

## **Transforming the School Education System as the Foundation of a Knowledge Hub Project - 2018**

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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 2018 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. My comments and observations which I consider should be reported to Parliament appear in this report.

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

According to the Loan and Grant Agreements, the Ministry of Ministry of Internal and Home Affairs and Provincial Councils and Local Government is the Executing Agency and the Provincial Ministries of Education of all Provincial Councils are the Implementing Agencies of the Project. 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. As per the Loan and Grant Agreements, the estimated total cost of the Project was US\$ 139.11 million equivalent to Rs. 18,845 million and out of that US\$ 100 million equivalent to Rs. 13,000 million was agreed to be financed by International Development Association. The balance amount of US\$ 39.11 million equivalent to Rs. 5,845 million was agreed to be financed by Australian Trust Fund. The Project had commenced its activities on 01 October 2012 and scheduled to be completed by 30 June 2017. However, the date of completion of the activities of the Project had been extended up to 30 June 2018.

### **1.3 Opinion**

In my opinion, the Consolidated Financial Management Report of the Transforming the School Education System as the Foundation of a Knowledge Hub Project agreed with the information provided in the financial statements of the Provincial Department of Education and Provincial Ministries of Education of 09 Provincial Councils as at 31 December 2018 and gives a true and fair view of the state of the affairs of Project in accordance with Generally Accepted Accounting Principles.

### **1.4 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the section of Auditor's Responsibilities for the Audit of the Consolidated Financial Management Report appeared in my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **1.5 Responsibilities of management and those charged with governance for the Financial Statements**

Management is responsible for the preparation of Consolidated Financial Management Report that gives a true and fair view in accordance with Generally Accepted Accounting Principles, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

## **1.6 Auditor's Responsibilities for the audit of the Consolidated Financial Management Report**

My objective is to obtain reasonable assurance about whether the Consolidated Financial Management Report as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Management Report.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Management Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Comments on Financial Statements

### 2.1 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Non-compliance	Impact	Response of the Management	Auditor's Recommendations
Circular No. MOFP/ERD/2007/02 of 07 August 2007 of the Ministry of Finance and Planning	Eventhough the Consolidated Financial Management Report for the year under review should be submitted on 31 March 2019 had been submitted only on 13 June 2019.	A major requirement not attended.	The Consolidated Financial Management Report is prepared after finalizing the provincial Appropriation Accounts.	Need to comply with the requirement stipulated in the Circular.

## 3. Physical Performance

### 3.1 Physical progress of the activities of the Project

According to the schedule 01 of the Financial Agreement of the Project, it was 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.

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) According to the Economic and Social Statistic of Sri Lanka-2019 published by the Central Bank of Sri Lanka indicated that the student population in 3,046 schools in the country are remained below than 100 students including 503 such schools in the Central Province. Further, 79 schools are remained more than 3,500 students including 34 such schools in the Western Province. Further, according to the information made available from the Ministry of Education, 101 schools had been closed down in 21 districts during the year under review.	The objectives of the Project not achieved.	It is true that there are 501 schools with less than 100 children among the schools in the Central Province, due to uncontrollable factors.	Attention need to be focus to understand the figures for policy decision.

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| (b) | According to the information received from the Ministry of Education, the approved cadre consisted with the posts of 16,512 School Principals and out of that only 10,776 School Principals were remained in the service as at 31 December 2018. | The mechanism on school administration would be paralyzed. | Not Commented. | The school administration system need to be strengthen. |
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### 3.2 Underutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) According to the information received, allocation aggregating Rs. 18,845 million had been made to implement the activities of the Project during the period of the Project and out of that only of Rs. 13,812 million had been utilized as at 31 December 2018. The following observations are made.	Expected objectives may not be reached.	A sum of Rs. 242.58 million had been allocated under the Provincial School Based Learning Development Grant (PSBLIG) program to the School Development Societies under the approval of the Project.	Funds should be used for the intended purpose of the Project.
(i) Out of the allocation aggregating Rs.1,557.73 million released by the General Treasury for the Provincial Ministry of Education of the Central Province during the year under review, only a sum of Rs.1,317.67 million had been utilized as at 31 December 2018. The proceeds unspent aggregating Rs. 240.06 million had been distributed to the Zonal Education Offices of the Province on 31 December 2018.			
(ii) Out of the imprest amounting to Rs.180.42 million made during the year under review to the Ministry of Provincial Education of the			

Uva Province, a sum of Rs.178.99 million had only been spent as at 31 December 2018.

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| (b) It was revealed at the detailed audit tests carried out at the provincial level that the assets procured out of the proceeds of the Loan had not been utilized by the Provincial Education Authorities for intended purposes. | Expected benefits not received to the intended parties. | The Chief Secretary of the Sabaragamuwa Provincial Council has been informed to inspect and report on the equipment purchased by the Sabaragamuwa Provincial Council. | Assets and other instruments should be used for the intended purposes. |
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- (i) The scientific instruments procured during the year under review at a cost of Rs.13.07 million for the use of 45 provincial schools in the Sabaragamuwa Province had remained unused by the respective schools, due to inferior quality of the equipment.
- (ii) There was no mechanism established to monitor the usage of equipment procured by the Project and distributed to the schools island wide during the period of the Project.