

## **Project for Improvement of Basic Social Services Targeting Emerging Regions - 2013**

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The audit of financial statements of the Project for Improvement of Basic Social Services Targeting Emerging Regions for the year ended 31 December 2013 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 4 (6) of Article III of the Loan Agreement No. SLP-105 dated 28 March 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency (JICA).

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

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According to the Loan Agreement of the Project for Improvement of Basic Social Services Targeting Emerging Regions, the Department of National Planning of the Ministry of Finance is the Executing Agency and the Ministry of Health and the Eastern, North Western, Central and Sabaragamuwa Provincial Councils are the Implementing Agencies of the Project. The objectives of the Project are to improve the health, medical system and strengthen the production capacity of essential drugs through improving facilities and equipment in secondary level hospitals and the State Pharmaceutical Manufacturing Corporation, thereby contributing to the enhancement of non – Communicable diseases management. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 4,760 million equivalent to Rs.6,332 million and out of that Japan Yen 3,935 million equivalent to Rs.5, 155 million was agreed to be provided by the Japan International Cooperation Agency. The Project commenced its activities on 23 July 2012 and scheduled to be completed by 23 July 2019.

### **1.3 Responsibility of the Management for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

## **2. Scope of Audit and Basis of Opinion**

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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 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 the 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 the 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 opinion. The examination also included such tests 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 adequate accounting records were maintained on 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 identification of the purchases made out of the Loan etc,
- (c) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (g) Whether financial covenants laid down in the Loan Agreement had been complied with.

## **2.1 Opinion**

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So far as appears from my examination and the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to the paragraph 5 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purposes for which they were provided.

- (c) the satisfactory of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement, and
- (d) the financial covenants laid down in the Loan Agreement had been complied with

#### **4. Financial Statements**

##### **4.1 Financial Performance**

According to the financial statements and information made available for Audit, the expenditure of the Project for the year ended 31 December 2013 amounted to Rs. 351,331,306 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 357,127,769. The expenditure for the year under review, expenditure for the preceding period and the cumulative expenditure as 31 December 2013 are summarized below.

Item of expenditure -----	Expenditure for the year ended 31 December		Cumulative expenditure as at 31 December
	2013	2012	2013
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	Rs.	Rs.	Rs.
Civil works	172,956,291		172,956,291
Procurements-Ministry of Health	112,651,397		112,651,397
Consultancy Services	33,358,382		33,358,382
Commitment Charges	2,633,547		2,633,547
Interest			
	12,563		12,563
Administration Cost	29,539,126	5,796,463	35,335,589
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<b>Total</b>	<b>351,331,306</b>	<b>5,796,463</b>	<b>357,127,769</b>
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## 5. Audit Observation

### Non - Compliance with Laws, Rules and Regulations

- (a) A Board of survey for the year under review had not been made in terms of Financial Regulation 756 to enable the verification of the existence of the assets valued at Rs. 2,017,049 of the Project.
- (b) It was observed that the contribution for Employees Provident Fund and Employees Trust Fund for the employees recruited under contract basis had been calculated based on their basic salaries instead of gross salaries.

## 6. Financial and Physical Performance

### 6.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and actual fund utilization as at 31 December 2013 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds Utilized			
				During the year under review		As at 31 December 2014	
	JPY million	Rs. million	Rs. million	JPY million	Rs. million	JPY million	Rs. million
JICA	3,935	5,155	507	248	322	248	322
GOSL	825	1,177	120	3	30	4	35
<b>Total</b>	<b>4,760</b>	<b>6,332</b>	<b>627</b>	<b>251</b>	<b>352</b>	<b>252</b>	<b>357</b>

According to the disbursement schedule, total funds amounting to Japan Yen 3,935 million equivalent to Rs.5,155 million was expected to be utilized within six years from the year 2012 to 2019 and a sum of Rs.507 million had been provided for the Project for the year 2013 through the Department of National Budget. Out of that, Japanese Yen 248 million equivalent to Rs.322 million or 15 per cent of the funds allocated had been utilized by the Project as at 31 December 2013.

### 3.2 Physical Performance

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According to the information received, the building construction works of three base hospital at Kaluwanchikudi, Warakapola and Galagamuwa had been commenced during the year under review. Further, according to the initial work program of the project, it was expected to procure 124 ambulances and provisions of JPY 464 equivalent to Rs. 602 million had been made thereon. However, 86 ambulances had only been procured as at 31 May 2014.