

## **Accelerating Higher Education Expansion and Development Operation Project - 2018**

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The audit of financial statements of the Accelerating Higher Education Expansion and Development Operation Project for the first accounting year ended 31 December 2018 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 Article of 4.09(b) of the Loan Agreement No. 8743 LK and Financing Agreement No. 6026 LK dated 17 July 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association and International Bank for Reconstruction and Development.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan and Financing Agreements, then Ministry of Higher Education and Cultural affairs, presently Ministry of City Planning, Water Supply and Higher Education is the Executing Agency and all 15 Universities and Sri Lanka Institute of Advanced Technology Education are the Implementing Agencies of the Project. The objectives of the Project are to increase enrollment in priority disciplines, improve the quality of degree programs and promote research and innovation in the higher education sector. The activities of the Project are implemented under increasing enrollment in Higher Education in Priority Disciplines for economic Development, Improving the quality of Higher Education, Promoting Research, Development and innovation and operations and Monitoring support. As per the Loan and Financing Agreements, the estimated total cost of the Project amounted to US\$ 100 million equivalent to Rs. 14,500 million and the total cost of the Project was agreed to be financed by International Development Association and International Bank for Reconstruction and Development. The Project commenced its activities on 01 March 2018 and scheduled to be completed by 03 June 2023.

### **1.3 Opinion**

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

### **1.4 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.5 Responsibilities of management and those charged with governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

## **1.6 Auditor's Responsibilities for the audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Physical Performance

### 2.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2018		Delay	Impact	Reasons for delays
		Expected physical performance Units	Performance achieved Units			
Improving quality of Higher Education	(a) Enriching, learning, Teaching and assessment and English Language Skills Enhancement	Grants to be awarded to 10 faculties of the universities under the first round.	No grants released	12 months	Possible extension of the period of the Project.	Time taken to complete initial activities such as developing guidelines and reviewing proposals.
	(b) Post graduate degrees for academic staff.	At least 200 academics were awarded scholarships in the year 2018 – 2020.	Scholarships for only 14 members of staff were awarded		intended objectives would not be achieved.	Applications had been called for twice in 2018. The selected candidates had been given 06 months period to commence studies.
<b>Response of the Management</b>	<b>of the</b>	Due to adherence to essential processes for selection of candidates, financial assistance could not be released in 2018.				
<b>Auditor's Recommendations</b>		Necessary steps should be taken to expedite the activities.				

### 2.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
An independent third party had not been appointed to verify the performance of the Disbursement Link Results.	IDA would not release loan instalments without the third-party certification.	Action will be taken to award the contract in next year.	According to the Project Operation Manual, the action should be taken to appoint an Independent Third Party.

### 2.3 Observations made on site visits

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
The Project had spent a sum of Rs. 528.10 million in 2018 to procure equipment for the faculties of 16 national universities to conduct degree programs in the fields of science, technology, engineering and mathematics. However, equipment procured at a cost of Rs. 57.29 million remained idle for over 05 months at the University of Kelaniya, South Eastern University and University of Ruhuna without utilizing intended purposes. Further, no physical and financial progress had been reported on utilization of grants amounting to Rs.86.10 million remitted to the University of Colombo, Eastern University and School of Computing University of Colombo.	Intended objectives would not be achieved.	The issue had been noted and immediate actions would be taken to avoid this situation in future.	Action should be taken to use the assets for intended purpose.

### 2.4 Underutilized Resources

<b>No</b>	<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(a)	Out of the proceeds amounting to Rs.7,803.05 million remitted by the Lending Agency only a sum of Rs. 7,765.89 million had been utilized as at 31 December 2018. The balance of Rs. 37.16 million remained unspent in the Special (Dollar) Account at the Central Bank of Sri Lanka while other balance of Rs.178.79 million had remained in the Project Current Accounts of the over 04 months as at 31 December 2018.	Commitment charges amounting to Rs.31.86 million had to be paid, due to slow disbursements.	The commitment charges, is applicable for the un-disbursed balance of the loan and 2018 being the first year of the project disbursement is comparatively low.	Action should be taken to catch up the delayed activities.

- (b) Eventhough the Project had remitted advances amounting to Rs.847.10 million to 15 national universities, out of that only a sum of Rs.287.69 million had been utilized as at 31 December 2018. The balance amount of Rs.559.41 million had remained unspent in the Bank Current Accounts of respective universities for over 04 months as at 31 December 2018.
- Since the Project office started its operation in July 2018, the steps were taken immediately to release the approved funds for 2018 to the Universities in order to expedite the procurements.
- Unavoidable delays in the procurement process at the University levels and the high fluctuation of exchange rate during the last quarter of 2018 also affected to the procurement process.
- Action should be taken to expedite the procurement process.
- (c) Grants aggregating Rs. 20 million had been released in August 2018 to 05 Universities to establish Business Linkage Cells.
- Possibility to delays in implementation of the activities.
- At present, 07 Universities had already been established Business Linkage Cells.
- Action should be taken to catch up the delayed activities.