

Second Health Sector Development Project-Component –II - 2015

The audit of financial statements of the Second Health Sector Development Project - Component - II for the year ended 31 December 2015 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 (GOSL) and the International Development Association (IDA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement the activities of the Project at national level are expected to be implemented by then Ministry of Health, presently the Ministry of Health, Nutrition and Indigenous Medicine whilst the activities of the provincial level are expected to be carried out by the Ministry of Provincial Councils and Local Government. 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 objective of the Project is 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 estimated cost of the Project is SDR 129.8 million (US\$ 200 million) equivalent to Rs. 25,270 million and out of that, SDR 6.5 million (US\$ 10 million) equivalent to Rs 1,263.5 million had been allocated for the activities to be carried out under the Component - II of the Project. The Project commenced its activities on 01 July 2013 and scheduled to be completed by 30 September 2018. This report consisted with the comments on activities carried out by the Ministry of Health, Nutrition and Indigenous Medicine at national level and the financial statements for Components-II of the Project which presented separately.

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 Sri Lanka Accounting Standards 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 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 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 Loan.
- (d) Whether the 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 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 Sri Lanka Accounting Standards.
- (h) Whether the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the book and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (i) Whether the Statement of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing Agreement.
- (j) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (k) Whether the 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 explanation given to me, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements given a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the book and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date,
- (d) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing Agreement,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Financing Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of the Financial Statements

The Cash Flow Statement had not been prepared and presented along with the other statements consisted in the financial statements.

2.2.2 Non- Compliance with Laws, Rules and Regulations

The following instances of non- compliances are observed in audit.

- (a) According to the Prime Minister's office Circular No.PM/PS/5 of 30 November 1989, Ministers, State Officials etc. should furnished reports within seven days of their return to the Island after foreign visits for official purposes. However, 16 officers out of 30 officers who participated for the Training Programme on Hospital Management for Administrators in India from 22 to 27 February 2015 had not furnished their reports even as at 31 December 2015. Further, the air tickets at a cost

of Rs.1.62 million had been purchased from an agent of foreign airline, contrary to the provisions made the Circular No.431 of 24 April 2008 of the Department of Public Finance.

- (b) An office building located in Colombo - 07 had been obtained on 22 February 2015 on lease basis for 04 years period for the Project Monitoring Unit, contrary to the Financial Regulation 835(2)(e). In this regard, neither the procurement procedure had been followed nor a valuation report obtained. Further, it was observed that the Project had agreed to pay lease rentals under abnormal conditions. Therefore, lease rentals aggregating Rs.3.84 million had been agreed to be paid at the beginning of the period of the lease for first 02 years and place a refundable deposit of Rs.1.92 million equivalent to total value of rentals per year. The balance amount of lease amounting to Rs.4.22 million to be settled by Rs.80,000 monthly installments in first 02 years and by Rs.96,000 monthly installments in next 02 years.

3. Financial and Physical Performance

3.1 Utilization of Funds

According to the records maintained by the Project, the financing of funds, budgetary allocation and utilization of the funds of the Project during the year under review and as at 31 December 2015 are shown below.

Source	Amount agreed for financing according to the Financing Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		during the year under review		as at 31 December 2015	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA Component- II	10	1,263.50	200	0.25	32.08	0.28	35.50

The following observations are made.

- (a) Although a Comprehensive Plan had been prepared for the use of allocated funds in the Financing Agreement within the period of Project, no Annual Action Plan had been prepared to ensure the implementation of activities for each year of the operations of the Project.
- (b) Although the allocation of Rs.200 million had been made during the year under review to implement 06 activities, only a sum of Rs.32.08 million represented 16.04 per cent of the amount allocated had been utilized during the year under review. Thus,

it indicated that proper action had not been taken to utilize the annual allocation made for the intended purposes effectively.

- (c) According to the above information, out of the total allocation of US\$ 10 million equivalent to Rs.1,263.50 million made under the Project, only a sum of US\$ 0.28 million equivalent to a sum of Rs.35.50 million represented 2.8 per cent of total allocation had been utilized after elapse of 02 ½ years as at 31 December 2015. Therefore, the possibility of use of entire allocation during the remaining period of 03 years of the Project is in doubt.

3.2 Physical Progress

The physical targets to be achieved under the Project are made based on 03 subcomponents namely, capacity building, supporting service and innovations, result monitoring purposes. The observations on achievement of targets are described below.

- (a) The Project had taken action to conduct a Demographic Health Survey with collaboration of the Department of Census and Statistics to collect data for the use of policy decisions of health sector and expected to be completed within 58 weeks from 01 January 2015. The estimated total cost of the Survey amounted to Rs.189.57 million including US\$ 329,783 equivalent to Rs. 44 million to hire foreign consultants. Although equipment for the Survey had been procured at a cost of Rs. 1.48 million during the year under review, the surveys had not been initiated even up to 31 December 2015.
- (b) It was observed that the allocation aggregating to Rs 527.74 million made in the compressive plan of the Project under the components of Training Workshop for Capacity Building and a sum of Rs 345.72 million allocated under the component of Innovation Programme had not been utilized even after lapse of 2 ½ year from the commencement of the activities of the Project.

3.3 Issues on Financial Controls

The following observations are made.

- (a) According to the Financial Regulation 133(2) and Management Audit Circular No.05 dated 26 July 2010, an Internal Audit Plan should be prepared and implemented by the Internal Audit Division of the Line Ministry. However, Internal Audit Plan prepared for the year under review had not covered the activities implemented by the Project.
- (c) Annual Board of Survey had not been carried out on assets procured by the Project at a cost of Rs.1.74 million, contrary to the Financial Regulation 756.