

Consolidated Financial Management Report of the Second Health Sector Development – Project - 2014

The audit of Consolidated Financial Management Report of the Second Health Sector Development Project 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 the Financing Agreement No-5228-LK dated 19 August 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement of the Project, the Ministry of Provincial Councils and Local Government is the Implementing Agency of the Project at Provincial Level. The objectives of the Project are to upgrade the standards of performance of the public health to enable for better respond to the challenges of the malnutrition and non- communicable diseases. As per the Financing Agreement, the total estimated cost of the Project is SDR 129.8 million equivalents to US\$ 200 million. The Project activities was commenced on 01 July 2013 and scheduled to be completed by 30 September 2018.

1.3 Responsibility of the Management for the Consolidated Financial Management Report

Management is responsible for the preparation and fair presentation of these Consolidated Financial Management Report in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of Consolidated Financial Management Report 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 this Consolidated Financial Management Report based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Management Report is free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Management Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Consolidated Financial Management Report, 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 Consolidated Financial Management Report 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 Consolidated Financial Management Report. 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 the Project management and the reliability of books, records etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the Consolidated Financial Management Report 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 a continuing basis to show the expenditure incurred by the Provincial Departments of Health 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 and the identification of purchases made.
- (d) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement.
- (e) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of Health Sector.
- (f) Whether the Consolidated Financial Management Report had been prepared in conformity of Financial Regulation 150 and the State Accounts Circular No. 239/2014 of 01 December 2014 of the General Treasury.
- (g) Whether the Consolidated Financial Management Report had been prepared on the basis of Generally Acceptable 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 Financing Agreement had been complied with.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that,

- (a) the Consolidated Financial Management Report based on the Appropriation Accounts of the nine Provincial Councils for the year 2014 presented to audit was prepared and presented in conformity with the provisions in Financial Regulation 150 of the Democratic Socialist Republic of Sri Lanka and the State Accounts

Circular No.239/2014 of 01 December 2014. The above Appropriation Accounts were agreed with the Treasury computer printouts, Annual Budget Estimates and the books, registers and records maintained by the nine Provincial Councils,

- (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 Financing Agreement had been complied with.

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 according to Financing Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
IDA	200	26,000	1,620	12.38	1,609	19.3	2,509
GOSL	-	-	42,783	-	40,504	-	-
	<u>200</u>	<u>26,000</u>	<u>44,403</u>	<u>12.38</u>	<u>42,113</u>	<u>19.3</u>	<u>2,509</u>

According to the Consolidated Financial Management Report of the Project, the net savings of Rs.1,371,860,716 on capital expenditure and Rs.918,759,821 on recurrent expenditure had been reported in all 09 provinces, out of the allocations aggregating Rs.4,565,844,351 and Rs.39,837,987,701 respectively made by the Government of Sri Lanka through Budget Estimate for the year under review. It was further observed that the net savings over 16.6 per cent, out of the allocations made for the year under review had been reported in the Provincial Departments of Health in Sabaragamuwa Province whilst the net savings below than 6 per cent on allocations from the Provincial Department of Health of other 08 Provinces.

3.2 **Physical Progress**

The Project Development Objectives and the Intermediate Results Indicators of the Project are scheduled to be measured under 05 main Disbursement Link Indicators

stipulated for the provincial level hospitals. The observations made in the audit on achievement of such indicators during the year under review are described as follows.

- (a) According to the progress reports of the Project, out of 545 provincial hospitals, the quality standards for Emergency Treatment Units were followed only by 157 provincial hospitals. However, the disparity of distribution of emergency treatments facilities in rural areas compared to other areas was revealed in audit. It was observed that only 04 Emergency Treatments Units had been established in 34 provincial hospitals in Puttalam and Hambantota districts whilst 33 Emergency Treatments Units had been established in 61 provincial hospitals in Badulla and Ratnapura districts.
- (b) According to the Project Documents, it was expected by the Project to improve the systems of generation and dissemination of in-patient data through Indoor Morbidity and Mortality Return Register. Therefore, a web based information system was proposed to be implemented to transfer such data from the hospitals to the Line Ministry. The following observations are made in this regards.
 - (i) According to the progress reports of the Project, overall progress of 30 per cent was expected to be achieved on sending web based information system during the year under review and overall progress of 33 per cent in the provincial level was remained satisfactory. However, slow progress ranging from 10 per cent to 28.8 per cent had been reported in Nuwara-eliya, Trincomalee, Ampara, Batticaloa, Polonnaruwa, Kurunegala, Mannar, Mulativu, Vaunia and Ratnapura districts on transferring information through web based system.
 - (ii) The Provincial Health Ministry of Sabaragamuwa Province had procured 236 computers and accessories at a cost of Rs. 23 million for the purpose of implementation of Indoor Morbidity and Mortality Return System. It was observed in audit that the procurement procedure had been applied thereon in suspicious manner and additional cost of Rs. 2.1 million had to be incurred by the Provincial Ministry of Health due to application of procurement procedure improperly.
 - (iii) It was observed that the primary data in connection with the maternal and child clinics and family health were not properly collected from the lower level such as Women and Child Care Units in Kalutara district and sent to the national levels. Therefore, the reliability of health information provided by the authorities of the Western Province is remained questionable.
- (c) The quality standards of Mother and Child Health Clinics for pregnant mothers and children under 05 years are expected to be improved with necessary equipments and facilities to reduce rate of malnutrition of children and pregnant women. The observations made in audit carried out at the provincial level are reproduced as follows.

- (i) It was observed in audit that the home visits required to be carried out by the Family Health Officers to provide necessary instructions for mothers, before and after the delivery had not been carried out satisfactorily during the year under review in 35 Family Health Divisions under Medical Offices in Welimada in the Uva Province, as only 13 officers were in service to cover up duties in such Divisions.
 - (ii) Several deficiencies in timely distribution of “Triposha” through Mother and Child Care Units had been observed in audit carried out at provincial level. It was reported that expired stock of 3,345 bags of “Triposha” had remained as at 31 December 2014 at Wewegama District Hospital, Public Health Offices in Welimada and Uva-Paranagama in Badulla district and Public Health Office of Mirigama in Gampaha district.
- (d) The procedures stipulated by the Line Ministry to ensure effective drug management in provincial hospitals and medical stores had not been implemented satisfactorily. The instances observed during the course of audit are given below.
- (i) It was reported that the stock of drugs had remained as at 31 December 2014 at Welimada Base Hospital in Uva Province, Udugoda District Hospital in Sabaragamuwa Province and Base Hospital at Wathupitiwala in Western Province without adopting quality standards for storing of drugs.
 - (ii) Considerable stock of expired drugs valued at Rs.18.07 million had been retained as at 31 December 2014 in the stores at 04 hospitals in the North Western Province, 03 hospitals in the Western Province and Medical Supplies Unit at Nuwara-Eliya for long period due to lack of proper instructions for drugs management and disposal for expired drugs. However, the possibility for issuing of expired drugs for treatments could not be ruled out in audit.
 - (iii) Further, the shortages of essential drugs had been reported during the year under review at 10 hospitals in 04 the provinces.
- (e) The medical equipments such as Cervical Traction Units, Fetal Monitors, Short wave Diathermy, Cardia Defibrillator, Incinerator and other equipments such as computers, refrigerators, weighting machines etc. had remained idle or under utilized in 19 provincial hospitals in Central, North-Western, Uva and Western Province over period ranging from 01 year to 05 years.