The Secretary,
Ministry of Provincial Councils, Local Government and Sports

Report of the Auditor General on the Consolidated Financial Management Report of the Transforming the School Education System as the Foundation of a Knowledge Hub Project (TSEP) – Provincial Level for the year ended 31 December 2017

The English version of the above mentioned report along with the certified financial statements is sent herewith.

H.M Gaminii Wijesinghe
Auditor General

Copies to:
01. Secretary, Ministry of Finance and Mass Media
02. Project Director, Transforming the School Education System as the Foundation of a Knowledge Hub Project – Provincial Level
03. Senior Financial Management Specialist, International Development Association for information
The Secretary,
Ministry of Provincial Councils, Local Government and Sports

Report of the Auditor General on the Consolidated Financial Management Report of the Transforming the School Education System as the Foundation of a Knowledge Hub Project (TSEP) – Provincial Level for the year ended 31 December 2017

The audit of Consolidated Financial Management Report of the Transforming the School Education System as the Foundation of a Knowledge Hub Project- Provincial Level for the year ended 31 December 2017 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 then Ministry of Provincial Councils and Local Government, presently the Ministry of Provincial Councils, Local Government and Sports 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, Local Government and Sports 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 Program 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.13,000 million was agreed to be provided by the International Development Association and Grants of US$ 11.13 million was agreed to be provided by the Australian Trust Fund. According to the amendment made on 28 June 2016 to the Project Agreement the proceeds of the Grant had been increased up to US$ 39.11 equivalent to Rs.5,845 million. 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 are scheduled to be completed by 30 April 2016.

1.3 Responsibility of the Management for the Consolidated Financial Management Report

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 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 this 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 is 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 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 of the Project from the funds of the Government of
Sri Lanka and the Lending Agencies, the progress of the Project in financial
and physical terms, the assets and liabilities arising from the operations of the
Project, the identifications of the purchases made out of the Loan and Grant,
(d) Whether the withdrawals under the Loan and Grant had been made in accordance with the specifications laid down in the Financing and Grant Agreements.

(e) Whether the funds, materials and equipment supplied under the Loan and Grant had been utilized for the purposes of the Project.

(f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.

(g) Whether the Consolidated Financial Management Report had been prepared in conformity with Financial Regulation 150 and circular instructions issued by the Chief Secretaries of the respective Provincial Councils.

(h) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

(i) Whether the financial covenants lay down in the Financing and Grant Agreements 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 Accounts of the Provincial Ministries of Education of the nine Provincial Councils for the year 2017 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 circular instructions issued by the Chief Secretaries of the respective Provincial Councils. The above Appropriation Accounts were agreed with the records of the General Treasury, 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 2017,
(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.