

## **Transforming the School Education System as the Foundation of a Knowledge Hub Project – Central Level - 2015**

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The audit of Consolidated Financial Management Report of the Transforming the School Education System as the Foundation of a Knowledge Hub Project 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 paragraph B.3 of Section 2 of the Schedule 2 of the Financing Agreement No-5037-LK dated 18 May 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. According to the Financing Agreement, the activities of the Project are expected to be carried out by the Ministry of Education at national level and the Provincial Councils at provincial level. This report consists of the comments on activities carried by the Ministry of Education at national level.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Project Appraisal Document, the Project is implemented to provide financial support to implement Education Sector Development Framework and Program 2012-2016 which addresses the challenges facing the General Education Sector of the country. The Implementing Agency of the Project at central level is the Ministry of Education. The objectives of the Project are to enhance access to and quality of primary and secondary education to provide a foundation for the knowledge based economic and social development of Sri Lanka. According to the Financing Agreement, the estimated total cost of the Project amounted to SDR 64.1 million (US\$ 100 million) equivalent to Rs.11,000 million. Out of that, 70 per cent to 80 per cent of the funds had been allocated for the Provincial Education Authorities and the balance was allocated for the Ministry of Education. The activities of the Project had been commenced on 01 October 2012 and scheduled to be completed by 30 June 2017.

### **1.3 Responsibility of the Management for the Consolidated Financial Management Report**

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Management is responsible for the preparation and fair presentation of these 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**

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My responsibility is to express an opinion on the 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 financial statements 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 Project management and the reliability of books, records etc. relating to the operations of the Project.
- (b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations, the identifications of purchase made out of the Loan, etc.,
- (c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement.
- (d) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the Project.
- (e) Whether the Consolidated Financial Management Report had been prepared in conformity of Financial Regulation 150 and the State Accounts Circular No. 245/2015 of 10 December 2015 of the General Treasury.
- (f) the opening and closing balances, withdrawals from and replenishments to the Deposit Account during the year ended 31 December 2015 had been truly and fairly disclosed in the books and records maintained by the General Treasury and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (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 Financing Agreement had been complied with.

## **2. Financial Statements**

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### **2.1 Opinion**

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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. 41 of 2014 relating to the Ministry of Education for the year 2015 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. 245/ 2015 of 10 December 2015 of the General Treasury. The above Consolidated Financial Management Report was agreed with the computer printouts of the General Treasury, the Annual Estimates and the books and records maintained by the Project,
- (b) the opening and closing balances, withdrawals from and replenishments to the Deposit Account during the year ended 31 December 2015 had been truly and fairly disclosed in the books and records maintained by the General Treasury and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for replenishment in accordance with the requirements specified in the Financing Agreement,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Financing Agreement had been complied with.

## **3. Financial and Physical Performance**

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### **3.1 Utilization of Funds**

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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 Financing Agreement for Central Level		Allocation made in the Annual Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		during the year 2015	Rs. million	US\$ million	Rs. million
IDA	30	3,300	1,230	7	958	18	2,482
	<u>30</u>	<u>3,300</u>	<u>1,230</u>	<u>7</u>	<u>958</u>	<u>18</u>	<u>2,482</u>

As a practice, the Project had obtained imprests excessively than the amounts approved to be spent through the Annual Budget Estimate. As a result, balances ranging from Rs. 23 million to Rs. 96 million had remained in the Bank Accounts of the Line Ministry at the end of each month of first half year of the year under review. Further, balances ranging from Rs. 37 million to Rs. 53 million had also remained in the Bank Accounts of the Line Ministry at the end of each month of the period from July to September of 2015.

### 3.2 Physical Progress

The Ministry of Education had taken action to construct technological laboratories, procure laboratory and other equipment for such laboratories and provide trainings for the teachers in order to increase the student participation for the Advance Level Science Stream through upgrading of student performance, according to the Education Sector Development Framework and Program 2012 – 2016 and proceeds of the Loan had been utilized for such purposes. The following observations are made thereon.

- (a) It was observed that the Ministry had taken action to construct 1005 Technology Laboratories and a sum of Rs.12.24 million had been spent as at 31 December 2015, out of the allocations amounting to Rs.12.58 million made for the period of 2012-2015. The construction works of 989 Laboratories had been completed as at 31 December 2015 and out of those, 823 Laboratories were opened for the use of students as at 31 March 2016. It was observed that 166 Laboratories were remained idle as at 31 March 2016 due to shortages of teachers and other facilities. The construction works of 07 other Laboratories were remained in-progress and the construction works of 09 Laboratories were not started as at that date.
- (b) A sum of Rs.149.63 million had been spent to construct various type of other 55 school buildings and scheduled to be completed by 30 November 2015. However, the construction works of respective buildings had not been completed even as at 31 March 2016. Out of that, construction works of 15 teachers quarters expected to be completed by 31 March 2016 as per the Action Plan, had not been even commenced 30 April 2016. Further, a sum of Rs.26.73 million had been spent to improve sanitary facilities of 18 national schools and expected to be completed by 30 November 2015. However, such works had not been completed even as at 30 April 2016.

- (c) A test check carried out on construction of 06 buildings for Mahindodaya laboratories, out of 77 laboratories in Colombo and Kalutara districts, several quality failures such as cracks in floor areas and walls had been revealed. Further, the Mahindodaya laboratory constructed at Vethara Maha Vidyalaya in Kalutara was remained closed up to March 2016 eventhough the construction works of the building and installation of equipment including computers were completed as at 31 December 2014.
- (d) According to the information received, 353 schools including 143 National Schools had commenced classes for Technology Stream for G.C.E (Advance Level) as at 31 December 2015 and 40,589 students had selected the subjects in Technology Stream. Further, it was observed that only 334 qualified teachers in each category had only available for classes of Technology Stream.
- (e) According to the Report on Performance of the Department of Examination, out of 210,340 school candidates who sat for the G.C.E. (Advance Level) Examination held in 2015, 18,183 school candidates representing 8.64 per cent had failed in all subjects in all streams whilst obtaining “A” passes for all subjects by 5,930 school candidates representing 2.83 per cent. Further, 70.38 per cent of school candidates studied in commerce stream had recorded highest percentage of qualifying for university entrance whilst 51.65 per cent and 48.03 per cent of candidate in Physical Science Stream and Bio Science Stream respectively were qualified for university entrance. The school candidates studied in Engineering Technology Stream and Bio Science Technology Stream sat for the G.C.E. (Advance Level) held in 2015 in first time in Sri Lanka had recorded pass rates of 50.09 per cent and 60.66 per cent respectively and only 11 candidates had obtained “A” passes for all subjects. According to the Project Appraisal Report, it was expected to increase the rates of university entrance of the candidates sat for G.C.E. (Advance Level) Examinations in Science and Technology Streams than Commerce and Arts Streams.
- (f) It was observed that the pass rate of the Grade 5 scholarship examination was continuously declined during the last 03 years. Therefore, the pass rate of 10.12 per cent in 2013 had been declined up to 09.55 per cent in 2015.
- (g) Weaknesses in financial controls such as violations of procurement guidelines, payments without supporting documents, payments without proper authority and properly prepared vouchers etc, were observed in detailed audits carried out at the National Schools in the Southern, Central and the Western Provinces. Further, general administration activities of the National Schools in areas of maintaining proper records for teacher’s leave and quality inputs, distribution of government grants under student’s scholarship program and projects not implemented according to action plan were observed in the detailed audits carried out at such schools.

- (h) Eventhough the transfer policy for school teachers had been declared through the Circular No 20/2007 of 13 December 2007 of Ministry of Education, annual transfers of the teachers in the National Schools had not been made. Further, according to the decision of the Cabinet of Ministers of 10/2377/436/052, school teachers are required to be transferred once in 08 years. According to the information received, 75 per cent of school teachers in the 350 National Schools entitled to be transferred as at 31 December 2015 were remained in the same schools over 08 years.

### **3.3 Matters in Contentious Nature**

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The Secretary to the Ministry of Education had decided to arrange a training workshop for a 185 senior officers of the Line Ministry at a location owned to a private company selected without applying procurement procedure and a sum of Rs.2.05 million had been spent thereon. However, only 150 officers were participated for the training workshop. The purpose of conducting of the training workshop had not been explained for audit. Further, a proper mechanism had not been established to measure the outcome of the training wokshop.