

## **Transforming the School Education System as the Foundation of a Knowledge Hub Project Central Level - 2016**

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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 2016 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**

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**

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**

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 judgment, 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 equipment 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 Circular No. 252/2016 of the Department of State Accounts of 09 December 2016.
- (f) Whether the opening and closing balances, withdrawals from and replenishments to the Deposit Account during the year ended 31 December 2016 had been truly and fairly disclosed in the books and records maintained by the General Treasury and the balance as at 31 December 2016 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**

### **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 Account of Head No 126 of the First Schedule to the Appropriation Act, No. 16 of 2015 relating to the Ministry of Education for the year 2016 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 Circular No. 252/2016 of 09 December 2016 of the Department of State Accounts. 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 2016 had been truly and fairly disclosed in the books and records maintained by the General Treasury and the balance as at 31 December 2016 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

#### 3.1 Utilization of Fund

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 2016 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	<u>Funds utilized</u>			
	US\$ million	Rs. million		during the year 2016		up to 31 December 2016	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA	30	3,300	2,455	8	1,148	26	3,630
	<u>30</u>	<u>3,300</u>	<u>2,455</u>	<u>8</u>	<u>1,148</u>	<u>26</u>	<u>3,630</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. 20 million to Rs. 122 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. 75 million to Rs. 210 million had also remained in the Bank Accounts of the Line Ministry at the end of each month of the second half year of the year under review.

### 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.

- (a) A sum of Rs.1.01 million had been allocated by the Project to carry out training workshops for the school teachers to enhance their knowledge and skills. The following further observations had been made thereon.
  - (i) The Ministry of Education had not taken action to implement awareness programmes for Provincial Zonal Coordinators and Zonal Level Resource Persons and sharing of experiences of teachers in best performed schools under the School Based Teacher Development Programme even though allocation amounting to Rs.1.79 million had been made for the year under review. According to the explanation made by the Secretary of the Ministry of Education, the Teachers' Administration Division of the Ministry had engaged in training for newly recruited teachers and therefore, the awareness training programs for the officers of the Zonal Education Offices were not conducted during the year under review.
  - (ii) The Special Education Unit of the Ministry of Education had not implemented any programme to assist children with special education needs even though a sum of Rs. 0.5 million had been allocated by the Project to implement such special programmes under the revised work plan.
  - (iii) According to the Annual Action Plan of the Project, the English Education Section of the Ministry of Education had been assigned to conduct 02 training workshops for designing and editing of practice materials and printing of 40,000 text books. Even though an allocation amounting to Rs. 1.95 million had been made thereon, either training work shops had not been conducted or books not printed during the year under review. The allocation had been utilized to implement other activities of the Project.
- (b) The Project had allocated a sum of Rs. 356.58 million to construct new building and repair and renovation of existing buildings at the national schools and provincial schools island wide, The following observation are made on the constructions works carried out by the Project .
  - (i) According to the information received, the construction works of new buildings at Meegahakiula Maha Vidyalaya, Guruthlawa Central Collage and repairing of buildings at Haliela Central Collage, Anda Ulpatha Central Collage, Mahiyangana Central Collage and Visaka Central Collage in Uva Province had not been completed as at 31 December 2016 even though such works expected to be completed during the year under review. Further, the construction works of a two storied building of Walhaputhenna Maha

Vidyalaya in the Uva Province which expected to be completed during the year under review at an estimated cost of Rs. 13.52 million had not been commenced even as at 31 December 2016. Thus resulted that possible increases of cost of construction due to delays in implementation of construction works.

(ii) According to the information received, the construction works of buildings of 6 schools in the Central Province commenced in 2016 had shown slow progress at year end, due to financial constraints faced by the Project.

(iii) According to the work plans of the Project, 1,005 Technological Laboratories in the national and provincial schools were expected to be constructed, out of that the construction works of 996 buildings had been completed as at 31 December 2016. Further, 23 technological laboratories of construction work completed were not opened for the use of student as at 31 December 2016 due to lack of electricity supply. The construction works of Technological Laboratory at Thangalle Balika Vidyalaya which was expected to be completed by 31 December 2015 had not been completed even up to 31 January 2017. Further, it was revealed at the site visits made at Vigneshwaran Tamil Maha Vidyalaya and Udawela Maha Vidyalaya in Kandy District that the Technological Laboratories constructed by the Project at were not opened for the use of students effectively, due to the lack of computers, network system, power supply and other necessary equipment.