

Health and Medical Service Improvement Project - 2022

The audit of financial statements of the Health and Medical Service Improvement Project for the year ended 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 section 12 of Annex 11 of Minutes of Discussions held on 30 November 2017 between the Democratic Socialist Republic of Sri Lanka and Japan International Cooperation Agency. 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, the Ministry of Health, Nutrition and Indigenous Medicine presently Ministry of Health is the Executing Agency and the Project Management Unit is the Implementing Agency of the Project. The objectives of the Project is to improve the medical service for the diagnosis and treatment of non – communicable diseases, especially cardiovascular diseases, by improving the medical facilities and equipment in tertiary care hospitals and related facilities, thereby contributing to enhancing the health of the people of the project area. As per the Loan Agreement and Minutes of Discussions, the estimated total cost of the Project was Japanese Yen 11,352 million equivalent to Rs 16,559 million . Out of that Japanese Yen 10,639 million equivalent to Rs 15,519 million was agreed to be financed by the Japan International Cooperation Agency. The balance amount of Rs.1,040 million is expected to be financed by the government of Sri Lanka. The Project had commenced its activities on 20 October 2018 and scheduled to be completed by 20 October 2025

1.3 Qualified Opinion

In my opinion, effects of the matters described in the table 2.1 of my report, 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 than ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified 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

	Accounting Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
a)	According to Section 43 (a) of Sri Lanka Accounting Standard No. 5, the adjustment had not been made in the financial statements of the year under review for the Parity Adjustment in relation to the project's foreign loans.	204	According to the table 33 of the Treasury, the figures are kept in relation to the yen value on the relevant day. At the time of making these calculations, the publication of the Department of Foreign Resources has not been released. Payments are accounted for at rates as per the Treasury's provisions.	Should be followed Sri Lanka public sector Accounting standards
b)	The office equipment given to the consulting services institution by the health and medical services improvement project was not shown in the statement of financial position under non-current assets.	3	A separate asset register is maintained for the consultancy firm. In the future, the office equipment of the consulting firm will be included in the asset register of the business plan.	Should be accounted all the assets belong to project.
c)	A difference was observed when comparing the values of the receipts and payments account presented with the financial statements of the project for the year under review, with the expenditure statement of the Department of Foreign Resources.	33	The declarations of the Department of Foreign Resources are submitted on a day after the date of payment of the relevant project and the date of accounting of the Department of Treasury Operations. The yen rate value of those statements is calculated based on the value on the day the statement is issued and not on the date of the expenditure. According to the Treasury, the project's account is correct.	Necessary adjustments should be made and correct accounts should be submitted

2.2 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
(a)	Financial Regulations No. 507 and 756	The Stock Verification Boards had not been appointed and their reports had not been submitted to the Auditor General as per the Financial Regulations	Information related to conducting stock verification Boards has been presented. In the future, the product surveys will be completed and submitted for audit.	Should be followed Financial Regulation
(c)	Treasury Circular No. 842 dated 19 December 1978 and Asset Management Circular No. 01/2017 dated 28 June 2017,	A Fixed assets register had not been prepared for office equipment and health equipment purchased for Rs.5 million by the project	A fixed asset register is maintained by the project will be submitted for audit.	The rules and regulations should be followed and written evidence should be submitted for audit.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 20--		Delay/ Audit Issue	Reasons for delays
		Expected physical performance Units/ percentage	Performance achieved Units/ percentage		
N/A	Building Construction	100	30&60	According to the action plan of 06 large-scale projects (Mega Projects) carried out under this project, However, as per the progress report on 31 December 2022, the progress of 05 projects was at 30 percent and the progress of one project at 60 percent. Accordingly, it was observed that the progress was minimal level.	Unable to award the tender in the first half of 2022
Response of the Management	the	The main reasons for the decrease in the progress of obtaining loans. However, if it was possible to award the tender in the first half of 2022 without suspending the loan the Progress in the coming years could be much higher.			

Auditor's Recommendations The desired progress should be achieved and the goal of the project should be achieved

(b)	Activity	Delay/ Audit Issue	Reasons for delays	Auditor's Recommendations
	The Construction of the buildings with the provision of installation of medical equipment.	03 projects were planned to be constructed with 08, 10 and 12 floors and other 03 building were planned to be construct with the provision and installation of medical equipment. However the current status of these projects was stated in the progress report that the building plans and tender documents have been submitted for the approval of JICA. Accordingly, it was observed during the audit that the physical performance indicated in the progress report could not be satisfied.	Unable to finalize the procurement stage.	The desired progress should be achieved and the goal of the project should be achieved.