

## **Accelerating Higher Education Expansion and Development Operation Project (Program Component) - 2023**

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The audit of financial statements of the Accelerating Higher Education Expansion and Development Operation Project (Program Component) for the year ended 31 December 2023 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 Bank for Reconstruction and Development and the International Development Association. 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 and Financing Agreements, the 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 and Medicine), improve the quality of degree programs and promote research and innovations in the higher education sector.

As per the 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, but the Project period had been further extended for six months.

### **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 2023, statement of 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 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 Non-Compliance with Laws, Rules and Regulations**

<b>Reference to the Laws Rules and Regulations</b>	<b>Non-Compliance/Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
Management Services Circular No. 01/2019 of 15 March 2019	Project steering committee should meet at least once in two months. However, only one meeting was held during the year 2023.	This is beyond the control of the Project Office. Nevertheless, the periodical progress review meetings were held at the Ministry during the year 2023.	Need to comply with the Management Service Circular

**3. Physical Performance**  
**3.1 Contract Administration**

<b>No</b>	<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a)	Although a building constructed for the Department of Pathology under this project in the University of Sri Jayawardanapura was planned to be constructed with 04 floors, a sum of Rs.153 million had been spent and only 02 floors had been completed and handed over to the university.	Total structural works has been completed with all external works for all four floors. Unexpected price variation was occurred with the Corona pandemic and based on the decision taken by the authorities, construction works was restricted to available budgetary allocation and complete the two floors to suit the usage and occupied initially. Balance finishing works of the building are carried out to complete the construction work.	Need to comply with the condition stipulated in the contract agreement.
(b)	Idea Generating Business Incubation and Social Emotional Development Centre, Soft Furniture Reception Area and Common Gathering Area and Paper Recycling Centre constructed in the year 2021 and 2022 by incurring Rs.15 million from the provisions allocated for ELTA-ELSE Development Project of the Faculty of Management Studies (FMS) of the University of Sabaragamuwa by this project as well as the equipment purchased for the recycling of the paper by incurring Rs.3.4 million had been under-utilized even up to December 2023.	The Idea Generating Business Incubation and Social Emotional Development Centre is not an office space operating daily during the working hours and it is used as common space for multiple purposes as we had mentioned in project proposal.  The paper recycling center and the equipment are operated by the students of FMS for their assignments and projects using discarded paper of various faculties/ divisions of the University. Due to the shortage of	Resources should be utilized without delay.

work force in the university, it is unable to allocate a full time works aid to work in the paper recycling center and it is the main obstacle for commercial level operation.

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| (C) | The procurement activities of the goods and equipment worth of Rs.20 million which had been scheduled to purchase during the period from August 2019 to January 2020 had delayed a period 01 year to 03 years, Rs.18 million had been incurred exceeding the estimated cost due to price escalations occurred in the market. | The Management comments had not been given. | Project activities should be completed promptly. |
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### 3.2 Operational Inefficiencies

No.	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	It was observed during the audit that 20 lecturers from 06 universities who had gone abroad with scholarships for the PhD degree through the AHEAD project in the years 2018 and 2019 had not completed their doctorate degrees as at 31 December 2023.	The OMST will draw the special attention of the VC of the respective universities on the issues raised in the audit observations made regarding the PhD scholarship programme. It is the responsibility of the universities to implement the conditions of the bond agreement.	The action should be taken against the lectures who had not complete the PhD.
(b)	A sum of Rs. 50 million had been incurred under the World Bank loan assistance of Accelerating Higher Education Expansion and Development (AHEAD) Project for a research project aimed at introducing the currently used household compost bin to the market as a large-scale production model and commercial production of high-quality animal feed and organic fertilizers. Since action had not been taken to complete the criteria, which had been informed by the National Intellectual Property Office of Sri Lanka for the large-scale compost bin, that had been produced, it had not been	The entire project timeline was greatly disrupted by the COVID pandemic. The small compost piles did not populate as we had hoped. It was caused by the epidemic and restrictions on movement, going to homes. Therefore, the small pot could not be successfully tested. The existence of major defects in the basic patent papers used to make the small pot. It is not designed to be friendly in the outdoor environment. The patent approval agency Intellectual Property Office of Sri Lanka has not been considered. Therefore, in the environment where these tests were conducted. We think that heavy rain, humidity and nighttime temperature conditions may cause this change in microbial activity and odor.	Maximum effort should be taken to achieve the end result.

possible to commercialize the Harvesting Unit, which is operated jointly with that unit. Although a patent had been applied for the food processed by that larvae and the technical method of processing that food, the application had also been rejected due to the weaknesses in the technical method. The expenditure incurred had become idle as the relevant criteria had not been completed and action had not been taken to achieve the anticipated results.

### 3.3 Delays in commencements/ implementation/ completion of activities of the Project

Audit Issue	Response of the Management	Auditor's Recommendation
<p>Contract awarded by this project to construct the building for Engineering Technology and Systems Technology at contract value amounting to Rs.432 million on 15 December 2021 in the University of Jaffna. As per the agreement, the construction should be completed on June 2023 and it is extended until 31 December 2023. However, it was observed that 36 percentage of construction works only completed until 31 December 2023.</p>	<p>University of Jaffna anticipated completion of this phase II by June 2023 and with this hope, readily complied with the government policy of increasing the student intake to the faculty of technology. At present, about 400 students are admitted in each academic year. The existing building facilities is inadequate to accommodate increased student intake. This will affect the quality of academic programme and may lead to student unrest. University of Jaffna requested to reserve and divert the unspent money available with AHEAD to the Ministry of Education so that the university will be able to continue and complete work. The University has already made requests and taken up this matter with all the parties concerned to help the University in this respect.</p>	<p>Need to take action to catch up the delays and ensure to complete the contract works timely.</p>

### 3.4 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
(a) 557 units related to 20 items total worth of Rs.41 million provided to the Eastern University by this project during 2020 - 2022 had not been utilized for the pertinent objectives from 04 months to 03 years.	This is mainly the incompleteness of the civil works where the items are to be installed and used. The contractors completed the civil works but took a long time. Finally, all works were completed and all items were installed at their proposed places before the end of the project and now all are in use.	Project resources should be utilized without delay.
(b) The mobile laboratory bus, purchased by Sabaragamuwa University on 24 February 2021 by incurring a sum of Rs.14 million on the provision of this project, with the aim of improving the practical skills of students, carrying out activities with farmers and small / medium scale agri-businessmen from the ground level and developing the field knowledge of students and staff, had been used for academic purposes only in 06 occasions during the period from March 2021 to December 2023 and thereby the bus had been underutilized.	I would like to highlight the fact that we were unable to use this resource as planned during the periods in which the teaching was carried out in online mode due to unavoidable and unforeseen circumstances. However, we are pleased to inform you that we have planned several field visits, demonstrations, and community development initiatives using this resource as soon as the ongoing non-academic trade union action is lifted.	Project resources should be utilized without delay.