

General Education Modernization Project – Component II - 2025

The audit of financial statements of the General Education Modernization Project Component - II for the year ended 31 December 2025 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 5.09 of the Loan Agreement No. 6228-LK dated 25 July 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, the Ministry of Education, Higher Education and Vocational Education is the Executing Agency and the Implementing Agency of the Project.

The objectives of the Project is to enhance quality and strengthen stewardship of the general education. The activities of the Project are implemented under 02 components namely enhancing quality and strengthen stewardship of primary and secondary education, programme operation and technical support.

As per the Loan Agreement, the estimated total cost of the Project was US\$ 2900 million equivalent to Rs 449,645 million and out of that US\$ 100 million equivalent to Rs 15,505 million was agreed to be financed by the International Development Association. The balance amount of Rs 434,140 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 30 August 2018 and scheduled to be completed by 30 June 2024. However, the date of completion of the activities of the project had been extended up to 30 June 2027.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2025, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit.

I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Non-Compliance with Laws, Rules and Regulations

	Reference to the Laws, Rules and Regulations	Non-Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
(a)	Paragraph 9.3 of Circular No. 01/2018 dated 15 March 2019 of the	Although the Secretary to the Line Ministry should ensure that the Project Steering Committee has	Agreed. Steps will be taken in the future to hold the steering committee meeting	Actions should be taken to comply with the circular.

Ministry of Finance, Economic Stabilization and National Policies met at least once every two (02) months only two (02) Steering Committee meetings had been conducted during the year under review. properly within the relevant time frame.

- (b) Paragraph 96 of the Project Appraisal Document. The Internal Audit Unit of the Ministry should carry out the internal audit of the project as per the project Appraisal Document. However, the General Education Modernization Project had not been identified as a separate entity for audit within the Internal Audit Plan for the year 2025. Further, no internal audit reports had been issued in relation to the audit of the General Education Modernization Project from the year 2021 up to the year under review. Agreed. I do expect to issue the Audit Report in relation to the internal audit of the project examination conducted on the GEM project. Actions should be taken to comply with the provision of the project Appraisal Document.

3. Physical Performance

3.1 Matters in Contentious Nature

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Two consultants have been hired to coordinate two Disbursement Linked Indicators (DLIs) of the project and a sum of Rs. 1,436,000 had been paid as consultancy fees for the year under review. Although the reports of these consultants should have been used as a decision-making tool to provide the school system with the results obtained from fulfilling the objectives of the project's	The findings of the visits by the consultants are frequently used in awareness programmes conducted.	Consultant's reports should be used as a decision-making tool to achieve the Disbursement Linked Indicator (DLI) and the relevant plans should be prepared by the Policy Planning and Performance review division of the Ministry and implemented through consultants.

Disbursement Linked Indicators (DLI), the Policy Planning and performance review division of the Ministry had not taken action accordingly.

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| (b) | Under the General Education Modernization Project, foreign scholarships had been awarded to 05 officers to pursue postgraduate degrees in education. Although it was stated according to paragraph 05 of the decisions of the Ministry's Procurement Committee that priority should be given to officers who had not previously received scholarships, officers who had completed postgraduate degrees from other universities had been selected for the scholarship program. Consequently, Officers who had not yet obtained a postgraduate degree had missed the opportunity of having a foreign scholarship, and the targeted objectives had also not been achieved. | Agreed. Steps will be taken to make selections within a fair methodology whenever possible, properly adhering to the relevant criteria. | Specific criteria should be established when selecting officers for foreign scholarships and officers should be selected in accordance with the relevant criteria. |
| (c) | Two lecturers who had completed their postgraduate degrees had left the service before the end of their mandatory service period and the Ministry had failed to recover the amount of Rs. 17,285,346 spent on these two lecturers from the relevant officer or the guarantors. | Action has been taken to inform the Dean of the relevant College of Education to take steps to recover the amount due from them within 14 days. | Since all the activities related to the awarding of foreign scholarships have been carried out by the Ministry, the process of collecting the dues should also be carried out by the Ministry itself. |
| (d) | One lecturer had left her postgraduate degree midway and gone abroad, and the Ministry had failed to recover the amount of Rs.6,073,940 spent on this postgraduate program, even though more than 03 years had passed since the officer left her post. | The Foreign Institutions and Foreign Affairs Branch has informed the Dean of the relevant College of Education to take action to recover the amount concerned. | Since all the activities related to the awarding of foreign scholarships have been carried out by the Ministry, the process of collecting the dues should also be carried out by the Ministry itself. |

- (e) According to paragraph 52 of the Project Appraisal Document (PAD), the results should be verified by an independent institution with educational expertise before the project funds are released. Accordingly, although it is the responsibility of the selected institution to provide independent valuation on the achievement of the relevant disbursement linked indicators through the utilization of project funds, the accuracy of the reports provided by the institution was not reliable for the audit, since the Ministry of Education itself provided the necessary data for the preparation of those independent reports.
- Apart from the recommendation provided by the World Bank to assign this Third-Party Validation (TPV) task to SLAAED, the World Bank has no other involvement in this activity. Therefore, the Ministry should coordinate with SLAAED and provide the necessary data for them to carry out their study.
- The institution selected for the third-party assessment should obtain the relevant data itself and conduct an independent assessment of the achievement of the disbursement linked indicators.