

PROGRAM FIDUCIARY SYSTEMS ASSESSMENT

A. Introduction

1. The proposed program expands the original Education Sector Development Program, also supported by the Asian Development Bank (ADB) and completed in 2019,¹ but focuses on the upper secondary education components of the Government of Sri Lanka's broader General Education Sector Development Plan (GESDP) 2020–2025. The new program will be managed by the Ministry of Education (MOE) and implemented by both MOE and provincial education authorities (PEAs).
2. ADB will finance the new program with results-based lending (RBL) of \$400 million as a contribution to the government budget for upper secondary education. Disbursements are contingent on the delivery of results in key intervention areas and their validation by an independent validation agency.
3. The program will use government procedures and systems for financial management, procurement, and anticorruption measures with additional safeguards and capacity building initiatives for efficient program implementation. The government regulations are supplemented by a program implementation document (PID), which details project-related information on program costs, procurement, and financial management arrangements, including risk mitigation measures and reporting templates; and defines actions to strengthen the program's fiduciary systems.
4. The delivery of results under the RBL is contingent on efficient and effective budget management. Accordingly, the achievement of results, as measured by the disbursement-linked indicators (DLIs), serves as indicators of efficient and effective financial management.
5. This assessment of the program's fiduciary systems was conducted in accordance with ADB's RBL policy² and determines the degree to which the systems, procedures, and regulations for public financial management (PFM), procurement, and anticorruption measures will be able to manage fiduciary risks. The assessment and proposed mitigating measures are intended to provide assurance that proceeds to the program will be used for the intended purposes, with due consideration to economy and efficiency.

B. Information Sources

6. The assessment was undertaken from May 2019 to June 2020. It included a review of the government's PFM systems and its capacity for budget allocation and execution of funds for the education sector in general, and for the RBL program in particular.
7. It was based on interviews with key central and provincial stakeholders and the analysis of data extracted from the government's computerized integrated government accounting system (CIGAS), and informed by a review of previous diagnostic PFM (general and sector-specific) studies conducted by independent agencies and consultants on behalf of the government and development partners. The most recent PFM assessment is ADB's comprehensive PFM review

¹ Also referred to as Education Sector Framework and Development Plan, 2013–2017. ADB. 2020. [Completion Report: Sri Lanka: Education Sector Development Program](#). Manila.

² ADB. 2019. [Mainstreaming the Results-Based Lending for Programs](#). Manila; and ADB. 2018. [Supplementary Staff Guidance for Piloting Results-Based Lending for Programs](#). Manila.

of 2018.³ In addition, the fiduciary systems assessment was informed by annual fiduciary reviews conducted for the earlier RBL program⁴ and annual reports from the National Audit Office (NAO), the supreme audit institution of Sri Lanka.

C. Country-Level Financial Management System

8. PFM in Sri Lanka is centralized, and the Ministry of Finance (MOF) plays a key role. PFM guidelines are specified in the Financial Regulations (2002) and subsequent amendments, and government acts and regulations provide details on the respective government functions and fiscal responsibilities. The Constitution and its amendments instruct about the division of responsibilities between central, provincial, and local governments.

9. The government has a clearly defined state budget and budget formulation procedure. It follows a procedure of budget formulation guided by a budget call circular issued by the Department of National Budget under MOF. The procedure follows a budget calendar, which includes a legislative review of the extent to which budget allocations reflect stated policies and priorities. The budget for the following year is normally published in November. The government has gradually included a statement of annual results to be achieved by each budget entity as reflected in the budget submissions. The budget formulation process includes presentation of major development interventions and programs with description, budget allocation, annual target, key performance indicator, and link to the Sustainable Development Goals. However, it does not fully follow a program-based budgeting approach because the budget does not fully reflect the costs of achieving the targets, and the targets are only set for a year, while budget estimates are made for 3 years (MOF's medium-term budget framework). Moreover, the budget for the year 2020 had not been approved when the proposed program was designed, and the government is spending on a vote of account covering 4 months at a time.

10. The government budget and accounts are presented along several dimensions since allocations and transactions are classified by several different codes, enabling detailed analysis of allocations and spending. The government has a robust system for budget releases (budget execution)—with decentralized spending authority for different accounting units that operate their own government bank accounts in which monthly cash releases are deposited. The system and procedures for budget management and accounting include the decentralized CIGAS. Accounts are consolidated upward by submission of accounting records from each accounting unit.

11. Advances are controlled and settled, with end-of-year zero balances in all bank accounts of all government accounting units. Accounts are closed monthly in compliance with government financial regulations. All agencies need to undertake monthly bank reconciliations. Furthermore, all bank account balances are controlled by the central treasury, which prepares daily and monthly cash balances of all government bank accounts. The balances of the respective budget entities are rolled back into one single overall balance (a single treasury accounting system).

12. The government financial regulations set out rules for transfers between budget heads to ensure compliance with overall budget allocation objectives. Within the year, adjustments are made to the budget to revise less than forecast revenue, priorities for reducing accumulated domestic debt, and/or other ad-hoc requirements. These are pronounced through circulars from

³ ADB. 2018. [Public Financial Management Systems—Sri Lanka: Key Elements from a Financial Management Perspective](#). Manila.

⁴ Annual fiduciary reviews were conducted for the years 2015–2017 by PricewaterhouseCoopers.

MOF, in which spending units are asked to consider an overall reduction in the budget or in specific budget heads.

13. The CIGAS accounting system is partially manual.⁵ A new fully integrated web-based system, the integrated treasury management information system (ITMIS), is being developed with ADB's support, in which all entries from all entities will be made directly to a central database and subsequently captured by a central server, allowing real-time online reconciliation.⁶ ITMIS will significantly expand PFM capability and improve the assurance to the financial statements since it will include commitment control, budget preparation, and treasury operations in addition to accounting. ITMIS is currently being piloted in MOF and is expected to be rolled out to other ministries and provincial authorities by the end of fiscal year 2021 (ending 31 December 2021).⁷

14. The government has adopted accrual-based accounting under the Sri Lanka Public Sector Accounting Standards, which are consistent with the International Public Sector Accounting Standards (IPSAS). The government financial regulations provide a clear segregation of duties. All spending units, including MOE and each provincial agency, are required to have an internal audit department. They prepare an annual audit plan, which is submitted to the Department of Management Audit (DMA) of MOF and to NAO for information, and undertake frequent audits following, to some extent, risk-based procedures.

15. NAO was established by the National Audit Act of July 2018. It is mandated, through the Auditor General, to conduct independent reviews of the performance and accountability of all public sector institutions. The integrity and independence of NAO meets the standard requirements of the International Organization of Supreme Audit Institutions (INTOSAI). NAO reports the audit findings, including the audit opinion on appropriation accounts, to Parliament within 10 months after the fiscal year ends.⁸ Parliament usually approves the audit reports within a year. However, as there was no parliament in place in for most of 2020, the process has been delayed. Audit findings are subject to follow-up with directives issued by the Committee on Public Accounts of the Parliament.

16. NAO has robust capacity. The annual audits include financial and compliance audits of all government agencies; performance audits of selected entities; special audits related to some sectors, transactions, and/or programs; as well as inspections related to areas where information was obtained that suggests specific risks in PFM practices. In addition to observing general international standards and guidelines, NAO is backed by specifically developed manuals on performance audits and procurement audits. Nonetheless, there is scope to further strengthen NAO's institutional capacity to function as a modern supreme audit institution. Possibilities will be considered during implementation.

17. In September 2020, a proposed amendment to the Constitution was submitted to Parliament for approval. The change, which includes the abolition of the Audit Service Commission, the elimination of the qualification requirements for the appointment of the Auditor

⁵ A new version of CIGAS was released in October 2019 with features such as Budget Migration (budget file can be uploaded), Cash Book (all transaction can be fed), Commitment (commitment and liabilities), Asset Management (asset purchase, disposal, reports), Sri Lanka Inter Bank Payment System, and Ledgers (e.g., deposits, advance, assets, lease, revenue).

⁶ ADB provides support through the [Fiscal Management Efficiency Project](#), approved in 2010.

⁷ The rollout of ITMIS may be delayed depending on the further course of the COVID-19 crisis.

⁸ Article 154(6) of the Constitution states that the Auditor General "shall within 10 months after the close of each financial year and as and when he deems it necessary report to Parliament on the performance and discharge of his duties and functions under the Constitution."

General, and the possibility of his or her removal from the position at the discretion of the President, may have an impact on NAO's independence. ADB will monitor this and future amendments to the legislation that may impact the responsibilities and independence of NAO.

D. Program Specific Financial Management Systems

18. Overall, qualified financial management staff are in place in the implementing agencies of MOE and the PEAs. A sector monitoring and technical support unit (SMTSU) will be established in MOE and will have designated financial staff to ensure compliance with ADB's financial management requirements, including financial reporting and audit. In addition, each program implementation unit (PIU) at the PEAs should include a financial management focal person by program effectiveness, to ensure seamless flow of financial information from the PEAs to the SMTSU and MOE.

19. Budget reliability in the education sector is suboptimal—variations of 15%–20% between budgets and actual expenditures have been noted.⁹ However, as regards recurrent expenditures and personal emoluments, the execution rate is higher. In a system of several layers of allocation from the central to provincial levels, the within-year budget cuts appear to have a greater impact at the lower levels. This is because higher levels appear to offset the spending cuts against transfers intended for lower-level spending agencies.¹⁰ Budget cuts or delays in budget release during the program's implementation may negatively impact the amounts projected in the medium-term budget framework, 2020–2025 and hamper the achievement of the program results.

20. The budget and accounts classification allows for detailed analysis of expenditure along several dimensions and was used to define the respective program budget heads under the RBL program.¹¹ Accordingly, the expenditures incurred in secondary education can be partly segregated and traced using the government budget classification system. However, no separate budget code exists for upper secondary (grades 10–13) expenditure, and certain budget codes—e.g., for the Department of Examinations (DOE), Department of Education Publication (DOEP), National Institute of Education, MOE Teacher Development—include expenditures applicable to all grades. Given the current limitations, the RBL program estimation considered the past average expenditure incurred per budget code, and applied it to the projected GESDP, 2020–2025 while using a prorated student ratio for upper secondary education.

21. Despite its comprehensive structure, the budget classification system is not consistently applied when segregating allocations by subfunctional categories, especially at provincial level. The provinces use the same budget classification codes but at times apply them inconsistently,

⁹ Source: The Parliament of Sri Lanka. 2019. *Committee on Public Finance Report on the Budget 2019 – Report on the 2019 Budget Estimates for Government Policy Priorities*. Colombo; MOE. 2017. *Annual Performance Report 2017*. Colombo; and MOF. *Secondary Education Expenditures 2017–2019*. Colombo.

¹⁰ This appears to be particularly the case at provincial levels and affects, among others, the finance available for transfers to frontline service providers (such as schools and clinics or health posts).

¹¹ The expenditure framework is based on the government budget codes: MOE Budget Head 126—Program Code 01—Operational Activities, Project Code 02—Administration & Establishment Services; Program Code 02—Development Activities; Project Code 04—Secondary Education, Project Code 06—Teacher Development and Project Code 07—General Education Development Project (subprojects 24 and 25 only); DOEP Budget Head 213—Program Code 02—Development activities, Project Code—01 Establishment of Services; DOE Budget Head 212—Program Code 02—Development activities, Project Code: 01—Evaluation of examination, as well as provincial budget heads 312–318 and 321: Program Code 81—Secondary Education.

i.e., when segregating expenditures used for management and administrative costs and for service delivery expenditures. This makes it hard to assess and monitor total resource allocation and use by functional area. Furthermore, the government budget classification system may require some modifications to accommodate the planned reforms under the RBL program. For example, designated budget lines and monitoring and reporting mechanisms need to be created for the incentive scheme for teacher deployment and for the small grant scheme to schools.

22. The loan proceeds under the RBL program will be disbursed to the consolidated fund of the government mainly on a reimbursement basis, subject to the delivery of results as measured by DLIs after validation by an independent verification agency. However, potential reductions in budget allocation or delays in budget releases to upper secondary education may hamper and/or delay the achievement of the results and subsequently hold up the disbursement of the ADB loan proceeds.

23. The ADB financing will use government procedures and systems for financial management. These are supplemented by a PID agreed between the government and ADB (para. 3), which includes detailed program information such as (i) projected program expenditure framework per budget code, (ii) financial reporting arrangements and templates, and (iii) statement of audit needs. The PID also outlines agreed actions to further strengthen the financial management arrangements and ensure compliance with ADB's financial management requirements.

24. MOE and PEAs use CIGAS for accounting and reporting program expenditures, and it will also be used for the RBL program. MOE and PEAs prepare their accounts in accordance with accrual-based accounting under the Sri Lanka Public Sector Accounting Standards and government regulations. The government developed a reporting template for externally financed projects and programs consisting of (i) statement of financial position, (ii) statement of financial performance, and (iii) statement of cash flow and notes. The financial statements and notes will be customized to ensure satisfactory reporting on the RBL program.

25. MOE has an internal audit unit, as does each of the nine provincial councils, covering all education sector departments. Each unit prepares an annual audit plan based on their priorities and submits it to the DMA of MOF and to NAO for information. They undertake frequent audits and follow, to some extent, risk-based procedures. The internal audit units report to the chief accounting officer, the head, or the governing body of the respective entity. The internal audit reports are shared with the DMA¹² and filed with NAO. The fiduciary systems assessment for the ADB-financed Education Sector Development Program¹³ identified limitations on the capacity of the internal audit units, in particular at provincial levels. These units have been strengthened in terms of staffing and capacity, and have received additional training and supervision from the DMA. To further strengthen the internal control framework, MOE and the PEAs must ensure that the RBL program is part of the annual audit plan of the respective internal audit units, and that the internal audit observations are followed up and resolved in a timely manner.

26. MOE and the PEAs will prepare RBL program financial statements. Their consolidated central and provincial program financial statements will be audited separately on an annual basis by NAO in accordance with Sri Lanka's audit standards, which are compatible with INTOSAI. As

¹² In accordance with the National Audit Act 2018, from 2020, all copies of internal audit reports are shared with the DMA.

¹³ Fiduciary Systems Assessment (accessible from the list of linked documents in Appendix 2 of ADB. 2013. [Sri Lanka: Education Sector Development Program](#). Manila.)

part of the previous ADB-financed RBL program implemented by MOE and nine PEAs (footnotes 1 and 13), most audit opinions were unqualified. However, the auditor made recurring audit observations with regard to physical progress, achievement of targets, and contract administration.¹⁴ ADB observed that the audits did not focus on the RBL program expenditures, and most were submitted with delay. Based on past experience and to harmonize practices with other donor-funded programs (e.g., the World Bank-assisted General Education Modernization Project), the ADB team, together with the government and in consultation with NAO, developed a statement of audit needs that clarifies the responsibilities, scope of work, acceptable opinions, and the timeliness of submission. To facilitate the work, it was agreed that the deadline for submitting the audit reports to ADB would be 9 months of the end of the fiscal year.

27. As part of the program, ADB will receive two audit reports: (i) consolidated audited program statements for the central institutions (MOE, DOE, DOEP); and (ii) consolidated audited program financial statements for the nine PEAs. The SMTSU will compile the audit reports and submit the entire package to ADB together with a management letter and unaudited information, as requested by ADB, within 9 months of the end of the fiscal year.

E. Risk Assessment

28. The overall pre-mitigation financial management risk was assessed as substantial. The main risks found in the financial management systems pertain to

- (i) delays in the release of government funding and budget cuts within the year, which may hamper the delivery of planned targets;
- (ii) suboptimal budget practices—targets used as basis for budget allocations not fully costed, and lack of detailed estimates by budget code beyond 3 years;
- (iii) inconsistent use of government budget codes by the provinces;
- (iv) challenges relating to compliance with government financial regulations by some entities, as seen in NAO's recurring audit observations;
- (v) scope left for improving the reporting capacity because of a non-integrated information system, and
- (vi) unclear scope of audit and delayed submission of audited program financial statements.

29. The risk mitigation actions are as follows:

- (i) Include a covenant in the legal agreement that ensures that the government will release funds to spending units in a timely manner for the implementation of the program, combined with regular monitoring of program execution through semiannual progress reports and continuous dialogue with the government.
- (ii) The SMTSU to be staffed with adequate financial staff and trained in ADB's financial management requirements and disbursement procedures.
- (iii) MOE to strengthen central and provincial sector planning and budgeting and provide training to the provinces on the consistent use of budget codes.
- (iv) Significant and recurring audit observations to be systematically monitored and resolved, to improve compliance with government financial regulations.
- (v) NOA will audit the program annually in accordance with Sri Lanka's audit standards and statements of audit needs agreed between the government and

¹⁴ To a lesser degree, issues were noted with regard to low utilization of allocations made for capital expenditures by PEAs as well as weaknesses in financial controls at schools. Unlike the proposed program, the Education Sector Development Program was focused on capital investment, hence it is expected that the proposed program will generate less procurement-related observations.

ADB. The audited program financial statements will be submitted to ADB within 9 months of the end of the fiscal year.

30. Table 1 presents a summary of risks and proposed mitigating actions.

Table 1: Financial Management Risks

Risk Type	Risk Description	Risk Level	Proposed Action
1. Country specific risks	Overall, the government has adequate PFM systems in place. However, suboptimal budget practices and the rollout of ITMIS to replace CIGAS may hamper program budgeting and execution.	M	ADB to closely monitor the ongoing PFM reforms and initiatives such as the launch of ITMIS. The breakdown of specific PFM risks is listed below.
2. Sector- or program specific risks	The budget does not fully reflect the targets set, and the actual resource requirement is limited because the targets are rarely costed.	S	MOE to strengthen sector planning and budgeting by central and provincial entities that are implementing the RBL program.
3. Implementing agencies (MOE entities and PEAs)	Since the ADB financing is only a small part of an overall government program, it may not receive the required attention, resulting in delays and non-compliance with ADB requirements.	M	A SMTSU will be established under MOE to ensure that ADB's financial management requirements are met and progress against DLIs is monitored and reported. In addition, a PIU will be established in each PEA by loan effectiveness.
4. Funds flow	Budget cuts or delays in budget release hamper the achievement of the program results.	S	Timeliness and adequacy of budget release to be monitored as part of semiannual financial reporting and APFS.
5. Staffing	Overall qualified financial management staff are in place in the implementing agencies. However, the program-related financial information as required by ADB may be delayed.	S	An accountant to be appointed to the SMTSU. Each provincial PIU to include a financial management focal person to ensure timely preparation and flow of financial information between SMTSU and PIUs. Continuous training to be provided in ADB's financial management requirements as part of the inception mission.
6. Accounting	Inconsistent use of government budget codes by provinces when recording expenditures; recurring audit observations present in the previous RBL project; the budget classification system may not adequately support the proposed reforms under the program. Rollout of ITMIS may include a set of different budget codes and, until fully operational, cause consistency issues.	S	Training is to be provided to the provinces in the correct and consistent use of government/MOE budget codes when recording expenditures; significant and recurring audit observations to be monitored and solved systematically. New budget lines and monitoring mechanisms to be introduced as part of the program to facilitate tracking and implementation of selected reforms; prepare a conversion table of the current budget codes and the ITMIS budget codes to ensure consistent reporting of program expenditures under ITMIS. Clear guidance included in the PID for administering the RBL.
7. Financial reporting	Central and provincial program financial statements cannot be consolidated. The financial reports generated by CIGAS do not include all information required by ADB.	M	Semiannual progress reports to include financial management information and to be submitted to ADB 60 days after the end of the reporting period. Two separate RBL program financial statements to be generated: (i) consolidated program financial statements for the central institutions; and (ii) consolidated program financial statements for the provincial institutions. Notes of the program financial statements to include additional disclosures as required by ADB and detailed

Risk Type	Risk Description	Risk Level	Proposed Action
			in the PID.
8. Internal audit	Each ministry and provincial department has an internal audit function and resident auditor from NAO. The internal audit function has been significantly strengthened since the inception of the previous RBL program.	M	The new program to be included in the audit plan of the internal auditors of MOE and PEAs by effectiveness. Audit recommendations to be included in the progress reports with proposed actions to address the identified issues.
9. External audit	In the past RBL program, some delays occurred in the submission of the audit report. The amendment to the Constitution of Sri Lanka and respective proposed actions, such as the abolition of the Commission on Audit, may affect NAO's independence and capacity.	S	MOE to coordinate with NAO to finalize the statement of audit needs before loan effectiveness and to ensure that the RBL program is included in the audit plan of NAO. Selected NAO staff to be included in the financial management training organized by ADB. Audit reports to be submitted to ADB within 9 months after the end of the fiscal year. Audit recommendations to be included in the progress reports with proposed actions to address the identified issues.
10. Financial management information management systems	CIGAS is used by all central agencies (ministries) as well as provinces. However, the provincial accounts are not electronically connected, and the financial reports need to be compiled manually. A new financial management information system is being developed and will be rolled out by 2021.	S	The SMTSU to compile financial information and audit reports manually. MOE and provincial councils to take advantage of CIGAS updates and ITMIS, once launched, to automate financial reporting processes to the extent possible. Introduce controls (reconciliation and cross-checks) to ensure consistency of data.
Financial management risk		S	

ADB = Asian Development Bank, APFS = Audited Program Financial Statements, CIGAS = computerized integrated government accounting system, ITMIS = integrated treasury management information system, M = moderate, MOE = Ministry of Education, NAO = National Audit Office, PID = program implementation document, PIU = program implementation unit, PFM = public financial management, RBL = results-based lending, S = substantial, SMTSU = Sector Monitoring and Technical Support Unit.

Source: Asian Development Bank.

F. Procurement Systems

31. The program will involve the procurement of teaching aids, instructional material, school furniture, information and communication technology, and laboratory equipment, among other items. All procurement will be processed following national competitive bidding procedures. However, it is expected that contracts for security services (given the currently difficult security situation) and partial textbook printing may be assigned under methods other than open bidding.

32. The National Procurement Agency's procurement guidelines established the governing principles and procedures to ensure value for money in an efficient, fair, equitable, transparent, competitive, and cost-effective procurement process by the government procuring entities. The procurement process is required to ensure (i) maximized economy, timeliness, and quality; (ii) optimum use of budgetary resources; (iii) adherence to prescribed standards, specifications, rules, regulations, and good governance; (iv) transparency and accountability; (v) provision of fair, equal, and maximum opportunity; (vi) expeditious execution of works and delivery of goods; (vii) compliance with laws, regulations, and international obligations; (viii) introduction of electronic procurement; (ix) promotion of environmentally friendly procurement; (x) transparency; (xi) strong stakeholder confidence; and (xii) consistency in applying procurement procedures.

33. In 2015–2016, ADB conducted an assessment of country and sector procurement practices in Sri Lanka covering five sectors.¹⁵ A review of the procurement principles adopted in the latest procurement guidelines indicates that these also adhere to the core procurement principles with regard to economy, efficiency, fairness, transparency, quality, and value for money. While the principles are sound, their actual implementation could give rise to concerns (Table 2).

Table 2: Procurement-Related Risks

Risk Type	Risk Description	Risk Level	Proposed Action	Risk after Mitigation
Country-specific risks	Electronic procurement is not adopted.	Substantial	Government to establish a plan to adopt e-procurement in all public entities by 2021.	Moderate
Sector- or program-specific risks	Procurement capacity is low.	Moderate	MOE, in collaboration with NPC and development partners, to organize training programs.	Low
	Procurement delays	Moderate	Achieve at least 70% of all procurement as per annual procurement plans. Procurement performance must be monitored on a quarterly basis by the project director.	Low
Nonadherence to NPA procurement guidelines and inadequate contract management.	Delays, non-availability of records, lack of asset management, incorrect payments	Substantial	Third-party annual fiduciary reviews shall be conducted by ADB.	Low

ADB = Asian Development Bank, MOE = Ministry of Education, NPA = National Procurement Agency., NPC = National Procurement Commission.

Source: Asian Development Bank.

G. Anticorruption Systems

34. The 19th amendment to the Constitution of May 2015 established the Commission to Investigate Allegations of Bribery or Corruption (CIABOC). The most important institutions in the fight against corruption are CIABOC, the Financial Crimes Investigation Division of the Sri Lanka Police, the Attorney General’s Department, Financial Intelligence Unit of Sri Lanka, Public Service Commission, National Procurement Commission, Auditor General Department, and the Special Presidential Task Force for Recovery of Illegally Acquired State Assets. The main anticorruption laws are the Penal Code and the Bribery Act, which criminalize corruption and attempted corruption in the form of extortion, and active and passive bribery.

35. Sri Lanka ranked 89th of 190 countries on Transparency International’s corruption perception index for 2018. Its weighted scores along the index dimensions had increased by two points over the last years, reflecting only a marginal improvement.

36. As confirmed by various sources of survey-based information,¹⁶ there is a moderate to high risk of corruption in Sri Lanka. The most common forms of corruption include facilitation payments made to avoid bureaucratic red tape, bribe solicitation by government officials, nepotism, and cronyism. This is confirmed by the findings of the Auditor General Department’s annual reports, which suggest a moderate to high level of corruption in public procurement.

¹⁵ The sectors assessed were water and other urban infrastructure and services; transport; energy; education (technical); and agriculture, natural resources, and rural development.

¹⁶ Country reports by the GAN Business Anti-Corruption Portal, and Transparency International, and the World Bank’s 2019 Doing Business report are among the sources on which the data from the Commission to Investigate Allegations of Bribery or Corruption is based.

Surveys among private sector entities suggest a high risk of corruption in the judiciary—the business community has low confidence in the judiciary’s independence and its ability to efficiently settle disputes and challenge government regulations.

37. In response to the above, the government has gradually put more emphasis on enforcing the anticorruption laws, and in May 2018, Parliament approved a new law that created special courts to deal specifically with corruption. The change is meant to accelerate cases that have been delayed for years. The government also launched a 5-year Anti-Corruption Action Plan in 2019, with the target of making Sri Lanka a corruption-free nation by 2023.¹⁷ The plan was prepared after amending several laws that had been implemented to fight fraud and corruption. Four handbooks were developed to be applied by the government entities, presenting decisive actions to combat bribery and corruption.

38. With a grant from the United States Department of State's Bureau of Democracy, Human Rights and Labor, the East-West Management Institute is providing technical support to CIABOC. The aim is to build CIABOC’s capacity to document, process, monitor, and resolve corruption and bribery cases, and to develop an automated case management for tracking CIABOC’s caseload. The support also seeks to improve CIABOC’s outreach and communications with other government agencies, civil service organizations, and the public.

39. Corruption in the education sector takes many forms. At the school and student level, the most common observations relate to the potential mismanagement of scholarships and school fees. At the public institution level, including sector programs like the government's GESDP, the main observation relates to gaps in the procurement process for both civil works (school and classroom construction) and supply of equipment. However, since the proposed program will focus on reforming upper secondary education, the value of civil works to be procured is expected to be lower than under the previous RBL program (footnote 1). To manage the observed risk, the program will ensure that robust and transparent PFM systems are in place, which will reduce opportunities for corruption. Accordingly, the mitigating actions require that (i) the program be included in the audit plan of the internal auditors of MOE and the PEAs, (ii) the program be audited annually by NAO and that the audit cover a sample of zones and schools, and (iii) significant and recurring audit observations be monitored and solved in a systemic manner. Furthermore, the DLIs will be subject to independent verification in accordance with the DLI verification protocol (report and recommendation of the President, Appendix 3).

¹⁷ Commission to Investigate Allegations of Bribery or Corruption. 2019. [National Action Plan for Combatting Bribery and Corruption in Sri Lanka 2019–2023](#). Colombo.