

## **Health and Medical Service Improvement Project - 2020**

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The audit of financial statements of the Health and Medical Service Improvement Project for the year ended 31 December 2020 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 section 12 of Annex II of Minutes of Discussions held on 30 November 2017 between the Democratic Socialist Republic of Sri Lanka and 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**

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According to the Loan Agreement, the Ministry of Health, Nutrition and Indigenous Medicine presently the Ministry of Health is the Executing Agency and Project Management Unit is the Implementing Agency of the Project. The objective of the Project is to improve the medical service for diagnosis and treatment of non-communicable diseases, especially cardiovascular diseases by improving the medical facilities and equipment in tertiary hospitals and related facilities, thereby contributing to enhancing the health of the people of the project area. As per the Loan Agreement and Minutes of Discussions, the estimated total cost of the Project was Japanese Yen 11,352 million equivalent to Rs.16,559 million. Out of that, Japanese Yen 10,639 million equivalent to Rs.15,519 million was agreed to be financed by Japan International Cooperation Agency. The balance amount of Rs.1,040 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 20 October 2018 and scheduled to be completed by 20 October 2025.

### **1.3 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the Table 2 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for Qualified Opinion**

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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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards 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.

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

## 1.6 Auditor's Responsibilities for the Audit of the Financial Statements

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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

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### 2.1 Accounting Deficiencies

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<b>Accounting Deficiency</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
The borrowing cost should be capitalized in accordance with Public Accounts Circular No.230/2013 dated 29 November 2013. However, Front End Fee amounting to Rs.33.6 million	Front End Fee has been paid by the borrower (Department of External Resources of Ministry of Finance) through the counterpart funds of Sri Lanka.	Front End Fee of the project should be capitalized as per the circular.

equivalents to Japanese Yen 21.2 million paid in the year 2018 had not been shown in the financial statement.

## 2.2 Non- Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non-Compliance	Response of the Management	Auditor's Recommendation
Financial Regulation 262(2) of the Financial Regulation of the Government of the Democratic Socialist Republic of Sri Lanka.	Although all vouchers paid and their supporting documents should be stamped with the "PAID" stamp, seventeen paid vouchers amounting to Rs.26.8 million and supporting documents attached to these paid vouchers of the Project for the year 2020 had not been stamped.	Audit Statement accepted and instructed the Project Accountant and the staff of Accounts branch of Project Management Unit to strictly adhere to the said Financial Regulation of affixing the "PAID" stamp in all paid vouchers and all pages of supportive documents attached to those paid vouchers at the time of writing the cheque.	All vouchers paid and their supporting documents should be stamped with the "PAID" stamp.

## 3. Physical Performance

### 3.1 Physical Progress of the Activities of the Project

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The loan amount expected to be obtained was Japanese Yen 607 million by 31 December 2020 as per the Annual Fund Requirement of the project. However, it was Japanese Yen 92.7 million as per the actual disbursements of the project. Accordingly, the progress of loan receiving by the project was prevailing at a lower percentage of 15.27.	The actual effective date of the loan was 19 October 2018. But there was a delay of Five Months in the Department of Attorney General to grant legal clearance for the contract agreement of Consultancy Service.	Actions should be taken to utilize the loan of the project according to the Annual Fund Requirement so as to enable the project to achieve its objectives.

- (b) By 30 April 2022, the project had been engaging consultation activities of contractors for the constructions at Trincomalee District General Hospital and Kandy, Kurunegala and Anuradhapura Teaching Hospital and selection of suppliers for the supply and installation of equipment in the Badulla and Trincomalee District General Hospital, Kandy, Kurunegala and Anuradhapura Teaching Hospital and the Colombo, Kalutara and Peradeniya Medical Laboratory Technologist (MLT) Training Schools and the Colombo Biomedical Engineering Services Division which were scheduled to be done in 2019 as per the Project Implementation Schedule. As a result, it was observed that the project activities had been delayed by about 2 ½ years.
- The actual delay of the project was a total of Nine months which was beyond control of the Project Management Unit.
- Actions should be taken to expedite the fulfillment of the project activities according to the Project Implementation Schedule.
- (c) The project is expected to provide equipment valued at Rs.929 million equivalent to Japanese Yen 687 million in the year 2022 for the new Cardiology Unit of the Badulla General Hospital. However, it was observed that the project would be delayed, due to the inability to supply and install the equipment as planned, as the construction of that Cardiology Unit had not been completed by 30 April 2022.
- The construction of said building in Provincial General Hospital – Badulla is not within the scope of the Project funded by JICA Loan. It is funded by local funds. At present there is no Cardiac Catheterization facility for the whole of Uva province. However Financial and Physical Progress of Construction was 15 percent and 21.5 percent respectively as at end of March 2022.
- Prompt Action should be taken to complete the new Cardiology Unit of the Badulla General Hospital so as enable the project to supply and install the equipment agreed by the project within duration of the project.