

## **Second Health Sector Development Project Component –II - 2017**

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The audit of financial statements of the Second Health Sector Development Project Component-II for the year ended 31 December 2017 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**

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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 whilst the activities at 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 objective of the Project is 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 amounted to SDR 129.8 million (US\$ 200 million) equivalent to Rs. 25,270 million and out of that SDR 6.5 million (US\$ 10 million) equivalent to Rs. 1,263.5 million had been allocated for the activities to be carried out under the Component - II of the Project. The Project commenced its activities 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 Components-II of the Project which presented separately.

### **1.3 Responsibility of the Management for the Financial Statements**

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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**

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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 the 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 Loan etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement.
- (e) Whether the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the book and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (i) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Financing Agreement had been complied with.

## **2. Financial Statements**

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### **2.1 Opinion**

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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 2017 and the financial statements given a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the book and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing Agreement,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Financing Agreement had been complied with.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Non-Compliance with Laws, Rules and Regulations**

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It was observed that the advances aggregating Rs.6.33 million granted by the Projects to the Directors of the Teaching Hospitals had remained unsettled over a period ranging from 16 days to 348 days, contrary to the provisions made through the Public Finance Circular No.03/2015 of 14 July 2015.

### 3. Financial and Physical Performance

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#### 3.1 Utilization of Funds

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Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing as per the Financing Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
				during the year under review	as at 31 December 2017		
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA Component- II	10	1,263.50	530.00	3.01	460.76	5.33	817.22
<b>Total</b>	<b><u>10</u></b>	<b><u>1,263.50</u></b>	<b><u>530.00</u></b>	<b><u>3.01</u></b>	<b><u>460.76</u></b>	<b><u>5.33</u></b>	<b><u>817.22</u></b>

According to the above information, out of the total allocation of US\$ 10 million equivalent to Rs.1,263.50 million made under the Project, only a sum of US\$ 5.33 million equivalent to Rs.817.22 million representing 64.68 per cent of total allocation had been utilized after lapse of 04 years as at 31 December 2017. Therefore, the possibility of use of entire allocation during the remaining period of 01 years of the Project is remained in doubt.

#### 3.2 Physical Progress

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The activities of the Project consisted with 03 subcomponents namely, innovations, results monitoring and capacity building. The observations on achievement of targets thereon are described below.

- (a) It was observed that the Project had received proposals for 69 innovative ideas from the specialists in the health sector and out of that the research activities on 34 proposals were accepted to carry out at a cost of Rs.399.31 million as at 31 December 2017. Further, a sum of Rs.158.94 million representing 40 per cent of the estimated cost had been released by the Project up to end of the year under review thereon. The following observations are made.
- (i) Out of the activities of 34 researches were commenced, researches under 03 proposals had been completed and handed over the final reports at end of the year under review. Therefore, the possibility of complete of entire research works during the remaining period of 01 year of the Project is remained in doubt.

- (ii) Eventhough the research activities are required to be regularly monitored by the Research Review Committee, a specialists appointed as a member of Research Review Committee had undertaken to carry out 03 researches. In addition, another medical officer had undertaken 02 researches simultaneously and none of researches had been completed.
- (b) It was observed that the allocation of Rs.672.74 million made in the Corporate Plan for the Local Training and Foreign Training Workshop for Capacity Building and a sum of Rs. 418.95 million representing 62 per cent of total allocation had been utilized as at 31 December 2017. Therefore, the possibility of completion of entire Capacity Building Programmes during the remaining period of 01 year of the Project is remained in doubt. The following observations are made.
- (i) According to the Terms of Reference under the Capacity Building Programme, it was planned to conduct Training Programme during the Project period for 1,080 officers in the state health sector on Preparation of Bidding Documents and Bid Evaluation, the respective training course had been conducted only for 86 officers as at 31 December 2017.
  - (ii) On-line short course programmes scheduled for 2,100 officers in the state health sector as per Capacity Building Programme had not been conducted up to 31 December 2017.

### **3.3 Issues on Financial Controls**

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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 the activities of the Project. However, no evidence had been received for audit on such an Internal Audit Plan had been prepared separately and implemented during the year under review. Eventhough an Internal Auditor had been recruited by the Project with the approval of the Management Services Department on 14 August 2017, no evidences had been received on internal audit activities carried out until his resignation made on 01 December 2017.