

## **Accelerating Higher Education Expansion and Development Operation Project (Programme Component) -2020**

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The audit of financial statements of the Accelerating Higher Education Expansion and Development Operation Project (programme component) for the year ended 31 December 2020 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 International Bank for Reconstruction and Development and the International Development Association. 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**

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According to the Loan and Financing Agreements, then Ministry of Higher Education and Highways, presently the Ministry of Education is the Executing Agency and the 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 objectives of the Project are to increase enrolment in the State Universities, Sri Lanka Institute of Advanced Technological Education, Advanced Technological Institute and Non – State Higher Education Institutions in the priority disciplines (Science, Technology, Engineering, Medicine), improve the quality of degree programs and promote research and innovation in the higher education sector. As per Loan and Financing agreements, the estimated total cost of the Project was 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 30 June 2023.

### **1.3 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020 financial performance and its cash flows for the year then ended in accordance with the Generally Accepted Accounting Principles.

### **1.4 Basis for Opinion**

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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 Responsibility of the Management for the Financial Statements**

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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.

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**

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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

Information was called from all the 15 University - OTS and SLIATE. However, the OTS at the University of Colombo, University of Moratuwa, University of Rajarata, University of Sabaragamuwa, South Eastern University, university of Performing Arts, Open University of Sri Lanka and the Sri Lanka Institute of Advanced Technological Education had failed to submit the information.

### 2.1 Accounting Deficiencies

Audit Issue	Management Response	Auditor's Recommendation
The Vice-Chancellors did not comply with the instructions given by the Project Director to record all the expenditure incurred annually during the project period by his Circular No. AHEAD / FIN / 2019/28 dated October 11, 2019 and the they had considered only the balance sheets of the Operations and Monitoring Support Team-(OMST) records and the expenses incurred by the Operations Technical Secretariat (OTS). Therefore, the balances reported by OMST as at 31 December 2020 could not be confirmed with those of the Universities. Following differences were observed in between the balance of the OMTS balance and OTS balance during the sample audit.	Agreed . There are several reasons for these differences.	Actual expenditure needs to be reported.

Name of the University	Difference in between the balance of OMTS and OTS
	<b>Rs million</b>
University of Sri Jayawardanapura	458
University of Jaffna	381
University of Kalaniya	116
University of Uva	198
University of Wayaba	9
<b>Total</b>	<b><u>1,162</u></b>

## 2.2 Non-Compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Non- Compliances	Management Responses	Auditor's Recommendations
(a)	Program Appraisal Document - Financial Management Covenant	An Automated accounting system should be installed for World Bank-financed activities of the OMST and universities by 31 December 2018. However, these requirements had not been complied with as the system had only been installed only at the OMST even as at 30 April 2021.	The estimated cost for this was Rs. 17 million and therefore was not implemented.	Need to adopt with loan covenant.
(b)	The Section two of the Contract Agreement	<p>(i) Under the Agreement, the supplier is required to deduct the equivalent of 0.05 per cent of the supply price per day in the event of a late delivery, which may terminate the contract at 10 per cent of the contract value. Actions had not been taken by the project to terminate the contract if the value of such delays amounting to Rs. 137,850 million.</p> <p>(ii) A Gel Documentation system had been ordered for the Vavuniya Forum of the University Jaffna for Rs. 1.3 million and the supply was done three months later from the order date however no delay damages were charged.</p>	Due to the Covid 19 situation the University was closed from March to June 2020. The workers, factories and suppliers have affected this and therefore LD had not been charged.	The action is required to be taken to influence the supplier to comply with the conditions of the contract agreements.
(c)	In terms of Procurement Guidelines 2006 Goods & Works Para 1.4.4	HP Business Headset, HDMI to VGA adaptor and USB-LP-USB to Type C Convertor had been received free of charge from the supplier with the 132 laptops to the University of Sri Jayewardenepura. These items had neither been recorded in the Goods Received Note nor entered in the inventory book.	University has already obtained the values of the goods received free of charge from the supplier and now is in the process of taking those items into account.	Items which were received free of charge should be entered in the inventory book.

**3. Physical Performance**

**3.1 Physical and Financial Progress of the Activities**

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 areas and 6 disbursement link indicators. Details are as follows:

**Program Components**

<b>Results Area 1</b>	Increasing Enrolment in higher Education in priority disciplines for economic development
<b>Results Area 2</b>	Improving the Quality of Higher Education
<b>Results Area 3</b>	Promoting Research, Development, and Innovation
<b>Project component</b>	Operations and Monitoring Support Team

<b>Component /Sub Component</b>	<b>Audit Issues</b>	<b>Management Responses</b>	<b>Auditor's Recommendations</b>
(a) Result Area 1	Out of the Rs. 2,267 million allocations for 11 universities, only Rs. 1,050 million or 46 per cent of the total allocation had been utilized.	Allocations/grants approved in three rounds. First two rounds approved at the end of 2018 and mid of 2019 and have now been almost fully utilized. Procurement process is in progress/ completed for the grants approved in 2020. Progress of procurements affected by the pandemic. Inadequate budgetary allocations affected the financial and physical progress.	Close supervision is needed on activities implemented by the Universities.

- (b) Civil works      Out of the total allocation amounting to Rs. 3,623 million made for Civil works, except the University of Jayawardenapura which had at least spent 69.9 per cent all the other Universities had only utilized below 39 per cent from the allocated amount as at 31 December 2020.      Jaffna Two buildings. One is 60% completed. Other has just commenced. Jayawardenapura Two buildings. One is completed. Other has just commenced. Peradeniya Two buildings. One is almost completed. Other has just commenced. Ruhuna Over 50% of the construction is completed. Uva Yet to commence the procurement process. Wayamba Two buildings. One is completed. Other - Construction in progress SLIATE Two buildings. Constructions commenced recently.      Close supervision is needed on activities implemented by the Universities.
- (c) PhD program      Out of the total allocation amounting to Rs. 1,749 million made for PhD program it was observed all the Universities had utilized below 43 per cent from the allocated amount as at 31 December 2020.      Scholarships awarded in 3 rounds from 2018 to 2020. Target achieved. Most of the awardees have now commenced reading. The travel restrictions have also delayed commencement of studies some awardees.      Close supervision is needed on activities implemented by the Universities.

### 3.2 Delays in Commencements/ Implementation/ Completion of activities of the Project

No	Activities	Date scheduled to be commenced/ implement	Date of completion	Delay	Management Responses	Auditor's Recommendations
(a)	According to the Program Appraisal Document, Citizen engagement - Stakeholder consultation reports have to be submitted to the World Bank for Monitoring and evaluation.	31 December 2018	It was observed that the survey had only been commenced in the year 2020.	Commenced with a delay of two years and the final report were submitted to the World Bank only on the 30 December 2020.	Stakeholder satisfaction survey was started June 2021. Delay due Covid 19 lock downs	Need to comply with loan covenant.

(b)	Baseline Beneficiary Satisfaction Survey	14 February 2019	Completed only on 15 February 2021 with a cost of Rs. 6 million	Commenced after one year with a delay on 10 February 2020.	Baseline survey completed and submitted in December 2020.	Need to comply with loan covenant.
(c)	University of Jaffna, Faculty of Arts under ELTA ELSE Faculty Level Development needed to established a seminar hall at a cost of Rs. 4.8 million.	30 December 2020	Expected to be complete 15 April 2021	Work had not been completed	85% of work completed	Need to supervise the activities of the contractor in effective manner.
(d)	University of Jaffna, Faculty of Arts under ELTA ELSE Faculty Level Development Project needed to establish 15 Smart Class rooms at a cost of Rs. 2.17 million.	17 December 2020	Expected to be complete March 2021	Work had not been completed.	Agreement signed on 30 Dec. 2020. 80% of work completed.	-Do-
(e)	University of Jaffna, Faculty of Arts under ELTA ELSE Faculty Level Development Project needed to establish Inclusive zone of E-Learning at a cost of Rs. 7.32 million.	09 September 2020	Expected to be complete December 2020	The final bill had not been settled even as at 05 May 2021.	90% of work completed	-Do-
(f)	University of Jaffna, Faculty of Science under ELTA ELSE Faculty Level Development Project needed Refurbishment of the Social Welfare Center at a cost of Rs. 1.38 million.	04 November 2020	Expected to be complete January 2021	The work had not been completed.	Work completed and only the submission of bills pending	Action is required to be taken to influence the contractor to comply with the conditions of the contract agreement.
(g)	University of Jaffna, Faculty of Agriculture under ELTA ELSE Faculty Level Development Project needed Renovation of Existing Class Room at a cost of Rs. 16.32 million.	26 February 2020	Expected to be complete April 2020	The work had not been completed	80% work completed	-Do-

(h)	University of Jaffna, Faculty of Agriculture under ELTA ELSE Faculty Level Development Project needed to renovate Broiler unit, Duck unit, layer unit, rabbit unit, Calf unit at a cost of Rs. 3.32 million.	20 August 2020	Expected to be complete October 2020	19	The work had not been completed.	Work completed. Submission of bills pending. Extension granted till 31 May 2021.	-Do-
(i)	University of Jaffna, Faculty of Engineering under RA3 - DOR for the Renovation and Restructuring of Environmental and Microbiology Laboratory in Department of Civil Engineering, Faculty of Engineering, University of Jaffna at a cost of Rs.7.31 million.	19 February 2020	Expected to be complete April 2020	30	The works had not been completed.	Action is being taken to terminate the Contract.	-Do-
(j)	University of Jaffna, Faculty of Engineering under Round 3 - STEM to procure eight Tower Model work stations at a cost of Rs. 2.26 million.	07 December 2020	Scheduled to be delivered January 2021	07	These items had not been delivered.	Goods have been delivered and payment have been made on 13 May 2021	-Do-
(k)	University of Jaffna, Faculty of Engineering under Round 3 - STEM needed to procure a Metallography Specimen Grinding & Polishing at a cost of Rs 1.9 million.	06 November 2020	Scheduled to be delivered December 2020	21	Item delivered on 27 January 2021 without some accessories.	Pending accessories delivered and payment made on 13 May 2021.	-Do-
(l)	University of Jaffna, Faculty of Engineering under Round 3 - STEM needed to procure eight Tower Model Computer at a cost of Rs. 1.9 million.	06 November 2020	Scheduled to be delivered December 2020	04	These Computers had not been delivered.	Goods have been delivered and payment made on 13 May 2021	-Do-



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| (m) | University of Jaffna - Technology Stream, Vavuniya Campus under RA1 Round 2 needed four Air- Conditioners (60KBTU) at a cost of Rs. 1.7 million. | 31 July 2020      | Scheduled to be delivered 04 September 2020. | Delivery of 04 Air-Conditioners delayed.            | Goods have been delivered and installed. Payment is under process.              |
| (n) | Agreement was signed to procure Sixty Desktop computers at the contract value of Rs. 4.1 million.  | 18 September 2020 | Scheduled to be delivered 20 October 2020    | Items had not been delivered even on 31 March 2021. | We will take follow-up action regarding this matter and take necessary actions. |

### 3.3 Underutilized Resources

Nos	Audit Issues	Management Responses	Auditor's Recommendations
(a)	Out of total allocation of US \$ 7 million equivalent to Rs.1,270 million made by the Lending Agency to the Project Component, only a sum of Rs. 495.19 million had been utilized as at 31 December 2020.	Total amount disbursed as at 31.12.2020 USD 3.39 million. (48% of utilization) against the allocation . Exchange in 2018 Rs. 157.83 & in Dec 2020 Rs. 186S. More appropriate to calculate the progress based on disbursements in USD.	Action should be taken to adhere with targets stipulated in the Project Administration Manual.
(b)	Out of total allocation of US \$ 93 million equivalents to Rs. 16,867 million made by the Lending Agency to the Program Component, only a sum of Rs 5,527.23 million had only been utilized as at 31 December 2020.	Total amount disbursed as at 31.12.2020 is USD 38.10 million (41% of utilization) against the allocations of USD 93 million. More appropriate to calculate the progress based on disbursements in USD.	Action should be taken to adhere with targets stipulated in the Project Administration Manual.
(c)	Five Interactive Multimedia Projectors at a cost of Rs. 1.7 million procured by the University of Jaffna had been remained without being installation as at 31 December 2021.	Installation delayed due to non-completion of civil work.	Action should be taken to influence contractor to complete the civil work.

### 3.4 Observations made on site visits

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No	Audit Issues	Management Responses	Auditor's Recommendations
(a)	The University of Sri Jayewardenepura had entered into 203 contract agreements valued at Rs. 203 million during the year 2020 for procurement of Goods. However, 04 contracts valued at Rs. 1 million had been cancelled. Further goods valued at Rs. 63 million of eighty-two contracts representing 31 percentage of the procurement for the year under review had not been delivered by the suppliers even on 22 April 2021 the date of inspection.	Cancellation of procurements had been done due to non-delivery of goods, incompliance or increase of bid price.	The action is required to be taken to influence the suppliers to comply with the conditions of the contract agreements.
(b)	Goods Valued at Rs. 37 million on which the payment of Rs. 34 million had been made by the University of Sri Jayewardenepura could not be verified during the audit inspection made on 22 April 2021. According to the information made available these items had been delivered to the University hostel which is being used as a quarantine centre by the Ministry of Defence.	All the items procured have been taken into inventories.	Need to adhere with objectives of the project and take necessary action to minimize the operational cost of the project.

### 3.5 Underutilized Resources

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No	Audit Issues	Management Responses	Auditor's Recommendations
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	<b>University of Jaffna</b>		
(a)	Action had not been taken to install the diesel generator procured at a cost of Rs. 5.7 million under the ELTA/ ELSE Faculty Level Development Project by the Faculty of Applied Science Vavuniya Campus of University of Jaffna.	Present situation may have an effect on this delay. Supplier informed that the Generator is ready for delivery. Extension granted till 31 July 2021.	Prompt action should be taken to install the generators.

- (b) An Ethernet switch of Type 01 and four numbers of Type 02 procured at a cost of Rs. 2,344,591 and Rs 653,400 under the ETA/ ELSE Faculty Level Development Project by the Faculty of Applied Science Vavuniya Campus of University of Jaffna had not been installed even on the 05 June 2021. Delivery has completed and payment has been made on 06 May 2021 Action should be taken to install the switches.
- (c) An agreement was signed by the Faculty of Applied Science, Vavuniya Campus of University of Jaffna on the 08 December 2020 to procure a PCR Machine at a cost of Rs. 999,756. It was observed in audit that action had not been taken to install the machine even as at 05 June 2021. Delivery has completed and item installed. Payment has been made on 21 May 2021 Action should be taken to install the PCR machine.
- (d) An agreement was signed by the Department of Chemistry University of Jaffna under the ELTA ELSE Department Level Development Project on the 14 August 2020 to procure CCTV Camera valued at a cost of Rs. 116,100. Even though the items were delivered on 01 September 2020, action had not been taken even as at 05 May 2021 to install the CCTV camera which remained idle for more than 08 months. Installation delayed due to change of location. It has now completed and payment made on 13 May 2021. Action should be taken to install the CCTV camera in the Department of Chemistry.

### 3.6 System and Controls

No -----	Audit Issues -----	Management Responses -----	Auditor's Recommendations -----
(a)	Expenditure of the OTS as at 31 December 2020 had not been considered when preparing the financial statement.	This has been already clarified previously.	Action should be taken to, record the expenditure of the OTS as at 31 December 2020.
(b)	Universities had not recorded all the expenditure incurred by the AHEAD Project annually.	We will send a reminder to all the universities regarding this matter.	Prompt action should be taken to advise responsible parties on this regard.