

## **Health System Enhancement Project - 2021**

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The audit of financial statements of the Health System Enhancement Project for the year ended 31 December 2021 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 Loan Agreement No.3727 SRI (COL) dated 26 October 2018 and the Grant Agreement No.0618 - SRI (SF) dated 26 October 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. 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 and Grant Agreement of the Project, the Ministry of Health is the Executing Agency and four provincial councils such as Central, North Central, Sabaragamuwa and Uva provinces are the Implementing Agencies of the Project. The objective of the Project is to improve efficiency, equity and responsiveness of the primary health care system based on the concept of providing universal access and continuum of care to quality essential health services. As per Loan and Grant Agreements, US\$ 50 million equivalent Rs.7,751 million comprised with US\$ 37.5 million equivalent to Rs.5,813 million as concessional loan and US\$ 12.5 million equivalent to Rs.1,938 million as grant respectively had been agreed to be provided by the Asian Development Bank. The Project commenced its activities on 01 December 2018 and scheduled to be completed by 30 November 2023.

### **1.3 Opinion**

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In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for 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 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 scepticism 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 Non-Compliance with Laws, Rules and Regulations

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No	Reference to the Laws Rules and Regulations	Non Compliances	Responses of the Management	Auditor's Recommendations
(a)	Section 20(1) of the Value Added Tax Act No.14 of 2002 and letter No.CGRI/2019/03-01 (ins &cir) dated 09 July	The Value Added Tax amounting to Rs.4.2 million had been paid on 19 occasions who did not submit a tax invoice.	Measures have been taken to release the VAT payment only on active VAT registered suppliers. Currently, confirmation of	Value Added Tax should be paid as per the Act and ensure that these taxes are properly

2019 issued by the Department of Inland Revenue.

VAT registration is being remitted to the obtained from the Inland Revenue Department of Inland Revenue.

- (b) Paragraph 4.1 of the Management Services Circular No.01/2019 issued by the Secretary to the Ministry of Finance on 15 March 2019. According to the Circular the maximum amount that can be paid as accommodation and meals allowance for officers is Rs.2,000. However a sum of Rs.85,300 had been paid in excess of this limit for attending meetings on 02 occasions during the year under review. According to the market rates it is difficult to find food and lodging for Rs.2,000. Action should be taken to comply with the Circular.
- (c) The supplement 32 issued to the procurement manual of the Government of the Democratic Socialist Republic of Sri Lanka. In violation of these provisions, the project had paid Rs.1.5 million as allowances for the Procurement and Technical Evaluation Committee Members during the years 2020 and 2021. These payments have been done with the approval of Project Steering Committee. This amount should be recovered from the responsible parties.

### 3. Physical Performance

#### 3.1 Progress of the activities of the Project

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Out of the ten activities which were expected to be 100 per cent physical performance at the 31 December 2021, the physical progress was remained ranging from 47 per cent to 87 per cent.	Those 10 activities identified have not showed 100% progress, due various reasons.	Action should be taken to achieve the desired progress.
(b)	Out of the 41 activities which were expected to be 100 percent physical performance at the 31 December 2021, physical performance of the 15 activities had remained ranging from 2 percent to 75 percent and of which 11 activities had less than 20 percent progress. Further, no	During the construction in the year 2021, contractors had to pay un bearable price escalations. Due to the financial situation of the country and scarcity of building material aggravated by non-availability and price hikes of	-Do-

physical progress was made during the year, due to non-completion of the bidding process for 17 activities and re-bidding for 09 other activities. labour influenced by the pandemic situation in the country.

- (c) The physical performance of 06 activities during the year under review had not been planned and the necessary steps had not been taken to conduct local training programs in 05 activities as per the capacity development programs of the project. This has been implemented as per the instructions given by the Health Authorities. -Do-

### 3.2 Contract Administration

Audit Issues	Responses of the Management	Auditor's Recommendations
(a) The contract for the construction of Konwewa Primary Medical Treatment Unit in Anuradhapura district was awarded tax-free on 15 August 2019 for Rs.27 million and the contract period was extended by 350 days. However, the physical progress of the project was about 60 percent as at 13 January 2022.	The measures have been taken to terminate the contract due to the poor performance of the contractor.	Necessary steps should be taken to complete the project on time.
(b) The construct of the Sinhapura Primary Medical Clinic Center had been awarded for Rs. 29.40 million on 15 September 2021 and Rs. 4 million had been paid as mobilization advance. However, the construction had not been commenced up to 21 January 2022.	The erection of an elephant fence was a requirement and there was a delay.	The action should be taken against the responsible parties and necessary steps should be taken to complete the project on time.
(c) The construction of the OPD building of the Hataraliyadda Base Hospital in the Central Province had been completed as at May 2021 by incurring of Rs.30.5 million. However, the contractor had been done an over payment of Rs 202,751 for two items of work, Rs 182,775 without fixing accessories and Rs 1,352,135 for fixing substandard accessories.	Accepts the facts pointed out by the audit.	This issue must be resolved expeditiously so that the government does not have to incur a loss.

- (d) Due to the non-preparation of realistic estimates, the cost estimate for the construction of the Konwewa Primary Medical Care Unit in the Anuradhapura District which was Rs.26.8 million had to be revised up to Rs.37.9 million by 41.4 percent.
- Accepts the facts pointed out by the audit.
- Accurate estimates should be made after an inspection of the workplace conditions and user requirements.

### 3.3 Underutilized of Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	According to the financial statements submitted for audit, the project was financed by Rs.5,745.71 million as at 31 December 2021. However, out of this amount only Rs.4,661.02 million was utilized for the project. Accordingly, an amounting to Rs.1,084.69 million representing 18.87 percent was saved without utilizing for the project.	Project has been implemented in an environment where there has been a global pandemic. There has been many constraints to achieve 100% financial progress due to the pandemic situation and the economic status of the country. However, project has achieved satisfactory level of progress.	Action should be taken to achieve the desired progress.
(b)	Although Rs.247 million imprest had been requested as local funds for the project in the year 2021, only Rs.220 million was received. Out of this only Rs.210.88 million had been utilized.	The counterpart funds of the project used for the payment of 11.3% of value of the medical equipment, payment of local taxes and the procurement of furniture. 4.14% of the unutilized local funds have been due to the delay in supply of medical equipment and construction due to the global pandemic and financial crisis in the country.	-Do-
(c)	According to the project progress report submitted for audit, the planned financial performance for the year under review was Rs.4,435.51 million. However, the actual financial performance was only Rs.2,562.85 million representing of 57.78 per cent.	Many activities identified under the original HSEP have been transferred to the AF. Further, under the APDRF grant, number of emergency procurements has been completed.	-Do-

### 3.4 Management inefficiency

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**Audit Issue**  
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**Response of the  
Management**  
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**Auditor's  
Recommendation**  
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As per the recommendation of the Management Audit Report for the year 2020, Rs.1.66 million paid without any reason or authority had not been recovered from the responsible parties till 30 April 2022.

It has been decided to make a request to the beneficiary to reimburse the amount and failing that to conduct a Ministry level inquiry and implement the recommendations.

This amount should be recovered from the responsible parties.