

SARVA SHIKSHA ABHIYAN

(Implemented by the Uttar Pradesh Education for All Project Board)

I. OVERVIEW

1.1 *We by an agreement have been assigned to carry out the audit of the Sarva Shiksha Abhiyan Project implemented by the U.P. Education For All Project Board for the financial year 2006-07. The SSA is a project of Government of India & Government of Uttar Pradesh with the objective of Universalization of Elementary Education (Class 1-8) in a fixed time frame. The project is being managed by the State Project Office of the Board with its wings spread all over Uttar Pradesh as its District Project Offices (DPO's) and District Institute of Education & Training (DIET's).*

1.2 *The objectives of the project are to build state, district and sub district level managerial and professional capacity for the development of elementary education, provide useful and relevant elementary education for all children in the age group of 6-14 years by 2010, to reduce dropout rates as well as improve access of children to elementary education and bridge social, regional and gender gaps with active participation of the community in management of schools.*

II. OBJECTIVE OF THE AUDIT

1.1 *The objective is to provide an independent confirmation to the project management and to the various stakeholders on the accuracy of the project's financial statement, compliance with credit agreement covenants*

and satisfactory overall working of the financial management systems. Further the objective of the audit of the Programme Financial Statements (PFS) is to enable the auditor to express a professional opinion on the financial position of SSA Programme at the end of each fiscal year and of the funds received and expenditures incurred for the accounting year ended 31st March'2007, as reported by the PFS.

- 1.2 We have covered the adequacy of the project financial management systems, including internal controls. This includes aspects such as adequacy and effectiveness of accounting, financial, and operational control, and needs for revision; level of compliance with established policies, plans and procedures, reliability of accounting systems, data and financial reports, methods of remedying weak controls or creating them where there are non verification of assets and liabilities, and integrity, controls, security and effectiveness of the operation of the computerized system.*

- 1.3 We have audited the accounts of 18 district offices and State Project Office, the remaining 52 District Offices (DPO's and DIET's) have been audited by other auditors. Their Management Letters have been considered by us in framing this Management Letter.*

- 1.4 The various accounting units in form of DPO's and DIET's of the following districts allotted to us by the State Project Office, Lucknow: -*

<i>1. Varanasi Mandal</i>	<i>a. Varanasi b. Chandauli c. Ghazipur d. Jaunpur</i>
<i>2. Gorakhpur Mandal</i>	<i>a. Gorakhpur b. Deoria c. Maharajganj d. Kushinagar</i>
<i>3. Allahabad Mandal</i>	<i>a. Allahabad b. Kaushambi c. Pratapgarh d. Fatehpur</i>
<i>4. Lucknow Mandal</i>	<i>a . Lucknow b . Unnao c . Sitapur d . Hardoi e . Raibareilly f . Lakhimpur-Kheri</i>
<i>5. State Project Office and various Institutions</i>	

III. SCOPE OF THE AUDIT

The assignment is undertaken by us with below mentioned audit scope emphasizing primarily on whether:

- ✓ The audit was carried out in accordance with auditing standards generally accepted in India and standards as pronounced by The Institute of Chartered Accountants of India on Auditing and includes such test and controls that were necessary to conduct the audit.*
- ✓ All funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency and only for which the financing was provided.*
- ✓ Generally accepted accounting principles are followed by all entities that are authorized to incur expenditure under SSA.*

- ✓ *Goods and services have been procured in accordance with the relevant financing agreement.*
- ✓ *Adequate records have been maintained regarding assets created and acquired under the project.*
- ✓ *The expenditures charged to the project are eligible expenditure and have been correctly classified.*

- ✓ *That the civil works, goods and services financed have procured in accordance with the financing agreements and procurement guidelines of the Project.*
- ✓ *All necessary supporting documents, records and accounts have been kept in respect of all project ventures including expenditure reported in project management reports. Clear linkages exist between the books of accounts and report presented to the bank.*
- ✓ *The project's accounts have been prepared in accordance with consistently applied accounting standards and give a true and fair view of the financial situation of the project.*

IV. RECORDS & STATEMENTS REVIEWED

The following books / records / documents were required and to the extent made available, were reviewed with regards to the SPO / DPO's and DIET's by the audit team: -

- a. Cash book / Bank book*
- b. Pass book/Bank Statements and its reconciliation statements.*
- c. General ledger*
- d. Cheque issue / Receipt register*
- e. TDS File*

- f. *Non Consumable stock register*
- g. *Consumable stock register*
- h. *Fixed Asset register*
- i. *Bank Statements / Pass Books*
- j. *Pay Bill Register*
- k. *Monthly Statement of Expenditures (SOEs)*
- l. *Supporting Vouchers*

V. COVERAGE OF MANAGEMENT LETTER

Our Management Letter is an extension of our Short Form Audit Report and contains material observations and comments on the following areas:-

- *Comments and observations on the accounting records, systems and internal controls*
- *Comments on specific deficiencies and areas of weaknesses in systems and internal control mechanism and recommendations for its improvements.*
- *Report on degree of compliance of each of the financial covenants of the financing agreement and give comments, if any on internal and external matters affecting such compliance;*
- *Comments on the matters that have come to the attention during the audit which might have a significant impact on the implementation of the Project and*

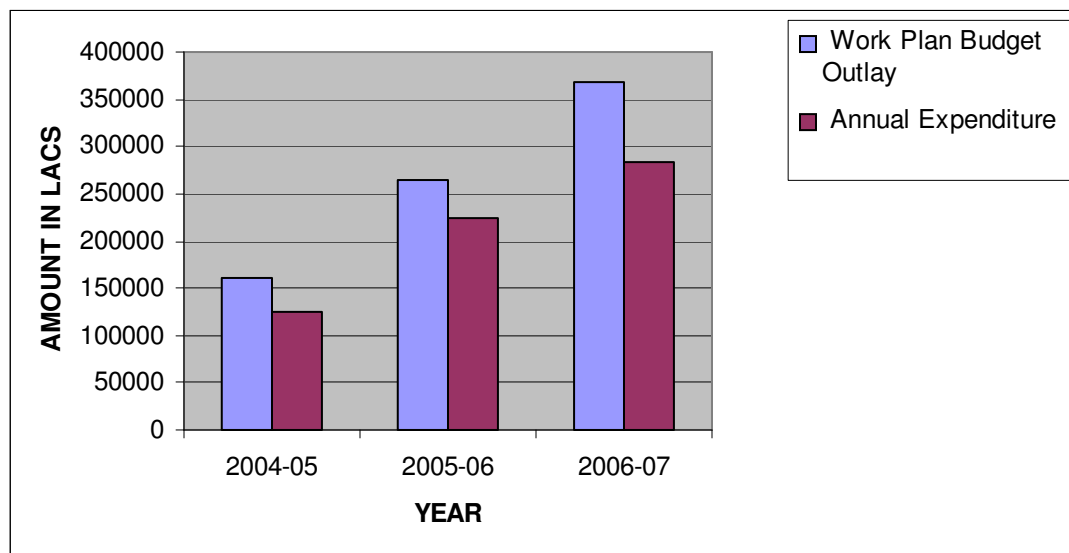
- *Comments on any matters, which we considers pertinent to the attention of the Management.*

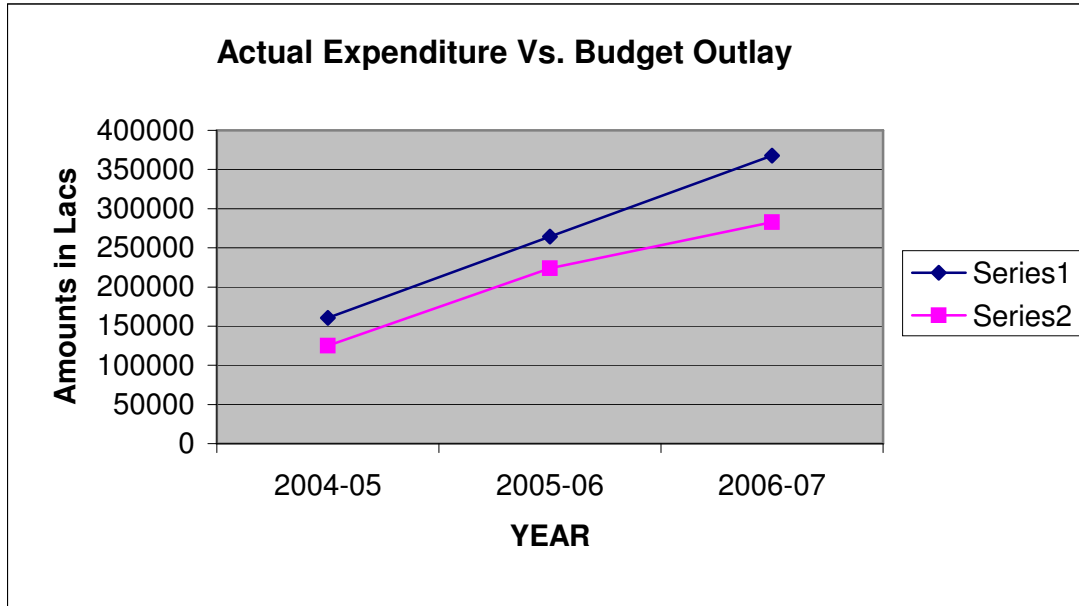
VI. OUR OBSERVATIONS

1) Project Performance

During the year, Project Management has utilized Rs. 2829.13 Crores as against the Budget outlay of Rs. 3678.51 Crores, showing 76 % utilisation. The comparative figures for past three years have been given as under :-

Project Expenditure			
Year	Work Plan Budget Outlay	Annual Expenditure	%
2004-05	160446.44	125173.90	78.02
2005-06	264189.39	224056.27	84.81
2006-07	367851.15	282912.57	76.91





2) *Financial Accounting System*

- ◆ *AT SPO and some Districts, project is now following Double Entry Accounting System on cash basis; however, the other district units of the project are still following the single entry cash basis of accounting as in the State Government Office. Project Management had initiated the system of implementation of Double Entry Accounting Systems at the remaining districts also in the year under audit. However effective implementation of the same needs further strengthening.*
- ◆ *The system of regular maintenance of ledgers and trial balances at monthly intervals needs further improvement.*
- ◆ *System of regular reconciliation of various bank accounts at district level needs improvement. At few of the DPO's and DIETS, Bank accounts are not reconciled. We suggest that Management should*

ensure proper reconciliation of its bank accounts at districts level at monthly intervals and should advise the Unit Accountants to make necessary rectification entries accordingly.

- ◆ *The Project Accounts reflect Funds in Transit Cr. 1,55,96,751.25 indicating funds have been received more than the amounts sent. Such differences have occurred primarily due to Funds of the KGBV Project lying with the bank accounts of the SSA and wrong entries made by the DPO's & DIETs for transactions between them. The same needs to be reconciled and rectified accordingly. Further a system of regular reconciliation of Inter Unit transactions needs to be enforced to avoid its recurrence.*

- ◆ *The Project Accounts reflect Miscellaneous Income amounting to Rs. 1,63,79,736.00 which includes various amounts credited in the Bank Accounts of the DPO's & DIET's At DPO & DIET levels being unspent balance returned back from BRC;s CRC's and VEC's levels. As per SSA Accounting Manual, the same should be credited back to the respective Budget head under which the said amount was sent to them. But due to no such details being submitted / collected by DPO and BRC's & VEC's, the respective expenditure head could not be reduced and hence to account for the same, it is credited in head of Miscellaneous Income. SPO should issue necessary instructions to district & sub district level units in this regard.*

3) Financial Reporting by District / sub district Units

- ◆ *It is observed that at some districts and sub districts level, SOE Reports are not compiled from the ledgers and trial balances. System of preparing SOE's reports and its clear linkage with books of accounts needs to be improved.*
- ◆ *Advances to Block Resource Centres, Nyay Panchayat Resource Centres/ Cluster Resource Centres, & Village Education Committees are treated as expenditure at the time of giving advances (vide accounting policy no. g of schedule "L").*

4) Advances made to and Expenditure incurred by the Implementing Agencies:

- ◆ *At SSA, the Project Specific Activities are primarily being carried out at Sub – District levels agencies e.g. VEC's BRC's, CRC's & BPRC's and various institutions.*
- ◆ *As per SSA Accounting manual, Amounts released to any Implementing Agency should be treated as Advances and be recorded in the Advance Register, which shall be adjusted based on the Expenditure Statements and Utilisation Certificates received from such agencies.*
- ◆ *The financial statements are being prepared on the basis of following principals of accounting relating to Expenditures incurred by Implementing Agencies :-*
 - *Amounts reimbursed to Basic Shiksha Parishad, Allahabad, towards Teacher's Salaries have been claimed as Expenditure at the time of payments i.e. release of funds.*
 - *Expenditure incurred by Mahila Samakhya is accounted for upon receipt of the statement of expenditure.*

- *Expenditures incurred by Director, Basic Education, Director, Literacy and Alternative Education, SIET, Lucknow, SIEMAT, Allahabad, SCERT, Lucknow, SIE Allahabad and other institutions have been accounted for on the basis of Statement of Expenditures (SOE's) submitted by the respective departments.*
- *Expenditure incurred by Schools, Offices and Institutions under the agencies of the Viklang Kalyan Department and funded by the Sarva Shiksha Abhiyan are accounted on receipt of statement of expenditure.*
- *Advances to Block Resource Centers, Cluster Resource Centers and Village Education Committies are treated as Expenditure at the time of giving advances.*

5) Utilisation Certificates in respect of Funds sent to Sub-district levels

- ◆ *The system of obtaining Utilisation Certificates from BRC, VEC's and CRC's have been introduced and implemented. As per the SSA Accounting Manual, these Utilisation Certificates should be documented and accounted for in the books of accounts along with the proper upkeep of Advance Register, so as to arrive at the Amounts of Advances for which Utilisation Certificates are pending. However presently though, Utilisation Certificates have been obtained but the accounting of the same in the books of accounts with the Advance Register is yet to be initiated.*
- ◆ *During the course of audit it has been observed that the Utilisation Certificates pertaining to Civil Work i.e. construction of Schools,*

additional classrooms, toilet etc. have been verified by Construction Incharge of the civil works.

6) Control over Advances to various Institutions for Project Activities

- ◆ *The Project' activities have grown manifolds. Besides, DPO's, DIET's, BRC's and CRC's, funds are also being sent to various Institutions to carry out the project activities. It is of utmost importance that suitable control techniques / mechanism are devised and implemented through which such amounts should be adjusted regularly on the basis of Utilisation Certificates submitted by such Institutions.*

7) Procurement Procedure

- ◆ *While auditing the records of DIETs we have noted concentration of procurement in Mess Contracts, arising out of selecting the contractors on the basis of procurement procedures once followed earlier, without resorting to fresh procurement procedures.*

8) Transfer of Funds through EFT mechanism

- ◆ *Project has adopted the Electronic Funds Transfer Mechanism (EFT) for transfer of funds from SPO to DPO / DIETs and through bank transfer advices, from DPO to sub-districts units. This has resulted in reduction in the fund transit period and has strengthened the fund management and control mechanism.*

- ◆ *We further suggest that if the advance details of the budget heads and activities to be covered by such funds be sent to the sub-district level agencies through E. mail, Fax or any other speedy system of communication, which shall help the implementing agencies to carry the project activities within specified time frame.*

9) Physical Verification of Fixed Assets

- ◆ *Physical verification and accounting of assets procured/received by DPO, State Level Institutions and bodies funded by the Sarva Shiksha Abhiyan fund has not been done at various units. Further, fixed assets be coded with identification numbers and entered in a fixed assets register, which should contain the following information.*
 - a) *Description of assets*
 - b) *Date of Purchase*
 - c) *Purchase Cost*
 - d) *Identification No.*
 - e) *Location of Assets*
- ◆ *Physical verification of all the fixed assets should be done once in a year by these units and documented.*

10) Internal Audit System

- ◆ *SSA Project, within its ambit having NPEGEL and KGBV project activities, have seen continuous growth and development. To achieve the project objectives, it becomes very pertinent to see that proper*

internal control systems are in place and Project activities and Expenditures are put to a regular system of close monitoring.

- ◆ *Though presently Internal Audit System has been evolved through In House teams of the Project, however such teams should be advised to give more focus on the implementation of the Double Entry Accounting System, Bank Reconciliation Statements, Remittances in Transit, Funds Reconciliation's, Miscellaneous Income etc. which are major accounting issues of the Project.*
- ◆ *A sound Internal Audit system plays an important role in contributing to the effectiveness of the internal control mechanism. Internal Audit system should provide qualitative support to the Project Management on the project performance, appraisal and effectiveness of the internal control systems laid by the Management.*

11) Compliance of last year's audit reports

- ◆ *Subject to our comments and suggestions made elsewhere in this report, we have reviewed the status of the compliances of the previous audit reports. The audit reports of the previous year are being complied with.*

Place: Lucknow

Dated:

M.No.74258

(P.K. DHAWAN)

Partner