

Second Health Sector Development Project - 2018

The audit of the Consolidated Financial Management Report of the Second Health Sector Development 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 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. My comment and observation which consider should be reported to parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement, the Ministry of Internal and Home Affairs and Provincial Councils and Local Government is the Executing Agency and Provincial Ministries of Health of the Provincial Councils are the Implementing Agency of the Project. 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 malnutrition and non-communicable diseases. As per the Financing Agreement, the estimated total cost of the Project was US\$ 200 million equivalent to Rs. 26,000 million was agreed to be financed by International Development Association. The Project had commenced its activities on 01 July 2013 and scheduled to be completed by 30 September 2018.

1.3 Opinion

In my opinion, the Consolidated Financial Management Report of the Second Health Sector Development Project agrees with the information provided in the financial statements of the Provincial Ministries of Health of the 09 Provincial Councils as at 31 December 2018 gives a true and fair view of the affairs of the Project 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 Consolidated Financial Management Report 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 Consolidated Financial Management Report

Management is responsible for the preparation of Consolidated Financial Management Report 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 Consolidated Financial Management Report that are free from material misstatement, whether due to fraud or error.

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

1.6 Auditor's Responsibilities for the audit of the Consolidated Financial Management Report

My objective is to obtain reasonable assurance about whether the Consolidated Financial Management Report 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 Consolidated Financial Management Report.

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 Consolidated Financial Management Report, 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 the Project's internal control.
- 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 Consolidated Financial Management Report, including the disclosures, and whether the Consolidated Financial Management Report 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 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Non- compliance	Impact	Response of the Management	Auditor's Recommendations
Circular No. MOFP/ERD/20 07/02 of 07 August 2007 of the Ministry of Finance and Planning	Eventhough the Consolidated Financial Management Report for the year under review should be submitted by 31 March 2019 had been submitted only on 13 June 2019.	A major requirement not attended.	The Consolidated Financial Management Report is prepared after finalizing the Appropriation Accounts.	Need to comply with the requirement stipulated in the Circular.

3. Physical Performance

3.1 Physical progress of the activities of the Project

The Project had been implemented as a support for the provisions made under the Annual Budget Estimate to upgrade the standards of performance of the public health in provincial level. According to the Project Completion Report published on 29 March 2019, the physical targets of the Project under 09 Disbursement Link Indicators and 11 Non-Disbursement Link Indicators had been achieved at the end of the period of the Project. The following observations are made.

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The Economic and Social Statistic of Sri Lanka- 2019 published by the Central Bank of Sri Lanka indicated that the public health staff of the country attached in provincial level consisted with only 328 Public Health Nursing Sisters, 1,720 Public Health Officers who responsible mainly to maintain the public health targets in the country in sustainable manner.	The ultimate outcome of the Project would not be achieved.	Not commented	Action need to be taken to fill the shortage of the public health staff to fulfill the expectations of the stakeholders.

3.2 Underutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) According to the information received, the allocation aggregating Rs. 4,135 million had been made during the period of the Project to implement the activities of the Project, including the allocation of Rs. 67.80 million made for the Operation and Monitoring Supporting Unit and out of that, only a sum of Rs. 2,931 million had been utilized as at 31 December 2018.	The entire allocation made in the Project would not be utilized at the end of the period of the Project.	The allocation of Rs. 1,204 million was received in the latter part of December 2018.	Action need to be taken to withdraw the allocation out of the Loan as early as possible to implement the activities of the Project.
(b) Out of the allocation aggregating Rs. 974.40 million released by the General Treasury for the Provincial Health Ministries of the North Western, Central and Western Provinces, only a sum of Rs.651.19 million had been utilized by the respective Provincial Ministries as at 31 December 2018. The proceeds unspent aggregating Rs. 323.21 million had been retained in a Provincial Fund Account maintained by the respective Provincial Councils.	The allocation made under the Project is not utilized for intended purpose.	Action will be taken to utilize the allocation in 2019.	Funds should be used for the intended purposes of the Project during the year under review.
(c) The office equipment such as computers, television, chairs and centrifuge procured at a cost of Rs.3.32 million and expected to be distributed by the Provincial Director of Health Service Office in the Sabaragamuwa Province to the Divisional Hospitals and other health institutions had remained idle for over 06 months.	Expected benefits not received to the intended parties.	Action will be taken to distribute the assets between the provincial hospitals.	Resources should be used for the intended purposes without delays.
(d) It was observed that the Emergency Treatment Units constructed at a cost of Rs. 3.03 million of the District Hospitals at Weerabagedara and Atharagalla, Maternal and Child Health Clinic newly constructed at a	Expected benefits would not be received to the intended parties.	Action will be taken to utilized the resources allocated by the Project, eventhough the	Resources should be used for the intended purposes.

cost of Rs. 1.20 million at Bulnewa and other Maternal and Child Health Clinics renovated at a cost of Rs. 1.69 million at Thennakoongama, Degalla and Nugawela in the North Western Province had remained idle, due to shortage of staff and other necessary equipment. Further, the medical equipment such as Cardiac Defibrillators, ECG machines, Multi Monitor and Oxygen Regulators etc procured by the Project at a cost of Rs. 4.23 million for the use of Emergency Treatment Units of Divisional Hospitals at Weerabugedara, Gonigoda and Galgamuwa had remained idle for over one year.

respective hospitals running with shortage of staff. In Sri Lanka, all the peripheral clinics are not functioning everyday but one or two days per month.

(e) It was revealed that 08 Defibrillator machines distributed to the Divisional Hospitals in the Central Province at a cost of Rs. 10.53 million had remained idle for over 03 years, due to defects of the batteries supplied. Further, the Defibrillators, Auto clave and Gluco meter procured at a cost of Rs. 2.30 million and handed over to Illukkumbura Divisional Hospital in the Central Province had remained idle, due to lack of necessary accessories and other equipment. In addition, the surgical instrument procured at a cost of Rs. 1.25 million and handed over to the Divisional Hospitals at Gammaduwa and Kahawaththa in the Central Province had remained idle, as there were no Emergency Treatment Units established.

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The Chief Secretary of the Central Province had been informed to take immediate actions regarding the idle assets. The monitoring mechanism should be strengthen to ensure the utilization of the resources provided by the Project for the intended purposes.

(f) It was observed that the construction works of the building for an Emergency Treatment Unit and Dental Clinic at the Divisional Hospital of Udawela in the Central Province had abandoned halfway, due to lack of proper access roads to the construc-

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the Chief Secretary of the Central Province had been informed to take remedial actions immediately.

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tion site. However, a sum of Rs. 12 million had been spent by the Project at the time of termination of works. Further, Mental Rehabilitation Unit established at the Udagama Atabage Divisional Hospital at a cost of Rs. 3.18 million had remained unused for over 02 years, due to shortage of staff. The Emergency Treatment Unit of Divisional Hospital at Illukkumbura in the Central Province constructed at a cost of Rs. 2.63 million had remained idle, due to the lack of access facilities.

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| (g) | The Emergency Treatment Unit at Kongahawela Divisional Hospital in Matale district had been constructed by the Project at a cost of Rs. 2.74 million in 2016 despite the information published through Government Gazette Extraordinary No. 1793/18 of 29 January 2013, as an affected Institution under the Moragahakanda Kaluganga Development Project. | Ability to use the Emergency Treatment Unit in the long run is remained doubtful. | Not commented. | Reasons need to be investigate as enable to avoid such situations in future. |
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