

Second Health Sector Development Project – Component -I - 2016

The audit of Financial Report of the Second Health Sector Development Project Component-I for the year ended 31 December 2016 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 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 at national level are expected to be implemented by then Ministry of Health, presently the Ministry of Health, Nutrition and Indigenous Medicine at national level whilst the activities of the provincial level are expected to be carried out by the Ministry of Provincial Councils and Local Government. 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. As per the Financing Agreement, SDR 129.8 million (US\$ 200 million) equivalent to Rs.25,270 million and out of that, SDR 123.31 (US\$ 190 million) equivalent to Rs.24,006 million had been allocated for the activities to be carried out under the Component -I of the Project. The Project activities was commenced on 01 July 2013 and scheduled to be completed by 30 September 2018. This report consisted with the comments on activities carried out by the Ministry of Health, Nutrition and Indigenous Medicine at national level and the financial statements for Component-I of the Project which presented separately.

1.3 Responsibility of the Management for the Financial Report

Management is responsible for the preparation and fair presentation of these Financial Report 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 Report 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 this Financial Report 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 Report is free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Report, 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 Report 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 Report. 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 the Project management and the reliability of books, records etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the Financial Report 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 incurred by the Ministry of Health, Nutrition and Indigenous Medicine 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.
- (d) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of Health Sector.
- (f) Whether the Financial Report had been prepared in conformity with Financial Regulation 150 and the State Account Circular No. 252/2016 of 09 December 2016 of the General Treasury.
- (g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (h) Whether 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 explanations given to me, I am of opinion that,

- (a) the Financial Report based on the Appropriation Accounts of the Ministry of Health, Nutrition and Indigenous Medicine for the year 2016 presented to audit was prepared and presented in conformity with the provisions in Financial Regulation 150 of the Democratic Socialist Republic of Sri Lanka and the State Accounts Circular No. 252/2016 of 09 December 2016. The above Appropriation Accounts were agreed with the Treasury computer printouts, the Annual Budget Estimates, books, registers and records maintained by the Ministry of Health, Nutrition and Indigenous Medicine,

- (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.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

A sum of Rs.18.17 million spent by the Project during the year under review to meet the airfare, course fees and incidental expenses of 59 officers of the Line Ministry who participated for Training programme on Hospital Financial Management and Accounting in Thailand had been accounted erroneously in the Annual Appropriation Account under 03 different expenditure object codes allocated for capital expenditure.

2.2.2 Non- Compliance with Laws, Rules and Regulations

The core staff positions of the Project including the Project Director and an Accountant attached to the Line Ministry had been deployed by the Project on acting basis, contrary to the directions made through the Letter No. DMS/C/1/16/ Proj. of 21 May 2014 of the Department of Management Services to recruit such officers on full time basis. This matter was highlighted in my reports for the previous year also and no action taken to rectify.

2.2.3 Financial Covenants not complied with

According to the Project Appraisal Document, an environmental assessment should be carried out and a report to be prepared by assessing the performance of the Environmental Management Framework in each year commencing from 28 February 2015 up to end of the period of the Project. The Project had not complied with this requirement and the assessment report for the year under review had not been furnished even though it was highlighted in my previous reports.

3. Financial and Physical Performance

3.1 Utilization of Funds

According to the records maintained by the Project, the financing of funds, budgetary allocation and utilization of the funds for the year under review and as at 31 December 2016 are shown below.

| Source | Amount agreed for financing according to the Financing Agreement | | Allocation made in the Budget Estimate for the year under review | Funds utilized | | | |
|--------------------|--|---------------|--|----------------|---------------|--------------|-----------------|
| | US\$ million | Rs. million | | US\$ million | Rs. million | US\$ million | Rs. million |
| IDA Component-I | 190 | 24,006 | 2,324.5 | 6.63 | 973.92 | 9.36 | 1,357.77 |
| | <u>190</u> | <u>24,006</u> | <u>2,324.5</u> | <u>6.63</u> | <u>973.92</u> | <u>9.36</u> | <u>1,357.77</u> |

The following observations are made.

- (a) According to the Project Appraisal Document, US\$ 43.75 million equivalent to Rs.6,562.5 million was expected to be disbursed for the year under review by the International Development Association. However, sums of Rs.2,324.50 million for the Line Ministry and Rs.3,306 million for the Provincial Ministries of Health had only been allocated in Budget Estimate for the year under review. Out of the above allocation, a sum of Rs.973.92 million representing 41.90 per cent had only been utilized during the year under review.
- (b) According to the above information, out of the total allocation of US\$ 190 million equivalent to Rs.24,006 million made under the Project, only a sum of US\$ 9.36 million equivalent Rs.1,357.77 million represented 5.65 per cent of the total allocation had been utilized by the Line Ministry as at 31 December 2016. Therefore, the possibility of use of entire allocation during the remaining period of 02 years of the Project is in doubt.

3.2 Physical Progress

The physical targets expected to be achieved under the Project are based on 03 Disbursement Link Indicators and 11 Non-Disbursement Link Indicators. According to the information received desired results of 03 Disbursement Link Indicators and 09 Non-Disbursement Link Indicators, out of 11 Non Disbursement Link Indicators had been achieved. The observations made on achievement of targets stipulated under the Disbursement Link Indicators are given below

- (a) According to the Action Plan of the Project for improvements of the emergency treatments services of the hospital in Sri Lanka under the Disbursement Link Indicator- 01, it was expected to construct new Emergency Treatments Care Units in 14 hospitals and upgrade existing Emergency Treatments Care Units in other 14 hospitals in the island. According to the audit investigations, 09 contracts on upgrading of existing Emergency Treatments Care Units were completed as at 31 December 2016. The contracts at a cost of Rs.1,192 million to construct 04 new

Emergency Treatments Care Units had been awarded in 2015, after lapse of 02 years from the date of commencement of the activities of the Project. The physical progress on such construction works at General Hospitals in Kalutara and Polonnaruwa, Teaching Hospital in Jaffna and Base Hospital at Kalmunei were remained ranging from 50 per cent and 85 per cent as at 31 December 2016.

- (b) According to the Action Plan of the Project 13,577 persons were expected to be tested to detect cases of Tuberculosis island wide under the Non-Disbursement Link Indicators- 09 in order to increase the detection ratio of cases of Tuberculosis, provide education of general public and use of modern detection technologies thereon. However, only 9,293 persons were detected throughout the year under review. According to the audit point of view, the identification of new Tuberculosis patients is mainly depend on the awareness of the patients on identification of diseases and continuous treatments thereon. Therefore, more attention is to be paid on awareness programmes and improvement of facilities for early detection of the diseases and treatments thereon.
- (c) The Project had taken action to promote screening facilities for non- communicable diseases for persons over 40 years through Healthy Lifestyle Centers, under the Non-Disbursement Link Indicators- 01. According to the information received, only 1,209,843 persons in 2016 and 1,461,211 persons in 2015 had attended for the Healthy Lifestyle Centers for medical consultation purposes. Thus, it revealed that such Centers were not attractive enough among the general public for medical consultancy services Further, the action should be taken to educate people on non-communicable diseases and the facilities offered through Healthy Life Style Centers .

3.3 Contract Administration

According to the information received, the unsolicited proposals made in September 2010 by 02 foreign suppliers to supply and commissioning of cancer treatment equipment of 14 Linear Accelerators, 08 CT Simulators and 08 Brachytherapy Machines at US\$ 53.38 million equivalent Rs.6,853.46 million had been rejected due to unacceptable financial conditions. However, the respective contract had been awarded in 2015 to the same supplier at same price without calling fresh bids internationally. Further, 02 Linear Accelerators valued at Rs.476 million supplied on 02 December 2015 and were remained idle at the Teaching Hospitals in Jaffna and Batticaloa as the concrete bunkers to install respective machines had not been made even as at 30 June 2017.

3.4 Issues on Financial Controls

According to the Financial Regulation 133(2) and the Management Audit Circular No.05 of 26 June 2010, the Internal Audit Section of the Line Ministry should prepare and implement an Audit Plan on activities of the Project. However, no evidence had been received in audit that a separate an Internal Audit Plan was prepared and implemented during the year under review.

3.5 Matters in Contentious Nature

The Project had taken action to provide international exposure and training facilities to improve the financial management and accounting systems of the hospitals. Therefore, 59 Accountants of the Line Ministry had participated for 05 days training workshops held in

Thailand in 04 instances from June 2015 to August 2016. The following matters in contentious nature were observed during the course of Audit.

- (a) The Chief Accountants of the Line Ministry had participated for all the programmes representing as a Team Leader for first 02 programmes and as a Resource Person for other programmes. Further an Accountant attached to the Bio Medical Engineering Division of the Line Ministry had participated for 02 programmes in 2016 without disclosing the particulars relating to the previous participation for foreign training for the approval of the Prime Minister.
- (b) The allocation amounting to Rs.18.17 million made under the sources of foreign funding in the Budget Estimates of the Line Ministry for procurement of furniture, office equipment and building structures had been transferred and utilized for foreign visits. The evidences had not been furnished to audit on actions taken to rectify the above matter.
- (c) An advance of Rs.326,916 made to an officer had been recorded in the Vote Ledger in 2016 as an expenditure eventhough the respective advance was refunded in December 2015 as the officer had not participated for the programme.
- (d) The reports on foreign visit to be submitted within 07 days after arriving island as required by the Circular No PM/PS/05 of 30 November 1989 of the Secretary to the Prime Minister had not been submitted by 45 officers.