

## **Science and Technology Human Resource Development Project - 2022**

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The audit of financial statements of the Science and Technology Human Resource Development Project for the year ended 31 December 2022 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 Section 4.03 of Article IV of Loan Agreement No. 3698 SRI 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 reported to Parliament appear in this report

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

According to the Loan Agreement of the Project, the Ministry of Higher Education and Cultural Affairs, presently the Ministry of Education is the Executing Agency and the University of Kelaniya, Rajarata, Sabaragamuwa and Sri Jayewardenepura are the Implementing Agencies of the Project. The objective of the Project to improve access facilities to employment- oriented technology degree programs in higher education system of the country. As per the Loan Agreement, the initial estimated total cost of the Project amount to US\$ 165 million equivalent to Rs.26,400 million and out of that US\$ 145 million equivalent to Rs.23,200 million was agreed to be financed by Asian Development Bank. The balance amount of US\$ 20 million equivalent to Rs.3,200 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities under the retroactive financing 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 2022, statement of expenditure for the year 2022 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. Physical Performance**

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

The Project had commenced its activities on 17 April 2018 under the 05 project components and it was scheduled to be completed by 31 December 2023. As per the progress report of the Project, the overall physical and financial progress of the Project as at 31 December 2022 were 68 percent and 43 percent respectively even after a lapse of 04 years and 08 months from the commencement date of the activities of the Project. However, the Project had achieved only 15 percent of progress during the year under review was observed. Hence, components wise progress of the Project is as follows.

No	Component	Physical Performance as at 31.12.2022		Financial Performance as at 31.12.2022		Response of the Management	Auditor's Recommendations
		Expected performance (%)	Achieved Performance (%)	Expected Performance (%)	Achieved Performance (%)		
(a)	Deign construction and operationalization of faculty buildings and facilities for technology education, innovation and research.	75	71	70	60	The Covid 19 pandemic and subsequent economic crisis, government restriction on imports had been badly affected to the progress of the project. However, it was able to manage the physical and financial performance at satisfactory level.	Necessary actions should be taken to expedite the contractors works.
(b)	Development and implementation of high-Quality and employment-oriented technology programs and curricula	70	65	38	28	Due to travel restrictions in covid period and the shortage of academic cadre of the Universities the commencement of long-term trainings had been delayed. It was able to award PhDs and MScs only for 20 academics, in order to complete within the project period. Overseas short-term training had to be cancelled due to the Government restrictions and Other trainings are being conducted as per the master training programme.	Necessary actions should be taken to achieved the expected targets.
(c)	Strengthen linkages, collaborations and partnership between the implementing Agencies and both industry and foreign universities.	60	50	10	05	Due to the lengthy administrative process of selections and obtaining the approval of international University collaboration it takes considerable time period for implementation	Necessary actions should be taken to achieved the targets.

## 2.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Construction of building for Faculty of Engineering of the University of Sri Jayewardenepura was scheduled to be completed by 22 July 2023 and it had been extended up to 26 August 2023. As per the progress report of the contract, out of the target physical progress of 68 percent only 25.63 percent had been achieved as at 31 December 2022 even after 24 months lapse from the contract period of 30 months. Hence, significant amount of balance work representing 74.37 percent has to be done within seven months from the balance contract period.	Due to the cash flow issue of the contractor, construction progress is not according to target. It has been requested an additional advance to continue the work. The request has been forwarded to ADB and it is being processed.	Necessary actions should be taken to expedite the contract works.

- (b) Construction of building for Faculty of Technology of University of Rajarata was commenced on 25 October 2021 and scheduled to be completed by 24 April 2024 which is beyond the Project period of 31 December 2023. As per the progress report, out of the target overall physical progress of 48 percent only 25 percent had been achieved as at 31 December 2022. Balance construction work representing 75 percent has to be done within 16 months.

The commencement of the construction had been delayed due to Covid and economic crisis. Now it is in progress and the actual progress is 43% as at 31 May 2023, against the target of 81%.

Necessary actions should be taken to expedite the contract works.
  
- (c) Construction of building for Faculty of Technology of University of Sabaragamuwa was scheduled to be commenced on 10 December 2020 and completed by 19 June 2023 subsequently it had been extended up to 13 July 2023. As per the progress report of the contract, overall physical progress of the contract was 88 percent was achieved out of the targeted physical progress of 97 percent as at 31 December 2022. However, balance works has to be completed within the balance contract period of seven months.

The delay was occurred due to the above-mentioned issues. However, the actual progress is 96% as of 31.05.2023 against the anticipated target of 99%.

Necessary actions should be taken to expedite the works and closely monitored the contractors work in order to complete within the time frame.

**2.3 Underutilized Resources**

**Audit Issue**

According to the Loan agreement, Project was scheduled to be completed by 31 December 2023. However, out of the total allocation of US\$ 145 million representing 87.9 percent made by the Lending Agency, only US\$ 59.36 million representing 40.93 per cent had been utilized as at 31 December 2022 even after laps of 04 years and 8 months form the commencement date of the activities of the Project and US\$ 0.36 million equivalent to Rs.73.54 million of commitment charges had been paid on the unutilized loan balance as at 31 December 2022. Hence, utilization of 85.64 million of loan balance representing 59.07 percent and completion of the Project within 12 months of the balance Project period is doubt to the audit.

**Response of the Management**

All the above-mentioned issues have been affected to this situation.

**Auditor’s Recommendation**

Maximum effort should be taken to complete within the project period.