

Tertiary Education and Administrative Infrastructure in Tsunami Affected Areas - 2014

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 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. 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.

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 to the 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 at University of Jaffna and Eastern University.

According to the Loan Agreement, the estimated total cost of the Programme was Kuwate Dinar 5.51 million equivalent to Rs.2,400 million and out of that Kuwate Dinar 4.02 million equivalent 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 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 Programme management and the reliability of books, records etc. relating to the operations of the Programme.
- (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 Programme.
- (c) 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.

- (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 equipment supplied under the Loan had been utilized for the purposes of the Programme.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme.
- (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 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.

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.

Sources	Amount agreed for financing in the Loan Agreement		Budgetary provision for the year 2014		Fund utilized up to 31 December 2014	
	KD (million)	Rs. (million)	Rs. (million)	Rs. (million)	KD (million)	Rs. (million)
Kuwait Fund	4.02	1,750	62	62.00	4.02	1,804.0
GOSL	<u>1.49</u>	<u>650</u>	<u>78</u>	<u>65.11</u>	---	<u>417.5</u>
	<u>5.51</u>	<u>2,400</u>	<u>140</u>	<u>127.11</u>	<u>4.02</u>	<u>2,221.5</u>

It was observed that the reimbursement claims valued at Rs.187,473,743 made to the Lending Agency in 14 instances during the period from 2007 to 2010 had remained outstanding as at 31 December 2014. Thus indicated that the Government of Sri Lanka will have to be incurred additional cost than expected.

3.2 Physical Performance

The following observations are made.

- The construction works of the buildings at five Advanced Technological Institutions, two Hostel buildings at two Universities and two Information Technology Institutions at two Universities, two buildings at University of Jaffna and Eastern University and necessary equipment to the institutions in four Tsunami affected districts had been completed by the Programme as at 31 December 2014, and handed over such assets to the respective Institution. However, actual cost of the construction aggregating Rs.1,936 million had exceeded significantly over the estimated cost of construction aggregating Rs.1,792 million.
- Eventhough the activities and the period of the programee had been completed as at 31 December 2014, action had not been taken by the Implementing Agency to wind up to the accounts of the Programee.