

General Education Modernization Project Component II - 2022

The audit of financial statements of the General Education Modernization Project component II for the year ended 31 December 2022 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 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 is the Executing Agency and the Implementing Agency of the Project. The objective of the Project is to enhance quality and strengthen stewardship of the general education system. 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 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.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2.1 of my report the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022, 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 Qualified 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 Accounting Deficiencies

	Accounting Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
(a)	The project expenditure had not been shown in the financial statement of the year under review.	65.4	The expenses of Component II accounted by the Department of Treasury Operations. Accordingly Rs.65,443,738.15 which was the expenses of the month of December 2022 was recorded in the year 2023 due to the late submission to the Department of Treasury Operations.	Correct amount of expenditure should be accounted in the Financial Statement.
(b)	As per the Section 43(a) of Sri Lanka Public Sector Accounting Standard 5 assets and liabilities for each statement of financial position should be translated at the closing foreign exchange rate of the date of the statement of financial position. However, the Parity adjustment relating to the foreign loan of the project had not been accounted for the year under review as per above requirement.	261	The parity adjustments amounting value will be accounted as a note of the financial statement in 2024 accounts.	Financial position should be translated at the closing foreign exchange rate

2.2 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
(a)	The management service circular no.01/2019 dated 15 March 2019 , paragraph 9.3 and section 5.1 of the project operational manual	The Secretary of the Line Ministry / Provincial Council Chief Secretary shall ensure that the Project Steering Committee meets at least once in 02 months. However only one steering committee had been held for the year under review.	Steering committee meetings are conducted by both Ministry of Education and Ministry of Public Administration, Home Affairs, Provincial Councils & Local Government. Ministry of Education also participating with those meetings.	Action should be taken to comply with circular and operational manual.
(b)	Paragraph 96 of the Project Appraisal Document	The internal audit should be carried out by the internal audit unit of the Ministry of Education. Although, the internal audit plan presented by the internal audit unit of the Ministry of Education for the year 2022 was generally stated as coordination, regulation and evaluation of foreign aid programs no audit activity was identified or carried out in relation to the project.	The comments had not been received.	Action should be taken to conduct an internal audit.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component II	Activity	As at 31 December 2022		Delay/ Audit Issue	Reasons for delays
		Expected physical performance	Performance achieved		
		Units/ percentage	Units/ percentage		
	Action Plan and Progress report.	100	Not presented for audit	Although the progress report for the year 2022 had been submitted, the audit was unable to check the progress achieved in the year under review as the action plan for the year 2022 was not submitted to audit.	The annual total budget had been altered in the fourth quarter.
Response of the Management		The annual total budget had been altered in the fourth quarter of 2022, and modifying the plan was an additional job that required additional time. Steps were taken to smooth the process for 2023 and onward.			
Auditor's Recommendations		Action should be taken to prepare action plan and progress report for each component.			

3.2 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
An expenditure estimate of Rs.175 million had been prepared for 04 activities for the year 2022 and subsequently, it has been revised to 185.7 million for 05 activities in the fourth quarter. Further, the estimate was again revised to Rs.167.7 million on 20 December 2022. Accordingly, it was observed that a proper financial plan was not implemented to accomplish the expected tasks under component II.	Due to the government change in the fourth quarter, the budget for 2022 has been revised by the Budget Department, and the AIP and GEMP budgets had to be revised accordingly. However, during the implementation phase, the relevant officials make requests for extra budget allocation or reduce the allocation.	Action should be taken to implement proper financial plan.