

The audit of financial statement of the Second Health Sector Development Project for the first 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 the Financing Agreement No-5228-LK dated 19 August 2013 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Development Association (IDA). According to the Financing Agreement the activities of the Project are expected to be carried out by the Ministry of Health (MOH) at national level and the Ministry of Local Government and Provincial Councils at provincial level. This report consists the comments on activities carried out by the Ministry of Health at national level.

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

According to the Project Appraisal Document, the Second Health Sector Development Project is implemented to provide financial support to implement the National Health Development Plan for 2013 -2017. The Implementing Agency of the Project at national level is the Ministry of Health. The objectives of the Project are to upgrade the standards of performance of the public health to enable for better respond to the challenges of the malnutrition and non- communicable diseases. According to the Financing Agreement, the total estimated cost of the Project is SDR 129.8 million equivalent to USD 200 million. The Project activities had been commenced on 01 July 2013 and are scheduled to be completed by 30 September 2018.

## 1.3 Responsibility of the Management for the Consolidated Financial Management Report

Management is responsible for the preparation and fair presentation of this Consolidated Financial Management Report which is the compilation of the Appropriation Accounts of the Ministry of Health. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Consolidated Financial Management Report that is free from material misstatements, whether due to fraud or error; selecting and applying appropriate Financial Regulations and circulars issued by the General Treasury.

## 2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on this financial statement based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statement is free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating the overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also include such test of systems and

controls, transactions, assets, liabilities and accounting records as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal controls so as to ensure a satisfactory control over the Project management and the reliability of books, records, etc. relating to the operations of the Project,
- (b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure incurred by the Ministry of Health 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 and the identification of purchases made,
- (c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement,
- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of Health Sector,
- (e) Whether the Consolidated Financial Management Report had been prepared in conformity with Financial Regulation 150 and the State Accounts Circular No.233/2013 of 06 December 2013 of the General Treasury,
- (f) Whether the initial advance, withdrawals from and replenishments made to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by Ministry of Health and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka, as at that date and
- (g) Whether financial covenants lay down in the Financing Agreement had been complied with.

3. Opinion

So far as appears from my examination and to 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 in paragraph 5 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting record for the year ended 31 December 2013 and the Consolidated Financial Management Report 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 initial advance , withdrawals from and replenishments made to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by Ministry of Health and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka, as at that date and
- (d) the financial covenants laid down in the Financing Agreement had been complied with.

4. Financial Statements  
 4.1 Financial Performance

According to the information provided by the Project, expenditure aggregating Rs 92,994,584,162 out of funds received from all sources had been incurred by the Ministry of Health during the year under review. The following table shows the summary of the expenditure incurred from all sources of funds by the Ministry of Health during the year under review as presented in the Appropriation Account for the year 2013.

Description -----	Expenditure incurred from all sources of funds received during the year ended 31 December 2013 -----
	Rs.
<b>IDA Participation</b>	
Recurrent Expenditure	
- Personal Emoluments	37,914,758,743
- Travelling	133,332,183
- Services	2,684,174,058
<b>Non- IDA Participation</b>	
- Recurrent Expenditure	34,827,053,099
- Capital Expenditure	<u>17,435,266,079</u>
	92,994,584,162
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4.2 Imprest Fund Account

According to the information made available, the Imprest Fund Account No. 73586 maintained for the Project at the Central Bank of Sri Lanka had not been operated during the year under review.

5. Audit Observations

5.1 Presentation of Financial Statements

According to Section 4.09 of the General Condition Statement for Credits and Grants of IDA dated 31 July 2012, the financial statements in accordance with consistently applied accounting standards in a manner to adequately reflect the operation, resources and expenditure related to the Project should be applied. However, a Consolidated Financial Management Report representing the total expenditure aggregating Rs. 92,994,584,162 incurred by the Ministry of Health from all sources of funds as at 31 December 2013 had been furnished for audit.

## 5.2 Utilization of Funds

The following observations are made.

- (a) According to the information received no funds had been replenished by the IDA during the year under review for Project activities. However, according to the Consolidated Financial Management Report of the Project, a sum of Rs. 40,732,264,993 had been shown as the recurrent expenditure met under IDA participation during the year under review. Further, according to the Annual Budget Estimates of the Ministry of Health, allocations amounting to Rs 800,000,000 had been made to incur expenses under 05 Recurrent Objects and 01 Capital Object, out of which Rs. 781,503,258 had been spent under such Objects from the proceeds received from Government of Sri Lanka. Details of allocation of funds and amount spent as at 31 December 2013 are given below.

Description	Allocation made for 2013	Expenses incurred as at 31 December 2013
	Rs. millions	Rs. millions
<b>Recurrent Expenses:</b>		
Hospital Rehabilitation and Development	135.00	134.94
Establishment of Quality Management Units in Base Hospitals	10.00	1.35
Programme for Strengthening Primary Level Health Care Laboratory Services Required for Improvement of Non- Communicable Diseases Care	200.00	190.61
National Dengue Control Programmes	200.00	200.00
Implementation of National Indoor Morbidity Mortality Reporting (IMMR) System	5.00	4.60
<b>Capital Expenses:</b>		
Triposha Programme	<u>250.00</u>	<u>250.00</u>
Total	<u>800.00</u>	<u>781.50</u>

- (b) It was observed that allocations aggregating Rs.94,972,264,000 had been made from all sources of funds in the Annual Estimates to meet recurrent and capital expenses of the Ministry of Health for the year under review and savings aggregating Rs.1,977,679,838 had been reported at the end of the year under review.

## 5.3 Physical Performance

As mentioned in the paragraph 5.1 of this report, the Consolidated Financial Management Report had shown a sum of Rs. 92, 994,584,162 utilized by the Ministry of Health, out of funds received from all sources of funds as at 31 December 2013. Some of the key audit

observations made in the Appropriation Account of the Ministry of Health for the year 2013 are reproduced as follows.

- (a) The Ministry of Health had procured 17 computers at a cost of Rs 2,301,800 for Medical Statistics Unit of the Ministry in order to establish an Indoor Morbidity Mortality Reporting (IMMR) System. According to the Technical Evaluation Committee, 06 computers were only required for that purpose. Out of that 09 computers had been retained at Medical Statistics Unit and other 08 computers had been released on 31 December 2013 to 06 hospitals of the Ministry.
- (b) The Project had spent a sum of Rs. 100,914,469 to settle the bills on civil works done on newly constructed buildings which were not related to the activities to be carried out under the Project.
- (c) The factory for “Thripasha” production is managed by a State Owned Company and the all Production and Factory Expenses have been incurred by the Ministry of Health. The Ministry had agreed to reimburse Rs 3,000,000 per month to meet operational expenses of the factory. However, as a practice, the company does not provide the details of the expenses incurred in updated manner, at the time making reimbursements.
- (d) According to the Letter dated 08 March 2013 of the Department of Public Enterprises, the approval had been granted to purchase two double cab motor vehicles with the engine capacity of 3200 CC for the use of Thripasha Factory. However, the Project had procured two double cab motor vehicles with engine capacity of 2500 CC at a cost of Rs 6,000,000 each.
- (e) According to the information collected by audit, out of 39 Hospitals operated under the Ministry of Health as at 30 June 2014, only one hospital had possessed an Emergency Treatment Units with the level of facilities defined by the Project. Further, the Quality Management Units remained fully functioning at 16 Hospitals under the Ministry of Health as at 30 June 2014. In addition, 18 Hospitals send morbidity and mortality data through web based information system to the Ministry of Health as at 30 June 2014.