

## **Second Health Sector Development Project - 2013**

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The audit of financial statement of the Second Health Sector Development Project for the first accounting 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 then Ministry of Local Government and Provincial Councils presently, Ministry of Public Administration, Provincial Councils Local Government and Democratic Governance at provincial level. This report consists the comments on activities carried out by the Ministry of Public Administration, Provincial Councils Local Government and Democratic Governance at provincial 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 provincial level is the then Ministry of Local Government and Provincial Councils presently, Ministry of Public Administration, Provincial Councils Local Government and Democratic Governance. 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 was commenced on 01 July 2013 and 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 Provincial Departments 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 Consolidated Financial Management Report based on my audit. Audit opinion, comments and findings in this report are based on review of the Consolidated Financial Management Report 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 Consolidated Financial Management Report is free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in Consolidated Financial Management Report and assessment of accounting policies used and significant estimates made by the management in the preparation of Consolidated Financial Management Report 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 Provincial Departments 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 the Ministry of Public Administration, Provincial Councils Local Government and Democratic Governance 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.34,734,406,629 out of funds received from all sources had been incurred by the Provincial Departments of Health during the year under review. The following table shows the summary of the expenditure incurred from all sources of funds by the Provincial Departments of Health during the year under review as presented in the Appropriation Account for the year 2013.

<u>Description</u>	<u>Expenditure incurred from all sources of funds received during the year ended 31 December 2013</u>
	Rs.
Recurrent Expenditure	34,198,525,465
Capital Expenditure	<u>535,881,164</u>
	34,734,406,629
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#### 5. Audit Observations

##### 5.1 Utilization of Funds

Although US\$ 769,230 equivalent to Rs. 100 million was required to be received by the Project for the period from 01 July 2013 to 31 December 2013, no funds had been received from International Development Association as at 31 December 2013. According to the Consolidated Financial Management Report of the Project, net savings of Rs.900,283,130 under Capital Objects and Rs 414,632,948 under Recurrent Objects had been reported in all nine provinces, out of the provisions aggregating Rs.35,098,808,601 and Rs. 36,049,322,719 made by the Government of Sri Lanka through Budget Estimate to meet capital and recurrent expenditure respectively. It was further observed that the net savings over 9.5 per cent, out of the total net provisions made for the year under review had been reported by the Provincial Departments of Health in Sabaragamuwa and Uva Provinces whilst the net savings below than 5 per cent on total net provisions was reported from other six Provinces. Further, the excess of Rs 84,397,152 representing 1.2 per cent had been reported out of the total net provisions made to the Provincial Departments of Health in the Western Province.

##### 5.2 Physical Performance

As mentioned in the paragraph 4.1 of this report, the Consolidated Financial Management Report had shown a sum of Rs. 34,734,406,629 utilized by the Provincial Departments of Health, out of funds received from the Government of Sri Lanka as at 31 December 2013. Some of the key audit observations made in the Appropriation Accounts of the Provincial Departments of Health for the year 2013 are reproduced as follows.

- (a) It was revealed in audit that the drugs and surgical instruments supplied to the Central Medical Stores at Hantana and the Hospital at Nawalapitiya in Kandy District and the Office of the Medical Officer of Health of Matale were not up to the quality standards. Further, the suspicious articles were found in the injections of Promethazine Hydrochloride u.s.p 25 mg supplied to the District Hospital at Hikkaduwa in Southern Province.

- (b) The seven storied building with 04 theaters at Base Hospital in Kuliyaipitiya , Children ward at Polpitigama Rural Hospital and a X-ray machines at Base Hospital in Nawalapitiya were reported as underutilised assets for over 1 ½ years.
- (c) In addition to the above, the general comments on lack of Internal Audit Units at Provincial Health Department in the Central, Southern, Northern and Eastern Provinces and lack of annual action plans and annual procurement plans at Provincial Health Department in the North Central, North Western, Northern and Eastern Provinces were made in the audit of the annual Appropriation Accounts of the respective Provincial Health Departments. Thus indicated that the activities carried out by the respective Provincial Health Departments had not been properly organised, monitored and supervised during the year under review.