

Consolidated Programme Annual Financial Reports of the Education Sector Development Program (ESDP) on Three Central Appropriation - 2013

The audit of Consolidated Programme Annual Financial Reports of the Education Sector Development Program (ESDP) for the first accounting year ended 31 December 2013 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 (GOSL) and the Asian Development Bank (ADB). According to the Loan Agreements the activities of the Program are expected to be carried out by the Ministry of Examination (MOE), Department of Education (DOE) and Department of Educational Publications (DOEP) at national level and the Provincial Councils at provincial level. This report consists with the comments on activities carried by the MOE, DOE and DOEP at national level.

1.2 Implementation, Objectives, Funding and Duration of the Project.

According to the Loan Agreements, the ESDP is implemented to provide financial support to implement Education Sector Development Framework and Programme (ESDFP) 2013-2017 which address the challenges facing general education sector of the country. The Implementing Agency of the ESDP is the Ministry of Education. According to the ESDFP, the objectives of the Program are to increase equitable access to primary and secondary education, improve the quality of primary and secondary education and strengthen governance and service delivery of education. According to the Loan Agreements, the estimated total cost of the Program is USD 200 million. The Program activities had been commenced on 23 August 2013 and is scheduled to be completed by 31 August 2018.

1.3 Responsibility of the Management for the Consolidated Programme Annual Financial Reports

Management is responsible for the preparation and fair presentation of these Consolidated Programme Annual Financial Reports which is the compilation of the Appropriation Accounts of the Ministry of Education (MOE), the Department of Examination (DOE) and the Department of Educational Publications (DOEP). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Consolidated Programme Annual Financial Reports that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate financial regulation and circulars issued by the General Treasury.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these Consolidated Programme Annual Financial Reports based on my audit. Audit opinion, comments and findings in this report are based on review of the Consolidated Programme Annual Financial Reports presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain responsible assurance as to whether the Consolidated Programme Annual Financial Reports are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in Consolidated Programme Annual Financial Reports and assessment of accounting policies used and significant estimates made by the management in the preparation of Consolidated Programme Annual Financial Reports as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides reasonable basis for my opinion. The examination also include such test of systems and controls, transactions, assets, liabilities and accounting records 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 adequate accounting records were maintained on a continuing basis to show the expenditure for three central institutions of the 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 loan etc.
- c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreements.
- d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the three central institutions of the education sector.
- e) Whether the Consolidated Programme Annual Financial Reports had been prepared in conformity of Financial Regulation (FR) 150 and the State Account Circular No. 227/ 2012 of 26 November 2012 of the General Treasury.

- f) Whether the Consolidated Programme Annual Financial Reports had been prepared in accordance with accounting principles acceptable to ADB
- g) Whether the initial deposit, withdrawals from and replenishments to the deposit Account had been truly and fairly disclosed in the books and records maintained by the General Treasury and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL), as at that date.
- h) Whether financial covenants laid down in the Loan Agreements had been complied with.

3. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 5 of this report, I am of opinion that;

- (a) the Appropriation Account of Head No 126 of the first schedule to the Appropriation Act, No. 23 of 2012 relating to the Ministry of Education for the year 2013 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.227/2012 of 26 November 2012 of the General Treasury. The above Consolidated Programme Annual Financial Reports was agreed with the Treasury computer printouts and the Annual Estimates and the books and records maintained by the three central institutions of the education sector,
- (b) the initial deposit, withdrawals from and replenishments to the Deposit Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the General Treasury and the balance as at 31 December 2013 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 financial covenants laid down in the Loan Agreements had been complied with.

4. Financial Statement

4.1 Financial Performance

According to the Consolidated Programme Annual Financial Reports and information provided by the Program, the expenditure aggregating Rs. 38,336,126,328 had been incurred during the year under review for education sector from all sources. Following table shows the summary of the expenditure incurred from all sources of funds as presented in the Appropriation Account for the year 2013 of the Ministry of Education, the Department of Examination and the Department of Educational Publications.

Description	Expenditure incurred from all source of funds during the year under review
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	Rs
Recurrent Expenditure	
Personal Emoluments	20,009,975,311
Other	10,683,336,542
Capital Expenditure	7,642,814,475

	<u>38,336,126,328</u>

4.2 Deposit Account

According to the information made available, the operations of the Deposit Account No.4201 maintained for the Program at the Central Bank of Sri Lanka during the year under review are summarized and given below.

	<u>USD</u>	<u>Rs.</u>
Initial Deposit	Nil	Nil
Add - Replenishments	40,184,329	5,308,209,189
Less – Withdrawals	40,184,329	5,308,209,189
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Balance as at 31 December 2013	Nil	Nil
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5. Audit Observations

5.1 Presentation of Financial Statements

According to the Section 4.04 of the Article iv of the Loan Agreement, the Financial Statements should be prepared in accordance with accounting principles acceptable to ADB. The Consolidated Programme Annual Financial Reports representing the total expenditure aggregating Rs. 38,336,126,328 incurred by the Ministry of Education,

Department of Examination and Department of Education Publications for the Education Sector from all sources of funds as at 31 December 2013 had been furnished for audit.

5.2 Utilization of Funds

According to the Consolidated Programme Annual Financial Reports and other information furnished for audit, the proceeds of loans received from the Asian Development Bank and expenses incurred there from had not been disclosed separately. Further, the allocation for the use of the loan proceeds made in the Annual Estimate of the Ministry of Education, Department of Examination and Department of Education Publications had also not been shown separately. Therefore, the possibility of utilization of loan proceeds on activities not connected with the Programme cannot be ruled out in audit.

5.3 Physical Performance

As mentioned in the Paragraph 5.1 of this Report, a Consolidated Programme Annual Financial Reports representing the total expenditure aggregating Rs. 38,336,126,328 incurred by the Ministry of Education, Department of Examination and Department of Education Publications for the Education Sector from all sources of funds as at 31 December 2013 had been furnished for audit as the financial statements for the year ended 31 December 2013. Some of the key audit observations relating to the operations of the Provincial Departments of Education are given as follows.

- (a) The allocation amounting to Rs. 37,358,905,000 had been made for the Ministry of Education for the year under review and out of that, a sum of Rs. 36,200,228,381 had only been utilized. Therefore, the total savings amounted to Rs. 1,158,676,619 and out of that, savings on allocation made for the capital expenditure amounted to Rs. 939,912,832. It was observed that entire allocations made for several capital objects had been saved due to several reasons such as lack of proper planning, needs not identified in priority basis, delays in releasing local and foreign funds and delays in completion of procurement process, etc.
- (b) A supplementary allocation of Rs. 3,347,579 had been made during the year under review to facilitate the use of UNSCO grant amounting to Rs.2,847,579 received in the year 2012. However, such grant had not been utilized for the intended purposes and refunded on 27 December 2013. The accounting treatment on funds refunded had been made erroneously by crediting it to the respective Head of the Expenditure.

- (c) According to the Financial Regulation 94, the commitments and the expenditure incurred at the end of the year under review should not exceed the provision made for the Ministry to meet the expenditure under each Object. Nevertheless, the commitments incurred as at the end of the year under review which exceeded the total net provision made for 34 Objects totaled Rs. 5,243,994,512.
- (d) Allocations aggregating Rs.4,364,105,710 had been made during the year under review and previous year to construct 859 science laboratories and out of that, only 380 science laboratories had been completed at a cost of Rs.4,106,338,371 as at 31 December 2013.
- (e) It was observed that the School Based Education Promotion Scheme had been implemented since the year 2012 and Grants amounting to Rs. 162,400,000 had been awarded in previous year to 50 National Schools and 359 Provincial Schools selected for Stage - 01 of the Scheme. Further Grants amounting to Rs. 89,550,000 had been awarded during the year under review to the other 132 National Schools and 466 Provincial Schools selected under Stage- 02 of the Scheme. However, the financial and physical Progress of the Scheme cannot be assessed in audit as the project proposals, periodical progress reports etc. had not been submitted by the School Principals.
- (f) It was observed that the furniture valued at Rs. 199,285,500 had been procured under 06 contracts for 150 Mahaindodaya Technological Faculties before completion of the respective building construction works. Therefore, the furniture had remained in the school premises without proper security and constraining daily activities of the schools. Further, some of the contracts for supplying furniture had not been completed during the agreed period. However, action had not been taken to recover the liquidated damages or to extend the contract periods. In addition to above, the furniture valued at Rs. 10,332,314 had also been procured for 17 Mahaindodaya Technological Laboratories before completion of the respective building construction works and remained idle at the school premises.
- (g) Facilities for the Internet access named “School Net “ had been provided to the schools by the Ministry since the year 2006 and the network had been developed with the help of a private company and a Public Corporation at a cost of Rs.37,090,000 and 1,724 schools had been connected. Maintenance cost aggregating Rs. 579,140,248 had been incurred since the year 2006 for that purpose. Out of that, a sum of Rs. 222,327,173 had been incurred during the year under review. According to the information collected from the schools, it was confirmed that the facility had not been made available for 414 schools due to lower capacity of the network. Further, the Education Management Information System established at a cost of Rs. 16,122,312 in the

year 2012 had also remained unutilized by the schools due to abolition of the “School Net” facility.

- (h) An allocation of Rs. 56,000,000 had been made during the year under review to establish a National Communication Center for the students with special needs in Western Province. But that had not been utilized for intended purpose. Out of that allocation, a sum of Rs. 8,694,366 had been utilized for other purposes.
- (i) As decided by the Cabinet of Ministers, the maximum number of the students per classroom had been determined as 42. Nevertheless, an audit test check of Grade 5 Classes in 31 National Schools revealed that the existence of 1,250 students exceeding the specified limit.
- (j) According to the information made available to audit by the Ministry of Education, there were vacancies of 2,096 posts of teachers for several subjects whilst there were an excess of 5,078 posts of teachers for several other subjects. It was revealed in audit that the uneven deployment of the teachers to schools is due to failure to implement a national policy of annual transfer of teachers properly.
- (k) It was observed that 476 posts of teachers with the qualification with Diploma in Teaching Students with Special Needs were remained vacant in schools. Further, it was revealed that no teachers with such qualifications had been attached to 128 schools with 1,145 students having special needs. Further, 176 teachers with qualifications for teaching students with special needs had been attached to other 162 schools where no any students with special needs.
- (l) It was observed that the student allowances aggregating Rs. 1,476,000 had not been paid to 620 students who passed Grade 5 Scholarship Examination and admitted to 03 national Schools in Colombo, Kandy and Matara as the Principals of respective schools had failed to furnish the relevant information relating to the students.