was extended upto 31 July 2015 to complete the construction works of the playground of the Udugama Maha Vidyalaya in Galle district and the release of retention money on improvement works of Dippitiya Maha Vidyalaya in Kegalle district. Further, it was expected to complete Project Impact Evaluation Study Report. According to the information received, the above mentioned works had been completed during the year under review.
- (b) According to the paragraph 4.3 of the Project Impact Evaluation Study Report, the Information Communication Technology facilities had been provided by the Project for 2,127 schools. However, according to the information received from the Line Ministry, the internet connections through "School Net" had been provided only for 1,644 schools in the island. The survey results indicated that the 67 per cent of the schools had not prepared sustainability plans for the maintenance of the computers and the laboratory facilities provided by the Project. Further, according to the information collected by the audit, internet facilities provided through "School Net" to 76 national schools out of 350 national schools in the island, do not use such facilities due to slowness and frequent failure of the system.