

## **Transforming the School Education System as the Foundation of a Knowledge Hub Project Central 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 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 provisions in the paragraph B.3 of Section 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 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, funds ranging from 70 per cent to 80 per cent 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. Subsequently, period of the Project had been extended up to 30 June 2018.

### **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 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 depend on the auditor's judgment, including the assessment of the risk of material misstatement of the Consolidated Financial Management Report, whether due to fraud or

error. 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 liability of the 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 the 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 State Accounts Circular No. 258/2017 of 16 October 2017 of the Department of State Accounts.
- (f) Whether the opening and closing balances, withdrawals from and replenishments to the Deposit Account during the year ended 31 December 2017 had been truly and fairly disclosed in the books and records maintained by General Treasury and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (g) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (h) Whether the 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. 24 of 2016 relating to the Ministry of Education 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 No. 258/2017 of 16 October 2017 of the Department of State Accounts. The above Consolidated Financial Management Report was agreed with the computer generated information provided by 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 2017 had been truly and fairly disclosed in the books and records maintained by the General Treasury and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (c) the Statements of Expenditure 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 2017 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		US\$ million	Rs. million	US\$ million	Rs. million
IDA	30	3,300	737	3.91	595.64	29.21	4,093.70
	<u>30</u>	<u>3,300</u>	<u>737</u>	<u>3.91</u>	<u>595.64</u>	<u>29.21</u>	<u>4,093.70</u>

### 3.2 Physical Progress

The following observations are made.

- (a) The Ministry of Education had taken action to construct 1,005 Technological Laboratories in the national and provincial schools, procure equipment for such Laboratories and provide trainings for the teachers in order to increase the students 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. According to the information received, the construction works of the Technological Laboratories had been completed as at 31 December 2017 and handed over to the Principals of the respective schools. Further, the targets of other components such as supplying of equipment and teachers' training etc included in the Education Sector Development Framework and Program had been substantially achieved as at 31 December 2017.
- (b) The Report on School Census-2017 published by the Ministry of Education on 20 June 2018 had indicated that the distribution of the facilities and resources allocated by the government to the national and provincial schools was not done in equal manner as enable to improve the quality of education of the island and reduce the competitiveness on entering into the popular schools. The summary of matters highlighted in the report is described below.
  - (i) According to the information provided, the school system of the island consisted with 10,194 government schools including 353 national schools and the students population consisted with 4.16 million of students and out of that 811,164 students were in national schools during the year under review. Therefore, the national schools represents only 3.5 per cent of all government schools whilst 19.50 per cent of the students were remained in the national schools, due to recognition and popularity of such schools. Further, the students population of 5,161 schools representing 50.63 per cent of all schools were remained below than 200 students and it indicated that the schools in rural level runs with less number of students. Further, the teacher population of the government schools consisted with

241,591 teachers and out of that only 64,635 male teachers representing 26.75 per cent are remained in service and it indicated that the teaching profession is dominated by the female teachers.

- (ii) According to the Census, the students in 4,551 schools representing 45 per cent of all schools had not been provided computer facilities for studying purposes. Further, 49 per cent of students in the North Western Province had not possessed computer facilities as at 31 December 2017.

### **3.3 Matters in Contentious Nature**

It was observed that a sum of Rs.161 million had been remitted on 29 December 2017 to the Principals of 353 national schools in islandwide as a grant of the Project to implement the activities to be carried out under School Based Learning Improvement Program. A separate guideline had also been issued by the Secretary of the Line Ministry to instruct them to use of the grant. However, it was revealed in audit that no any information had been received back to the National Schools Branch of the Line Ministry even up to 27 April 2018 on progress of utilization of the proceeds of the grant. Further, it was observed in audit inspections made at the Zahira College in Kalmunei and Aligar Central College in Eravur in the Eastern Province, the proceeds of the grant had not been utilized even as at 31 March 2018 for intended purposes, as there were no action plans to utilize the grant.