

## **Accelerating Higher Education Expansion and Development Operation Project - (Program Component) - 2021**

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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 2021 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 equivalents 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 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

### **1.4 Basis for Qualified 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 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles 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**

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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 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 Accounting Deficiencies

No	Accounting Deficiencies	Responses of the Management	Auditor's Recommendations
(a)	According to the financial statements, the cumulative balance of Equipment, Civil Work, PhD Program and Enriching Learning, Teaching and Assessment/ English Language Teaching Unit as at 01 January 2021 of the fifteen Universities and the Sri Lanka Institute of Advanced Technological Education (SLIATE) was Rs. 4,296 million. However, according to the confirmation received from the nine Operations Technical Secretariat of the respective Universities, the corresponding balance had been understated by Rs. 176 million and overstated by Rs. 114 million in the financial statements.	Main reason for the difference between the annual expenditure reported in the accounts of the OMST and OTSs is that the insufficient budgetary allocation approved by the Treasury to report the total expenditure incurred during the year.	Correct cumulative balances should be disclosed in the financial statement.
(b)	According to the financial statements, the expenditure incurred on Equipment, Civil Work and Improving Quality of Higher Education was Rs. 4,078 million. However, according to the confirmation received from Ten Operations Technical Secretariat of the Universities, the respective balances had been understated by Rs. 206 million and overstated by Rs. 179 million in the financial statements.	-Do-	-Do-
(c)	According to the financial statements, the Imprest to Universities and Sri Lanka Institute of Advanced Technological Education as at 31 December 2021 was Rs. 430 million. However, according to the confirmation received from Ten Operations Technical Secretariat of the respective Universities, the imprest balance had been understated by Rs. 92 million and overstated by Rs. 273 million in the financial statements.	-Do-	-Do-

## 2.2 Non-Compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
(a)	National Minimum wages of workers Act No 3 of 2016	The employee number and the work performed by these employees recruited as Technical Assistants had not been specified in the payroll.	Each TA is given a TOR and each of them have been registered for EPF and ETF and assigned a unique number. Appointment of TAs required to facilitate AHEAD work.	Adhere to the requirement of the Act
(b)	Para 2.1.2 of the Management Service Circular No 01/2019 dated 05 March 2019 and Department of Management Services Letter No.DMS/7777/AHEAD dated 03 July 2017	During the sample audit of the December 2021 salary payment of nine University's OTS, 24 Technical Assistants were deployed without proper approval from the Department of Management Services. A total sum of Rs. 1,217,658 had been paid as allowance including Rs. 127,068 and Rs. 31,766 as EPF and ETF respectively. Further, 35 Technical Officers have been deployed as Technical Assistants at the University OTS offices contrary to the approval.	<ul style="list-style-type: none"> <li>- As per the provisions of the Loan Agreement, the Project can obtain the service of TAs as and when necessary to implement project activities.</li> <li>- Only two full time officials are assigned for each OTS. Assistance of the TA's is needed to implement the activities.</li> </ul>	Proper Approval should be obtained to recruitment of officers.
(c)	F.R. 507(2) and Public Finance Circular No 02/2014 dated 17 October 2014 and Section 3.1.7 and 3.2.7 of the Para 03 of the Public Finance Circular No 05/2016	The OTS of the Project had failed to submit the annual board of survey reports to the Auditor General in respect of items purchased for Rs.2,762 million.	Universities will submit the board of survey reports including these items to the Auditor General.	Need to comply with the Financial Regulation
(d)	Para 8.12.4 of the Procurement Guidelines 2006	Certification of services completed had not been obtained for the construction of computer lab of Faculty of Science by the University of Jaffna even with the lapse of 5 months since the date of extension of 13 December 2021.	Checking of final bill is in process. Certification of services completion will be issued once the final payment is made.	Need to take action to catch up the delays and ensure to complete the contract works timely to avoid additional cost

## 2.3 Unsettled Balance

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### Audit Issue

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Funds had been disbursed to the Operational Technical Secretariat (OTS) established at the universities as an imprest from the Operational Monitoring Support Team (OMST) on a monthly basis without proper need analysis. Therefore, the OTS of 04 Universities had remained considerable amount of advances of Rs.74,447,755 over 6 to 12 months period without being settled.

### Response of the Management

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Due to Covid 19 situation, delivery of equipment and construction work has been affected and payments may have been delayed.

### Auditor's Recommendation

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Action should be taken to expedite the works and monitoring processes needed to be followed on the works of the Universities. Accurate amount for the work should be estimated before the funds are released to avoid the idle funds in the Universities to carry out the work at the right time at the right cost.

## 3. Physical Performance

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### 3.1 Financial Progress of the Activities

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Program components of the AHEAD project are conducted under 3 results areas and 6 disbursement link indicators. The details are as follows:

#### Program Components

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##### Results Area 1

Increasing Enrolment in higher Education in priority disciplines for economic development

##### Results Area 2

Improving the Quality of Higher Education

##### Results Area 3

Promoting Research, Development, and Innovation

##### Project component

Operations and Monitoring Support Team

<b>Component /Sub Component</b>	<b>Audit Issues</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
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(a) <b>Results Area 1</b> (i) Equipment	Out of the total allocation made for Equipment, except for 02 Universities other Universities have not utilized even 55 per cent from the allocated amount as at 31 December 2021.	<b>Eastern:</b> Procurement process has taken a longer period to procure an equipment. <b>OUSL:</b> Allocation approved on 25.02.2021. <b>Sabaragamuwa &amp; S. Eastern::</b> Difficulties faced by suppliers due to the import restrictions and exchange rate fluctuations. <b>Gampaha Wick:</b> Allocation awarded on 30.07.2021. <b>Min. of Edu:</b> MOE has been approved Rs. 5.13 million.	Sound and efficient procurement management system need to be implemented on monitoring and supervision of the procurement works carried out by the PMU.
(ii) Civil works	Out of the total allocation made for Civil works, except for one University other Universities have not utilized even 25 per cent from the allocated amount as at 31 December 2021.	Construction activities have been affected, due to Covid 19, lack of building materials, price escalations, lack of labour etc.	Action need to be taken to catch up the delays and ensure to complete the contract works timely to avoid additional cost.
(b) <b>Results Area 3</b> (i) UBL CELL	Out of the total allocation made for UBL Cell, except the University of Sri Jayawardenapura which had at least utilized 56.5 percentage, all the other Universities had only utilized below 47 percentage from the allocated amount of Rs. 15 million as at 31 December 2021.	UBL work is divided into 4 Phases and after completion of each phase the above tranches are released.	Total allocation required to be utilized for the Project period.
(ii) Research and Innovation Commercialization (RIC)	Out of the total allocation made for Research and Innovation Commercialization, Eastern, Kelaniya, OUSL and Ruhuna Universities had not utilized at least 50 percentages from the allocated amount as at 31 December 2021.	The covid 19 lock down, import restrictions, and issues related to procurement activities affected the financial progress.	Delayed activities should be catch – up without further delay

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| (iii) DOR | Out of the total allocation made for Development-Orientated Research (DOR) Eastern, South Eastern Universities had not utilized at least 25 percentages from the allocated amount as at 31 December 2021.  | -Do-   | Delayed activities should be catch – up without further delay                      |
| (iv) PhD  | Out of the 199 academics, the completion date of the PhD programs of 97 academics who pursue their Programs in Overseas and an academic of SLIATE who follows the master degree will be continuing their Program even after the Project completion period of June 2023. The expenditure incurred as at 31 December 2021 of these 98 academics amounted to Rs. 251,231,483. | This was discussed at the OMST/WB management committee meeting held on 24.06.2022 and it was decided to bring this matter to the notice of the Ministry. | Need to comply with the requirements stipulated in the Program Appraisal Document. |

### 3.2 Physical Progress of the Activities

<b>Component /Sub Component</b>	<b>Audit Issues</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
(a) Research and Innovation Commercialization (RIC)	Out of the total amount of Rs. 45 million granted, a sum of Rs. 39.3 million had been utilized by the Department of Chemistry of the University of Sri Jayewardenepura as at 31 December 2021 on the proposal of Nanomaterial as value addition tool in natural rubber. Date of implementation as per the proposal was 5.10.2018 & as per the agreement it was 12.11.2018	Considering the Covid 19 lock down, import restrictions, procurement issues, access to laboratories this project was extended till 31.12.2022.	Need to comply with the requirements stipulated in the Program Appraisal Document.
(b) RIC, Round 1	Out of the total amount of Rs. 35 million granted, a sum of Rs. 19 million had been utilized by the Faculty of Science, University of Ruhuna as at 31 December 2021 on the proposal of Commercialization of a real time agricultural mobile-based information system (“Govi Nena”). Date of implementation according to the proposal was 02.10.2018 and as per the agreement it was 21.12.2018.	Considering the Covid 19 lock down, procurement issues, travel issues for data collection this project was extended till 31.12.2022.	-Do-

(c) DOR - Round 1	Out of the total amount of Rs 35 million granted, a sum of Rs. 20.4 million had been utilized by the Department of Biochemistry, University of Ruhuna as 31.12.2021 on the proposal of Development of a putative nutraceutical for diabetes mellitus: Bioactivity and toxicological studies of nanoparticle-based formulations encapsulated with Ivy gourd ( <i>Coccinia grandis</i> ) leaf extract. The date of implementation according to the proposal was April 2019 and as per the agreement it was March 2019.	Considering the covid 19 lock down, import restrictions, procurement issues, access to laboratories this project was extended till 21.12.2022.	-Do-
(d) DOR – Round 2	Out of the total amount of Rs. 40 million granted, a sum of Rs. 27.9 million had been utilized by the Faculty of Science, University of Ruhuna as at 31.12.2021 on the proposal of a green technological approach to control freshwater algal blooms in Sri Lanka using native bacterial isolates. The date of implementation according to the proposal was June 2019 and as per the agreement it was May 2019.	Considering the Covid 19 lock down, import restrictions, procurement issues, issues in collection of samples across the country, restricted access to laboratories this project was extended till 3.11.2022. OMST will review the progress in 2022 and further time extensions will be granted.	-Do-
(e) <b>PhD Information</b>	Information was called from all the 15 University - OTS and Sri Lanka Institute of Advance Technical Education (SLIATE). However, the OTS at the University of Colombo, Jaffna, Moratuwa, The Open University of Sri Lanka, Rajarata, Sabaragamuwa, South Eastern University, VAPA and SLIATE had failed to submit the information on PhD.	All OTS directors will be inform to respond to audit queries and submit information requested without a delay.	Need to comply with the Statutory requirements
	Twelve academics are scheduled to complete their PhD / Master Degree Programs and are expected to return to the University on or before 30 April 2022. However, according to the information furnished by the OMST on 30 May 2022 and the information confirmed by the seven Universities during the month of April 2022 only two academics from the University of Sri Jayewardenepura and Open University of Sri Lanka had returned to duty and completed the Program.	Due to the Covid 19 situation awardees were not able to complete the PhD program as expected.	Need to comply with the requirements stipulated in the agreement.
(a)	A candidate from Colombo University who commenced her PhD Program on 01.11.2016 in India and expected to return to the University on 30.11.2020 had returned to the University on 01.03.2020. However, she has not submitted her final thesis even as at 30.05.2022.	The awardee has confirmed the actual date of return to the university, but her final thesis is still pending to submit to the OMST and agreed to submit it after finalizing.	Need to comply with the requirements stipulated in the agreement.

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| (b) | The Information collected on three candidates from University of Peradeniya who followed the PhD in New Zealand, Malaysia and USA with the cost of Rs. 9,007,872, Rs 6,266,186 and Rs 4,500,000 respectively expected to return on February, April 2022 and May 2020. However, according to the information, one candidate had resigned w.e.f 25.01.22.(Date of completion 10.04.2022 and Expected date of Return to the University 31.01.2022). The actual date of return to the University of the Second Candidate had not been confirmed by the University. Whereas the third candidate returned on 31.12.2021 who had started doing his PhD in 2016, AHEAD funding had started from 1.11.2018. He has been granted 05 years leave). However, the OMST had failed to update the status and taken action on the above three candidates even as at 30.05.2022. | According to the Establishment Branch of the uni. of Peradeniya,<br><b>1<sup>st</sup> awardee from New Zealand</b> – She will be treated as having vacated the post and as a bond violator after obtaining council approval.<br><b>2<sup>nd</sup> awardee from Malaysia-</b> Resumed duties but yet to submit her certificate.<br><b>3<sup>rd</sup> awardee from USA</b> – Not yet submitted his certificate. | -Do-   |
| (c) | Eventhough the two candidates from Wayamba University had to complete their PhD Programs in March and April 2022 both had failed to complete the program even on 30.05.2022.  | Both candidates are planning to submit the thesis. Delay was due to the Covid 19 situation.   | -Do-   |
| (d) | The Information collected on three candidates from SLIATE who had been awarded to follow a Master Degree in Sri Lanka with the cost of Rs. 908,750, Rs 589,300 and Rs.571,600 respectively are expected to complete in April and November 2021 and on 30.03.2022. However, according to the information provided by the OMST they have not completed even as at 30.05.2022.   | Candidates unable to complete the programs due to the Covid 19 situation.   | -Do-   |
| (e) | An awardee of the Eastern University had been awarded a 3 year PhD Program at the University of Canterbury, New Zealand at the cost of Rs. 1,124,432.75. Commencement date was 01.02.2021 and the completion date is 31.01.2024. According to the Eastern University this candidate had dropped the Program. It was observed in audit that the OMST had not recovered the amount of Rs 1,124,432.75 even as at 30.05.2022.  | Awardee has agreed to return the money.   | Prompt action should be taken to recover the amount from the awardee.              |
| (f) | The Intermediate Results Indicator for 2021 is that SLIATE STEM Programs should have increased intake by at least 4,600 students by the end of the 4 th year 2021. However, it was observed that students had not been engaged and this target had not been achieved by the SLIATE.   | Need to get information from SLIATE and will submit our response separately.  | Need to comply with the requirements stipulated in the Program Appraisal Document. |

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

No	Activities	Date scheduled to be commenced/ implement completed	Date of commencement/ implementation/ completion	Delay	Responses of the Management	Auditor's Recommendations
(a)	Automated accounting system was proposed to be used in the OMST and the OTS of universities to account for the Project activities and transactions carried out through the World Bank funds.	System installed - 29.07.2019	Procurement process completed - 3.07.2019 and Contract agreement signed - 22.07.2019	The system had not been extended to the OTS Level as at 30.04.2022 even after a lapse of 2 years and 9 months.	Installing a common automated accounting system at universities was not implemented due to the high cost involved with it.	Need to comply with the requirements stipulated in the Program Appraisal Document.
(b)	Following items ordered to the Peradeniya University of Sri Lanka had not been received even as at 31 December 2021. These orders had not been delivered for more than a year.					
(i)	Science Digital ID Card Printer - Rs. 375,840.	Contract awarded - 06.03.2020	Delivered, but not working properly as at 31.12.2021	Not delivered for more than 1 year and 9 months.	Item delivered but the Goods Acceptance Committee rejected due to malfunctioning. Informed to the supplier and the item was returned to the supplier on 25.02.2022.	Sound & efficient procurement management system need to be implemented on monitoring & supervision of the procurement works carried out by the PMU.
(ii)	<b>Agriculture</b> Soxhlet extractor with heater - Rs. 542,547.	Contract awarded - 18.11.2019	Partly delivered	Not delivered for more than 02 years.	Goods received but incomplete.	-Do-

(iii)	Management Group work stations - Rs. 314,640	Contract awarded - 17.10.2019	Not delivered as at 31.12.2021	Not delivered for more than 2 years.	Delays have to be accepted due to the current situation.	-Do-
(iv)	Management Conference Tables - Rs. 53,110	Contract awarded - 04.12.2019	Not delivered as at 31.12.2021	Not delivered for more than 2 years.	Supplier has informed inability to supply the goods. Item cancelled.	-Do-
(v)	Management Multimedia Projectors - Rs. 275,820	Contract awarded - 27.08.2020	Not delivered as at 31.12.2021	Not delivered for more than 1 year and 4 months.	The selected supplier informed inability to supply the good.	-Do-
(vi)	Faculty of Agriculture.(Dual input portable Multipara meter kit for water Quality Analysis - Rs. 693,081.	Contract awarded - 03.10.2019	Not delivered as at 31.12.2021	Not delivered for more than 2 year and 3 months.	Good was delivered but as the probe is not working the team cannot accept the delivered item.	-Do-
(vii)	Faculty of Dental Electronic Apex Locaters - Rs. 626,400.	Contract awarded - 27.10.2020	Not delivered even as at 22.03.2022.	Not delivered for more than 1 year and 5 months.	Delivery of goods is delayed as difficulties faced by the suppliers.	Action is required to be taken to influence the suppliers to comply the requirements of the contract agreement
(viii)	Management -Construction of proposed two storied building - Rs. 35 million	Contract awarded - 19.08.2020	Progress:40%	-	Negotiating. 80% completed.	Need to take action to catch up the delays and ensure to complete the contract works timely to avoid additional costs.
(ix)	Faculty of Science - Upgrading existing Analytical Research Laboratory - Rs. 413,700	Contract was awarded 31.08.2020	in Progress	-	Some civil works cannot be completed due to the scarcity of material.	-Do-

(x)	The 1334 Items valued at Rs 5.01 million ordered by the University during the year under review had not been delivered by the suppliers even as at 31.12.2021	Agreements signed during 2021	Due dates of completion March to December 2021.	Goods not received even as at 31 December 2021	Difficulties faced by suppliers.	The action is required to be taken to influence the suppliers to comply the requirements of the contract agreement.
(c)	<b>ELTA ELSE - Faculty of Arts</b> Refurbishment & Expansion of the Special Needs Resource Center (SNRC) (SA 1.2) - Rs. 2.76 million out of which a sum of Rs. 570,611 had been paid. However, it had not been completed and handed over even as at 31.12.2021.	<b>Date of Agreement</b> 02.03.2021	<b>Due Date of completion</b> 02.06.2021	-	Extension granted to complete the work, upon the request of the contractor to accommodate variation of works, until 15.11.2021.	Need to take action to catch up the delays and ensure to complete the contract works timely to avoid additional costs.
(d)	Rehabilitation and Refurbishment of Multimedia Laboratory to include Lab-electrical wiring; Lab-security and access provisions including doors; Lab-networking; -signage; Lab-partitioning; Lab-network wiring; - Rs. 2.74 million had not been completed and handed over even as at 31.12.2021	<b>Date of Agreement</b> 12.08.2021	<b>Due Date of completion</b> 12.11.2021	-	Contractor informed inability to process the order on 26.05.2022. Recall bids.	-Do-
(e)	<b>Rajarata University of Sri Lanka</b> Construction of students Center for Faculty of Social Science and Humanities - Rs. 20.2 million	Contract awarded - 24.02.2020	Not completed and handed over even as at 31.12.2021.	-	Delays due to COVID-19.	-Do-

(i)	<b>Rajarata University of Sri Lanka</b> Expansion and Renovation of Model Kitchen at Faculty of Management Studies - Rs. 7.18 million	Contract awarded - 19.05.2020	- Not completed and handed over even as at 31.12.2021.	-	Due to COVID-19 & prevailing situation of non-availability of items and fuel issues works are getting delayed.	-Do-
(j)	<b>Ruhuna University</b> Procurement of Ice Flake marker Machine - Rs. 1.2 million	Contract awarded - 02.08.2021	- Not received even as at 31.12.2021.	-	Supplier delayed due to the current situation in the country. Hence the item is being re tendered.	-Do-