

Financial Management Assessment

Project Number: SRI (50275-002)
August 2018

Sri Lanka: Science and Technology Human
Resource Development Project

CURRENCY EQUIVALENTS

(as of 1 August 2018)

Currency unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.0062637
\$1.00	=	SLRs159.65

ABBREVIATIONS

ADB	–	Asian Development Bank
AGD	–	Auditor General's Department
AMC	–	Audit Management Committee
CIGAS	–	Computerized Integrated Government Accounting System
COPA	–	Committee on Public Accounts
COPE	–	Committee on Public Enterprises
CPS	–	country partnership strategy
EA	–	executing agency
FMAQ	–	Financial Management Assessment Questionnaire
GOSL	–	Government of Sri Lanka
GPS	–	Government Payroll System
IA	–	implementing agency
KU	–	University of Kelaniya
MHECA	–	Ministry of Higher Education and Cultural Affairs
MOFMM	–	Ministry of Finance and Mass Media
MOHE	–	Ministry of Higher Education
MPAM	–	Ministry of Public Administration and Management
PISU	–	project implementation sub unit
PIU	–	project implementation unit
PwC	–	PricewaterhouseCoopers (Pvt.) Limited
RUSL	–	Rajarata University of Sri Lanka
SLPSAS	–	Sri Lanka Public Sector Accounting Standards
SLRe	–	Sri Lankan Rupee
SUSL	–	Sabaragamuwa University of Sri Lanka
TA	–	technical assistance
TOR	–	Terms of Reference
UGC	–	University Grants Commission
VFM	–	Value for Money

NOTE

In this report, "\$" refers to United States dollars.

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PROJECT FINANCIAL MANAGEMENT ASSESSMENT

Proposed Project Title: Science and Technology Human Resource Development Project (STHRDP)	Proposed Loan Amount: USD 145 million
Executing Agency Ministry of Higher Education and Cultural Affairs (MHECA) Implementing Agencies University of Sri Jayewardenepura (SJP) University of Kelaniya (KU) Rajarata University of Sri Lanka (RUSL) Sabaragamuwa University of Sri Lanka (SUSL)	Source of Funding: Asian Development Bank (ADB) Government of Sri Lanka (GOSL)
Prepared by: PwC – Sri Lanka/ ADB	Date: 17 May 2018

I. INTRODUCTION

1. This Financial Management Assessment (FMA) was commissioned by the Asian Development Bank (ADB) to meet its ‘due diligence’ requirements, as a precursor to the proposed project titled Science and Technology Human Resource Development Project (STHRDP) in the higher education sector in Sri Lanka. The FMA, together with the Procurement Capacity Assessment (PCA) was carried out by the Consultant, PricewaterhouseCoopers (Pvt.) Limited, (PwC) Sri Lanka, in accordance with the Terms of Reference (TOR) issued by Ms. Gi Soon Song, Principal Social Sector Specialist, Human and Social Development Division, South Asia Department, ADB, in March 2017. The FMA enabled the evaluation of financial management capacity of the executing agency--Ministry of Higher Education and Cultural Affairs—(MHECA) and the four university implementing agencies, to effectively manage the finances of the project.

2. The approach and methodology for the FMA was based on the Technical Guidance Notes on FMA, issued by the ADB in May 2015. The preparation activities for the FMA included, review of relevant literature and documents, experience gathered by the consultants (PwC) on similar assignments carried out in the past for the Public Sector in Sri Lanka, interviews and discussions with the counterpart which include the Ministry of Higher Education and Cultural Affairs (MHECA), the executing agency for the proposed project, and four university implementing agencies. The assessment process also included on-site observation of systems and controls in operation, compliance tests on samples of transactions and review of documentary evidence made available by the respective agencies to support facts, forecasts and reported results.

II. BRIEF PROJECT DESCRIPTION

3. The STHRDP under consideration for the higher education sector in Sri Lanka, with the funding and technical assistance from ADB, has earmarked four universities for support, namely University of Sri Jayewardenepura (SJP), University of Kelaniya (KU), Sabaragamuwa University of Sri Lanka (SUSL), and Rajarata University of Sri Lanka (RUSL). Main objective of the project has been announced as “development of new technology faculties to nurture a new breed of technology-oriented graduates equipped with market relevant skills and entrepreneurial spirit”. Accordingly, construction of infrastructure facilities for the new engineering faculty at the

University of Sri Jayewardenepura and technology faculties for the other three universities are being considered under the new project under consideration. The development would involve civil works for faculty buildings, equipment and furniture for academic programs including laboratories, capacity development programs, and consulting and non-consulting services.

4. It is envisaged that the project would be implemented supported by the ADB, through a loan facility under the 'project-based lending mode' and the Government of Sri Lanka (GOSL), which would meet any counterpart financing obligations. Total loan funds to be provided by the ADB amounts to USD145 million, which might however be subject to change during loan negotiations between the ADB and GOSL. It is anticipated that any excess project costs over the loan amount would be met from counterpart financing made available by the GOSL. As of now, the duration of the project has been tentatively decided as 5 years, starting from year 2018.

III. COUNTRY PARTNERSHIP STRATEGY AND GOVERNANCE ISSUES (CPS ASSESSMENT)

5. ADB, through its country partnership strategy (CPS)¹, 2018–2022, will support Sri Lanka's transition to upper middle-income country status. The CPS will focus on two strategic objectives: strengthen the drivers of growth by promoting diversification of economic activities and productivity enhancement (pillar 1), and improve the quality of growth by promoting inclusiveness (pillar 2). The priority investment areas for pillar 1 will be to (i) expand the provision of growth-oriented infrastructure (transport, energy, and urban) and logistics; (ii) develop an economic corridor; and (iii) upgrade human capital. For pillar 2, the priority investment areas will be to (i) strengthen agriculture infrastructure and commercialization, (ii) improve rural connectivity, (iii) improve public service delivery, and (iv) expand access to finance for small and medium-sized enterprises. Key thematic priorities are (i) promoting private sector development and public-private partnership (PPP); (ii) strengthening environment, climate change, and disaster risk management; and (iii) promoting gender equality.

6. ADB assistance is closely aligned with the development strategy of the GOSL as outlined in (i) the two policy statements of the Prime Minister in Parliament in November 2015 and October 2016; and (ii) the Public Investment Program, 2017–2020. The CPS is in line with ADB's corporate strategy under its Midterm Review of Strategy 2020.

7. As pronounced in CPS (2018–2022), ADB's support will focus on an integrated human capital development program involving secondary education, technical and vocational education and training (TVET), and higher education. ADB will give greater attention to the linkages between its education sector interventions and emerging jobs. Efforts will also be made to introduce new training programs for selected industries, especially those identified by the government and the economic corridor study. Interventions in the higher education sector will support the government in establishing a technology university using the PPP modality, and assist in preparing market-oriented degree programs. Support for technology education will be extended to selected state universities, so the model can be replicated. By initiating expansion in the human resource base in science and technology, ADB's intervention will provide the first steps toward greater infusion of technology and innovation in the economy. As a next step, ADB will initiate and continue dialogue with the government and other development partners for strengthening the linkages between industry and technology institutes, and increasing the scale of research and development expenditure.

¹ ADB institutional document.

8. With reference to 'Human Capital Development' under the 'Country Knowledge Plan'², the CPS recognizes Sri Lanka's reorientation needs for secondary education and technical and vocational education and training, with a greater focus on science and technology, information and communication technology (ICT), and the English language to meet market demand. This also entails the need to strengthen higher education to prepare for absorption of contemporary technology transfer, and to enhance the capacity of the country for knowledge creation and innovation.

9. The ADB's resolutions specified in the CPS (2018–2022) in relation to the use of country system and managing governance risks include;

- (i) ensuring predictability in the availability of funds by making full use of country public financial management systems, in particular country budgeting, treasury, accounting, and auditing systems;
- (ii) adopting the use of country systems selectively in safeguards and procurement, taking into consideration agency capacity and associated fiduciary risks; and
- (iii) raising awareness of ADB's Anticorruption Policy (1998, as amended to date) and its impact on operations in collaboration and engagement with ADB's Office of Anticorruption and Integrity and Sri Lanka's Commission to Investigate Allegations of Bribery or Corruption.

IV. PROJECT FINANCIAL MANAGEMENT SYSTEM

A. Overview

1. Organization and Staff Capacity

a. Ministry of Higher Education and Cultural Affairs – MHECA (Executing/ Implementing Agency)

10. The Ministry of Higher Education (MOHE) has functioned from time to time in the past as a standalone ministry under a subject specific minister. This arrangement had provided the MOHE with its own infrastructure facilities including permanent office premises, a pre-defined organization structure and a team of experienced staff, though they are subject to periodic transfers in line with government policy. Thus, in keeping with tradition, 'Higher Education' arm of the present ministry continues to function as a unit independent from 'Cultural Affairs' subject, which operates separately, from a different office location. Whilst, the Secretary to MHECA is in overall charge, an Additional Secretary has been assigned the task of administration and oversight of the 'Higher Education' arm of the MHECA. The MHECA will be the executing agency as well as key implementing agency under the proposed project under consideration.

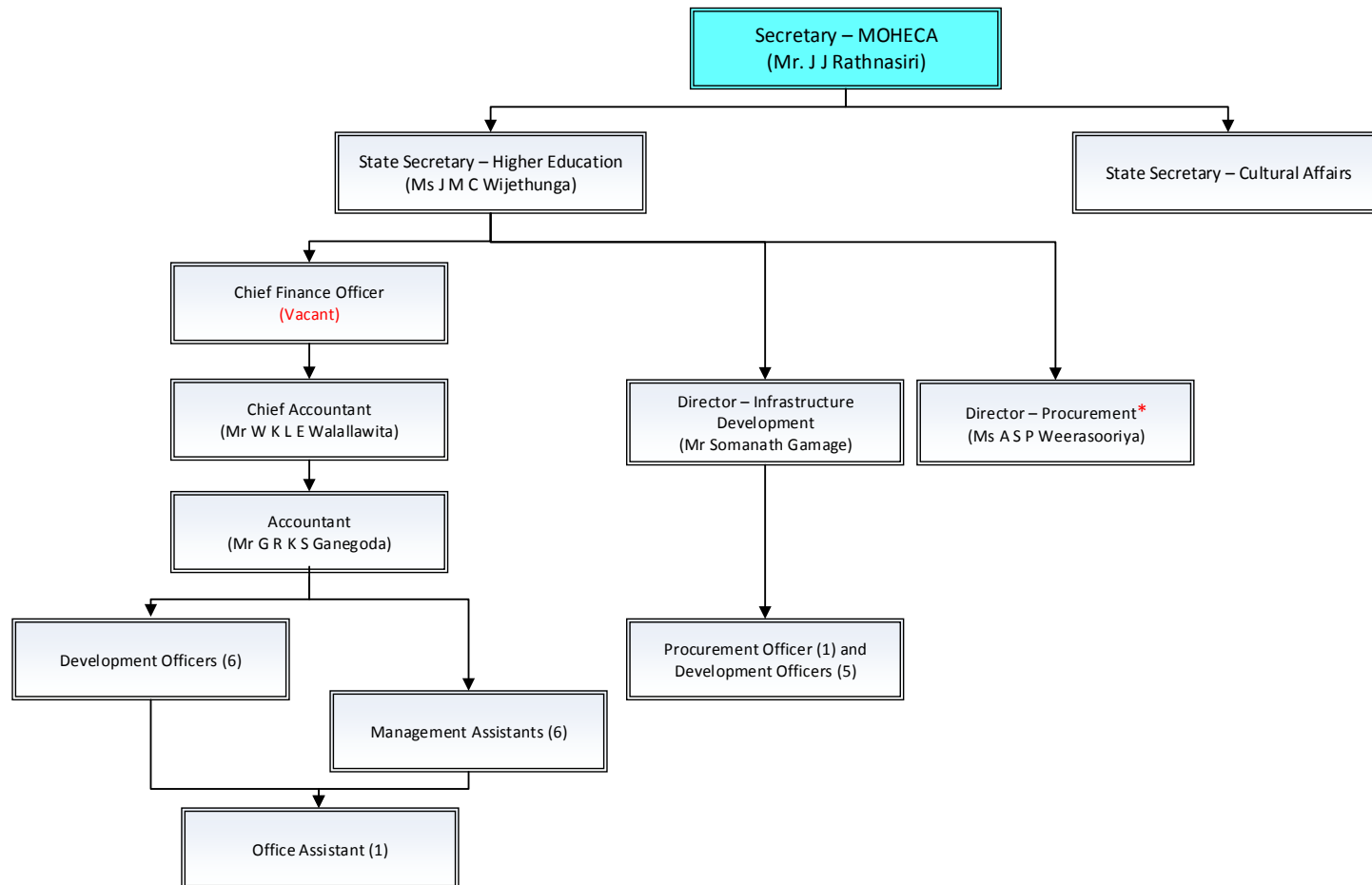
11. The organization structure of MHECA's higher education arm includes a Chief Accountant and a Director–Infrastructure Development, reporting to Additional Secretary/ Secretary and heading the finance/ accounting function and procurement function respectively. As per the approved cadre of the ministry, there exists a Chief Financial Officer position which had fallen

² Appendix 2 – CPS (2018 – 2022)

vacant in February 2017 and yet to be filled. The Chief Accountant is supported by an Accountant and 16 assistants (Management, Staff and Book Keeping) for the finance/ accounting. The Chief Accountant of the MOHE was of the view that the present staff strength is adequate with some excess capacity which could be channeled to the proposed ADB – project management unit (PMU), if necessary. The Infrastructure Development (Procurement) operates with a flat organization structure with no levels of responsibility in between the Director (Executive/ Management grade) and six non-executive Development Officers who report direct to the Director. The existing capacity is observed to be meeting the current HR requirements for satisfactory procurement operations.

12. The 'Organization Chart' of MHECA, pertaining to the finance and procurement function and the qualification/ experience profile of senior executive staff appear below.

**Figure 1: Ministry of Higher Education and Cultural Affairs
Organization Chart - Finance and Procurement.**



*This position has been newly filled in August 2017.

b. Universities (Implementing Agencies)

13. As per the Universities Act No. 16 of 1978, all the public universities operate with common management structure, which consist the following key university officials.

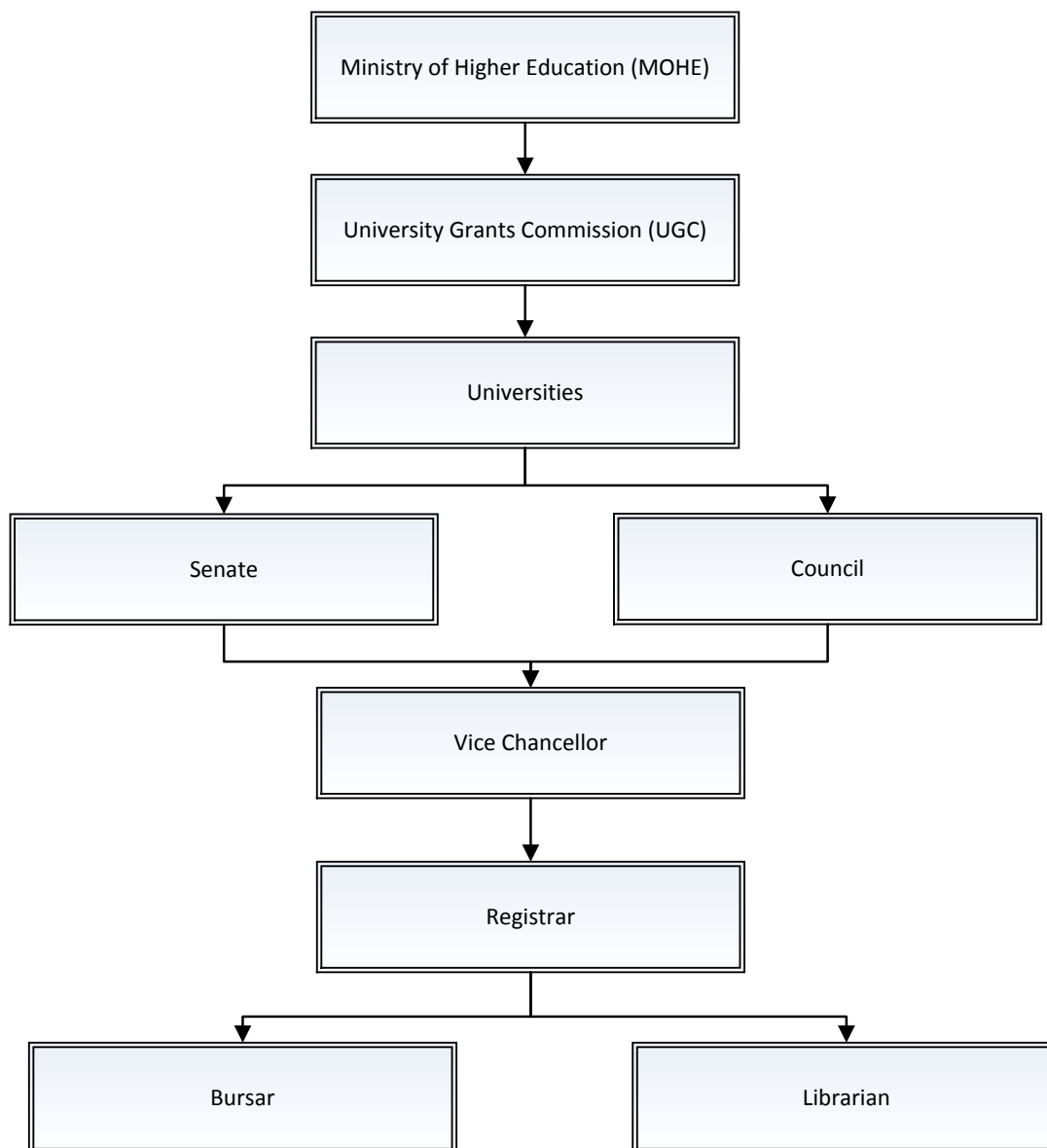
Vice Chancellor,
Dean of each Faculty
Registrar
Bursar
Librarian

14. The Vice Chancellor and Registrar also act as the Accounting Officer and Assistant Accounting Officer of the university, respectively. In the public university system in Sri Lanka, the 'University Council' is the executive and governing body, in which the Vice Chancellor holds chairmanship. The Senate is the topmost body responsible for academic affairs. By statute, the Registrar is also the Ex-Officio Secretary of both the Council and Senate.

15. In practice, Registrar of the university heads administrative functions while the Bursar is responsible for finance/ accounting. It is pertinent to note that Registrar and Bursar are directly recruited by the University concerned and they are not transferable to other Universities, whereas their deputies/ assistants, recruited by the University Grants Commission (UGC), are transferable. The common procedure prevails in the four universities assessed is that the procurement function is divided between these two key divisions namely, administration and finance. Accordingly, the procurement of goods (supplies) has been made responsibility of the Bursar while capital works/ renovations and services (including consultancies) have been assigned to the Registrar. A deputy/ assistant registrar or bursar level officer in respective divisions, as the case may be, exercises the oversight for each of these procurement sub functions. In some universities there are provisions to have a Project Manager, a permanent senior position in the university hierarchy, to overlook mainly the capital works. Of the four universities assessed, the Universities of Sri Jayewardenepura and Kelaniya employs Project Manager in-charge of capital works whilst respective positions were vacant at Rajarata and Sabaragamuwa Universities at the time of assessments in late 2017.

16. The staff cadre positions in administration and finance at the four universities are in a state of fulfillment except for a few vacancies yet to be filled. [The vacant senior positions include (1) One Senior Assistant Bursar position at Kelaniya University and (2) Deputy Bursar and Assistant Bursar position each at Sabaragamuwa University of Sri Lanka, as of the respective date/s of review].

Figure 2: Public Higher Educational Sector (University) Organizational Structure



17. **HR Capacity Development.** No need based, function specific HR capacity development plans were observed to have been prepared by the MHECA or Universities assessed. However, some universities such as Rajarata had devised in-house training programmes for non-executive staff. Externally conducted (e.g. by Sri Lanka Institute of Development Administration) training programmes, workshops, seminars etc., and overseas training have usually been reserved for the executive level officers.

2. Information Management

18. The collection, management and dissemination of financial information at MHECA is similar to that of all government ministries and departments in Sri Lanka. Financial information, mainly expenditure items of the ministries are recorded and managed through a Computerized Integrated Government Accounting System (CIGAS) which is the main accounting software in use. CIGAS had been developed, implemented and is monitored/maintained by the Department of State Accounts – Ministry of Finance and Mass Media (MOFMM). CIGAS had been in use for more than two decades.

19. The system maintains all government accounts at operational level and facilitates preparation of financial reports (Appropriation Accounts of Ministries), bank reconciliations, inventory management and cash-flows. It has data security features of encryption, decryption and password privileges and also provide for journals, sub-ledgers, SLIPS payments and integrates payroll, but in practice, at MHECA these features have not been utilized up to their full potential. Accordingly, at MHECA the system is used as a standalone system.

20. At MHECA the system captures both recurring and capital expenditure based on the budgeted sector accounting codes. However, manual intervention is required to prepare the appropriation account and other financial reports. The payroll system, which is also a system commonly used by all ministries and government departments - the Government Payroll System (GPS), is a standalone system and not integrated to the main accounting system.

21. It is expected that in the near future MHECA will use an advanced customised software Integrated Treasury Management Information System (ITMIS), being developed and implemented under the sponsorship of General Treasury, which will be an online, real time centralised system.

22. The University of Sri Jayewardenepura uses a customized software package developed by the 'Arthur C. Clarke Institute for Modern Technologies' to process financial information, which has been in use for over 10 years. This General Ledger software programme was observed to be advanced, compared to the packages being used by the other three universities and also integrated with all faculties of the university, except the medical faculty. Whilst a software system developed by the University's management information system (MIS) centre has been in use for the payroll processing, fixed assets management and inventory control functions have been outsourced to an external service firm which also provides software maintenance development services. These standalone software systems have resulted in extensive manual intervention to incorporate information generated from different systems/ summaries and other periodic journal entries.

23. Three of the universities assessed (Kelaniya, Rajarata, and Sabaragamuwa) use a common customised software package for the recording, processing and reporting of financial

information except for the University of Sri Jayewardenepura, which uses a customized software package developed by the 'Arthur C. Clarke Institute for Modern Technologies' Moratruwa, Sri Lanka. The customised, locally developed software used by Universities of Kelaniya, Rajarata and Sabaragamuwa - 'Equal – Packsoft' - had been supplied by a software vendor/ agent who is responsible for maintenance and upgrade of the system based on periodic (annual) maintenance agreements. The software agent provides university specific personnel who will respond to universities requests for modifications either on-line (for minor issues) or by visits (for major issues). The staff at University of Sri Jayewardenepura had been trained for the use of software package supplied by Arthur C. Clarke Institute for Modern Technologies', while all maintenance work and upgrades are handled by the Institute. The University of Sri Jayewardenepura also has an MIS Manager who is responsible for maintenance of hardware and networking system.

24. The 'Equal – Packsoft' package is used as standalone General Ledger, Payroll and Inventory packages by some of the Universities whereas in others the General ledger, Payroll and Inventory systems have been integrated. The software used at the University of Sri Jayewardenepura integrates all accounting modules such as General Ledger, Accounts Payables/ Receivables, Purchases Orders and Cash/ Bank, except for the Payroll processing and Asset/ Inventory management.

25. The software packages and systems described above had been in use for more than 7 years at respective universities.

3. Budgeting and Funds Flow Arrangements

26. The individual budgets of the MHECA and four universities are components of the national budget of the GOSL, which is presented to the parliament of Sri Lanka, debated and approved with any amendments, usually before the commencement of the upcoming financial year, running from 01 January to 31 December. All the public universities in Sri Lanka, which operates under the UGC, are required to submit their budgets to the Department of National Budget/ General Treasury with the concurrence of the UGC.

27. Budget preparation process is usually initiated by the middle of the year preceding the year for which the budget is prepared, and instructions titled 'Budget Call - (Year) - Guidelines and Directions for the Preparation of Annual Budget Estimates' are issued by the General Treasury around July every year.

28. The budget contains separate estimates for recurrent expenditure, capital expenditure and any foreign aid/ funding anticipated for the particular entity or sector.

29. Amendments to the budget, which will result in cost overruns, are usually not permitted once the budget is passed by the parliament, unless a change in government policy or other unforeseen event/ national issue takes place during the financial year. In such an event supplementary estimates would have to be approved by the parliament, covering the additional cost estimates. However, changes to budget allocations would be permitted between line items, subject to prior approval and such change would not result in increase to overall budget allocation already approved for the entity. All the agencies assessed contended that they are however, unlikely to exceed any budget line item more than 10% of the original allocation.

30. At the ministry and university levels, a routine budgetary control process through variance analyses is almost nonexistent. However, before incurring every expenditure item, availability of

adequate budget allocations has to be ensured. The votes ledger maintained at every public entity is updated with cumulative expenditure against line items, which helps this certification process. Any explanations for variances are required to be provided to the Treasury, when the appropriation accounts (financial statements) are submitted annually. Any unspent allocations, for which funds have already been received, have to be refunded to the 'Consolidated Fund' at the end of the financial year.

31. Request of funds from the General Treasury by the universities has to be channeled through the UGC and upon approval the Treasury remits funds direct to the university's designated bank account. In the case of MEHCA, the request is made direct from the Treasury.

32. The total budget allocations for the four universities ranged from SLRe 1.7bn to SLRe 4.7bn for the years 2016-2018, as below. (At average annual SLRe/ USD exchange rates - 148.44, 150.56 and 155.24 for 2016, 2017 and 2018 –up to May, respectively.)

University	Aggregate Approved Budget					
	2016		2017		2018	
	SLRe – m.	USD – m.	SLRe – m.	USD – m.	SLRe – m.	USD – m.
Sri Jayewardenepura	4,068	27.4	4,697	31.2	4,754	30.6
Kelaniya	3,361	22.6	3,250	21.6	3,650	23.5
Rajarata	1,872	12.6	1,731	11.5	1,989	12.8
Sabaragamuwa	1,659	11.2	1,535	10.1	1,751	11.3

4. Exposure to Project Management

33. MHECA and the four selected universities have implemented a considerable number of infrastructure, capacity building, HR development and academic refinement projects in the past, through both local and foreign funding. It was however observed that the volume of capital development projects implemented through foreign funding sources, as a percentage of total capital expenditure budget of the sector, had not been significant, which contributed only 7% approximately for 2016.³ Projects implemented by the MHECA within past (10-15 years) through foreign funding sources are as tabulated below.

Name of Project	Funding Source	Duration	Project cost
Improving Relevance and Quality of Undergraduate Education (IRQUE)	World Bank	2003 – 2010	USD 31.6m
Distance Education Modernization Project (DEMP)	ADB	2003 – 2009	USD 60.0m
Higher Education for Twenty First Century (HETC)	World Bank	2011 – 2016	USD 40.0m
Tsunami Rehabilitation Project	Government of Kuwait	2005 – 2010	KWD 6.0m
South Eastern University Development Project (Phase 1A)	Government of Kuwait	2007 – 2011	USD 8.6m

³ Progress Report 2016 – Ministry of Higher Education and Highways.

Name of Project	Funding Source	Duration	Project cost
South Eastern University Development Project (Phase 1B)	Government of Kuwait	2012–2018	USD 14.0m

34. A new project funded by the World Bank titled Accelerating Higher Education Expansion and Development Operation has received approval in May 2017 and due for implementation between 2018 and 2023. Key objectives of this project are to increase enrolment in priority disciplines, improve the quality of degree programs, and promote research and innovation in the higher education sector.

35. The approximate combined value of major construction (capital works) projects in progress/ completed by MHECA, during five years up to 2017 amounted to SLRe 15,540 million, as reported by MHECA, of which LKR 1,821m represents foreign funds. A detailed analysis appears in PCA report. The gross values of construction capital expenditure incurred by universities during past 5–7 years are as tabulated below.

University	Amount in SLRe m	Amount in USD m*
Sri Jayewardenepura	5,153	37.8
Kelaniya	2,224	16.3
Rajarata	3,591	26.3
Sabaragamuwa	635	4.6
Total	11,603	85.0

* At 6-year average exchange rate – SLRe 136.50/ USD.

36. Continuous infrastructure development and project management initiatives, which the MHECA and the Universities have been exposed to, are observed to have provided impetus towards improvement of know-how and managerial skills of the senior finance, procurement and administrative staff attached to these agencies. Such exposures have imparted a cumulative learning impact, particularly at the Universities where the staff is not subject to regular and periodic transfers.

5. Accountability Measures (e.g., public audits, legislative oversight)

37. The legal and regulatory framework that guide accountability includes the Finance Act No. 38 of 1971, certain sections of which need to be complied with by all universities, Establishment Code of the GOSL, where the universities adopt a modified version, Financial Regulations (FR-1992) and the Universities Act. With the objective of strengthening oversight, a National Audit Bill is in the discussion stage with the policy makers, which will confer wide powers to the National Audit Commission, which would ultimately replace the Auditor General's Department (AGD). In addition, the AGD has set up two new divisions for performance and investigative audits, introduced advanced methodologies, and established a dedicated training division to continue staff education and training⁴, which would contribute in a significant way to ensuring accountability by public entities.

⁴ Public-Private Partnerships on Public Financial Management Reforms in Asia – Opportunities and Lessons (May 2017) – World Bank Group.

38. Accountability for acknowledging and assuming responsibility for actions, decisions, policies, administration, governance and implementation primarily rests on the GOSL. Both the political executive and the administrative executive of the government is accountable to the Parliament.

39. Accountability encompasses financial accountability among others such as transparency, responsiveness, regularity, empowerment etc. The Parliamentary Committees ensuring the executive accountability are the Committee on Public Accounts (COPA) and Committee on Public Enterprise (COPE). The COPA probes the management efficiency and discipline of the government, ministries, departments, provincial councils and local authorities whilst COPE ensures the observance of financial discipline in public corporations, public universities and other semi-government bodies, in which the government has a stake. Both committees examine the reports of the Auditor General on the respective entities.

40. The Auditor General through the AGD provides an independent review of performance and accountability of the public sector institutions and reports to Parliament. The AGD aims to meet the needs and expectations of the Parliament and therefore performs independent audits of state institutions ensuring propriety, regularity and compliance with statutory and regulatory requirements and the economy, efficiency and effectiveness of operations.

41. Accountability is also ensured in all government institutions including ministries by the application of Financial Regulations on all financial transactions. These regulations issued by the Public Finance Department of the MOFMM are being revised to suit more challenging development demands. Government institutions also follow Administrative Regulations contained in the Establishment Code issued by the Ministry of Public Administration and Management (MPAM).

42. Government institutions are also regulated by Circulars issued by the MOFMM and MPAM. The Circulars provide instructions and guidance on specific financial and administrative matters and are issued as circumstances arise with date and number reference. The MOFMM issues circulars under several of its' departments such as Department of Management Services, Department of Public Finance, Department of Management Audit and Department of State Accounts etc.

43. The Internal Audit Departments established in each government department, ministry, provincial council, local authority, public corporations also ensure accountability of public funds and compliance with legislation.

6. Effectiveness

44. It was evident from the assessment that the financial management function of the MHE has been fulfilled, particularly in the recent past (<3 years) to satisfy the overall objectives of accountability, fairness and compliance with established legal framework, guidelines, regulations, and accepted practices. However, the comment made by the Auditor General in his report for the year ended 31 December 2014 indicate that there are improvements required over resolving contentious issues⁵ and native results. This implies the financial management effectiveness has

⁵ Contentious issues comprise expenses incurred not relating to the Ministry such as foreign training to dairy farmers and incidental expenses and warm clothes allowances to an officer who had gone abroad on behalf of the Sports Ministry. Further such issues as non-acceptance of scholarships awarded and expenditure on Television and Radio Broadcasting which had not been provided but spent from the allocation for construction of hostels.

not been totally achieved. Further, the AGD reports for the years 2015 and 2016 are yet to be finalized which reflects that the external audit process has not been effective, particularly in respect of 2015.

45. As far as the four universities assessed are concerned, the effectiveness in their operations was observed to have been satisfactory in varying degrees. As observed during assessment, the four Universities can be ranked in the descending order of effectiveness, starting from (i) University of Sri Jayewardenepura, (ii) University of Kelaniya, (iii) Sabaragamuwa University of Sri Lanka, and (iv) Rajarata University of Sri Lanka, in terms overall financial management performance. The comparatively higher number of procurement related issues identified at the assessment weighed down and contributed to the lowest rank earned by Rajarata University of Sri Lanka, in spite of their stronger accounting and non-procurement related FM performance. The opinion on the audited financial statements for all universities, except for University of Sri Jayewardenepura, for the years 2014 and 2015 have been qualified,⁶ due to significant issues, some which have been repetitive (*Please refer "table" below*). In the year 2016, the opinion on financial statements of only the Sabaragamuwa and Rajarata Universities have been qualified. This implies that the financial management effectiveness has not been totally achieved.

46. Overall, the financial management capabilities of both the MHECA and Universities, which contributed to successful implementation of large scale development projects in the past, both local and foreign funded, implies that the proposed executing agency and four implementing agencies possess required level of financial management effectiveness to successfully implement the ADB funded technology faculty development project in the offing.

B. Strengths

- Dedicated GOSL ministry for the higher education sector supported by a Cabinet and a State minister.
- Well-structured legal and regulatory framework governing public entities, including GOSL ministries, departments and universities.
- Effective organization structure pertaining to the MHECA, UGC and universities, embedded with top down oversight framework.
- Adequately qualified and experienced staff attached to MHECA particularly at the executive level.
- Well qualified academics retained by the universities, in addition to administrative and accounting/ finance staff with sufficient experience and professional qualifications.
- Capacity building initiatives, mainly targeting the executive staff.
- Past/ present project management exposure (both local and foreign funded)

⁶ Please refer the attached table for significant and recurring issues.

- Time tested systems, procedures and controls in place at government agencies which has contributed to enhancing overall fiduciary responsibilities.
- Adequate resources – office premises/ buildings, ICT and office equipment, vehicles, other fixed assets and consumables available to both MHECA and universities to deliver efficient service.
- Sufficient budget allocations and funding by the GOSL where recurrent expenditure commitments are usually fully met.
- Preparedness and positive attitude of the MHECA/ university management and staff with regard to the proposed project to be funded by the ADB/ GOSL.
- A formalised internal audit function in which the Internal Auditors of the Ministry and universities function independent of management except that they report to the head of respective agency, Secretary to the MHECA and Vice Chancellor respectively.
- Competent Heads of internal audit units at the Ministry and the universities.
- Execution of internal audit according to plans developed based on the Audit and Management Circulars issued by the Department of Management Audit of the MOFMM.
- Risk based approach to internal auditing at the MHECA and University of Kelaniya and inclusion of all faculties and institutes of the Universities to the internal audit plans.
- Annual audits by the AGD under Constitutional and other regulatory requirements and performed in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).
- Comprehensive audits covering both financial and management aspect of transactions, addressing economy, efficiency and effectiveness of transactions.
- Participation by AGD representative of the respective audit team at Audit and Management/ Audit Committee meetings of MHECA and the universities by invitation
- The AG who is the external auditor of both MHECA and the Universities does not engage in any non- audit services thus ensuring independence and absence of conflict of interest.

- The AGD's experience in auditing foreign funded projects including ADB.
- Quarterly financial statement and variance analysis by the universities.

C. Weaknesses

- Gaps in information management process with no central data base, uniform systems among agencies affecting the accuracy, completeness and integrity of data and information generated by the MHECA and four universities.
- Unfilled/ vacant project manager positions at the Sabaragamuwa and Rajarata universities.
- Lack of capacity building initiatives aimed at non-executive staff.
- Insufficient knowledge and exposure to ADB's current project management, monitoring and reporting systems.
- Ineffective fixed assets control – with no labelling of assets, un-reconciled master fixed assets registers with inventory records maintained by divisions/ departments/ units at both MHECA and university levels.
- Use of accounting software packages supplied and serviced by relatively 'unknown' organizations with no guarantee of continuity of software maintenance and support at the universities.
- Outdated accounting software (CIGAS) and payroll system (GPS) used by the MHECA, with no compatibility to current ICT systems.
- Use of software systems without effective password controls and ineffective/ inadequate physical and access controls at the universities.
- Absence of sound data backup system with facilities such as offsite/ cloud storage of data, at both MHECA and universities.
- Sub optimal internal audit plans.
- Presence of management at Audit and Management/ Audit Committee meetings where internal audit findings are discussed, impairing independence.
- Delay in finalization of audit reports, especially at MHECA diluting the effectiveness of audit since corrective action is delayed.

- Financial activities pertaining to foreign funded projects are not subject to audit by the AG at Universities unless the capital expenditure of the project is captured in the financial statements of the Universities as capital assets. Generally, the foreign financing had been captured at Ministry level budget estimates and are subject to detail audit at the Ministry level where the Ministry is the executing agency.
- The reports of the AG do not provide recommendations and is limited to audit observations/ findings.
- The automated accounting systems at MHECA and the universities do not facilitate generation of end user financial statements/reports. Manual intervention is required for preparation of financial statements with use of Excel spread sheets,
- Absence of formal information technology (IT) policy governing the automated accounting systems at the respective Universities.
- Standalone, computerized systems requiring extensive manual intervention to integrate data processed from GL, payroll, asset and inventory management modules.
- Inadequate access and password controls that does not totally ensure data confidentiality and integrity.
- Non formalised back up procedures with ineffective/ risky storage of backups either stored in the hard drive of the same machine or saved on pen-drive or CD which are kept at the same location.

Significant/ recurring findings reported by the Auditor General

University of Sri Jayewardenepura	Amount LKR '000	Audit Report for		
		2014	2015	2016
1. Fully depreciated assets still in use had not being revalued and brought to account in line with Sri Lanka Public Sector Accounting Standards	1,224	√	-	-
2. Inclusion of asset not used by the University in the financial statements	61,500	√	√	-
3. Instructions of COPE to devise a method for arrival, departure and leave of academic staff in line with Establishment Code of UGC and Higher Education Institutions not followed.	-	√	√	-
4. Amount paid in 1998, for taking over 3 Acres of land of which only 1 Acre and 34.2 Perches had been taken over for the Faculty of Medicine shown as unsettled advance	24,000	√	√	-
5. Non-recovery of advance paid to contractor for renovation of laboratory building and new Arts theatre in the year 2011 ,in respect of work not done	1,764	-	√	√
6. Non-recovery of long outstanding bond amounts from Employees Provident Fund of officers who proceeded abroad prior to release of the Fund amounts to the respective employees	2,306	-	-	√

University of Kelaniya	Amount LKR '000	Audit Report for		
		2014	2015	2016
1. <i>Lands belonging to the University not been assessed for fair value and brought to accounts in line with Sri Lanka Public Sector Accounting Standards</i>	2014 - 648,302 2015 - 654,759 2016 - 724,931	√	√	√
2. <i>Register of Fixed Assets had not been updated as per Treasury Circular</i>	-	√	-	-
3. <i>Salaries and allowances paid without ensuring attendance and leave of academic staff in line with Establishment Code of UGC and Higher Education Institutions</i>	2014 - 916,236 2015 - 1,137,569	√	√	-
4. <i>Amounts credited to two bank accounts reflected as "Accounts Payable" without identifying the nature and period of transaction.</i>	1,627	-	√	-
5. <i>Action not taken to settle retention from contractors for contracts completed from 2006 to 2010</i>	3,327	-	√	-
6. <i>Assets from Projects not accounted in books of account as fixed assets</i>	4,376	-	-	√
7. <i>Long outstanding tender, security and miscellaneous deposits have not been cleared for more than two to nine years.</i>	14,484	-	-	√

Sabaragamuwa University of Sri Lanka	Amount LKR '000	Audit Report for		
		2014	2015	2016
1. <i>Cash outflow for acquiring fixed assets have been understated (2014) and interest income received have been overstated (2016) in the cash flow statements of the respective years contravening Sri Lanka Public Sector Accounting Standards.</i>	2014 - 9,987 2016 - 5,417	√	-	√
2. <i>Receivables for breach of contracts and bonds, agreed to be paid by the respective officers, have not been included in the statement of financial position/books of account (2014) and action had not been taken to recover the balances subsequently (2015). Further, liquidated damages from officers who proceeded abroad on study leave and failed to report back at work had not been recovered.</i>	2014 - 41,110 2015 - 61,178 2016 - 60,346	√	√	√
3. <i>There had not been audit evidence in the form of detail break-ups and explanations for debit and credit entries passed for provision for depreciation (2014) and items included under fixed assets (2015 and 2016).</i>	2014 - 36,942 (Net debit) 2015 - 3,330,421 2016 - 3,756,520	√	√	√
4. <i>A register of fixed assets have not been maintained as per Treasury Circular.</i>		√	√	√
5. <i>Assets from Projects not accounted in books of account as fixed assets</i>	54,768	-	√	-
6. <i>Salaries and allowances paid for members of academic staff without obtaining confirmation of their arrival and departure times as per the Establishment Code for the UGC and Institutions of Higher Education.</i>	468,596	-	-	√

Rajarata University of Sri Lanka	Amount LKR '000	Audit Report for		
		2014	2015	2016
1. <i>Cost of two hostel buildings, although completed and vested for use by students and capital assets purchased had not been transferred from work-in-progress to fixed assets.</i>	8,533	√	-	-
2. <i>Payment to contractor for construction of wall capitalized without establishing whether work had completed.</i>	7,327	√	-	-
3. <i>Professors, Senior Lecturers and Probationary Lecturers of the Faculty of Medicine had been paid monthly retention allowances without approval of the</i>	2014 - 4,783 2015 - 20,142	√	√	√

<i>Treasury or recommendation of the Secretary to the Ministry as per Treasury Circular.</i>	2016 – 21,915			
4. <i>Differences observed in mobilization advances paid for construction of new building for Faculty of Agriculture and swimming pool between books of account and financial statements.</i>	6,690	-	√	-
5. <i>Fully depreciated assets still in use had not being revalued and brought to account in line with Sri Lanka Public Sector Accounting Standards</i>	260, 276	-	-	√
6. <i>Unexplained difference between computerized Fixed Assets Register and 11 items of fixed assets in financial statements.</i>	266,314	-	-	√

D. Personnel, Accounting Policies and Procedures, Internal Control, Internal and External Audit

1. Personnel

47. MHECA and the four universities assessed employ adequately qualified and experienced personnel, especially at the executive level. At the MHECA all the executive staff in-charge of administration, accounting/ finance and procurement/ infrastructure development are members of Sri Lanka Administrative Service (SLAS), Sri Lanka Accountants Service (S.L.Acc.S) and Sri Lanka Engineering Service, as the case may be.

48. The tables below provide summarized profile of relevant academic/ executive staff at the MHECA and four universities assessed, who are likely to be engaged in the execution and supervision of the proposed project, as of the date of this assessment. (N.B: Details are as provided by the MHECA authorities/ individuals themselves and not independently verified for their accuracy.)

Ministry of Higher Education

Name/ Designation	Qualifications	Experience
Mr. Russell Davidson Aponu. - Director Planning - ADB Project Coordinator	Masters in International and Development Economics (Australian National University) M.Sc. Physics (University of Colombo) B.Sc. Physics (University of Ruhuna) Post Graduate Diploma in International & Development Economics (Australian National University) Post Graduate Diploma in Development Studies (Institute for Development Economies Advanced School, Chiba, Japan)	Over 20 years in the public sector
Mr. W K L E Walallawita - Chief Accountant	MA (Econ) BSc (Business Admin) Special MAAT (SL). Member – Association of Public Finance Accountants (APFA) of Sri Lanka SLAcc.S – Class 1	Over 25 years in the public sector
Mr. Somanath Gamage - Director, Infrastructure Development	B.Sc. (Engineering) PG.Dip. in Engineering C.Eng. MIE (SL) MGS (SL)	Over 20 years in the public sector

Name/ Designation	Qualifications	Experience
	Dip. in Computer Systems Design S.L.Eng.S – Class 1	
Mrs. A S P Weerasuriya - Director, Procurement	B.A (University of Kelaniya) M.Soc.Sc.- Reading (University of Kelaniya) SLAS – Class 1	Over 15 years in the public sector.

NB. The benefit of experience gained by the staff at all levels in the public entities will not confine to single GOSL entity, as all employees in the system are subject to periodic mandatory transfers.

University of Sri Jayewardenepura

Name/ Designation	Qualifications	Experience
Dr. Akila Subasinghe Dean – Faculty of Engineering/ Programme Coordinator	Ph.D. – Electrical & Computer Engineering (Western University, Canada) M.E.Sc. - Electrical & Computer Engineering (Western University, Canada) B.Sc. Electrical Engineering (First Class Honours - University of Moratuwa, Sri Lanka) AMIE (Sri Lanka)	Over 10 years of academic and teaching experience.
Mr. K G Britto Registrar	B.L.E – Special (University of Colombo) M.A (University of Kelaniya) P.G.Dip. – Business Management	Over 20 years.
Ms. K T C Priyangani Bursar	M.B.A (University of Sri Jayewardenepura) B.Sc. – Special (University of Sri Jayewardenepura) FCA (Sri Lanka) ACMA (Sri Lanka)	Over 20 years.

University of Kelaniya

Name/ Designation	Qualifications	Experience
Dr. Chamli Pushpakumara Head, Dept. of Applied Computing - Technology Project Coordinator	Ph.D. (Sheffield Hallam University, UK) B.Sc. (1st Class Honours University of Kelaniya) CIMA – Stage 1 (UK)	Over 27 years in industry and academia.
Mr. W.M. Karunaratne) - Registrar	B.Sc. M.S.Sc. Licentiate Certificate (Institute of Chartered Accountants, Sri Lanka)	Over 20 years.
Mrs. U T M I D Thennakoon - Bursar	B.Sc. (Accountancy and Financial Management) ACA (Sri Lanka) – Chartered Accountant	Over 10 years

Rajarata University of Sri Lanka

Name/ Designation	Qualifications	Experience
Dr. T C Bamunuarachchi - Coordinator – Technology Programmes	Ph.D. Molecular Microbiology (University of Peradeniya) B.Sc. (Open University of Sri Lanka)	Over 14 years in academia.
Mr. A M G B Abeysinghe - Registrar	B.A.(Hons) Sociology M.A. Development Sociology Post Graduate Diploma in Management	Over 37 years executive experience
Mr. M I F Rahman - Bursar	B.Sc. (Biology) ACMA (UK)	Over 15 years executive experience

Sabaragamuwa University of Sri Lanka

Name/ Designation	Qualifications	Experience
Dr. A D Ampitiyawatta - Coordinator - Proposed Faculty of Technology	D.Eng. (Hydrology and Water Resource Engineering – Wuhan University, China, People's Republic of) M.Sc. Agric. (University of Peradeniya) B.Sc. Agric. (University of Ruhuna)	Over 15 years in academia.
Mr. M F H Careem - Registrar	DMS (India) MBA (PIM – SJP) B.Sc. (Eastern University) PGDM (Open University, Sri Lanka) FIMS (UK) FCPM (Sri Lanka)	Over 20 years in public sector.
Mr. K A R S Jayakody - Bursar	B.Com. Post Graduate Diploma in Financial Accounting Chartered Accountancy – Final Examination Diploma in Accountancy	Over 20 years in public/ private sector.

2. Accounting Policies and Procedures

49. The Accounting policies and procedures in GOSL entities have been determined within a commonly applicable framework. The GOSL ministries and departments have adopted the cash basis of accounting from 'time immemorial'. However, the Sri Lanka Public Sector Accounting Standards (SLPSAS) issued by the public sector wing of the Institute of Chartered Accountants of Sri Lanka requires the adoption of accrual basis of accounting gradually in stages by all relevant entities. Of the ten (10) SLPSAS issued thus far, the public entities such as GOSL ministries and department have opted to adopt them selectively. Accordingly, respective entities have commenced partial accrual accounting and reporting from recently where a noteworthy omission is 'depreciation of fixed assets'. The MHECA has prepared its financial statements on accrual basis, for the first time for 2016. The Financial Regulations (FR) of the GOSL, which had been

last amended/ modified in 1992, address the procedures at the operational level, adherence to which is mandatorily for the entities referred to above.

50. The accounting policies and procedure applicable to and adopted by public universities have largely been determined and recommended by the UGC of Sri Lanka. Public universities have adopted the full accrual basis of accounting from their inception in 1978 or later, as the case may be. Universities have adopted all 10 SLPSAS, and usually consult relevant Sri Lanka Accounting Standards for the situations not addressed by SLPSAS. Universities too are required to comply with Financial Regulations (FR) of the GOSL, which recommends procedures to be observed at the operational level.

3. Internal Controls

51. For the agencies assessed, the common internal control procedures reviewed include (a) Physical Controls; (b) Authorization and Approval Limits; (c) Segregation of Duties; (d) Management Controls; (e) Arithmetic and Accounting Controls; (f) Human Resources Controls; and (g) Internal Check.

52. **Physical Controls.** Physical controls in satisfactory operation included restrictions on entrance to ministry/ university premises through employment of security personnel round the clock, passwords to access computers systems and safe keeping of valuable records/ cash/ cash equivalents under lock. Physical restraints such as fixing non-current assets to prevent their removal were commonly practiced, where appropriate.

53. A common lapse observed across all agencies assessed was over the safe keeping of unused cheque leaves which had not been stored in designated iron safes (often requiring the 2 persons to operate with more than one key/ combination pass codes), under the custody of a senior officer of the finance division or Shroff (Cashier). Instead, junior (non- executive) assistants have been assigned responsibilities for keeping unused cheques in cupboards used for general offices purposes. Further, no stock control records were being maintained, indicating the receipts and issues for cheque leaves, supported with respective cheque serial numbers, relevant dates and signature of receiver.

54. **Authorization and Approval Limits.** All the agencies reviewed, had approved financial authority levels and delegation of powers to their officers, in writing. These powers have also been reviewed periodically and updated where deemed necessary. All banks where accounts are operated have also been notified in writing of the limits of cheque signing authority of designated officers of the agency, either as the first or second signatory, as the case may be.

55. **Segregation of Duties.** Segregation of duties for the finance and accounting function was commonly practiced by all the agencies assessed. Job descriptions had been issued to respective staff in writing. However, not conducting periodic reviewing of duties assigned to staff and absence of procedures to rotate staff between different functions from time to time were observed as weaknesses in the system.

56. **Management Controls.** Across all the agencies reviewed, adequate organization controls, performance management of subordinates and supervision controls were observed to be satisfactorily practiced. However, other key management controls such as variance analysis at regular intervals (at least monthly) which leads to performance

review of each key (executive) were absent. The current, annual/ bi-annual variance analysis effort was observed to be ineffective as it fails to support a regular performance measurement process.

57. **Arithmetic and Accounting Controls.** These controls were in satisfactory operation to ensure accurate recording and processing of transactions, reconciliations and trial balances.

58. **Internal Check.** The aspect of internal check was weakly administered in all the agencies, i.e. the MHECA and four universities, particularly in respect of the non-executive staff. The procedure commonly followed was the breakdown of work among staff, by grouping the volume rather than by task. Accordingly, for example, the payroll processing has been assigned by dividing the total names on agency's employment among the staff, who carry out entire process from data entry to issuance to pay slip/ preparation of payment voucher for the group assigned to him/ her, under the supervision of Accountant/ Assistant Bursar in-charge of overall payroll function. From the point of internal check, the sub division of work among payroll staff could have been more effective, if work was assigned to different staff, task wise, i.e. data entry, validation, processing and payment. The level of internal check prevailing in four universities seemed satisfactory in other transactions.

59. **Internal Audit.** The Internal Audit Departments/ Divisions at the MHECA and respective Universities (SJP, KU, RUSL, and SUSL) had been set up following the establishment of the Ministry and few years subsequent to the establishment of the Universities respectively and provides assurance on financial management risk.

60. At present, the Annual Internal Audit Programmes/Plans of the Ministry and the four Universities do not include current project activities in to the Programmes/Plans. However, there is consensus that the proposed project activities could be included provided adequate human resources are available. Currently, the two World Bank projects implemented are subject to an independent third party audit at the Rajarata University of Sri Lanka. Accordingly, at the time of finalizing the loan arrangements, the need to cover project activities by the existing internal audit departments and divisions need consideration. The capacity of the respective department and divisions require strengthening by way of enhanced experienced and qualified staff cadre and structured training monitored and coordinated by the UGC and MHECA covering the University internal audit network.

61. In developing internal audit plans, in addition to the Audit and Management Circulars issued by the Department of Management Audit of the MOFMM, reference is made to the Auditing Standards issued by the Institute of Chartered Accountants of Sri Lanka, Financial Regulations, Establishment Code and regulations issued by the MOFMM and Sri Lanka Public Sector Auditing Standards. There is necessity to provide centralized instructions and guidance in the preparation of internal audit plans and the approach need to be based on risk assessment rather than coverage of functions and financial statement areas.

62. The Internal Audit Department of the MHECA does not carry out pre-audit of transactions unless specifically requested. However, at the four Universities all payments in relation to University Provident Fund, gratuity, pension, constructions (mobilization to final) and at Rajarata certain selected supplier payments and payments on vehicle repairs are subject to pre-audit. Although such pre-audits eliminate the risks of misappropriations and irregularities in payments to a certain extent the time required for such pre-audit diverts the internal audit objectives over other financial activities such as identifying process/system weaknesses, control deficiencies and also non-compliance with laws and regulations, especially with staff resource constraints experienced.

63. The internal audit findings raised as “Audit Queries” are addressed to the Secretary to the Ministry at MHECA and to the Vice Chancellor at the Universities. These audit findings are discussed at the Audit and Management Committees/ Audit Committees (AMC/AC) held quarterly and followed up for action. Responses from the respective Department/division Head are obtained and documented as part of the minutes of the meetings. The CIA at the MHECA and the Heads of internal audit divisions of the respective Universities are the convenors of the quarterly AMC/AC meetings. The AMC meeting at MHECA is chaired by its Secretary. The committee members are generally, Director – Management Audit Department, General Treasury or representative, Chief Financial Officer – MHECA (Higher Education Sector) and Superintendent of Audit – Auditor General’s Department (as observer).

64. At present, the staff and Heads of the Internal Audit Units at MHECA and the four Universities do not have prior experience or knowledge on ADB guidelines and procedures including Loan Disbursement Guidelines.

65. **External Audit.** The appropriation account of the MHECA and the Commission under that Ministry and the financial statements of the four Universities are subject to annual audit by the Auditor General. The AGD is the Supreme Audit Institution in Sri Lanka and under Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka has a mandate to audit all public sector institutions.

66. The MHECA audit is carried out in pursuance of provisions in Article 154 (I) of the Constitution of the Democratic Socialist Republic of Sri Lanka and prior to the issue of the final audit report on the Appropriation Account two management audit reports are issued to MHECA and UGC separately. The audits of the financial statements of the four Universities are also carried out in pursuance of provisions in Article 154 (I) of the Constitution of the Democratic Socialist Republic of Sri Lanka in conjunction with Sub-section 107(5) of the Universities Act, No.16 of 1978.

67. The Auditor General does not express an opinion on the Appropriation Account of the Ministry but provides general information on the accounts followed by audit observations. The Auditor General has a responsibility to express an opinion on the financial statements of the Universities and conducts the audits in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

68. The audits of both MHECA and the Universities are required to be completed by 30 June of the subsequent year. However, neither MHECA nor the Universities have been able to meet

the required timeline for completion of audits for the past three years. The last published audit report in respect of the MHECA is that relating to the year ended 31 December 2014. Please refer Attachment 4 for timeliness in the audit process. The audit of the Appropriation Account also includes the activities of Foreign Aid Projects, although the audit of the financial statements of the Universities do not cover Project activities.

69. A review of the audit reports of MHECA and the universities indicate that the Auditor General has observed several significant issues and the audit opinions on the financial statements of the four universities have been qualified in the past three years for some of the universities.

70. The scope of the external audit carried out by the AGD is comprehensive and provides assurance that the organization, systems, procedures have been properly and adequately designed and effective in operation, that activities and financial transactions have been in accordance with applicable laws, rules and regulations, there have been economy, efficiency and effectiveness in the commitment and utilization of funds, there is satisfactory safeguard over property and accounts are prepared to present a true and fair view.

71. In implementing the proposed project, the MHECA and the universities should place emphasis on the timely completion of the AGD audits as undue delays undermine the effectiveness of the process of audit and delays timely corrective action. Similarly, the audits should also capture the total project financial activities as in the AGD audits of the MHECA.

E. Financial Reporting Systems, Including Use of Information Technology

1. Financial Reporting System

72. Statutorily, both the MHECA and universities report to the Parliament of Sri Lanka annually, where the annual report of the entity, which includes the audited financial statements and the AGD report together with the observations and comments are tabled for discussion and approval. The oversight on public entities is exercised by two standing committees of the Parliament, namely COPA and COPE. Focus of the COPE is on public entities engaged in commercial and business operations.

73. All the universities, primarily report to the UGC which is the governing body established by the Universities Act No. 16 of 1978 along with all public universities in Sri Lanka. However, there is no mandatory reporting structure to the UGC, over the finances of universities, with pre specified reporting timelines. Accordingly, universities report to the UGC as and when it is deemed necessary and when and ad-hoc or special reports are called for. Within the university, the financial reporting is made to the Council and the reports submitted for Council's approval includes quarterly financial statements and variance reports processed annually.

74. As far as the planned ADB supported project is concerned, the executing agency and the four implementing agencies lack exposure to the monitoring, updating and reporting requirements specified by the ADB, as no ADB funded projects have been implemented in the higher education sector, after 2009. In this respect, the staff to be assigned to the PMU at the MHECA and Project Implementation Units (PIUs) at the four universities would require adequate training, guidance and follow up.

75. **Information Technology.** The MHECA as well as the four universities use information technology to record, process and report on financial transactions. The MHECA similar to all

government departments, ministries and other institutes use CIGAS to process financial information, whereas the Universities of Kelaniya, Rajarata, and Sabaragamuwa use a common customized software package - 'Equal – Packsoft'. Both software packages have been in use for decades and although updates have been made over time to meet enhanced reporting requirements and also have been made user friendly are very basic and requires manual intervention in some form to produce the required financial reports.

76. It is understood that plans are in place to replace both software systems to enable accrual basis of accounting at the ministries with a real time on-line system, and at the Universities to capture all faculty and institutes financial information on a centralised basis and also have integration of information on both financial and physical performance. Currently, the systems are standalone and requires integration with payroll, inventory and fixed assets modules.

77. The University of Sri Jayewardenepura uses a customized software package developed by the 'Arthur C. Clarke Institute for Modern Technologies' to process financial information, which has been in use for over 10 years. This General Ledger software programme was observed to be advanced, compared to the package being used by the other three universities and integrates all faculties of the University, except the medical faculty. Whilst a software system developed by the University's MIS centre has been in use for the payroll processing, fixed assets management and inventory control functions have been outsourced to an external service firm which also provides software maintenance and development services. These standalone software systems have resulted in extensive manual intervention to incorporate information generated from different systems/ summaries and other periodic journal entries.

78. Manual intervention can circumvent the automated controls that address the risk of misstatement of financial statements which may lead to information integrity and accuracy concerns.

79. Staff using the customised software packages are trained in the use of the systems and maintenance including updates to the systems are by the software developers/agents. The Department of State Accounts – MOFMM is responsible for CIGAS maintenance and updates whilst the agents to 'Equal – Packsoft' take care of updates and maintenance of the software at the Universities of Kelaniya, Rajarata, and Sabaragamuwa. At the University of Sri Jayewardenepura, the system administrator and all users of the system have been trained on updates to the system and general maintenance, except for major upgrades for which the software vendors are contacted. The University also has an MIS Manager who is responsible hardware and network maintenance.

80. Both MHECA and the universities require a centralised IT policy governing the IT assets on which awareness and communication among the IT users need to be strongly advocated. Absence of a comprehensive IT policy could lead to IT asset abuse as there are no proper directive to address the protection of IT infrastructure and IT assets. The policy should entail company's policy on governance covering various IT processes and protection of IT assets. Notably, user access management, change management and backup policies, IT security awareness, IT asset purchases/disposals should be addressed in the IT Policy.

81. Appropriate access and password controls are not in place at both MHECA and the universities although there is some form of control. Lack of appropriate access controls gives rise to the risk of unauthorized access to respective applications, which would adversely affect the integrity and confidentiality of the residing information. A more formal user access management

process with strong password configurations will safeguard the confidentiality, integrity and availability of data.

82. A formal and effective backup process was not evident at the MHECA and at the four universities. Backups are an integral process which helps achieve information availability in the event of a disaster or a disruption to the IT infrastructure. Backups help to ensure the resumption of information processing with existing data. Neither the MHECA nor the universities formally test the backed-up data to ensure the effectiveness of the backup process.

83. Backups should undergo periodic testing to determine the effectiveness of the backup process and rectify any issues identified. A formal and documented backup process identifying data that needs to be backed up (virtual machines, application databases, file servers), determining the frequency and backup media, offsite location for storage and restoration testing nature and frequency need to be designed and implemented.

F. Disbursement Arrangements and Funds Flow Mechanism

84. MHECA and the universities fall within the general funds flow mechanism practiced by GOSL entities. Accordingly, funding requirements of the ministry and universities are met by the General Treasury, which transfers funds to the entity's bank account direct, against the approved annual budget allocation. However, these disbursements are not automatic and the entity concerned is required to make a request with adequate justification to the General Treasury to effect the transfer. The request for funds is made by the MHECA directly whilst the universities channel the request to the General Treasury, through the UGC.

85. As any major change to the current fund disbursement procedure is not expected to take place in the foreseeable future, it could be assumed that same procedure would prevail, including disbursements out of any loan funds received by the General Treasury.

V. RISK DESCRIPTION AND RATING – INCLUDING THE FINANCIAL MANAGEMENT AND INTERNAL CONTROL RISK ASSESSMENT

Risk Description	Impact	Likelihood	Risk Assessment	Mitigation Measures or Risk Management Plan1.
Inherent Risk				
1. Country Specific	Low	Likely	Moderate	
(i) Insufficient stakeholder input and consultation in policy preparation, especially at provincial and local levels				The project under consideration does not have provincial/ local level involvement. In the case of remote possibility of such intervention, the GOSL/ MHECA policy makers need to consult relevant parties for their inputs.
(ii) Inadequate audit resulting from lack of resources and competencies with the Auditor- General's Department.	High	Unlikely	Substantial	Possibility of project specific external auditing arrangements should be explored with the AGD, with option to hire private firms of auditors, under the approval and oversight of the AGD at least for the four university PIUs.
(iii) Insufficient counterpart funding for projects implemented jointly with central government under which all public universities function. <i>(Any devolved subjects being implemented through provincial and local government implementing agencies are unlikely to have impact on the projects under consideration herein)</i>	High	Likely	High	Firm commitments for counterpart funds should be sought, supported by adequate budgetary allocations.
(iv) Unavailability of a Parliament sanctioned procurement law	Low	Likely	Moderate	All the public entities should mandatorily comply with prevailing National Procurement Guidelines, which provide a set of comprehensive and robust instructions.

Risk Description	Impact	Likelihood	Risk Assessment	Mitigation Measures or Risk Management Plan ¹ .
<p>(v) Suboptimal capacity of project implementation staff of borrower on designing and implementing project-wise integrity systems.</p> <p>(vi) Insufficient capacity, especially in provincial and local authorities, in financial management of large scale infrastructure projects.</p>	<p>High</p> <p>Low</p>	<p>Likely</p> <p>Unlikely</p>	<p>High</p> <p>Low</p>	<p><i>(In the absence of Parliament sanctioned procurement law, courts in Sri Lanka have repeatedly ruled that the Procurement Guidelines issued by the National Procurement Agency have the force and effect in law.)</i></p> <p>A comprehensive procedure manual should be developed with in-built integrity systems. The project, being implemented by public entities in Sri Lanka will need to operate within regulatory and procedural framework of GOSL. Hence, existing systems and procedures would have to be considered in designing of a manual, after strengthening any weak areas of concern and mitigating identified risks.</p> <p>Any material effect will not result in from this risk event to the project, as the implementation responsibilities would rest with central government agencies.</p>
<p>(vii) Suboptimal accountability</p>	<p>High</p>	<p>Unlikely</p>	<p>Substantial</p>	<p>Accountability concerns should be fully addressed prior to project implementation. Strengthening of Internal Audit function, regular performance review by project team and making arrangements with the AGD for project specific annual external audit would effectively address accountability issues.</p>

Risk Description	Impact	Likelihood	Risk Assessment	Mitigation Measures or Risk Management Plan1.
2. Entity-specific The roles of the Entities (executing agency/ implementing agency) as a whole, the Project Implementation Unit for the ADB-assisted project, organization structure of PIUs and the design and supervision consultants are yet to be clearly determined and delineated at the time of assessment.	Low	Likely	Moderate	A clear organizational structure will need to be prepared for the PIU at executing agency (MHECA) level and PISUs planned for implementing agencies (universities); Specific terms of reference will need to be developed for PMU staff and employment and supervision of consultants.
Overall Inherent Risk			Moderate	
Control Risk				
1. Implementing Entity The Implementing Entity for the project (MHECA) is expected to play a dual role as both executing agency and implementing agency in addition to the beneficiary implementing agencies. MHECA will also be directly involved in the procurements valued above a certain threshold, as per the guidelines in force. The capacity gaps of senior finance staff at executing agency/implementing agencies in relation to ADB guidelines, reporting and disbursement procedures may affect the accountability and reporting aspects.	High	Likely	High	Capacity building training programmes/ workshops aimed at finance (as well as other functional) staff should be organized initially at the beginning of the project and refresher/ update programs thereafter.
2. Funds flow Due to budgetary/ financial constraints of the central government (GOSL), release of funds for planned capital expenditure has been curtailed in the recent past. This trend, if continued, may affect the any counterpart	High	Unlikely	Moderate	Government counterpart funding will be limited to tax and duties and recurrent expenditures. ADB's direct payment will be adopted to pay ADB's share of project costs for payments in large amount. Advance account will

Risk Description	Impact	Likelihood	Risk Assessment	Mitigation Measures or Risk Management Plan1.
funding responsibilities assumed under the proposed project. It also could have a significant impact in providing the ADB share of project expenditure in advance (or on the basis of reimbursement) affecting the progress of project.				be established at PMU and sub accounts will be established PIU to facilitate project activities. A covenant to be included in the loan agreement requiring the government to provide adequate and timely counterpart funding.
<p>3. Staffing</p> <p>While adequate book-keeping/ accounting skills are available at the Ministry (MHECA) Level, there is a routine staff turnover, owing to government's regular, periodic staff transfer policy. The replacements provided may not same level of skills/ aptitude in general and no entity specific experience, resulting in protracted learning curves. There is no procedure in place for regular rotation of staff on different duties at both MHECA and university level and there is no process of performance based rewarding system and imposition of penalties for non-performance. Accounting staff have limited knowledge of ADB requirements. From the perspective of the proposed project, the impact of these shortcomings would be mostly on any staff seconded to the project from executing agency/implementing agency entities.</p>	Low	Likely	Moderate	<p>Rotation of staff to be carried out to the extent feasible and periodic transfer of seconded finance staff between the project and the respective executing agency/ implementing agencies finance unit is recommended as it will create a pool of staff conversant with project operations, providing flexibility in any contingencies. Staff to be provided specific training in ADB requirements.</p> <p>Staff, who will be hired externally to be remunerated at market rates to mitigate turnover (as the prevailing government recommended rates seems uncompetitive, particularly for the skilled and experienced staff).</p>
<p>4. Accounting policies and Procedures</p>				

Risk Description	Impact	Likelihood	Risk Assessment	Mitigation Measures or Risk Management Plan1.
<p>At the Ministry (MHECA) level a partial accrual accounting system is implemented (with no depreciation accounting for fixed assets).</p>	Low	Likely	Moderate	<p>Cash-base accounting policy and system should be implemented across executing agency and all implementing agency Project Implementing Units for the project. Technical support will be needed by the executing agency (MHECA) to prepare an Accounting Manual, and disseminate the manual among all relevant staff (executing agency/ implementing agency and project) including close follow up for initial implementation.</p>
<p>5. Fixed Assets Control Control exercised by the agencies, particularly the four implementing agencies was observed to be weak with under mentioned shortcomings:</p> <p>(i) Master FA register (maintained centrally by Accounting and Finance Division) not reconciled with inventory records maintained at asset user locations.</p> <p>(ii) Absence of uniform coding system for the records and labeling of respective asset using the same code.</p> <p>(iii) Annual Board of Survey (physical verification) is rendered ineffective due to inability to identify asset items, cross referenced to FA register and departmental inventory records.</p>	High	Likely	High	<p>Regular quantity-wise reconciliation of Master FA register (computerised) with divisional/ sectional inventories should be carried out, especially before the annual physical verification.</p> <p>All asset items should be labelled with a unique, one-time code which should be indicated in the FA register and all other assets records.</p>

Risk Description	Impact	Likelihood	Risk Assessment	Mitigation Measures or Risk Management Plan1.
<p>(iv) Lack of effective procedures to record transfer of assets between internal/ external divisions or departments.</p> <p>(v) FA control software system not integrated with main accounting system, requiring manual intervention and reconciliation.</p>				
<p>6. Internal Check Due to distribution of work among the finance staff (by the executing agency and all implementing agencies), grouping the work based on volume instead of function, the control exercisable though internal check has been affected, rendering segregation of duties ineffective (e.g. distribution of work among payroll staff by allocating a certain number of names, instead of functional distribution – data entry, validation/ processing, payment)</p>	High	Likely	High	At the project level the scope available for internal check can be further limited due to few staff directly assigned to PMU/ PIU. To mitigate the associated risks, the level of internal audit on project operations should be ramped up. Further, possibility of using executing agency / implementing agency staff for certain critical functions such as payments should be considered while exercising closer supervision by the executive finance staff.
<p>7. Risk Management of Physical Assets The executing agency/ implementing agencies currently insure only cash in safe/ cash in transit and vehicles, as a matter of government policy.</p>	Low	Likely	Moderate	Insurance cover for project assets, including work sites, to the extent not covered by contractors, should be considered at implementation stage.
<p>8. Internal Audit (i) MHECA and the four Universities have internal audit units with independent reporting to management</p>	Medium Medium	Likely Likely	Substantial Substantial	The reporting should be to members independent of management of University operations.

Risk Description	Impact	Likelihood	Risk Assessment	Mitigation Measures or Risk Management Plan1.
(VC at Universities) and Audit Committees.				
(ii) Only MHECA, and Universities of Sri Jayewardenepura and Kelaniya have followed the Audit and Management Circulars issued by the Department of Management Audit of the MOFMM in preparing the annual audit plans.	Medium	Likely	Substantial	The annual audit plans of all Universities need to be streamlined and prepared based on Audit and Management Circulars issued by the Department of Management Audit of the MOFMM with direction and monitoring by MHECA and UGC.
(iii) The internal audit units of MHECA and two of the four Universities do not have adequate experienced and qualified staff to perform internal audit functions effectively.	High	Likely	High	At least the approved cadres for each internal audit unit need to be filled and staff with qualifications and experience in commensuration with internal audit functions recruited especially at Rajarata and Sabaragamuwa Universities. As a stop gap measure, a dedicated internal auditor will be hired at PMU to support all PIUs in project implementation activities in coordination with internal auditors at MHECA and the universities.
(iv) No structured training to enhance capabilities of existing staff.	Medium	Likely	Moderate	Existing staff strengthened with regular and systematic training in internal audit.
9. External Audit	Medium	Likely	Substantial	
(i) The AGD carries out annual audits of the MHECA and the four Universities with Government Audit Units established at each location.	Low	Unlikely	Low	Documentation of existing process
(ii) There are only audit observations made in relation to the Appropriation Account of MHECA.	Low	Unlikely	Low	Documentation of existing process

Risk Description	Impact	Likelihood	Risk Assessment	Mitigation Measures or Risk Management Plan1.
(iii) The Auditor General has issued modified audit opinions on all four Universities.	High	Likely	High	Continuing audit observations and those resulting in qualification to opinion need to be addressed in a timely manner.
(iv) The audit reports for 2015 is yet to be issued for MHECA and audit process at Universities too has taken time in excess of that stipulated.	High	Likely	High	The timeliness in audit of MHECA Appropriation Account and financial statements of Universities need to be ensured if the external audit is to be effective.
(v) Project financial reports are subject to audit at MHECA but not at Universities.	High	Likely	High	A consensus need to be reached on Project expenditure statements being subject to audit by AGD or by an independent external auditor at Universities in agreeing terms on Loan.
10. Reporting and Monitoring	Medium	Likely	Substantial	
(i) Annual Appropriation Accounts prepared at MHECA using CIGAS. Comprehensive financial statements prepared in accordance with Sri Lanka Public Sector Accounting Standards at the Universities from trial balances extracted from a common customized software package requiring manual intervention and use of Excel spread sheets for preparation of financial statements.	Medium	Likely	Substantial	Both CIGAS and the customized software used by the Universities need modification/ updates to configurations to enable generation of financial reports without manual intervention to ensure integrity and accuracy.
(ii) Financial information is not linked to physical progress and the University financial statements do not include Project expenditure. Project financial reports are	Medium	Likely	Substantial	The customised software packages at the Universities also need to be modified to facilitate financial and physical progress reporting and to include Project financial information that can

Risk Description	Impact	Likelihood	Risk Assessment	Mitigation Measures or Risk Management Plan1.
independently prepared for purposes of monitoring.				be integrated with University's.
<p>11. Information Systems</p> <p>(i) The computerized software used by MHECA and the Universities are standalone systems. Integration at MHECA is through upload of peripheral information to CIGAS, whereas at the Universities the payroll, fixed assets management and inventory are integrated to General Ledger (GL) by manual intervention.</p> <p>(ii) The staff although trained to use the systems for required purpose do not exercise standard access and password controls. Back-up procedures are informal and do not meet back-up requirements of offsite storage and periodic testing. Weak password control, weak backup procedures impair data integrity, confidentiality and availability.</p> <p>(iii) The accounting, fixed assets control and payroll systems (Equal - PackSoft) being used at the universities, except for University of Sri Jayewardenepura have been supplied and serviced by a software developer with no assurance over the continuity of software maintenance, upgrading and technical</p>	<p>High High</p> <p>High</p> <p>High</p>	<p>Likely Likely</p> <p>Likely</p> <p>Likely</p>	<p>High High</p> <p>High</p> <p>High</p>	<p>The MHECA is expected to migrate to an advanced customised software ('Integrated Treasury Management Information System' – ITMIS). The Universities on a priority basis need to either centrally at MHECA/ UGC level or at university level introduce a new accounting software developed especially for the current and future information needs.</p> <p>Staff should be trained on access and password controls. Backup procedures formalised addressing data retrieval for continuity of operations in case of disaster.</p> <p>A common IT policy should be formalised covering MHECA, UGC and the Universities.</p> <p>In the event of sourcing any accounting systems software for the project the risks identified with the current system should be taken into consideration and mitigated.</p>

Risk Description	Impact	Likelihood	Risk Assessment	Mitigation Measures or Risk Management Plan¹.
support. The systems are also not highly customizable, needing considerable manual interventions. These shortcomings have placed the IAs at high information management risks with no ready-made solutions in the event of any contingencies/ breakdowns.				
Overall Control Risk			Substantial	
Overall (Combined) Risk			Substantial	

VI. PROPOSED TIME-BOUND ACTION PLAN

Weakness/ Mitigation Action	Responsibility	Timeframe
Ministry of Higher Education and Cultural Affairs (MHECA) and Universities		
<p>(i) Constituting of a 'Project Steering Committee', comprising the Secretary, vice chancellors, and representatives from UGC, NPD and ERD. Project Director will be the secretary.</p> <p>The committee will oversee the project implementation and monitoring of progress. Its tasks would involve enforcing financial oversight, reporting and a seamless project performance framework, in coordination with other project functions, which are identified to be mission critical.</p>	MHECA – Executing Agency (PMU)	Immediately following the signing of loan agreement with ADB or initiation of project implementation, whichever occurs earlier.
<p>(ii) Constituting of a 'Project Coordination Committee' at each university, comprising the Vice Chancellor, Dean/ Head (who is expected to be in charge of proposed Technology Faculty), Technology Project Coordinator, Registrar, Bursar and a representative from the PIU, as ex-officio members.</p> <p>The committee would oversee the project implementation and monitoring of progress at the university level, under the overall project management initiatives and guidelines specified by the main committee established at the ministry (MHECA) level, as referred to in (i) above.</p>	University implementing agencies (PIUs)	Immediately following the signing of loan agreement with ADB or initiation of project implementation whichever occurs earlier.
<p>(iii) Assignment of an appropriate accounting officer (Chief Accountant) from the MHECA to PMU to assume overall accountability (on time sharing</p>	MHECA – Executing Agency	Within one (01) month of signing the loan agreement with the ADB or initiation of

Weakness/ Mitigation Action	Responsibility	Timeframe
basis). Effective financial management and reporting would be the key responsibilities of this position, supported by a financial management specialist, a full time professional staff at PMU.		project implementation whichever occurs earlier.
(iv) Assignment of one (1) Accounting Assistant (for record keeping) from the MHECA to the PMU (full-time basis) or recruiting externally if suitable candidate is not available from within, to ensure effective record keeping and accounting from the inception of project. Up to date, complete and accurate information dissemination would be critical for effective decision making and performance.	MHECA – Executing Agency	- do -
(v) Recruitment of full time Project Director and technical/ supervisory staff. The Project Director would assume responsibility for planning, coordination, execution and overall supervision of project performance.	MHECA – Executing Agency	- do -
(vi) Procurement of 'Accounting and Finance System' software for the PMU and PIUs (four universities) to the extent the existing resources fall short in meeting capacity, integrity and performance gaps and any licensing issues. The systems to be acquired needs to have double entry book keeping capability with integrated Stock Control, Fixed Assets Control, Accounts Payable and Payroll modules. The areas indicated above were observed to have weak controls and performance gaps, particularly with the existing systems at university level. Alternatively, use of a suitable manual record keeping/ accounting system could be considered, following an assessment of anticipated volume and frequency of transactions and reporting stringencies.	MHECA – Executing Agency and each university Implementing Agency	- do -
(vii) Opening up of new dedicated bank account/s for the PMU/ PIU with the view to ensure efficient project fund management and prevent any risk of commingling of project funds.	MHECA – Executing Agency and each university Implementing Agency	- do -
(viii) Strengthening of internal audit function, through hiring of additional HR (following a needs assessment), capacity building training and	MHECA – Executing Agency	Within two weeks of setting up PIU

Weakness/ Mitigation Action	Responsibility	Timeframe
formulation of an annual internal audit plan, covering the project activities.	and each university Implementing Agency	
(ix) Agree to a TOR with the AGD for external audit of the project. Arrangements to be made in consultation with the AGD to have project audit conducted direct by the AGD or through retaining a firm of auditors.	MHECA – Executing Agency and each university Implementing Agency	Project negotiation stage
(x) Assignment of Bursar of the university to assume overall financial and accounting responsibilities of the project (time share basis)	Each university Implementing Agency	Within one (01) month of signing the loan agreement with the ADB or initiation of project implementation, whichever occurs earlier
(xi) Recruitment of a Project Management Head for the PIU (if the requirement cannot be met internally from current resources). (time share/ part time basis)	Each university Implementing Agency	- do -
(xii) Recruitment newly of one (1) Accounting/ Management Assistant (for record keeping and office support) for each PIU (full-time basis)	Each university Implementing Agency	- do -
(xiii) Recruitment newly of one (1) Technical Assistant/ supervisor to support project implementation and coordination at each PIU.	Each university Implementing Agency	- do -

VII. SUGGESTED FINANCIAL MANAGEMENT COVENANTS

86. Loan proceeds disbursed by the ADB should be used only for the intended purposes of setting up engineering/ technology faculties at the Universities of Sri Jayewardenepura, Kelaniya, Rajarata, and Sabaragamuwa.

87. Project specific annual financial statements should be audited by the AGD of Sri Lanka or any other independent auditor retained for the purpose with the concurrence of AGD.

88. Identified risks pertaining to internal control, internal and external audit, accounting systems and fixed assets control at the executing agency/ implementing agencies should be addressed by implementing the risk mitigation measures recommended so as to prevent any fall over effects, resulting from existing weaknesses, on the implementation of proposed project.

VIII. CONCLUSIONS

89. The FMA carried out in view of the proposed project for the 'development of science and technology human resources in the higher education sector', encompassed the Ministry of Higher Education and the four universities, which are expected to operate as the Executing and Implementing agencies for the project respectively, revealed that;

- (i) The respective agencies possessed the required financial management capacity to implement the project planned for the period 2018–2023, successfully;
- (ii) Overall financial management risk of the agencies was assessed to be *substantial*; and
- (iii) The deficiencies and high risk processes and controls in the respective agencies will need to be addressed by implementing the recommended risk mitigation measures and time bound actions.

ANNEX 1: FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE – EXECUTING AGENCY⁷

(Note: This questionnaire should be used as a tool only to gather information relevant for assessing financial management capacity of executing and implementing agencies. It may be used selectively for second subsequent projects, or periodic financing reports. Additional questions may be required as deemed fit).

Executing/ Implementing Agency – Ministry of Higher Education and Cultural Affairs

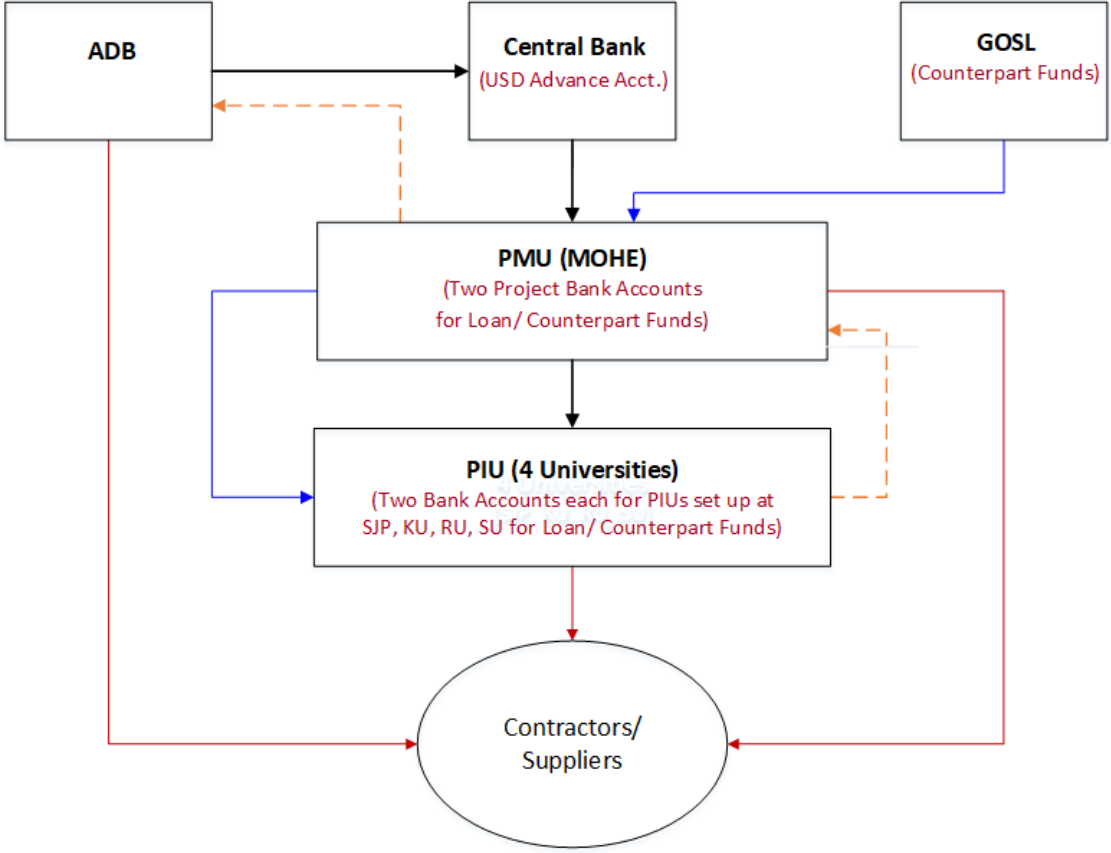
Topic	Assessment Team's comments	Potential Risk Event
1. Executing / Implementing Agency		
1.1 What is the entity's legal status / registration?	Ministry of Higher Education and Cultural Affairs (MHECA) is a line ministry of the Government of Sri Lanka. Under the proposed project, it is anticipated that the MHECA will have a dual role as both Executing Agency (EA) and one of the Implementing Agencies (IAs).	Not Applicable (N/A)
1.2 How much equity (shareholding) is owned by the Government?	Fully owned by Government.	N/A
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. ⁸	Not applicable.	N/A
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	<p>MHECA had implemented the indicated projects, which were externally financed, during the recent past.</p> <p>Details of externally (foreign) funded projects implemented by MHECA in the recent past are as below:</p> <p>(a) Improving Relevance and Quality of Undergraduate Education (IRQUE) – World Bank – USD 31.6m (2003-2010).</p> <p>(b) Distance Education Modernization Project (DEMP) - ADB – USD 60m (2003-2009).</p> <p>(c) Higher Education for Twenty First Century (HETC) - World Bank – USD 40m (2010-2016)</p> <p>(d) Tsunami Rehabilitation Project – Government of Kuwait – KWD 6m (2005-2010).</p>	N/A

⁷ This questionnaire should be administered by ADB staff or consultant (the Reviewer), and utilized only to obtain information, and to identify and describe potential risk events. Rating of risks should be carried out separately by assessing their likelihood and impact.

⁸ In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners.

Topic	Assessment Team's comments	Potential Risk Event
	(e) South Eastern University Development Project (Phase 1A) - Government of Kuwait – USD 8.6m (2007-2011). (f) South Eastern University Development Project (Phase 1B) - Government of Kuwait – USD 14m (2012-2018).	
1.5 Briefly describe the statutory reporting requirements for the entity.	Reporting responsibilities are to the Parliament of Sri Lanka. The Parliament exercises its oversight via two standing committees viz. 'Committee On Public Enterprises – COPE' and 'Committee on Public Accounts – COPA'. Audited Annual Financial Statements of the Ministry need to be tabled at the Parliament within a specified timeline, along with Auditor General's report.	N/A
1.6 Describe the regulatory or supervisory agency of the entity.	The regulatory and supervisory agencies for the MHECA are as follows: (a) Ministry of Public Administration. (b) Ministry of Finance. (c) Department of Management Audit of Treasury. (d) Auditor General's Department. (e) Chief Internal Auditor of the Ministry Overall, the Ministry is reporting responsibilities are to the Parliament of Sri Lanka, which exercises oversight through the Parliament 'Committee on Public Accounts' (COPA).	N/A
1.7 What is the governing body for the project? Is the governing body for the project independent?	The governing body for the project will be the MHECA, within the regulatory framework of the External Resources Department (ERD) – General Treasury.	N/A
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	Organisation Chart of the MHECA is attached. Please refer Attachment 1 . Key management personnel of the MHECA include: 1. Secretary to the Ministry 2. Additional Secretary to the Ministry (In-charge of Higher Education Sector) 3. Chief Accountant 4. Director – Infrastructure Development 5. Director – Procurement 6. Director – Planning	N/A

Topic	Assessment Team's comments	Potential Risk Event
	The MHECA operates under the purview of a Cabinet Minister (Minister of Higher Education and Cultural Affairs) and a State Minister in-charge of the Higher Education Sector.	
1.9 Does the entity have a Code of Ethics in place?	Yes. As a Government Ministry, the MHECA is required to adopt and observe the 'Establishment Code', which specifies ethical aspects.	Low
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	There are no reports or information available on violation of ethics involving MHECA, which was confirmed by ministry senior management during discussions.	N/A
2. Funds Flow Arrangements		
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	<p>Fund Disbursements:</p> <ul style="list-style-type: none"> (1) ADB to Central Bank USD Account (2) Central Bank to MHECA / PMU (3) GOSL to PMU (Counterpart Funds) (4) PMU to Universities/ PIU <p>Payments:</p> <ul style="list-style-type: none"> (1) ADB to Contractors Suppliers (2) PMU/ PIU to Contractors Suppliers <p>Withdrawal Applications:</p> <ul style="list-style-type: none"> (1) PIU to PMU (2) PMU to ADB 	Low

Topic	Assessment Team's comments	Potential Risk Event
	 <p>The flowchart shows the following components and flows:</p> <ul style="list-style-type: none"> ADB (Asian Development Bank) Central Bank (USD Advance Acct.) GOSL (Counterpart Funds) PMU (MOHE) (Two Project Bank Accounts for Loan/ Counterpart Funds) PIU (4 Universities) (Two Bank Accounts each for PIUs set up at SJP, KU, RU, SU for Loan/ Counterpart Funds) Contractors/ Suppliers (represented by an oval) <p>Legend:</p> <ul style="list-style-type: none"> ADB Fund Flow : — (solid black line) Counterpart Fund Flow : — (solid blue line) Payments to Contractors/ Suppliers : — (solid red line) Submission of Withdrawal Applications : - - - (dashed orange line) <p>Flow Details:</p> <ul style="list-style-type: none"> ADB Fund Flow: ADB to Central Bank; ADB to Contractors/Suppliers. Counterpart Fund Flow: GOSL to PMU; PMU to PIU. Payments to Contractors/ Suppliers: ADB to Contractors/Suppliers; PMU to Contractors/Suppliers; PIU to Contractors/Suppliers. Submission of Withdrawal Applications: Central Bank to PMU; PIU to PMU. 	

Topic	Assessment Team's comments	Potential Risk Event
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes. The existing procedure has been in satisfactory operation for a considerable period of time, with regard to funding from foreign sources and no negative outcomes had been reported by the end recipients (universities).	N/A
2.3 Are the disbursement methods appropriate?	Yes. No negative outcomes were observed.	Low
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	Delays in disbursement from the treasury have been observed in the past, particularly in respect of non-payroll expenditure. However, fund requirement for recurrent expenditure have been met by the treasury despite occasional delays. It was reported that the entirety of capital expenditure allocations for the Ministry had not been released in the recent past.	High
2.5 In which bank will the Imprest Account (if applicable) be established?	Bank of Ceylon – Ward Place, Colombo 07.	Low
2.6 Is the bank in which the imprest account is established capable of: <ul style="list-style-type: none"> • Executing foreign and local currency transactions? • Issuing and administering letters of credit (LC)? • Handling a large volume of transaction? • Issuing detailed monthly bank statements promptly? 	Yes. The Bank of Ceylon, Ward Place, Colombo 07, where the Ministry's main accounts is capable of providing all local and foreign banking needs.	Low

Topic	Assessment Team's comments	Potential Risk Event
2.7 Is the ceiling for disbursements from the imprest account and statement of expenditure (SOE) appropriate/required?	A ceiling is not required. MHECA has experienced in handling large volume of funds to the designated bank accounts. For 2016, the MHECA had operated with a budget of SLRe 45b (USD 290m approx.).	Moderate
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	In general, the MHECA possesses previous experience in handling ADB funded projects (Distance Education Modernization Project - DEMP). The experience gained by the senior management of MHECA is expected to contribute positively to the management of proposed PIU.	N/A
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	<p>PIU is yet to be established at the MHECA.</p> <p>The proposed PIUs would not be able to demonstrate any past exposure over managing imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH). Yet, experience it has gained in carrying out similar lender/ government funded projects in the past implies that the IA has built up sufficient administrative and accounting capacity. However, PIU staff would require ADB specific imprest fund management and SOE training in the event, the proposed projects are implemented.</p>	N/A
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	The MHECA is not exposed to the foreign exchange risk due to the non-involvement with significant foreign currency transactions. No any risk management tools had been used recently to hedge any known/ anticipated risks.	Moderate
2.11 How are the counterpart funds accessed?	Counterpart funds would be provided by the government (via treasury) based on the allocations made annually for capital works.	High

Topic	Assessment Team's comments	Potential Risk Event
2.12 How are payments made from the counterpart funds?	In accordance with current practice, counterpart funds would be disbursed to the EA and IAs who would in turn make project related payments as appropriate.	N/A
2.13 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	Yet to be decided. (No fund flows to communities or NGOs are anticipated under the proposed project)	N/A
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labour or material), are proper guidelines and arrangements formulated to record and value the labour or material contributions at appraisal and during implementation?	There could be potential contributions from the primary beneficiary Universities by way of land grants, administrative and technical inputs by MHECA personnel, labour and material but the extent and volume such contributions have not been determined at this stage.	Moderate
3. Staffing		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	<p>The MHECA accounting department is headed by the Chief Accountant with another Accountant as deputy. The organization structure of the MHECA's accounting department is relatively flat with no hierarchical arrangements below the 'executive' officer grade (i.e. Accountant level). Accordingly, all the 'non-executive' grade staff in the accounting department report directly to the Accountant.</p> <p>Accounting and finance cadre includes an approved position for Chief Financial Officer (CFO), which is equal to Additional Secretary position in the Sri Lanka Administrative Service (SLAS), remains vacant from February 2017.</p> <p>Please refer Attachment 2 - Organization Chart of the Accounting and Finance Division.</p>	N/A

Topic	Assessment Team's comments	Potential Risk Event
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	MHECA suggests to have mix of existing and new staff for the project. Please refer 'Response' for 3.4 below.	Moderate
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	<p>The accounting staff to be assigned to the PIU is expected to be as below:</p> <ul style="list-style-type: none"> • Chief Accountant – overall supervision of finance and accounting function of the project, on time sharing (part-time) basis. • Accountant – supervise/ carry out project financial and accounting activities, on time sharing (part-time) basis. • Accounts/ Management Assistants (2 – one fulltime and another seconded on part time basis) – possessing of payments and other transactions of the project, stock record and inventory maintenance, accounting and book-keeping, record keeping, etc. on full-time basis. The restricted number of personnel in this category may create issues over segregation of duties and internal check hence appropriate risk mitigation measures would need to be introduced. <p>Please refer Attachment 3A - CVs of key executive staff.</p>	Moderate
3.4 Is the project finance and accounting function staffed adequately?	Staffing arrangements for the project are yet to be finalized.	N/A
3.5 Are the project finance and accounting staff adequately qualified and experienced?	<p>Staffing arrangements for the project are yet to be finalized.</p> <p>However, the Chief Accountant and the Accountant of the MHECA who have the potential to head the finance and accounting function possess following qualifications/ experience, which are deemed to be adequate:</p> <ul style="list-style-type: none"> - Chief Accountant (<i>with 25 years of experience</i>) – Sri Lanka Accountants Service – Class 1); MA (Econ); BSc (Business Admin) Special; MAAT (SL); Association of Public Finance Accountants (APFA) of Sri Lanka - Accountant (<i>with 4 years of experience</i>) - BSc Accounting (Special); Chartered Accountants of Sri Lanka - Intermediate Level. 	N/A
3.6 Are the project finance and accounting staff trained in ADB procedures, including	Finance authority of the MHECA is of the view that the accounting and finance staff whom will be engaged in the proposed project need to be trained on ABD procedures including the disbursement guidelines and progress reporting.	Moderate

Topic	Assessment Team's comments	Potential Risk Event
the disbursement guidelines (i.e., LDH)?		
3.7 What is the duration of the contract with the project finance and accounting staff?	Existing staff are on permanent basis. If new staff is recruited for the project, it should be on contract basis renewable annually.	N/A
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	<p>There is no approved cadre separately for finance division. The approved cadre is for the MHECA as a whole and from that the functional divisions could request staff to fill the requirement.</p> <p>As contended by MHECA, the existing cadre for finance division is adequate and also excess capacity exist.</p>	N/A
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	<p>Considering the size and scope of the project, the following staffing structure (Accounting and Finance) is proposed:</p> <p>Chief Accountant – MHECA (Supervisory role on time sharing basis) Accountant – MHECA (Operational role on time sharing basis) Procurement specialist – 1 (Need to be recruited externally, full/ part time basis) Finance/ Staff Assistant – 2 (Existing MHECA staff seconded on full/ part time basis) Secretary/ Office Assistant – 1 (Existing MHECA staff on time sharing basis)</p>	N/A
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Position descriptions and allocation of duties are yet to be determined and finalized.	Moderate
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	Staff turnover is taking place mainly due to periodic transfers as per Government policy. Otherwise, the turnover due to resignation/ retirement is observed to be minimal.	High

Topic	Assessment Team's comments	Potential Risk Event
3.12 What is training policy for the finance and accounting staff?	<p>No formal annual training plan has been formulated for MHECA.</p> <p>However, training opportunities have been made available to the staff as and when necessary and no training needs assessment has been carried out.</p>	Moderate
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	<p>Three (3) out of 12 finance and accounting division staff had attended the following trainings:</p> <ul style="list-style-type: none"> - Training on cashier's (Shroff's) responsibilities; - Finance Management; - Finance Regulations 104 (Examination/ Investigation). <p>All the finance and accounting division staff had been training on CIGAS.</p> <p>Further, no training had been conducted on ADB project related reporting requirements and LDH, etc.</p>	N/A
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	<p>The common accounting system used by the public sector in Sri Lanka, Computer Integrated Government Accounting System (CIGAS) is being used at the MHECA for General Ledger accounting. To process the payroll, separate standalone, DOS based system (Government Payroll System - GPS) is used. The staff attached to finance and accounting division have been received adequate training to use these systems.</p> <p>CIGAS is a customized system, the capacity of which is limited to capturing transactions both recurring and capital. However, the same records are maintained manually as a long standing practice, mainly to minimise the risk of data loss, system breakdown and lack of reliability of this 'Windows' based system.</p> <p>The MHECA plans to use an advanced customised software system ('Integrated Treasury Management Information System' - ITMIS) being developed by the Ministry of Finance, in near future.</p> <p>It is also expected that the current and proposed new system will be used for the ADB project as well.</p>	Moderate

Topic	Assessment Team's comments	Potential Risk Event
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	<p>Yes. All transactions pass through several stages relating to preparation, certification and approval. Transactions are supported with explanations where appropriate. Data entered into the CIGAS are validated by the Accountant before the month end processing.</p> <p>Password control is in effective use with staff concern having been given personalised password.</p>	Moderate
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	<p>The Chart of Accounts Is adequate for the Ministry's current levels of activity. In the event, the project is implemented, the Chart of Accounts will need to be expanded to accommodate project activities. (However, if a separate accounting system is to be used for the project, a new Chart of Accounts will have to be developed.)</p> <p>An abstract copy of the Chart of Accounts was obtained.</p>	Low
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	<p>Only the direct costs are allocated against the various funding sources. There is no procedure to absorb/ allocate common overheads/ costs against these funding sources.</p>	Moderate
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	<p>Yes. The main subsidiary ledger (record) available at present are for the staff loan/ advances.</p>	Moderate
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g., ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of	<p>As per prevailing Government practice, all documents and records should be retained for minimum five (5) years.</p> <p>Newly enacted Right to Information Act No. 12 of 2016 specifies that the public documents and records should be maintained and retained up to maximum 12 years.</p>	Low

Topic	Assessment Team's comments	Potential Risk Event
implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?		
4.7 Describe any previous audit findings that have not been addressed.	The audit report on the appropriation accounts provide observations and as per the 31 December 2013 and 31 December 2014 audit reports, the MHECA's inability to fill the approved cadre vacancies and delay in commencement of projects have not been addressed.	High
Segregation of Duties		
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	The level of segregation of duties seemed satisfactory. The functions of the accounting and finance division have been distributed among the six (6) Development Officers and six (6) Management Assistants with adequate 'internal check'.	Moderate
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes. Ordering works, goods and services takes place at the Procurement Division, other user division/ unit subject to the specified levels of authority. Goods are received by the stores concerned at the MHECA. Payment vouchers are generated by the division/ unit which placed the orders and payment process is executed by the Finance Division.	Moderate
Budgeting System		
4.10 Do budgets include physical and financial targets?	Yes (where appropriate).	Low

Topic	Assessment Team's comments	Potential Risk Event
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes. Prepared according to format specified by the General Treasury. Budget guidelines are issued by the General Treasury every year which all public entities should comply with.	Low
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes. Actual expenditures are compared with the budget annually, although ideally this exercise should have been carried out at least monthly. On the variances reported annually, sufficient explanations have been given in the variance analysis report. In the event any expenditure head is to exceed the approved budget, prior approval is obtained by MHECA from the Treasury and the budget allocations are amended accordingly, without revising the total approved budget for the year (recurrent or capital).	High
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	In advance for cost overruns. After. For the savings more than 5%-10% or LKR 10,000 depending on the expenditure categories. Reference: Circulars issued by the Department of State Accounts, General Treasury # DSA 252/2016.	High
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	No.	Moderate
4.15 Who is responsible for preparation, approval and oversight/ monitoring of budgets?	Chief Accountant and Director Planning of MHECA under the oversight of Secretary to the MHECA, who is the Accounting Officer responsible for Ministry finances.	Low
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Budget preparations are made after consulting with and obtaining proposals from all relevant parties of the MHECA. Government entities, including the Ministries are mandated to follow the GOSL budget process which is usually communicated by 'National Budget Circular, issued by General Treasury annually, titled 'Budget Call - (Year) - Guidelines and Directions for the Preparation of Annual Budget Estimates'.	Low

Topic	Assessment Team's comments	Potential Risk Event
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>	<p>Yes. Recurrent budgets are based on the actual cost on the level of activity and know rates.</p> <p>Budget preparation takes place under the supervision of Accountant and Chief Accountant.</p> <p>In respect of MHECA budgets prepared in the recent past, mid-year revisions have not been required unless additional allocations are needed due change in Government policy or unplanned activates (e.g. special mid-year salary increase in 2015).</p> <p>Inadequate fund release against allocations have been experienced, particularly in relation to capital expenditure.</p> <p>Finance authorities of the MHECA contended that variances had always been positive (actuals below the budget). Prior approval is obtained from Treasury for any foreseen cost overruns due to reasons beyond the control of MHECA. No consistent trends were observed.</p>	Moderate
Payments		
<p>4.18 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing</p>	<p>Yes. The invoice processing is initiated at the division/ unit which requested/ originated the purchase. As such, relevant checks and scrutinizing of documents are also initially carried by the originator of transaction, followed by secondary processing of documents by the Finance Division.</p>	Moderate

Topic	Assessment Team's comments	Potential Risk Event
<p>departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations? (v) Checking authenticity of invoices and supporting documents?</p>	<p>Documents required to complete a purchase transaction include:</p> <p>Purchase Requisition, Approval, Purchase Order (PO), Request for Quotation (RFQ), Invoice, Goods Received Note (GRN) etc.</p>	
<p>4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?</p>	<p>Yes. 'PAID' seal is stamped upon preparation of cheque or payment of cash. Account code is assigned prior to payment.</p> <p>Validation process of data entered takes place at the end of the month where the data entered is compared with the manual records and any corrections are effected prior to processing it.</p>	Moderate
<p>4.20 Do controls exist for the preparation of the payroll? Are changes (additions/ deductions/ modifications) to the payroll properly authorized?</p>	<p>Yes. The payroll preparation access to the GPS is password controlled. The same payroll is also prepared manually using salary ledgers and entries made to the system are compared with the manual ledgers and any errors/ omissions corrected at the end of the month. The payroll entries (additions, deductions and modifications) are approved by the Accountant.</p>	Moderate
Policies And Procedures		
<p>4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?</p>	<p>Cash basis of accounting had been adopted. However, accrual based financial statements are prepared annually from 2016, where relevant entries are made on memorandum basis.</p> <p>The accrual basis of accounting will be adopted for the proposed project. The MHECA officials are of the view that a new accounting software package need to be used for projects as the existing</p>	Moderate

Topic	Assessment Team's comments	Potential Risk Event
	Government accounting package (CIGAS) is not usable for the project mode using accrual basis of accounting.	
4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	Sri Lanka Public Sector Accounting Standards (Standards 1 to 10) have been adopted from the year 2015 onwards.	Low
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	<p>Accountability of the university is governed by the Establishment Code (E-Code/ AR) and Financial Regulations (FRs) – 1992 applicable to state entities. Further, circulars issued by the Ministry of Finance/ General Treasury, Ministry of Public Administration and other relevant authorities are applicable. In respect of procurement, guidelines issued by the National Procurement Agency (NPA) are required to be adopted.</p> <p>It is envisaged that same policies, procedures and guidelines would be applied to any project implemented by the MHECA.</p>	Low
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	<p>Yes.</p> <p>Any updates would be dependent upon amendments made to the aforementioned, at the Central Government level. FRs have been last amended in 1992.</p>	Moderate
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	The establishment of introduction of new procedures and policies takes place at the Central Government level. Department of State Accounts (DSA) and Department of Public Finance, under the Ministry of Finance/ General Treasury usually execute accounting policy changes for the public entities.	Low
4.26 Are there written policies and procedures covering all routine financial	Please refer Sections 4.22 to 4.25 above.	Low

Topic	Assessment Team's comments	Potential Risk Event
management and related administrative activities?		
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Establishment Code and Financial Regulations address safeguards relating to 'Conflict of Interest'.	Low
4.28 Are manuals distributed to appropriate personnel?	Yes. Available for reference at the MHECA. (Manuals are publicly available for downloading from the General Treasury website or purchasing from the Government Publication Bureau.)	Low
4.29 Describe how compliance with policies and procedures are verified and monitored.	The compliance aspect is addressed mainly through the annual external audit carried out by the AGD and the Internal Audit of the MHECA.	Moderate
Cash and Bank		
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	The current authorized signatories for bank transactions of the MHECA are as noted below: First/ second signatory: Mr J J Rathnasiri – Secretary Mr W K L E Walallawita – Chief Accountant Mr G R K S Ganegoda – Accountant Second signatory only: Mr T B M Athapaththu – Additional Secretary (Administration) Mr M A I K Manthiraratne – Senior Assistant Secretary Ms A S P Weerasuriya – Director (Procurement) Mr H D S N Hettige – Assistant Secretary (Establishment) Mr J Fernando - Assistant Secretary (Administration)	Low
4.31 Does the organization maintain an adequate and up-to-date cashbook	Yes. Cash books are updated regularly in the software system (CIGAS) while simultaneously maintaining manual cash books.	Moderate

Topic	Assessment Team's comments	Potential Risk Event
recording receipts and payments?		
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	The main sources of receipts of the MHECA is transfers from the General Treasury against the budget allocations, which are deposited direct to the Ministry's bank accounts. Any other collections at Head Office level are deposited at the bank account on the following business day are raising official receipts.	Moderate
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	All bank reconciliations are on a monthly basis and updated till June 2017 at the time of this assessment in July 2017.	Moderate
4.34 Are all reconciling items approved and recorded?	Yes.	Moderate
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes – Accountant.	Moderate
4.36 Are there any persistent/non-moving reconciling items?	No non-reconciled items were noted in the bank reconciliation prepared for main bank account.	Moderate
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	<p>Unused cheques and receipts are kept in a safe, under the custody of a senior Management Assistant and Shroff who have the key of the safe. They are responsible to hand over the key to the Accountant or another Management Assistant assigned by the Accountant, if the safe needed to be opened in their absence.</p> <p>The USB keys and passwords are with the custody of the respective users and not kept at the safe.</p>	Moderate

Topic	Assessment Team's comments	Potential Risk Event
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	On average a maximum cash balance maintained is LKR 200,000. This includes petty cash float and cheques encashed to pay for fuel, transportation and staff overtime.	Low
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	No online transactions.	Low
Safeguard over Assets		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	<p>The following procedures have been implemented to safeguard assets:</p> <ul style="list-style-type: none"> Recording of and accounting for all assets held by the MHECA. Periodic physical verifications/ annual Board of Survey. Round the clock security system for the MHECA premises. Insurance cover for vehicles. Accountability for assets by those who hold/ use them. Adherence to Establishment Code of the Government which spells out procedures for safeguarding assets from fraud, waste and abuse. 	Moderate
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	<p>Yes.</p> <p>The MHECA maintains a Fixed Assets Register, which is updated regularly. Assets are coded based on common Government coding method, which is indicated in the register. However, no codes have been assigned to the individual asset item.</p> <p>Register also indicates the location, where the asset is held.</p> <p>None of the assets are under lien or pledge.</p>	Moderate
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	In addition to the Fixed Assets Register maintained at the Accounting and Finance Division, inventory records are maintained at the divisions/ sections/ units, where assets are held. There is no evident whether these inventories are reconciled with the main fixed assets register maintained centrally.	Moderate

Topic	Assessment Team's comments	Potential Risk Event
	As per Government procedures a Board of Survey (physical verification of assets) is carried out annually, usually at the end of financial year in every December.	
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labelled?	Labelling of asset items has not been done.	Moderate
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analysed and resolved?	Please refer Section 4.42 above.	-
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	<p>Decision of disposal of assets are taken based on the recommendation made by Board of Survey. Further, a special committee will be appointed by the Secretary to decide on the disposal of technical items, such as computers, equipment and vehicle upon receipt of recommendation made by Board of Survey.</p> <p>Final disposal decisions of the assets either destroy or auction/ sale will be listed and confirmed by the Board of Survey for accuracy. Head of division (i.e. Secretary for MHECA) will execute the decision by appointing separate committee comprising 3 or 5 members.</p> <p>Recommendation made by Board of Survey on lost or repair of broken assets are executed by the respective head of division.</p>	Moderate
4.46 Are assets sufficiently covered by insurance policies?	Only vehicles are insured.	High
4.47 Describe the policies and procedures in identifying and	No depreciation is charged for assets handled by Government entities as a matter of policy.	Low

Topic	Assessment Team's comments	Potential Risk Event
maintaining fully depreciated assets from active assets.		
Other Offices and Implementing Entities		
4.48 Describe any other regional offices or executing entities participating in implementation.	The Universities of Sri Jayewardenepura, Kelaniya, Rajarata, and Sabaragamuwa are expected to participate in implementation of the project. <i>(Assessment of respective Universities have been carried out separately)</i>	-
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	Roles and responsibilities pertaining to the project are yet to be determined and finalised.	-
4.50 Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	No. The project is yet to be commenced.	-
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	Reporting and information flow takes place manually at present, as the MHECA, UGC and the Universities are not electronically linked. Further, the MHECA and Universities use different accounting and different accounting system.	High
4.52 Are periodic reconciliations performed among the	Not applicable.	-

Topic	Assessment Team's comments	Potential Risk Event
different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.		
4.53 If any sub-accounts (under the Imprest Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	No sub-accounts will be maintained.	-
Contract Management and Accounting		
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/ deliverables of the contract?	Only project wise (not contract wise) accounting records are maintained on cash basis. Actual payments made to the contractors/ suppliers are charged to this account. While the gross value of the contract is not indicated in the accounting records, they are usually consistent with the physical output (value of work certified).	Moderate
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	No. Not reconciled with the contractors.	High
Other		

Topic	Assessment Team's comments	Potential Risk Event
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	<p>The project is currently (as of November 2017) in negotiation stage. The MHECA authorities intend to apply same systems, controls and procedures being used for the MHECA in reporting fraud, corruption, waste and misuse, to the project too.</p> <p>In this respect, the Internal Audit unit of the MHECA is expected to play a major role. Further, all employees within and outside of the project are expected to be 'Whistle Blowers' in relation to fraud, corruption, waste and misuse of project resources.</p> <p>The annual external audit of the project may be carried out as part of the audit carried out by the AGD. There are provisions to engage private audit entities (firms), with the approval of the ADB to carry out annual statutory audit of the project. Such a provision may have to be included as a special clause in the loan agreement.</p>	-
5. Internal Audit		
5.1 Is there an internal audit (IA) department in the entity?	Yes. Internal audit department which exist in the Executing Agency (EA), Ministry of Higher Education and Cultural Affairs (MHECA), in addition to performing internal audit of the Ministry, coordinates with UGC and Universities in relation to internal audit matters.	Low
5.2 What are the qualifications and experience of the IA staff?	<p>Current Positions: Chief Internal Auditor Commencement of employment: 2015 onwards. Has completed Sri Lanka Accountants Services (S.L.Acc.S) (Class I) exams and has 20 years' experience.</p> <p>Development Officers (3) (1) Commencement of employment: 2013 onwards (2) Commencement of employment: 2016 January onwards (3) Commencement of employment: 2016 January onwards All three Development Officers are with B Com. qualification.</p> <p>As per Chief Internal Auditor, requirement is six (6), but only four (4) staff members are available.</p> <p>Current personnel resources are considered inadequate to carry out tasks efficiently.</p>	-
5.3 To whom does the head of the internal audit report?	Secretary to the MHECA / State Secretary.	Low
5.4 Will the internal audit department include the	Yes, with amendments made to the current annual work programme accordingly.	Moderate

Topic	Assessment Team's comments	Potential Risk Event
project in its annual work program?		
5.5 Are actions taken on the internal audit findings?	Yes. As per the Chief Internal Auditor, internal audit findings are discussed at Audit and Management Committee (AMC) meeting held at quarterly intervals. The Secretary initiates actions on the findings reported and the internal audit division follows up on such actions.	Moderate
5.6 What is the scope of the internal audit program? How was it developed?	<p>The internal audit plan considers functions of the MHECA as per the annual action plan/ budget estimate and considers the goals, budget provisions and key functions under each goal in identifying audit fields based on risk assessment. Further, internal audit objectives are identified and the time frame and resource allocated are decided.</p> <p>The internal audit plan is developed based on Audit and Management Circulars DMA/2009(1) and DMA/2009(I)(i) dated 09 June 2009 and 28 January 2016 respectively, which provides a specimen audit plan structure to be followed.</p> <p>Generally, audit fields are identified based on areas not covered during the previous year.</p>	
5.7 Is the IA department independent?	Yes. Reports directly to the Secretary to the MHECA.	Moderate
5.8 Do they perform pre-audit of transactions?	Pre-audit of transactions is rarely carried out, unless specifically requested.	Moderate
5.9 Who approves the internal audit program?	<p>The Secretary to the MHECA approves the internal audit plan.</p> <p>After Secretary's approval, Director General of Department of Management Audit will be informed on the audit plan.</p>	Moderate
5.10 What standards guide the internal audit program?	<p>Auditing Standards issued by the CA Sri Lanka, Financial and Administrative Regulations, Establishment Code, Government Circulars, certain regulations issued by Finance Ministry and Sri Lanka Public Sector Auditing Standards are used as guidance.</p> <p>The following circulars are given specific attention in developing and implementing the internal audit plan:</p> <ul style="list-style-type: none"> • DMA/2009/ (1) dated 09 June 2009 – Appointment of audit management committee (AMC). • DMA/2009/ (2) dated 09 June 2009 – Guideline on recording of state assets, IA and Internal Control. 	Low

Topic	Assessment Team's comments	Potential Risk Event
	<ul style="list-style-type: none"> • DMA/2009/ (3) dated 10 October 2009 – Internal Auditing Standards and Code of Ethics • DMA/2010/ (4) dated 10 February 2010 – Guidance for personal emolument audit. • DMA/2010/ (5) dated 26 July 2011 – Guidelines for Internal Audit to Projects Funded by Foreign or Local Funds. • DMA/2011/(6) dated 15 November 2011 – The Guideline on the Evaluation of Internal Control Structure • DMA/2012/(7) dated 13 January 2012– Guidelines for Internal Auditing in a Computerized Information System (CIS) Environment • DMA/2016/ (1) dated 01 January 2016 – Maintaining a database for state owned vehicles. • DMA/2016/ (2) dated 10 June 2016 – Appointment of internal auditors for projects funded by foreign finance. Section 1 and 2 require an Internal Auditor be recruited for projects with total project cost of more than USD 10m and life time of one year or more. • DMA/2017/ (1) dated 15 January 2017 – Obtaining Internal Auditing assisting for the development projects funded by foreign financing. 	
5.11 How are audit deficiencies tracked?	No formal system to track audit deficiencies is in place.	High
5.12 How long have the internal audit staff members been with the organization?	<p>Chief Internal Auditor has been working at MHECA for last two (2) years.</p> <p>One (1) Development Officer (DO) is working for last 4 years and the other two (2) DOs are working for last one and half years.</p>	-
5.13 Does any of the internal audit staff have an IT background?	Yes. Most staff in the internal audit division are conversant with IT and can independently process data and generate reports.	Low
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	<p>The internal auditor who is the convenor of the AMC meets with AMC members every quarter in presence of management.</p> <p>Audit findings are discussed at quarterly AMC, which chaired by the Secretary, MHECA. The members of the AMC are as follows:</p> <ul style="list-style-type: none"> - Director – Management Audit Department, General Treasury - Chief Financial Officer – Higher Education Sector (Vacant from February 2017) - Superintendent of Audit – Auditor General's Department (as observer) - Chief Internal Auditor – MHECA (convenor of the Committee) 	Moderate

Topic	Assessment Team's comments	Potential Risk Event
	<p>Other participants at the meeting consist of Additional Secretaries (Development/ Administration and Finance/ Non-State Universities), Directors (Planning/ Procurement), Chief Accountant, Accountant, Senior Assistant Secretary – MHECA, Assistant Secretary – Planning, etc.</p> <p>Due to the participation of the above officials, the independence of the internal audit is impaired.</p>	
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	<p>Based on the internal audit queries raised at the last quarter of 2016 and first quarter of 2017 AMCs, there are no internal audit findings with reference to availability and completeness of records.</p> <p>All relevant information required for internal audit had been received from respective institutions.</p>	High
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	<p>No prior experience and knowledge on ADB guidelines and Loan Disbursement Handbook.</p>	Moderate
6. External Audit – entity level		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	<p>Auditor General annually audits the appropriation accounts of MHECA including the UGC. The audit also covers Foreign Aid Projects, which form part of the appropriation account of the MHECA.</p> <p>Audit queries are raised by the Auditor General prior to the finalisation of the audit report and communicated by way of a draft audit report for which responses are required within a specified period of time. On receipt of responses, within the specified time period the Auditor General finalises the audit report and issue the final audit report to the MHECA / UGC.</p> <p>In the event responses are not received within the specified time period audit report is finalised based on the findings reported in the draft.</p> <p>The Auditor General issues management audit reports and also a report on the appropriation account heads, for management's responses and no opinion is expressed by the Auditor General.</p>	Moderate
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	<p>The annual financial statements are submitted during the latter part of March of the following year. Audit queries are raised during May/ June. Management responses are submitted in June/ July.</p>	Moderate

Topic	Assessment Team's comments	Potential Risk Event
	<p>The draft report is submitted in September and the final report is submitted in November upon receipt of final responses from management during October each year.</p> <p>Accordingly, it infers that the completion of external audit proceedings takes about 10 to 11 months, which is not constructive since corrective actions can only be taken after a significant lapse of time.</p> <p>Please see Attachment 4.</p>	
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	<p>The MHECA does not maintain final audit reports issued by the Auditor General. The draft audit reports issued by the Auditor General for management response does not specify the auditors' responsibility, but specifies the audit scope and the management responsibility. As per the audit scope, the audit is conducted in pursuance of provisions in Article 154 (1) of Constitution of Democratic Socialist Republic of Sri Lanka.</p> <p>There is no mention of the audit being conducted in accordance with International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards.</p>	Low
6.4 Were there any major accountability issues noted in the audit report for the past three years?	<p>The audit reports in respect of 31 December 2015 and 31 December 2016 are yet to be received from the AGD.</p> <p>In the audit report for the year ended 31 December 2014, there were several accountability issues noted related to advances to Public Officers, non-settlement of liabilities, assets management and transactions of contentious nature.</p>	High
6.5 Does the external auditor meet with the audit committee without the presence of management?	<p>Representatives from Auditor General's Department (Superintendent of Audit) also participate in quarterly AMC meetings along with the Internal Auditor and management.</p> <p>The committees are chaired by Secretary to the Ministry.</p> <p>The external auditor does not meet with AMC without management representatives.</p>	Moderate
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative	<p>No. Auditor General's Department of the GOSL is the sole auditor of all Ministries and Government institutions engaged only in provision of statutory audit services.</p>	-

Topic	Assessment Team's comments	Potential Risk Event
to the value of audit services?		
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	Yes. The draft audit reports on the appropriation account refers to issues on completeness of information/ documentation. Since, the final audit reports have not been made available to the Assessment Team, as those reports are retained at the Ministry of Highways at the time assessment, the outcome of these issues reported could not be assessed.	-
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes. The AGD has experience in auditing donor funded Project expenditure statements of several state organisations including ADB funded Projects.	Moderate
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	The appropriation accounts of the MHECA was not subject to review by the Assessment Team.	-
External Audit – project level		
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	<p>Auditor General's Department of the GOSL is the sole auditor of all Ministries and Government Institutions. The Auditor General will continue to audit Foreign Aid Projects included in the appropriation accounts of the MHECA. Auditor General may also consider carrying out a separate audit of the project expenditure statement, in case the respective donor mandates such audit in the loan agreement.</p> <p>Based on the loan covenants in the agreement, an independent third party auditor (recognised firm of Chartered Accountants) may also be appointed to audit the project expenditure statements.</p>	-
6.11 Are there any recommendations made by the auditors in prior project	The Auditor General does not make recommendations, but observations in auditing the project expenditure statements. Several matters have been observed by the Auditor General in relation to Foreign Aid Project implementation in the draft audit reports of 2013, 2014 and 2015.	Moderate

Topic	Assessment Team's comments	Potential Risk Event
audit reports or management letters that have not yet been implemented?		
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	Yes. The Auditor General is the supreme audit institution which is independent and is required to carry out audit of Foreign Aid Projects included in the appropriation accounts of the Ministries.	-
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Not applicable at the moment. Terms of Reference for audit will be prepared in consultation with funding agent and MHECA at the time of finalizing the loan terms and conditions.	-
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	Not applicable at present.	-
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes. The AG has sufficient knowledge and understanding of ADB's guidelines and procedures.	Moderate
6.16 Are there any recommendations made by the auditors in prior audit reports or management	Not applicable at present.	-

Topic	Assessment Team's comments	Potential Risk Event
letters that have not yet been implemented?		
6.17 [For second or subsequent projects] Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?	Not applicable at present.	-
7. Reporting and Monitoring		
7.1 Are financial statements and reports prepared for the entity?	Yes. An appropriation account is prepared and submitted for audit annually. The MHECA also prepares financial statements under accrual basis of accounting, which comprise a revenue and expenditure statement, a statement of financial position, cash flow statement and notes to the financial statements.	Low
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Yes. Financial statements are prepared for all four (4) Universities [which have been identified as Implementing Agencies – IAs – for this project], as a whole combining faculties, education centres and departments.	Low
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Appropriation accounts for financial years ending 31 December are prepared in a timely manner. Monthly imprest accounts are also prepared together with a summary of accounts reconciling the imprest account in a timely manner.	Low

Topic	Assessment Team's comments	Potential Risk Event
7.4 Does the entity reporting system need to be adapted for project reporting?	The current system presently adopts project reporting, which are included in the appropriation account.	Low
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Not applicable, since project has not commenced as yet. However, once commenced, based on terms and conditions of the loan agreement financial and management reporting responsibilities will be established.	-
7.6 Are financial management reports used by management?	Yes – to a limited extent.	Moderate
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	<p>The MHECA prepares a statement annually explaining variances between actual expenditure and net estimates made from the recurrent budget for the MHECA based on expenditure head 117.</p> <p>The explanations for variances are limited to variance of above 5% or LKR 10,000 of the net estimates. Generally, variances are below estimates, since if actual expenditure exceeds net estimates, a correction is made to the net estimate for reallocation with approval.</p>	Moderate
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	A list of expenditure both recurrent and capital are extracted from the Computerised Integrated Government Accounting System (CIGAS) and by use of Excel spreadsheets, an appropriation account is prepared manually.	Low
7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls	<p>The CIGAS does not facilitate linking of financial information with physical progress.</p> <p>Project progress reports/ construction progress reports are separately prepared, but not system generated. These reports are not synchronized with financial data in the CIGAS.</p>	High

Topic	Assessment Team's comments	Potential Risk Event
are in place to reduce the risk that the physical data may not synchronize with the financial data?		
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	<p>Yes. MHECA had been the EA for the following projects funded by World Bank and Government of Kuwait including ADB.</p> <p>(a) Improving Relevance and Quality of Undergraduate Education (IRQUE) – World Bank – USD 31.6m (2003-2010).</p> <p>(b) Distance Education Modernization Project (DEMP) - ADB - USD 60m (2003-2009).</p> <p>(c) Higher Education for Twenty First Century (HETC) - World Bank – USD 40m (2010-2016)</p> <p>(d) Tsunami Rehabilitation Project – Government of Kuwait – KWD 6m (2005-2010).</p> <p>(e) South Eastern University Development Project (Phase 1A) - Government of Kuwait – USD 8.6m (2007-2011).</p> <p>(f) South Eastern University Development Project (Phase 1B) - Government of Kuwait – USD 14m (2012-2018).</p>	Low
8. Information Systems		
8.1 Is the financial accounting and reporting system computerized?	<p>Yes. The financial accounting is computerised. The MHECA, similar to all Government Departments and Ministries uses CIGAS to record financial transactions.</p> <p>Manual intervention is required to prepare final accounts/ appropriation accounts and other financial reports.</p>	Moderate
8.2 If computerized, is the software off-the-shelf, or customized?	<p>CIGAS is a customized system, but is limited to capturing expenditure both recurring and capital.</p> <p>The MHECA will use an advanced customised software ('Integrated Treasury Management Information System' - ITMIS) in the future similar to all other Departments and Ministries under Ministry of Finance.</p>	-
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	<p>Stand alone. Integration is done by uploading peripheral information to the CIGAS at the Treasury.</p> <p>ITMIS is expected to be centralized – online real time.</p>	Moderate

Topic	Assessment Team's comments	Potential Risk Event
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?	<p>At present, project expenditure data is included with that of the MHECA expenditure in the appropriation account. The appropriation account identifies Foreign Aid Project expenditure separately from that of MHECA.</p> <p>Accordingly, project financial data is not integrated with the MHECA financial data.</p>	Low
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	CIGAS is used to record all recurrent and capital expenditure of MHECA and project expenditure. However, CIGAS does not generate periodic financial statements - the appropriation accounts/ imprest accounts which are manually prepared using Excel spreadsheet after extracting expenditure balances from CIGAS.	Moderate
8.6 Can the system automatically produce the necessary project financial reports?	<p>No. Manual intervention is required to prepare project financial reports.</p> <p>CIGAS facilitates generating expenditure statements in relation projects.</p>	Moderate
8.7 Is the staff adequately trained to maintain the computerized system?	<p>Yes. All finance and accounts division staff at MHECA are trained on using CIGAS.</p> <p>Maintenance and updates required to the system are either carried out by the staff themselves or carried out with assistance from the Ministry of Finance and Mass Media (MOFMM), which is in-charge of the system.</p>	Low
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	<p>Only two (2) staff members (Development Officers) have access to enter data into CIGAS, although all staff members in the finance and accounts divisions are trained on data entry to CIGAS. The two (2) members exercise password controls in accessing CIGAS for data entry.</p> <p>Further, the Government Payroll System (GPS), which is a standalone system from CIGAS for processing payroll has similar password control for access. However, a single person is responsible for payroll processing, as per staff profiles and duties shared.</p> <p>Due to restricted access to CIGAS and GPS, there is safeguard over data confidentiality, integrity and availability.</p>	Moderate
8.9 Are there back-up procedures in place?	Yes, but limited to data being uploaded to a pen drive based on usages of the system.	High

Topic	Assessment Team's comments	Potential Risk Event
<p>8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.</p>	<p>Backups are generally taken if the system is updated. Accordingly, if on a particular date if there is no system update, a backup is not taken on that date, otherwise a daily backup is taken.</p> <p>The storage of backup (pen drive) is not effective, since it is retained either by the person who takes the backup or by the Accountant and stored in the same location.</p> <p>Although there is a safe is available, which could be used for backup storage, at present the backup is stored in a drawer of a desk at the finance and accounts division of MHECA.</p>	<p>High</p>

ANNEX 2: FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE – IMPLEMENTING AGENCY⁹

(Note: This questionnaire should be used as a tool only to gather information relevant for assessing financial management capacity of executing and implementing agencies. It may be used selectively for second subsequent projects, or periodic financing reports. Additional questions may be required as deemed fit).

Implementing Agencies – Universities of Sri Jayewardenepura, Kelaniya, Rajarata, and Sabaragamuwa

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
1. Executing / Implementing Agency					
1.1 What is the entity's legal status / registration?	<p>All state universities have been established under the Universities Act No.16 of 1978, including the four Universities subject to this assessment.</p> <p>The 'Universities of Sri Jayewardenepura and Kelaniya' had been established as 'Vidyodaya University and Vidyalankara University' in 1959, with the enactment of the 'Vidyodaya University and Vidyalankara University Act No. 45 of 1959'. However, it is noteworthy that both these universities had been in existence since latter part of nineteenth century, as two Pirivenas (i.e. seats of higher learning in Buddhist and Oriental Studies). Subsequently, with the enactment of 'University of Ceylon Act No. 1 of 1972' all the state universities at the time became campuses of the 'University of Ceylon' and these two universities were renamed as the 'Vidyodaya Campus' and 'Vidyalankara Campus' of the of the 'University of Ceylon' (later Sri Lanka).</p> <p>The above two Universities have been re-established as the 'University of Sri Jayewardenepura' and 'University of Kelaniya' respectively, under the new 'Universities Act, No.16 of 1978' which conferred independence status to all universities established under it.</p> <p>Both Rajarata and Sabaragamuwa Universities have been established in 1996 under the new Universities Act of 1978.</p>				-
1.2 How much equity (shareholding) is owned by the Government?	Fully – As a state-owned universities, the entirety of equity had been provided and owned by the GOSL.				-

⁹ This questionnaire should be administered by ADB staff or consultant (the Reviewer), and utilized only to obtain information, and to identify and describe potential risk events. Rating of risks should be carried out separately by assessing their likelihood and impact.




Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. ¹⁰	Not Applicable.				-
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	<p>Yes.</p> <p>SJP had implemented the following externally financed project in the past:</p> <p>(a) Higher Education for Twenty First Century (HETC) project. This project had been implemented from Nov 2010 to 2016. Project cost LKR 396 Million.</p> <p>(b) Improving Relevance and Quality of Undergraduate Education (IRQUE) Project. This project had been implemented from Dec 2006 to Jun 2010.</p>	<p>Yes.</p> <p>UK had implemented the following externally financed project in the recent past:</p> <p>(a) Higher Education for Twenty First Century (HETC) project. Funded by the IDA, this project had been implemented from 2011 to 2016. Focus areas of funding were mainly on areas such as HR capacity development, research etc.</p> <p>(b) Improving Relevance and Quality of Undergraduate Education (IRQUE) Project</p>	<p>Yes.</p> <p>(a) Higher Education for Twenty First Century (HETC) project. Funded by the IDA, this project had been implemented from 2011 to 2016. Focus areas of funding were mainly on areas such as HR capacity development, research etc.</p> <p>(b) Improving Relevance and Quality of Undergraduate Education (IRQUE) Project</p>	<p>Yes.</p> <p>The most recent project implemented was 'Higher Education for Twentieth Century (HTEC) project funded by the IDA, from 2011 to 2016 (Project cost LKR 135 Million).</p>	-

¹⁰ In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners.

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
		(a) Swedish International Development Agency - Department for Research Cooperation (SIDA SAREC) Project			
1.5 Briefly describe the statutory reporting requirements for the entity.	Reporting responsibilities are to the Parliament of Sri Lanka, through the UGC. The Parliament exercises its oversight via the 'Committee On Public Enterprises' (COPE). Audited Annual Financial Statements need to be tabled at the Parliament within a specified timeline, along with Auditor General's report.				Low
1.6 Describe the regulatory or supervisory agency of the entity.	The Ministry in charge of the subject of higher education (presently, Ministry of Higher Education and Cultural Affairs) and the University Grants Commission – UGC established under Universities Act, No. 16 of 1978.				-
1.7 What is the governing body for the project? Is the governing body for the project independent?	Council of the respective Universities would be the primary governing body with the oversight and direction of the Ministry of Higher Education and Cultural Affairs (MHECA). All state Universities in Sri Lanka are decreed as independent entities.				-
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance	Organization Structure is attached. Please refer the following attachments: Attachment 5 - Organization Chart of University of Sri Jayewardenepura (SJP) Attachment 6 - Organization Chart of University of Kelaniya (KU) Attachment 7 - Organization Chart of Rajarata University of Sri Lanka (RUSL) Attachment 8 - Organization Chart of Sabaragamuwa University of Sri Lanka (SUSL) As specified by the Universities Act No. 16 of 1978, key management personnel of the university consist of:				-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
appropriate for the needs of the project?	<div>(i) Vice Chancellor</div> <div>(ii) Dean of each faculty</div> <div>(iii) Registrar</div> <div>(iv) Bursar and</div> <div>(v) Librarian</div> <div>The organizational structure and governance style of the universities are appropriate for the needs of the project. All the four universities assessed have implemented substantial infrastructure development projects in the past, in addition to the projects currently on-going.</div>				
1.9 Does the entity have a Code of Ethics in place?	<div>Yes.</div> <div>All state universities have adopted the ‘Establishment Code’ of the government with modifications, which specifies Code of Ethics to be observed by the universities.</div>				-
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	<div>As per the Registrar/ Senior Officials of the Universities, no incidents of ethics violations have been reported in the recent past (i.e. within past five years). No evidence was available to the review team to prove otherwise.</div>				-
2. Funds Flow Arrangements					
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and	<div>Fund Disbursements:</div> <div>(1) ADB to Central Bank USD Account</div> <div>(2) Central Bank to MHECA / PMU</div> <div>(3) GOSL to PMU (Counterpart Funds)</div> <div>(4) PMU to Universities/ PIU</div> <div>Payments: :</div> <div>(5) ADB to Contractors Suppliers</div> <div>(6) PMU/ PIU to Contractors Suppliers</div>				-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	<p>Withdrawal Applications: (7) PIU to PMU (8) PMU to ADB</p> <pre> graph TD ADB[ADB] --> CB[Central Bank (USD Advance Acct.)] CB --> PMU[PMU (MOHE) (Two Project Bank Accounts for Loan/ Counterpart Funds)] GOSL[GOSL (Counterpart Funds)] --> PMU PMU --> PIU[PIU (4 Universities) (Two Bank Accounts each for PIUs set up at SJP, KU, RU, SU for Loan/ Counterpart Funds)] PIU --> CS((Contractors/ Suppliers)) CS --> ADB CS --> GOSL GOSL --> PMU PMU --> CB CB --> ADB </pre> <p>ADB Fund Flow : _____</p>				

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
	Counterpart Fund Flow :  Payments to Contractors/ Suppliers :  Submission of Withdrawal Applications : 				
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes. The existing procedure has been in satisfactory operation for a considerable period of time and no negative outcomes had been observed by the universities.				Low
2.3 Are the disbursement methods appropriate?	Yes. No negative outcomes were observed.				Low
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	Delays in disbursement from the treasury have been observed in the past, particularly in respect of non-payroll expenditure. However, fund requirement for recurrent expenditure have been met by the treasury despite occasional delays. It was reported that the entirety of capital expenditure allocations for the universities had not been released in the recent past.				High
2.5 In which bank will the Imprest Account (if applicable) be established?	People's Bank – Foreign Branch, D R Wijewardena Mawatha, Colombo 10.	People's Bank – Dalugama.	Bank of Ceylon – Mihinthale	Bank of Ceylon – Pambahinna, Belihuloya.	-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
	<p>As a result of large scale allocations and expenditures, the universities have gained adequate experience in handling large scale fund flows, limiting the requirement to impose any ceiling on disbursements.</p> <p>Further, it could be considered to make large project payments to contractors via the Executing Agency (Ministry of Higher Education), that would lessen the scale and burden of fund flows to be executed by the IA.</p>				
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	<p>A Project Implementation Sub-Unit (PISU) is yet to be established at the universities for the proposed ADB funded project.</p> <p>Several projects funded by the World Bank Group ('Higher Education for Twentieth Century - HETC' and 'Improving Relevance and Quality of Undergraduate Education – IRQUE') had been concluded recently in all four universities, which had provided them with exposure to implementing large projects.</p> <p>These projects had also contributed towards enhancing project management capabilities of the universities. Some of the senior officers involved in these projects are expected to be associated with the proposed ADB project as well.</p>				Moderate
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about	<p>PIUs are yet to be established at the universities.</p> <p>The proposed PIUs would not be able to demonstrate any past exposure over managing imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH). Yet, experience it has gained in carrying out similar lender/ government funded projects in the past implies that the IA has built up sufficient administrative and accounting capacity. However, PIU staff would require ADB specific imprest fund management and SOE training in the event, the proposed projects are implemented.</p>				Moderate

Topic	Responses				Potential Risk Event
	University of Sri Jayawardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.					
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	<p>Yes.</p> <p>The University has been making direct procurements from overseas (equipment, consumables etc.), exposing to foreign exchange risks. Some faculties (e.g. Medical Faculty) admits foreign students, but they pay in local currency.</p> <p>There is no policy or arrangements in place to manage any foreign exchange risks arising from above situations.</p> <p>Rest of the university transactions do not pose exchange risks as entirety of its financial operations had been single currency (LKR) based.</p>	<p>Yes.</p> <p>The University has been making direct procurements from overseas (equipment, vehicles etc.), exposing to foreign exchange risks.</p> <p>There is no policy or arrangements in place to manage any foreign exchange risks arising from above situations.</p> <p>Rest of the university transactions do not pose any such risks because entirety of its financial operations had been single currency (LKR) based.</p>	<p>Yes.</p> <p>The University has been making direct procurements from overseas (equipment, consumables etc.), exposing to foreign exchange risks. 'Faculty of Medicine and Allied Sciences' admits foreign students, but they pay in local currency.</p> <p>The University has been exposed to foreign exchange risks due to admission of foreign students to its 'Faculty of Medicine and Allied Sciences'.</p> <p>There is no policy or arrangements in place to manage any foreign</p>	<p>No.</p> <p>The University has not been exposed to foreign exchange risks or mechanisms of managing such risks due to the nature of its financial operations which in its entirety had been single currency (LKR) based.</p> <p>Thus no policy and arrangements have been in place for managing foreign exchange risks.</p>	Moderate

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
			exchange risks arising from above situations. Rest of the university transactions do not pose any such risks because entirety of its financial operations had been single currency (LKR) based.		
	Even upon the implementation of proposed project any foreign exchange risk would rest with the General Treasury/ External Resources Department of Sri Lanka, as the managers of foreign funds related to the project. However, foreign exchange risks linked to the Universities could not be ruled out in relation to any foreign inputs to be acquired for the project (i.e. consulting services, direct procurements, etc.) from foreign sources.				
2.11 How are the counterpart funds accessed?	Counterpart funds are expected to be provided by the government (via treasury) based on the allocations made annually for capital works.				High
2.12 How are payments made from the counterpart funds?	In accordance with current practice, counterpart funds would be disbursed to the EA and IAs who would in turn make project related payments as necessary.				-
2.13 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its	Yet to be decided. (No fund flows to communities or NGOs are anticipated under the proposed project)				-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
systems to track the use of project proceeds by such entities?					
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labour or material), are proper guidelines and arrangements formulated to record and value the labour or material contributions at appraisal and during implementation?	<p>There could be potential contributions from the primary beneficiary Universities by way of land grants, administrative and technical inputs by Universities personnel, labour and material but the extent and volume such contributions have not been determined at this stage.</p> <p>Apart from the above, counterpart funding arrangements may be appropriate depending on the loan conditions entered into by the ADB and GOSL.</p>				Moderate
3. Staffing					
3.1 What is the current and/or proposed organizational structure of the accounting	<p>The University Accounting Department is headed by Bursar with several Deputy, Senior Assistant and Assistant Bursars to support him/ her. The organization structure of the university accounting department is relatively flat with no hierarchical arrangements below the 'executive' officer grade (i.e. Assistant Bursar level). Accordingly, all the 'non-executive' grade staff in the accounting department report directly to the Deputy/ Senior Assistant/ Assistant Bursar concerned.</p>				-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
department? Attach an organization chart.	<p>For the detailed Accounting Department organization structure, please refer following attachments:</p> <p>Attachment 9 - Organization Chart of Accounting/ Finance Division of (SJP)</p> <p>Attachment 10 - Organization structure of Accounting/ Finance Division of (KU)</p> <p>Attachment 11 - Organization Chart of Accounting/ Finance Division of RUSL</p> <p>Attachment 12 - Organization Chart of Accounting/ Finance Division of SUSL</p>				
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	While existing staff may be assigned fulltime/ time sharing basis new staff will be required to fill gaps and meet specific skills (e.g. Technical personnel).				Moderate
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	<p>The accounting staff who are available to be assigned to the PIU would be as follows:</p> <ul style="list-style-type: none"> - Bursar – overall supervision of finance and accounting function of the project, on time sharing (part-time) basis. - Deputy/ Assistant Bursar – supervise/ carry out project financial and accounting activities, on time sharing (part-time) basis. - Staff/ Management Assistants (1 or 2) – possessing of payments and other transactions of the project, stock record and inventory maintenance, accounting and book-keeping, record keeping, etc., on full-time basis. The restricted number of personnel in this category may create issues over segregation of duties and internal check hence appropriate risk mitigation measures would need to be introduced. <p>Available CVs/ personal profiles of proposed senior staff of the four Universities for the project are attached. Please refer Attachment 3B - CVs of key executive staff.</p> <p>CVs have not made available by the Sabaragamuwa University of Sri Lanka up to the time of concluding this report.</p>				-
3.4 Is the project finance and accounting function staffed adequately?	Staffing arrangements for the project are yet to be finalized.				-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
3.5 Are the project finance and accounting staff adequately qualified and experienced?	<p>The Bursars and Deputy/ Assistant Bursars available to be assigned to the project to oversee finance and accounting function are adequately qualified and experienced as per the CVs/ personal profiles provided by them.</p> <ul style="list-style-type: none"> - Bursar of University of Sri Jayewardenepura is a professionally qualified Chartered Accountant with post graduate degree in business administration with adequate experience. - Bursar of University of Kelaniya is a professionally qualified Chartered Accountant with experience. However, given the current limitations in staff availability, University authorities suggested that new staff would be needed if the proposed ADB project is implemented. - Bursar of Rajarata University of Sri Lanka is an Associate Member of the Chartered Institute of Management Accountants (UK) with adequate work/ project management experience. - Bursar of Sabaragamuwa University of Sri Lanka is a passed finalist of the Chartered Accountants examination and holds a Diploma in Accounting. Possesses adequate work experience. 				Moderate
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	<p>The last ADB funded project, Distant Education Modernization Programme (DEMP) for the Universities had ended several years back. Hence, most of the potential staff who may engage in project work would not have prior exposure to ADB procedures and Loan Disbursement Guidelines (LDH). This situation will necessitate adequate training and awareness programmes initiated by the ADB.</p>				Moderate
3.7 What is the duration of the contract with the project finance and accounting staff?	<p>The project is expected to run for a period from three (3) to five (5) years. Nevertheless, one-year renewable contract for the newly recruited project staff would be appropriate.</p>				-
3.8 Identify any key positions of project finance and accounting staff not	<p>All positions relating to project finance and accounting are yet to be filled and finalized.</p>				-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
contracted or filled yet, and the estimated date of appointment.					
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	Please refer section 3.3 above.				-
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Position descriptions and allocation of duties are yet to be determined and finalized.				Moderate
3.11 What is the turnover rate for finance and accounting	Very low (generally, less than 5% annually).				Low

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
personnel (including terminations, resignations, transfers, etc.)?					
3.12 What is training policy for the finance and accounting staff?	The Universities have identified training needs of the finance and accounting staff and provided necessary training from internal and external sources. It was noted that the selection criteria of staff for such training had not been clearly defined and no specific policies pertaining to the finance and accounting division were available. Further, detailed training plans were not available, supported by a needs assessment carried out and any skill gaps identified.				Moderate
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	<p>In general, training opportunities had been extended by Universities to the executive staff (above Assistant Bursar level) in finance and accounting division. The programmes attended by them included:</p> <ul style="list-style-type: none"> • Awareness training on Sri Lanka Public Sector Accounting Standards • Computer applications • Procurement and Inventory Management <p>A few Universities such as Rajarata have organized in-house programmes for the non-executive staff.</p>				-
4. Accounting Policies and Procedures					
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the	<p>Yes.</p> <p>SJP has been using an accounting software system provided by 'Sir Arthur C Clarke Institute of Modern Technologies' at Moratuwa, Sri Lanka for accounting, payments and reporting activities. The payroll is processed using a software package developed internally by the University IT Services Unit. Fixed Assets and Inventory controls are carried out on proprietary systems supplied by an external vendor who provided software maintenance and support services. These difference software packages function as standalone systems, requiring considerable manual intervention.</p> <p>University of Kelaniya operates a centralised accounting system, other than for the Faculty of Medicine, which functions from a different location. Accordingly, same software system ('Equal - Pack Soft') is used at Faculty of Medicine and the accounts are amalgamated subsequently with main campus.</p>				-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	<p>Rajarata University of Sri Lanka deploys a fully decentralised system where each faculty/ unit conducts accounting separately, under the responsibility of an Assistant Bursar, using same software package, standalone. Accounts are amalgamated subsequently.</p> <p>Sabaragamuwa University of Sri Lanka operates a fully centralised accounting system.</p> <p>These Universities intend to use the same accounting system for the project as well, as a separate stand-alone system or as extension to the current system.</p>				
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	<p>Yes.</p> <p>All transactions pass through several stages relating to preparation, certification and approval.</p> <p>However, password and physical controls to access the accounting system were observed to be weak due to the following:</p> <ul style="list-style-type: none"> - Same password has been shared to access the accounting system by a number of people engaged in the accounting process. - Internal check and segregation of duties within a unit in the accounting and finance department are ineffective as same individuals performing a series of activities. E.g. payment process where preparation of payment vouchers, processing of cheques, keeping custody of unused cheque leaves and data entry are done by same person due to the limited number of staff available in the payment unit. - Access to computers has been open to all and not restricted with password. 				Moderate
4.3 Is the chart of accounts adequate to properly account for and report on	<p>Current Chart of Accounts is extensive and satisfactorily designed. However, any provisions for the project activities are yet to be accommodated. A copy of the chart of accounts was obtained for the assessment from each University.</p>				Low

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
project activities and disbursement categories? Obtain a copy of the chart of accounts.					
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes. Where, special funding sources are existent, related costs are matched and allocated.				Moderate
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes. The main subsidiary ledger (record) available at present are for the staff loan/ advances.				Moderate
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g., ADB's policy requires that all documents should be retained for at least 1 year after	As per government policy/ regulations, all records are required to be maintained for a minimum period of five (5) years. University usually keeps records for longer than five (5) years. Newly enacted Right to Information Act No. 12 of 2016 specifies that the public documents and records should be maintained and retained up to maximum 12 years. Record storage and archiving facilities are available within Universities.				Low

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?					
4.7 Describe any previous audit findings that have not been addressed.	Generally, previous audit findings have been addressed, although exceptions were observed.				
	E.g., Non recovery of balance of advance paid in 2011 to a contractor for renovation of laboratory building and new art theatre for work not performed, although the contract had been cancelled 2012. This issue remains unresolved since then.	E.g. "Land legally owned by the University had not been revalued, as required by SLPSAS, from 2008 and accounted accordingly. This issue had been repeatedly raised in the audit reports issued by the AGD from 2014 to 2016.	E.g. Substantial differences observed between computerised register of fixed assets and 11 items of fixed assets shown in the financial statements. This discrepancy has continued from 2015.	E.g. Absence of audit evidence to establish ownership, existence and completeness of property, plant and equipment recorded in financial statements. These lapses have continued for several years.	
Segregation of Duties					

Topic		Responses				Potential Risk Event
		University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
4.8	Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	Segregation of duties and internal check were observed to be adequate.	Yes, but with exceptions on certain functions. E.g. unused cheque leaves are kept in the custody of the Assistant who is handling payments. Data validation process under the accounting system was observed to be weak.			Moderate
4.9	Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes. Satisfactory internal check is in place. Ordering is taking place at the faculty level (varying up to a maximum threshold of LKR 1m) or the Assistant Registrar/ Assistant Bursar in charge of procurement at main campus. Accounting and paying responsibility rests with the Finance Division and receiving by the stores. Segregation of functions at faculty level is not optimal, mainly due to narrow organization structure.				Moderate
Budgeting System						

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
4.10 Do budgets include physical and financial targets?	Yes (where appropriate).				-
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes. Prepared according to format specified by the General Treasury. Budget guidelines are issued by the General Treasury every year which all public entities should comply with.				Low
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes. Significant variances are analysed monthly and presented to the Finance Sub Committee and University Council for review. Based on any approved variances original budget allocations would be revised.				Low
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	Approval required in advance for any cost overruns (which is anyway kept not more than 10% of the original budget for any particular line item) from the University Council, with recommendations from Finance Committee. However, it is required to set-off excess in a line item against the savings from another and total approved budget for the year cannot be exceeded without Treasury approval.				Moderate
4.14 Is there a ceiling, up to which variations from the budget	No. For spend over the budget allocation, prior approval is required but often post approval is obtained when prior approval is not obtainable due to practical reasons.				

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
may be incurred without obtaining prior approval?					
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Vice Chancellor, Bursar and the University Council with the recommendations of Finance Committee are responsible.				-
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Budget preparations are made after consulting with and obtaining proposals from all relevant parties of the University. Government universities are mandated to follow the GOSL budget process which is usually communicated by 'National Budget Circular, issued by General Treasury annually, titled 'Budget Call - (Year) - Guidelines and Directions for the Preparation of Annual Budget Estimates'.				Low
4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	<p>Not applicable.</p> <p>Plans and budgets for the proposed project are yet to be finalized.</p> <p>In respect of University budgets prepared in the recent past mid-year revisions have not been required unless additional allocations are needed due change in Government policy or unplanned activates (e.g. special mid-year salary increase in 2015).</p> <p>Inadequate fund release against allocations have been experienced, particularly in relation to capital expenditure.</p>				-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
<p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>					
Payments					
4.18 Do invoice-processing procedures require: (i) Copies of	<p>Yes.</p> <p>The invoice processing is initiated at the division/ unit which requested/ originated the purchase. As such, relevant checks and scrutinizing of documents are also initially carried by the originator of transaction, followed by secondary processing of documents by the Finance Division.</p>				Moderate

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
<p>purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations? (v) Checking authenticity of invoices and supporting documents?</p>	<p>Documents required to complete a purchase transaction include:</p> <p>Purchase Requisition, Approval, Purchase Order (PO), Request for Quotation (RFQ), Invoice, Goods Received Note (GRN).</p>				
4.19 Are all invoices stamped PAID, dated, reviewed and approved,	Yes. 'PAID' seal is stamped on original documents upon preparation of cheque or payment of cash. Account code is assigned prior to payment.				Moderate

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
recorded/entered into the system correctly, and clearly marked for account code assignment?	Validation process of data entered to the system was observed as weak as no procedure is in place to have the entered data verified by a second person (or online validation of data entered at the payment approval stage.)				
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	<p>Limited controls were in existence.</p> <p>Modifications to employee master files are required to be carried out by a staff officer (i.e. .Assistant Bursar or above).</p> <p>However, due to weak password controls observed (use of single password by multiple users), integrity of payroll preparation process cannot be upheld.</p>				Moderate
Policies And Procedures					
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	Accrual Basis' is applied by the entity and the same basis is expected to be applied for the project.				Low
4.22 What accounting standards are followed (International Financial Reporting Standards,	Sri Lanka Public Sector Accounting Standards (SLPSAS) are followed and the 'Sri Lanka Accounting Standards (SLAS) are applied wherever the Accrual Basis.				Low

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?					
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	<p>Accountability of the university is governed by the Establishment Code and Financial Regulations – 1992 applicable to state entities.</p> <p>Further, the legal framework governing Universities includes Universities Act No. 16 of 1978, Finance Act No. 38 of 1971 and Circulars issued by the University Grants Commission (UGC) from time to time.</p> <p>It is expected that same policies, procedures and guidelines would be applicable, where appropriate, to any project implemented by the Universities.</p>				Low
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	<p>Accounting Policy and Procedure applicable to the Universities are based on the Financial Regulations - 1992 (FR), Universities Act No. 16 of 1978 and Finance Act No. 38 of 1971, and the 'Sri Lanka Public Sector Accounting Standards' (SLPSAS).</p> <p>Any updates would be dependent upon amendments to the aforementioned, which along with any deviations recommended, are notified by the UGC through circulars issued from time to time, for compliance.</p>				Low
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	<p>Yes.</p> <p>There is only limited leeway to alter or establish a new accounting policy or procedure at the University level. Accounting policies and procedures are as determined and authorized by the UGC on university-wide basis within the guidelines and recommendation in the government's Financial Regulations (FR 1992) and other regulations referred to herein before.</p>				Low

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	No specific procedure manual is available. Instead, circulars issued by the UGC, 'Universities Act No. 16 of 1978', 'Finance Act No 38 of 1971', NPA Procurement Guidelines and 'Financial Regulations - 1992' are required to be adhered to.				Moderate
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Establishment Code and Financial Regulations address safeguards relating to 'Conflict of Interest'.				Moderate
4.28 Are manuals distributed to appropriate personnel?	All appropriate personnel are required to be conversant with regulatory pronouncements referred to in section 4.26 above, which are in public domain and available for reference at the University.				Moderate
4.29 Describe how compliance with policies and procedures are verified and monitored.	Primarily, the University Council bears the responsibility for oversight on compliance with policies and procedures, where the internal audit units (both at University and UGC levels) performs as apparatus for such monitoring. The annual external audit by the AGD also monitors the compliance aspect in a wider perspective.				Low
Cash and Bank					

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	<p>Only Bursar and Registrar of the university (including their deputies and assistants), in addition to the Vice Chancellor are authorized signatories for bank transactions as noted below:</p> <p>First/ second signatory:</p> <ol style="list-style-type: none"> 1. Mrs. K T C Priyangani - Bursar 2. Mrs. P H C M Hiripitiya - Deputy Bursar 3. Mr. G H Gamini - Deputy Bursar 4. Mrs. J T L Dharmasena - Deputy Bursar 5. Mrs. Priyangika Chandradasa - Deputy Bursar 6. Ms. Mayuri Suraweera - Senior Assistant Bursar 7. Mrs. Dammika Galkaduwa - Senior Assistant Bursar 8. Mrs. S Walpola - Senior Assistant Bursar 9. Mr. K H U D W Kumara - Senior Assistant Bursar 10. Ms. A A K N Ranasinghe - Senior Assistant Bursar 11. Mr. Mohan Nandana - Senior Assistant Bursar 12. Mrs. G W L Priyanthika - Assistant Bursar 	<p>Only Bursar and Registrar of the university (including their deputies and assistants), in addition to the Vice Chancellor are authorized signatories for bank transactions as noted below:</p> <p>First/ second signatory:</p> <ol style="list-style-type: none"> 1. Ms. U.T.M.I.D. Thennakoon - Bursar 2. Ms. D.C. Fernando - Deputy Bursar 3. Mr. H.M.N.C. Herath - Deputy Bursar 4. Ms. W.L.S. Wijesekara - Senior Assistant Bursar 5. Ms. A.N. Samaranayake - Assistant Bursar 6. Mr. P.H.U. Nissanka - Assistant Bursar 7. Ms. S.U. Nanayakkara - Assistant Bursar <p>Second signatory only:</p> <ol style="list-style-type: none"> 1. Prof. D.M. Semasingha - Vice Chancellor 2. Mr. W.M.Karunaratna - Registrar 3. Ms. A.L.M.S.D. Abeygoda - Deputy Registrar 4. Ms. M.M.N.T.K Yalagama - Deputy Registrar 	<p>Only Bursar and Registrar of the university (including their deputies and assistants), in addition to the Vice Chancellor are authorized signatories for bank transactions as noted below:</p> <p>First/ second signatory:</p> <ol style="list-style-type: none"> 1. Mr M.I.F Rahman – Bursar 2. Mr R.M Dassanayake – Deputy Bursar 3. Mr S.K Godakumbura – Deputy Bursar 4. Mr D.M.R Samantha – Assistant Bursar 5. Mr J.M.S.K Jayalath – Assistant Bursar 6. Ms M.G.D.C Muhandiram – Assistant Bursar <p>Second signatory only</p> <ol style="list-style-type: none"> 1. Prof. K.H.R Wijewardhana - Vice Chancellor 2. Mr. A.M.G.B. Abesinghe - Registrar 3. Mr. N.C Sudath Senaka - Deputy Registrar 4. Mr. S.A.I. Somarathne - Senior Assistant Registrar 5. Mr. C. Hettige - Senior Assistant Registrar 	<p>Only Bursar and Registrar of the university (including their deputies and assistants), in addition to the Vice Chancellor are authorized signatories for bank transactions as noted below:</p> <p>First/ second signatory:</p> <ol style="list-style-type: none"> 1. Mr. K A R S Jayakody - Chief Accountant/ Bursar 2. Mr. K D D S Sugathapala - Senior Assistant Bursar 3. Mr. R M N K Rathnayake - Assistant Bursar 4. Ms. C P Hatharasinghe - Assistant Bursar 5. Mr. K H A De Silva - Assistant Bursar 6. Ms. A Liyanagamage - Assistant Bursar <p>Second signatory only</p> <ol style="list-style-type: none"> 1. Mr. M Sunil Shantha – Vice Chancellor 2. Mr. M F H Careem – Registrar 3. Mr. K Gunawardana – Deputy Registrar 4. Ms. S D D Hiranthi - Senior Assistant Registrar 5. Mr. M L Warnasuriya - Senior Assistant Registrar 	-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
	13. Mrs. M G Kumukage - Assistant Bursar 14. Mrs. Uthpala Dissanayake - Assistant Bursar Second signatory only: 1. Prof. Sampath Amaratunge - Vice Chancellor 2. Mr. K Gnanasiri Britto - Registrar 3. Mr. L L Wasantha Perera - Deputy Registrar 4. Mr. Anuraddha Bandara Welivita - Deputy Registrar 5. Mr. Kolitha Bandara - Deputy Registrar 6. Mr. Nalinda Dharmaratne - Deputy Registrar 7. Ms. A M S Mendis - Deputy Registrar 8. Ms. U D S S Gunasinghe - Senior Assistant Registrar 9. Mrs. P K C Senarath - Senior Assistant Registrar 10. Mrs. K P Y T Malkanthi - Senior Assistant Registrar 11. Mr. N S Thalagune - Senior Assistant Registrar 12. Mr. Manjula Thalgahagoda - Senior Assistant Registrar 13. Mrs. Preethika Weheragoda - Senior Assistant Registrar 14. Mrs. H K S D Geeganage - Senior Assistant Registrar	5. Mr. R.M.M.L.B. Wewegama - Senior Assistant Registrar 6. Mr. B.A.N. Krishantha - Senior Asst. Registrar 7. Mr. K.A.B. Damunupola - Senior Assistant Registrar 8. Mr. K.B.S.L. Wijerathna - Senior Assistant Registrar 9. Mr. M. Piyathilaka - Senior Assistant Registrar 10. Ms. W.E.M. Wagalath - Senior Assistant Registrar 11. W.N.P.M.N.N. Karunarathana - Assistant Registrar 12. Ms. D. Pushpa Tharangani - Assistant Registrar 13. Mr. S. Mani wannan - Assistant Registrar 14. Ms. J.T.M. Jayasinghe - Assistant Registrar 15. Ms. A.S.P. Dodanthanna - Assistant Registrar	6. Mr. M.M.S. Sanjeewa - Senior Assistant Registrar 7. Mr. W.M.U Keerthirathne - Senior Assistant Registrar 8. Mr. A.R Ramesh - Senior Assistant Registrar 9. Ms. P.J Senevirathna - Assistant Registrar 10. Mr. W.B. Dissanayake - Assistant Registrar 11. Mr. M. Arunshankar - Assistant Registrar 12. Ms. D.M.N.S. Dissanayake - Assistant Registrar 13. Mr. W.M.K.Upuldeniya - Assistant Registrar 14. Ms. S.D.S.K. Samarathunga - Assistant Registrar 15. Ms. H.S.M.D.S.M. Samarakoone - Assistant Registrar 16. Dr. B.A Karunarathne - Dean 17. Dr. K.G.A Udayakumara - Dean 18. Dr. C.R Withanachchi - Dean 19. Prof. S.H Siribaddana - Dean 20. Dr. A.M.J.B Adikari - Dean	6. Mr. J G P U Rathnayake Senior Asst. Registrar 7. Ms. M L W O M Karunaratne – Assistant Registrar 8. Mr. M Z M Rizan – Assistant Registrar 9. Ms. H M D Y Herath – Assistant Registrar 10. Mr. G A D M Thennakoon – Assistant Registrar 11. Ms. A A S Priyadarshane – Assistant Registrar 12. Ms. R N Neluwapathirana – Assistant Registrar 13. Ms. N Subothini – Assistant Registrar 14. Ms. H H K N Dharmasiri – Assistant Registrar	

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
	15. Mrs. Charya G Balasooriya - Assistant Registrar 16. Mrs. W K B P Lakshanthie - Assistant Registrar 17. Ms. A D S Samadaree - Assistant Registrar 18. Mr. U R Sumathipala - Assistant Registrar 19. Mrs. V B De Labrooy - Assistant Registrar 20. Mrs. L P Perera - Assistant Registrar 21. Ms. W M S Maduwanthi - Assistant Registrar 22. Mrs. A K A S Amarasinghe - Assistant Registrar				
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes. Entries are made to the cash book in the computer system and updated on a regular basis.	Yes. Entries are made to the cash book in the computer system and updated on a regular basis. In addition, a manual register is also maintained for all payments made in cheques/ by cash.	Yes. Entries are made to the cash book in the computer system and updated on a regular basis. In addition, a manual register is also maintained for all payments made in cheques/ by cash.	Yes. Undergraduate studies – Separate Cash Books are maintained for the two accounts with Bank of Ceylon. Faculty of Graduate Studies – A separate Cash Book is maintained for the account with Bank of Ceylon. Centre for Open and Distance Learning – Separate Cash Books are maintained for the two	Moderate

Topic	Responses				Potential Risk Event
	University of Sri Jayawardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
				accounts with Bank of Ceylon.	
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	<p>Collection is made by Shroff (cashier) and deposited daily (usually, same or on the following working day) into the relevant bank accounts. Receipts are entered to the system on regular basis.</p> <p>Through a system introduced by the University, all payments made by students (external, distance learning, post graduate) as fees are required to be directly deposited in the designated bank accounts by the students themselves.</p> <p>Apart from the above average daily cash collections were observed to be minimal as bulk of the funds are remitted by the General Treasury direct to the bank.</p>				Moderate
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	<p>Yes. All bank accounts for 2017 had been reconciled monthly.</p> <p>Cash counts are taken on ad-hoc basis.</p> <p>Preparation of monthly bank reconciliation statements for 2018 had not been completed up to the time of conducting this assessment. Reasons provided were that due the trade union actions (work stoppage) by non-academic staff at the Universities during</p>	<p>Yes. All bank accounts are reconciled monthly.</p> <p>Cash in hand is physically verified periodically/ when shroffs (cashiers) take turns.</p>	<p>Yes. All bank accounts are reconciled monthly.</p> <p>Cash in hand is physically verified once in two weeks and when shroffs (cashiers) take turns. Physical balances are reconciled with books.</p>	<p>Yes. All bank accounts had been reconciled up to May 2017.</p> <p>Physical cash count is weekly, every Friday.</p>	Moderate

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	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
	February/ March 2018 disrupted this work.				
4.34 Are all reconciling items approved and recorded?	Yes. Bank reconciliations are checked and certified by the Assistant Bursar, in charge.				Moderate
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	All unusual items are required to be identified, clarified and entered into the cash book (system) via journal entries. The Assistant Bursar, in charge is required to check and certify the journal entries.				Moderate
4.36 Are there any persistent/non-moving reconciling items?	No. All non-moving items are reversed from reconciliation after six months.	No. Although the non-moving items should be cleared with appropriate accounting treatment after six months as per standing instructions, unrectified and non-moving items were observed in the latest reconciliations.		No. All non-moving items are reversed from reconciliation after six months.	Moderate
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes. Unused cheque leaves are kept under lock, under the responsibility of Bursar of the University.	The unused cheques/ cheque books, USB keys are kept in the safe available at the payments division of the finance and accounting department of the University. A Deputy Bursar is responsible for the key of the safe. Receipts are kept in the safety locker available at	No. Controls over unused cheques were observed to be inadequate. As observed, cheques had been stored in a cupboard in the Finance Division with physical access to more than one person.	Yes. Unused cheque leaves are kept under custody (under lock) of Staff Assistant in charge of payments.	Moderate

Topic	Responses				Potential Risk Event
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		Shroff's office and the key is available with the Shroff.			
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No large cash balances are maintained, except for the daily collection. Usually banking is done daily (on all business days) at difference times.	<p>No large cash balances are maintained, except for the daily collection pending banking on next business day.</p> <p>Petty cash floats are maintained at each faculty/unit. Size of the float and ceiling per payment vary.</p> <p>There are two types of petty cash floats maintained. One is LKR 5,000 and the other is LKR 50,000. These floats are allowed to spend with a voucher limit of LKR 250 and LKR 5,000 respectively, depending on the nature of the expenditure.</p> <p>The float LKR 50,000 is mainly used to reimburse travel expenditure, fuel etc.</p>	<p>No.</p> <p>Current cash and petty cash imprests at Bursar's office (main campus) are LKR 50,000 = USD 320 each, with maximum payment of LKR 10,000 per voucher for main cash and LKR 5,000 per voucher for petty cash respectively. At field offices (faculties) limits are lower than the above.</p>	<p>No large cash balances are maintained, except for the daily collection pending banking on next business day.</p> <p>Petty cash floats are maintained at Bursar Office, each Faculty and Department Size of the float and ceiling per payment vary as below</p> <p>Bursar Office/ Deans of Faculties – Float LKR 25,000 (voucher limit LKR 5,000)</p> <p>Faculties – Float LKR 25,000 (voucher limit LKR 5,000)</p>	Moderate
4.39 For online transactions, how many persons	No online transactions are effected. However, authorised staff have	Bursar and a Subject Clerk (Computer Application Assistant - CAA) are	Only 4 persons (Bursar, one Assistant Bursar and 2 Book Keepers have online	No online transactions are effected.	Low

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possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	permission to access some bank accounts to verify transactions and balances.	authorised check bank balance online using their user names and passwords. A corporate credit card is available to make online payments, such as international affiliation fees, with a limit of LKR 500,000. Bursar is authorised to make such upon Vice Chancellor's approval.	access bank accounts through passwords for the purpose of checking account balances only.		
Safeguard over Assets					
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	<p>The university identify the following procedures that have been implemented safeguard assets:</p> <p>Recording of and accounting for all assets held by the university. Periodic physical verifications/ annual Board of Survey. University-wide round the clock security system. Insurance cover for assets such as cash and vehicles. Accountability for assets by those who hold/ use them. Adherence to University Establishment Code (Adopted from public Establishment Code) which spells out procedures for safeguarding assets from fraud, waste and abuse.</p>				Moderate
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets,	<p>Yes.</p> <p>Fixed Assets registers are maintained by each Division/ Faculty and a Master FA register is maintained centrally at</p>	<p>No. A formal fixed assets register is not maintained.</p> <p>The online system ('UK Finance') developed in-house is used by the University for maintenance</p>	<p>Yes.</p> <p>Fixed assets register is maintained centrally at Bursar's office (Master Register) which is updated monthly, recording the ownership of assets and</p>	<p>Yes.</p> <p>Presently, separate Fixed Assets Registers are maintained for each operational unit (i.e. administrative offices, faculties and other service</p>	<p>High (UK)</p> <p>Moderate (other)</p>

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any assets under lien or encumbered, or have been pledged?	<p>Bursar's office. All these records are expected to be updated regularly.</p> <p>Annual Board Of Surveys involve with physical verification of assets.</p>	<p>of assets and inventory movements. This system captures data pertaining to Purchases Order (PO), Goods Received Notes (GRNs) and Goods Issued to requesting user division on a day to day basis.</p> <p>However, this system does not capture data such as exact locations of the assets, any assets under lien or encumbered or have been pledged.</p>	<p>location.</p> <p>Although fixed asset inventories are maintained at various departments/ offices they have never been reconciled with the Master Register maintained centrally.</p> <p>Further, assets entered in the register have been assigned identification codes but such codes had not been indicated/ imprinted on the corresponding asset (coding is not a requirement for assets such as vehicles having registration number)</p>	<p>facilities). However, no 'Master Fixed Assets Register' has been introduced and maintained, which seriously impairs the integrity of the control system.</p> <p>Authorities informed that an automated 'Fixed Assets Register' and a control system are under development and it could be implemented at the beginning of 2018.</p>	
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	<p>Yes.</p> <p>As noted in 4.41 above.</p>	<p>Yes.</p> <p>No effective reconciliation process is in place</p>	<p>Yes.</p> <p>Reconciliations have been carried out at central level but not with records maintained at the periphery.</p>		<p>High (UK)</p> <p>Moderate (other)</p>
4.43 Are there periodic physical inventories of fixed assets,	<p>Yes.</p> <p>Verifications (by the Board of Survey) being carried out annually, usually in December/ January in every year.</p>		<p>Yes.</p> <p>Physical verification (Board of Survey) had been carried</p>	<p>Yes.</p> <p>Verifications (by the Board of Survey) tare done</p>	<p>Moderate</p>

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inventories and stocks? Are fixed assets, inventories and stocks appropriately labelled?			out annually. Occasionally assets had been labelled with codes which were however, different from codes assigned in the FA register.	annually, usually in December/ January.	
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analysed and resolved?	<p>Yes.</p> <p>Verified physical balances have been compared with inventories maintained by user units but not with FA registers maintained centrally. Variations have been investigated after the physical verification (Board of Survey) and action initiated for recovery of losses from those held responsible.</p>				Moderate
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	<p>Recommendation made for disposal will be forwarded by Board of Survey to General Administration Division, which is headed by the Registrar. Alternative a request for disposal could be made by the respective divisional/ faculty head as well</p> <p>Vice Chancellor will appoint a committee with 3 or 5 members including Internal Auditor, Technical Officer to carry forward the disposal action - either to destroy, auction or to donate to schools, which requested similar items.</p>		<p>Disposal items are identified by a committee appointed by the University Council. Disposal made accordingly with the Council's approval.</p> <p>Committee is represented by Internal Auditor, Representative of the Bursar and Examination Division.</p> <p>Action for repairs/ renovations taken by appropriate division, upon notification.</p>		Moderate
	Generally, disposal takes place via public auction,	The committee will obtain tender by publishing the			

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	following notification made through newspaper advertisements.	information on the University notice board and at closest Government Institutes to destroy and auction the items recommended for same by BoS. The information is not published via newspaper advertisement, as not much benefit is expected by the University.			
4.46 Are assets sufficiently covered by insurance policies?	Insurance cover is obtained for all assets owned by the University.	Insurance cover obtained only for motor vehicles and cash in hand/ transit.			Moderate
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	As per the UGC guidelines assets are depreciated and fully depreciated and usable assets are revalued and taken back to account as per guidelines in the Establishment Code/ UGC circulars. Sri Lanka Public Sector Accounting Standard #07 applies in this respect.				Low
Other Offices and Implementing Entities					
4.48 Describe any other regional offices or executing entities	The proposed 'Faculty of Engineering' project comes under the purview of 'Dean – Faculty of Engineering'.	The proposed 'Faculty of Technology' project at University of Kelaniya is initially to be promoted by	The proposed 'Faculty of Technology' project is initially to be promoted by the 'Faculty of Applied	Faculty of Applied Sciences is expected to promote the proposed 'Faculty of Technology'.	Low

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participating in implementation.	<p>(Admission of students to the new Engineering Faculty had commenced two years back, using a temporary rented facility. Two batches of students have currently been enrolled.)</p> <p>The University has identified a separate block of land away from the main University campus to set up the 'Faculty of Engineering'.</p>	<p>the 'Faculty of Applied Sciences'.</p> <p>A few batchers are already in enrolment, particularly in ICT related programmes.</p> <p>The University has identified a separate block of land away from the main University campus for the Faculty of Technology.</p>	<p>Sciences' and the Dean of which is entrusted with the responsibility of project implementation. 'Project Coordinator' also is attached to the Faculty of Applied Sciences, which is at a location separate from the main campus.</p>		
	There are no other regional offices, institutes or affiliated facilities participating in the implementation.				
4.49 Describe the staff, their roles and responsibilities in performing of such offices as they relate to the project.	<p>'Project Implementation Unit' (PIU) is to be established by drawing human resources from across the University as well as new recruitments where necessary when HR are not available from within.</p> <p>The basic staffing for accounting and financial management functions of the proposed PIU could include:</p> <p>(1) Bursar: to hold responsibility for overall accounting, reporting, financial management and control functions. These key functions could be fulfilled on time share basis as volumes of work pertaining to new project is not expected to be high.</p> <p>(2) Project Accountant - a Deputy/ Assistant Bursar may be considered for appointment by the university on time share basis.</p> <p>(3) Staff Assistant (1 or 2 positions) - to be assigned by the university on full/ part time basis (mainly, payment processing, accounting, record keeping and administrative functions).</p>				Moderate
4.50 Has the project established segregation of duties, controls and	No – the project is yet to be floated.				-

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procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	However, such segregations have been made to a limited extent in the current University system due to fewer number of staff available within a sub unit/ office. (E.g. the officer processing payments in finance division at University Head/ Sub Office, also enters payments to computer system and prints cheques.)				
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	<p>Information flow to offices such as UGC and MHECA are made on reporting templates provided by information requesting agencies.</p> <p>Although same accounting and reporting system is applied across all universities, the software packages being used / processing capabilities among them vary significantly.</p> <p>Bottle necks and occasional delays in the information flow were evident at the assessments.</p>				Moderate
4.52 Are periodic reconciliations performed among the different offices/ implementing agencies? Describe the project reporting and auditing	<p>Yes.</p> <p>Monthly reconciliations are carried out where the situation demands.</p> <p>Separate audit arrangements are made for the University and the other agencies. However, as and when required the inter-institution balances are compared to check accuracy.</p>		<p>Yes.</p> <p>Currently, separate sub offices under finance are maintained only for the faculties/ institutes located remote to the main campus.</p>	Not applicable (due to centralised system being used).	Moderate

Topic	Responses				Potential Risk Event
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arrangements between these offices and the main executing/ implementing agencies.			Funds needed for such faculties/ institutes are transferred by central finance unit periodically and transfer out and in accounts maintained by each end are reconciled monthly.		
4.53 If any sub-accounts (under the imprest Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	No sub-accounts are maintained.		Faculty level sub accounts maintained under the responsibility of an Assistant Bursar and Senior Assistant Registrar assigned to the respective faculty, are monitored by Finance Division regularly. No separate position is available within the university system to administer such accounts.	No sub-accounts are maintained.	Moderate
Contract Management and Accounting					
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and	<p>Yes. A separate ledger account is maintained for each contract to charge costs, which would be treated as 'Capital Work in Progress' until the work is completed and handed over by the contractor.</p> <p>In addition, a personal account is maintained in the name of the contractor under 'Creditors' for each contract.</p>			Contract wise accounting accounts are maintained at the Finance Division which disseminates only the extent of payments made for each contract plus payables on work certified.	Moderate

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escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?				Other information such as gross value, amendments, variations, escalations are not captured in the financial accounting system but memorandum records are maintained in respective contract files (manual) under the Senior Assistant Registrar in charge of contracts administration (capital works/ renovations).	
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	No. Contract records are maintained independently by the university, based on certified bills submitted by the contractor. It was however contended that the year end balances would be selected randomly at the External Audit to call for direct confirmations.				High
Other					
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project	<p>The project is currently (as of May 2018) in negotiation stage. The university authorities will be required to apply same systems, controls and procedures being used for the University in reporting fraud, corruption, waste and misuse, to the project too if it is not implemented as an activity independent and standalone from routine University operations.</p> <p>In this respect, the Internal Audit unit of the university is expected to play a major role. Further, all employees within and outside of the project are expected to be 'Whistle Blowers' in relation to fraud, corruption, waste and misuse of project resources.</p>				-

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advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	The annual external audit of the project may be carried out as part of the audit carried out by the AGD. There are provisions to engage private audit entities (firms), with the approval of the ADB to carry out annual statutory audit of the project. Such a provision may have to be included as a special clause in the loan agreement.				
5. Internal Audit					
5.1 Is there an internal audit (IA) department in the entity?	Yes. The University initially established in 1959 and Internal Audit Branch had been there for over 30 years.	Yes. University established in 1959 and the Internal Audit Division has been in existence for over 20 years.	Yes. University established in 1996 and the Internal Audit Division established in 1999.	Yes. University established in 1996 and the Internal Audit Division established in 2000.	Moderate
	The functions of the Internal Audit Divisions of the respective Universities are coordinated with the internal audit units of the University Grants Commission (UGC) and the Ministry of Higher Education and Cultural Affairs (MHECA). Internal Auditor of UGC participates at Audit Committee Meetings, by invitation, at University of Sri Jayewardenepura and Rajarata University of Sri Lanka. Internal Auditor of UGC also visits the Rajarata University of Sri Lanka at least twice a year and performs audits of selected areas. Evidence of participation by either the Internal Auditor of UGC or the Chief Internal Auditor of MHECA was not available at University of Kelaniya, and Sabaragamuwa University of Sri Lanka.				
5.2 What are the qualifications and experience of the IA staff?	Current Positions: Deputy Internal Auditor Commencement of employment 2014 May (Currently on study leave - 2016 Dec.to 2018 Nov. – An	Current Positions: Senior Assistant Internal Auditors (two) (iv) Commencement of employment: 2007	Current Positions: Senior Internal Audit Assistant Commencement of employment: 2010 June.	Current Positions: Senior Internal Auditor Commencement of employment: 2013 December. (Will transfer to another university in future)	-

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	<p>Acting Deputy Internal Auditor is in place from 2016 December to date)</p> <p>Audit Assistant (Grade II) Commencement of employment: 2017 October</p> <p>Clerks (Two) (1) Grade III - Commencement of employment: 2015 November (2) Grade III - Commencement of employment: 2009 December.</p> <p>Staff Assistant Commencement of employment: 1998 December</p> <p>Approved Cadre: Approved cadre requirement is five (5) Audit Assistants, but only four (4) comprising one Staff Assistant, one Audit Assistant and two Clerks are available.</p>	<p>November (<i>on Study Leave</i>).</p> <p>(v) Commencement of employment: 2005 March.</p> <p>Staff Assistant (Clerical Service) Commencement of employment: 1998 August.</p> <p>Audit Assistant (Grade II) Commencement of employment: 2010 February.</p> <p>Computer Application Assistant Commencement of employment: 2005 September.</p> <p>Clerk - Grade III (Two) (viii) Commencement of employment: 2012 January. (ix) Commencement of employment: 2016 October.</p> <p>Approved Cadre: Approved cadre requirement is ten (10), but only seven (7) is available. Only one (1) Audit Assistant is there within the seven (7) and at</p>	<p>(May transfer to another university in future)</p> <p>Computer Application Assistant Commencement of employment: 2008 January</p> <p>Trainee Commencement of employment: 2014 July</p> <p>Approved Cadre: Senior Internal Audit Assistant Two Audit Assistants* One Computer Application Assistant Trainee Assistant *DMS approval obtained in 2016 and applications closed last month.</p> <p>Current personnel resources are not adequate to carry out tasks efficiently and the cadre approved by DMS was based on requirement at the time of request and will not meet present requirements. Current expectation is at least five Audit Assistants to cover each Faculty.</p>	<p>Audit Clerk Commencement of employment: 2016 September</p> <p>Approved Cadre: Senior Internal Auditor Two Audit Assistants* One Clerk *DMS approval obtained in 2017.</p> <p>Current personnel resources are not adequate to carry out internal audit function effectively. Delay in recruitment due to lack of funds.</p>	

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	Current personnel resources are considered inadequate to carry out tasks efficiently.	least two (2) more are required. Current personnel resources are considered inadequate to carry out tasks efficiently.			
	Please refer Attachment 13 for qualifications and experience of Internal Auditors.				
5.3 To whom does the head of the internal audit report?	Vice Chancellor (VC). In addition, the audit queries raised to the VC are discussed at quarterly Audit Committee Meetings (ACM).				High
5.4 Will the internal audit department include the project in its annual work program?	Yes, the project expenditure will be subjected to audit if project expenditures are included in the financial statements of the University.	No. At the time of finalising the loan agreement, the requirement for internal audit or external audit of the project expenditure by an independent third party needs to be considered.	Prepared to include if required human resources are available. Currently, the two World Bank Projects implemented are not subject to audit by the Internal Audit Division. Independent third party audit teams have conducted audits of the Projects' expenditure statements. However, additions to Property, Plant and Equipment resulting from the Projects civil works are subject to audit by the Internal Audit Division.	Yes, the project expenditure will be subjected to audit based on availability of resources. However, at the time of finalising the loan agreement, the requirement for internal audit or external audit of the project expenditure by an independent third party needs to be considered.	Moderate

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5.5 Are actions taken on the internal audit findings?	Yes, discussed at Audit Committee (AC) meetings at Universities of Sri Jayewardenepura, Kelaniya, and Rajarata University and at the Audit and Management Committee (AMC) meetings at Sabaragamuwa University of Sri Lanka and action taken for follow up and clearance.				Moderate
5.6 What is the scope of the internal audit program? How was it developed?	<p>Annual Internal Audit Programme lists 14 to 17 items including several financial functions and physical asset verifications including cash, inventories, fixed assets and accommodates changes discussed at Audit Committee.</p> <p>All seven (7) faculties of the University (Humanities and Social Sciences, Applied Sciences, Management Studies and Commerce, Medical Sciences, Graduate Studies, Technology and Engineering) are covered in addition to the External Degree Unit, Welfare Department, Hostel (common) and Stores.</p> <p>Pre-audits of all payments for contractual services, bond and agreement calculations, release of</p>	<p>Annual Internal Audit Plan specifies the focus, extent and boundary of an internal audit.</p> <p>The Plan covers all seven (7) faculties of the University (Science, Medicine, Social science, Humanities, Commerce and management, Computing including technology and post graduate).</p> <p>Additionally, the Plan addresses financial activities of the following three (3) Institutes:</p> <ol style="list-style-type: none"> 1. Gampaha Wickramarachchi Ayurveda Institute 2. Paali and Buddhist Post Graduate Institute, Kohuwala 3. Post graduate institute of Archaeology, Bauddhaloka Mawatha. 	<p>Annual Internal Audit Plan developed covers Financial Statement Areas (Fixed Assets, Stores, etc.) and Financial Activities (Procurement, Payroll, etc.)</p> <p>In developing the plan, emphasis had been placed on financial activity areas and disciplines which are significant and time required in previous year.</p> <p>However, the plan does not specify the time required but identifies the month/s in which audit will be performed.</p> <p>The plan is submitted to the Auditor General and is also concurred with the Internal Audit Units of UGC and MHECA.</p>	<p>Annual Internal Audit Programme covers all divisions of the University and additionally, addresses financial activities of the Centre of Distance Learning/ External Degree Programme, Farm Operations and Post Graduate University.</p> <p>VC also gives instructions on specific areas to be covered.</p> <p>The Annual Internal Audit Programme is based on the previous year's programme with gradual upgrading on risk areas identified.</p> <p>Further, consultation is made with other sister Universities to develop the programme.</p> <p>The Programme does not specify the time required for each task but identifies the</p>	Moderate

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	<p>University Provident Fund (UPF) and payment of pension and gratuity are covered 100%. Further, any special areas or matters that are requested to be subject to audit by the Audit and Management Committee (AMC) and special investigation at the request of the Vice Chancellor are covered 100%.</p> <p>The Programme is developed based on circulars issued by the Department of Management Audit [DMA/2009 (i) dated 09 June 2009] and guidance obtained from UGC.</p> <p>The Programme is submitted to the Government Audit (AGD) for their comments and after discussion at the AMC the revised version submitted to Council.</p>	<p>The Plan had been developed based on circulars issued by the Department of Management Audit to the MHECA and considers both post and pre audit. Further, the Plan takes into consideration, the objectives of the organisation, risks assessment, sample and the internal audit objectives.</p> <p>The Plan is submitted to the Auditor General and is also concurred with the Internal Audit Units of the UGC and MHECA.</p>		<p>month/s in which tasks will be performed.</p> <p>The Programme is submitted to the Auditor General and is also concurred with the Internal Audit Units of the UGC and MHECA.</p>	
5.7 Is the IA department independent?	Independent and reports directly to VC.				High

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5.8 Do they perform pre-audit of transactions?	Yes. University Provident Fund, Gratuity, Pension payments, all construction payments from mobilization to final payment are subject to pre-audit. At the Rajarata University of Sri Lanka, pre-audits are also conducted for selected supplies and vehicle repairs.				-
5.9 Who approves the internal audit program?	Approved at an Audit Committee (AC) meeting at University of Kelaniya, and Rajarata University of Sri Lanka and at Audit and Management Committee (AMC) meetings at University of Sri Jayewardenepura and Sabaragamuwa University of Sri Lanka, where Council members including the VC are present except for at University of Sri Jayewardenepura where the VC is not present for AMC meetings.				Moderate
5.10 What standards guide the internal audit program?	Auditing Standards issued by the CA Sri Lanka, Financial and Administrative Regulations, Establishment Code, Government Circulars (including Public Enterprise Department / Treasury Circular No. 48), Certain regulations issued by Finance Ministry and Sri Lanka Public Sector Auditing Standards.				Low
5.11 How are audit deficiencies tracked?	<p>UGC sends separate team from time to time to conduct audits over certain areas already covered at Universities of Kelaniya, Rajarata, and Sabaragamuwa. At the University of Sri Jayewardenepura, the Annual Internal Audit Programme and the Internal Audit Reports are shared with the UGC and Auditor General's Department staff who follow-up to ensure the planned activities in the programme are performed in time and also follow-up on issues reported. Further, the AMC members of the University of Sri Jayewardenepura includes two Chartered Accountants who provide guidance to address deficiencies.</p> <p>However, there are no formal systems to track audit deficiencies.</p>				Moderate
5.12 How long have the internal audit staff members been with the organization?	<i>Deputy Internal Auditor (One)</i> 04 years <i>Staff Assistant (Clerical Service) – 20 years</i> <i>Audit Assistant (Grade II) – 0.5 years</i>	<i>Senior Assistant Internal Auditors</i> (1) 09.5 years (2) 12 years <i>Staff Assistant (Clerical Service) – 19 years</i>	<i>Assistant Internal Auditor – 07 years</i> <i>Computer Application Assistant - 09 years</i> <i>Trainee – 01 year</i>	<i>Senior Internal Auditor - 03.5 years</i> <i>Audit Clerk - 10 months</i>	=

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
	<i>Clerks (Two)</i> (1) <i>Grade III</i> – 05 years (2) <i>Grade III</i> – 15 years	<i>Audit Assistants (Grade II) – 07 years</i> <i>Computer Application Assistant (Grade II) – 12 years</i> <i>Clerk (Grade III)</i> (1) 05 years (2) 01 year			
	Please refer response to section 5.2 above.				
5.13 Does any of the internal audit staff have an IT background?	Yes. All staff in the internal audit division are conversant with IT and can independently process data and generate reports.	Yes. Most staff in the internal audit division are conversant with IT and can independently process data and generate reports.	Yes. Assistant Internal Auditor with her experience and the Computer Application Assistant with her experience and qualifications have exposure to IT.	Senior Internal Auditor - IT literacy is high. Clerk - Graduate who is capable of handling IT.	Moderate
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	<p>The Deputy Internal Auditor, Senior Assistant Internal Auditors, the Assistant Internal Auditor and the Senior Internal Auditor of Universities of Sri Jayewardenepura, Kelaniya, Rajarata, and Sabaragamuwa respectively meets with the Audit Committee (AC) / Audit and Management Committee (AMC) at every quarter as either the Convener or Secretary.</p> <p>However, VC (except at the University of Sri Jayewardenepura), Council Members, the Registrar/ Assistant Registrar, Bursar/ Acting Head of Finance and Assistant Bursars and sometimes the Works Engineer and other required officials are present at these meetings as participants or by invitation. This indicates that the Internal Auditor meets with the Audit Committee in the presence of management. Such presence is in accordance with Public Enterprise Circular No. 55 of 14 Dec 2010.</p>				Moderate

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Yes. At Sabaragamuwa University of Sri Lanka, only rare instances of issues in relation to availability and completeness of records had been reported.				Moderate
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	No. However, if required knowledge and understanding can be gathered.				Moderate
6. External Audit – entity level					
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Annually audited by Auditor General (AG). AG staff present at four (4) Universities led by either an Assistant Auditor General (AAG) or Superintendent of Audit, who participates at ACM. These officers are supported by staff of at least 3 – 4.				Moderate
6.2 Are there any delays in audit of the entity? When	Yes. Please refer Attachment 4 - Timeliness in audits conducted by AG.				Moderate

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
are the audit reports issued?					
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	Audit is conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).				Low
6.4 Were there any major accountability issues noted in the audit report for the past three years?	Yes. There are significant accountability issues reported in the previous audit reports made available for assessment purposes.				Moderate
6.5 Does the external auditor meet with the audit committee without the presence of management?	<p>No. The AG representative, Assistant Auditor General/ Audit Superintendent Government Audit Unit attends all AC/ AMC meetings at which the Registrar and Bursar of the Universities are also in attendance.</p> <p>At Sabaragamuwa University of Sri Lanka, the AG representative meets the VC without management quarterly. Internal Auditor of the UGC also attends such meetings. The VC is not present at AMC meetings at the University of Sri Jayewardenepura.</p>				Moderate

Topic	Responses				Potential Risk Event
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6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	<p>No. The external auditor of the Universities is the Auditor General (AG), who does not perform any non-audit engagement.</p> <p>However, external personnel had been contracted for Board of Survey purposes in 2016 at the Rajarata University and a firm of Chartered Accountants had been engaged to compile the Fixed Assets Register in 2017 for a fee of approximately LKR 3 m at Sabaragamuwa University of Sri Lanka.</p> <p>At the University of Sri Jayewardenepura, based on management needs specific areas such as inventory counts are sometimes performed by selected private audit firms.</p>				-
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	<p>Yes. The audit opinions of the four (4) Universities for the past three (3) years had been qualified, except the audit reports of University of Sri Jayewardenepura, due to several reasons including lack of evidence/ details. The qualifications at Rajarata and Sabaragamuwa Universities are in relation such lack of evidence/ details on property, plant and equipment and related depreciation, control over vehicles and contract administration respectively.</p>				-
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	<p>Yes. The AGD has experience in auditing donor funded Project expenditure statements of several state organisations including ADB funded Projects.</p>				Low

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	The financial statements of the four (4) Universities were not subject to review by the Assessment Team.				-
External Audit – project level					
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	At present, the Auditor General does not audit the existing project accounts separately.		No. The accounts of the projects implemented by the RUSL had always been subject to audit by third party external auditors appointed by the funding partner.	At present, the Auditor General does not audit the existing project accounts separately.	Moderate
	However, based on the loan agreement a mandate to appoint an auditor or the AG to audit the project financial statements could be made.		Currently, the accounts of the two ongoing projects, HETC and IRQUE are also audited by third party external auditors.	However, based on the loan agreement a mandate to appoint an auditor or the AG to audit the project financial statements could be made.	
	On completion of projects, once the assets are transferred to the University and form part of the financial statements, the utilisation and expenses in relation to such assets are subject to audit by the entity auditor (AG).				
6.11 Are there any recommendations made by the	No prior project audit reports made available for assessment.		Queries raised on the HETC Project have been responded to for action.	Construction project administration not being up to required standards and	Moderate

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
auditors in prior project audit reports or management letters that have not yet been implemented?			<p>However, the assessment did not include verifying the actions taken.</p> <p>Audit report does not specify recommendations but findings.</p>	<p>non-utilization of resources had been reported and action initiated.</p> <p>Audit report does not specify recommendations but findings.</p>	
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	Auditor General (AG) does not cover existing project accounts of the Universities at present but at the Ministry level. The AG will subject the project financial statements or an external auditor will subject the project expenditure statements to audit based on the loan agreement.				Moderate
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Not applicable at the moment. Terms of Reference for audit will be prepared in consultation with funding agent and MHECA at the time of finalizing the loan terms and conditions.				Moderate
6.14 Has the project auditor identified any issues with the availability and completeness of records and	Not applicable at present.				-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
supporting documents?					
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes. The AG has sufficient knowledge and understanding of ADB's guidelines and procedures.				Moderate
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Not applicable at present.				-
[For second or subsequent projects] 6.17 Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were	Not applicable at present.				-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?					
7. Reporting and Monitoring					
7.1 Are financial statements and reports prepared for the entity?	<p>Yes.</p> <p>Financial statements are prepared for each University annually and generally consists of statements of financial position, financial performance and changes in net assets, cash flows, comparative financial performance with budget, cost per student and notes to the financial statements.</p> <p>The annual financial statements form a main part of the annual reports published by the Universities.</p>				Low
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Financial statements are prepared for each University as a whole combining faculties, education centres, and departments.				Low

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	<p>Annual financial statements for financial years ending 31 December are prepared and published.</p> <p>Financial statements are also prepared monthly for purposes of discussion at the Council meetings. The financial statements are prepared within 30 days of year/month end.</p> <p>Annual financial statements are generally prepared by 31 March of the subsequent year. Expected date of completion is 28 February.</p> <p>At the University of Sri Jayewardenepura and Rajarata University of Sri Lanka, quarterly accounts consisting only of an income and expenditure account is prepared and submitted to the Finance Committee for monitoring before the end of the month subsequent to the quarter end.</p>				-
7.4 Does the entity reporting system need to be adapted for project reporting?	<p>The current reporting systems at the four Universities can be adopted/ developed based on the activity plan for project reporting.</p> <p>Present reporting system does not capture project expenses and report separately.</p> <p>At Rajarata University of Sri Lanka, the Bursar was of the view that similar to common codes being used for expenses of different faculties with copies of the accounting package used by each faculty a copy of the package could be used for reporting of project transactions.</p> <p>The University of Sri Jayewardenepura had already agreed with MHECA and UGC to facilitate Project reporting as supervision will be effective, Both financial and physical progress reports can be prepared.</p>				-
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report	<p>Not applicable.</p> <p>Project has not commenced as yet. However, once commenced, based on terms and conditions of the loan agreement financial and management reporting responsibilities will be established.</p>				-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
content, and purpose of the reports?					
7.6 Are financial management reports used by management?	<p>Yes. Monthly accounts are submitted to Council with reconciliations for monitoring purposes.</p> <p>Progress reports with statistics relating to academic activities pertaining to the faculties of each University are sent to UGC and MHECA, where physical and financial progress are measured and monitored.</p>				-
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	<p>Yes. In line with FRs at Audit Committees (AC) and Audit and Management Committees (AMC) meetings the actual expenditures are compared with budgeted and programme allocations and explanations for variances are discussed.</p> <p>Further at University of Sri Jayewardenepura and Rajarata University of Sri Lanka, variance analysis is prepared based on monthly and cumulative expenditure compared to budget on quarterly basis for monitoring purposes and presented to the Finance Committee quarterly. Decisions are taken to change VOTE ledger account based on variances reported.</p>				-
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	<p>The customised software package designed by 'Arthur C Clarke Institute of Modern Technologies' at Moratuwa, Sri Lanka is used by the University to generate trial balances from which financial reports are prepared using Excel spread sheets.</p>	<p>The automated system, 'Equal – Packsoft' generates a trial balance based on financial transactions input into the system.</p> <p>From the trial balance extract, financial statements are prepared using Excel spreadsheets.</p>	<p>The financial reports are generated through the 'Equal – Packsoft' automated accounting system.</p> <p>However, year-end journal entries are manually input to the system prior to generation of financial statements.</p>	<p>The automated system, 'Equal – Packsoft' generates a trial balance based on financial transactions input into the system.</p> <p>Manual intervention is required to prepare financial statements, using Excel spreadsheets, since the system does not produce financial statements in the required format.</p>	-

Topic	Responses				Potential Risk Event
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7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	<p>No. Financial information cannot be linked with physical progress. No facility to link financial and physical progress in the system.</p> <p>However, both physical and financial progress statements are prepared manually and submitted initially to the Council and then to UGC and MHECA in different forms for monitoring purposes.</p> <p>No controls in place to ensure that physical data synchronize with financial data.</p>				-
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	<p>Yes. Higher Education for the Twenty First Century (HETC) Project and Improving Relevance and Quality of Undergraduate Education (IRQUE) Projects funded by World Bank.</p> <p><i>Please refer section 1.4 above</i></p>	<p>Yes. Higher Education for the Twenty First Century (HETC) Project funded by World Bank.</p> <p><i>Please refer section 1.4 above</i></p>	<p>Yes. Higher Education for the Twenty First Century (HETC) Project and Improving Relevance and Quality of Undergraduate Education (IRQUE) Projects funded by World Bank.</p> <p><i>Please ref. section 1.4 above</i></p>	<p>Yes. Higher Education for the Twenty First Century (HETC) Project and Improving Relevance and Quality of Undergraduate Education (IRQUE) projects funded by World Bank.</p> <p><i>Please ref. section 1.4 above</i></p>	
8. Information Systems					
8.1 Is the financial accounting and	Yes. Financial accounting system is computerized.				Moderate

Topic	Responses				Potential Risk Event
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reporting system computerized?	However, reporting requires manual intervention.				
8.2 If computerized, is the software off-the-shelf, or customized?	The software designed by 'Arthur C Clarke Institute for Modern Technologies' at Moratuwa, Sri Lanka had been customised for the use of the University.	'Equal – Packsoft' is a customized software used by these three Universities and several other Universities (Open University, Uva-Wellassa etc.,)			High (UK, RU & SU)
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	<p>The customised software which is a standalone General Ledger System is integrated with all faculties of the University except the Medical Faculty,</p> <p>The payroll, inventory and asset systems are not integrated and processed through separate systems.</p>	<p>'Equal – Packsoft' package is used as standalone General Ledger, Payroll and Inventory packages by the University of Kelaniya and Rajarata University of Sri Lanka. However, at Sabaragamuwa University of Sri Lanka, the payroll and inventory systems are integrated to the General Ledger system and plans to integrate Fixed Assets module in October 2017.</p> <p>At Rajarata University of Sri Lanka, a copy of the General Ledger package is provided to all five faculties and at the month end downloaded and combined for financial reporting.</p>			High
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data	<p>At present, financial data of Projects are not integrated with that of the University, unless they form part of the accounting system through receipt and disbursement of funds,</p> <p>However, there is possibility for the project financial data</p>	<p>At present, Projects have not been initiated. There is facility in 'Equal – Packsoft' to integrate project financial data, as per Sabaragamuwa University of Sri Lanka.</p> <p>The Bursar of Rajarata University of Sri Lanka was of the view that a copy of the accounting package can be shared for Project purposes the same way each Faculty process financial data and combine.</p>			-

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
transfer, or does it entail manual entry?	to be integrated if the need arises.				
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	The computerized software does not directly generate financial statements, but a comprehensive trial balance which requires manual intervention for preparation of periodic financial statements with use of Excel spreadsheets.	'Equal – Packsoft' system does not generate periodic financial statements. However, it generates budgetary controls variance reports. Financial Statements are prepared by using Excel spreadsheets from information extracted from the 'Equal – Packsoft' system.	'Equal – Packsoft' produces financial statements, but there is manual intervention in passing year-end journal entries and adjustments.	'Equal – Packsoft' system generates financial reports, but not in the required format. Therefore, a trial balance is extracted from the system and with manual intervention through the use of Excel spreadsheets, financial statements are prepared.	High (UK, RU & SU)
8.6 Can the system automatically produce the necessary project financial reports?	Yes. However, Project progress and performance reports need to be separately processed and the system upgraded to cater for such requirement.		Yes. Financial data can be processed by using a copy of the package similar to that used by the faculties prior to combining at University level.	Yes. However, Project progress and performance reports need to be separately processed.	-
8.7 Is the staff adequately trained to maintain the computerized system?	The staff using the system for processing financial related data are experienced in using the system. The IT Centre of the University addresses all	The staff using the system for processing financial related data are experienced in using the system. At Rajarata University of Sri Lanka, one person has been assigned to operate the system.			Moderate

Topic		Responses				Potential Risk Event
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		networking, hardware maintenance and other peripheral issues. However, if upgrades are required to the software 'Arthur C Clarke Institute of Modern Technologies' will provide the required support.	Maintenance is through an annual maintenance agreement with 'Equal – Packsoft' software agents who does on-line modifications on request, but visit the Universities to address major maintenance issues. The system had been in use for more than 10 years at the three Universities.			
8.8	Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	There are access and password controls, but these had not been up to expectation, as one University prompting change of password annually and another sharing the password among all bookkeeping staff. Accordingly, these controls need to be formalised by documentation and frequent monitoring to ensure system safeguards data confidentiality, integrity and availability. At the University of Sri Jayewardenepura, the IT Centre Manager monitors access and is responsible for server room access and data confidentiality. At Rajarata University of Sri Lanka, as a result of a software audit carried out by a third party in May 2017, several controls to address data confidentiality, integrity and availability are expected to be introduced. At Sabaragamuwa University of Sri Lanka, the authority from Bursar is required to open new account codes, delete and modify existing account codes and for prior year adjustments.				Moderate
8.9	Are there back-up procedures in place?	Yes. The IT Centre has an automated backup procedure in place and backups are taken to a server.	Yes. Automated backups within the system. Annual backups are also taken separately.	Yes, but not effective as several weaknesses have been noted in the software audit performed recently.	Yes. Automated backups within the system. Annual backups are also taken separately.	Moderate

Topic	Responses				Potential Risk Event
	University of Sri Jayewardenepura	University of Kelaniya	Rajarata University of Sri Lanka	Sabaragamuwa University of Sri Lanka	
	Backups of the payroll are taken daily and weekly backups of the GL system. Backups of payments are made every 10-15 minutes intervals.				
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earth quake and calamity protection for backups.	Automated backups are stored within the server located in the IT Centre. The IT Centre is located away from the Administration Office where backups of the entire system are within the server. However, backups have not been tested.	Automated backups are taken from the server daily and there is manual backup performed annually. Computer Centre located away from the Administration Office keeps backups of the entire system. However, backups have not been tested.	Taken to pen-drives/ CDs daily and sometimes sent by e-mail and stored in the hard drive of the PC in which the system is installed. Following the software audit backups will be stored in a server located elsewhere. However, backups have not been tested.	Automated backups are taken from the server daily and there is manual backup performed annually. Computer Centre located away from the Administration Office keeps backups of the entire system. Backups are generally tested by an external party. However, backups have not been tested for the past three years.	High
	No backup register maintained.				