

Science and Technology Human Resource Development Project - 2020

The audit of financial statements of the Science and Technology Human Resource Development Project 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 Section 4.03 of Article IV of Loan Agreements 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 report to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, then Ministry of Higher Education and Cultural Affairs, presently the Ministry of Education is the Execution Agency and the University of Kelaniya, Rajarata University of Sri Lanka, Sabaragamuwa University of Sri Lanka and University of Sri Jayewardenepura are the Implementing Agencies of the Project. The objectives of the Project to improve access facilities to employment- oriented technology degree programs in higher education system of the country. As per Loan Agreement, the initial estimated total cost of the Project amounted to US\$ 165 million equivalent to Rs.30,051.45 million and out of that US\$ 145 million equivalent to Rs.26,408.85 million was agreed to be financed by Asian Development Bank. 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 Project as at 31 December 2020 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 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles for such internal control as the management determines as 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

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. Physical Performance

2.1 Physical Progress of the activities of the Project

The activities of the Project are implemented under 5 components namely,

- (a) Provide innovative technology and industry relevant education and research facilities
- (b) Help to quality curriculum design and academic staffing aligned with industry demand and international standards
- (c) Provide competitive industry and foreign university collaboration scheme
- (d) Capacity development opportunities
- (e) To support the government in preparing new higher education Project proposed for approval in year 2021.

	Components	Activities	Period scheduled to be commenced	Date of commencement	Responses of the Management	Auditor's Recommendations
(a)	Establish Innovative technology and research environment	Prepare the bidding documents for construction of buildings for university of Rajarata under design and built basis.	Within the year 2018.	Not yet commenced.	Four construction, procurement of civil works of four faculty building were started at the end of the year 2018, due to delays of staffing of the project.	Need to take action to catch up the delays and ensure to complete the contract works timely to avoid additional costs.
(b)	Establish Innovative technology and research environment	Approve detailed complete construction plans and commence civil work on Kelaniya, Rajarata , Sri Jayewardenepura, and Sabaragamuwa universities	Quarter 4 ,2019	Construction works not yet commenced.	Four construction, procurement of civil works of four faculty building were started at the end of the year 2018, due to delays of staffing of the project.	Need to take action to catch up the delays and ensure to complete the contract works timely to avoid additional costs.

(c)	Implement Quality and industry-relevant higher technology education programs	Conduct constitutions, including participants for employment new programme	industry women for oriented degree	Within the year 2018	Year 2020	-	Need to comply with the requirements of the Project Approval Document.
(d)	Strengthen Faculty Management Capacity	Develop manual guidance center, including a special programmes for females at four universities.	operations for career and employment guidance including a special programmes for females at four universities.	Quarter 2 ,2019	2020	-	Delayed activities should be catch – up without further delay.
(e)	Support to new higher education Project preparation	Prepare concept paper including gender related design features for higher education or innovation		Quarter 1,2019	Not yet commenced	-	Delayed activities should be catch – up without further delay.

2.2 Contract Administration

Audit Issues	Responses of the Management	Auditor's Recommendations
(a) Eventhough the procurement process on selection of suitable contractors to construct four faculty buildings at university of Rajarata, Sabaragamuwa, Kelaniya and Sri Jayewardenepura commenced on January 2017, only Sabaragamuwa, Kelaniya and Sri Jayewardenepura Universities had been completed the procurement process for the construction of faculty buildings commenced in January 2017 at an estimated cost of US\$ 67.5.	Four constructions, procurement of civil works of four faculty buildings were started at the end of the year 2018, due to delays of staffing of the project.	Need to take action to catch up the delays and ensure to complete the contract works timely to avoid additional cost.
(b) Eventhough the construction work of the faculty building of the Rajarata University had not been awarded and progress of the bidding process had not been completed even the date of audited on 30 April 2020. Further, the Project fund Rs. 11 million had been paid to the Ceylon Electricity Board for remove the high -tension line at the construction premises.	-	Need to take action to catch up the delays and ensure to complete the contract works timely to avoid additional cost.

2.3 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
It was observed that out of the proceed of the Loan amount of US\$ 145 million, only US\$ 9.86 million representing 6.8 per cent had been utilized as at 31 December 2020 even after laps of 03 years form the commencement of the Project.	It is admitted that according to the revised disbursement plan of the ADB, the expected disbursement was US\$ 18.59 Mn. However, due to unavoidable circumstances related to the civil works procurement process we could award only three contracts for the construction of Technology Faculty Buildings of the	Action should be taken to achieve the objectives of the Project during the Project period.

University of Kelaniya and Sabaragamuwa and for the construction of Engineering Faculty Buildings of the University of Sri Jayewardenepura before 31.12.2020.

2.4 Matters in Contentious Nature

Audit Issues	Responses of the Management	Auditor's Recommendations
(a) Fund utilization target had been reduced from US\$ 42.5 million to 18.59 million during the year under review and commencing year of the Project was changed from year 2018 to 2019 without any acceptable reason. Therefore, due to amendments made to utilization of funds and the period of the Project, the respective activities of the Project could not be completed within the Project period.	Please be informed that the project agreement had been signed on 17.01.2019 and the Loan effective date was 04.04.2019. Accordingly, the fund utilization target had been reduced to US\$ 18.59 by ADB.	The activities of the Project should be properly planned to increase the efficacy of fund utilization.
(b) Out of Rs. 76.9 million incurred as work-in-progress as at 31 December 2020, as sum of Rs.52.8 million representing 69 per cent of the total expenditure had been incurred as Project management expenses.	Expenditure categories, those introduced as recurrent expenditure as per the Project Administration Manual only has been included as other work- in- progress under current assets. Accordingly, expenditure such as Consultancy, Long term Training, Short term Training and Project Management expenses that continues throughout the project period have been shown under the other work-in-progress.	The activities of the Project should be properly planned to increase the efficacy of fund utilization.

- (c) Project had incurred a sum of Rs. 4.3 million to procure Covid- 19 protective equipment and goods for Kelaniya, Rajarata and Sabaragamuwa Universities, However those activities were not comes under the purview of the scope the Project.
- It is admitted that the procuring of Covid-19 protective equipment and goods does not come under the purview of the scope of the project. However, as this is sudden an unanticipated situation, the ADB has given the approval to procure COVID- 19 protective equipment and goods revising the procurement plan, despite the scope of the project.
- Need to adhere with objectives of the Project and take necessary of action to minimize the operational cost of the Project.

2.5 System and Control

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	According to the action plan 2020, estimated cost of Rs.217.63 million related to 23 procurement activities had to be completed during the year. However, the said procurement activities had not completed as at 30 April 2021.	-	Sound and efficient procurement management system need to be implemented on monitoring and supervision of the procurement works carried out by the PMU.
(b)	According to the action plan, three universities targeted to complete 14 procurement activities at the estimated cost of Rs.292.9 million in year 2019. However, the Project had been not been able to complete said procurement activities during the year under review.	-	Sound and efficient procurement management system need to be implemented on monitoring and supervision of the procurement works carried out by the PMU.