

## **Education Sector Development Programme (ESDP) Provincial Level - 2013**

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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 at provincial level are expected to carry out by the Ministry of Education (MOE) and all the Provincial Councils. This report is consisted with the comments on activities carried by the Ministry of Education and all the Provincial Councils.

### **1.2 Implementation, Objectives, Funding and Duration of the Programme.**

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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 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 is US\$ 200 million. The activities of the Program had been commenced on 19 August 2013 and was scheduled to be completed by 31 August 2018.

### **1.3 Responsibility of the Management for the Consolidated Programme Annual Financial Reports.**

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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 Publication (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

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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 of the nine Provincial Councils 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 reasonable assurance as to whether the Consolidated Programme Annual Financial Reports of the nine Provincial Councils 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 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 Agreement.
- d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes 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. 233/ 2013 of 06 December 2013 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 Agreement had been complied with.

### 3. 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, 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 Accounts of the nine Provincial Councils 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. 233/ 2013 of 06 December 2013. The above Appropriation Accounts were agreed with the Treasury computer printouts, Annual Budget Estimates and the books, registers and records maintained by the nine Provincial Councils.
- (b) The Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement, and
- (d) The financial covenants laid down in the Loan Agreement had been complied with.

#### 4. Financial Statement

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##### 4.1 Financial Performance

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According to the Consolidated Programme Annual Financial Reports and information provided by the Program, the expenditure aggregating Rs. 84,592,467,000 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 Provincial Ministries of Education of the all nine Provincial Councils.

Description	Expenditure incurred from all source of funds during the year under review
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	Rs
Recurrent Expenditure	
Personal Emoluments	80,358,783,000
Capital expenditure	4,233,684,000
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	<u>84,592,467,000</u>

##### 4.2 Deposit Account

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

	<u>USD</u>	<u>Rs.</u>
Initial Deposit	Nil	Nil
Add - Replenishments	40,184,328	5,308,209,189
Less – Withdrawals	40,184,328	5,308,209,189
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Balance as at 31 December 2013	-	-
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## 5. **Audit Observations**

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### 5.1 **Presentation of Financial Statements**

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As per Section 4.04 of the Article iv of the Loan Agreement, the financial statements should be prepared in accordance with accounting principles acceptable to the Asian Development Bank. However, the Consolidated Programme Annual Financial Reports representing the total expenditure aggregating Rs. 84,592,467,000 incurred by the Provincial Ministries of Education of the all nine Provincial Councils from all sources of funds as at 31 December 2013 had been furnished for audit.

### 5.2 **Utilization of Funds**

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The following observations are made.

- (a) According to the Consolidated Programme Annual Financial Reports and other information received for audit, the allocation made for the Provincial Level of the Program out of total proceeds of Loan of US\$ 40 million received from Asian Development Bank for Central and Provincial Levels of the Program had not been disclosed separately. Further, the allocation for use of the Loan proceeds made in the Annual Estimate for the Provincial Ministries of Education of the all nine Provincial Councils had also not been shown separately.
- (b) It was observed that total allocations in all sources of funds aggregating Rs 89,132,217,000 had been made in the Annual Estimates to meet the capital and recurrent expenditure of the Provincial Ministries of Education of the nine Provincial Councils. Out of that, savings of allocations aggregating Rs. 3,284,549,000 had been reported as at 31 December 2013 by the Provincial Ministries of Education of Western, North western and Sabaragamua Provinces ranging from 5 per cent to 16 per cent of total allocation.

### 5.3 **Physical Progress**

As mentioned in the Paragraph 5.1 of this Report, a Consolidated Financial Management Report representing the total expenditure aggregating Rs. 84,592,407,000 incurred by the Provincial Councils for the Educational 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 made on the Appropriation Accounts of the Provincial Councils for the year 2013 relating to the operations of the Provincial Departments of Education are reproduced as follows.

- (i) The allocation of the teachers for the schools in provincial level had not been done satisfactorily. It was reported that the schools in the remote areas of several provinces had functioned with a shortage of teachers whilst the schools in urban areas of respective provinces had teachers in excess of the approved cadre. According to the information collected, there were shortages of the teachers for main subjects in rural schools in Sabaragamuwa, Uva, Western, Southern and Eastern Provinces whilst excesses of teachers in urban schools in the respective provinces as the annual transfers of teachers were not implemented properly.
- (ii) According to the information collected, the student population of the primary and secondary schools in rural schools in several provinces remained low. There were 827 secondary level schools having less than 500 students in the Southern Province whilst 397 primary level schools in the Central Province having student population less than 100. It was reported that 138 schools in the Southern Province had remained closed as at 31 December 2013 including 02 schools which were closed down during the year under review.
- (iii) The student pass rate of the Grade - 05 Scholarship Examination was 6.82 per cent in Central Province whilst the student pass rate of other provinces remained in the range from 9.5 per cent to 11.5 per cent. The rate of failing in all subjects in General Certificate of Education (Ordinary Level) Examination in Western, Sabaragamuwa, Uva, North Central Provinces remained high ranging from 4 per cent to 8 per cent. Further, the rate of failing in all subjects in General Certificate of Education (Advance Level) Examination was remained higher in North Western, Southern, Central, North Central and Western Provinces ranged from 10 per cent to 16 per cent.
- (iv) The progress of the operations made by the Provincial Education Departments in Uva and North Central Provinces could not be assessed reliably in audit due to lack of Annual Action Plans and Performance Review Reports of the respective Departments. Further, it was reported that Internal Audit Unit had not functioned in the Eastern Provincial Council as at 31 December 2013. Audit and Management Committee meetings were not held in Eastern and North Central Provincial Councils to enable the review of the performance of the Ministries of Education of respective Provincial Councils.
- (iv) Annual Boards of Survey to ensure the physical existence of the assets had not been carried out in the year 2013 by the Provincial Departments of Education in the Southern, North Central and Uva Provinces.
- (v) Several instances of misappropriation or underutilization of assets such as motor vehicles, computers and other equipment, teachers' quarters, etc which

belong to the Provincial Departments of Education in the Western, Eastern, North Central Provinces had been reported.

- (vi) Weaknesses in financial controls in provincial level schools such as payments made without supporting documents or without proper authority, lack of preparation of Bank Reconciliation Statements, advances unsettled for long periods etc were reported in audit of performance of the schools in Sabaragamuwa, Western, Southern Provinces. Further, general administration of the schools related to human resources management, maintenance of records for teachers' leave and quality inputs, distribution of Government grants under students' scholarship program and recovery of teachers distress and other loans, house rents, etc were observed in the detailed audits carried out at the Provincial Departments of Education in the Western, Eastern, Sabaragamuwa, North Central and North Western Provinces.