

Establishment of the Epilepsy Hospital and Health Centre Project - 2014

The audit of financial statements of the Establishment of the Epilepsy Hospital and Health Centre 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 Loan Agreement No. 7/477 dated 26 March 2008 entered into between the Democratic Socialist Republic of Sri Lanka and the Saudi Fund for Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Healthcare and Nutrition, presently Ministry of Health, Nutrition and Indigenous Medicine is the Executing and Implementing Agency of the Project. The objectives of the Project are to construct a fully equipped Epilepsy Hospital and Health Centre at the premises of the General Hospital in Colombo. As per the Loan Agreement, the estimated total cost of the Project was Rs. 2,918 million and out of that a sum of Rs 2,273 million equivalent to US\$ 20 million (Saudi Riyals 75 million) was agreed to be provided by the Saudi Fund for Development. The Project commenced its activities on 26 March 2008 and scheduled to be completed by 31 December 2010. Subsequently, the period of the Project had been extended in three instances up to 31 March 2016.

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 and 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 financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk 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 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 a 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 classifications 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 based on the matters described in paragraph 2.2 of this report.

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, 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 Deficiency

Furniture and computer equipments procured by the Project at a cost of Rs.278,296 had been accounted as work-in-progress instead of being accounted under property plant and office equipment.

2.2.2 Non Compliance with Laws, Rules and Regulations

The Project Director had obtained fuel allowance amounting to Rs. 285,000 during the year under review even though the allowance of Rs. 80,000 entitled only for the respective period in term of paragraph 5.2 of the Circular No. 33 of 5 April 2007 of the Department of Management Service.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provisions 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 the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds Utilized			
	Saudi Riyals million	Rs. million		Rs. million	during the year under review		as at 31 December 2014
	Saudi Riyals million	Rs. million	Rs. million	Saudi Riyals million	Rs. million	Saudi Riyals million	Rs. million
SFD	75	2,273	1,920	7.42	262.38	35.25	1,188
GOSL	-	645	200	-	104.84	-	247
Total	75	2,918	2,120	7.42	367.22	35.25	1,435

The following observations are made.

- According to the above information, only 49.16 per cent of the proceeds of the Loan had been utilized after lapse of 6 1/2 years from the commencement of the activities of the Project.
- According to the Loan Agreement, a sum of Rs.2,273 million had been allocated for the construction of building and provide the medical equipments for Epilepsy Hospital. Details of utilization of the allocation as at 31 December 2014 is given below.

Components	Allocation	Value of Contract awarded	Amount utilized as at 31 December 2014
	Rs. million	Rs. million	Rs. million
Procurement of medical equipments	1,008	337	337
Construction of main building			
- Pilling	} 970	91	80
- Construction		1,793	980
Consultancy	190	224	205
Unallocated	105	-	-
	2,273	2,445	1,602

According to the above information contract for the building construction had been awarded at Rs.1,793 million whilst allocation amounting to Rs.969.80 million had only been made in the Loan Agreement. However, contracts for the procurement of medical equipments had been awarded only at Rs.337 million whilst allocation amounting to Rs.1,008 million had been made in the Loan Agreement. Further, additional funds amounting Rs.1,480 million had been requested from Saudi Fund on 10 June 2015 by the Secretary of the Ministry of Health, Nutrition, and Indigenous Medicine to procure medical instruments, furnitures, generators, consultancy and to meet extra costs.

3.2 Physical Performance

The building construction works of Epilepsy Hospital was expected to be completed before 04 April 2014. However, the physical progress of the construction works of 82 per cent whilst financial progress of 62 per cent was reported as at 31 December 2014.

3.3 Contract Administration

The following observations are made.

- (a) According to the schedule 2 of the Project Agreement, the Hospital building was planned to comprise with 242 beds. However, it was revealed at the physical verification that the Hospital was comprised with 152 beds only, as a result of several new units which were not included in the original plan had been located in this building.
- (b) The Magnetic Resonance Imaging Scanner area in the basement and equipment area of the second floor of 10 storied building of the Hospital could not be completed even as at 31 July 2015 due to delays in procuring and installation of medical equipments.

3.4 Human Resource Management

The following observations are made.

- (a) The duties of post of Project Director are continuously covered up by an officer of the Line Ministry for over 3 1/2 years without taking action to recruit a person on permanent basis. Further, the duties of Financial Manager, Project Engineer (Bio Medical), Procurement Officer and Technical Officer etc had been also covered up by the officers of the Line Ministry on part time basis. In addition, 02 posts of Medical Coordinators were remained vacant for over 03 years. Delays in recruiting suitable persons to fill the vacancies remained in such key posts had badly affected to the smooth operations of the activities of the Project.
- (b) The evidence such as Term of Reference and details of the services obtained etc. from the Legal Officer of the Ministry of Health Nutrition and Indigenous Medicine had not been made available for audit eventhough allowances aggregating Rs.213,990 paid during the year under review.