

Improvement of Basic Social Services Targeting Emerging Regions Project - 2018

The audit of financial statements of the Improvement of Basic Social Services Targeting Emerging Regions Project for the year ended 31 December 2018 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 provisions in the Loan agreement No. SLP 105 dated 28 March 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Department of National Planning of the Ministry of Finance, presently Department of Project Management and Monitoring of the Ministry of Finance is the Executing Agency and the Ministry of Health and the Eastern, North Western, Central and Sabaragamuwa Provincial Councils are the Implementing Agencies of the Project. The objectives of the Project are to improve the health, medical system and strengthen the production capacity of essential drugs through improving facilities and equipment in secondary level hospitals and the State Pharmaceutical Manufacturing Corporation, thereby contributing to the enhancement of non-communicable diseases management. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 4,760 million equivalent to Rs.6,332 million and out of that Japan Yen 3,935 million equivalent to Rs.5,155 million was agreed to be provided by the Japan International Cooperation Agency. The balance amount of Rs. 1,177 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 23 July 2012 and scheduled to be completed by 23 July 2019.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018 in accordance with Generally Accepted Accounting Principles.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

Accounting Deficiency	Impact	Response of the Management	Auditor's Recommendations
The direct payments aggregating Japan Yen 152.99 million equivalent to Rs. 260.07 million made on 31 December 2018 to the contractor engaged in procurement of equipment and refurbishment of the buildings of State Pharmaceutical Manufacturing Corporation had not been brought to the account of the Project.	Understatement of payments.	This amount will be accounted in the year 2019.	All the payments made during the year should be recorded in financial statements.

3. Physical Performance

3.1 Physical progress of the activities of the Project

The activities of the Project are implemented under 06 components namely improvements of medical treatment facilities by supplying of ambulance, improvements of the facilities of the Base Hospitals of Galgamuwa, Kaluwanchikudi, Warakapola and Teldeniya and production capacity development of State Pharmaceutical Manufacturing Corporation. The Project had completed the activities of improvements of medical treatment facilities by supplying of ambulance, improvements of the facilities of the Base Hospitals as at 31 December 2018.

3.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The contract for the procurement of equipment, construction and refurbishment of buildings of State Pharmaceutical Manufacturing Corporation expected to be completed on 31 May 2017 had been extended upto 02 November 2018. Therefore, the original contract price of Japan Yen 1,239.88 million had been increased upto Japan Yen 1,262.86 million, due to changes of the location and delays in providing of utility services.	The intended benefits will not be reached to the general public.	Due to administrative disputes, the procurement procedures had been adopted with delays.	Need to investigate the reasons for delays to take precautionary action and avoid such weaknesses in the future projects.

3.3 Observations made on site visits

The field inspections made in October 2018 had revealed that several buildings constructed and the medical equipment procured by the Project for the respective Hospitals had not been used for the purpose of delivering services to the public, due to various reasons as described below.

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	The patients' bed in an Intensive Care Unit required to be maintained at a minimum space of 194 square feet with facilities for 08 electric sockets as per instructions issued by the Line Ministry had not been maintained at intensive Care Unit at the Wararakapola Base Hospital and 05 treatment beds remained at the space of 119 square feet without a single electric socket. Further, other facilities of the building for Intensive Care Unit such as stores, washing area and disposal of wastes were not remained up to the standards stipulated in the Manuals for quality assurance.	Quality of service provided to the public may not be reach up to the expected levels.	The shortcoming in the design phase of the building are not easily rectify and that the maximum service will be carried out in the present situation.	Action need to be taken to improve the treatment facilities and adopt with the standards.
(b)	The construction and maintenance defects such as breaking of ceiling, wall cracks, water leakage from roof, blocking of drains, problems in fixing of doors, damages in floor tiles, problems in drainage systems and weaknesses in electricity supply had been revealed in the modernized buildings of 04 hospitals opened for public use in July 2017.	The intended benefits would not be received by the public in sustainable manner.	Some of the shortcomings that observed in the audit had been corrected at present and Provincial Health Department is working to rectify balance works.	Maintenance works of developed facilities should be done regularly.

3.4 Underutilized Resources

The following observations are made.

	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	It was observed that Medical Officers and the other skilled staff members had not been deployed adequately by the Line Ministry to the Hospitals which medical	Expected objectives of the Project cannot be	The Provincial Health Service Department made a request to the Line Ministry to fill	Staff requirements need to be filled without a delay as enable to provide

and other infrastructure facilities improved achieved. vacancies. efficient service to the general public.

by the Project and as a result, the objectives to increase the life expectancy of the people living in the areas with improved public health services by the Project was faced with challenges. According to the records the posts of 163 Medical Officers including 32 Specialists and 327 Staff Nurses had remained vacant at the Base Hospitals at Galgamuwa, Theldeniya, Warakapola, and Kalawanchikody. The Premature Baby Units, Surgical Intensive Care Units, and Medical Intensive Care Units at the Base Hospitals improved by the Project had remained unused since July 2017 while providing limited services from other units such as Hemodialysis Unit, Operation Theater, Gynecology and Obstetrics Unit etc.,

- (b) The Bio Medical Equipment procured at a cost of Rs. 97.32 million and supplied to the Base Hospitals at Galgamuwa, Theldeniya, Warakapola, and Kalawanchikody had remained idle at the respective Hospitals, due to lack of skilled cadre.
- Do- The Provincial Health Service Department made a request to the Line Ministry to fill vacancies. However, these Medical Equipment will be utilized to the maximum extent possible.
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