

Education Sector Development Program (ESDP) - Provincial Level - 2016

The audit of Consolidated Program Annual Financial Report of the Education Sector Development Program (ESDP) for the year ended 31 December 2016 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 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

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

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 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 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 the 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,

- i) the Appropriation Accounts of the nine Provincial Councils for the year 2016 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 2016,

- (a) the funds provided had been utilized for the purposes for which they were provided,
- (b) 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.

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 2016 are required to be submitted to the Auditor General on or before 31 March 2017. However, the financial statements of the Program had been submitted only on 30 May 2017.

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 2016 are shown below.

Source	Amount agreed for financing as per the Loan Agreements		Allocation made in the Budget Estimate for the year under review	Funds utilized			
				during the year 2016		up to 31 December 2016	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	200	26,000	4,900	17	2,399	137	18,323
	<u>200</u>	<u>26,000</u>	<u>4,900</u>	<u>17</u>	<u>2,399</u>	<u>137</u>	<u>18,323</u>

According to the Appropriation Accounts of the Provincial Council for the year ended 31 December 2016, the allocation aggregating Rs.21,863 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.9,661 million had been utilized as at 31 December 2016. Further, out of the allocations amounting to Rs.1,582 million made for the year under review to meet the capital expenditure of the Provincial Ministry of Education of the Eastern Province, only a sum of Rs. 601.61 million had only been utilized. In addition, it was revealed that 60 per cent and 54 per cent of the allocations made to meet the capital expenditure of the Sabaragamuwa and North Western Provinces respectively had remained unspent at the end of the year under review.

3.2 Physical Progress

According to the Attachment 01 to schedule 03 of the Loan Agreement, the Project 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.132,856 million incurred by the Provincial Councils for educational sector from all sources of funds as at 31 December 2016 had been furnished for audit as the financial statements for the year ended 31 December 2016. Some of the key audit observations made on the Appropriation Accounts of the Provincial Councils for the year 2016 relating to the operations of the Provincial Departments of Education and Provincial Ministries of Education are reproduced as follows.

- a) According to the Disbursement Link Indicator – 01, the pass rate of the General Certificate of Education G.C.E. (Ordinary Level) Examination of school candidates should be reached at 63 per cent during the year under review. According to the Performance Reports of the Department of Examinations, the pass rate of the school candidates in first attempt was remained at 69.94 per cent. However, the pass rate of the G.C.E (Ordinary Level) Examination of school candidates was remained at 60.66 per cent and 61.56 per cent which below than the average pass rate in the Northern and Eastern Provinces respectively. Further, the rate of failing of all subjects of school candidates at the G.C.E (Ordinary Level) Examination had remained at 3.11 per cent. The candidates of the North Central and Northern Provinces had recorded highest rates of 4.01 per cent and 4.47 per cent of failing of all subjects.
- b) It was expected to increase the student population of the Science and Commerce Streams in the provincial schools and decrease the enrolment for Art Stream, as per Disbursement Link Indicator – 02. Further, according to the targets stipulated under the Disbursement Linked Results- 02, the pass rate of the G.C.E. (Advanced Level) Examination was expected to increase up to 64 per cent. However, the respective pass rate was remained at 62.17 per cent during the year under review. The following observations are made on the analysis of the results of the G.C.E. (Advanced Level) Examination held in 2016.
 - (i) The pass rate of all 03 subjects of Art Stream had remained as 67.07 per cent and it influenced highly to increase the overall pass rate of all 03 subjects of the G.C.E. (Advanced Level) Examination held in 2016.
 - (ii) According to the Performance Report of the Department of Examination, out of 211,865 school candidates who sat for the G.C.E. (Advanced Level) Examination, 17,702 of school candidates representing 8.36 per cent were failed in all subjects in all streams including 10.51 per cent of students in the North Central Province whilst obtaining “A” passes for all subjects by 6,468 students representing 3.05 per cent.
 - (iii) Further, school candidates in Commerce Stream had recorded highest percentage of 69.64 for qualifying for university entrance whilst the school candidates of 53.26 per cent in Physical Science Stream and 53.35 per cent of

school candidates of Bio Science Stream were qualified for university entrance.

- (iv) The school candidates studied in newly introduced streams of education of Engineering Technology and Bio- Science had recorded pass rates of 55.58 per cent and 60.16 per cent respectively. However, 10 school candidates of Engineering Technology Stream and Bio- Science Technology Stream only had obtained 'A' passes for all subjects while 1,384 school candidates of the respective streams were failed all subjects.
- c) According to the Disbursement Link Indicator 08, it was expected to implement the Technology Stream in 100 schools with trained teachers and required equipment. Although, classes for Technology Stream had been commenced in 251 schools in all Provinces, no any teacher had been deployed for 25 provincial schools in the Educational Zones of Colombo, Gampaha, Homagama, Horana, Kaluthara, Piliyandala, Sri Jayawardanapura in the Western Province, Killinochchi in the Northern Province, Anuradhapura, Dimbulagala, Galenbindunuwewa, Hingurakgoda, Kekirawa, Polonnaruwa, Thambutthegama in the North Central Province and Bandarawela, Bibile, Monaragala, Passara and Wellawaya in the Uva Province. Further, it was observed that 14 teachers were deployed in 03 schools in Gampola, Galewela and Meegahakiula Educational zones and no any students for the classes of Technology Stream. Thus indicated that the allocation of teachers to conduct classes for the Technology Streams in the Provincial schools were not done in fair manner.
- d) Eventhough 255 provincial schools island wide had been categorized as schools with classes for Science Streams for G.C.E. (Advanced Level), it was revealed in the detailed investigation that teachers for the G.C.E. (Advanced Level) classes had not been deployed adequately. Therefore, the teachers for the subjects of Chemistry in 57 schools, Physics in 63 schools, Bio Science in 59 schools, Agri Science in 95 schools and Combined Mathematics in 72 schools, out of 255 provincial schools had not been deployed as at 31 December 2016.
- e) According to the audit tests carried out, 126 Technological Laboratories had been established in the North Western Province and out of that only 36 schools had commenced Science and Mathematics classes for the G.C.E. (Advanced Level) due to several reasons such as shortage of 47 teachers for the respective subjects, inadequacy of teaching equipment and other facilities of electricity and electronic equipment etc. The Science and Mathematics classes in 08 schools in the North Western Province consisted with below than 05 students and it evidenced that the enrollments of the students for such streams was remained low.
- f) According to the Disbursement Link Indicator 08, performance based partnership agreements between the Line Ministry and Provincial Ministries of Education is required to be reviewed to align the provincial and central level work plans and ensure that at least 85 per cent of the initially approved capital budget for school education is utilized in 2016. However, the total capital allocation of 09 Provincial Councils amounted to Rs. 21,863.22 million for the year under review and out of that capital expenditure amounted to Rs. 9,661.31 million had not been utilized as at

31 December 2016 representing only 44 per cent of initial allocation for capital expenditure. The North Central and Southern Provinces had recorded a lower percentage of utilization of the capital allocations representing only 26.93 per cent and 34.43 per cent of initial allocation respectively.

- e) According to the School Census- 2016, out of 10,162 schools in island wide, 7,832 schools consisted with students below than 500. Further, according to the detailed audit carried out, 644 provincial schools excluding the schools in the Uva and Eastern Provinces had remained closed as at 31 December 2016. It was further reported that 165 provincial schools in the Southern Province, 146 provincial schools in the Western Province and 113 provincial schools in the North Western Province were remained closed as at 31 December 2016. However, fruitful action had not been taken by the Line Ministry together with Provincial Ministries of Education to investigate the reasons for closing down and re-open such schools as enable to provide educational facilities for less privileged groups of students in the country.