

Primary Health Care System Strengthening Project – Component I - 2021

The audit of Consolidated financial statements of the Primary Health Care System Strengthening Project – Component I for the year ended 31 December 2021 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 provisions in the Loan Agreement No.8878-LK dated 23 January 2019 entered into between the Democratic Socialist Republic of Sri Lanka and International Bank for Reconstruction and Development. 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 Loan Agreement, then the Ministry of Health, Nutrition and Indigenous Medicine, presently the Ministry of Health is the Executing Agency and the Ministry of Health in collaboration with then Ministry of Provincial Councils, Local Government and Sports, presently the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government is the Implementing Agency of the Project. The Project is mainly divided into Component 1 and Component 11 and Component 1 is implemented at the central level and provincial level. The objective of the Project is to increase the utilization and quality of primary health care services, with an emphasis on detection and management of non-communicable diseases in high-risk population groups in the selected areas of the country. As per the Loan Agreement, the estimated total cost of the Project was US\$ USD 200 million equivalent to Rs.31,588 million and out of that US\$ USD 50.84 million equivalent to Rs.8,030.46 million was allocated for the Component I (Central Level) of the Project. Total cost of the Project was agreed to be financed by International Bank for Reconstruction and Development. The Project had commenced its activities on 23 January 2019 and scheduled to be completed by 31 December 2023.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Project as at 31 December 2021, consolidated expenditures and its consolidated 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 my 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 scepticism 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 Accounting Deficiencies

No	Accounting Deficiencies	Amount Rs. million	Responses of the Management	Auditor's Recommendations
(a)	According to the reports of the Department of Treasury Operations, the total disbursements by the Funding Agency for Component 1 as at 31 December 2021 was Rs.17,359 million. Out of that only a sum of Rs.7,962 million was released for component 1 of the project by the Treasury. However, according to the financial statements, the	9,397	Rs.7,785 million received from the Treasury for Component I as disclosed in the financial statements and that it is correct and there is a difference between the amount received and amount	All funds received for the project should be disclosed in the financial statements and the reasons for the difference should be identified and disclosed.

	<p>amount received from the Treasury for the Component 1 was only Rs.7,785 million and the reasons for the difference of Rs.177 million had not been given for the audit. Furthermore, according to financial statements, the total amount spent by the project for the component - 1 during the last three years was Rs.7,733 million. The balance amount of Rs.9,397 million remained in the Treasury had not been disclosed in the financial statements.</p>		<p>released, information will be submitted as soon as the detailed information is found.</p>	
(b)	<p>The recurrent expenditure of Rs.45.45 million incurred for 15,000 HPV/DNA Test Kits and the annual connection fee of Rs.540,000 paid for availing the short telephone messaging service had been accounted under non-current assets and the non-current assets purchased during the year under review at a cost of Rs.2.21 million had been accounted as a recurrent expenditure.</p>	48.20	<p>The action will be taken to make the required adjustments in 2022 financial statements.</p>	<p>Action should be taken properly to identify, classify and account the expenses.</p>
(c)	<p>The expenditure of Rs.63.67 million could not be satisfactorily vouched, due to non-submission of written evidence such as cash receipts, bills, payment details, tender documents and Good Received Notes.</p>	63.67	<p>these 68 vouchers are related to payments made to Government and Semi-Government Institutions and that receipts have been requested from those institutions and submitted immediately upon receipt.</p>	<p>The written evidences should be submitted for the audit.</p>
(d)	<p>A sum of Rs.4.65 million spent for building maintenance, purchase of office equipment and for Covid-19 prevention in Sabaragamuwa Province had been erroneously accounted in the Capacity Development Expenses.</p>	4.65	<p>The amount is incorrectly recorded in the final accounts 2021 under capacity building component and it will be corrected by journal entry during preparation of the financial statements 2022.</p>	<p>Action should be taken properly to identify, classify and account the expenses.</p>

2.2 Non-Compliance with Law, Rules and Regulations

No	Reference to the Laws Rules and Regulation	Audit issues	Responses of the Management	Auditor's Recommendations
(a)	Sections 20(1) and 20(2) of the Value Added Tax Act No. 14 of 2002.	Value Added Tax amounting to Rs.1.5 million had been paid on 10 occasions during the year under review without obtaining a formal tax invoice.	Rs.622,195 has been properly disclosed in the tax reports submitted by the concerned company and the individual to the Inland Revenue Department and that the remaining amount of Rs.923,932 will be confirmed and to prevent the payment of Value Added Tax on informal invoices in the future.	Value Added Tax should be paid in terms of the Act.
(b)	Section 8(1) of the Value Added Tax (Amendment) Act No. 09 of 2021 with effect from 20 May 2020	The items necessary to deal with the Covid 19 pandemic were exempted from Value Added Tax. However, contrary to those provisions, Value Added Tax aggregating to Rs.11 million had been paid to the 18 suppliers for such purchases made after 20 May 2020.	The Value Added Tax had been paid in ignorance of the exemption of value added tax under the amended Act, that a report had been submitted to the Inland Revenue Department to verify that the total Value Added Tax paid to suppliers had been disclosed, in this regard, the suppliers will be questioned in the future and the Ministry has instructed the relevant authorities to take necessary action.	Action should be taken to investigate and recover the money from the responsible parties.
(c)	Financial Regulation 237 (iii) (b) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Although a good received note and a certificate that they have been included in the relevant inventory books should be attached to the payment vouchers. This was not done in the case	It happened due to an oversight and that steps will be taken to prevent such mistakes from happening in the future.	Action should be taken to comply with the Financial Regulation.

of 02 payment vouchers for which the total amount of Rs.3.8 million had been paid.

- (d) The Management Project Operations Services Circular No. 01/2019 dated 15 March 2019 steering Committee meetings should be held every 02 months. However, only one meeting was held through zoom technology during the year under review. Furthermore, the participation of 52 people including the project director was expected for this meeting. However, only 08 people had participated. The steering committee was held with participation of Secretary of Health and Secretary to the Ministry of Provincial Council and as physical meeting restricted that many members joined online. Action should be taken to comply with the Circular.
- (e) Asset Management Circular No.01/2017 dated 28 June 2017 A fixed asset register had not been prepared for the provincial offices & project office. Accepted. Action will be taken to prepare and maintain the Fixed Assets Register in the Project Office. Action should be taken to comply with the Circular.

3. Physical Performance

3.1 Progress of the Activities of the project

Audit Issue	Responses of the Management	Auditor's Recommendation
Only 59 percent of the expected physical progress had been achieved in respect of 06 Disbursement Link Indicators as at 31 December 2021. Therefore, it was observed that it was difficult to achieve the desired objectives of the project within the project period.	according to the initial agreement, the medical supply information management system was to be expanded to 350 primary care institutions, but due to technical problems in that system, it could only be extended to 62 institutions, in January 2021, that the Ministry of Health allocated Rs.1236.6 million for the activities selected based on the priorities received through the Ministry's Planning Division, but could not be implemented due to problems in the import sector, the construction sector and the dollar.	The project should be implemented as planned.

3.2 System and Control

No.	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Although the annual financial statements of the project should be submitted for audit within two months of the end of the financial year, the financial statements for the year 2021 were submitted for audit on 09 August 2022 after a delay of 05 months.	That the relevant officers have been informed to furnish the financial statement on or before the due date in future.	Financial statements should be submitted on the due date.
(b)	The decisions of the procurement committee related to the payments of Rs.41.8 million made by the National Cancer Control Program on 36 occasions in the year 2021 were not approved by a responsible officer.	That the actions will be taken to obtain the approval from an authorized officer for the procurement committee decisions.	Decisions of the Procurement Committee should be implemented after obtaining approval.
(c)	Non-current assets valued at Rs.473 million had not been recognized in the financial statement of the Ministry of health, due to the fact that those assets were purchased during the year under review without making financial provision under the proper expenditure subject for component 1 (Central Level) of the project.	The inventories have been done by the same paying units, that the officers concerned will be informed to get the confirmation for the amount stated in the Auditor General's report and take the amount as the opening balance of the CIGAS accounting system.	Non-financial assets should be properly accounted for.
(d)	A sum of Rs.173 million incurred for 66 construction projects in 47 hospitals & institutions in Central province had not been identified as Primary Health Care Institutions under this Project.	That the health system of the country is organized as a network of services from the peripheral level to the central level to provide better healthcare to the citizens, of course, many advanced treatments and facilities are not available at the peripheral level, that it is therefore essential to strengthen the capacities of all hospitals in the health system and out of more than 1000 hospitals in the island, only 550 hospitals have been identified for verification of results to ensure World Bank funding.	The project should prioritize the planned tasks.

- (e) Eventhough the main objective of the project is to detection and management of non – communicable diseases, a sum of Rs.168 million had been incurred for building constructions in provincial health institutions which were 50 per cent from provision allocated to North Western Province. Out of this amount of Rs.68.3 million had been incurred for the construction of 17 buildings which had not been included in selected Primary Health Care Institutions under this Project.
- The Provincial councils identify activities to improve the quality and increase utilization of primary care services when they receive funding from the PSSP, therefore, certain activities will be identified from hospitals that cannot be verified.
- The project should prioritize the planned tasks.
- (f) An amount of Rs.31.2 million and Rs. 2.89 million incurred respectively to construct Regional Health Service Director Office in North Western Province & purchase office equipment for the said office had not been identified as a Primary Health Care Institution under this Project.
- While strengthening the primary health care system that it is necessary to strengthen the health administration system to ensure smooth functioning of the system.
- The project should prioritize the planned tasks.
- (g) A sum of Rs.93.4 million had been incurred by the Regional Health Service Director Offices in Puttalam & Kurunegala in North Western province to purchase medical equipment other than the equipment listed out under this project.
- It is kindly informed that the funds of the project could be utilized to purchase necessary equipment for delivering a health service with improved quality to the citizens.
- The project should prioritize the planned tasks.
- (h) As per amended schedule 02 of the loan agreement, development and monitoring part of the training / capacity building plans should be implemented under the component 11 by the Ministry of Health and Provincial Health Ministries. However, a sum of Rs.112.98 million had been spent for training/capacity building under component 1 by all 09 provinces.
- Agreed. That the capacity building is identified as an activity in Component II, that a capacity building plan was prepared recognizing the need to improve the capacities of Component II.
- This cost should be borne under Component II.