

Transforming the School Education System as the Foundation of a Knowledge Hub Project (TSEP) – Provincial Level - 2015

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 the Section II (B) (3) of 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 and Section II(B) (3) of the Australian Grant Agreement No: TF013267 dated 18 July 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Australian Trust Fund.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing and Grant Agreements, the activities of the Project at national level are expected to be carried out by the Ministry of Education whilst the activities at provincial level are expected to be carried out by the Ministry of Provincial Councils and Local Government and the Provincial Ministries of Education of all Provincial Councils. According to the Project Appraisal Document, the Project is implemented to provide financial support to implement Education Sector Development Framework and Programme 2012-2016 which address the challenges facing general education sector of the country. 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 and Grant Agreements, the Loan proceeds of SDR 64.1 million (US\$ 100 million) equivalent to Rs.11,000 million is agreed to be provided by the International Development Association and Grants of US\$ 11 million is agreed to be provided by the Australian Trust Fund. Out of that 70 per cent of such funds are allocated for the Provincial Education Authorities and the balances 30 per cent are allocated for the Ministry of Education. The activities of the Project were commenced on 01 October 2012 and scheduled to be completed by 30 June 2017. The activities to be carried out under the Grant is scheduled to be completed by 30 April 2016. My comments and observations on the activities carried out by the Ministry of Provincial Councils and Local Government and the Provincial Ministries of Education at provincial level appear in this report.

1.3 Responsibility of the Management for the Consolidated Financial Management Report

Management is responsible for the preparation and fair presentation of these Consolidated Financial Management Report which is the compilation of the Appropriation Accounts of the Provincial Ministries of Education of the Provincial Councils 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

My responsibility is to express an opinion on this 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 Consolidated Financial Management Report is 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 Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) 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 and Donor Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan and Grant.
- (d) Whether the withdrawals under the Loan and Grant had been made in accordance with the specifications laid down in the Loan and Grant Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan and Grant had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the Consolidated Financial Management Report had been prepared in conformity with Financial Regulation 150 and the Circular instructions issued by the Chief Secretaries of the respective Provincial Councils.
- (h) Whether the opening and closing balance, withdrawals from and replenishments to the Special Dollar Account during the year ended

31 December 2015 had been truly and fairly disclosed in the books and records maintained by the Project 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,

- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants lay down in the Loan and Grant Agreements had been complied with.

2. Financial Statements

2.1 Opinion

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 Accounts of Education Ministries of the Provincial Councils for the year 2015 presented to audit were prepared and presented in conformity with the provisions in Financial Regulation 150 of the Democratic Socialist Republic of Sri Lanka and Circular instructions issued by the Chief Secretaries of the respective Provincial Councils. The above Appropriation Accounts were agreed with the computer printouts of the General Treasury, Annual Budget Estimates and the books, registers and records maintained by the Education Ministries of the Provincial Councils. The costs incurred out of the proceeds of Loan and Grant had been duly recorded in the Appropriation Accounts of the Education Ministries of the Provincial Councils and Operating and Monitoring Support Unit for the year 2015,
- (b) the funds provided had been utilized for the purpose for which they were provided,
- (c) the opening and closing balance, withdrawals from and replenishments to the Special Dollar Account during the year ended 31 December 2015 had been truly and fairly disclosed in the books and records maintained by the Project 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,
- (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 Loan and Grant Agreements had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

According to the Consolidated Financing Management Report of the Project the total cost of the Project incurred out of all source of funds by the Provincial Ministries of Education of all Provincial Councils and the Operating and Monitoring Support Unit amounted to Rs.122,872.66 million. Certain significant statistics relating to the financing of funds received from International Development Association and Australian Trust Fund to support the Budget Estimate for education sector, 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 | | Allocation made in the Annual Budget Estimate for the year under review | Funds utilized | | | |
|--------|--|--------------|---|----------------------|--------------|------------------------|--------------|
| | US\$ million | Rs. million | Rs. million | during the year 2015 | | up to 31 December 2015 | |
| | US\$ million | Rs. million | Rs. million | US\$ million | Rs. million | US\$ million | Rs. million |
| IDA | 59.00 | 7,670 | 2,430 | 14.60 | 2,004 | 48.60 | 6,329 |
| AUSAID | 11.00 | 1,430 | 550 | 5.00 | 750 | 18.00 | 2,407 |
| | <u>70.00</u> | <u>9,100</u> | <u>2,980</u> | <u>19.60</u> | <u>2,754</u> | <u>66.60</u> | <u>8,736</u> |

The following observations are made.

- According to the information received, the provision amounting to Rs. 1,856 million had remained unspent at the end of the year, out of the total net provision of Rs 124,917 million made by the Budget Estimate of 2015 to the Provincial Ministries of Education of the Provincial Councils. It was further observed that over 20 per cent of provisions had remained unspent out of the provisions made for the Provincial Ministries of Education in Southern, Western and Sabaragamuwa Provinces.
- According to the information received, the allocation amounting to Rs. 145 million had remained unspent at the end of the year, out of the total allocation of Rs. 492 million made by the Project to the Provincial Ministries of Education of the Central Province. Further, a sum of Rs. 29 million had remained in the Deposit Account at the Provincial Ministry of Education of the Northern Province, out of the allocations of Rs 183 million made by the Project to carry out the activities during the year under review.

3.2 Physical Progress

According to the schedule 01 of the Financing Agreement, it is expected to achieve Disbursement Link Indicators under 03 main objectives of promoting access to primary and secondary education, improving the quality of education and strengthening governance and

delivery of education services. The observations relating to the achievement of above mentioned objectives are made as follows.

- (a) According to the information received, the Project had planned to construct buildings for Mahindodaya Technological Laboratories in 135 provincial schools and all the construction works of such Laboratory buildings had been substantially completed as at 31 December 2015. Eventhough the Mahindodaya Technological Laboratory at Udagama Maha Vidyalaya in Sabaragamuwa Province had been opened on 06 April 2015 for the use of students, 61 computers and other accessories valued at Rs. 6.25 million had remained unutilized from 06 April 2015 to 31 December 2015 due to lack of electricity supply.
- (b) The Project had procured 151 computers and accessories at a cost of Rs. 14.33 million during the year 2014 and distributed to the provincial schools in Sabaragamuwa Province. According to the test checks carried out on 10 computers, it is revealed that 02 computers were remained out of order, due to the defects of Operating Systems. Further, external speakers had not been supplied for any of computers. Eventhough the Technical Evaluation Committee had certified that the all the equipments were inspected and complied with the specifications, the producer's licenses for the computers were not furnished for audit purposes.
- (c) It was revealed at the audit tests that the allocation amounting to Rs. 96.38 million, out of the total allocation of Rs. 129.38 million made to procure equipment for the Provincial Education Department of the Central Province had not been utilized for the intended purposes. Further, the equipment procured at a cost of Rs. 5.04 million during the year had not been distributed to the provincial schools in the Central Province even as at 31 December 2015. It was observed that the Provincial Ministry of Education of the Central Province had taken action to procure 3000 units of sportswear at a cost of Rs. 2.92 million for the schools which participated for the All Island Sports Festival held from 30 September 2015 to 04 October 2015 in Colombo. However, such sportswear had been supplied only on 09 December 2015 and 01 January 2016 to the Provincial Ministry of Education of the Central Province. According to the explanation made by the Secretary to the Ministry of Provincial Councils and Local Government, the defective items had been supplied by the selected supplier and not distributed to the selected school.
- (d) According to the detailed audits carried out at provincial level, the weaknesses such as delays in submission of reports on school based evaluations, lack of actions taken to utilize the allocations made for the purposes of quality inputs and lack of resources of furniture and equipment for education purposes were observed in audits of schools in the North Western Province. Further, the instances of returning of remittance for scholarship holders were observed in the Sabaragamuwa and Uva Provinces and such cash proceeds were retained in the General Deposit Accounts at the Zonal Education Offices of the respective Provinces.
- (e) According to the records maintained by the Provincial Ministries of Education, there were significant number of vacancies of the school teachers for core subjects in the schools in the remote areas in the Northern, North Western, North Central, Uva, Western

and Sabaragamuwa Provinces whilst excess of teachers in schools in urban areas of the respective Provinces. Further, the scheme of transfers for School Principals and teachers had not been properly implemented in the Sabaragamuwa, Uva, North Western and North Central Provinces and as a result, the school Principals and teachers were remained in the same schools for over 10 years. In addition, it was observed in detailed audit that the teachers were underutilized in schools in the Sabaragamuwa and North Western Provinces.

3.3 Fruitless Transactions

The Provincial Education Department of the Central Province had spent a sum of Rs. 24.23 million on air tickets, incidental expenses etc for 23 officers who participate for training workshops on school based management and teachers development purposes held in Philippines and Thailand respectively from 16 November to 29 of November 2015. It was observed that 04 officers who were not directly involved in implementation of school based management systems had also participated for the training workshop and travelling and other cost aggregating Rs. 4.20 million for such officers had been spent by the Project for them.

3.4 Extraneous Expense

It was observed that 18 Tablet Computers had been procured by the Provincial Ministry of Education in the Sabaragamuwa Province on 30 December 2014 at a cost of Rs.2 million, out of the allocation made for training and capacity development and estate schools development purposes. It was observed that 08 computers had been allocated to the officers who were employed by the institutions other than the Provincial Ministry of Education of the Sabaragamuwa Province which were not directly involved with the activities of the Project.