

Higher Education for the Twenty - First Century Project - 2015

The audit of financial statements of the Higher Education for the Twenty - First Century (HETC) Project for the year ended 31 December 2015 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 2 b (3) of the Loan Agreement No. 4686 - LK dated 26 August 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and International Development Association (IDA).

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 Highway is the Implementing Agency of the Project. The objective of the Project is to enhance the capacity of the Recipient's higher education system, institutions and human resources to deliver quality higher education services in line with equitable social and economic development needs. The Project consists of four main components such as Institutionalizing Norms for the Higher Education Sector, Promoting Relevance and Quality of Teaching and Learning, Expanding and Strengthening Alternative Higher Education and Human Resource Development, Monitoring, Evaluation, Studies, Co-ordination and Communication. According to the Loan Agreement, the estimated total cost of the Project was US\$ 40 million equivalent to Rs.4,930 million and total cost was agreed to be provided by the International Development Association. The Project commenced its activities on 01 November 2010 and expected to be completed by 31 December 2015. Subsequently period of the Project had been extended up to 30 June 2016.

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.

1.3 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 judgement, 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 opening and closing balances and withdrawals from and replenishments to the Special Dollar Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (f) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the Project.

- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) 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, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 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.
- (d) the opening and closing balances and withdrawals from and replenishments to the Special Dollar Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

- (f) the financial covenants laid down in the Loan Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of the Cash Flow Statement

The cash flow of the Project had been prepared on transactions made during the entire period of the Project instead of preparation of cash flow on transactions made during the year under review.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2015 are shown below.

Sources	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Fund utilized			
	US\$ million	Rs. million		during the year 2015		up to 31 December 2015	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA	40.00	4,930.06	1,908.58	10.51	1,365.03	33.25	4,312.83
Total	<u>40.00</u>	<u>4,930.06</u>	<u>1,908.58</u>	<u>10.51</u>	<u>1,365.03</u>	<u>33.25</u>	<u>4,312.83</u>

According to the above information, 83 per cent of the allocations had been utilized by the Project as at 31 December 2015 and the component wise utilization of funds was ranging from 55 per cent to 88 per cent as at that date. Further, slow progress had been shown on utilization of funds amounting to Rs. 45.89 million, out of allocation of Rs. 83.16 million made under the component of Institutionalizing of Norms for the Higher Education Sector.

3.2 Physical Progress

The activities of the Project had been carried out under 04 main Components and the following observations on physical progress thereon are made.

- a) The Project had implemented study programme for university students for English Language and Information Technology. Eventhough 29,376 students for the study programme for English Language and 24,688 students for the study programme for Information Technology had been registered for the year 2013 and 2014 only 3,330 students of the programme for English Language and 541 students of the programme for Information Technology had completed the study programme successfully.
- b) The construction works of a building for Quality Development and Leadership Centre for Sri Lanka Institute of Advanced Technological Education made under the Expanding and Strengthening Alternative Higher Education Component of the Project, 60 per cent of construction works had been completed even as at 31 May 2016. According to the information received the building construction works was expected to be completed only on 30 June 2016.
- c) The Grants amounting to Rs.366.86 million had been made to complete the post graduate studies of 240 members of the Academic and Non Academic staff of the Advanced Technological Institutes and Universities before 31 December 2015 and extended up to 30 June 2016. However, 04 grantees of Advanced Technological Institutes and 10 grantees of the Universities who received grants aggregating Rs.16.83 million had not completed their studies as at 31 May 2016.
- d) The publication of “Sri Lanka Qualification Framework” expected to be printed and distributed at the end of the year 2012 under the Component of Institutionalizing Norms for Higher Education Sector had not been distributed to the Universities even by 31 December 2015.

3.3 Matters in Contentious Nature

The former Project Director had been appointed as a Consultant of the Project to advice the present Project Director since 15 September 2014 and a sum of Rs.180,000 had been paid for the period of three months of the year under review.

3.4 Issues on Financial Controls

It was observed that the transport allowances for the officers of the Project had been made at the rate of Rs.29.25 per kilometer for a petrol vehicle and Rs.24.50 per kilometer a diesel vehicle, contrary to the provisions made in the Circular No.9/2010 of 07 June 2010 of the Ministry of Public Administration. Therefore, a sum of Rs.80,366 had been overpaid to the respective officers of the Project during the year under review.

3.5 Extraneous Payments

It was observed that the remuneration aggregating to Rs 10.27 million had been paid during the year under review by the Project for a Project Assistant, Business Development Assistant and Technical Assistant attached to the Operational Services Units of the Universities who were not involved with the activities of the Project. Further, such posts were not included in the cadre position approved by the Department of Management Services.