

## **Higher Education for the Twenty - First Century Project for the Period from 01 January to 25 October 2016**

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The audit of financial statements of the Higher Education for the Twenty - First Century Project for the period from 01 January to 25 October 2016 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 and International Development Association.

### **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 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. As per the Loan Agreement, the estimated total cost of the Project amounted to 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 scheduled to be completed by 31 December 2015. Subsequently, period of the Project had been extended up to 25 October 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.

### **1.4 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 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 25 October 2016 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 equipment 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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the period ended 25 October 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 25 October 2016 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,

- (c) 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 25 October 2016 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date,
- (d) 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,
- (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.

### **3. Financial and Physical Performance**

#### **3.1 Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the period under review and up to 25 October 2016 are shown below.

Sources	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Fund utilized</u>			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
IDA	40.00	4,930.06	600.00	3.90	517.70	36.90	4,830.53
<b>Total</b>	<b><u>40.00</u></b>	<b><u>4,930.06</u></b>	<b><u>600.00</u></b>	<b><u>3.90</u></b>	<b><u>517.70</u></b>	<b><u>36.90</u></b>	<b><u>4,830.53</u></b>

According to the above information, US\$ 36.90 million equivalent to Rs.4,830.53 million representing 92.25 per cent of the total allocation of US\$ 40 million equivalent Rs.4,930.06 million had been utilized at the end of the period of the Project.

#### **3.2 Physical Progress**

The activities of the Project were implemented under 04 components namely, 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. The following observations are made on the progress of implementation of activities of the Project at the end of the period of the Project.

- (a) Eventhough a national qualification framework and a quality assurance system under the Component of Institutionalizing Norms for the Higher Education Sector had been developed and communicated among the institutions in the higher education sector, no mechanism had been established to ensure that the proposals included therein is implemented in practice by the respective parties.
- (b) The construction works of the building for the Quality Development and Leadership Centre at Sri Lanka Institute of Advanced Technological Education in Dehiwala which scheduled to be completed by May 2016 at a estimated cost of Rs. 80 million. However, only 60 per cent of the construction works had been completed as at 30 June 2016 and a sum of Rs. 61 million could be utilized as at that date.
- (c) It was observed that a sum of Rs. 366.86 million had been granted by the Project to complete readings for Doctorates and Post Graduate Degrees of 240 members of academic and non-academic staff of the Sri Lanka Institute of Advance Technological Education and 15 national Universities. However, it was observed that 30 staff members were not completed their studies at the end of the period of the Project.
- (d) It was observed that the study programs of English Language and Information Technology conducted by the Project from 2011 up to 2015 for the undergraduates had not been continued during the period under review. The Project had spent a sum of Rs. 509 million thereon during the period of the study programs conducted.
- (e) The Project had taken action to establish an Outbound Training Centre at the Faculty of Applied Sciences of the University of Sabaragamuwa. It was observed that items such as timber, safety kits etc procured at a cost of Rs. 2.4 million on 29 March 2016 for that purpose remained idle in unsafe manner even as at the 30 April 2017, as the University had not allocated a specific location to establish the Training Centre.
- (f) A sum of Rs.5.69 million had been spent by the Project for refurbishment and expansion of a Circuit Bungalow at the University of Sabaragamuwa. However, it was observed at the site inspection made on 27 April 2017 that the construction works were not done in proper manner and the windows, grills and air conditioning machines were not properly fixed.

### **3.3 Closure of the activities of the Project**

Eventhough the activities of the Project had been closed as at 25 October 2016, action had not been taken to hand over the property, plant and equipment procured by the Project to the Executing and Implementing Agencies. Further, the Implementing Agency of the Project had not been taken action to instruct the Project Monitoring Unit to wind up the Ledger Accounts and prepare financial statements accordingly.