

Improvement of Basic Social Services Targeting Emerging Regions – 2014

The audit of financial statements of the Project for Improvement of Basic Social Services Targeting Emerging Regions for the year ended 31 December 2014 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 Section 4 (6) of Article III of the Loan Agreement No. SLP-105 dated 28 March 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project for Improvement of Basic Social Services Targeting Emerging Regions, the Department of National Planning of the Ministry of Finance is the Executing Agency and the Ministry of Health and the Eastern, North Western, Central and Sabaragamuwa Provincial Councils are the Implementing Agencies of the Project. The objectives of the Project are to improve the health, medical system and strengthen the production capacity of essential drugs through improving facilities and equipment in secondary level hospitals and the State Pharmaceutical Manufacturing Corporation, thereby contributing to the enhancement of non – Communicable diseases management. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 4,760 million equivalent to Rs.6,332 million and out of that Japan Yen 3,935 million equivalent to Rs.5,155 million was agreed to be provided by the Japan International Cooperation Agency. The Project commenced its activities on 23 July 2012 and scheduled to be completed by 23 July 2019.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of

the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project,
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project,
- (c) Whether adequate accounting records were maintained on continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of the purchases made out of the Loan etc,
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- (e) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the Project,
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (g) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether financial covenants laid down in the Loan Agreement had been complied with.

1.5 Basis for Qualified Audit Opinion

My Opinion is qualified on the matters described in paragraph 2.2 of the report.

2. Financial Statements

2.1 Opinion

So for as appears from my examination and the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Loan Agreement had been complied with

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

Direct payments aggregating to Rs.98,469,221 made during the year under review had not been brought to account.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds Utilized			
	JPY million	Rs. million		Rs. million	During the year under review		As at 31 December 2014
	JPY million	Rs. million	Rs. million	JPY million	Rs. million	JPY million	Rs. million
JICA	3,935	5,155	1,703	787	1,004	1,035	1,326
GOSL	825	1,177	314	142	203	145	238
Total	4,760	6,332	2,017	929	1,207	1,180	1,564

According to the disbursement schedule, total funds amounting to Japan Yen 3,935 million equivalent to Rs.5,155 million was expected to be utilized within six years from the year 2012 to 2019 and a sum of Rs.1,703 million had been provided for the Project for the year 2014 by the Budget Estimate through the Department of National Budget. Out of that, Japan Yen 1,035 million equivalent to Rs.1,326 million had been utilized by the Project as at 31 December 2014. This indicated that the slow progress on utilization of funds had been reported in previous years.

3.2 Physical Progress

According to the Action Plan, the expected progress of the construction works of the Hospitals at Kaluwanchikudi, Warakapola and Teldeniya as at 31 December 2014 was 56 per cent, 67 per cent and 48 per cent respectively. It was observed that the actual physical progress thereon was remained as 41 per cent, 39 per cent and 36 per cent respectively as at 31 December 2014 which were less than the expected levels.

3.3 Issues on Financial Control

The following observations are made.

- A Board of Survey for the year under review had not been made in terms of Financial Regulation 756 to enable the verification of the existence of the assets valued at Rs.3,838,048 of the Project.
- Although there must be a comprehensive action plan for the Project covering entire Project period highlighting financial and physical targets in monthly, quarterly by annually etc. with fixing responsibilities to ensure the achievement of Project objectives with in Project period , such a plan had not been prepared.