

Transforming the School Education System as the Foundation of a Knowledge Hub Project (TSEP) – Provincial 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 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 (GOSL) and the International Development Association (IDA) and Section II (B) (3) of the Australian Grant Agreement No: TF 013267 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 carry out by the Ministry of Education (MOE). The activities at provincial level are expected to be carried out by the Ministry of Local Government and Provincial Councils (MLGPC) and all the Provincial Councils (PCs). My comments and observations on the activities carried out by the MLGPC and the PCs at provincial level appear in this report.

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 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 (USD 100 million) equivalent to Rs. 11,000 million is agreed to be provided by the International Development Association and Grants of USD 11,130,502 is agreed to be provided by the Australian Trust Fund . Out of that 70 - 80 per cent of such funds are allocated for the Provincial Education Authorities and the balances 20 - 30 per cent are allocated for the Ministry of Education. The activities of the Project had been commenced on 01 October 2012 and are 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 Financial Statements

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Consolidated Financial Management Report that is free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on this 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 of the nine Provincial Councils and the Operations and Management Support Unit (OMSU) 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 reasonable assurance as to whether the Consolidated Financial Management Report of the nine Provincial Councils and the operations and Management Support Unit 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 the 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 included such test of systems and controls, transactions, assets, liabilities and accounting records 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,
- b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure incurred out of the funds of the Government of Sri Lanka and the Lending and Donor Agencies, the progress in financial and physical terms, the assets and liabilities arising from the operations and the identification of purchases made,
- c) Whether withdrawals under the Loan and the Grant had been made in accordance with the specifications laid down in the Financing and Grant Agreements,
- d) Whether the funds, materials and equipments supplied under the Loan and the Grant had been utilized for the purposes of the Project,
- e) Whether the Consolidated Financial Management Report had been prepared in conformity with Financial Regulation 150 and the State Accounts Circular No.233 / 2013 of 06 December 2013,
- 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 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,
- g) Whether the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing and the Grant Agreements, and
- h) Whether financial covenants laid down in the Financing and the Grant Agreements 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 Accounts of the nine Provincial Councils for the year 2013 presented to audit were 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.233/2013 of 06 December 2013. 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 the Loan and the Grant had been duly recorded in the Appropriation Accounts of the nine Provincial Councils and Operations and Management Support Unit for the year 2013,
- (b) The Imprest Fund Account for the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the nine Provincial Councils 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 reimbursement in accordance with the requirements specified in the Financing and the Grant Agreements, and
- (d) The financial covenants laid down in the Financing and the Grant Agreements had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the Consolidated Financial Management Report and the information made available, the expenditure incurred during the year under review for the education sector amounted Rs. 84,578,734,546 from funds received from all sources including the proceeds from the Loan and the Grant amounting to Rs 1,385,000,000 received from the Project. The following table shows summary of the expenditure incurred from all sources of funds as presented in the Appropriation Accounts of the nine Provincial Councils and Operations and Management Support Unit of the Provincial Education Sector for the year 2013.

<u>Description</u>	<u>Expenditure incurred from all source of funds received during the year ended 31 December 2013</u>
	Rs
Recurrent Expenditure	
Personal Emoluments	76,888,995,912
Other Recurrent Expenditure	3,637,852,298

Capital Expenditure	4,051,886,336

	84,578,734,546
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4.2 **Imprest Fund Account**

According to the information made available to audit, the operations of the Imprest Fund Account No 5696 maintained for the Project at the Central Bank of Sri Lanka during the year under review are summarized and given below.

	<u>US\$</u>	<u>Rs</u>
Balance as at 01 January 2013	Nil	Nil
Add - Replenishments	12,955,000	1,665,451,203
Less – Withdrawals	10,821,974	1,381,595,693
Foreign Exchange Loss		4,955,955
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Balance as at 31 December 2013	2,133,026	278,899,555
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5. **Audit Observations**

5.1 **Presentation of Financial Statements**

According to Section 4.09 of the General Condition Statement for Credits and Grants of International Development Association dated 31 July 2012, the financial statements in accordance with consistently applied accounting standards in a manner to adequately reflect the operation, resources and expenditure related to the Project of the Education Sector should be furnished. However, a Consolidated Financial Management Report representing the total expenditure aggregating Rs. 84,578,734,545 incurred by the nine Provincial Councils and Operations and Management Support Unit for educational sector from all sources of funds as at 31 December 2013 had been furnished for audit.

6. **Financial and Operational Review**

6.1 **Utilization of Funds**

It was observed that total allocations of all sources of funds aggregating Rs.89,170,723,780 had been made in the Annual Budget Estimates to meet the capital and recurrent expenditure of the Provincial Ministries of Education of the nine Provincial Councils. Out of that, savings ranging from 5 per cent to 16 per cent of the total allocation aggregating Rs. 3,304,435,388 had been reported as at 31 December 2013 by the Provincial Ministries of Education of Western, Northwestern and Sabaragamuwa Provinces. Further, the proceeds of the Loan amounting to Rs. 1,360,000,000 and Grants amounting to Rs. 1,135,000,000 had been received during the year under review from International Development Association and the Australian Trust Fund respectively to assist for funding of total allocation made for nine Provincial Councils. However, the entire grants received from Australian Trust Fund had remained unspent at the Provincial Councils. It was further revealed that the Loans and the Grants aggregating Rs.374,509,805 provided by the Project had been retained in the Deposit

Accounts by the Provincial Ministries of Education of Northern and the Eastern Provincial Councils without utilizing it for intended purposes.

6.2 Physical Progress

As mentioned in the Paragraph 5.1 of this Report, a Consolidated Financial Management Report representing the total expenditure aggregating Rs. 84,578,738,545 incurred by the Provincial Councils for Educational Sector and Operations and Management Support Unit of the Project from all sources of funds as at 31 December 2013 had been furnished for audit as the financial statements for the year ended 31 December 2013. Some of the key audit observations made on the Appropriation Accounts of the Provincial Councils for the year 2013 relating to the operations of the Provincial Departments of Education are reproduced as follows.

- (i) The allocation of the teachers for the schools in provincial levels had not been done satisfactorily. It was reported that the schools in the remote areas of the provinces had functioned with a shortage of teachers whilst the schools in urban areas of the provinces had teachers in excess of the approved cadre. According to the information collected, there were shortages of the teachers for main subjects in rural schools in Sabaragamuwa, Uva, Western, Southern and Eastern Provinces whilst excesses of teachers in urban schools in the respective Provinces as the annual transfers of teachers were not implemented properly.
- (ii) According to the information collected, the student population of the primary and secondary schools in rural schools in several provinces remained low. There were 827 secondary level schools having less than 500 students in the Southern Province whilst 397 primary level schools in the Central Provinces having student population less than 100. It was reported that 138 schools in the Southern Province had remained closed as at 31 December 2013 including 02 schools which were closed down during the year under review.
- (iii) The student pass rate of the Grade-05 Scholarship Examination had been 6.82 in Central Province whilst the student pass rate of other provinces remained in the range from 9.5 per cent to 11.5 per cent. The rate of failing in all subjects in General Certificate of Education (Ordinary Level) Examination in Western, Sabaragamuwa, Uva, North Central Provinces remained high ranging from 4 per cent to 8 per cent. Further, the rate of failing in all subjects in General Certificate of Education (Advance Level) Examination was remained higher in North Western, Southern, Central, North Central and Western Provinces ranged from 10 per cent to 16 per cent.
- (iv) The progress of the operations made by the Provincial Education Departments in Uva and North Central Provinces could not be assessed reliably in audit due to lack of Annual Action Plans and Performance Review Reports of respective Departments. Further, it was reported that Internal Audit Unit had not functioned in the Eastern Provincial Council as at 31 December 2013. Audit and Management Committee meetings were not held in Eastern and North Central Provincial Councils to enable the review of the performance of the Ministries of Education of respective Provincial Councils.

- (v) Annual Boards of Survey to ensure the physical existence of the assets had not been carried out in the year 2013 by the Provincial Departments of Education in the Southern, North Central and Uva Provinces.
- (vi) Several instances of misappropriation or underutilization of assets such as motor vehicles, computers and other equipment, teachers' quarters, etc which belong to the Provincial Departments of Education in the Western, Eastern, North Central Provinces had been reported.
- (vii) Weaknesses in financial controls in provincial level schools such as payments made without supporting documents or without proper authority, lack of preparation of Bank Reconciliation Statements, advances unsettled for long periods etc were reported in audit of performance of Sabaragamuwa, Western, Southern Provinces. Further, general administration activities of the Provincial schools in areas of human resources management, maintaining proper records for teachers' leave and quality inputs, distribution of Government grants under students' scholarship program and monthly recoveries to be made from the teachers distress and other loans, house rents, etc were observed in the detailed audits carried out at the Provincial Departments of Education in the Western, Eastern, Sabaragamuwa, North Central and North Western Provinces.