

Programme for Strengthening of Tertiary Education and Administrative Infrastructure in Tsunami Affected Areas - 2013

The audit of financial statements of the Programme for Strengthening of Tertiary Education and Administrative Infrastructure in Tsunami Affected Areas for the year ended 31 December 2013 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 Programme is implemented in terms of the Loan Agreement No.711 dated 11 November 2005 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Kuwait Fund for Arabic Economic Development. This report contains my comments and observations made on the audit of financial statements of the Programme for Strengthening of Tertiary Education implemented by the Ministry of Higher Education only.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Programme for Strengthening of Tertiary Education and Administrative Infrastructure in Tsunami Affected Areas, the Ministry of Higher Education is the Implementing Agency of the Programme. The objectives of the Programme are to; construct five Advanced Technological Institutions, Two Hostels in two Universities and two Information Technology Institutions in two Universities and supply of necessary equipment for those Institutions in four Tsunami affected districts.

Subsequently approval had been given by the Kuwait Fund on 11 November 2010 to utilize the balance funds to construct two buildings in Universities of Jaffna and Trincomalee.

According to the Loan Agreement, the estimated total cost of the Programme is Rs. 2,400 million and out of that Rs. 1,750 million or 76.08 per cent was agreed to be financed by the Kuwait Fund for Arabic Economic Development. The Programme commenced its activities on 01 September 2005 and was scheduled to be completed by 15 June 2012. However, the Programme period had been extended up to 31 December 2014.

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.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive test of samples of transactions. The scope and extent of such review and tests were such as to enable as wide as audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of the financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records 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 Programme

management and the reliability of books, records etc. relating to the operations of the Programme.

- (b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure on the Programme from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Programme in financial and physical terms, the assets and liabilities arising from the operations of the Programme, the identification of purchases made out of the Loan etc.
- (c) Whether the 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 Programme.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme.
- (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.

3. 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 paragraph 05 of this report ,I am of opinion that,

- (a) the Programme had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Programme as at 31 December 2013 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) 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.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and the information available, the expenditure of the Programme for the year ended 31 December 2013 amounted to Rs.55 million and the cumulative expenditure as at 31 December 2013 amounted to Rs. 2,094.4 million. A summary of the expenditure for the year under review, the expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 is given below.

Category	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
	2013	2012	
	Rs. (Mn)	Rs. (Mn)	Rs. (Mn)
Construction of new Buildings	47.4	32.8	1867.7

Purchase of Fixed Assets	0.1	Nil	105.4
Consultancy Service Fees	0.5	0.1	67.1
Project Co-ordination	7.0	8.6	54.2
Total	55.0	41.5	2094.4

5. Financial and Operating Review

Sources	Amount agreed to be provided		Budgetary provision for the year 2013	Fund utilized during the year under review	Funds utilized up to 31 December 2013	
	KD (Mn.)	Rs. (Mn.)	Rs. (Mn.)	Rs. (Mn.)	KD (Mn.)	Rs. (Mn.)
Kuwait Fund	4.02	1750	20	20	4.00	1742
GOSL	-	650	35	35		352
		<u>2400</u>	<u>55</u>	<u>55</u>		<u>2094</u>

5.1 Utilization of Funds

Certain significant statistics relating to the financing and budgetary provision for the year under review, utilization of funds during the year under review and the cumulative utilization as at 31 December 2013 are shown below.

Reimbursement claims valued at Rs. 187,473,743 made in 14 instances during the period from 2007 to 2010 had remained outstanding as at 31 December 2013 thus indicating the additional cost that has to be incurred out of GOSL contribution at the end of the Project period.

5.2 Physical Performance

The physical and financial progress of the civil works carried out by the Project as at 31 December 2013 is described as follows.

Component	Units Expected to be constructed (Number)	Estimated Cost	Cost incurred as at 31 December 2013	Physical Performance as at 31 December 2013
		Rs.	Rs	
Civil Works				
Construction of ATI Buildings	05	585,000,000	679,919,659	100
Hostel Buildings for Universities in Jaffna and Ruhuna	02	787,000,000	870,186,181	100
Hostel Building at Eastern University	01	182,000,000	47,440,977	10
IT Buildings	02	171,000,000	195,363,423	100
Other Buildings for University of Jaffna	02	67,000,000	74,829,390	100

The following observations are made.

- (a) According to the above information, the construction works of hostel building for Eastern University had shown a slow progress of 10 per cent as at 31 December 2013.
- (b) The Project had physically completed most of civil works as at 31 December 2013, However, the actual cost incurred thereon was significantly higher than the estimates made at the initial level.

6. Systems and Controls

Special attention is needed in respect of the following areas of control.

- (a) Assets Management
- (b) Reimbursement of Expenditure

