

## **Transforming the School Education System as the Foundation of a Knowledge Hub Project (TSEP) – Provincial Level - 2017**

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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- Provincial Level for the year ended 31 December 2017 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 and International Development Association. 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 then Ministry of Provincial Councils and Local Government, presently the Ministry of Provincial Councils, Local Government and Sports and the Provincial Ministries of Education of all Provincial Councils. My comments and observations on the activities carried out by the Ministry of Provincial Councils, Local Government and Sports and the Provincial Ministries of Education at provincial level appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Project Financing Agreement, the Project is implemented to provide financial support to implement Education Sector Development Framework and Program 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.13,000 million was agreed to be provided by the International Development Association and Grants of US\$ 11.13 million was agreed to be provided by the Australian Trust Fund. According to the amendment made on 28 June 2016 to the Project Agreement the proceeds of the Grant had been increased up to US\$ 39.11 equivalent to Rs.5,845 million. 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 had been commenced on 01 October 2012 and scheduled to be completed by 30 June 2017. The activities to be carried out under the Grant are scheduled to be completed by 30 April 2016.

### **1.3 Responsibility of the Management for the Consolidated Financial Management Report**

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Management is responsible for the preparation and fair presentation of this Consolidated Financial Management Report for the nine 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 financial statements that are free from material misstatements, whether due to fraud or error.

## 1.4 Auditor's Responsibility

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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 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 Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the Consolidated Financial Management Report 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 Agencies, 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 Financing and Grant Agreements.
- (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 circular instructions issued by the Chief Secretaries of the respective Provincial Councils.

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

## **2. Financial Statements**

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### **2.1 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, I am of opinion that,

- (a) the Appropriation Accounts of the Provincial Ministries of Education of the nine Provincial Councils for the year 2017 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 instructions issued by the Chief Secretaries of the respective Provincial Councils. The above Appropriation Accounts were agreed with the records of the General Treasury, Annual Budget Estimates and the books, registers and records maintained by the nine Provincial Councils. The costs incurred out of the proceeds of Loan and Grant had been duly recorded in the Appropriation Accounts of the nine Provincial Councils and Operating and Monitoring Support Unit for the year 2017,
- (b) the funds provided had been utilized for the purpose for which they were provided.
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Financing and Grant Agreements had been complied with.

## **3. Financial and Physical Performance**

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### **3.1 Utilization of Funds**

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According to the Consolidated Financing Management Report of the Project the total cost 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.133,121.51 million. Certain significant statistics relating to the financing of funds received from International Development Association and Australian Trust Fund to support for 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 2017 are shown below

Source	Amount agreed for financing in the Financing and Grant Agreements		Allocation made in the Annual Budget Estimate for the year under review	Funds utilized			
				during the year 2017	up to 31 December 2017		
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA	100	13,000	1,650	6.90	1,056	65.99	8,992
AUSAID	39	5,845	1,080	6.50	987	29.85	4,150
<b>Total</b>	<b><u>139</u></b>	<b><u>18,845</u></b>	<b><u>2,730</u></b>	<b><u>13.40</u></b>	<b><u>2,043</u></b>	<b><u>95.84</u></b>	<b><u>13,142</u></b>

The following observations are made.

- (a) Eventhough a sum of Rs. 2,730 million had been allocated through the Annual Budget Estimate of 2017 to implement the activities of the Project including the allocation of Rs. 40 million made to Operation and Monitoring Supporting Unit, only sum of Rs. 2,043 million had been released by the General Treasury as at 31 December 2017.
- (b) Out of the allocation amounting Rs.280 million made for the Southern Province, only a sum of Rs.224 million had been released by the General Treasury. However, proceeds amounting to Rs. 140.38 million had been utilized thereon as at 31 December 2017. The unspent proceeds amounting to Rs. 73.95 million had retained in a Fund Account of the Southern Provincial Council. Further, according to the Annual Estimate for the year 2017, out of the allocation amounting to Rs. 320 million made for the Uva Province, only a sum of Rs.257 million had been released by the General Treasury. However, only the proceeds amounting to Rs.121.26 million had been utilized. The unspent proceeds amounting to Rs.103.42 million had retained in a Deposit Account maintained by the Provincial Council.
- (c) According to the Budget Estimates for the period of previous 06 years up to 31 December 2017, the Central Provincial Council had utilized only a sum of Rs.1,270.81 million for the purpose of implementing activities under the Education Sector Development Framework and Program, eventhough a sum of Rs.2,013.07 million had been allocated thereon. It proved that the proceeds allocated for the provincial education purposes of the Central Province had not been utilized effectively for the intended purposes.

### 3.2 Physical Progress

According to the schedule 01 of the Financial Agreement of the Project, 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 following observations are made.

- (a) As per the information provided in the School Census-2017 published by the Ministry of Education on 20 June 2018, the school system of the island consisted with 10,194 government schools and out of that 5,161 schools are remained below than 200 students including 812 such schools in the Central Province. Further, 206 schools are remained more than 2,500 students including 79 such schools in the Western Province. Thus it indicated that the student population is scattered within the privileged schools in the urban areas of the island.
- (b) The audit test checks carried out on the allocations of School Principals in the Uva Province had revealed that the Principals were not allocated for 442 schools whilst 124 Principals were remained in excess in other schools of 10 Educational Zones of the Province as at 31 December 2017. Thus indicated that arrangement had not been made by the Uva Provincial Council to allocate School Principals in fair manner.

### **3.3 Contract Administration**

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The following observations are made.

- (a) The renovation works of the Teacher's quarters and school dental clinics and works to provide drinking water and sanitary facilities for the provincial schools in Nuwara Eliya district in the Central Province had not been completed as at 31 December 2017 even after lapse of 01 year from the date of contracts awarded at an estimated cost of Rs. 868 million.
- (b) The defects in the buildings constructed had been observed at the site inspections made at the schools of Mahasen Primary School at Padaviya, Thambalgollewa Primary school at Rambewa, Sinhapura Primary School at Thamankaduwa, Kalahagala Primary School and Nuraniya Primary School at Welikanda and Janapada Vidyalaya at Giritale in the North Central Province. Thus it indicated that an adequate attention had not been made by the Provincial Councils for proper supervision of the construction works.

### **3.4 Idle and underutilized Assets**

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The following observations are made.

- (a) It was revealed at the site inspection that the laboratory equipment procured at a cost of Rs.6.11 million in July 2017 had not been distributed to the Provincial Schools in the Central Province even as at 23 March 2018.
- (b) The science equipment procured during the year under review at a cost of Rs.13.07 million for the use of 14 Provincial Schools in the Sabaragamuwa Province had remained unused at school premises, due to inferior quality of the equipment. Further, science and mathematical equipment procured at a cost of Rs.5.27 million had remained idle at 08 Provincial Schools in the Sabaragamuwa Province, due to lack of teachers and laboratories etc.,.

- (c) It was observed that newly constructed ordinary level laboratory building at Thambana Primary School in the Uva Province at a cost of Rs. 2.82 million had remained unused since the date of handing over on 06 January 2017 as the floor tiling works and roofing works were not completed even upto 30 June 2018. Further, the library building constructed at Kivulegedara Primary School in the Uva Province had also not been used for intended purposes, due to lack of reading materials. It was observed that the Project had not identified the urgent needs of the above mentioned school by providing adequate facilities for science laboratory instead of being constructed a building for a library.