

Primary Health Care System Strengthening Project – Component II - From 1 January 2024 to 30 September 2024

The audit of the financial statements of the Primary Health Care System Strengthening Project – Component II for the period from 1 January 2024 to 30 September 2024, 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. 8878 LK dated 16 May 2018 entered in to 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, Indigenous Medicine, presently the Ministry of Health and Mass Media 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\$ 14.22 million equivalent to Rs.2,245.12 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 year 2020. The Project had commenced its activities on 01 February 2019 and scheduled to be completed by 31 December 2023. However, the period had extended until 30 September 2024.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the section 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 30 September 2024, statement of expenditure and its cash flows for the period then ended in accordance with Generally Accepted Accounting Principles.

1.4 Basis for Qualified Opinion

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

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 Accounting Deficiencies

Accounting Issue	Deficiency /Audit	Amount Rs. Million	Response of the Management	Auditor's Recommendations
(a)	Documentary evidence on assets handing over and taking over certificates regarding non-financial assets had not been submitted for audit. Hence, the accuracy of those assets could not be ascertained in audit.	98.56	The process for issue orders and receipt orders related to these items has not been completed by the project. Incorporating assets into the account had not taken place so that the Ministry will be informed on this.	Documentary evidence should be submitted for audit.
(b)	Non-financial assets had not been accounted for under non-financial assets of the Ministry or the respective institutions which the assets had been transferred.	199.3	The process for issue orders and receipt orders related to these items has not been completed by the project. Incorporating assets into the account had not taken place so that the Ministry will be informed on this.	Documentary evidence should be submitted for audit.

2.2 Non-Compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Non-Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
sub-paragraph 2(14) of the Management Audit Circular No. DMA/2010(5) dated 26 July 2010	Although the relevant project was required to take action regarding the transfer of assets of the project upon completion of the project, action had not been taken accordingly in the said project.	All remaining physical assets were handed over to the Director Primary Care Services under the instructions of the Deputy Director General of Health (planning). Accountant (Planning) have been instructed to coordinate with ETR unit and take into A/C under Non-Financial Assets.	Circular instructions should be followed.

3. Physical Performance

3.1 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
The letter from the President of the College of Medical Administrators to the Project Director dated October 10, 2023 requested Rs. 700,000 for the session titled Navigating Innovative Frontiers in Healthcare at the College of Medical Administrators. Although this work was not relevant to the objectives of the project, the amount was paid on 09 May 2024, and documents for the receipt of money had not been submitted for audit.	The College of Medical Administrators of Sri Lanka had issued an acknowledgement letter to the effect that they had received the cheque. Being an academic college that is the practice they adapt.	All necessary documents should be submitted to audit.

3.2 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
Regarding the Small Grants made using Rs. 31.2 million of the project's financial allocation, evidence regarding current status of worked performed had not been submitted to the audit.	The required details pertaining to the small grant applications was given Information with regard to Small Grants activities	All evidence should be submitted to audit.