

Consolidated Financial Management Report of the Transforming the School Education System as the Foundation of a Knowledge Hub Project (TSEP) – Provincial Level for - 2014

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 2014 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 the Ministry of Provincial Councils and Local Government 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 and Local Government and the Provincial Ministries of Education at provincial level appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Project Financing Agreement, 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\$ 11.13 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 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 is scheduled to be completed by 30 April 2016.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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

My responsibility is to express an opinion on these 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 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 system 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 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 the funds, materials and equipments supplied under the Loan and Grant had been utilized for the purposes of the Project ,
- d) Whether the Consolidated Financial Management Report had been prepared in conformity with Financial Regulation 150 and the State Accounts Circular No.239/2014 of 01 December 2014 of the General Treasury,
- e) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

- f) Whether financial covenants laid down in the Financing 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 the nine Provincial Councils for the year 2014 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 State Accounts Circular No. 239/2014 of 01 December 2014. The above Appropriation Accounts were agreed with the Treasury computer printouts, 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 2014.
- (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

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.94.393 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 2014 are shown below.

Source	Amount agreed for financing in the Financing Agreement		Allocation made in the Annual Budget Estimate for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		Rs. million	during the year 2014		up to 31 December 2014
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA	59	7,670	2,430	14	1,883	34	4,325
AUSAID	11	1,430	550	4	522	13	1,657
	<u>70</u>	<u>9,100</u>	<u>2,980</u>	<u>18</u>	<u>2,405</u>	<u>47</u>	<u>5,982</u>

3.2 Physical Progress

According to the schedule 01 of the Financial Agreement the Project is implemented 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 2014. The following observations are made.
- (i) It was observed that the computers and other equipments procured by the Project for 15 Mahindodaya Technological Laboratories in North Central Province had not been utilized for the intended purposes. Further, guarantee period of such assets were also expired. In addition, several deficiencies in selecting of suitable suppliers and agreements entered into with them were also revealed in audit.
 - (ii) It was observed that the procedures for the procurement of 589 computers at a cost of Rs.60,372,500 for 9 Mahindodaya Technological Laboratories in Sabaragamuwa Province had been applied mischievously and contrary to the provisions made in the Government Procurement Guideline. As a result, a sum of Rs.7,961,513 had to be paid by the Provincial Councils additionally.
 - (iii) Even though construction works of Mahindodaya Laboratories in 15 schools in Eastern Province had been completed, only 02 Laboratories had been opened for the use of students as at 31 August 2015. Other Laboratories were remained closed for over a year allowing rooms for

dilapidation. Therefore, the furnitures and equipments valued at Rs.58,114,331 and 325 computers valued at Rs.24,527,750 had also remained unutilized and guarantee periods of such assets were expired.

- (iv) According to the Action Plan for 2014, the Project had procured 492 computers at a cost of Rs.37,131,240 and Out of such computers, 39 computers were remained unutilized at the store premises Provincial Education Department of Eastern Province without using for intended purposes. In addition, 03 year guarantee period mentioned in the specifications made for the procurement of computers had been stated differently in the contract agreements as 01 year period.
- (b) According to the Education Development Plan, it was expected to train 200 Principals and 300 Vice Principals in secondary level schools in the North Central Province during the year under review, only 306 Principals and Vice Principals had been trained as at 31 December 2014.
- (c) Out of total proceeds amounting to Rs.288,468,038 received to the Provincial Education Department of the Northern Province during the year under review, a sum of Rs.183,447,367 had been transferred to a General Deposit Account without using for intended purposes. Further, the activities of Project scheduled to be implemented during the year 2012 and 2013 at a cost Rs.20,460,000 in the Northern Province had been abandoned completely due to lack of funds. In addition, activities of 13 programmes commenced in 2013 by the Project in the Northern Province had reported the physical progress ranging from 28 per cent to 69 per cent as at 31 July 2015.
- (d) Even though the provisions amounting to Rs. 1,800,000 had been made during the year under review to carry out urgent repairs of the building for 30 Non Formal Education Units in the North Central Province, action had not been taken to implement such works even as at 31 December 2014. Further, the detailed audit carried out in education zones in Dimbulagala, Anuradhapura, Galenbidunuwewa, Kekirawa, Tambuththegama, Higurakgoda and Polonnaruwa had revealed that machineries and training equipments procured by the Project during 2012-2014 for the use of such Units had remained unutilized as the educational programmes in such Non-formal Educational Units had not been conducted due to lack of skilled teachers.

3.3 Matters Relating to Financial Control

Board of Survey had not been carried out to verify the assets valued at Rs.7,402,528 procured for the use of Operating and Monitoring Support Unit during the period of the Project.