

Health Systems Enhancement Project - 2022

The audit of the financial statements of the Health System Enhancement Project for the Year 31 December 2022, 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 And Grant Agreement No. 3727-SRI(COL) and No. 0618-SRI (SF) dated 26 October 2018 respectively entered in to between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. 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 and Grant Agreement, the Ministry of Health is the Executing Agency and four provincial councils of Central, North Central, Sabaragamuwa and Uva provinces are the Implementing Agencies of the Project. The objectives of the Project are improve, efficiency, equity and responsiveness of the primary health care system based on the concept of providing universal access and continuum of care to quality essential health services. As per the Loan and Grant Agreements, US\$ 50 million equivalent to Rs 7,125 million comprised with US\$ 37.5 million equivalent to Rs.5,813 million as concessional loan and US\$ 12.5 million equivalent to Rs. 1,938 million as grant respectively had been agreed to be provided by the Asian Development Bank. The project commenced its activities on 01 December 2018 and scheduled to be completed by 30 November 2023.

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 2022, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka 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 section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in 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 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 the project’s internal control.
- 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. Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Management Response	Auditor’s Recommendation
According to Section 9.3 of the Management Circular No. 01/2019 dated 05 March 2019,	The Project Steering Committee should meet at least once every two months, however the committee met only twice in the year under review.	Due to the difficulties had during the period we were unable to have steering committee meetings every quarter of the year.	Should be compliance with the regulation.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Activity	As at 31 December 2022		Delay/ Audit Issue	Reasons for delays
	Expected physical performance percentage	Performance achieved percentage		
Contraction of 04 District Hospital	100	1 – Nil 2 – 49 - 70	Had not been achieved expected Progress in relation to the constructions	Civil works seriously affected due to the suspension of construction work by the contractors with the Import restriction on materials, unprecedented increase in construction material and non – availability of the same during the period.
Contraction of 02 District Hospital	90	Nil		
Contraction of 05 regional Health Services unit	25	Nil		
Contraction of 01 District Health centre	23	Nil		

Management Comment - Civil works seriously affected due to the suspension of construction work by the contractors with the Import restriction on materials, unprecedented increase in construction material and non – availability of the same during the period. All the contractors requested to include price escalation for civil works contracts and project has to obtain approval from Asian Development Bank to include price escalation clause for small works contracts. This has resulted the slow progress in civil works contracts.

Recommendation of the Audit -Action should be taken to achieve the desired progress.

3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
	09 construction contracts valued at Rs.109 million had been terminated and out of then 06 contracts had been given to the one contractor. Although it was stated that Rs.	The project has forfeited performance bonds to the value of Rs.690,834.10 (10% of the contract value) on 09 June 2022. The copy of the bank statement and official receipt issued by the Central	Necessary actions should be taken to complete the project on time.

690,834 was charged through Province Project Implementation Unit performance bonds, the related information had not been submitted to the audit. Also, the performance guarantee of Rs. 3 million related to one contract had not been recovered and it was revealed that there is a case regarding a contract of Rs.38 million. Accordingly, it was observed that the expected objectives related to these contracts had not been fulfilled.

Province Project Implementation Unit was submitted for audit. Although we requested the bank to cash the bond worth Rs.2,682,182 of one contractor, the contractor has filed a case in court. On April 22, the performance bond of Rs.1,578,000 was encashed. We have already informed the contractor to pay Rs.1,974,233.00 as the remaining value of this contract. Asia Development Bank's approval has been sought to conclude one more contract..

3.3 Matters in Contentious Nature

No	Audit Issue	Management Response	Auditor's Recommendations
a)	An amount of Rs 751,894 was paid to the Cluster Management Specialist for the provision of consultancy services related to the months of October and November 2021. According to the work done report submitted by this officer to the project, it was stated that she was engaged in work at different places on the same day and at the same time. How to engage in such service was problematic in the audit.	The officer has covered the Hettipola, Hadungamuwa, Maraka, Laggala, HattotaAmuna and Illukkumbura hospitals during the visit. However, the officer has not given the time visited separately in his report for the Divisional Hospitals in the Dambulla cluster and only the start time and the end time of the day has given in the Work Done Report.	Payment Should be made after verifying that the information provide is correct.
b)	It was observed that an amount of Rs. 1.6 million had been paid without proper approval at the rate of Rs. 44,000 per day from 13October 2021 to December 2021 to an environmental expert who was appointed only for the period from11 October 2019 to10 October 2021.	The contract of the Environment Specialist initially appointed for one year from 11 October 2019. This has been extended yearly and the extension was given up to 10 October 2022 in October 2021. However, in the consultant review committee reports for the months of October, November & December 2021 had erroneously stated the extension only up to 10 October 2021. This has to be corrected as 10 October 2022 and the original extension contract is available in the consultancy file.	Payment should not be made for unauthorized transactions.