



Ministry of Higher Education

Higher Education for the 21<sup>st</sup> Century Project30<sup>th</sup> June 2015

Dr. Harsha Aturupane  
Lead Education Specialist  
South Asia Region  
The World Bank  
73/05, Galle Road  
Colombo 03

Dear Harsha,

**Submission of Audited Financial Statements for the Year Ending December 31, 2014**

**IDA Credit No. 4686-LK**

Attached herewith, we submit the Audited Financial Statements of the HETC Project for the said year along with the Auditors' observations and our replies.

Thank You.

Sincerely,

Prof. KA Nandasena  
Project Director  
HETC Project

*Enclosed  
for  
comment &  
observations, please.*



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**AUDITOR GENERAL'S DEPARTMENT**

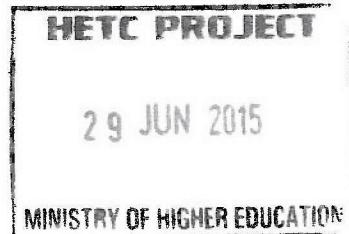


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Secretary,  
Ministry of Higher Education and Research



**Report of the Auditor General on the Financial Statements of the Higher Education for the Twenty - First Century (HETC) Project for the year ended 31 December 2014**

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The English version of the above mentioned report is sent herewith.

W.P.C.Wickramaratne  
Acting Auditor General

Copies :- 1. Secretary, Ministry of Finance

2. Director, Higher Education for the Twenty - First Century Project *S*

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**AUDITOR GENERAL'S DEPARTMENT**



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Date  
25 June 2015

Secretary,  
Ministry of Higher Education and Research

**Report of the Auditor General on the Financial Statements of the Higher Education for the Twenty - First Century Project for the year ended 31 December 2014**

The audit of financial statements of the Higher Education for the Twenty - First Century (HETC) Project for the year ended 31 December 2014 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 2 b (3) of the Loan Agreement No. 4686 - LK dated 26 August 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and International Development Association (IDA).

**1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement of the Project, then Ministry of Higher Education presently the Ministry of Higher Education and Research is the Implementing Agency of the Project. The objective of the Project is to enhance the capacity of the Recipient's higher education system, institutions and human resources to deliver quality higher education services in line with equitable social and economic development needs. The Project consists of four main components such as Institutionalizing Norms for the Higher Education Sector, Promoting Relevance and Quality of Teaching and Learning, Expanding and Strengthening Alternative Higher Education and Human Resource Development, Monitoring, Evaluation, Studies, Co-ordination and Communication. According to the Loan Agreement, the estimated total cost of the Project was US\$ 40 million equivalent to Rs.4,930 million and total cost was agreed to be provided by the International Development Association. The Project commenced its activities on 01 November 2010 and expected to be completed by 31 December 2015.



1.3

### **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 and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project,
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project,



- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (g) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Loan Agreement had been complied with.

## 2. Financial Statements

### 2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purposes for which they were provided.



- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement.
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with.

## 2.2 Comments on Financial Statements

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

The following observations are made.

- (a) The Board of Survey for the year under review had not been carried out as per Financial Regulation 756 to verify the existence of the fixed assets and inventory items of the Project.
- (b) The Project had recruited officers on contract basis and paid remuneration higher than the rates stipulated in the Circular No.33 dated 05 April 2007, without taking action to fill 22 vacancies of the Project cadre.
- (c) Gratuity allowances aggregating Rs.911,247 had been paid for three employees who were resigned just after completing of four years of the service of the Project, contrary the provision of the Gratuity Act No.12 of 1983.
- (d) It was observed in audit tests that incidental allowances of US\$ 50 per day had been paid to six person who visited abroad during the year under review exceeding the incidental allowance of US\$ 30 per day as stipulated in Paragraph 3(iii) of the Circular No 1/2010/01 of 11 October 2010 of the Ministry of Finance and Planning. In addition, combined allowances of Rs.591,757 had also been paid excessively than the allowances stipulated in the Paragraph 6.1 of the said Circular to 13 officers who visited abroad.



### 3. Financial and Physical Performance

#### 3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

#### Funds Utilized

Source	Amount agreed for financing according to Loan Agreement	Allocation made in the Budget Estimate for the year under review	During the year under review	As at 31 December 2014
	US\$ million	Rs.million	Rs.million	US\$ million
IDA	40	4,930.06	965	8.92 964.99 22.98 2,947.80
	<u>40</u>	<u>4,930.06</u>	<u>965</u>	<u>8.92</u> <u>964.99</u> <u>22.98</u> <u>2,947.80</u>

According to above information it is revealed that only 60 per cent of the funds allocated had been utilized after elapse of 80 per cent of the period of the Project. The possibility at utilizing of the allocation of US\$ 17.02 million during the rest of the period of one year appears doubtful.

#### 3.2 Physical Progress

The components of the Project consisted with four main areas such as Institutionalizing Norms of the Higher Educational Sector, Promoting Quality of Teaching and Learning, Expanding and Strengthening Alternative Higher Education, Human Resource Development and Monitoring, Evaluation, Studies, Coordination and Communication.

The following observations are made on physical progress of such activities carried out during the year under review.

- (a) The activities relating to the development of a national qualification framework of the Higher Education Sector in Sri Lanka to be carried out under the component of Institutionalizing Norms for the Higher Education Sector was scheduled to be completed by end of the 2012. The updated frame work had been submitted to the University Grants Commission however, the approval of the Commission had not been received even as at 31 December 2014.



- (b) Eventhough the construction works of a Leadership and Quality Development Centre under the modernization programme of Sri Lanka Institute of Advanced Technological Education, expected to be completed in 2015, no progress had been reported thereon even as at 31 December 2014.
- (c) Out of 221 persons who had been offered financial support by the Project to complete post graduate studies, 78 persons were expected to complete their studies by December 2014. However, 21 persons had not completed their studies as at 31 December 2014.
- (d) The University Development Grant made under the Project assists all Universities to develop their economic relevance of higher education. Out of the provision made for the 04 years ended as at 31 December 2014, 07 Universities had not achieved their economic relevance targets.
- (e) Out of the allocation provided upto 31 December 2014 for the development of external degree programs of the Universities, allocations ranging from 15 per cent to 49 per cent had only been utilized by 08 Universities for the intended purposes.

### **3.3 Matters in Contentious Nature**

The following observations are made.

- (a) A Senior Assistant Accountant of National Centre for Advanced Studies in Humanities and Social Sciences had worked as the Acting Finance Manager and Financial Consultant of the Project and in addition to her permanent post a sum of Rs.892,667 had been paid as allowances for the year 2014. Another Financial Consultant had also been appointed by the Project on monthly allowance of Rs.75,000. It was observed that similar lists of duties had been issued for all three posts mention about.
- (b) It was observed that two Procurement Consultants had been appointed by the Project at monthly remunerations of Rs.150,000 and Rs.80,000 respectively instead of recruiting a person for the post of Deputy Procurement Manager at a monthly remuneration of Rs.75,000 as approved by the Department of Management Services.



- (c) A new Director for the Project had been appointed at a monthly remuneration of Rs.110,000 since October 2014 while former Director of the Project is functioning as a Consultant for the period from October 2014 to March 2015 at a monthly fee of Rs.60,000. An additional lumpsum allowances of Rs.100,000 had been paid during the year under review to the New Project Director to study for Project processes.
- (d) Eventhough the fees aggregating Rs.3,464,100 paid for 12 officers of other institutions under the Line Ministry on contract basis,no documentary evidence made available to the audit to prove such assignments related to the activities of the Project.
- (e) Hiring Charges aggregating Rs.1, 440,000 had been spend by the Project during the year under review for two vehicles deployed on rented basis. However, documentary evidence was not made available to prove that the respective vehicle deployed for the purposes of the Project.
- (f) The Project had spent a sum of Rs.2,859,475 during the year under review on foreign visits of a Consultant attached to the Project Monitoring Unit on temporary basis by using allocations made for the purpose of providing of financial and non-financial benefits of the capacity building of university community and higher education sector.
- (g) It was observed in audit that the Project had spent Rs.432,722 for registering, visa and air tickets etc. for the participation Global Summit of the year 2014 for which former Project Director scheduled to be attended. According to the information received, the Former Project Director had not participated for the Global Summit.

### 3.4 Extraneous Activities

Allowance for vehicle usage aggregating Rs.2,037,965 exceeding the allowances entitled had been paid to two officers who engaged in students' affairs and other activities of the universities which were not directly related to the activities of the Project.



### 3.5 Under-utilized Assets

The Project had printed 5000 books at a cost of Rs.1,534,999 in June 2014 for Sri Lanka Qualification Frame Work and it was revealed that 4,750 copies of such books were remained at the premises of Project as at 30 April 2015 without being distributed.

W.P.C. Wickramaratne

Acting Auditor General

**Responses to**  
**Report of Auditor General on the Financial Statements of the**  
**HETC Project**  
**for the year ended 31 December 2014 (dated 25.6.2015)**

**2.2.1 Non Compliance with Laws, Rules and Regulations**

- (a) The Board of Survey for the year under review has now been completed.
- (b) It was proved difficult to recruit officers as per the Circular No. 33 dated 5/4/2007, since the salaries of senior staff of the Project are lower than that of University academics. As such, Consultants have been appointed with the World Bank approval in place of cadre positions. The Project requires highly skilled and qualified people to carry out project tasks dealing with higher educational institutes, and as such graduates have been hired under Technical Assistance in place of cadre posts, not exceeding the relevant financial allocations.
- (c) The implementation of the HETC Project needed to comply with :
  - (a) the Project Appraisal Document Section II B Clauses 33 & 34 (page 12)
  - (b) the Project Appraisal Document Annex 6 Clauses 30 & 31 (page 68)
  - (c) the Financial Agreement Schedule 2 Section I Clause III (page 6)

Accordingly, the Sri Lanka Government and the World Bank has agreed that the Policy Planning and Development Unit (PPDU) of the Ministry of Higher Education shall implement the World Bank funded higher education projects. As such, the Ministry has fulfilled the legal requirements and obtained the World Bank concurrence to continue with the services of all PPDU staff. They have been paid EPF & ETF under the same employer record. The gratuity allowances have been paid only to those at the PPDU who have left after 5 years' of service, according to the Gratuity Act No. 12 of 1983.

- (d) Payment of Incidental Allowance : Audit observation is noted, and steps will be taken to act accordingly in future. Payment of Combined allowance has been made based on the monthly remuneration, which is above Rs.36,755/-.

**3.1 Utilization of Funds**

The recorded committed expenditure as at 31<sup>st</sup> Dec. 2014 was approx. Rs.800 mn. Accordingly, the financial progress with commitments was Rs.3741mn, i.e. 75%. Hence the project targets are achievable.

**3.2 Physical Progress**

- (a) UGC approval has been granted for both Sri Lanka Qualification Framework (SLQF) and the Quality Assurance (QA) System. The SLQF has already been developed, introduced

and implemented by the UGC through the instruction issued under Circular No.5/2013 dated 22/4/2013 to the Universities. Currently it has been updated incorporating the concepts of Outcome-Based Education and Student-Centred Learning at the initiative of the Ministry of Higher Education. The updated version has been validated and submitted to the UGC Standing Committee on QA for approval.

- (b) The contract for construction of the Leadership and Quality Development Centre of SLIATE has been awarded through tender procedures. It is planned to complete the construction within one year during the Project life period.
- (c) There were 78 candidates who expected to complete the degree by 31st December 2014. Out of this 56 have completed the degree or upgraded the registration from MPhil to PhD degree. Balance 21 have submitted the final thesis and awaiting results.
- (d) The 7 universities under University Development Grant which have remained below 75% in utilization are reported to be above 83% with commitments, with the exception of Peradeniya University which reports 62% utilization with commitments. After the grace period given to complete the committed financial transactions, the utilization is 94% as at today.
- (e) The utilization for the External Degree program as at December 2014 records a utilization of 58% with commitments. The figure has risen up to 62% as at 31<sup>st</sup> March 2015. The target is achievable at the end of grant period as the grant amounts are small.

### **3.3 Matters in Contentious Nature**

- (a) The Finance Manager has been recruited for covering duties on part time basis, and with the approval of the World Bank another Consultant was employed due to the heavy work load of the financial aspect of the project in 2014, using the financial allocation for the cadre post. However, this consultancy is not continued at present.  
In addition to the above work, the part time Finance Manager was appointed as a resource person to provide management information. Since she was asked to do this additional work outside the normal working hours, she was paid a monthly fee with the approval of the World Bank.
- (b) In 2013 the World Bank recommended providing additional procurement support to Universities, to overcome delays in the implementation. Accordingly the Project Officer, who was working part time for the Project for a long period was recruited on full time, and a Consultant who had much experience in the World Bank procurement was hired with the World Bank approval. The situation improved with the two appointments. Since the implementation of overall procurement activities is too large for one person to monitor, one Consultant assists with the SLIATE/ATI & PPDU procurement, while the other follows up the University procurement. The World Bank has recommended and given their concurrence for this arrangement. Continuation of an additional Procurement Consultant will be stopped when required.
- (c) The facts are agreed with. As per the discussions with the World Bank, due to the complexity of the Project the former Project Director was given an assignment for 6 months

to assist the new Project Director. The new Project Director was advised by the World Bank to understudy the Project before taking up duties, and an allowance was paid accordingly for the time spent at the Project. These steps were taken in concurrence with the World Bank.

- (d) It is expected that the Project enhances the quality of 15 Universities and 12 Advanced Technological Institutes scattered all over the country. The Ministry of Higher Education directly coordinates some of the activities in these institutes, and some officers have been given assignments to assist those coordinating activities at the Ministry, and have been paid by the HETC Project. However many such assignments have been discontinued. Only three such essential assignments are being continued with World Bank concurrence.
- (e) Since the Ministry staff carry out the monitoring and coordination activities of 15 Universities, 12 Advanced Technological Institutes and 3 new ATI building sites, the Project has paid rent for 2 vehicles for the Ministry staff to be used for this activity. This payment is not continued at present.
- (f) Two consultants referred to by the query are working in the capacity of Deputy Director and HRD Manager, and both are permanent senior academic staff from Universities. However 2 officers who are hired by the Project also have been sent for short term training to improve the effectiveness of implementing the project, with World Bank Concurrence.
- (g) Overseas leave was not granted to the Project Director Prof. L L Ratnayake by the Presidential Secretariat to attend the Going Global Summit 2014. The President's Secretary has informed the Secretary, Higher Education Ministry to reduce the number of persons in the Ministry delegation and the Secretary, Higher Education Ministry agreed to remove the name of the Project Director. However, the British Council refused to refund the expenses already incurred on his behalf.

### **3.4 Extraneous Activities**

The work of the 2 Officers mentioned in the report is mainly out of Colombo. One works in the Eastern and South Eastern Universities, while the other visits many Universities out of Colombo. As such, they had to be provided with transport. These 2 assignments are no longer continued.

### **3.5 Under-Utilized Assets**

- 5) The Ministry decided to print 5000 SLQF document to be distributed to the academic staff of Universities one each, and the Project printed the books. However, it was decided by the Ministry to update the SLQF document incorporating the concepts of Outcome-Based Education and Student-Centred Learning, and send the update along with this document. The process of updating continued, and at present the updated document is awaiting UGC approval. It is planned to distribute the update together with the printed book among all university academics as soon as the approval is received.