

Science and Technology Human Resource Development Project - 2023

The audit of financial statements of the Science and Technology Human Resource Development Project 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 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. However, the date of the completion of the activities of the Project had been extended up to 31 December 2024

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 expenditure for the year 2023 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

Audit Issue	Responses of the Management	Auditor’s Recommendation
Construction of buildings for the 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 31 October 2024. As per the progress reports of the	The COVID-19 pandemic, along with the unstable macroeconomic environment, foreign currency fluctuations, inflation, import restrictions, and	Necessary Actions should be taken to expedite the contract works.

contract, only 36 percent of physical progress had been achieved as at 31 January 2024 after lapse of 3 years from the date of commenced. Hence, significant amount of balance work representing 64 percent has to be done within nine months from the balance contract period.

fuel supply limitations, severely impacted the construction sector in Sri Lanka. Most contractors faced cash flow issues during this period.

2.2 Underutilized Resources

No	Issue	Responses of the Management	Auditor's Recommendation
(a)	<p>According to the Loan agreement, Project was scheduled to 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\$ 72.89 million representing 50.26 percent had been utilized as at 31 December 2023 even after laps of 05 years and 8 months from the commencement date of the activities of the Project and US\$ 795,741 equivalent to Rs.176 million of commitment charges had been paid on the unutilized loan balances as at 31 December 2023. Hence, utilization of 72.11 million out of the loan balance representing 49.73 percent within 18 months of the balance project period is doubt to the audit.</p>	<p>The loan fund consists of USD 129.7 million for construction works, goods, and other expenses, and USD 15.3 million for loan interest and commitment charges. Value of Rs.97.22 million contracts out of Rs.129.7 million of allocated Loan funds awarding were completed and remaining awarding can be completed within the project period (31 December 2024) and disbursements can be completed until the loan closing date of 30 June 2025. Therefore, the total project fund can be utilized by 30 June 2025.</p>	<p>Necessary actions should be taken to expedite the contract works.</p>
(b)	<p>1,098 nos of library books had been purchased at a cost of Rs.17 million to the University of Sri Jayawardanapura in year 2020. Out of that 1,095 books had not been released to readers from the date of purchase until the 30 November 2023.</p>	<p>According to the Institution of Engineers Sri Lanka (IESL), physical copies of recommended books are essential for obtaining the Washington Accord. Due to the COVID-19 pandemic, students adopted online teaching methods, which continued even post-pandemic. With the completion of the Engineering Faculty buildings at Mattegoda, the student intake is expected to increase to 400 per batch. Books have been purchased for their use accordingly.</p>	<p>Necessary actions Should be taken to utilize Project resources without keeping Idling</p>

2.3 Matters in Contentious Nature

No	Audit Issue	Management Response	Auditor's Recommendation
(a)	<p>The main objective of the construction of Engineering faculty at university of Sri Jayewardenepura is to increase the intake of 120 to 400 students to the Engineering faculty from academic year 2023. However, it had to intake 180 students at present due to the delay of completion Engineering faculty under the Project. In addition to that university had to be paid amounted to Rs. 19 million as rental charges for the rented building for conducting the Engineering faculty delayed Period between July 2023 and February 2024.</p>	<p>As mentioned in the Employers 'Requirement (ER), the student intake was to increase gradually. However, the intake has already increased from 120 to 180 over the last few years without additional infrastructure or human resources, utilizing the current maximum capacity. Further increases are not possible without additional resources such as cadre allocation and laboratory spaces.</p>	<p>Necessary actions should be taken to expedite the contract works.</p>
(b)	<p>In the purchase of library books for the Faculty of Technology in the year 2021 by this Project, 421 units belonging to 118 types of books had been purchased for a value of 76 percent of the total procurement or Rs.20 million by choosing a supplier with no prior experience without complying with the procurement guidelines of the government. 114 units out of it belong to 33 types of books worth Rs.7.6 million were used books. Similarly, 179 units of 69 types of books that were not related to the syllabus had been purchased at a cost of Rs.7 million. In this procurement, there was a financial loss of Rs.12 million due to purchase of 227 units of 63 types of books at a higher price compared to the minimum prices at which old and new books are sold in the international market.</p>	<p>Sabaragamuwa University has conducted a preliminary inquiry regarding this issue and reported to the University Council and the government auditor. Additionally, the Ministry of Education has appointed a committee following the direction of COPE, and the committee investigated by visiting the University on June 11, 2024.</p>	<p>Necessary actions should be taken to expedite the investigation and recover the financial loss from responsible parties</p>

- (c) Scheduled completion date of the Project was on 31 December 2023. It had been extended up to 31 December 2024. However, construction of Laboratory building complex and equipment for the faculty of medicine university of Moratuwa has newly been added to the project scope and it was scheduled be completed by 23 April 2025. Hence, Period of the above mentioned new scope has been beyond the project completion date of 31 December 2024
- The construction of Laboratory building complex and equipment for the faculty of medicine university of Moratuwa has newly been added to the project scope and contract was awarded 24 April 2024. The contract period is one year, the contractor should be given a one year period to complete the project. Contracts can be awarded up to the project closing date of 31 December 2024, and disbursement can be made up to the loan closing date of 30 June 2025. Therefore, it will not be an issue of continuation of the construction until scheduled date of completion.
- Necessary actions should be taken to expedite the contract works.