

Transforming the School Education System as the Foundation of a Knowledge Hub Project – Central Level - 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 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 and the International Development Association. According to the Financing Agreement the activities of the Projects 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 Programme 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 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 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 70 to 80 per cent 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 is 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 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 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 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 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 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 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 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.,
- (d) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement,
- (e) 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,
- (f) Whether the Consolidated Financial Management Report had been prepared in conformity of Financial Regulation 150 and the State Accounts Circular No. 239/2014 of 01 December 2014 of the General Treasury,
- (g) 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 2014 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,

- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether financial covenants laid down in the Financing Agreement had been complied with.

2. Financial Statement

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 126 of the First Schedule to the Appropriation Act, No. 36 of 2013 relating to the Ministry of Education 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 of the General Treasury. The above Consolidated Financial Management Report was agreed with the Treasury computer printouts and the Annual Budget 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 2014 had been truly and fairly disclosed in the books and records maintained by the Project Management Unit and the balance as at 31 December 2014 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 Funds

Certain significant statistics relating to the financing of funds, 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 for Central Level		Allocation made in the Annual Budget Estimate for the year under review	Funds utilized during the year 2014		Funds utilized up to 31 December 2014	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
Donor Agency	30	3,300	810	6	810	10	1,248
	30	3,300	810	6	810	10	1,248

The following observations are made in this regard.

- As a practice, the Ministry requests for additional imprests from the General Treasury each year without considering the provisions approved in the Annual Budget Estimates and the balances remaining in the Bank Current Accounts of the Ministry. According to the information received, a sum of Rs.35.95 million of imprests received in October 2012 had remained unutilized for over seven months and imprests amounting to Rs.420.78 million, out of Rs.626.68 million received in November 2013 had remained unutilized for over 05 months period. Further, the imprests amounting to Rs.26.71 million, out of Rs 416 million received in November 2014 had remained idle at the Bank Current Account as at 31 December 2014.
- It was observed that the savings amounting to Rs. 89.4 million made on the activities carried out under 04 Objects of the Action Plan of the Ministry had been released to 149 national schools on 31 December 2014 without identifying the priorities and specific requirements of such schools. Further, the financial and physical progress of the works carried out thereon had not been reported by 125 schools even as at 30 June 2015. It was observed that the entire amount was remained unspent at the Bank Accounts of the Schools Development Societies even though it was reported as funds spent in the financial statements of the Project as at 31 December 2014.

3.2 Physical Progress

In order to increase the student participation for the Advance Level Science Stream through upgrading of student performance, according to the Education Sector Development Framework and Programme 2012-2016, the Ministry of Education had taken action to construct technological laboratories, procure laboratory and other equipment for such

laboratories and provide trainings for the teachers. The following observations are made thereon.

- (a) It was observed that the Ministry had taken action to construct 860 Mahindodaya Technology Laboratories and a sum of Rs.7,787 million had been spent as at 31 December 2014, out of the allocations amounting to Rs.8,283 million made for the period of 2012-2014. The construction works of 821 Laboratories had been completed as at 31 December 2014 and construction works of 39 other Laboratories were remained in - progress as at that date. Out of that, the construction works of 11 Laboratories were abandoned in the halfway. However, the Ministry had not taken action to encash performance bonds presented by 03 contractors even by 15 June 2015.

- (b) According to the information received, 16 per cent of the students in island wide who sat for the G.C.E (Ordinary Level) Examination held in 2013 had obtained A and B passes for Science subject. However, such pass rate had been decreased up to 13 per cent in 2014.

- (c) It was planned to introduce new classes of Science Stream for G.C.E (Advance Level) for 150 schools by the end of the year under review. However, the new classes of Science Stream had been commenced in 140 schools as at 31 December 2014. It was revealed in audit that new classes were not commenced in other 10 schools, as a result of no single student or qualified teachers for Science Stream in such schools. According to the information received, there were no teachers for all 03 subjects in 08 schools which commenced new classes of Science Stream for G.C.E (Advance Level) whilst vacancies remaining for 88 teachers in 57 such other schools as at 31 December 2014.

- (d) The Project had commenced School Based Teachers Development Program in 2012 with an allocation of Rs.11.56 million and out of that a sum of Rs.3.72 million had been spent since then up to 31 December 2014. Eventhough the training and educational programmes had been conducted for all Zonal Directors of Education, Planning and Coordinating Officers and Principals of Teachers' Training Colleges etc, the Development Program had shown a slow progress due to several reasons such as lack of understandings of the School Principals to implement the Program, weaknesses of attitudes and commitment of the school teachers for the Program, lack of allocations of financial and physical resources, implementation of other activities which were not directly related to the teachers' development etc,

- (e) The Project had spent a sum of Rs.5,825 million in 2014 to procure 50,754 desktop computers, 674 laptop computers, 3,076 printers, 769 scanners and other accessories for 769 Mahindodaya Technology Laboratories. It was revealed in audit that 464 Mahindodaya Technology Laboratories were remained unutilized or underutilized even as at 15 June 2015 due to several reasons such as lack of three phase electricity supply, distribution board not fixed and delays in ceremonial openings of such Laboratories.

3.3 Issues on Financial Controls

The following observations are made.

- (a) The transaction of the Project had not been subjected to internal audit of the Ministry of Education.

- (b) The Project had procured 586 items of science equipment and chemicals for Mahindodaya Technology Laboratories during the year under review at a cost of Rs.107.69 million by calling bids under 11 categories. It was observed in audit that a sum of Rs.12.30 million could have been saved if the bids called in item wise and considered the prices of each item for bid evaluations. Further, bids had also been called for the procurement of 14 items of furniture under 04 categories and a sum of Rs.706,160 could be saved if the bids called item wise.

- (c) The Project had spent a sum of Rs.1.17 million to procure 850 souvenir at a rate of Rs.1,200 per item for the purpose of a facilitation ceremony for Teachers held in 2014. However, it was revealed in audit that the souvenir with similar specification could have been procured at a cost of Rs.650 per item from the open market. Further, the Project had procured and installed 70 commemorative plaques for Mahindodaya Technology Laboratories at a cost of Rs.13.17 million. The price quoted by the Project per unit of plaque was Rs.174,000 despite the open market price of a plaque with similar specification was remained at Rs.129,000. In the above instances, it was indicated that the shopping procedure had been applied for the selection of suppliers. However, the reliable evidence to prove the genuineness of the quotations obtained was not made available for audit.