

Primary Health Care System Strengthening Project- Component II - 2021

The audit of financial statements of the Primary Health Care System Strengthening Project-Component II 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. 8878 LK dated 16 May 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction and Development. 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, the Ministry of Health, Nutrition and Indigenous Medicine, presently the Ministry of Health is the Executing and Implementing Agency of the Project in collaboration with Ministry of Provincial Councils, Local Governments and Sports presently the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government. The objectives of the Project are to increase the utilization and quality of primary health care services, with an emphasis on the detection and management of non-communicable diseases in high-risk population groups, in the selected areas of the country. The activities of the Project are implemented under 03 parts namely (a) implementation of the Primary Health Care System reorganization and strengthening strategies, (b) implementation support and innovation grants and (c) contingent emergency response. As per the Loan Agreement, the estimated total cost of the Project was US\$ 4,419 million equivalent to Rs.697,936.86 million and out of that US\$ 200 million equivalent to Rs.31,588 million was agreed to be financed by International Bank for Reconstruction and Development. Out of that US\$ 15.00 million equivalent to Rs.2,368.27 million had been allocated for the activities to be carried out under Component-II of the Project. However, the allocation for this component had reduced to US\$ 6.00 million during the previous year. The Project had commenced its activities on 01 February 2019 and scheduled to be completed by 31 December 2023.

1.3 Opinion

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, receipts and payments account and its cash flows for the year then ended in accordance with General 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 General 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.

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

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

2.1 Non-Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non-Compliance/Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Public Accounts Circular No. 230/2013 dated 29 November 2013.	Although the borrowing cost should be capitalized as per the Circular, interest and commitment charges amounting to Rs.351 million and Rs.185 million respectively had not been accounted.	The observation stated in the report is accepted and actions will be taken immediately to get the instructions from the Department of External Resource and will be accounted in 2022 financial statements.	Borrowing costs should be accounted according to the circular instructions.
(b)	Management Services Circular No.01/2019 of 05 March 2019			
(i)	Paragraph 9.2	Although the Project Steering Committee consists of 26 members, the average participation at the meetings was less than 27 per cent.	As many members are not in the Ministry of Health, although invited, reminded and confirmation received, participation was less.	Action should be taken to increase the attendance of the members of the committee.
(ii)	Paragraph 9.3	Although the Project Steering Committee would meet at least once in two months, the Committee had been met only one occasion during the year.	As this project is implemented in provincial levels too many officers are involved in the committee. Therefore, as per agreement the project appraisal document clear the provision for having two national steering committee meetings per year. However as per the management services circular 01/2019, Ministry of Provincial and Local Government as the implementing unit of the project holds project steering committee almost in every two months.	Project Steering Committee should conduct as per Circular instructions.

- (c) Public Finance Circular No. 05/2016 of 31 March 2016. The Board of Surveys on Property, Plant and Equipment which had been procured at a cost of Rs.79.76 million had not been conducted by the Project during the year ended 31 December 2021. The committee to conduct the board of survey has been appointed by the Secretary of the Ministry of Health but due to the heavy work load, they were unable to start the board of survey as planned. However, once the board of survey is completed the reports will be submitted for audit. Action should be taken to conduct board of surveys as per Circular instructions.
- (d) The paragraph 64 of the Project Appraisal Document Although the Project should prepare three separate financial statements reflecting health sector expenditure incurred by central-level and provincial level and amalgamated financial statements under Component-I of the Project however the central-level and amalgamated financial statements under Component-I for the year 2021 had not been furnished by the Project until the date of this report. The stated financial statements will be submitted for audit within two weeks from the date of this letter. Three separate financial statements should be prepared and furnished to the audit in time.

2.2 Lack of documentary evidence for audit

Audit Issue

Response of the Management

Auditor's Recommendation

Non-current Assets valued at Rs.80 million and Bank Current Account balance amounting to Rs.6 million could not be adequately verified due to non-submission of written evidence such as board of survey reports and conformation letters.

Rs. 5,938,209 stated in the draft audit is the actual cash balance as of 31/12/2021 and not the Bank Current Account Balance.

This information should be submitted to the audit.

3. Physical Performance

3.1 Contract Administration

Audit Issue

The contract for supply, installation, commissioning and maintenance of 600 Digital Signage Systems for Primary Health Care Centers was awarded on 07 May 2021 at a tax-free contract value of Rs.77million. However, 599 systems costing Rs.77 million were ordered and only 584 systems costing Rs.75 million were received as on 31 December 2021. However, due to the fact that these systems were purchased without conducting a proper feasibility study on whether the required infrastructure was in place at the primary health care centers, they had to face various problems and obstacles in their installation and as at 25 May 2022, only 518 systems had been installed and commissioned.

Response of the Management

Digital signage system was approved by the Secretary, Ministry of Health instead of running a suggested Peo TV channel dedicated for health due to many managerial reasons. Notification of award sent to successful bidder, M/S Abans PLC on 07.05.2021. As this is a novelty activity in the public service sector other than a few small-scale signage systems operated in Banks, the PMU original planned and World Bank granted approval as a scaled activity in line with project implementation.

Auditor's Recommendation

The project should be implemented as planned.