

Second Health Sector Development Project – Component –II - 2014

The audit of financial statements of the Second Health Sector Development Project-Component- II 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 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, the activities of the Project are expected to be implemented by then Ministry of Health, presently Ministry of Health, Nutrition and Indigenous Medicine at national level and the Ministry of Provincial Councils and Local Government at provincial level. According to the Project Appraisal Document, the Project is implemented to provide financial support to implement the National Health Development Plan for the year 2013-2017. 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. According to the Financing Agreement, the total estimate cost of the Component-II of the Project was SDR 6.5 million equivalents to US\$ 10 million. The Project commenced its activities on 01 July 2013 and scheduled to be completed by 30 September 2018. This report consists the comments on activities carried out by the Ministry of Health, Nutrition and Indigenous Medicine at national level.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements which is the compilation of the Appropriation Accounts of the Ministry of Health, Nutrition and Indigenous Medicine 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 judgment, 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 auditors 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 control 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 fund 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 identifications of the purchases made out of the Credit,
- (d) Whether the withdrawals under the Credit had been made in accordance with the specifications laid down in the Financing Agreement,
- (e) Whether the funds, materials and equipments supplied under the Credit 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 the financial covenants laid down in the Financing Agreement had been complied with.

2. Financial Statements

2.1 Audit Opinion

So far as appears from my examination and to the best of information and according to the explanation given to me, 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 Financing Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Non-Compliance with Laws, Rules and Regulations

According to the Prime Minister's Office Circular No.PM/SP/5 dated 30 November 1989, state officers who participated for foreign seminars or conferences should furnish reports within seven days of their return to Island. However, four officers of the Line Ministry participated for World Health Assembly held in Switzerland from 19 to 24 May 2014 had not furnished their reports individually even as at 31 December 2014. The Project had spent a sum of Rs.2.34 million thereon.

3. Financial and Physical Performance

3.1 Utilization of Funds

According to the records maintained by the Project, the financing of Credits, budgetary allocation and utilization of the funds of the Project during the year under review and as at 31 December 2014 are shown below.

| Source | Amount agreed for financing according to Financing Agreement | | Allocation made in Budget Estimate for the year under review | Funds utilized | | | |
|---------------|--|-------------|--|------------------------------|-------------|------------------------|-------------|
| | | | | during the year under review | | as at 31 December 2014 | |
| | US\$ million | Rs. million | Rs. million | US\$ million | Rs. million | US\$ million | Rs. million |
| IDA | | | | | | | |
| Component -11 | 10 | 1,304 | 200 | 0.03 | 3.43 | 0.03 | 3.43 |

The following observations are made.

- (a) Although there must be a comprehensive detail action plan for the utilization of Rs.1,304 million for four sub components by highlighting financial and physical targets in monthly, quarterly, etc. covering entire Project period to ensure achieve the objectives within Project period, Such a plan had not been prepared for the Component-II of the Project.
- (b) Although four activities required to be carried out under the sub components and a sum of Rs. 200 million expected to be utilized during the year 2014, only Rs.3.43 million had been utilized only for overseas trainings purposes under the sub component of capacity building.
- (c) According to the above information, a sum of US\$ 10 million equivalent to Rs. 1,304 million allocated for the Component-II of the Project and only US\$ 0.03 million equivalent Rs. 3.43 million had been utilized as at 31 December 2014. Therefore, the possibility of use of allocation of the Project entirely during the remaining period of 04 years of the Project is in doubt.

3.2 Physical Progress

The activities of the Component-II of the Project are expected to be implemented for supporting services for Component-I of the Project under 04 sub components such as innovations, result monitoring, capacity building and staffing and administration purposes. However, the activities such as innovation, research studies and demography health surveys etc. to be carried out during the year under review had not been implemented due to delays in commencement of the Project activities.