

Second Health Sector Development Project – Component – I - 2014

The audit of financial statements of the Second Health Sector Development Project-Component-I for the year ended 31 December 2014 was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of 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 and the International Development Association.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement, the activities of the Project are expected to be implemented by then Ministry of Health, presently Ministry of Health, Nutrition and Indigenous Medicine at national level and the Ministry of Provincial Councils and Local Government at provincial level. According to the Project Appraisal Document, the Project is implemented to provide financial support to implement the National Health Development Plan for the year 2013-2017. 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 estimate cost of the Component-I of the Project was SDR 123.3 million equivalent to US\$ 190 million. The Project commenced its activities on 01 July 2013 and scheduled to be completed by 30 September 2018. This report consists the comments on activities carried out by the Ministry of Health, Nutrition & Indigenous Medicine at national level.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements which is the compilation of the Appropriation Accounts of the Ministry of Health, Nutrition and Indigenous Medicine in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

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 and 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 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 auditors 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 control 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 the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project,
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the fund 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 identifications of the purchases made out of the Credit,
- (d) Whether the withdrawals under the Credit had been made in accordance with the specifications laid down in the Financing Agreement,
- (e) Whether the funds, materials and equipments supplied under the Credit had been utilized for the purposes of the Project,
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (g) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Financing Agreement had been complied with.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanation given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 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 measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Financing Agreement had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

According to the records maintained by the Project, the financing of Credits, budgetary allocation and utilization of the funds of the Project during the year under review and as at 31 December 2014 are shown below.

Source	Amount agreed for financing according to the Finance Agreement		Allocation made in Budget Estimate for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million	Rs. million	during the year under review		as at 31 December 2014	
				US\$ million	Rs. million	US\$ million	Rs. million
IDA Component-1	190	24,768.4	1,257	7.58	988.29	13.58	1,769.79

The following observations are made.

- (a) According to the Project Appraisal Document, US\$ 43.75 million equivalent to Rs.5,733 million was expected to be disbursed during the year under review by the International Development Association under Component -1 of the Project. However, according to the information received, proceeds of US\$ 7.58 million equivalent to Rs.988.29 million representing 17 per cent of the amount allocated

had been received from International Development Association during the year under review.

- (b) According to the information received, out of the allocation amounting to US\$ 190 million equivalent to Rs. 24,768.4 million made under the Component-1 of the Project, only US\$ 13.58 million equivalent Rs. 1,769.79 million representing 07 per cent of total allocation had been utilized as at 31 December 2014. Therefore, the possibility of use of allocation of the Project entirely during the remaining period of 04 years of the Project is in doubt.
- (c) Eventhough the allocation amounting to Rs.50 million had been made by the Project to meet the capital and recurrent cost of Thripasha Programme, a sum of Rs.10.64 million had only been incurred as at 31 December 2014.

3.3 Physical Progress

The physical targets to be achieved under Component-1 of the Project are based on 03 Disbursement Link Indicators. The following observations are made on the achievement of physical targets related to such Disbursement Link Indicators.

- (i) Eventhough the allocation amounting to Rs.21 million had been provided to establish an Indoor Morbidity Mortality Return System, only Rs.4.93 million had been received to the Project during the year under review. Out of that a sum of Rs.3.37 million had been remitted to 12 hospitals to procure equipments for the system and a sum of Rs.2.48 million had been spent by 10 hospitals as at 31 December 2014. However, any evidence relating to the physical progress of the implementation of the System had not been made available to audit.
- (ii) The Ministry had spent a sum of Rs.17.23 million to establish Health Care Quality and Safety Units in 28 hospitals during the year under review and the following observations are made thereon.
 - Evidence had not been made available from 15 hospitals even as at 31 December 2014 to determine whether the activities of such Unit were commenced.
 - Allocation amounting to Rs. 1.12 million made for the De Soysa Hospital in Colombo and Teaching Hospital in Kandy had not been utilized, thus indicated that the immediate action had not been taken by the hospital authorities to establish such Units.
 - The computers and accessories had been procured at a cost of Rs.5.60 million by the Ministry for such Units and it was revealed in audit that

the authorities of the Base Hospital in Kurunegala had rejected such equipments stating that such assets are not required to the hospital.

- (iii) Eventhough 1,743 Maternal and Child Health Clinics expected to be conducted during the year under review under Disbursement Link Indicators-05, only 1,627 of such Clinics had been held.

3.4 Contract Administration

The following observations are made.

- (a) The Ministry had offered a contract to a foreign company to supply 14 Triple Energy Linear Accelerators at a cost of US\$ 24 million equivalent to Rs.3,197 million by 03 December 2013. However, only one Accelerator had been supplied as at 31 December 2014. Further, according to the supply schedule, 08 Accelerators to be supplied before 31 March 2015 had not been supplied even as at 31 August 2015.
- (b) It was observed that Government Procurement Procedure had not been applied to select the supplier to procure other 17 Linear Accelerator at a cost of US\$ 20 million equivalent to Rs. 2,754 million. A formal agreement had not been signed by the supplier even as at 31 December 2014 eventhough the supply contract had been awarded.
- (c) An Endoscopy Machine had been procured at a cost of Rs.11.41 million for the use of Base Hospital at Thambuttegama during the year under review eventhough it was not requested by the hospital. Further, the supplier who quoted higher bid price of Rs.11.41 million than lowest bid price amounting Rs.9.84 million had been selected without a valid reason.

3.5 Funds Utilized Outside the Project Purposes

It was observed that a sum of Rs.508.33 million spent out of proceeds of Credit and a sum of Rs.2,217 million spent out of proceeds received from Government of Sri Lanka to implement Disbursement Linked Indicators had not been utilized to meet the objectives stipulated under the respective Disbursement Link Indicators.