The Secretary
Ministry of City Planning, Water Supply and Higher Education


The English version of the above mentioned report is sent herewith along with a copy of the financial statements certified.

W.P.C. Wickramaratne
Auditor General

Copies to :-

01. Secretary, Ministry of Finance
02. Project Director, Accelerating Higher Education Expansion and Development Operation Project
03. Senior Financial Management Specialist, International Development Association
The Secretary
Ministry of City Planning, Water Supply and Higher Education


1. Financial Statement
1.1 Opinion

The audit of financial statements of the Accelerating Higher Education Expansion and Development Operation Project for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies 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 Development Association and International Bank for Reconstruction and Development. This report consists of the matters observed during the course of audit and submitted for the consideration of the Executing and Implementing Agencies of the Project.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.
1.2 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.

1.3 Other Information on performance of the Project

The other information as stated below does not include in the financial statements and my opinion thereon does not cover the other information.

- The activities of the Project expected to be commenced in June 2017, as stipulated in the Loan Agreement had been commenced in July 2018 and continued operations with delays. As a result, the Project had withdrawn only a sum of Rs. 1,167.49 million during the year under review, out of the proceeds amounting to Rs.1,182.30 million remitted by the Lending Agency in June and August 2018. The balance amounting to Rs. 37.16 million had remained unspent in the Special Dollar Accounts at the Central Bank of Sri Lanka while other balance of Rs.178.79 million had remained in the Bank Current Accounts of the Project for over 04 months as at 31 December 2018, without being used for intended purposes. The Government of Sri Lanka had to pay a sum of Rs.31.86 million as commitment charges, due to slow disbursements.

- Even though the Project had remitted advances amounting to Rs.847.10 million to 15 national universities and out of that only a sum of Rs.287.69 million had been utilized as at 31 December 2018 by the School of Computing of the University of Colombo. The balance amount of Rs.559.41 million had remained unspent in the Bank Current Accounts of respective universities for over 04 months as at 31 December 2018.
The objectives of the Results Area - 01 of the Project is to increase enrolments for the degree programs in the fields of science, technology, engineering and mathematics conducted by the state owned higher education institutes and the Project had spent a sum of Rs. 528.10 million during the year under review to procure equipments for the faculties of 16 national universities. However, it was observed in site inspection that the equipment procured at Rs. 57.29 million had remained idle for over 05 months at the University of Kelaniya, South Eastern University and University of Ruhuna without utilizing intended purposes. Further, no physical and financial progress had been reported on utilization of grants amounting to Rs.86.10 million to the University of Colombo, Eastern University and School of Computing University of Colombo.

Under the Result Area-02 of the Project, the allocation of US$ 24 million equivalent to Rs.3,480 million had been made to improve the quality of higher education, specially Arts, Management and Science streams, through implementing faculty level systems for enriching learning, teaching and assessment and enhancement of skills in English Language. Therefore, the initial activities such as developing guidelines, calling and reviewing proposals had been completed. However, no financial assistance released to any university during the year under review.

It was observed that the allocation of US$ 12 million equivalent to Rs. 1,740 million had been made to provide financial assistance for the 200 academic staff members of the national universities, Sri Lanka Institute of Advance Technological Education and other higher education institutions in private sector to complete readings for post graduate. However, it was observed that only 14 staff members of 07 state universities had initiated their studies.

According to the Project Appraisal Document, allocation of US$ 16 million equivalent to Rs.2,320 million had been made to develop systems for research and development, innovation, and commercialisation programs of the national universities and out of that a sum of Rs. 339 million had been released to
08 national universities in October and November 2018. However, action had not been taken by 12 Faculties and 05 Departments of the respective 08 universities to commence the activities thereon during the year under review.

- The Project had taken action to establish Business Linkage Cells in 15 national universities and out of that only 06 universities had entered in to the agreement with the Project as at 31 December 2018 to implement the activities thereon. Further, the Project had released grants aggregating Rs.20 million in August 2018 to 05 universities to implement the respective activities and no financial or physical progress had been reported as at 31 December 2018.

- According to the Section C of Schedule 2 of the Loan Agreements, an independent third party with adequate qualifications and experiences is required to be appointed to verify the performance of the Disbursement Link Results. However, the action had not been taken by the Project to appoint a third party for the above purpose, even as at 31 December 2018.

1.4 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.

1.5 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:

a) 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.

b) 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 the project’s internal control.

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

d) 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. **Report on other requirements of the Donor Agency**

As required by the International Development Association, I state the followings:

(a) The basis of opinion of the audit is as stated above.

(b) In my opinion:

- the funds provided had been utilized for the purposes for which they were provided,

- the initial deposit, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2018 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,

- the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing and Loan Agreements, and

- the financial covenants laid down in the Financing and Loan Agreements had been complied with.

W.P.C. Wickramaratne  
Auditor General