

Transforming the School Education System as the Foundation of a Knowledge Hub Project (TSEP) – Central Level - 2013

The audit of Consolidated Financial Management Report of the Transforming the School Education System as the Foundation of a Knowledge Hub Project (TSEP) for the year ended 31 December 2013 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 (GOSL) and the International Development Association (IDA). According to the Financing Agreement the activities of the Projects are expected to carry out by the Ministry of Education (MOE) at national level and the Provincial Councils at provincial level. This report is consisted with the comments on activities carried by the MOE at national level.

1.2 Implementation, Objectives, Funding and Duration of the Project.

According to the Project Appraisal Document, the TSEP is implemented to provide financial support to implement Education Sector Development Framework and Programme (ESDFP) 2012-2016 which address the challenges facing general education sector of the country. The implementing agency of the TSEP 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. As per Financing Agreement, the estimated total cost of the Project is SDR 64.1 million (USD 100 million) equivalent to Rs.11,000 million. Out of that 70-80 percent of the funds are allocated for the Provincial Education Authorities and the balance is allocated for the Ministry of Education. The Project activities had been commenced on 01 October 2012 and was 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 which is the compilation of the Appropriation of the Ministry of Education (MOE), the Department of Examination (DOE) and the Department of Educational Publication (DOEP). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Consolidated Financial Management Report that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate financial regulation and circulars issued by the General Treasury.

2. Scope of Audit and Basis of Opinion.

My responsibility is to express an opinion on these Consolidated Financial Management Report based on my audit. Audit opinion, comments and findings in this report are based on review of the Consolidated Financial Management Report presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain responsible assurance as to whether the Consolidated Financial Management Report are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in Consolidated Financial Management Report and assessment of accounting policies used and significant estimates made by the management in the preparation of Consolidated Financial Management Report as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides reasonable basis for my opinion. The examination also include such test of systems and controls, transactions, assets, liabilities and accounting records 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 for three central institutions of the education sector 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 three central institutions of the education sector.
- e) Whether the Consolidated Financial Management Report had been prepared in conformity of Financial Regulation (FR) 150 and the State Account Circular No. 227/2012 of 26 November 2012 of the General Treasury.
- f) Whether the opening and closing balances , withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the three central institutions of the education sector and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL), 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.

3. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 5 of this report, I am of opinion that;

- (a) the Appropriation Account of Head No 126 of the first schedule to the Appropriation Act, No.23 of 2012 relating to the Ministry of Education for the year 2013 presented to audit was prepared and presented in conformity with the provisions in F.R 150 of the Democratic Socialist Republic of Sri Lanka and the State Accounts Circular No. 227/2012 of 26 November 2012 of the General Treasury. The above Consolidated Financial Management Report was agreed with the Treasury computer printouts and the Annual Estimates and the books and records maintained by the three central institutions of the education sector,
- (b) the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project Management Unit and the balance as at 31 December 2013 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.

4. Financial Statement

4.1 Financial Performance

According to the Consolidated Financial Management Report and information provided by the Project, the expenditure aggregating Rs. 38,336,126,328 had been incurred during the year under review for education sector, out of funds received from all sources including the proceeds

amounting to Rs. 241,852,176 received from the IDA. Following table shows the summary of the expenditure incurred from all sources of funds as presented in the Appropriation Account for the year 2013 of the Ministry of Education (MOE), the Department of Examination (DOE) and the Department of Educational Publication (DOEP) and the expenditure incurred from proceeds of loans received from IDA during the year under review.

Description	Expenditure incurred from all source of funds during the year under review	Expenditure incurred during the year under review, out of loan proceeds	Total expenditure
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	Rs	Rs.	Rs.
Recurrent Expenditure			
Personal			
Emoluments	20,009,975,311	-	20,009,975,311
Other	10,683,336,542	93,845,626	10,777,182,168
Capital expenditure	7,642,814,475	148,006,550	7,790,821,025
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	<u>38,336,126,328</u>	<u>241,852,176</u>	<u>38,577,978,504</u>

4.2 Imprest Fund Account

According to the information made available, the operations of the Imprest Fund Account No 5695 maintained for the Project at the CBSL during the year under review are summarized and given below.

	<u>USD</u>	<u>Rs.</u>
Initial Deposit	Nil	Nil
Add - Replenishments	4,875,000	631,368,337
Less – Withdrawals	4,875,000	626,684,325
Foreign Exchange Loss		4,684,012
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Balance as at 31 December 2013	Nil	Nil
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5. Audit Observations

5.1 Presentation of Financial statements

As per Section 4.09 of the General Condition Statement for Credits and Grants of IDA dated 31 July 2012, the financial statements should be prepared in accordance with consistently applied accounting standards in a manner adequately reflect the operation, resources and expenditure

related to the Project. However, a Consolidated Financial Management Report representing the total expenditure aggregating Rs. 38,336,126,328 incurred by the MOE, DOE and DOEP for educational sector from all sources of funds as at 31 December 2013 had been furnished for audit.

5.2 Utilization of Funds

As per information made available to audit, the utilization of funds of the Project during the year under review and as at 31 December 2013 is given below.

Year	Allocation made for the loan proceeds in the Annual Estimate of MOE	Proceeds of Loan contributed during the year		Amount spent out of the allocation made	Utilization as a percentage
	Rs.	USD	Rs.	Rs.	%
2012	285,000,000	1,800,000	232,455,060	196,500,698	69
2013	<u>265,596,947</u>	<u>4,515,000</u>	<u>626,684,325</u>	<u>241,852,176</u>	<u>91</u>
	<u>550,596,947</u>	<u>6,315,000</u>	<u>859,139,385</u>	<u>438,352,874</u>	<u>51</u>

Following observations are made in this regard.

- (a) According to the above information, a sum of Rs. 626.68 million had been received to implement the activities of the Project whilst only Rs. 265.59 million had been allocated in the Annual Estimate of the MOE for the year under review and out of that only a sum of Rs. 241.85 million had been spent during the year under review. Thus indicated that the intended purposes of utilization of loan proceeds had not been identified properly through annual financial plan and a proper mechanism had also not been implemented by the MOE for monitoring of loan proceeds effectively.
- (b) According to the information made available to audit, the MOE had distributed the loan proceeds amounting to Rs.26 million to DOE, DOEP and National Institute of Education (NIE). However action had not been taken by the respective institution to utilize the loan proceeds effectively. Details of funds received as at 31 December 2013, amount utilized and balances remained as unspent at the end of the year under review are given below.

Name of the Institution	Funds received	Amount utilized	Balance remained unspent
	Rs.	Rs.	Rs.
DOE	10,000,000	2,904,272	7,095,728
DOEP	6,000,000	2,313,362	3,686,638
NIE	10,000,000	5,848,749	4,151,251
Total	<u>26,000,000</u>	<u>11,066,383</u>	<u>14,933,617</u>

5.3 Physical Performance

Following observations are made.

- (a) The Project procured furniture and equipment at a cost of Rs.10.29million for the use of laboratories constructed at 17 schools under Mahindodaya Programme had remained idle or underutilized as such procurements were made before completion of building construction works. The instances described below indicated that there was no proper co-ordination between the officers responsible for the implementing the project activities.
 - (i) Furniture and equipment valued at Rs. 605,216 had been supplied to the Tangalle Ladies College even though the construction works of laboratory building was not commenced.
 - (ii) Furniture and Equipment valued at Rs. 2.42 million had been supplied to the Rajapakse National School at Weeraketiya, Mahanama Central Collge at Monaragala and Malharus Sultia Central College in Galle eventhough the progress of the construction works of the laboratory buildings of such schools were remained below 60 per cent as at 28 February 2014.
- (b) Further, it was observed in audit that the contractors had failed to supply furniture and equipment valued at Rs.16.23 million to the respective schools, as agreed in 107 instances. However, action had not been taken to extend the period of contract or terminate or amend the agreements entered into with the respective contractors.
- (c) Construction of laboratory buildings at 12 schools under Mahindodaya Programme had shown slow progress ranging from 24 per cent to 53 per cent as at 31 December 2013. However, no action had been taken to commence the construction works of the laboratory building at Tangalle Ladies College due to problems arisen on vesting of the legal ownership of the respective land.
- (d) According to the information made available to audit, grants amounting to Rs. 162.5 million had been made in 2012 to 50 national schools and 359 secondary level provincial schools selected for promoting school based study programmes. As per the circular instructions issued in this regard, progress of first stage had to be reviewed before releasing fund for second stage.

Following further observations are made in this connection.

- (i) Funds amounting to Rs 89.5 million had been released to 132 national schools and 466 secondary level provincial schools under second stage of this

programme in 2013 without taking action to review the progress under first stage through Zonal Directors of Education and school principals.

- (ii) As per circular instructions, the MOE was required to obtain project proposals in implementation of the school based study programmes for secondary level schools. However, such proposals had not been obtained from the Zonal Directors of Education.
 - (iii) Eventhough the allocation amounting to Rs 15.70 million had been made for the implementation of second stage of the Programme in 2013, a sum of Rs 16.41 million had been spent during the year under review.
- (e) Service of a Technical Assistant (TA) for the Media Unit of MOE had been obtained at a cost of Rs. 180,000for three months period of the year under review. Even though the proposals had been made by the TA to achieve the objectives mentioned in the Term of References, actions had not been taken to implement such proposals.