

Consolidated Financial Management Report of the Education Sector Development Program on Three Central Appropriation - 2014

The audit of Consolidated Financial Management Report of the Education Sector Development Program for the year ended 31 December 2014 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 Programme 2013-2017 which addresses the challenges facing general education sector of the country. The Implementing Agency of the Education Sector Development Program is the Ministry of Education. According to the Education Sector Development Framework and 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 USD 200 million. The Program activities had been commenced 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 these 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 are 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 judgement, 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 Project'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 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 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 equipment 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 Accounts Circular No. 239/ 2014 of 01 December 2014 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 initial deposit, 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 2014 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka, as at that date, and
- (i) Whether financial covenants laid down in the Loan Agreements had been complied with.

2. **Financial Statement**

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. 36 of 2013 relating to the Ministry of Education for the year 2014 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. 239/ 2014 of 01 December 2014 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 withdrawals from and replenishments to the Deposit Account during the year ended 31 December 2014 had been truly and fairly disclosed in the books and records maintained by the General Treasury and the balance as at 31 December 2014 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 Financing Agreements, and
- (d) the financial covenants laid down in the Loan Agreements had been complied with.

2.2 Comments on Financial Statement

2.2.1 Funds utilized for the Purposes outside the Programme

The following observations are made.

- (a) Out of the allocations made for the activities to be carried out by the Program during the year under review, a sum of Rs.2.50 million had been spent for the newspaper advertisements to make aware on new Service Minute of Sri Lanka Teacher Service and Sri Lanka Principal Service which was not an activity to be covered under the Disbursement Link Indicators of the Program.
- (b) It was observed that 100,000 copies of a publication titled “Target Achievement of the Mahinda Chinthana ” had been printed during the year under review at a cost of Rs.13.80 million under the allocations made for the Disbursement Link Indicator for the Awareness of the Community on Inducing and Encouraging Studies for the Technology Subject Stream at the General Certificate of Education (Advanced Level). However, the matters in the publication comprised with political motive and not related to induce and encourage students and parents for studying in the Technology Subject Stream at the General Certificate of Education (Advanced Level). Further, the procurement procedure had not been applied for the selection of the printer in transparent manner. The Policy and Performance Review Division of the Ministry had directly taken over all the copies of the publication and, no documentary evidence in support of the distribution of the book had been maintained by the Division.
- (c) Further, a sum of Rs.3.49 million had been spent by the Project during the year under review for the registration of 77 Zonal Information Technology Communication Centres at 02 private educational institutes which are the local agents to conduct training courses of International Computer Driving License and the International Information Communication Technology. However, that activity was not directly related to the Disbursement Link Indicators of the Program. It was further observed that neither the registration certificates had been issued no training courses whatsoever had been conducted due to lack of resources at the centres such as computers and related accessories, human resources and other facilities.

3. **Financial and Physical Performance**

3.1 **Utilization of Funds**

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

| Source | Amount agreed for financing in the Financing Agreement | | Allocation made in the Budget Estimate for the year under review | Fund utilized | | | |
|--------------|--|--------------|--|---------------|--------------|---------------|--------------|
| | US\$ millions | Rs. millions | | US\$ millions | Rs. millions | US\$ millions | Rs. millions |
| Donor Agency | 200 | 26,000 | 3,094 | 23.8 | 3,091 | 23.7 | 3,091 |
| | 200 | 26,000 | 3,094 | 23.8 | 3,091 | 23.7 | 3,091 |

Eventhough the General Treasury had withdrawn US\$ 33.32 million out of the proceeds of Loans agreed to be provided under the Program, during the year under review, only US\$ 23.7 million had been released to the Ministry of Education as imprests.

3.2 **Physical Progress**

The following observations are made.

- Eventhough a sum of Rs 2,791 million had been provided, the estimates amounting to Rs 7,000 million had been prepared to construct 250 Mahindodaya Technology Colleges during the year under review. The construction works of 02 Colleges had been completed during the year under review whilst 248 other Colleges were remained partly completed as at 31 December 2014. Nevertheless, furnitures, bio medical equipments, and mechanical engineering technology equipments procured for 250 Colleges at a cost of Rs.970.28 million were remained idle due to delays in construction

of buildings, allowing expiry of the period of validity of such equipment without using for intended purposes.

- (b) Out of 250 schools of which newly introduced Technology Subject Stream for the General Certificate of Education (Advanced Level) , classes in 13 schools had not been commenced as there was no single student for the Technology Subject Stream. Further, classes for Technology Subject Stream consisted with students between 01 to 09 in other 152 schools. The overall shortages of 167 teacher were remained as at 31 December 2014 in schools where the Technology Subject Stream newly introduced.