

Establishment of the Epilepsy Hospital and Health Centres Project - 2015

The audit of financial statements of the Establishment of the Epilepsy Hospital and Health Centres Project for the year ended 31 December 2015 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 Loan Agreements No. 7/477 dated 26 March 2008 and No.11/640 dated 30 October 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the Saudi Fund for Development.(SFD)

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, then Ministry of Healthcare and Nutrition, presently Ministry of Health, Nutrition and Indigenous Medicine is the Executing and Implementing Agency of the Project. The objectives of the Project are to construct a fully equipped Epilepsy Hospital at the premise of General Hospital in Colombo and establish Provincial Health Centres in each Province. As per the Loan Agreements, the total estimated cost of the Project amounted to Rs.2,918 million and out of that a sum of Rs.2,273 million equivalent to Saudi Riyal 75 million was agreed to be provided by the Saudi Fund for Development. Further, the Saudi Fund for Development had agreed to provide an additional Loan of Rs. 1,690.65 million equivalent Saudi Riyal 45 million through a supplementary Loan Agreement on 30 October 2015. The Project commenced its activities on 26 March 2008 and scheduled to be completed by 31 December 2010. Subsequently, the period of the Project had been extended in four instances up to 30 June 2016.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 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 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 and the identifications of purchases made.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreements.
- (e) Whether the funds, materials and equipment supplied under the Loan 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 Loan Agreements 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 explanations given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 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 Loan Agreements had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provisions for the year under review and utilization of the funds during the year under review and as at 31 December 2015 are shown below.

Source	Amount agreed for financing according to the Loan Agreements		Allocation made in Budget Estimate for the year under review	<u>Funds utilized</u>			
	Saudi Riyal million	Rs. million		during the year under review	as at 31 December 2015	Saudi Riyal million	Rs. million
SFD	120	3,963.65	1,802	15.73	545.29	63.99	2,218.06
GOSL	-	645.00	288	-	146.90	-	489.30
Total	<u>120</u>	<u>4,608.65</u>	<u>2,090</u>	<u>15.73</u>	<u>692.19</u>	<u>63.99</u>	<u>2,707.36</u>

The following observations were made.

- (a) As a common feature, the Project had not taken action to utilize allocations made by the Budget Estimates annually. Eventhough the allocations aggregating Rs. 4.62 billion had been made through Budget Estimates of previous years, only a sum of Rs. 2.71 billion had been utilized up to 31 December 2015 due to slow progress of construction works.
- (b) The Project had not taken action to reap the benefits of the Project by completing the activities and utilizing the proceeds of Loan for intended purposes effectively, eventhough the grace period of 05 years for the repayment of the Loan was ended as at 26 March 2013 and installments of Loan aggregating Rs. 329.74 million and interest thereon aggregating Rs.71.76 million had been paid upto 31 December 2015. Further, the Project had made a request for an additional financing facility of Rs. 1,690.65 million equivalent Saudi Riyal 45 million to complete the activities of the Project. The following further observations were made in this connection.

- (i) Eventhough an allocation of Rs. 969.80 million only had been made for the construction of the building, a contract thereon had been awarded at a cost of Rs. 1,884.82 million.
 - (ii) Out of the allocation amounting to Rs.1,075.90 million made in the Loan Agreement to procure medical equipment for the Epilepsy Hospital and Provincial Health Centres, a sum of Rs.337.26 million had been utilized to procure medical equipment for Neuro Trauma Unit of the National Hospital which was not related to the objectives of the Project. The rest of the allocations made to procure equipment had been utilized for payments on building construction works of the building. However, the approval of the Lending Agency had not been obtained thereon. As a result of the above arrangements, additional requirement of funds amounting to Rs.1,480 million had been requested by the Project to procure medical instruments, furniture, generator, consultancy and to meet extra costs.
 - (iii) Eventhough an allocation amounting to Rs.106.10 million only had been made in the Loan Agreement for the consultancy services, the contract thereon had been awarded at a cost of Rs. 164.05 million. However, a sum of Rs.244.01 million had been paid to the Consultant as at 31 December 2015.
- (c) According to the information received, the Reimbursable Foreign Aids payable to the Treasury as at 31 December 2015 amounted to Rs. 640.28 million and out of that a sum of Rs.133.94 million had remained payable over 01 year.

3.2 Physical Performance

The following observations were made.

- (a) According to the progress reports of the Project, the physical progress of the construction works of the 08 storied buildings for the Epilepsy Hospital which scheduled to be completed by 03 April 2014 had remained at 90 per cent as at 31 December 2015 with the delays of 637 days for completion. However, the action had not been taken to take over the building from the contractor even as at 31 December 2016 as enable to open the Hospital for the use of general public.
- (b) According to the initial Loan Agreement, Project had planned to establish 09 provincial health Centers at a cost of Saudi Riyal 161.25 million throughout the island. However, activities relating to construction of building for 09 health centres equipped with out-patient clinics, laboratories and training centers had not been commenced even as at 31 December 2015.

3.3 Contract Administration

It was observed that the engineer's estimate of Rs. 1,000 million for the construction of the building of the Hospital determined at the time of calling for bids had been increased up to Rs. 1,800 million at the time of bid evaluation without explaining proper reasons. Further, the period of completion of the construction for 18 months determined at the time of calling of bids had been changed as 12 months subsequently. However, bid bond based on engineer's estimate initially determined had been submitted by the contractor.

3.4 Matters related to Financial Controls

The following observations were made.

- (a) The transactions on the activities of the Project had not been subjected to internal audit of the Line Ministry as required by the Financial Regulation No. 133 (1) and Department of Management Audit Circular No.05 dated 26 July 2010.
- (b) Physical verification had not been carried out for the year ended 31 December 2015 in respect of fixed assets of the Project valued at Rs. 337.74 million, as required by the Financial Regulation No. 756.

3.5 Human Resource Management

The period of service of the staff of the Project including the Project Director who covered duties on acting basis had been extended continuously without considering slow performance of the activities of the Project and costs overrun etc, contrary to the Paragraphs 09 and 12 of the Management Services Circular No. 33 of 05 April 2007.