

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

---

The audit of financial statements of the Accelerating Higher Education Expansion and Development Operation Project (Project 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**

---

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 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.

### **1.3 Qualified Opinion**

---

In my opinion, except for the effects of the matters described in the Table 02 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**

---

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 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. Comments on Financial Statements

### 2.1 Accounting Deficiencies

The following Accounting Deficiencies were observed in Audit.

Accounting Deficiencies	Amount	Responses of the Management	Auditor's Recommendations
-----	-----	-----	-----
	<b>Rs. million</b>		
(a) A sum of Rs. 15.65 million had only been disclosed as the Imprest to Non – State Higher Education Institution in the statement of financial position. However, expenditure incurred out of the Imprest had been included in the Policy Analysis, Studies, Monitoring and Evaluation of the financial statements without being clearly disclosed the expenditure incurred by the six Non-State Higher Education Institutions.	15.65	ason for differences is the insufficient budgetary cation approved for AHEAD in 2021.	Expenditure need to be confirmed with the Non-State Higher Education Institutions before preparing the financial statements.
(b) The total expenditure incurred by the six Non-State Higher Education Institutions since 2019 to 2021 had been understated as confirmed by the respective Institutions.	12.45	-Do-	-Do-
(c) The balance of Imprest to Non – State Higher Education Institutions had been overstated in the financial statements as per the confirmation of balances of the six Non-State Higher Education Institutions.	12.5	-Do-	-Do-

### 2.2 Unsettled Balances

No	Description	Amount	Period unsettled	Response of the Management	Auditor's Recommendations
---	-----	-----	-----	-----	-----
		<b>Rs. million</b>			
(a)	Advance had been released by the Project without a proper requirement analysis. Considerable amounts remained unutilized by the NSHEIs.	22.3	1 ½ to 6 months	The balances in the advance register appear as unsettled cash balances. But in reality, these funds have been utilized by the Institute and there are no unutilized cash balances as such.	Proper requirement analysis needed before releasing advances.

- (b) Amounts withdrawn without considering proper requirements and remained idle in the Non State HEIs also had caused to pay an interest for the loans obtained from IBRD and IDA. 265.7 2017 to 2021 Not responded Proper requirement analysis should be needed before making withdrawals.

### 2.3 Non-Compliance with Laws, Rules and Regulations

No	Reference to the Rules and Regulations	Non-compliances	Responses of the Management	Auditor's Recommendations
(a)	The Financial Regulation 507(2) and Section 3.1.7 and 3.2.7 of the Para 03 of the Public Finance Circular No. 02/2014 dated 17 October 2014.	An annual board of survey on Operation Technical Secretariats of the Project had not been conducted and submit the reports to the Auditor General in respect of Goods and Equipment purchased at a cost of Rs. 4.3 million during the year 2020 and 2021.	A few OTSs have not adhered.	Need to comply with the FR.
(b)	Public Finance Circular No 05/2016	Annual board of survey reports on Goods and Equipment purchased under STEM for the 15 Universities, SLIATE and Ministry of Education amounting to Rs. 2,332 million and Lab Equipment and furniture purchased at a cost of Rs. 430 million under Additional financing had not been submitted to the Auditor General.	Will fulfill this requirement.	Need to comply with the Circular.
(c)	Program Appraisal Document Annex 10 Program Operations Technical Support Component Para 7, Para 2.1.2 of the Management Service Circular No 01/2019 dated 05 March 2019.	There were 07 approved Management Assistant vacancies in the Project office of OMST and AHEAD Operational Project Office of OMST had been employed 20 Technical Assistants and Rs. 13 million had been paid without an approval during the	The Project Operations Manual which is a part of the Loan Agreement has provisions for the appointment of TAs. Steering Committee	Proper Approval should be obtained.

year 2021. In addition to these 20 technical assistants, 24 other Technical Assistants were employed in AHEAD University OTS offices and paid Rs.1.2 million.

meeting held on 29 April 2019 has also approved the appointment of TA's.

### 3. Physical Performance

#### 3.1 Financial progress of the activities of the Project

Component/Sub Component	As at 31 December 2021	Audit Issue	Management Response	Auditor's Recommendations
(a) <b>Research Innovation and Commercialisation</b>	SLIIT had utilized 68 per cent of the allocated amount as at 31 December 2021.	Expected benefits could not be reached.	RIC is a 3-year project which will end in November 2022. Hence with the lock down and other constraints close to 70% progress is commendable.	Need to expedite the progress.
(b) <b>Development Oriented Research</b>	Out of the total allocated amount Non-state Higher Education Institutes of SLIIT, CINEC, KDU and SANASA had utilized between 49.6 per cent to 53 per cent allocation from the allocated amount as at 31 December 2021	Expected benefits could not be reached.	Considering the effect of Covid-19 and the frequent lockdowns progress by all teams except a few are excellent.	Need to expedite the progress.
(c) <b>Development of Society Linkage Cell</b>	Out of the total allocated amount of Non-State Higher Education Institutes of Saegis, KDU and SANASA had utilized in between 49.5 per cent to 56.7 per cent allocation from the amount allocated as at 31 December 2021	Expected benefits could not be reached.	Development of HEI-SL Cell will be completed only in 2023 as such the progress shown here is commendable at the end of December 2021.	Need to expedite the progress.

### 3.2 Physical Progress of the Activities

#### Project component - Operations and Monitoring Support Team

Component /Sub Component	As at 31 December 2021	Delay	Management Response	Auditor's Recommendations
<b>Expected physical performance and the Performance achieved</b>				
(a) <b>SLIIT RIC Activity</b>	– Out of the Rs. 12.5 million, a sum of Rs 8.5 had been utilized for Commercialization of Low Cost (CSUP) Micro propagation for Export and Production of Improved Ornamental Plants through Genetic Modifications of Faculty of Humanities and Sciences. According to the agreement, the date of implementation - April 2019, Date of implementation of Approved proposal - June 2019. Achievement date of desired Objective was October 2022.	According to the information rendered by the SLIIT there is a minor delay, due to Covid Pandemic.	Progress is good as at December 31 2021, despite price escalations and import restrictions which affected obtaining necessary equipment and chemicals.	Need to expedite the progress and have to achieve the outcome targets.
(b) <b>SLIIT DOR Activity</b>	Out of the Rs. 10 million, a sum of Rs 3.1 had been utilized for an Investigation of Online Harassment among the Young Population in Sri Lanka: Development of a National Strategy to Combat Online Harassment of Faculty of Humanities and Sciences.	According to the information rendered by the SLIIT there is a delay, due to Covid Pandemic.	Due to the Covid 19 and lock downs the collection of data was delayed.	Need to expedite the progress and have to achieve the outcome targets and close supervision is needed on the activities implemented by the Project.
(c) <b>SAEGIS</b>	Out of the Rs. 8 million, a sum of Rs. 7.6 had been utilized for a measure of importance for Socio – Economic Development in Sri Lanka. Impact of Socioeconomic Factors on Improving English Language Standards in Sri Lankan Schools of Faculty of Management.	According to the information rendered by the SAEGIS there is a delay, due to Covid Pandemic.	Project will be closed soon as this team has achieved the performance indicators.	Need to expedite the progress and have to achieve the outcome targets. and close supervision is needed on the activities implemented by the Project

### 3.3 Uneconomical Transaction

Audit Issue	Response of the Management	Auditor's Recommendation
According to the financial statement, a sum of Rs. 22.6 million had been incurred during the year 2021 on the premises of the OMST Building. However, only 35 OMST staff are employed. Further, a sum of Rs. 4.5 million had been spent for Vehicle Rent and Rs. 1.3 million for transportation.	Office premises and other services were selected through a competitive procurement process and considered in the most economical rate.	Expenditure need to be incurred economically.

### 3.4 Issues Related to Human Resources Management

Audit issues	Responses of the Management	Auditor's Recommendations
(a) There were 21 vacancies in different positions in the OMST of the project staff and 15 were excess of employees and four of the vacancies were positions directly affected to the performance of the project.	TAs recruited in place of the approved cadre positions. No excess staff at the OMST. Remaining project period is one year. AHEAD can manage with the existing staff.	Necessary approval needs to be obtained from the state authorities to amend the cadre before any recruitments. Action need to be taken to fill the Key personnel to ensure the smooth function of the Project operation and the Internal control system.

### 3.5 System and Control

Audit issue	Response of the Management	Auditor's Recommendation
Project proposal to finance infrastructure and other requirement to facilitate additional student intake of 10,027 students was made to the world Bank on the 28 October 2021 by the Acting Director General Department of External Resources. The Department of National Planning with the consultation of the Secretary, Ministry of Finance proposed activities to complete the ongoing construction works and continuing rehabilitation activities, procure urgent requirement of equipment and settlement of bills in hand on priority basis to be covered under additional financing. However, action had not been taken even as at 09 May 2022 to enter a fresh agreement or to amend the present agreement on the additional financing amounting to Rs.2,200 million given for AHEAD Operation.	The amendment of the existing Agreement is under way and there is a delay due to debt restructuring process of the IMF	Action should be taken to enter in to fresh agreement or amended the original agreement