

South Eastern University of Sri Lanka Development Project (SEUDP) - Phase 1B - 2013

The audit of financial statements of the South Eastern University of Sri Lanka Development Project (SEUDP) - Phase 1B for the year ended 31 December 2013 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. This Project is implemented as per the Loan Agreement No. 836 dated 20 December 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Kuwait Fund for Arab Economic Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Ministry of Higher Education is the Implementing Agency of the Project. The objectives of the Project are to develop the South Eastern University of Sri Lanka in Ampara District that aims to support the social development and economic growth of Sri Lanka by improving the quality of Degree Courses at the said University to reflect regional and national needs and at the same time increase the student numbers, by developing the necessary academic development plan and introducing new demand driven degree programmes. The Development Plan provides new faculty buildings, a library and learning resource centre, students and staff accommodation, recreation and welfare facilities which will be located mainly on the existing site in areas less prone; to flood risk than the existing buildings. According to the Loan Agreement, the estimated total cost of the Project is Rs. 1,812 million and out of that a sum of Kuwait Dinar 3 million equivalent to Rs. 1,421 million was agreed to be financed by the Kuwait Fund for Arab Economic Development. The GOSL contribution amounted to Rs. 391 million. The Project commenced its activities on 01 September 2012 and was scheduled to be completed by 31 December 2015.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations, which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records 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 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 Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of the purchases made out of the Loan, etc.
- (c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles and;
- (g) Whether the financial covenants laid down in the Loan Agreement had been complied with.

3. 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 Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles.
- (b) The funds provided had been utilized for the purposes for which they were provided.
- (c) The Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement, and;
- (d) The financial covenants laid down in the Loan Agreement had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available, the Project expenditure for the year ended 31 December 2013 amounted to Rs.20, 174,124 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 29,953,484. The following statement shows a summary of the expenditure for the year under review, the expenditure for the previous year and the cumulative expenditure as at 31 December 2013.

<u>Description</u>	<u>Expenditure for the year ended</u> <u>31 December</u>		<u>Cumulative</u>
	<u>2013</u>	<u>2012</u>	<u>Expenditure as at 31</u>
	<u>Rs</u>	<u>Rs.</u>	<u>December 2013</u>
Consultancy			
- Local	8,979,900	9,779,360	18,759,260
- Foreign	1,772,511	-	1,772,511
Fixed Assets			
- Office Equipment	12,640	-	12,640
Project Management Expenses	9,409,073	-	9,409,073
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Total	20,174,124	9,779,360	29,953,484
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5. Financial and Operating Review

5.1 Utilization of funds

The following observations are made.

- (a) According to the Annual Estimate for the year 2013, a provision of Rs.100, 000,000 had been made available for this Project under Expenditure Head 171 Ministry of Higher Education. The details of provision and the actual expenditure incurred thereon and the under utilization of funds are given below.

<u>Details of Expenditure Head</u>	<u>Provision for</u> <u>the year 2013</u>	<u>Amount</u> <u>utilized during</u> <u>the year under</u> <u>review</u>	<u>Amount</u> <u>Under utilized</u>	<u>Percentage of</u> <u>Underutilization</u>
	Rs	Rs	Rs	Rs
Foreign Aid - Loan	15,000,000	1,772,511	13,227,489	88
Reimbursable Foreign Aid - Loan	15,000,000	8,979,900	6,020,100	40
Foreign Aid related Domestic Funds	70,000,000	9,421,713	60,578,287	86

(b) According to the information made available, the Loan Utilization Ratio of the Project as at 31 December 2013 remained low which was 1.78 per cent, after lapse of two years from the date of Loan Agreement. Certain significant statistics relating to the financing of the Project budgetary provision and the utilization of funds during year under review and funds utilized as at 31 December 2013 are shown below.

	<u>Amount agreed to be provided in the</u> <u>Loan Agreement.</u>		<u>Amount utilized</u> <u>during the year</u> <u>under review</u>	<u>Amount utilized as at</u> <u>31 December 2013</u>	
	Kuwait Dinnar	Rs.	Rs.	Kuwait Dinnar	Rs.
	<u>millions</u>	<u>millions</u>	<u>millions</u>	<u>millions</u>	<u>millions</u>
ADB	3.00	1,421.57	10.75	0.04	20.53
GOSL	0.36	391.09	9.42	0.02	9.42
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	3.36	1,812.66	20.17	0.06	29.95
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5.2 Physical Performance

According to the provisions made in the Loan Agreement, the activities of the Project were expected to commence on 19 March 2012. However, such activities had been commenced only on 01 September 2012. According to the progress reports, consultancy works for the construction works had shown a progress of 35 per cent and no progress in civil construction works were reported