

Early Childhood Development Project - 2017

The audit of the financial statements of the Early Childhood Development Project for the year ended 31 December 2017 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), Section II, Schedule 2 of Financing Agreement No.5678 - LK dated 23 October 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement of the Project, the Ministry of Women and Child Affairs is the Executing Agency and Project Management Unit and Plantation Human Development Trust are the Implementing Agencies of the Project. The objective of the Project is to enhance equitable access and improve the quality of early childhood development services. As per the Financing Agreement, the estimated total cost of the Project amounted to US\$ 50 million equivalent to Rs.7,250 million and entire amount was agreed to provide by the International Development Association. The Project commenced its activities on 16 February 2016 and scheduled to be completed by 30 June 2021.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence, I have obtained is sufficient and appropriate to provide a basis for my audit opinion. The examination also included such test as deemed necessary to assess the following.

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

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,

(c) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing Agreement, and

(d) the financial covenants laid down in the Financing Agreement had been complied with.

3. **Financial and Physical Performance**

3.1 **Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing as per Financing Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized during the year under review as at 31 December 2017	
	US\$ million	Rs. million	Rs. million	Rs. million	Rs. million
IDA	50	7,250	750	522.86	638.83
	<u>50</u>	<u>7,250</u>	<u>750</u>	<u>522.86</u>	<u>638.83</u>

According to the Operational Manual of the Project, US\$ 10 million equivalent to Rs.1,450 million scheduled to be disbursed during the year under review. However, the allocation amounting to Rs.750 million had only been made through Budget Estimate for the year under review to meet the capital and recurrent expenditure. According to the Appropriation Account of the Line Ministry and financial statements of the Project, only a sum of Rs.523 million had been utilized as at 31 December 2017.

3.2 **Physical Performance**

The following observations are made.

(a) According to the information received, 1,500 Early Childhood Centres had been selected by the Project to provide financial assistance of Rs.300,000 each as the facility improvement support. Eventhough the advances aggregating Rs.202.69 million had been released to 1,375 Early Childhood Centres as at 31 December 2017, the facility improvements of 20 Early Childhood Centres had only been improved at the end of the year under review. Further, out of the short term training programmes to be conducted for 2,200 teachers of Early Childhood Centres, only 284 teachers had been trained as at 31 December 2017.

- (b) In addition, the activities scheduled to be implemented during the year under review including fee waiver programme for 7,000 students, periodic interaction programme for 1,800 teachers, 300 awareness programme for parents etc had not been initiated as at 31 December 2017. According to the explanations made by the Project Director, activities under the respective programmes could not be commenced, due to delays in implementation of a mechanism to remit funds to the respective Divisional Secretaries.

3.3 Contract Administration

The following observations are made.

- (a) The audit inspection carried out in December 2017 in Kegalle District had revealed that the renovation works of Early Childhood Centres at Weniwella, Sapumalkanda, Panawatte, Devalekanda and Anhettigama had not been carried out according to the specifications. Therefore, it was observed that low quality sanitary fittings and timber had been used for the renovation purposes.
- (b) The play materials, furniture and kitchen utensils procured at a cost of Rs. 1.69 million had been distributed to 06 Early Childhood Centres located at the Estates managed by the plantation companies in Kegalle, Nuwaraeliya and Rathnapura districts before completion of the construction works. It was further observed in audit that the furniture had remained idle at the estate premises without considering the safety measures.

3.4 Issues on Financial Control

The Annual Action Plan of the year 2017 which required to be prepared before the commencement of the year under review had been prepared only in March 2017.