

Accelerating Higher Education Expansion and Development Operation Project - 2019

The audit of financial statements of the Accelerating Higher Education Expansion and Development Operation 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 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. My comments and observation which consider should be report to parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan and Financing Agreements, then Ministry of Higher Education and Highways, presently the Higher Education, Technology and Innovation is the Executing Agency and the 15 State Universities, Sri Lanka Institute of Advanced Technological Education, Advanced Technological Institute and Non – State Higher Education Institutes approved by the Ministry and UGC are the Implementing Agencies of the Project. The objective of the Project is (i) to increase enrolment in the state universities, Sri Lanka Institute of Advanced Technological Education, Advance Technological Institute and Non state Higher Education Institution the priority disciplines on Science, Technology, Engineering Medicine (ii) improve the quality of degree programs and (iii) promote research and innovation in the higher education sector. As per Loan and Financing agreements, the initial estimated total cost of the Project amounted to US\$ 100 million equivalent to Rs. 18,136 million was agreed to be financed by International Development Association. The Project had 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 2019, 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 this 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. Comments on Financial Statements

2.1 Unsettled Balances

No	Description	Amount	Period unsettled	Impact	Management Response	Auditor's Recommendation
		Rs million				
3.1.1	Equipment					
a 1	University of Kelaniya	7.0	More than 2 months	Possibility to use the funds for other works.	Intended procurement completed.	Financial Regulation should be followed.
b 2	University of Sri Jayawardenepura	5.5	More than 6 months.	The expected benefits to the undergraduates will not be reached within the intended period	savings from the advance refunded.	Action should be taken to expedite the works and monitoring processes needed to be followed to the works of the Universities.
c 3	Open University	5	More than 11 months			Accurate amount for the work should be estimated before the fund released to avoid the idle/ Misappropriate of fund in the Universities to carry out the work at the right time at the right cost.
d 4	South Eastern University	5.8	More than 4 ½ months			
e 5	University of Ruhuna	22.2	More than 4 months			
f 6	University of Moratuwa	28.3	More than 3½ months.			
g 7	University of Jaffna	14.6	More than 2 months			
h 8	Wayamba University	15.1	More than 6 months			
i 9	Sabaragamuwa University	9.3	More than 7½ months			

3.1.2 Research and Innovation Commercialization

j 10	University of Sri Jayawardenepura	24.5	More than 5 ½ months.	Possibility to use the funds for other works. It will affect to the expected results and outcome of the Project.	All planned activities are now in progress.	Financial Regulation should be followed. Action should be taken to expedite the works and monitoring processes needed to be followed to the works of the Universities. Accurate amount for the work should be estimated before the fund released to avoid the idle fund in the Universities to carry out the work at the right time at the right cost.
k 11	Open University	19.8	More than 5 ½ months.			
l 12	University of Peradeniya	20.6	More than 8 ½ months.			
m 13	University of Moratuwa	5.0	More than 6 ½ months.			
n 14	Sabaragamuwa University	2.9	More than 7½ months			

3.1.3 Development of University Business Linkage (UBL Cell)

(a)	University of Kelaniya	1	More than 2 ½ months.	Possibility to use the funds for other works.	The progress was slow at the beginning of the Project.	Financial Regulation should be followed.
(b)	University of Sri Jayawardenepura	2.3	More than 6 ½ months.	It will affect to the expected results and outcome of the Project.	However, a full-time manager is now appointed and the Cell is performing satisfactorily.	Action should be taken to expedite the works and monitoring processes needed to be followed to the works of the Universities.
(c)	Open University	1.5	More than 6 ½ months.			Accurate amount for the work should be
(d)	South Eastern University	1.1	More than 12 months.			
(e)	University of Ruhuna	3.4	More than 6 ½ months.			

(f)	Uva wellsa	1.3	More than 3 ½ months.				estimated before the fund released to avoid the idle fund in the Universities to carry out the work at the right time at the right cost.
(g)	Sabaragam uwa University	1.1	More than 2 months.				

Innovation Commercialization Enhancement (ICE)

(a)	University of Sri Jayawarde nepura	10.5	Mre than 12 months.	Possibility to use the funds for other works. It will affect to the expected results and outcome of the Project.	At the beginning of the Project in 2018, funds were released to expedite the procurement and other activities. However, progress was slow at the early stage of the project. All planned activities are now in progress satisfactorily.	Financial Regulation should be followed. Action should be taken to expedite the works and monitoring processes needed to be followed to the works of the Universities. Accurate amount for the work should be estimated before the fund is released to avoid the idle fund in the Universities to carry out the work at the right time at the right cost.
(b)	University of Ruhuna	6.4	More than 7 ½ months.			
(c)	University of Peradeniya	9.5	More than 6 ½ months			
(d)	Wayamba University	5.0	More than 6 ½ months			
(e)	University of Colombo	21.3	More than 7 ½ months			

3.3 Non- Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non-Compliances	Impacts	Responses of Management	Auditor's Recommendations

(a)	Treasury Circular No. IAI/2002/02 dated 28 February 2002	A fixed assets register of computers, accessories and software had not been maintained by the UCSC.	<ul style="list-style-type: none"> • Existence of the assets could not be verified • Possible usage for other purposes • Possibility of misuse and damages. 	All OTS officers have been instructed to maintain Fixed Assets Register and a format was also introduced. The UCSC informed us that they are maintaining the FAR accordingly.	Instructions according to the Circular should be complied with.
		A fixed assets register of computers, accessories and software had not been maintained by the Faculty of Science, University of Kelaniya.	<ul style="list-style-type: none"> • Existence of the assets could not be verified • Possible usage for other purposes • Possibility of misuse and damages. 	The fixed assets register is maintained at the OTS for all assets procured under AHEAD funds. The faculties and departments maintain Inventory.	Instructions according to the Circular should be complied with.
(b)	Dept. of Management Audit Circular No. DMA/2009/2 dated 01 September 2009	Maintenance of Assets Recording was not complied this Circular by the Faculty of Science, University of Kelaniya.	<ul style="list-style-type: none"> • Existence of the assets could not be verified • Possible usage for other purposes • Possibility of misuse and damages. 	The OTS maintain the FAR and the inventory for all assets procured under AHEAD funds.	Instructions according to the Circular should be complied with.

4. Physical Performance

4.1 Physical and Financial Progress of the activities of the Project

The operations of the Accelerating Higher Education Expansion and Development Operation Project are carried under 2 components namely Project component and Program component. Program components are conducted under 3 results area and 6 disbursement link indicators. Details are as follows:

Program Components

Results Area 1 Increasing Enrolment in higher Education in priority disciplines for economic development

Results Area 2 Improving the Quality of Higher Education

Results Area 3 Promoting Research, Development, and Innovation

Project component Operations and Monitoring Support Team

No	Component	As at 31 December 2019		Impact	Management Response	Auditor's Recommendations
-----	-----	Expected physical performance	Performance achieved	-----	-----	-----
(a) Results Area 1						
(i)	DLI 1: Increasing enrollment in science, technology, engineering and mathematics under graduate in higher education institute.	17,500 new intake in Science, Technology, Engineering Medicine degree programs academic year 2019	Enrolment data for the year 2019 of state universities had not been update.	The expected benefit will not be reach to the stake holders	The data is still not available at the UGC. The Project is not in a position to update this.	A methodology should be introduced to obtain necessary information.
(ii)	DLI 5	PhD and Master's degrees and professional doctorates completed university. Non state HEI's and	Target for 200 scholarships Only 112 Activated grantees Awarded	It is doubtful on the achievement of the Project targets and expected outcome of	The project has awarded 181 scholarships as of 30 June 2020 and expected to	Need to complete the sub activities of the Project during the scheduled period and make

SLIATE academic staff. with scholarships as at 31.12.2019 the Project will not reach the stakeholders. achieve the target during this year. use of the allocated funds in full.

4.2 Procurement Management

Audit Observation -----	Impact -----	Management Response -----	Auditor's Recommendations -----
Project had cancelled 5 contracts amounting to Rs. 29.5 million on consultancy activities during the year under review.	This will affect the expected results and outcome of the Project.	At the initial PP preparation stage, these consultancies were included to the PP, on request of relevant officials. But later identified as no longer required and cancelled with the approval of the WB.	Project activities should be effectively planned and designed.

4.3 Observations made on site visits

No. -----	Audit Issue -----	Impact -----	Management Response -----	Auditor's Recommendations -----
(a)	<ul style="list-style-type: none"> • Universal Occupancy Therapy Table and the sound system valued at Rs 1 million purchased by Faculty of Medicine and equipment valued at Rs.14.3 million purchased by Faculty of Science of University of Kelaniya during the year under review had not been utilized even at the date of audit on 25 February 2020. • 90 Laptop and 05 lockers valued at Rs.20 million purchased at University of Colombo School of Computing had not been utilized for more than a year for intended purposes. 	Undergraduates were unable to utilize the equipment for intended purpose.	These items are now in use. This has been clarified in our response to audit report of component 1.	The Efficiency and effectiveness of the use of items and equipment which were procured under the Project funds need to be ensured.

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| (b) | Items valued at 14.3 million were not coded to identify that they have been procured under the AHEAD grant even on the date of the audit 25 February 2020 at the Faculty of Science of University of Kelaniya. | Items could not be identified and these could be misplaced and misused. | The inventory reference number is placed on each item. The sticker provided by the AHEAD will also be placed on each equipment in the near future. | Inventory reference number should be placed on each item which were procured under the Project funds. |
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4.4 Underutilized Resources

No	Audit Issue -----	Impact -----	Management Response -----	Auditor's Recommendations -----
(a)	The Project had taken action to establish Business Linkage Cells in 13 national universities and granted advance amounting to Rs 32.8 million during the year 2019. However, a sum of Rs 22.9 million had been spent representing 70%.	Weaken controls on Project financial management and it will affect to the expected outcome of the Project.	2019 is the first year of the implementation of UBL cell activities. The utilization of over 70% of funds is a good progress. All UBLs have now completed Phase 2 in the AHEAD UBL score card.	The close supervision is needed on the activities implemented by the Universities.
(b)	It was observed that out of the amount of advance of Rs 1 million on Business Linkage Cells only 21.3% was spent by the University of Kelaniya.	Weaken controls on Project financial management and it will affect to the expected outcome of the Project.	The UBL was established in August 2019 and the advance of Rs. 1 mn was released only in September 2019. Progress is low due to late start.	The close supervision is needed on the activities implemented by the Universities without being allowed to further delay.
(c)	Although an amount of Rs. 4.2 million had been granted as advance on Business Linkage Cells to the Rajarata University during 2019 a sum of Rs 1.1 million being 27.49% had only been spent	Weaken controls on Project financial management and it will affect to the expected outcome of the Project.	Out of Rs .4.2 million Rs. 2.5 mn. Released in November and December 2019. Progress will improve once the Cell is in full operation.	The close supervision is needed on the activities implemented by the Universities without being

	by the university for the intended period up to the end of the year under review.			allowed to further delay.
(d)	The Project had taken action to extend grants amounting to Rs.32 million during 2019 on RIC to the University of Peradeniya. However, only a sum of Rs.14.3 million being 45% had been spent for the intended purpose by the university as at end of the year under review.	Weaken controls on Project financial management and it will affect to the expected outcome of the Project.	This has been clarified in our response to audit report. As clarified, the utilization of Rs. 14.30 million should be compared to the net advance of Rs. 17.57. Hence the RIC utilization is 81 per cent.	The close supervision is needed on the activities implemented by the Universities without being allowed to further delay.
(e)	The Project had taken action to extend grants amounting to Rs 21 million during 2019 on ICE Programs of the University of Sri Jayawardenepura. However, only a sum of Rs 10.4 million being 49.6% had only been spent for the intended purpose as at end of the year under review.	Weaken controls on Project financial management and it will affect to the expected outcome of the Project.	Advances were released at the beginning of the project to expedite the procurement process. Yet, the progress was comparatively low at the early stage of the project.	The close supervision is needed on the activities implemented by the Universities without being allowed to further delay.
(f)	The Project had taken action to extend grants amounting to Rs 7.5 million Rs 9.2 million during 2019 on DOR Programs of the University of Sri Jayawardenepura and Peradeniya. However, only a sum of Rs 3.2 million being 42.7% and Rs 4 million being 44.5% had only been spent for the intended purpose as at end of the year under review.	Weaken controls on Project financial management and it will affect to the expected outcome of the Project.	Out of Rs. 7.5 million Rs .4 .5 million was released on 30 12. 2019. Therefore, comparison needs to be made with balance Rs .3mn and hence the progress is 100% at University of Sri Jayawardenepura and two rounds of DOR programs and total advance released was Rs. 19.50 million and the utilization was Rs. 17.27 mn resulting 89% financial progress.at University of Peradeniya.	The close supervision is needed on the activities implemented by the Universities without being allowed to further delay.

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| (g) | The Project had taken action to extend grants amounting to Rs 6.5 million during 2019 on DOR Programs of the University of Moratuwa. However, only a sum of Rs 1 million being 16% had only been spent for the intended purpose as at end of the year under review. | Weaken controls on Project financial management and it will affect to the expected outcome of the Project. | The University has two rounds of DOR programs and total advance released was Rs. 9.50 million and the utilization was Rs. 8.71 mn resulting 91% financial progress | The close supervision is needed on the activities implemented by the Universities without being allowed to further delay. |
| (h) | The Project had taken action to extend grants amounting to Rs 1.5 million and Rs 3.75 million during 2019 on ELTA/ELSE Programs of the University of Kelaniya and Peradeniya (Department). However, only a sum of Rs 0.1 million being 8.19% and 0.36 million being 9.7% respectively had only been spent for the intended purpose as at the end of the year under review. | Weaken controls on Project financial management and it will affect to the expected outcome of the Project. | No sufficient time period to implement activities by the end of 2019 as the advances were released during November and December 2019. | The close supervision is needed on the activities implemented by the Universities without being allowed to further delay. |
| (i) | Out of the grants extended to the Projects amounting to Rs 1 million and Rs 2 million during 2019 and Rs 0.3 million on ELTA/ELSE Programs of the Eastern and Uva Wellassa University faculty and Department. However, only a sum of Rs 0.1 million and 0.2 being 27.75% and 42.52% had only been spent for the intended purpose as at the end of the year under review by the Eastern and Uva Wellassa University faculty and Department respectively. | Weaken controls on Project financial management and it will affect to the expected outcome of the Project. | No sufficient time period to implement activities by the end of 2019 as the advances were released during October and December 2019. | The close supervision is needed on the activities implemented by the Universities without being allowed to further delay. |
| (j) | The Project had taken action to extend grants amounting | Weaken controls on Project financial | The advances were released on 24 | The close supervision is |

to Rs 4 million during 2019 on Enriching Learning Teaching and Assessment /English Language Skills Enhancement (ELTA/ELSE) Programs of the University of Colombo (Faculty).

However, only a sum of Rs 0.5 million being 11.51% had only been spent for the intended purpose as at the end of the year under review.

management and it will affect to the expected outcome of the Project.

December 2019 and therefore, there had been no sufficient time to implement activities by the end of 2019.

needed on the activities implemented by the Universities without being allowed to further delay.

4.5 Issues Related to Human Resources Management

No	Cadre Position	No of Posts		Impact	Management Response	Auditor's Recommendations	
		Approved	Actual As at 31 December 2019				No. of vacancies/ excess
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(a)	Project Officer Enrolment & System Strengthening	01	-	01	Performance of the project would be affected	The role of the Project Officer was to collect enrolment data from Universities and the post was created for the planning stage to fulfil the requirement of the funding institution for availability of such data. However, required enrolment statistics were collected directly by the UGC, and made available to the AHEAD. Hence recruiting this officer was not required at the time where services were required.	Vacant post should be filled as per the approved cadre to ensure the smooth function of the Project activities.

(b) Project Secretary	01	-	01	Performance of the project would be affected as action had not been taken to fill the vacancy.	Recruited Project Secretary resigned on 24.6.2019. At the initial stage this position had to play a considerable role. However, as project activities commenced the Project Director who is part time and ex-officio the Vice Charman of UGC had to coordinate mostly with the Senior Administrative Officer. Hence the resignation of the Project Secretary did not create much of a vacuum. The Project will fill this position when the need arises.	Vacant post should be filled as per the approved cadre to ensure the smooth function of the Project activities.
(a) Procurement Officer	01	-	01	Performance of the Project would be affected as action had not been taken to fill the vacancy.	Recruited Procurement Officer resigned on 24.10.2019. This post was advertised in September 2019 and applications received. However, the recruitment process could not be proceeded due to the Circular No. EC/EDR/PRE-2019 dated 18.9.2019 and Circular No. DMS/Policy/Recruitments dated 20.11.2019 which stopped recruitments on the advise of Election Commission. On 23.12.2019 Ministry has made a request to obtain special approval from	Vacant post should be filled as per the approved cadre to ensure the smooth function of the Project activities.

					the DMS of the Treasury for us to fill the vacancy, for which approval was received on 25.2.2020. Interviews were held, but no suitable person could be recruited. We have now sought approval of the DMS and Election Commission to advertise again.	
(d)	Management Assistants	08	02	06	Performance of the Project would be affected as action had not been taken to fill the vacancy.	Vacant post should be filled as per the approved cadre to ensure the smooth function of the Project activities.
					In July 2018, steps were taken to recruit Management Assistants. Interviews were held in September 2018 and 6 candidates were selected. However, only 4 joined and 2 resigned later. Subsequently the the Circular No. EC/EDR/PRE-2019 dated 18.9.2019 and Circular No. DMS/Policy/Recruitm ents dated 20.11.2019 stopped all recruitments temporarily. Steps will taken when this ban is lifted.	

4.6 System and Controls

No	Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendations -----
(a)	Advances given to University without analysing the need	Excess funds exist with the University which could lead for use another purpose.	Advances were released to OTSs to expedite the procurement at the beginning of the project.	The activities of the Project should be properly planned