

The audit of financial statements of the South Eastern University of Sri Lanka Development Project (SEUDP) - Phase 1B for the year ended 31 December 2014 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 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, then Ministry of Higher Education, presently, the Ministry of Higher Education and Highways is the Implementing Agency of the Project. The objectives of the Project are to develop the South Eastern University of Sri Lanka in Ampara to support for the social development and economic growth of Sri Lanka by improving the quality of degree programs as enable 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 programs. The Development Plan provides facilities to construct the new faculty buildings, a library and Learning Resource Centre and buildings to improve students and staff accommodation, recreation and welfare facilities etc. As per to the Loan Agreement, the estimated total cost of the Project was Kuwait Dinnar 3.5 million equivalent to Rs.1,660 million and out of that Kuwait Dinnar 3 million equivalents to Rs.1,421 million was agreed to be provided by the Kuwait Fund for Arab Economic Development. The Project commenced its activities on 01 September 2012 and 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 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 these financial statements 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 financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 financial statements 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 financial statements. 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 financial statements 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 Agency, 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 etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- (e) Whether the funds, materials and equipments supplied under the Loan 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 financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (h) Whether 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 laid down in the Loan Agreement had been complied with.

2. Financial Statements

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 Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purposes 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 Loan Agreement had been complied with

3. Financial and Physical Performance

3.1 Utilization of funds

Certain significant statistics relating to budgetary provisions for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Sources	Amount agreed for financing in the Loan Agreement		Provision made in the Budget Estimate for the year 2014	Funds utilized		
				during the year 2014	up to 31 December 2014	
	Kuwait Dinnar	Rs.	Rs.	Rs.	Kuwait Dinnar	Rs.
	million	million	million	million	million	million
Kuwait Fund	3.00	1,421.57	230.00	219.55	0.51	240.07
GOSL	<u>0.50</u>	<u>238.48</u>	<u>37.00</u>	<u>34.07</u>	<u>0.09</u>	<u>43.50</u>
Total	<u>3.50</u>	<u>1,660.05</u>	<u>267.00</u>	<u>253.62</u>	<u>0.60</u>	<u>283.57</u>

The following observations are made.

- (i) A detail action plan highlighting the financial and physical targets with fixing responsibilities in monthly, quarterly, biannually etc, covering the entire Project period should be prepared to ensure the achievement of the Project objectives using allocated resources within scheduled time period. However, the Action Plan had not been prepared for the year under review and implemented by the Project.

- (ii) According to above information, it was revealed that only 17 per cent of the funds allocating had been utilized after elapse of 70 per cent of the Project period. If expeditious programme will not be implemented, the activities of the Project would not be fulfilled within the specified period.

3.2 Physical Progress

The following observations are made.

- (a) Eventhough the period of the Project was scheduled to be completed within 01 year, the physical progress of 05 civil construction works had shown a slow progress ranging from 16 to 40 per cent as at 31 March 2015 as shown below.

Description	Estimated cost	As at 31 March 2015		
		Cost incurred	Financial Progress	Physical Progress
	Rs.	Rs.	%	%
Student Hostel at Oluvil	263,886,709	105,835,943	40	32
Student Hostel at Samanthurei	117,558,557	41,135,791	35	30
Academic Programme Centre	64,850,953	26,929,975	42	40
Hydrology Lab	263,334,385	62,453,725	24	16
Staff Quarter	173,129,132	42,048,669	24	16

- (b) Eventhough foreign and local consultancy fees aggregating Rs 5.91 million had been spent as at 31 December 2014 for the designing purposes, the construction works of the buildings for common canteen, play ground and the pavilion and the auditorium had not been commenced even as at 31 March 2015.

3.3 Matters in Contentious Nature

A sum of Rs.1.0 million had been spent by the Project for travelling and substances of Project Director to participate for a conference held in U.S.A from 28 April to 07 May 2014 eventhough no allocations made thereon by the Project.