

## **Early Childhood Development Project - 2019**

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The audit of financial statements of the Early Childhood Development Project for the year ended 31 December 2019 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with paragraph C (3) of the Financing Agreement No. 5678 dated 23 October 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. My comments and observations which I consider should be reported to Parliament appear in this report.

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

According to the Financing Agreement, the Ministry of Women and Child Affairs and Social Security is the Executing Agency and Implementing Agency of the Project. The objectives of the Project are to enhance equitable access to and improve the quality of Early Childhood Development Services. As per the Financing Agreement, the estimated total cost of the Project was US\$ 50 million equivalent to Rs.7,250 million and entire amount was agreed to be financed by International Development Association. The Project had commenced its activities on 16 February 2016 and scheduled to be completed by 30 June 2021.

### **1.3 Opinion**

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019, and of its statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.5 Responsibilities of management and those charged with governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

## **1.6 Auditor's Responsibilities for the audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit.

I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Comments on Financial Statements

### 2.1 Non Compliance with Rules and Regulations

Reference to the Rules and Regulations	Non Compliance/Audit Issue	Impact	Management Response	Recommendation
Public Finance Circular No. 03/2015 of 14 July 2015 and Financial Regulations 371 (2)(b)	Imprest amounting to Rs.40.82 million had been granted in 201 instances prior to the period ranging from 02 months to 11 month to the due date of the purpose which expected to be utilized.	Possible misuse of imprest.	Due to unavoidable circumstances some training sessions may be delayed.	Financial controls on imprest should be strengthened.

## 3. Physical Performance

### 3.1 Physical progress of the activities of the Project

The activities of the project are implemented under 2 components namely Expanding & Strengthening the Delivery of Early Childhood Development Services and Project Management, Monitoring and Evaluation. The following observations are made in this connection.

Components	Activities	As at 31 December 2019		Impacts	Responses of the Management	Auditor's Recommendations
		Expected physical performance Units	Performance achieved Units			
Expanding and strengthening the Delivery of Early Childhood Development Services	Replacement of new Child Development centres	75 centres	Nil	The possibility in cost increases and extension of the period of the Project.	Due to non-availability of specialist. However this activity is now progressing and expects to complete before the end of March 2021.	Action to be taken to adhere with targets stipulated in the action plan in order to achieve the objectives of the Project and receive the intended benefits for the stakeholders within the project period.

Establishment of new Early Childhood Development centres in unserved and underserved areas	12 centres	01	The possibility in cost increases and extensions of the period of the Project.	All these constructions we intend to complete by end of 2020.	Action to be taken to adhere with targets stipulated in the action plan in order to achieve the objectives of the Project and receive the intended benefits for the stakeholders within the project period.
Provide facility improvement grant	1,700 centres	92	The possibility in cost increases and extensions of the period of the Project.	Upgrading such ECD centres will continue in the year 2020 and 2021 as well. Late commencement was mainly due to the late identification of beneficiary centres by District/Divisional Secretariats.	Action to be taken to adhere with targets stipulated in the action plan in order to achieve the objectives of the Project and receive the intended benefits for the stakeholders within the project period.
Annual Child Development assessment programme	1,540 programme	834	The possibility in cost increases and extensions of the period of the project.	This activity will continue in the year 2020 & 2021 and the end project target will be achieved as planned.	Action to be taken to adhere with targets stipulated in the action plan in order to achieve the objectives of the Project and receive the intended benefits for the stakeholders within the project period.

### 3.2 Contract Administration

Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(i) Even though the project engaged Rs.165.34 million value of contracts, particulars such as description of the items/ works for which bids were invited, total number of bids received, name of the successful bidder amount at which the contract was awarded had not been published in terms paragraph 8.10.1 of the Government Procurement Guidelines.	Violations of tender procedure may be affected to the transparency of the procurement procedure.	Due to the heavy workload in the procurement process there was a delay in completing this activity.	Government Procurement procedure should be followed on contracts.
(ii) The total cost estimate amounting to Rs.10.42 million had been prepared to upgrade the Early Childhood Development resource centre in Galle, Kalegana and 36 activities valued at Rs.1.33 million had been omitted and 15 activities valued at Rs.1.19 million had been executed exceeding the estimated amount.	Price variances and delay in constructions may occurred.	Advice of the World Bank and the management those activities had not been done.	-The necessity should be properly identified when preparing the estimates. -Activities should be executed with the estimated amount.
(iii) Contracts agreements relevant to the constructions and improvements had not been properly executed, progress of the constructions had not been submitted to the project and a delay in commencement of the constructions and the date on which the cash deposit to commence the constructions.	Violations of the conditions of the contracts agreements.	No response received from the management.	Contracts agreements should be properly executed as per contract agreement.
(iv) Invitations for bids had been called linguistically in news papers for supply and delivery 1,500 furniture sets valued at Rs.138 million. It was observed that the bid security valid date was published in the English, Sinhala, Tamil news papers as 29 November 2018, 11 January 2019 and 11 January 2018 respectively. Further the above said date in the bid documents was stated as 11 January 2019. and 25 January 2019.. Two bidders who quoted lowest bids and submitted the bid security valid up to 11 January 2019 was rejected AS a result Rs.7.17 million loss incurred to the project due to incorrect valid date of bid security given in the news paper and bid documents.	Loss incurred to the project and deprived the fair and equal opportunity for interested parties to participate in procurement.	No response received from the management.	Government Procurement procedure should be accurate and information should be given to the bidders in the bid documents.