

Higher Education for the Twenty - First Century Project - 2013

The audit of financial statements of the Higher Education for the Twenty - First Century (HETC) Project 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 read in conjunction with Section 2 b (3) of the Credit 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 Credit Agreement of the HETC Project, the Ministry of Higher Education 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 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 Credit Agreement the IDA, agreed to provide the estimated total cost of the project amounting to US\$ 40 million. The Project commenced its activities on 01 November 2010 and is scheduled 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. 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 tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide 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 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 Project Management and the reliability of books, records etc. relating to the operations of the Project.
- (b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of 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 identification of the purchases made out of the Credit, etc.
- (c) Whether withdrawals under the Loan had been made in keeping with the specifications laid down in the Credit Agreement.
- (d) Whether the funds, materials and equipment supplied under the credit 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 the opening and closing balances, 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 2013 had been satisfactorily reconciled with the accounting records of the Central Bank Sri Lanka (CBSL) as at that date.
- (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 Credit Agreement had been complied with.

3. Opinion

So far as appears from my examination and to the best of information and according to the explanation given to me, I am of opinion that,

- (a) The Project 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 Project 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 provide,
- (c) The withdrawals from and replenishments to the Special (Dollar) Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013

had been satisfactorily reconciled with the accounting records of the CBSL as at that date,

- (d) The Interim Unaudited Financial Reports (IUFRR) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (e) Satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and,
- (f) Financial covenants laid down in the Credit Agreement had been complied with.

4. **Financial Statements**

4.1 **Financial Performance**

According to the financial statements and information made available, the expenditure of the Project components during the year under review amounted to Rs.874, 456,231 and the cumulative expenditure as at 31st December 2013 amounted to Rs.1, 780,679,075 and a summary of the expenditure for the year under review the expenditure for the preceding year and the cumulative expenditures as at 31st December 2013 are given in the following statement.

<u>Item of Expenditure</u>	<u>Expenditure for the year ended 31 December</u>		<u>Cumulative expenditure as at 31 December</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>
Institutionalizing Norms for the Higher Education Sector			
Develop a National Higher Education Qualification Framework	171,360	762,288	2,709,470
for the Higher Education Sector			
Establish Quality Assurance Mechanisms for the Entire Higher Education Sector	8,894,566	9,551,965	29,264,998
Promoting Quality of Teaching and Learning			
University Development Grant	319,305,073	206,152,021	562,301,115
Quality and Innovation Grant	113,500,393	9,513,189	123,013,582
Expanding and Strengthening Alternative Higher Education			
Modernizing SLIATE Programs and Management	20,057,993	9,380,984	37,108,797
Promoting Regional Equity of Access to Advanced Technological Education	116,489,022	178,452,093	308,858,850
Human Resource Development, Monitoring, Education Studies Co- ordination and Communication			

Human Resources Development of Academic, Managerial and Technical Staff	124,013,690	115,469,828	272,137,517
Policy Studies ,Research, Monitoring, Evaluation Co- ordination and Communication	<u>172,024,134</u>	<u>126,351,924</u>	<u>445,284,746</u>
Total	<u>874,456,231</u>	<u>655,634,292</u>	<u>1,780,679,075</u>

4.2 Special (Dollar) Account

According to financial statements and information made available, Special (Dollar) Account (Sub ledger Account No .154) had been opened in the name of the Deputy Secretary to the Treasury in the Central Bank of Sri Lanka (CBSL) for the purpose of the Project (Higher Education for the Twenty - First Century Project). The operation of the Special (Dollar) Account during the year under review is given below.

	US\$	Rs
Balance as at 01 January 2013	2,494,438	317,194,719
Add:		
Replenishment from IDA	8,680,987	1,124,091,268
Foreign Currency Revaluation	-	9,708,815
Less:		
Withdrawals	<u>6,516,872</u>	<u>841,874,969</u>
Balance as at 31 December 2013	<u>4,658,553</u>	<u>609,119,833</u>

5. Audit Observation

Hiring Charges aggregating Rs. 1,440,000 had been incurred during the year under review for two vehicles deployed on rented basis. However, documentary evidence was not available to prove that the respective vehicle deployed for the Project purposes.

6. Financial and Operating Review

6.1 Funds Utilization

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 actual funds utilization as at 31 December 2013 are shown below.

Utilization of Funds

Sources	Amount agreed for financing in the loan agreement		Budgetary provision for the year 2013	Funds Utilized during the year 2013	Funds Utilized up to 31 December 2013		Utilization of Fund as a percentage from the provision
	USD Mn	Rs. Mn	Rs. Mn	Rs. Mn	USD Mn	Rs. Mn	
IDA	40	4,650	890	841.87	14.06	1,780.68	38
Total	<u>40</u>	<u>4,650</u>	<u>890</u>	<u>841.87</u>	<u>14.06</u>	<u>1,780.68</u>	

The following observations are made.

- (a) According to above information it is revealed that only 38 per cent of the funds allocating had been utilized after the elapse of 61 per cent of the Project Period. If expeditious programme will not be implemented. Projected work would not be fulfilled within rest of the Project Period.
- (b) Satisfactory progress on financial performance had not been shown under other components as described below.

<u>Description</u>	<u>Allocation</u>	<u>Actual Expenses for the year 2013</u>	<u>Fund Utilization Percentage</u>
	Rs.	Rs.	
Development of a National Higher Education Qualification Framework for the Higher Education Sector	650,000	171,360	26
Establishing a Quality Assurance Mechanism for the Entire Higher Education Sector	53,756,000	8,894,566	16
Quality and Innovation Grant (QIG)	250,510,063	113,500,393	45
Modernizing SLIATE Programs and Management	90,000,000	20,057,993	22

- (c). i. The University Development Grant assists all Universities to develop the economic relevance of higher education. Out of the provision made for the four years, utilization of provision of 6 Universities up to the end of the year 2013 had been less than 40 per cent as against the minimum target of 75 per cent.

- ii. Under the external degree programme out of the provision made for the four years, utilization of provision of 12 Universities up to the end of the year 2013 had been less than a 40 per cent as against the minimum target of 50 per cent.

6.2. Physical Performance

The following observations are made.

- (a) The activities relating to the development of a national qualifications framework and the establishment of a quality assurance system for institutional 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 expected to be completed by end of the year 2012. The National Qualification Framework has been introduced and implemented by the University Grant Commission through the instruction issued under Circular No.5/2013 dated 22 April 2013 to the Heads of the Universities. However, similar circular instructions to be issued by the Sri Lanka Institute of Advanced Technological Education (SLIATE) to the institutions under the purview of SLIATE had not been issued even as at 30 April 2014.
- (b) The following observations are made on programmes implemented by the Project for modernization of SLIATE.
 - i. Action had not been initiated to establish the Leadership and Quality Development Center (LQDC) under the modernization programme of SLIATE even as at 30 April 2014.
 - ii. The construction works of a new building for Advanced Technological Institute in Vavuniya which was to be completed before 13 May 2013 had not been completed even as at 30 April 2014. Further, it was expected to commence study programs at newly established Advanced Technological Institutes in Ratnapura and Tangalle at the end of 2013. However such activities could not be commenced as planned due to delays in completion of building construction works.
- (c) Grants for higher studies for University Lecturers are offered by the Project under the component of Human Resource Development, Monitoring and Evaluation, Studies and Communication to strengthen human resources of the Higher Education Sector. It was observed that 06 lecturers of 05 universities who received grants under the said component and required to be completed the studies in 2013 had not been completed even as at 30 April 2014.
- (d) A programme had been launched at a cost of Rs 8,543,252 in enhance the skills of undergraduates in English and Information Technology. However, it was observed that only 2177 undergraduate had appeared for speaking tests and 1699 undergraduates had completed all four stages out of 7471 undergraduates qualified for such tests.

6.3 Matters of Contentious Nature

Gratuity allowances aggregating Rs. 386,818 had been paid for four employees who had resigned just after completing of three years of the service of the Project, contrary the provision of the Gratuity Act No.12 of 1983.