

South Eastern University of Sri Lanka Development Project (SEUDP) – Phase 1B 2015

The audit of financial statements of the South Eastern University of Sri Lanka Development Project Phase 1B 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. 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, 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 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 programs. 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 amounted to Kuwait Dinar 3.50 million equivalent to Rs.1,660.05 million and out of that a sum of Kuwait Dinar 3 million equivalents to Rs.1,421.57 million was agreed to be financed by the Kuwait Fund for Arab Economic Development. The Project commenced its activities on 01 September 2012 and was scheduled to be completed by 31 December 2017.

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.

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 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 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,
- (g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and;
- (h) 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 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 satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) The financial covenants laid down in the Loan Agreement had been complied with.

3. Financial and Physical Performance

3.1 Utilization of funds

According to the information made available, certain significant statistics relating to the financing of the Project, budgetary provision and the utilization of funds during the year under review and funds utilized as at 31 December 2015 are shown below.

Sources	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the under year	Funds utilized			
				During the year under review		As at 31 st December 2015	
	Kuwait Dinar	Rs	Rs	Kuwait Dinar	Rs	Kuwait Dinar	Rs
	million	million	million	million	million	million	million
Kuwait Fund	3.00	1,421.57	410.00	0.85	404.42	1.36	644.49
GOSL	<u>0.50</u>	<u>238.48</u>	<u>60.00</u>	<u>0.11</u>	<u>52.47</u>	<u>0.20</u>	<u>95.97</u>
Total	<u>3.50</u>	<u>1,660.05</u>	<u>470.00</u>	<u>0.96</u>	<u>456.89</u>	<u>1.56</u>	<u>740.46</u>

According to above information, it was revealed that only Kuwait Dinar 3.00 million equivalent to Rs. 1,421.57 million representing 45 per cent of the allocation of Kuwait Dinar 1.36 million equivalent to Rs. 644.49 million had been utilized after lapse of 62 per cent of the period of the Project. It indicated that the Project would not be able to utilize the funds allocated for the Project during the remaining period of 02 years of the Project unless expedite action taken.

3.2 Physical Progress

According to the initial work plan of the Project, 08 buildings of the South Eastern University were expected to be constructed. Out of that the construction works of student hostels at Oluvil and Samanthurai, Academic Programme Center and staff quarters had been completed as at 30 September 2016. The physical progress of construction works of Hydrology Lab, common canteen and extensions to the pavilion and ground facilities had remained at between 85 per cent to 98 per cent whilst the physical progress on construction works of auditorium had remained at 10 per cent as at 30 September 2016.

3.3 Contract Administration

The following Observations are made.

- The original plans for the construction works of the auditorium at the Academic Programme Center of South Eastern University located at Mount Lavinia had been changed subsequently, without a proper approval.

- (b) The comprehensive Project Implementation Plan prepared at the initial stages of the Project had been revised in 02 occasions. Therefore, the period of the construction works expected to be completed before 31 December 2015 had been revised and extended. Further, the construction works of common canteen and ground and pavilion etc, expected to be commenced in July 2014 had been commenced in July 2015, with delays in 12 months.
- (c) In addition to above, the contracts for construction works of auditorium which was not included in the work plan revised in 2014 had been awarded by the Project on 26 April 2016 with significant delays. As a result, the period of the Project had been extended up to 31 December 2017. It was observed in audit that the project implementation cost incurred could have been reduced, if the contract had been awarded on time.

3.4 Matters in Contentious nature

The construction works of Vice chancellor Lodge, Guest house, Cultural Museum and buildings for Faculty of Management and Commerce proposed under the Table 02 of Project Agreement had been terminated based on the decision of the Steering Committee held on 08 October 2013 without a proper approval.