

Science and Technology Human Resource Development Project - 2019

The audit of financial statements of the Science and Technology Human Resource Development Project for the year ended 31 December 2019 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 provisions in the Section 03 of Article IV of the Loan Agreements No. 3698 and 3699 SRI (COL) dated 17 January 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be report to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements, then Ministry of Higher Education and Cultural Affairs, presently the Ministry of Higher Education is the Executing Agency and University of Kelaniya, Rajarata University of Sri Lanka, Sabaragamuwa University of Sri Lanka and University of Sri Jayewardenepura are the Implementing Agencies of the Project. The objective of the Project is to improve access facilities to employment- oriented technology degree programs in higher education. The activities of the Project are implemented under 05 components namely to (a) establish innovative technology learning and research environment (b) implement quality higher technology education program (c) strength industry and international research linkages (d) strengthen faculty management capacity and (e) new Project Development facility. As per the Loan Agreements, the estimated total cost of the Project was US\$ 165 million equivalent to Rs 30,051.45 million and out of that US\$ 145 million equivalent to Rs 26,408.45 million was agreed to be financed by Asian Development Bank and a sum of Rs. 3,543 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 17 April 2018 and scheduled to be completed by 31 December 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 2019 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

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 Sri Lanka Public Sector Accounting Standards 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 scepticism 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. Comments on Financial Statements

2.1 Accounting Deficiencies

| No | Accounting Deficiencies | Amount | Impacts | Responses of the Management | Auditor's Recommendations |
|------|---|-------------|-----------------------------|---|---|
| | | Rs. (Mn) | | | |
| (i) | Eventhough, provision of Rs.215,258 had been made as accrued expenditure of PMU as at 31 December 2018 , the actual expenditure during the year was Rs.16,194,460.Therefore,accrued Project Monitoring Unit expenditure as at 31 December 2019 had been overstated. | 15.98 | Overstatement of (accruals) | Operational expenditure for the year 2018 was Rs 16,194,460. Out of this Rs 215,258.25 was accrued expenses which has shown in the FS. Total operational cost which had to be capitalized, had been written off in the year 2018. It has been capitalized as an adjustment in the Financial Statement of 2019. | The actual expenditure at the end of the year needs to be brought to the financial statement. |
| (ii) | The proceeds amounting to Rs.663.9million disbursed as at 31 December 2019 shown in the statement furnished by the Department of the External Resources was not agreed with the disbursements amounting to Rs.641.8 million shown in the Central Bank statements. | 22.11 | Un-reconciled balance | The project was operationalized based on retroactive financing before loan effectiveness. Upon the signing of loan agreement and loan effectiveness, expenditure incurred under retroactive financing (Rs 21.2 Mn) was reimbursed by ADB to Department of Treasury Operations directly. This transaction and a direct payment of capitalized loan interest disbursed from the loan account without the involvement of the Central bank therefore, is not appearing in the reports furnished by the Central Bank. Further, the ERD and the Central Bank have used two different exchange rates. This also has affected to the difference. Statement for Reconciliation of Central Bank balance with the | Need to reconcile the figures and disclose it in the financial statements appropriately. |

ERD –DRMS report is given in Attachment 1

3. Physical Performance

3.1 Physical Progress of the activities of the Project

The activities of the Project are implemented under 5 components namely,

- (a) Provide innovative technology and industry relevant education and research facilities
- (b) Help to quality curriculum design and academic staffing aligned with industry demand and international standards
- (c) Provide competitive industry and foreign university collaboration scheme
- (d) Capacity development opportunities
- (e) To support the government in preparing new higher education Project proposed for approval in year 2021.

| Components | Activities | Period scheduled to be commenced | Date of commencement | Impact | Response of the Management | Auditor's Recommendations | |
|------------|---|---|-----------------------|--------|---|--|--|
| (i) | Establish Innovative technology learning and research environment | Prepare the bidding documents for construction of buildings for 04 universities under design and built basis. | Within the year 2018. | 2019 | Construction activities will not be able to complete within the Project period and the possibility in cost increased. | Due to non-availability of standard bidding documents for Design & Build construction at ADB and Design & Build Contraction method being a new thing to ADB it took considerable amount of time period to prepare the standard bidding document. Current status Bids have been closed for all Civil works. Recommendation for contract award of Kelaniya construction has been sent to Ministers of Cabinet for approval. Technical evaluation completed and submitted for SCAPC approval for universities of Sabaragamuwa and Jaywardenepura and Technical evaluation is in progress for the | Need to take action to catch up the delays and ensure to complete the contract works timely to avoid additional costs. |

| | | | | | | | |
|-------|---|--|----------------------|-------------------|---|--|--|
| | | | | | | Construction of Rajarata University. It has been planned to award all four Civil Works contracts within 2020 and to complete within the Project period. | |
| (ii) | Establish Innovative technology learning and research environment | Approve detailed design, complete construction plans and commence civil work on Kelaniya, Rajarata, Sri Jayewardenepura, and Sabaragamuwa universities | Quarter 4 ,2019 | Not yet commenced | Construction activities will not be able to complete within the Project period and the possibility in cost increased. | Obtaining necessary approval and completing construction plans for civil works is part of the design and build contract. During the bidding stage prospective bidders have agreed to complete the detailed design part within the stipulated time frame and complete construction. | -Do- |
| (iii) | Implement Quality and industry-relevant higher technology education programs. | Conduct industry constitutions, including women participants for employment oriented new degree programme. | Within the year 2018 | Year 2020 | Expected benefit could not be received by the intended parties. | Industry consultations have taken place in various stages of development of the syllabus and curricula. Gender expert has been recruited in February 2020. The Gender expert is expected to carryout industry consultations including women participation for employment oriented new degree programmes. | Need to comply with the requirements stipulated in the Project Appraisal Document. |

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|------|---|---|-----------------|-------------------|--|---|--|
| (iv) | Strengthen Faculty Management Capacity | Develop operations manual for career guidance and employment guidance center, including a special programmes for females at four universities | Quarter 2 ,2019 | Not yet commenced | The intended facilities would not be reached to the students. | The gender expert was recruited in February 2020. Action will be taken to develop operations manual with a special programme for females with the gender expert. | Delayed activities should be catch-up without further delay. |
| (v) | Support to new higher education Project preparation | Prepare concept paper including gender related design features for higher education or innovation | Quarter 1 ,2019 | Not yet commenced | Expected outputs of the Project had not been completed within the Project period | Output 5 of the project will support new higher education project development. The direction for the new project was discussed at various forums at length. Under the National Policy Framework Vistas of Prosperity and Splendor of the government, already bilateral discussions have taken place between the Ministry and ADB to identify new Higher Education Projects. | Delayed activities should be catch-up without further delay. |

3.2 Contract Administration

| Audit Issue | Impact | Response of the Management | Auditor's Recommendations |
|--|---|---|--|
| According to the Project Administration Manual civil works on Kelaniya, Rajarata and Sabaragamuwa and Sri Jayewardenepura should be commenced last quarter of the year 2019. According to the information received procurement process on selection of suitable contractors on above civil works had not been completed even as at 31 December 2019. | Activities of the Project will be delayed and commitment charges have to be paid for undisbursed balance. | Bids have been closed for all Civil works. Recommendation for contract award of Kelaniya construction has been sent to Ministers of Cabinet for approval. Technical evaluation completed and submitted for SCAPC approval for universities of | Need to take action to catch up the delays and ensure to complete the contract works timely to avoid additional costs. |

Sabaragamuwa and Jayewardenepura and Technical evaluation is in progress for the Construction of Rajarata University. It has been planned to award all four contracts within the year 2020.

3.3 Observations Made on Site Visits

| No | Audit Issues | Impacts | Response of the Management | Auditor's Recommendations |
|------|---|--|--|--|
| | ----- | ----- | ----- | ----- |
| | <u>University of Kelaniya</u> | | | |
| (i) | The University of Kelaniya had entered into agreements on 26 August 2019 with three chemical suppliers to supply 33 nos. of chemical items valued at Rs.306,666 for the Chemistry laboratory of Faculty of Computing and Technology. According to the general condition 3.2.1 of the contract agreement the chemical items should be handed over to the Project Implementation Unit within eight weeks from the date of agreement. However, the said items had not been hand over to the Project Implementation Unit even on the date of audit, 25 February 2020. | Probable losses due to weaken contract administration. | <p>STHRD/KE-E20</p> <p>This contract was awarded to three bidders. Following two companies have delivered goods within 8 weeks from the date of agreement.</p> <ol style="list-style-type: none"> 1. Analytical Instrument (Pvt) Ltd, has delivered before 22.10.2019. 2. Hemsons International (Pte) Ltd has delivered before 04.10.2019. 3. Avon Pharmo Chem (Pvt) Ltd has not delivered the goods within 8 weeks, however goods have been delivered by now. | The action is required to be taken to influence the contractors to comply with the conditions of the contract agreement. |
| (ii) | According to Project Administration Manual, procurement of laboratory equipment for the Physics Laboratory | The intended benefits would not be reached | <p>STHRD/KE-E3</p> <p>There are 82 nos items</p> | Expedite action is required to be taken to award the contracts. |

at Faculty of Computing and Technology should be commenced on third quarter of year 2018. However, the procurement process had been commenced during the year 2019.

to the undergraduates.

included in this activity and specifications are very complex which necessitated extensive commitments from the lecturers concerned despite their busy teaching schedules as the faculty does not have technical officers specialized in these areas. Therefore, PIU couldn't complete the preparation of bidding documents within the period mentioned in the Procurement Plan. The procurement plan was revised accordingly.

(iii) On 2 December 2019, The supplementary Technical & Evaluation committee had submitted report to the Asian Development bank to procure laboratory equipment for the chemistry lab at Faculty of Computing Technology. However, before granting the ADB concurrence, 1,487 no. of items valued Rs.3.52 million had been procured and received to the Project Monitoring Unit.

Weaken controls over procurement.

STHRD/KE-E4
The contract was awarded on 16.10.2019 after obtaining the ADB concurrence on 11.10.2019.

Need to adhere with the requirements stipulated in Project Administration Manual.

Upon scrutinizing the contract award documents, it was observed an error in summation of the total price column of Avon Pharmo Chem (Pvt) Ltd and Hemsons International (Pte) Ltd. In order to rectify the error, a supplement has been submitted to ADB for which concurrence was granted. The supplement does not have any effect on the awarding of individual items to any of the bidders. Therefore, Analytical

Instruments (Pvt) Ltd and Avon Pharmo Chem (Pvt) Ltd had supplied a few items during the preparation of the supplementary report. Goods have been received by the Project Implementation Unit accordingly.

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|--|---|---|--|
| <p>(iv) A sum of Rs. 4,047,000 had been incurred to purchase the three Power Equipment (UPS) for the Faculty of Computing and Technology. According to the contract agreement, said items should be delivered within 7 days of the agreement date. However, these items had not been delivered even on the date of audit, 25 February 2020.</p> | <p>Undue favouration might extended to contractors.</p> | <p>STHRD/KE-E6 These items should be delivered within 8 weeks from the date of the agreement. Supplier has been informed to expedite the process of supply by the letters dated 15.11.2019 and 27.01.2020.</p> | <p>The action is required to be taken to influence the contractors to comply with the conditions of the contract agreement.</p> |
| <p>(v) According to the information received the contract for supply, delivery installation and commissioning of the laboratory furniture for Faculty Computing and Technology was awarded to a contractor at an estimated cost of Rs.39.99 million on 30 June 2018 and expected to be completed by 04 April 2019. However, the respective works were not completed even on the date of audit, 25 February 2020.</p> | <p>Due to poor performance of the supplier undergraduates are unable to use the physic and chemistry laboratories over 2 years.</p> | <p>STHRD/KE-F1 Due to poor performance of the supplier, Procurement Committee has decided to Terminate the Contract and forfeit the Performance Security. Action will be taken to make payments to the amount of furniture supplied, by deducting Liquidity Damages.</p> | <p>Sound and efficient contract management system need to be implemented on monitoring and supervision of the works carried out by the contractor.</p> |

University of Sabaragamuwa

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|-----|---|--|--|--|
| (i) | According to the general conditions of contract, the purchased items should be supplied to the faculty within 28 days. However, 51 items had not been delivered on due dates. | Undue favouration made to contractors. | There was delay of suppling due to various reasons of suppliers. When it comes to the payments stage, PIU deduct Liquidity Damages by strictly following the procurement guidelines. | The action is required to be taken to influence the contractors to comply with the conditions of the contract agreement. |
|-----|---|--|--|--|

3.4 Under Utilized Recourses

| No | Audit Issue ----- | Impacts ----- | Response of the Management ----- | Auditor's Recommendations ----- |
|------|--|--|--|--|
| (i) | According to the financial targets stipulated in the Project Administration Manual ,it was expected to utilized US \$.31.9 million equivalent to Rs.4,976million at the end of the year under review . However, US\$ 0.93 million equivalent to Rs.145 million or 3 per cent of the respective target had only been achieved as at 31 December 2019. | Government of Sri Lanka had to incur Rs. 11.51 million as commitment charges on undisbursed balance. | As per the revised disbursement plan of the Project Administration Manual, the expected target for financial year 2019 is USD 3.8 Mn Rs 684 Mn equivalent (USD1@180LKR) Action has been taken to award all civil works contracts including the Project Management Consultancy, achieving expected target for year 2020. | Delayed activities should be catch-up without further delay. |
| (ii) | The Project had only been utilized Rs. 108.7 million represent 5 per cent of the total allocation of Rs.2199.2 million during the year under review. | Underutilized allocations of proceeds of the Loan and contribution of the GOSL. | The revised total allocation for the year 2019 was Rs 446.5 Mn. The project utilized 184.5 Mn. in the current financial year. | Delayed activities should be catch-up without further delay. |

3.5 System and Control

| No | Audit Issues ----- | Impacts ----- | Responses of the Management ----- | Auditor's Recommendations ----- |
|-----|---|----------------------|---|---|
| (i) | No proper mechanism had been introduced to Project Monitoring Unit at the Sabaragamuwa University to record | Weaken controls over | Project Management Unit (PMU) has given instructions to all PIUs on | The proper mechanism should be introduced to keep records for |

the purchase items after the delivery. It was observed that, the items had been hand over to the faculty without recording and inspecting by the Project Monitoring Unit.

procurement receiving, recording and distribution of equipment purchased under the project.

purchased and distributed items which was purchased through Project funds.

A short-term training programme has been organized to rectify shortcomings.

(ii) According to the action plan, four universities targeted to complete 91 procurement activities in year 2019, However, the Project had been able to complete 33 activities during the year under review at the estimated cost of Rs.474.44 million. Details are as follows.

It will affect to the expected results and outcome of the Project.

Out of 91 target of activities to commence, 38 activities have been completed within the year 2019. Some of the activities commenced in the year 2019 are continuing in year 2020. Action will be taken to align the procurement with action plan in 2020.

Need to take action to catch up the delays and ensure to complete the procurement works timely to avoid additional cost.

| Name of the Universities | No of activities not completed | Value of uncompleted activities (Rs.) |
|--------------------------|--------------------------------|---------------------------------------|
| (a) Kelaniya | 2 | 67,500,000 |
| (b) Rajarata | 10 | 81,771,840 |
| (c) Sabaragamuwa | 5 | 102,133,800 |
| (d) Jayewardene | 16 | 223,016,400 |
| Total | 33 | 474,422,040 |