

## **Consolidated Program Annual Financial Report of the Education Sector Development Program - Provincial Level – 2017**

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The audit of Consolidated Program Annual Financial 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 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 (ADB).

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

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According to the Loan Agreements, the activities of the Program at national level are expected to be carried out by the Ministry of Education, Department of Examinations and Department of Educational Publications whilst the activities at provincial level are expected to be carried out by the Ministry of Provincial Councils and Local Government and the Provincial Ministries of Education of all Provincial Councils. According to the Loan Agreements, the Program is implemented to provide financial support to implement Education Sector Development Framework and Program 2013-2017 which address the challenges facing general education sector of the country. The objectives of the Program are to develop a modernized secondary education school system that improved the employability of male and female secondary school graduates. As per Loan Agreements, the estimated total cost of the Program amounted to US\$ 200 million equivalent to Rs. 26,000 million. The activities of the Program had been commenced on 23 August 2013 and scheduled to be completed by 31 August 2018. My comments and observations on the activities carried out by the Provincial Ministries and Departments of Education operated under the Provincial Councils appear in this report.

### **1.3 Responsibility of the Management for the Consolidated Program Annual Financial Report**

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Management is responsible for the preparation and fair presentation of these Consolidated Program Annual Financial Report which is the compilation of the Appropriation Accounts of the Provincial Ministry of Education of the Provincial Councils 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 this Consolidated Program Annual Financial 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 Program Annual Financial Report is free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated

Program Annual Financial Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Program Annual Financial 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 Program Annual Financial 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 Program Annual Financial 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 Program Annual Financial 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 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 Education Sector.
- f) Whether the Consolidated Program Annual Financial Report had been prepared in conformity of Financial Regulation 150 and the Circular instructions issued by the Chief Secretaries of the respective Provincial Councils.
- g) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- h) Whether financial covenants laid down in the Loan 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 Appropriation Accounts of the nine Provincial Councils 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 instructions issued by the Chief Secretaries of the respective Provincial Councils. The above Appropriation Accounts were agreed with the records of the General Treasury, Annual Budget Estimates and the books, registers and records maintained by the Education Ministries of the Provincial Councils. The costs incurred out of the proceeds of Loans had been duly recorded in the Appropriation Accounts of the Education Ministries of the Provincial Councils for the year 2017,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Loan 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 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			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
ADB	200	26,000	4,080	30	4,594.20	177	21,787.25
	<u>200</u>	<u>26,000</u>	<u>4,080</u>	<u>30</u>	<u>2,594.20</u>	<u>177</u>	<u>21,787.25</u>

According to the Appropriation Accounts of the Provincial Councils for the year ended 31 December 2017, the allocation aggregating Rs.18,730 million had been made for the year under review for the Provincial Councils to meet the capital expenditure of Provincial Ministries of Education and out of that a sum of Rs.9,916 million had been utilized as at 31 December 2017. Further, out of the allocations amounting to Rs.7,645 million made for the year under review to meet the capital expenditure of the Provincial Ministry of Education of the North Central Province, only a sum of Rs.2,745 million had been utilized. In addition, it was revealed that 62 per cent of the allocations made to meet the capital expenditure of the Provincial Ministry of Education of the Uva Province had remained unspent at the end of the year under review.

### **3.2 Physical Progress**

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According to the Attachment 01 to schedule 03 of the Loan Agreement, the Program is implemented to achieve 09 Disbursement Link Results under 33 Disbursement Link Indicators. Further, the Consolidated Program Annual Financial Report for total cost of Rs.134,154 million incurred by the Provincial Councils for education sector from all sources of funds had been furnished for audit as the financial statements for the year ended 31 December 2017. Some of the key audit observations made on the operations of the Provincial Ministries of Education and Provincial Departments of Education are described below.

- a) According to the targets stipulated under the Disbursement Linked Result – 02, the pass rate of G.C.E. Advanced Level Examination was expected to be increased up to 65 per cent and the respective pass rate had remained at 66.02 per cent at the end of the year under review. However, the pass rate of school candidates of G.C.E Advance Level Examination in the Eastern and North Central Provinces had remained at 62.46 per cent and 63.01 per cent respectively which below than the average pass rate. The following observations are made on the analysis of the results of the G.C.E. Advanced Level Examination held in 2017.
- (i) The pass rate of the school candidates in all 03 subjects of Art Stream had remained at 73.82 per cent and it influenced highly to increase the overall pass rate of all 03 subjects of the Examination.
  - (ii) According to the Performance Report of the Department of Examination, out of 206,630 school candidates who sat for the G.C.E Advance Level Examination, 16,921 of school candidates representing 8.21 per cent were failed in all subjects in all streams. Further, it was observed that more than 09 per cent of school candidates in the North Central, Northern and Southern Provinces had failed in all subjects in all streams.
  - (iii) The school candidates in Commerce Stream had recorded the highest percentage of 71.17 for qualifying for university entrance whilst the school candidates of 54.05 per cent in Physical Science Stream and 55.71 per cent of Bio Science Stream were qualified for university entrance. Further, the school candidates of Engineering Technology and Bio-Science had recorded pass rates of 57.74 per cent and 61.79 per cent respectively.

- b) According to the Disbursement Linked Result – 03, an assessment on the performance of the students in Technology Stream in 100 schools to be conducted and time bound plan for gender inclusive expansion of Technology Stream expected to be prepared. However, action had not been taken to conduct the assessment and prepare the time bound plan thereon.
- c) It was expected to increase the student population of the G.C.E Advance Level Science Stream in provincial schools up to 28 per cent ensuring at least 25 per cent total enrolment for girls, as per Disbursement Linked Result – 05. However, according to the information received from the Project Management Unit, the students enrolment for the Science Stream was remained at 21.31 per cent during the year under review
- d) According to the Disbursement Linked Result – 06, enrolment of the students of provincial schools for Commerce Stream of G.C.E Advance Level was expected to increase up to 33 per cent and at least 29 per cent of girls was expected be enrolled. According to the information received from Project Management Unit, the students enrolment for the Commerce Stream was remained at 22.27 per cent during the year under review and the girls' enrolment thereon is limited to 20.45 per cent of the students enrolment for the Commerce Stream.
- e) According to the Disbursement Linked Result – 07, it was expected to increase the performance of School Principals and Deputy Principal through providing training opportunities and a sum of Rs. 32 million had been spent by the Project thereon as at 31 December 2017. The audit test checks made thereon had revealed that the posts of Principals of 442 schools had remained vacant in the Uva Province whilst Principals in other 124 schools had remained in excess. Further, the posts of Principals of 177 schools had remained vacant and Principals in other 38 schools had remained in excess in the North Western Province, thus indicated that the allocation of School Principals at the provincial level had not been done in fair and equal manner.
- f) The audit tests checks made in the provincial schools had revealed that the furniture and other equipment for studying purposes had not been adequately provided to the schools in the remote areas. Therefore, the desks and chairs for students in 791 schools in the North Western Province and 449 schools in the Southern Province had not been sufficiently provided. In addition, sanitation facilities for 172 schools in North Western Province and 284 Schools in Southern Province had not been provided adequately. Further, the report on School Census -2017 published by the Ministry of Education had indicated that the students in 4,551 national and provincial schools in the island including 657 provincial schools in the North Western Province had not been provided computers for studying purposes as at 31 December 2017.