

Higher Education for the Twenty - First Century Project - 2014

The audit of financial statements of the Higher Education for the Twenty - First Century (HETC) Project 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 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 Research 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.

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, 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 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 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.

2.2 Comments on Financial Statements

2.2.1 Non-Compliance with Laws, Rules and Regulations

The following observations are made.

- (a) The Board of Survey for the year under review had not been carried out as per Financial Regulation No.756 to verify the existence of the fixed assets and inventory items of the Project.
- (b) The Project had recruited officers on contract basis and paid remuneration higher than the rates stipulated in the Circular No.33 dated 05 April 2007, without taking action to fill 22 vacancies of the Project cadre.
- (c) Gratuity allowances aggregating Rs.911,247 had been paid for three employees who were resigned just after completing of four years of the service of the Project, contrary the provision of the Gratuity Act No.12 of 1983.
- (d) It was observed in audit tests that incidental allowances of US\$ 50 per day had been paid to six person who visited abroad during the year under review exceeding the incidental allowance of US\$ 30 per day as stipulated in Paragraph 3(iii) of the Circular No 1/2010/01

of 11 October 2010 of the Ministry of Finance and Planning. In addition, combined allowances of Rs.591,757 had also been paid excessively than the allowances stipulated in the Paragraph 6.1 of the said Circular to 13 officers who visited abroad.

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 year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for financing according to Loan Agreement		Allocation made in the Budget Estimate for the year under review	During the year under review		As at 31 December 2014	
	US\$ million	Rs.million		US\$ million	Rs.million	US\$ million	Rs.million
IDA	40	4,930.06	965	8.92	964.99	22.98	2,947.80
	<u>40</u>	<u>4,930.06</u>	<u>965</u>	<u>8.92</u>	<u>964.99</u>	<u>22.98</u>	<u>2,947.80</u>

According to above information it is revealed that only 60 per cent of the funds allocated had been utilized after elapse of 80 per cent of the period of the Project. The possibility at utilizing of an allocation of US\$ 17.02 million during the rest of the period of one year appears doubtful.

3.2 Physical Progress

The components of the Project consisted with four main areas such as Institutionalizing Norms of the Higher Educational Sector, Promoting Quality of Teaching and Learning, Expanding and Strengthening Alternative Higher Education, Human Resource Development and Monitoring, Evaluation, Studies, Coordination and Communication.

The following observations are made on physical progress of such activities carried out during the year under review.

- (a) The activities relating to the development of a national qualification framework of the Higher Education Sector in Sri Lanka to be carried out under the component of Institutionalizing Norms for the Higher Education Sector was scheduled to be completed by end of the 2012. The updated frame work had been submitted to the University Grants Commission however, the approval of the Commission had not been received even as at 31 December 2014.

- (b) Eventhough the construction works of a Leadership and Quality Development Centre under the modernization programme of Sri Lanka Institute of Advanced Technological Education, expected to be completed in 2015, no progress had been reported thereon even as at 31 December 2014.
- (c) Out of 221 persons who had been offered financial support by the Project to complete post graduate studies, 78 persons were expected to complete their studies by December 2014. However, 21 persons had not completed their studies as at 31 December 2014.
- (d) The University Development Grant made under the Project assists all Universities to develop their economic relevance of higher education. Out of the provision made for the 04 years ended as at 31 December 2014, 07 Universities had not achieved their economic relevance targets.
- (e) Out of the allocation provided up to 31 December 2014 for the development of external degree programs of the Universities, allocations ranging from 15 per cent to 49 per cent had only been utilized by 08 Universities for the intended purposes.

3.3 Matters in Contentious Nature

The following observations are made.

- (a) A Senior Assistant Accountant of National Centre for Advanced Studies in Humanities and Social Sciences had worked as the Acting Finance Manager and Financial Consultant of the Project and in addition to her permanent post a sum of Rs.892,667 had been paid as allowances for the year 2014. Another Financial Consultant had also been appointed by the Project on monthly allowance of Rs.75,000. It was observed that similar lists of duties had been issued for all three posts mention about.
- (b) It was observed that two Procurement Consultants had been appointed by the Project at monthly remunerations of Rs.150,000 and Rs.80,000 respectively instead of recruiting a person for the post of Deputy Procurement Manager at a monthly remuneration of Rs.75,000 as approved by the Department of Management Services.
- (c) A new Director for the Project had been appointed at a monthly remuneration of Rs.110,000 since October 2014 while former Director of the Project is functioning as a Consultant for the period from October 2014 to March 2015 at a monthly fee of Rs.60,000. An additional lumpsum allowances of Rs.100,000 had been paid during the year under review to the New Project Director to study for Project processes.
- (d) Eventhough the fees aggregating Rs.3,464,100 paid for 12 officers of other institutions under the Line Ministry on contract basis no documentary evidence made available to the audit to prove such assignments related to the activities of the Project.

- (e) Hiring Charges aggregating Rs.1,440,000 had been spend by the Project during the year under review for two vehicles deployed on rented basis. However, documentary evidence was not made available to prove that the respective vehicle deployed for the purposes of the Project.
- (f) The Project had spent a sum of Rs.2,859,475 during the year under review on foreign visits of a Consultant attached to the Project Monitoring Unit on temporary basis by using allocations made for the purpose of providing of financial and non-financial benefits of the capacity building of university community and higher education sector.
- (g) It was observed in audit that the Project had spent Rs.432,722 for registering, visa and air tickets etc. for the participation Global Summit of the year 2014 for which former Project Director scheduled to be attended. According to the information received, the Former Project Director had not participated for the Global Summit.

3.4 Extraneous Activities

Allowance for vehicle usage aggregating Rs.2,037,965 exceeding the allowances entitled had been paid to two officers who engaged in students' affairs and other activities of the universities which were not directly related to the activities of the Project.

3.5 Under-utilized Assets

The Project had printed 5,000 books at a cost of Rs.1,534,999 in June 2014 for Sri Lanka Qualification Frame Work and it was revealed that 4,750 copies of such books were remained at the premises of Project as at 30 April 2015 without being distributed.