

Science and Technology Human Resource Development Project - 2021

The audit of financial statements of the Science and Technology Human Resource Development Project for the year ended 31 December 2021 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 Section 4.03 of Article IV of Loan Agreements No.3698 SRI and 3699 SRI (COL) dated 17 January 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observation which I consider should be reported to the parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, then Ministry of Higher Education and Cultural Affairs, presently the Ministry of Education is the Execution Agency and the University of Kelaniya, Rajarata, Sabaragamuwa and Sri Jayewardenepura are the Implementing Agencies of the Project. The objectives of the Project to improve access facilities to employment- oriented technology degree programs in higher education system of the country. As per Loan Agreement, the initial estimated total cost of the Project amounted to US\$ 165 million equivalent to Rs.30,051.45 million and out of that US\$ 145 million equivalent to Rs.26,408.85 million was agreed to be financed by Asian Development Bank. The balance US\$ 20 million equivalent Rs.3,642.55 million finance by the Government of Sri Lanka. The Project had commenced its activities under the retroactive financing on 17 April 2018 and scheduled to be completed by 31 December 2023.

1.3 Opinion

In my opinion, except for the effects of the matters described in the Table 2 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021, and its cash flows for the year then ended in accordance with Public Sector Accounting Standards

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards 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.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit.

I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

No	Accounting Deficiencies	Responses of Management	Auditor's Recommendations
(a)	According to the financial statements of the Project, the balances of the furniture and fittings, books and software in University of Kelaniya and Rajarata University of Sri Lanka as at 31 December 2021 amounted to Rs.625.99 million. However, according to the fixed assets registers which were maintained	Not answer properly	The correspondence balances in the financial statement should be reconciled periodically with the records of the relevant universities.

by the Project Implementation Units of the relevant Universities, the corresponding value of the respective assets was shown as Rs.576.10 million.

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| (b) | The balance of the furniture and fittings, books and software in Sabaragamuwa University of Sri Lanka and University of Sri Jayawardanapura as at 31 December 2021 amounting to Rs. 476.53 million shown in the fixed assets registers which were maintained in the Project Implementation Units of the relevant Universities had not been reconciled with the corresponding value of the respective assets amounted to Rs.411.82 shown in the financial statements of the Project as at that date. | Not answered properly. | -Do- |
| (c) | As per financial statements of the Project, balance of the furniture and equipment, books and computer software as at 31 December 2021 amounted to Rs. 1,096.3 million had not reconciled with amount of Rs. Rs.1,100.73 million shown in the detailed scheduled submitted with the financial statements. | The procurement of COVID 19 Protective goods have been identified as current assets in the year 2020 and has shown under working progress in the Financial Statements. | The balance of the furniture and equipment, books and computer software should be agreed with the schedules. |
| (d) | Retention money amounting to Rs. 230.9 million had been deducted from the interim payment certificates as at 31 December 2021 had not been brought to the financial statements of the Project. | It has been noted to make provisions for the 5% retention in the financial statements of the year 2022. | Retention money should be brought to the accounts. |

3. Physical Performance

3.1 Physical Progress of the activities of the Project

The activities of the Project are implemented under 5 components namely provide innovative technology and industry relevant education and research facilities, help quality curriculum design and academic staffing aligned with industry demand and international standards, provide competitive industry and foreign university collaboration scheme and capacity development opportunities and to support the government in preparing new higher education Project proposed for approval in year 2021. The following observations are made in this connection.

3.2 Physical and Financial Progress of the Construction Activities of the Project

No	Component	As at 31 December 2021				Responses of the Management	Auditor's Recommendations
		Physical Performance		Financial Performance			
		Expected performance (%)	Achieved Performance (%)	Expected Performance (%)	Achieved Performance (%)		
(a)	Construction of building for Faculty of Technology of University of Rajarata	2.8	2.1	26.66	20	Although the COVID 19 pandemic situation badly affected the performance of the construction works, the project is able to manage the expected physical and financial performance at satisfactory level.	Need to take action to catch up the delays and ensure to complete the contract works timely to avoid additional costs.
(b)	Construction of building for Faculty of Engineering of University of Sri Jayawardanapura	10	07	40.41	26.83	-Do-	-Do-
(c)	Construction of building for Faculty of Technology of University of Sabaragamuwa	56	40	46.84	41.64	-Do-	-Do-
(d)	Construction of building for Faculty of Technology of University of Kelaniya	68	43	45.9	45.71	-Do-	-Do-

3.3 Physical Progress of the Activities of the Project

No.	Component	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Help to quality curriculum design and academic staffing aligned with industry demand and international standards	According to the Project Administration Manual, at least 80 per cent of academic and non-academic staff should have been completed predefined professional development programs at the end of the year 2023. However, only 11 academics staff of two Universities had been commenced their PhD scholarship programs and 3 academics staff had commenced MSc programs at the end of the year 2021. Further, one lecturer abandoned the PhD scholarship programs on 20 March 2021 after incurring of Rs.1.98 million and only 1 million had been recovered as at 31 December 2021. In this regard action had not been taken to recover the balance amount from the respective lecture even the date of audit on 30 April 2022.	The University has agreed to refund the balance amount after recovering the university pension fund and University Provident Fund (UPF) of Mrs. Yatanwala. University of Kelaniya has already recovered the UPF of Mrs. Yatanwala. Follow up actions will be taken by PMU, to recover the balance amount.	Need to comply with the requirements stipulated in the Project Approval Document and Prompt action should be taken to recover the balance amount from the respective lecture.
(b)		Out of the allocation of US\$ 1,000 million made on long term training to the University of Rajarata, only US\$ 529.28 million had been spend thereon and unutilized amount was 47.1 per cent of the allocation and out of US\$ 306 million allocated to the University of Sabaragamuwa, only US\$ 173.1 million had been spend on long tern training and unutilized amount was 43.4 per cent of allocation as at 31 December 2021.	Long term training was affected by the COVID 19 pandemic as lecturers were not able to go abroad due to travel restrictions. Currently, several lecturers have received offers and will go for their Ph.D. and MSc programs within this year using the unutilized amount.	Need to comply with the requirements stipulated in the Project Appraisal Document.
(c)	Implement Quality and industry-relevant higher technology education programs	The University of Sri Jayawardanapura had only been entered in to 02 agreements with partnership organizations and no any Memorandum of	Three rounds of call for proposals were issued and 11proposals were approved for the first and second round of call- for –	Need to comply with the requirements stipulated in the Project Appraisal Document

Understanding had been signed proposals. with foreign universities at the end of year under review. Further, only US\$ 0.01 million had been utilized, out of the total allocation US\$ 10 million as at 31 December 2021 and represented 99.9 per cent of the total allocation for Grant scheme.

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| (d) | According to the procurement progress report, out of the Rs.531.5 million value of target procurement, only Rs. 200.746 million representing 38 per cent had been awarded and completed and Rs. 330.7 million representing 62 per cent of the respective target had not been implemented by the University of Kelaniya as at 31 December 2021. | These activities are linked with the completion of the proposed building. | Sound and efficient procurement management system need to be implemented on monitoring supervision of the works carried out by the suppliers. |
| (e) | Out of the awarded value of procurement of Rs.1,331 million, only Rs.673.6 million equivalent to 51 per cent had been completed. Further, Rs.657.5 million representing to 49 percent of the target had not been implemented by the Rajarata University of the year 2021. | The unutilized 49% mainly contains laboratory developments and equipment. Since the proposed building complex has not been completed yet, the lab design and development have not been started yet. | Sound and efficient procurement management system need to be implemented on monitoring supervision of the works carried out by the suppliers. |
| (f) | Out of Rs.1,180.5 million awarded procurements, only Rs. 468.5 million value of procurements had been completed by the University of Sri Jayewardenepura as at 31 December 2021. | As the faculty currently is in a temporary premises the procurement has been focused to deliver the program in the current premises to the current student intake. The new building complex is planned to be completed and increase the student intake. | -Do- |

- (g) Rs. 1,951.4 value of procurements had been awarded by the University of Sabaragamuwa and the value of Rs.608.5 million procurements had only been completed as at 31 December 2021. It had indicated 31 percent of procurement progress had been achieved.
- Six OCBs -Do- (SB/E05,15,38,SB/F 03,08, & 09) awarded on 30/12/2021 & completion of them are in 2022

3.4 Delays in Commencements of Activities of the Project

No	Activities	Date scheduled to be commenced	Date of Commencement	Delay	Responses of the Management	Auditor's Recommendations
(a)	Construction of building for Faculty of Technology of University of Rajarata	October 2019	25.10.2021	2 years	Due to non-availability of standard bidding documents for Design & Build construction at ADB and Design & Build Contraction method being a new thing to ADB it took considerable amount of time period to prepare the standard bidding document. However, action has been taken to complete three constructions	Need to take action to catch up the delays and ensure to complete the contract works timely to avoid additional cost
(b)	Construction of building for Faculty of Engineering of University of Sri Jayawardanapura	October 2019	21.01.2021	1 year & 3 month		
(c)	Construction of building for Faculty of Technology of University of Sabaragamuwa	October 2019	20.12.2020	1 year & 2 month		
(d)	Construction of building for Faculty of Technology of University of Kelaniya	October 2019	02.09.2020	11 months	Kelaniya, Sabaragamuwa and Jayewardanapura by September 2023 and Rajarata by April 2024 within the project time frame before the loan closing date.	

3.5 Contract Administration

----- Audit Issues -----	----- Responses of the Management -----	----- Auditor's Recommendations -----
(a) According to the overall Project Implementation Plan, selections procedure of consultant should be completed on end of the year 2019. However, the appionment of counsultancy service for the counstruction of four universities had been delayed from one year to two year period.	A decision had been taken to include foreign consultants with local consultants for this assignment based on the recommendations given by the Asian Development Bank (ADB).	Action should be taken to catch up the delayed activities.
(b) Due to the initial delay of appointing of the Project Management Consultants, three engineers had been appionted as consultant of construction on temporary basis for three months period with the estimated cost of Rs.3 million. However, a sum of Rs.8.39 million had been paid for said three engineers as consultants during the year under review. According to Section No.14 of terms of referance for the recruitment of engineers on temporary basis had been appointed for three months period. However, the Project was occupied the said three engineers over seven months and a sum of Rs.5.39 million had been paid for them.	After the cancellation of the recruitment of PMC, the PMU has commenced the procurement of recruiting PMCs locally. Meanwhile the awarding process of civil construction of three universities except Rajarata University contracts were awarded.	Action should be taken to minimize the operational cost of the Project
(c) Utill the Project Management Consultants appoint, an arcitecher had also been appointed for a six months period with the allocation of one million and Rs.2 million had been paid as at 31 December 2021.	Not replied.	-Do-
(d) Initial master work plan had not been prepared for the construction works of faculty buildings for 4 universities.	All four contractors had submitted the Master Work plan (MWP) and it is part of contract agreements. After the Gap analysis, they have resubmitted the revised Master Work plans. Progress of the work is also checked against the MWPs'.	The Project should prepared the master work plan before the construction works commence.

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| (e) | A claim specialist had been appointed with the estimated cost of 3.5 million and a sum of Rs.332,000 had been paid from 15 October 2021 to 31 December 2021. | A person with thorough knowledge in engineering, construction management, project management and previous experiences with claims handling and disputes resolving is essential for these four large construction projects to handle the claims meticulously by maintaining quality and time in order to avoid unnecessary extension of time or payment.. | Construction consultant should be cover the respective works. |
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3.6 Underutilized Resources

Audit Issue

It was observed that out of the proceed of the Loan amount of US\$ 145 million, only US\$ 27.87 million representing 19 per cent had been utilized as at 31 December 2021 even after laps of 04 years form the commencement of the Project and US\$ 0.28 million equivalent to Rs 52.12 million had been paid as a commitment chargers as at 31 December 2021. Further, according to the revised financial targets stipulated in the Project Administration Manual, it was expected to utilize US\$ 36.23 million equivalent to Rs.7,261.72 million at the end of the year under review. However, only US\$ 27.87 million equivalent to Rs. 5,585.32 million representing 76.9 per cent of the respective targets had been achieved as at 31 December 2021. In addition, out of Rs.11,779 million made in the target disbursement, Rs.2,667million had only been utilized as at 31 December 2021, due to delay in awarding of contract for the civil works.

Responses of the Management

The loan agreement was signed on 17.01.2019 and Loan effective date was 04.04.2019. To finalize the bidding documents of Design and Build Construction took considerable amount of time period. Contracts were awarded in the year 2020. The constructions are ongoing and it is expected to meet the disbursement target by the end of this year.

Auditor's Recommendation

The activities of the Project should be properly planned to increase the efficiency of fund utilization.

3.7 Extraneous Activities

Audit Issue

Project had incurred a sum of Rs. 47.16 million to procure Covid- 19 protective equipment and goods for Kelaniya, Rajarata and Sabaragamuwa Universities. However, those activities were not comes under the purview of the scope the Project activities.

Response of the Management

ADB approved minor changes in scopes for procurement of COVID-19 response items such as personal protective equipment, PCR machine, audio visual equipment for online teaching, and networking of hostels for online higher education.

Auditor's Recommendation

Need to adhere with objectives of the project and take necessary of action to minimize the operational cost of the project.

3.8 Matters in Contentious Nature

Audit Issue

A sum of Rs.151.63 million had been deposited to the General Deposit Account of the Line Ministry as early withdrawal of 5 per cent retention of the construction of University of Kelaniya and Asian Development Bank had rejected to disburse the sum until the amount is actually paid to the contractor. The reason of remittance to General Deposit Account was not revealed to the audit.

Response of the Management

This cost was not charged to the Vote in order to get that refunded from the Ministry before closing the accounts on 31.12.2021.

Auditor's Recommendation

Need to adhere with the ADB Guidelines.

3.9 System and Control

No Audit Issues

(a) Estimated cost of Rs.928.7 related to 24 procurement activities have to be completed during the year according to the action plan 2020. However,the said procurement activities had not completed as at 31 December 2021.

Responses of the Management

Due to covid 19 pandemic situations the country was on locked down for months. Further due to import restrictions it was difficult to get the goods delivered on time and complete the procurement activities

Auditor's Recommendations

Sound and efficient procurement management system need to be implemented on monitoring supervision of the works carried out by the suppliers.

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| (b) | According to the progress report, four universities had implemented 33 procurement activities valued at Rs.293.1 million which were not included to the action plan in year 2021. | Usually the action plan is prepared at the beginning of the year. These activities were not created at the time of preparation of the action plan. | Action plan should be revised periodically and submitted to the audit. |
| (c) | According to the procurement progress of four universities of year 2021, 20 procurement activities estimated at Rs.24.7 million had been partially terminated as at 31 December 2021. | When the goods are partially received and /or not delivered within the agreed delivery period, it had to be partially terminated as per the agreement. | Need to supervise the procurement activities in effective manner. |