

Education Sector Development Program - 2017

The audit of Consolidated Financial Management Report of the Education Sector Development Program for the year ended 31 December 2017 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 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 Program

According to the Loan Agreements, the Education Sector Development Program is implemented to provide financial support to the 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 amounted to US\$ 200 million equivalent to Rs.26,000 million. The Program commenced its activities on 23 August 2013 and 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 Program's 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 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 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 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 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. 258/ 2017 of 16 October 2017 of the Department of State Accounts.
- (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 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (i) Whether the 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 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 Account of Head No. 126 of the First Schedule to the Appropriation Act, No. 24 of 2016 relating to the Ministry of Education for the year 2017 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 Circular No. 258/2017 of 16 October 2017 of the Department of State Accounts. The above Consolidated Financial Management Report was agreed with the records of the General Treasury, the Annual Estimates and the books and records maintained by the three central institutions of the education sector,
- (b) the opening and closing balances, withdrawals from and replenishments to the Deposit Account during the year ended 31 December 2017 had been truly and fairly disclosed in the books and records maintained by the General Treasury and the balance as at 31 December 2017 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,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of the Financial Statements

According to the Circular No. MOFP/ERD/2007/2 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements for the year ended 31 December 2017 are required to be submitted to the Auditor General on or before 31 March 2018. However, the Consolidated Financial Management Report of the Program had been submitted only on 30 May 2018.

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 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreements		Allocation made in the Budget Estimate for the year under review	Funds utilized			
				during the year 2017	up to 31 December 2017		
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	200	26,000	4,880	26.60	2,619.29	98.93	13,342.81
	<u>200</u>	<u>26,000</u>	<u>4,880</u>	<u>26.60</u>	<u>2,619.29</u>	<u>98.93</u>	<u>13,342.81</u>

The following observations are made.

- (a) According to the information received, US\$ 167 million equivalent to Rs.21,710 million had been reimbursed as at 31 December 2017 by the Government of Sri Lanka even after lapse of 04 years from the date of commencement of the activities of the Program, out of the total allocation of US\$ 200 million equivalent to Rs. 26,000 million made for the Education Sector Development Program. Further, only US\$ 98.93 million equivalent to Rs.13,342.81 million only had been utilized by the Line Ministry to implement the activities of Program as at 31 December 2017.
- (b) According to the Appropriation Account of the Line Ministry, the allocation amounting to Rs.52,577 million had been made to meet the capital expenditure of the Line Ministry and out of that a sum of Rs.24,954 million representing 47 per cent had remained unspent as at 31 December 2017. Further, a sum of Rs.4,880 million had been allocated to implement the activities of the Education Sector Development Programme during the year under review and out of that a sum of Rs.2,261 million had remained unspent as at 31 December 2017. It was further observed that the allocation amounting to Rs.1,700 million made to procure furniture and office equipment during the year under review and out of that Rs.591.84 million had only been utilized for the intended purpose, due to subsequent changes of the syllabus of the Technology Science Streams and subsequent cancellation of the bids called.

3.2 Physical Progress

According to the Program documents, the targets identified under 09 main Disbursement Linked Results are required to be achieved to meet objectives of the Education Sector Development Program which address the future challenges of the general education sector of

the country. The following observations are made on the achievements of targets stipulated for the year under review under the Disbursement Linked Results.

- (a) According to the information received, the classes for the Technology Science Streams for the G.C.E. (Advance Level) Examination were conducted in 380 Schools including 196 National Schools as at 31 December 2017. However, teachers to conduct classes for the Technology Science Streams had not been recruited adequately and vacancies for 257 teachers for the respective Streams had remained unfilled as at that date.

- (b) According to the information received, the posts of Schools Principals of 259 National Schools in the island had remained vacant as at 31 December 2017 and covered the duties by the other officers under acting appointments. According to the School Census Report-2017, there were 10,194 schools in the island including 353 National Schools representing 3.5 per cent of all the schools. However, 811,164 students representing 19.50 per cent of the student population were attended in the National Schools as at 31 December 2017 whilst 38,242 teachers representing 15.80 per cent of teachers population had been attached to the National Schools.

- (c) According to the Program documents, the buildings for 250 Technological Faculties in the schools were expected to be constructed island wide and out of that the construction works of 246 buildings had been completed as at 31 December 2017. The construction works of Gothmi Girls' School at Colombo-10 and Ananda Vidyalaya at Colombo-15 had not been commenced, due to shortage of the land spaces in the respective schools. Further, the construction works of buildings at Annurudda Kumara National School and Hallbrook Tamil Vidyalaya in Kandy had been abandoned halfway, due to failures of the contractors.