

Education Sector Development Program (ESDP) - Provincial Level - 2015

The audit of Consolidated Program Annual Financial Reports of the Education Sector Development Program 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 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.

1.2 Implementation, Objectives, Funding and Duration of the Program

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 was 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 Reports

Management is responsible for the preparation and fair presentation of these Consolidated Program Annual Financial Reports which is the compilation of the Appropriation Accounts of the Provincial Ministries 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 Consolidated Program Annual Financial Reports 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 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 Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure for the provincial 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 equipments supplied under the Loans had been utilized for the purposes of the provincial education sector.
- (f) Whether the Consolidated Program Annual Financial Reports 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 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

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 Accounts of the Provincial Councils for the year 2015 presented to audit were 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 computer printouts 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 2015,
- (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

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 2015 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		during the year 2015		up to 31 December 2015	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	200	26,000	5,143	32	4,202.80	112	14,793.40
	<u>200</u>	<u>26,000</u>	<u>5,143</u>	<u>32</u>	<u>4,202.80</u>	<u>112</u>	<u>14,793.40</u>

3.2 Physical Progress

According to the Attachment 01 to the Schedule 03 of the Loan Agreements, the activities of the Program were scheduled to be implemented to achieve 33 Disbursement Link Indicators under 09 Disbursement Link Results. Further, the Consolidated Program Annual Financial Report representing the total expenditure aggregating Rs. 122,848 million incurred by the Provincial Councils for educational sector from all sources of funds as at 31 December 2015 had been furnished for audit as the financial statements for the year ended 31 December 2015. Some of the key audit observations made on the Appropriation Accounts of the Provincial Councils for the year 2015 relating to the operations of the Provincial

Departments of Education and Provincial Ministries of Education operated under the Provincial Councils are reproduced as follows.

- (a) According to the Disbursement Link Indicators 01, the pass rate of the GCE Ordinary level Examination of school candidates should be reached to 63 per cent of school candidates as at 31 December 2015. According to the progress report, pass rate of the GCE Ordinary Level Examination of school candidates were remained at 69.33 per cent as at 31 December 2015. However, the pass rate of the GCE Ordinary Level Examination of school candidates were remained below than 63 per cent in 2015 in the schools of Jaffna, Nuwaraeliya, Trincomalee, Mullativu and Killinochchi districts. The average percentage of failing of all subjects of the GCE Ordinary Level Examination was remained at 3.18 per cent of school candidates and it was in very high in remote districts. Therefore, rates of failing of all subjects of the GCE Ordinary Level recorded at 8.64 per cent in Killinochchi district, 5.56 per cent in Monaragala district, 5.46 per cent in Polonnaruwa district, 4.96 per cent in Jaffna district and 4.82 per cent in Mullativu district.
- (b) According to the Disbursement Link Indicators 02, the pass rate of the GCE Advance Level Examination of school candidates should be reached at 63.5 per cent as at 31 December 2015. However, according to the progress reports, the pass rate of the GCE Advance Level Examination of school candidates were remained at 62.35 per cent as at 31 December 2015. The percentage of failing of school candidate of all subjects of GCE Advance Level Examination was remained at 8.64 per cent whilst higher rates of failing of all subjects of 9.89 per cent and 9.64 per cent were reported in Southern and North Central Provinces respectively in 2015.
- (c) It was expected to popularize the studies in Technology Stream through continuing of advisory and education programmes for students and parents. However, 12,102 students were admitted for the classes of Technology Stream for the G.C.E. Advance Level compared to the admissions of 15,747 students in the previous year. According to the detailed audit, it was revealed that the student population for the Technology Stream was declined in 2015 by 11.45 per cent in the North Central Province whilst 4.25 per cent in the Southern Province. Further, the new classes for the Technology Stream were commenced in 34 provincial schools in the Western Province and 18 provincial schools in the Central Provinces without necessary facilities with technological laboratories. Further, the classes for the Technology Stream in 52 other provincial schools in the Uva, North Central, Southern, Sabaragamuwa and North Western Provinces had also commenced without technological laboratories. It was revealed that the classes for the Technology Stream are continued in 18 provincial schools in the Central Province with shortages of qualified school teachers for the Technology Stream.
- (d) Eventhough the action had been taken to upgrade 225 provincial schools in 1C Grade up to the level of 1AB Grade, the development works for upgrading purposes had been completed in 125 provincial schools only as at 31 December 2015. The test checks carried out in 03 schools out of 17 schools in the Central Province which upgraded to 1AB Grade had revealed that adequate number of students were not admitted to the

classes of Science Streams of Ududumbara Secondary Schools, Dunhinna Isuru Vidyalaya and Panwila Royal School in 2015.

- (e) It was observed that no in-service training sessions had been conducted in 2015 for the newly recruited teachers of Science Streams in 2013 and 2014 and attached to the provincial schools in the Central Province, eventhough the allocation amounting to Rs. 2.78 had been made thereon.
- (f) According to the information made available from the Ministry of Education, 107 schools were closed down island wide as at 31 December 2015. However, the statistics collected from the Provincial Ministries of Education, 389 schools were closed down. It indicated that a proper mechanism had not been established by the Line Ministry as well as the Provincial Ministries to share the information for effective policy decision and proper monitoring purposes.
- (g) The allocation of the teachers for the schools in provincial levels had not been done satisfactorily. According to the information collected, there were shortages of the teachers for main subjects in rural schools in the Northern, North Central, North Western, Sabaragamuwa, Uva and Western Provinces whilst excesses of teachers in urban schools in respective Provinces. Further, annual transferring system had not been properly implemented and as a result, school Principals and Teachers were remained over 10 years in the same school in the Sabaragamuwa, North Central, Uva and North Western Provinces. In addition, it was observed in detailed audit that the teachers were underutilized in schools in the Sabaragamuwa and North Western Provinces.