DFID Internal Audit Department
Inquiry regarding UK funding for SSA II

1. Sarva Shiksha Abhiyan II (SSA II) is the second phase of a major investment by the Government of India (GoI) to extend primary education to all children across the country. Funding from the UK's Department for International Development (DFID) supports implementation through GoI systems to deliver education improvements in some of the poorest and hardest to reach parts of India. Around 90% of the programme is funded from India's own resources, with the balance being provided by DFID, the World Bank and the European Commission. The UK spent £210 million in the first phase of SSA (2003-2007) and has disbursed £137 million so far in the second phase (2008-2010). This represents around 2% of SSA's total funding.

2. On 13 June 2010, an article in the News of the World carried allegations that substantial amounts of DFID funding for SSA II had been fraudulently diverted. In response, the Secretary of State for International Development instructed DFID's Internal Audit Department (IAD) to lead an inquiry into the controls put in place to ensure that the UK's support to SSA II was spent properly. Supported by an international accounting firm, IAD undertook a field visit to India in July 2010 to check that controls over UK aid to SSA are robust, are effectively applied, and provide adequate assurance over the use of UK funds.

3. IAD found that the project fits well within DFID's existing development risk appetite, with a high potential contribution by SSA to achieving the universal primary education Millennium Development Goal. SSA has a strong record of delivering its development objectives: a World Bank evaluation in 2009 found an extra 35 million children were in SSA primary schools across India between 2001 and 2008, with significant enrolment increases for the poor, in rural areas and for girls. IAD found that risks to UK funding have been managed sensibly in accordance with DFID's laid down procedures, with fiduciary risk assessments being undertaken (including one specifically for SSA) and appropriate risk mitigation measures implemented as a result. DFID's India office (DFIDI) had properly applied DFID's standard project management controls to its funding of SSA, with close monitoring of project progress and expenditure.

4. In particular, the DFIDI project team has given a high priority to obtaining assurance that UK funds are used only for intended purposes: DFIDI pays contributions to SSA on a reimbursement basis, after receiving satisfactory financial management reports showing how the money has been spent, and earmarks UK funds to pay only for valid audited expenditure. Independent external audits are performed at state, district and sub-district levels, and the GoI has also introduced an additional layer of audit at village level wherever payments exceed Rs one lakh (around £1,250) per annum. The Institute of Public Auditors of India (IPAI) supplements the external audit process with financial management reviews on a sample basis, and the programme is subject to periodic

review by the national Comptroller and Auditor-General (CAG). Donors, working together with the GoI, also gain direct evidence on the effectiveness of project and programme controls through six-monthly Joint Review Missions (JRMs) which include field visits to schools and teacher training centres in a selection of districts as well as reviewing data on achievements against project objectives. In addition, DFID and its partners have commissioned two independent reviews of SSA procurement, most recently in 2009, which have helped to strengthen SSA's control environment. Finally, the GoI publishes reviews, audits and details of school funding via the Internet, and is encouraging states to post information about SSA performance on notice boards in schools, whilst at school level there is also oversight through Village Education Committees. Together, these initiatives provide an additional accountability mechanism directly accessible by communities.

5. These controls provide a good level of assurance that funding has been used for intended purposes. However, there have been gaps in implementing such a detailed framework across a large number of diverse operating units, including 1.2 million schools with many in the remotest districts of India. For example, some states have missed deadlines for submitting annual audited statements to the GoI, and SSA donors have consequently classed this expenditure as ineligible and not reimbursed it. GoI and the states have acknowledged that there are gaps in financial management capacity at local level, including a need for better internal auditing provision. Positively, GoI has taken robust corrective action where JRMs, external audits and other reviews have found control weaknesses within SSA's long implementation chain. There is evidence of strong GoI commitment to strengthening financial management systems, with milestones agreed under a Financial Management Action Plan. The JRM which has just concluded will provide further assessments of progress against these milestones, including further strengthening the consistency of external auditing at the lower levels and implementing stronger and more comprehensive internal auditing capability across SSA.

6. Most of the allegations of fraud and other abuse contained in the News of the World article had been detected by the control systems within SSA, and were drawn from reports of audits (some of which were conducted five years ago) which had been made publicly available by the GoI. There is evidence of action by the GoI to investigate detected irregularities and to take corrective measures including criminal and civil proceedings. For example, in the only major case involving DFID funds, the loss had initially been uncovered by the State Financial Controller of Andhra Pradesh. A special audit by the State's Auditor-General was followed by a High Court Commission of Inquiry and an ongoing criminal prosecution. IAD estimates that less than £50,000 of UK funds is directly at risk through reported unresolved irregularities and potential abuse.

7. Donors including DFIDI have been monitoring the GoI's response to issues identified through audits and reviews, as has the Public Accounts Committee of the Indian Parliament in the case of the CAG report. Whilst

there is evidence of robust action in individual cases, we noted that there is also a need for more effective tracking of the overall exposure to fraud and other losses within SSA. We have recommended that DFID should review its funding agreements to ensure GoI provides fuller and more timely information on cases of fraud, corruption and other abuse affecting SSA funds. This would give DFID, other donors and the GoI itself greater confidence that all irregularities identified are being dealt with properly. It would also facilitate more effective knowledge-sharing to address the weaknesses which can expose SSA funds to risk of fraud and corruption.

8. In conclusion, it is impossible to ensure that every rupee will be spent properly and effectively within a project as large and complex as SSA. However, the risk to UK funds has been adequately managed by DFID making payment only on the basis of valid externally-audited expenditure. DFID also gains direct assurance on the programme's financial and operational performance through its participation in the Joint Review Missions and through exercises such as independent procurement reviews and external evaluations. Where audits and reviews have detected weaknesses in SSA's financial management, there is evidence that the GoI has taken or is taking action to address these, and action to strengthen tracking of SSA's overall exposure to fraud and corruption will provide greater comfort that all irregularities and allegations of fraud and other abuse are being dealt with effectively.

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